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A Review on Role of National Bank for Agriculture and Rural Development (NABARD) in Agriculture and Rural Development

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Abstract

Agriculture sector has been playing an important role in the national economic progress in general and in rural economy in particular. In fact rural development in India heavily depends on the development of agriculture sector of the economy. The pace of industrial progress also depends on agriculture development. It has always been given strategic importance in all the major economies of the world and India is no exception of it. For agriculture development different kind of help in form of finance, technology, education and of other inputs such as fertilizers, irrigation, insecticides, pesticides etc. need to be provided. After nationalization, the commercial banks have realized the importance of rural development and their responsibilities towards the rural society. He suggested that 40 per cent of the total advances may be disbursed among priority sectors, of this percentage at least 25 per cent should go to weaker section. cooperatives are facing keen competition from the commercial banks which have a large network of rural branches providing banking and credit services of the rural population apart from competition, the land development banks are also facing the problem of resource constraints for lending because they have no resources of their own being non-banking financial institutions. NABARD is playing a significant role in agriculture and rural development In this research paper scholar conducted a review on different studies conducted on the issue of rural and agriculture financing at micro & macro level, role of different financial institutions including NABARD in this area.

Keywords: NABARD, Agriculture Development, Rural Development etc.

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Introduction

A major portion of credit borrowed by small farmers was diverted to meet domestic requirements in terms of food, medicine, marriages, litigation paying of old debts and other social obligations. Small farmers were defaulters because of poor repaying capacity whereas large farmers were simply willful defaulters. Institutional credit differs from non-institutional credit mainly on the ground of supervision over the end use of credit. It may be stated that lack of supervision leads to mis-utilization of credit and sometimes results in non-repayment of institutional dues. 11 relatively well banked states and union territories have appropriated over 50 per cent of the additional bank branches opened since 1969. It is also observed that rural branches of commercial banks have failed to mobilize deposits even in areas where postal savings banks have recorded significant progress. It is also observed that opening of commercial bank branches in rural acres is often mere of a ritual meant mainly to fulfill physical targets.

Research Methodology

This paper is subjective & descriptive in nature. In this paper an effort is made to review the literature related to role of different financial institutes mainly NABARD in agriculture and rural development.

Review of Literature

Review of Literature is an important aspect in any type of research including descriptive research. It is important to study research gap, limitations, importance of previous research studies, further scope of research & improvement, policy formation etc. So in this research paper researcher made an attempt to review the literature related to role of different financial institutes mainly NABARD in agriculture and rural development.

Kumar and Kahlon (1973) concluded that small farmers were defaulters because of poor repaying capacity whereas large farmers were simply willful defaulters.

Jain (1973) depicted that rural economy of Bhilwara (Rajasthan) has been benefitted as a result of loan provided by nationalized banks. It suggested that quantum of banks loans for poultry, fisheries, animal husbandry and allied activities may be increased to raise the income level of households in rural areas.

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The author suggested that a clear cut demarcation on the basis of geographical areas should be made of each branch for intensive credit effort for the area.

Ames et al. (1973) concluded that over 69 per cent of all defaulters were large farmers and they accounted for over 74 per cent of all over dues of short-term credit in the poor and very poor repayment categories. Further, the small farmer defaulters advanced the following reasons for their overdue short-term loans; 46 per cent natural calamities, 5 per cent fall in agricultural prices, 5 per cent limited resources and 44 per cent gave other reasons such as diseases medical expenses for the family, no marketable surplus, and the mis-utilization of cooperative credit for litigation, marriage and livestock purchase. But the point to be noted, however, is that large farmers too have reported similar repayment problems.

Ghakhar and Gangwar (1975) indicated that a major portion of credit borrowed by small farmers was diverted to meet domestic requirements in terms of food, medicine, marriages, litigation paying of old debts and other social obligations.

Lavania et al. (1976) depicted that although 21.53 per cent of the total sample borrowers (65) were small farmers they accounted for hardly 4.00 per cent of the total bank loans; whereas large farmers who were 41.54 per cent of the total number of sample borrowers accounted for a little more than 83.00 per cent of the total bank loans. The study also indicated that all the institutional agencies are biased towards large farmers.

Laxminaryana (1977) attempted to examine the socio-economic conditions of agricultural labour households in three villages in Punjab, Haryana and Western Uttar Pradesh. According to him, literacy is spreading to cultivating households while the progress is very disturbing in the case of labour house-holds. Green revolution appears, to have contributed to increase in wage income from cultivation.

Belshow and Gadgil (1978) emphasised that the institutional credit differs from non-institutional credit mainly on the ground of supervision over the end use of credit. It may be stated that lack of supervision leads to mis-utilization of credit and sometimes results in non-repayment of institutional dues. The results of the Reserve Bank of India (1971-78) survey decennial indicated that borrowings from three institutional agencies, were 2.17 per cent of the total cash borrowing of the

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cultivator household. Despite some differences in the results of both these surveys, it is inferred that compared to 1961-62 borrowings of cultivators from institutional agencies have increased in the carly seventies in the country and also the supply of institutional credit for agriculture.

RBI Review Committee (1981) revealed that the aggregate study of institution for credit agriculture during the Fifth Five Year Plan has been evaluated in the two publications of the RBI. In this context, the committee commented that the primary agricultural credit societies had almost achieved the level of total lending expected to be achieved by 1979 by the end of June 1977, itself and judging from the progress made by the commercial banks in the last five years, they could be expected to achieve the target.

Jacob (1978) evaluated that work done by the banks in the sphere of agricultural credit and also examined the pattern and extent of credit disbursement by nationalized banks over a period of time.

Prasad (1978) revealed that the cost of borrowing from institutional sources was maximum on marginal farms and relatively low on large and small farm and farmers in the area used agricultural loans for non-agricultural purposes. Repayments per small and marginal farms to cooperative credit societies were higher than the similar repayments by large farms.

Gupta et al. (1978) assessed the extent of uneven distribution and concentration of cooperative credit in different states in India in the period between 1970-71 and 1975-76. The cooperative credit when measured in terms of per capita or per hectare, appears to be very unevenly distributed among the states. The contributory factor for such distribution is the difference in technological progress between developed and under-developed regions. Reddy (1978) revealed that the defaults ratio is higher for the primary cooperatives in the less developed region as compared to those in the developed region in Andhra Pradesh.

Desai (1979) observed that eleven relatively well banked states and union territories have appropriated over 50 per cent of the additional bank branches opened since 1969. It is also observed that rural branches of commercial banks have failed to mobilize deposits even in areas where postal savings banks have recorded significant progress. It is also observed that opening of commercial bank

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branches in rural acres is often mere of a ritual meant mainly to fulfill physical targets but without any firm commitment or even the fair test notion of serving rural areas and customers. Many of these rural branches are starved of required staff inputs. It is also observed that about 40 per cent of the agricultural loans are concentrated in the four southern stages which however account for only about 25 per cent of the total population of the country.

Patel and Chawla (1979) observed that only 6 per cent of the total bank credit has gone to borrowers in priority sector. They also reported that the rate of increase in total credit to the priority sector declined during the period 1974-1976. Small and marginal farmers appear to be neglected as a client group.

Basu (1979) investigated the regional pattern of distribution of the scheduled commercial banks credit to agricultural and allied activities exclusively for plantations. The study concluded that for all districts, the coefficient of variations of agricultural credit per hectare of net shown area is 2.32 as against only 1.39, 1.26 and 0.73 for per capita outstanding credit, per capita deposit and number of bank office, per lakh of population respectively. Further, it indicated that the inter-district range of agricultural credit per hectare of net shown arcas is as wide as 12 paise to Rs.1120,80. In other words Basu found that while commercial banks have successfully increased the share of agriculture in their total outstanding credit several-fold, it has failed to maintain minimum degree of uniformity in its regional distribution. He further analyzed the impact of selected socio-economic (including banking) variables to reflect inter-personal as well as inter-regional disparities of wealth and income on the regional distribution of lending operations of commercial banks in agriculture.

Wadhwa (1980) revealed that (i) Regional Rural Banks inherited complicated procedural formalities from their sponsoring banks and (ii) studied Regional Rural Banks were not able to meet the targeted disbursement of credit (Rs.S5 crores in a year) set by the government of India. The study indicated some probable reasons for the shortfall in meeting the targeted level of loan business. These were limited scope in the areas of their operation, the absence of their (RRB's) effective links with the Primary Agricultural Credit Societies and the Farmer's Service Societies and lack of adequate support from the government for expanding business.

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Malya and Rao (1980) emphasized that major benefits of the banking schemes went to the better off categories viz., medium and large farmers. The shortage of finance has been identified as the major constraint on cases of marginal and small farmers to shift over to the new methods of cultivation. It concluded that over the years, dependence on money lenders has decreased considerably and dependence on old loans, however, has increased. Therefore, creation of adequate credit facilities has been identified as the principal solution for all Indian agricultural problems.

Singh and Sandhu (1980) estimated the extent of overdue of different categories of farmers and the cause of such overdue. They concluded that out of 34 (84.17 per cent) small, 29 (85.29 per cent) medium and 14 (82.25 per cent) large farmer borrowers, 26 (66.65 per cent) small, 14 (41.17 per cent) medium and 5 (29.40 per cent) large farmers were found to be defaulters. The overdues position per hectare was Rs.93.00, Rs.56.88 and Rs.17.27 for small, medium and large farmers respectively and hence indicated negative correlation with the size of holdings. It further indicated that the willful defaulters was mainly large farmers because they did not repay loans in spite of their repaying capacity of Rs.7717 per defaulter as against the overdue amount of Rs.3597 per defaulter.

Pandey and Muralidharan (1980) emphasized that even though the number of defaulters is higher amongst marginal and small farmers as compared to the medium and large farmers, their share in the total amount of overdue is very much less as compared to the medium and large farmers. Again, among the different categories of defaulters, medium and big farmers were the major chronic ones i.e. with overdue for three years and more. The study further revealed and bulk of the defaulters were willful accounting for a high percentage of the total defaulters (59.63 per cent), willful defaulters mainly belonged to the higher castes (73.85 per cent), the literate group (75.68 per cent) and had higher operated size of holdings (85.29 per cent), whereas non willful defaulters belonged to the middle-class (67 per cent) were illiterate (74.29 per cent) and had lower size of holdings (73.68 per cent).

Pandhy (1980) critically examined the rural development experiment in relation to the Indian Commercial Banks and also analyzed the problems arising out of their

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presence in rural areas and their possible solutions from different angles for the much needed development and modernization of the rural sector in India. The Reserve Bank of India conducted a study on the viability of Regional Rural Banks (1981). The Committee found that performance of the Regional Rural Banks is encouraging. While 4 out of 15 selected Regional Rural Banks have already become viable, others may reach viability in the next two or three years.

Rangarajan (1982) concentrated on evaluation of the performance of commercial banks on two main planks i.e. deposit mobilization and purveyance of credit. The author revealed that the importance of bank deposits seems to be increasing among the financial assets held by the rural households. The author also observed that the degree of substitution between commercial bank deposits and other financial assets is quite weak. While endorsing the Dantwala Committee's observation that commercial banks had essentially supplied additional finance in the same areas where cooperatives were serving well the author's analysis revealed that commercial bank credit has played a complementary role in terms of distribution of credit between short term and long term in these states.

Virmani (1982) analyzed various forms of government intervention in the loan market in terms of their effect on efficiency. It revealed that the credit market differs fundamentally from the market for ordinary goods and services. Memoria (1982) concluded that the poor has not adequate knowledge of the IRDP/financial assistance programme nor do they have the required understanding of the role of the banks. He suggested that the loan assets should be made available to the beneficiaries immediately in order to maximise the output and for the proper utilisation of loans. Dewan (1982) emphasised that India possesses a vast potential for utilising unemployed and under-employed labour force for the development of land and water resources.

Bhalla and Chadha (1983) revealed that 1974-75 was rain fallings a bad year for better part of India including Punjab which recorded 37 per cent belong is normally low rainfall or the order of 600 mm per year. They concluded that irrigation expansion in Punjab seems to have reached its saturation limits and institutional finance played a vital role in the explosive growth of private tube wells.

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Gaikwad and Parmar (1983) provided an overview of the peasant economy in India tracing the efforts made at various stages to institutionalize rural credit through the multi-agency approach. The authors concluded that the collaboration for an economic production oriented programme would be effective if the knowledge is transferred to the group as a whole and not to one or two persons so that the individual member would continue his economic operations in future without depending upon other members, if necessary. The author rightly suggested that the FSS must strengthen its organisation as the present organisation cannot cope up with the additional functions which the FSS has to undertake.

Choubey (1983) emphasised that the National Bank for Agriculture and Rural Development (NABARD) is required to pay special attention on the de-politicization of the agricultural credit infrastructure and professionalize the management of credit agencies, particularly the cooperative credit structure though systematic manpower development plans. He suggested that NABARD may help the agricultural and rural sector in raising their productivity at a reasonable faster rate and it may not become another addition to the already long chain of Institutional Agencies for giving farm credit.

Agarwal (1983) conducted that in a number of plots, more than one technique is used for ploughing, saving, irrigation, and threshing operations in the cultivation of HYV wheat. The zonal analysis indicates that where as zone ill is the least mechanised, zone It is more mechanised than zone II in ploughing, saving, and threshing but less in irrigation. **Bhandhopadhoy (1984)** analysed the relative role of various factors underlying inter-farm variations in the rates of interests, often from the same lender. He considered the following factors for studying this relationship: nature of security offered; (i) purpose of the loan; (ii) duration of the loan; (iv) size of the loan; and (v) the size of the operated holding of the borrowers.

The study conducted by NABARD (1984) concluded that the level of overdue was higher for investment credit (term loans) than for crop loans (short-term credit). A consideration proportion (30 per cent to 50 per cent) of the default in respect of investment credit extended by Primary Land Development Banks (PLDBS) was over five years old, whereas in the case of short-term crop loans borrowed from Primary Agricultural Credit Societies it was typically less than 2 years. One

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wonders, therefore, whether the greater and prolonged default in respect of investment credit is associated with the less frequent need for its borrowing. Large farmers defaulted more than small farmers. Members who made partial payment, and those who defaulted on the entire amount, constituted 25 per cent and 35 per cent respectively of the total borrowers.

Desai (1984) study has been found perceptible change in the cropping pattern, cropping intensity, cost structure, income pattern, and marketable surplus of the borrowing farmers, vis-a-vis non-borrowers. He suggested that unhealthy competition between the branches of commercial banks, regional rural banks and farmers service societies may be avoided in lending to weaker societies. They should build up storage facilities and take up the marketing agricultural goods of their members. He emphasised that in the case of viable farmers, agricultural institutions have not faced much difficulties in dealing with them, but it is potentially viable and non-viable small and marginal farmers where difficulties are innumerable, require special attention and assistance.

Kuchhal (1985) concluded that the practice of capitalising long term interest violates the conventional accounting standards and overstretches the legál interpretation of the term long term debts. Its benefits are immediate and tangible but its costs lower the business standards and will be felt in the long run. The author has, therefore, suggested that either the Supreme Court or the Government of India should take a firm stand against the practice of capitalisation of long term interest. Singh" (1985) examined the role of banking in the development of rural sector in India. He revealed that after nationalisation, the commercial banks have realised the importance of rural development and their responsibilities towards the rural society. He suggested that 40 per cent of the total advances may be disbursed among priority sectors, of this percentage at least 25 per cent should go to weaker section. There may be stepping up of the present 3000 beneficiaries per block to about 4000-5000 per block. Further, a better rapport through public relations approach may help in the return of loan amount.

Sharma (1986) constructed an economic model to test quantitatively the role of bank credit in promoting the growth of gross national product. It revealed that before nationalisation of the banks, the bulk of direct finance to farmers have taken

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in the form of crop loans. Sharma concluded that commercial banks have not followed a well concerned approach to bring about a balanced interregional development of agricultural credit. He suggested that in order to reach the target groups, there should be a link between development programmes and credit programmes in the context of integrated approach of rural development. Such crop loans consist of both cash and kind components but banks were hesitant in supplying medium and long term loans. It was found that agricultural credit schemes in most cases have neglected locational specific reality and have not dealt with the real issue and other problems that farmers come across in particular areas.

Naidu (1986) assessed the impact of bank finance on income and employment of the weaker sections in India. Though the beneficiaries were benefitted by the financial assistance the benefit was not significant in terms of increment in net value of output per every hundred rupees of loan in the post loan period. Similarly, the increment in the value of output per person, per day of employment in different sectors was also not appreciable; the positive role played by financing economic development programmes by commercial banks in enabling the weaker sections to improve their income and employment position deserves appreciation.

Singh (1986) examined the impact of long-term credit use on short-term credit needs of the farms and also the adequacy of the existing use of capital including credit and to determine the demand for additional credit.

Rao and Anjanayoin (1987) depicted the bank credit made an impressive contribution to the implementation of IRD programme. It may be stated that public banks in 1986-87 disbursed a total of Rs.600 crores to nearly 3.5 million beneficiaries under this scheme. In addition, cooperative banks are estimated to have disbursed Rs.3757 crores as credit in rural areas in 1985-86. The Regional Rural Banks (RRBs) with their 12,852 branches had outstanding advances of Rs.1,540 crores at the end of June, 1986. The recently created NABARD has helped by refinancing the operations of cooperatives, commercials and Regional Rural Banks. The refinance distributed by NABARD in 1985-86 amounted to Rs.1192 crores.

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Verma (1988) revealed that the banker's position with regard to recovery of these loans has been found quite happy. The loans under IRDP and other programmes have created a crisis of character from identification of beneficiaries to repayment of loans. He suggested that development consciousness should be created among the rural masses. He analysed the impact of rural banking on the masses in Rajasthan. He revealed that rural branches encountered various difficulties in raising primary deposits in their areas due to socio-economic structure, religious beliefs, limited range of customer service, lack of access to large institutional deposits, overlapping and multiplication of financial institutions, hostile attitude of big farmers, towards branches of regional rural banks. Recovery of loans, especially of agricultural loans is posing a serious problem in the state. The recovery position in command area development is poorer rather disappointing. The percentage of overdue loans in agricultural sector is as high as 58 per cent. The study revealed that quantum of credit advanced per office has increased year after year but the quantum of credit per office of nationalised banks, regional rural banks and other commercial banks has always been lower than the average.

Negi (1989) identified various problems relating to institutional credit. These are, failure on the part of member borrowers to repay the loan promptly, in efficient management and inadequate supervision over the working of primary societies, mis-utilisation of cooperative credit and its diversion from productive to unproductive uses, problem of overdues forced lending policies implemented merely for achieving statistical targets, lack of coordination between cooperative institutions and nationalised bank, insignificant role of land development banks etc. The study concluded that 101 borrower out of 135 utilised full part of the loan for the required purpose and the remaining 34 borrowers out of 135 had partially spent the loan on consumption items.

Vishwanathan (1989) emphasised that cooperatives are facing keen competition from the commercial banks which have a large network of rural branches providing banking and credit services of the rural population apart from competition, the land development banks are also facing the problem of resource

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constraints for lending because they have no resources of their own being non-banking financial institutions.

Velayudham (1989) emphasized that the Breton wood system set the stage for an environment of unparalleled stability in the financial markets in the post war period, which was generally characterized by fixed exchange rates, low inflation, low real interest rates, high growth and very little competition within the banking system. He further revealed that various factors which are shaping the current financial environment are: (i) globalization as reflected in the Industrial World being dominated increasingly by small number of multi-national corporations; (i) massive investment in information technology arising from the paramount need for immediate and accurate information; (ii) deregulation and internationalization leading to the entry of new players and increased competition; and (iv) disintermediation as indicated by borrowers and lenders by-passing the banks and securitization. He concluded that a bank must either have global aspirations, i.e. it should view its business area as a worldwide integrated market, or alternatively be a rice player.

Ranga Reddy (1990) depicted that of the 192 sample defaulters, 36 per cent are willful defaulters. There is a significant variation in the level of default between different size groups of farmers and between regions (divisions). This incidence of defaulters is more among growers of food crops rather than non-food crops households. Nearly two-third of the defaulters have agriculture as their main occupation. Social consumption and crop failure are the major factors affecting the delinquency of unwilfull defaulters. 63 per cent of the defaulters are literates. Factors relating to the willingness to repay are quite favourable among the samples. Misallocation, variability in incomes and defects in credit organisation are cited as the crucial factors accounting for delinquency of the sample defaulters.

Iyer (1990) stated that unless the farmer finds a vocation profitable, he would not be interested in adopting technology. It stated that the farm support activities embracing transfer of technology delivery of inputs, including credit, irrigation and moisture conservation services.

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