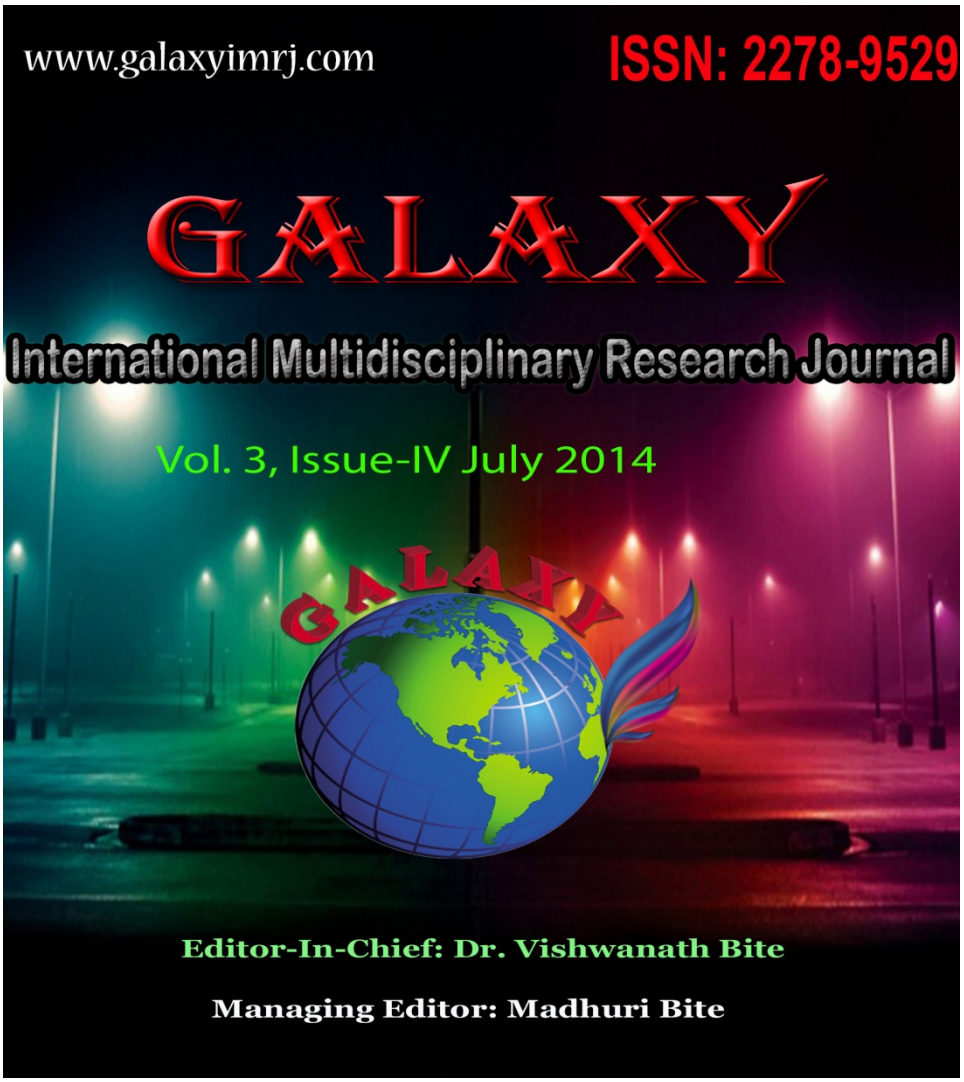

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Nabard and its Refinance Operations in Sivagangai District of Tamil Nadu

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Introduction

India lives in villages is true even to-day as it is the mainstay of teeming millions in total areas of the country. Agriculture is the main source of sustenance for people and major source of input for Indian industry. The increase in production and productivity of agriculture sector is imminent to maintain a balance in economic, social and political sphere s. But the increase of productivity by employing modern technology and using factor inputs will not be possible without sufficient and timely credit.

The share of agriculture credit was too low as against its demand as well as other sect oral credits provided by banking institutions. Measures of various kinds including strengthening of co-operatives and Social Control of banks, Nationalisation of commercial banks, introduction of RRBs followed by administrative reforms have been initiated to improve the rural credit scenario. Despite the steps initiated by the Government and RBI the problems could not be solved fully due to its complexity.

One more step in this direction by the Government was the appointment of a Committee to Review Arrangement for Institutional credit for Agriculture and Rural Development (CRAFICARD) headed by Dr.B.Sivaraman to study rural credit structure and recommend suitable measure to meet the existing challenges. It recommended the establishment of National Bank for Agriculture and Rural Development (NABARD). Since its inception in 1982, the NABARD has been striving to fulfill its objectives.

To understand and analyse different aspects like the background for the establishment of NABARD, its achievements during the last 15 years, the gaps between expectation and performance and the remedial action needed for rectification. At the present juncture, the empirical study, covering the operations of NABARD in Sivagangai District is undertaken.

Statement of the Problem

Sluggish economic growth, failure of development effect to trickle down to the lower rungs of the society, massive population increase and growing unemployment and poverty have prompted the Government of India to concentrate on the provision of credit to those who are dependent on agriculture, economic conditions. Before the advent of planning in 1951, rural credit to the greater extent was largely provided by informal agencies, such as, money lenders, friends, relatives, etc. and to a limited extent by formal agencies like co-operatives and Government. Ever since the first plan the Government of India and the Reserve Bank of India have taken several measures to strengthen co-operatives. Inspite of the concerted efforts of Government, co-operatives could not rise to the occasion and as a result it had mixed record of success.

The commercial banks which form an important credit agency had neglected the priority sector in general and agriculture in particular for a long time. It was since nationalization of major private sector commercial banks and subsequent introduction of Lead Bank Scheme in 1969, the commercial banks had begun extending both short and long-term credit facilities to agriculture and other allied activities like marketing, processing, storage, etc. in higher doses with greater enthusiasm. Inspite of tremendous improvement in the functioning of commercial banking both in quantitative and qualitative terms of branch expansion, deposit mobilization, credit advancement especially to the priority sectors in rural areas there has been lacunae in owning up the responsibility for the overall development towards NABARD was set up by an Act of parliament on July 12, 1982. It took over the entire undertaking of the Agricultural Refinance and Development Corporation (ARDC) as well as the refinancing functions of the Reserve Bank of India in relation to State Co-operative Banks (SCBs) and Regional Rural Banks (RRBs). NABARD has to provide by way of refinance all kinds of production and investment credit to agriculture, small-scale industries, artisans, cottage and village
industries, handicrafts and allied economic activities. It has organic links with RBI by virtue of the latter holding 50 percent of its share capital and three members of the Reserve Bank's Central Board being appointed as directors of NABARD.

Though NABARD has been functioning for the last 16 years since its inception, it is beset with various problems in its dealings with other financial institutions. This is due to several internal and external factors. Hence, the problems affecting the functioning of NABARD are to be identified for toning up its performance in the interest of banking development in general and beneficiaries' development with proper customer service in particular. This study is an attempt in that direction.

Need For the Study

Ever since NABARD started functioning there have been many studies by different agencies evaluating the varied aspects of performance of NABARD. The micro studies on specific area are few. Hence, the present study confining to Sivagangai District, an integral part of drought prone Sivagangai region of Tamilnadu, assumes a greater significance.

Objectives of the Study

1. To study the working of NABARD in India and Tamil Nadu since its inception.
2. To know the Sivagangai District Banking Development.
3. To examine the refinance operations of NABARD in Sivagangai District.
4. To assess the impact of refinance of NABARD on the beneficiaries of different
5. Financial agencies in Sivagangai District.
6. To suggest suitable recommendations for improving the efficiency of NABARD.

Methodology

Survey method was adopted for the study by using the random sampling method. The Two Revenue Divisions of the District are covered for selecting the bank branches refinanced by NABARD and the beneficiaries of sample branches. At the first stage Four Commercial Bank Branches, Sivagangai District Central Cooperative Bank Branches and six Pandian Grama Bank branches have been chosen at random from the list of bank branches prepared alphabetically. The sample works out at 25 percent to the total number of branches in each division.

In the second stage 203 beneficiaries from a total of 1280 have been chosen from Commercial Bank Branches, 150 out of 1007 from Central Cooperative Bank Branches and 237 out of 1422 from Pandian Grama Bank Branches, at the rate of 6 percent sample, were chosen for the purpose of study. Thus, the bank sample constitutes 36 Commercial Bank branches, 12 Sivagangai District Cooperative Central Bank branches and Pandian Grama Bank branches (Total 78), with 203, 156 and 237 beneficiaries (Total 590) respectively for the present study (See table 1.6).

Period of the Study:

The reference period for the study was 2005-12 and the field investigations were done in 2012.

Method of Data Collection

For the purpose of collecting data two schedules, one for the bankers and other for loan beneficiaries were framed and administered among the sample units.

The study is an empirical study based on both primary and secondary data. Primary data have been collected with help of an interview schedule. Secondary data have been collected from published sources. i.e Annual report of NABARD, report on Currency and Finance Report, Economic Survey and reports of various commissions, News letter, Information Boucher of NABARD.

Tools for Analysis

The data were analysed by using statistical techniques such as percentages, averages, linear growth rates, compound growth rates, coefficient of variance and Regression analysis't' test.

Limitations of the Study

Though the study is confined to Sivagangai District of Tamilnadu, it also reviews the working of NABARD in Tamilnadu as well as at All India level. Due to time and resource constraints, the researcher has chosen 590 beneficiaries from 78 bank branches which were refinanced by NABARD in Two Revenue Divisions of the district viz. Sivagangai, Devakottai for the study. The findings of the study is restricted to Sivagangai District, only it will not be relevant to all the district.

Organisation of Chapters

- Chapter I presents with introduction and design of the study.
- Chapter I depicts the NABARD's Refinance operations performance in Tamilnadu.
- Chapter III provides District profile and banking development.
- Chapter IVpresents Refinance operations of NABARD in Sivagangai District.
- Chapter V evaluates NABARD's Refinance impact on beneficiaries in Sivagangai District.
- Chapter VI summarises the findings, suggestions and conclusions.

Major Findings of the Study

Impact of Refinance Operations of NABARD on beneficiaries

1. The agency-wise loan borrowings reveal that the average loan borrowings was the highest with the DCCBs with Rs.9,651, followed by commercial banks with Rs.8,000 and PGBs with Rs.5,269.

Commercial Banks

2. Against the average loan amount of Rs.7,600 for all borrowers, ST borrowers received Rs.9,700 the highest amount, and SCs received Rs.6,413, the least amount.
3. The small business loan beneficiaries of CBs received 13.85 percent of subsidy as against 6.61 percent received by agriculture beneficiaries and average subsidy of 9.45 percent by beneficiaries of all occupations put together.
4. The agricultural loan beneficiaries of CBs on an average utilized 45.84 percent of sanctioned loan amount of Rs.20,347 as against 100 percent utilisation of average loan sanctioned to small business (Rs.8,323) and allied activities (Rs.5,722).
5. The model size-group for both the loan amount and number of beneficiaries in agriculture was Rs.6,001-10,000. In small business it was Rs.4,001- 6,000 for number of beneficiaries and Rs.6,001-10,000 for loan amount. In respect of amount in allied activities it was Rs.10,001-25,000 group and for number of beneficiaries it was Rs.2001-4000 group.
6. The average transaction costs for loan was the highest at 13.91 percent for ST borrowers and the lowest for Backward Caste (BC) borrowers at 4.39 percent. The time taken for obtaining loan was more for ST borrowers (3.20 months) and the least for SC borrowers (2.10 months).
7. The average income generated on loan utilized was the highest at Rs.5,231 (56.09 percent of the average loan amount) by agricultural borrowers and the lowest at Rs.1,204 (21.05 percent) by allied activity borrowers.
8. In FC category the borrower had the highest average net annual income of Rs.3,989 and in BC category the lowest was Rs.2,835. The increase of income over the base amount was the highest for FCs at 78.83 percent and the lowest for BCS at 70.88 percent.
9. For all occupations the percentage of income utilized for loan clearance was higher ranging from 58 to 89 than for ceremonies ranging from 6 to 10. Similar trend was noticed in different caste categories of borrowers.
10. Loan repayment as a percentage on loan utilised was the highest by agricultural borrowers at 54.41 and the lowest by allied activities borrowers at 44.20 percent.

DCCBs

11. Average loan borrowing of ST and SC sample borrowers of DCCBs were smaller with Rs.3,333 and Rs.3,564 respectively as compared to the higher average amount of Rs.10,795 by FC borrowers.
12. The subsidy was the higher for agriculture at 20.97 percent and was the lowest for allied activities at 4.16 percent.
13. Utilisation of loan to sanctions as a percentage was the highest for others at 100 percent and the lowest for agriculture at 67.02 percent.
14. The model loan size-group was Rs.10,001-25,000 for agriculture and Rs.6,001-10,000 for small business with regard to number of borrowers and loan amount received.
15. The transaction costs on loans were the highest for agriculture at 4.37 percent and the lowest for allied activities at 3.12 percent. Small business borrowers took more time (2.64 months), and the allied activities the least time (2.00 months) for securing loan.

16. The transaction costs on loans were the highest for BC borrowers (15.43 percent) and the lowest for SCs (3.11 percent). The STs took longer period (3.33 months) and the SCs Shorter period (1.82 months) for getting loans sanctioned.
17. The income generated was the highest at Rs.5,802 (68.01 percent of the average loan amount) per borrower in small business and the lowest at Rs.4,851 (40.42 percent of the average loan amount) in allied activities.
18. The highest average income generated was Rs.6,736 borrowers and the lowest average income generated was Rs.3,409 by ST borrowers.
19. The borrowers of all occupations spent more proportion of income ranging from 47 to 71 percent on loan clearance and the least ranging from 14 to 21 percent on ceremonies. The borrowers belonging to all castes spent more proportion of income ranging from 63 to 94 percent of loan clearance.
20. Loan repayment of agricultural borrowers was the highest at 54.34 percent as compared to that of allied activity borrowers (41.56 percent).

PGBs

21. For select beneficiaries of RGBs the average loan was worked out at Rs.4,288 for BCs, being the lowest, and Rs.6,111 for STs, being the highest.
22. The sample borrowers of Pandian Grama Banks, CBs and DCCBs in Sivagangai District earned 90 percent of their income from main source and 10 percent from secondary source.
23. The sample borrowers of agriculture from Pandian Grama Banks received only 6.52 percent of subsidy, the lowest one, as against the small business with 13.45percent, the highest.
24. The borrowers of agriculture from Pandean Grama Banks utilised 100 percent of the amount of loan sanctioned whereas the small business utilized 91.82 percent and allied activities 97.22 percent.
25. Out of 71 borrowers, 28 borrowers (39.44 percent) in the loan group-size of Rs.6,001-10,000 received 57.78 percent of the amount of loan. 17 borrowers (23.94 percent) in the loan group size of Rs.2,001-4,000 received 14.24 percent of the amount. The borrowers in the latter group mostly belonged to small business category.
26. The transaction costs incurred by the sample borrowers of Pandian Grama Banks for securing a loan on an average was 8.56 percent of the loan amount and the time taken for loan on an average was 3.46 months. Transaction costs of loan were high for small business borrowers (10.61 percent) and the time taken was more with 4.23 months by the beneficiaries of allied activities.
27. Caste-wise analysis of Pandian Grama Banks borrowers reveals that the Backward Caste Borrowers had high transaction cost of 11.57 percent and the FCs with the lowest of 2.88 percent and the time taken by them was also least with 1.71 months. The ST beneficiaries spent more time (4.33 months) than others for securing loans.
28. The allied activity borrowers of Pandian Grama Banks on an average generated the highest amount of Rs.3,274 (51.01 percent of income on loan received) and the small business borrowers, the lowest amount of Rs.937 (22.49 percent of the loan received).
29. The BC borrowers from Pandian Grama Banks on an average earned the highest amount of income of Rs.2,190 (51.0 percent) and the STs the lowest amount of Rs.1,573 (25.74 percent).

30. A major chunk of incremental income ranging from 49 to 63 percent was utilized for loan clearance on an average by all categories of loanees of Pandian Grama Banks and the least amount of income ranging from 3 to 20 percent was spent on ceremonies.

Sum-up – CBs, DCCBs and Pandian Grama Banks

1. The transaction costs incurred were the highest in CBs at 11.64 percent in allied activities and were the least in D C C B s at 3.12 percent in the same occupation (allied activities).
2. Among different castes BC borrowers of DCCBs incurred the highest transaction costs of 15.43 percent and FC borrowers of Pandian Grama Banks the least of 2.88 percent.
3. The time taken for securing a loan was the longest in Pandian Grama Banks with 4.23 months for allied activities and the shortest in CBs with 1.78 months for allied activities.
4. Among different castes ST borrowers of Pandian Grama Banks took more time of 4.33 months and FC borrowers of PGBs the least time of 1.71 months.
5. Income generated was the highest of Rs.5,803 (68.01 percent of loan borrowings) by small business borrowers of DCCBs and the lowest by the borrowers of allied activities in CBs with Rs.1,204 (21.05 percent).
6. Among different caste category the income generated as a percentage to loan borrowings was the highest in the case of Backward Caste borrowers of DCCBs at 109.23 and the lowest was in STs of PGBs at 25.74.
7. In the case of loan recovery PGBs stood first with 80.72 percent from agricultural loans and DCCBs last with 41.56 percent from allied activity loans.
8. Among different caste groups, loan recovery from FC borrowers of PGBs was the highest at 71.63 percent and was the least from ST borrowers of DCCBs with 35.08 percent in Sivagangai District.
9. There was a remarkable increase in the annual household income and assets of the loan beneficiaries in different financial institutions of Sivagangai District.
10. The loan repayment was the highest by FC beneficiaries among all caste categories and beneficiaries of agriculture among all occupational categories with respect to all financial agencies operating in Sivagangai District.

Suggestions

1. The District of Sivagangai has its adverse agro-climatic conditions (monsoon failure, low precipitation, and scanty rainfall) and geographical features. Hence, the NABARD has to devote its attention to refinancing and bringing coordinated efforts of other agencies to strengthen the resource base and eliminate the constraints standing in the way of its development.
2. With regard to agriculture the banks should discourage through its selective lending the farmers to raise water intensive crops like paddy, sugar cane, etc. and encourage them to cultivate less water-consuming crops or adopt dry land farming based on water shed management approach. The crops to be raised under this category cover jowar, maize, ground-nut, cereals carrying higher market value and consuming less water. Further, the refinancing should be made to the development of orchard crops of citrus family, mango, guava, etc. horticulture, floriculture covering jasmine and sunflower and mush room projects, which are more suitable for cultivation despite the scanty rainfall. In the case of allied activities the apiculture, sericulture, etc. should be encouraged.

3. Another significant area having high economic export potential in the district is forest-based resources like red sanders, neem (Azadiracta indica). But due to restrictions imposed under the Forest Act, the rate per cubic ton of red sanders of high quality goes upto Rs.2,50,000. Hence, the valuable resource like red sander would metamorphose the district economy fetching huge incomes to be used in investing not only for further processing of red sanders but also mining activities of rich minerals and geo-deposits like byrates, lime stone, white clay, etc.
4. To make NABARD's lending in Sivagangai District more pragmatic and realistic, the District Development Manager's Office (DDM's Office) should be located at the district headquarters. All applications of schematic lending of special nature should invariably be sent to the Regional Office (RO) of NABARD through DDM's office, as the DDM can recommend depending upon the merits of each case on the basic of local resources, conditions and constraints.
5. Moreover the DDM may guide the lead banks in the preparation of Annual Action Plans/ District Credit Plans besides effectively evaluating and monitoring of various schemes.
6. As Sivagangai district is a drought-prone area, NABARD should step up refinance for MI so that more irrigation facility would be made available in the district as the most of the people eke out their living from agriculture. Drought prone area should be implemented in the district in a big way, wherever possible, to conserve underground water resources which in turn ensure sustainable agriculture development in the district. It is also suggested that surface water resources like tanks should be developed by way of de-silting tanks, etc.
7. As Sivagangai district is a semi-arid zone the transmission and evaporation losses are high. The Agriculture department of Tamilnadu may think of introducing the concept of wind breaks and shelter belts to reduce the velocity of winds which are main causes of high evapo-transpiration loses.
8. There are ten voluntary agencies organizing a few Self Help Groups (SHG) in Sivagangai District. Besides involving the above voluntary agencies the bankers as well as Government departments may also think of organizing these groups on their own and link the lending operations to their organization, functioning and promotion.
9. The time gap between the registration of application and the sanctioning of loans must be reduced by banks by processing the loan applications with the help of computers and also adopting a simplified loand appraisal and sanctioning procedures.
10. The majority of the branch managers of banks in Sivagangai district expressed that the staff to deal with the activities of monitoring the end use of credit sanctioned and the recovery of the advances, is inadequate. As such they opinioned that the NABARD may provide some assistance by deputing some personnel on adhoc basis at the time of necessity.
11. Further, the bankers should study the borrowers' motives of securing loans which is a vital factors hitherto neglected. That is the borrower should have an intention to develop himself and his family by improving the production and productivity of the activities which he pursues with the help of the loans secured from the financial institutions. Such beneficiaries must be encouraged and others are to be discouraged.This demands special skills for the banking staff which are to be imparted through training programmes.
12. The NABARD should focus on its attention while designing and implementing schemes / programmes for the areas like Sivagangai by taking into consideration of the beneficiaries

problems and facilities in terms of their: (i) transaction cost (ii) time taken for securing a loan (iii) income generation utilisation and repayment of loan.

Conclusion

In a nutshell, NABARD has been acting as an apex refinancing institution as well as development agency in the field of agriculture and rural development in its true sense. The overall Performance of NABARD can be said to be satisfactory and the prospects are bright. But what is more needed is paying proper attending to some of the problems that emerged recently like mounting over dues, undue political interference, willful defaults and declining efficiency of financing institutions and lack of information in rural areas. Without initiating the measures explained earlier all other efforts including pumping money through banks by NABARD cannot create any significant impact either on the development of district economy or on the beneficiaries.