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ROLE OF NABARD IN REFINANCE (INVESTMENT CREDIT) AND RIDF IN KERALA

By
ARUN ARAVIND

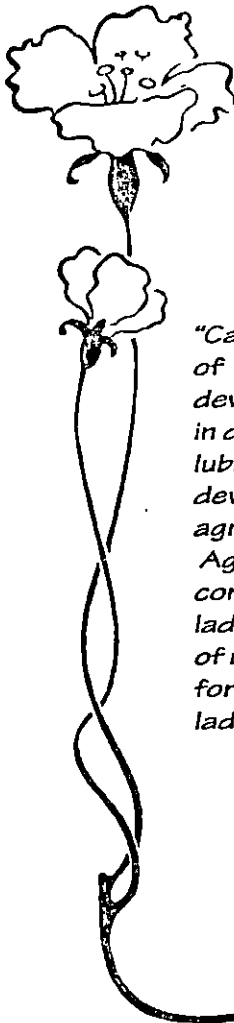


PROJECT REPORT

Submitted in partial fulfilment of the requirement for the degree of:

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1998



"Capital is considered to be one of the factors constraining development in developing countries. It lubricate the wheel of development in either agriculture or industry. Agriculture credit is considered as an economical ladder helping in the upliftment of rural peasantry; credit therefore, is consciously used as a ladder of development"

- CRAFTICARD

DECLARATION

DECLARATION

I hereby declare that this project report entitled **ROLE OF NABARD IN REFINANCE (INVESTMENT CREDIT) AND RIDF IN KERALA** is a bonafide record of the original project work done by me during the course of placement and training and that the report has not previously formed the basis for the award to me any degree, diploma, associateship, fellowship or other similar title of any other University or Society.



ARUN ARAVIND

93-05-04

Vellanikkara

04 .06.1998

CERTIFICATE

CERTIFICATE

Certified that this project report entitled **ROLE OF NABARD IN REFINANCE (INVESTMENT CREDIT) AND RIDF IN KERALA** is a record of the original project work done independently by **Sri. ARUN ARAVIND (93-05-04)** under my guidance and supervision and it has not previously formed the basis for the award of any degree, fellowship or associateship or similar title to him.



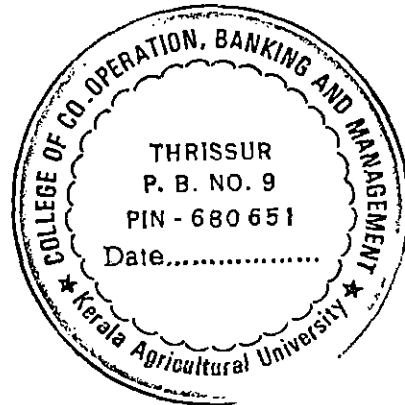
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DESIGN OF THE STUDY

CHAPTER - 1

DESIGN OF THE STUDY

1.1. Introduction

Agriculture is the backbone of Indian economy. Being the largest industry in the country, it is the source of livelihood for over 60 percent of the population and accounts for nearly 30 percent of Indian national product. The emergence of green revolution during late sixties and introduction of new agricultural technology in India has converted the nature of agriculture and the dimensions of which been further changed with the ongoing liberalisation process of the economy. Due to these the farmers tended towards the replacement of traditional methods of farming with scientific and development methods like use of high yielding varieties of seeds, fertilisers, irrigation, machinery, related infrastructure etc. which is beyond the capacity of most of the farmers. Hence the farmers compulsorily depend upon borrowed funds. These causes the increase in demand for credit. So in respect of transformation of traditional subsistence farming to commercial farming the importance of credit has increased comparatively more.

1.2. Need for agricultural refinance

Any dependable credit system particularly the one catering to the needs of the rural section of the population, so vast and in majority in developing countries like India, should be elastic, prompt and adequate in nature. The system should be fully able to meet the growing credit demand of the economy for productive purposes so that further funds may be generated for investment. Thus a dynamic credit structure in a developing country requires adequate refinancing arrangements so that banks and credit institutions operating in the economy can replenish their owned resources by seeking help from higher financing institutions either in refinancing arrangements or through borrowings. Without this, the rural credit

system would remain crippled and for that matter the fate of agro-rural development would remain in jeopardy.

In this regard, National Bank for Agriculture and Rural Development (NABARD) acts as the national apex level financing institution for granting financial assistance to eligible institutions.

1.3. Role of NABARD in the rural credit scenario

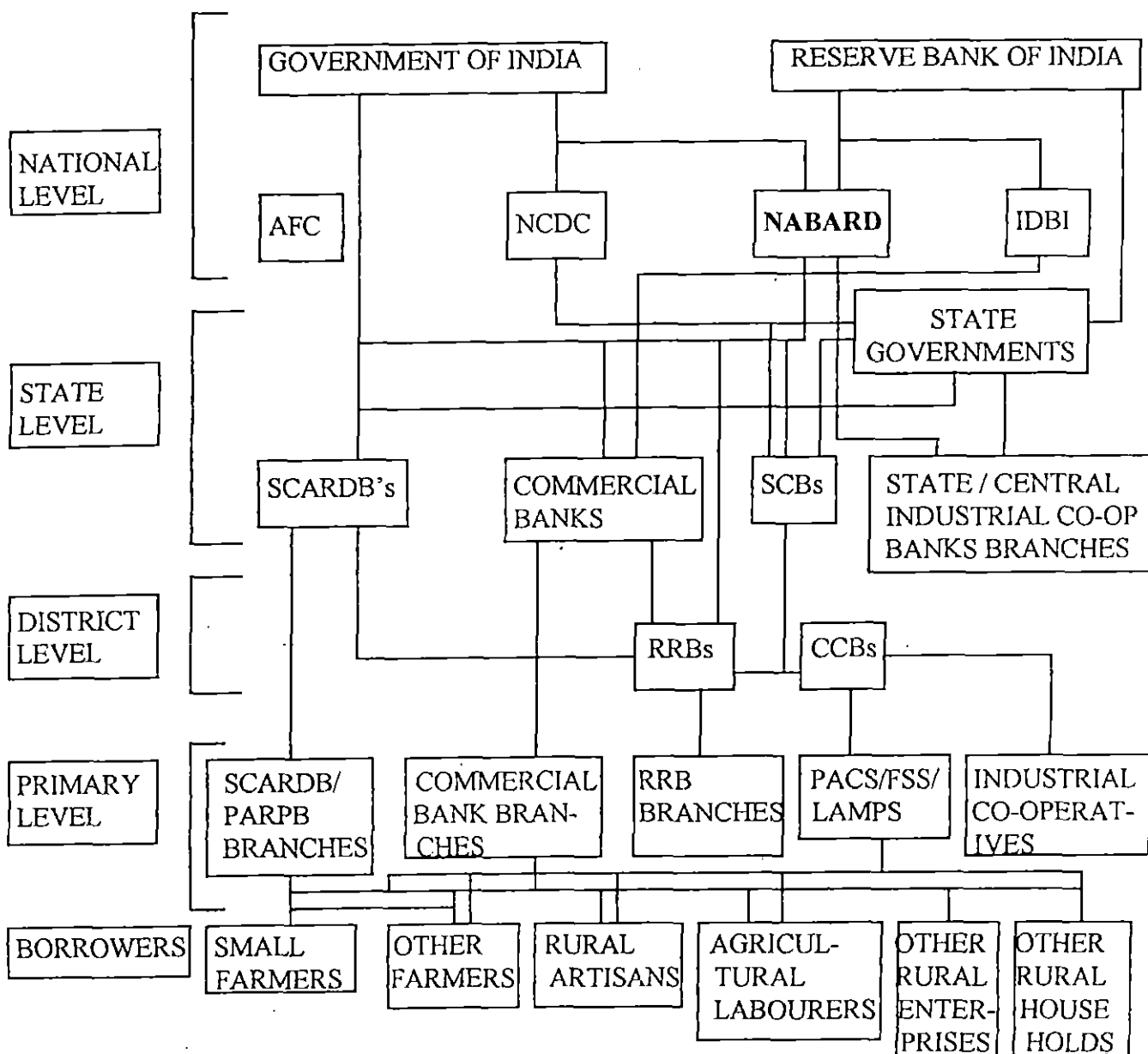
Established in July 12, 1982 as a 'Rural Reserve Bank', the NABARD has a dual role to play as an apex institution and as a refinance institution. It has inherited its apex role from Reserve Bank of India (RBI) i.e. it is performing all the functions performed by RBI with regard to agricultural credit. At the same time NABARD has taken over the functions from Agricultural Refinance and Development Corporation (ARDC) and thus provides refinance facilities to all Banks and financial institutions lending to agriculture and rural development. NABARD is thus the single integrated agency with respect to all matters relating to policy, planning and operational aspects in the flow of credit to the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.

The position of NABARD in the existing structure of Financial institutions of banks in the field of rural credit is shown in chart 1.3.1.

Apart from the other development functions, NABARD is also entrusted with the maintenance and management of Rural Infrastructure Development Fund (RIDF) created by Government of India from 1995-96 for completion of the emerging rural infrastructure projects.

CHART 1.3.1

Existing Institutional Set up for Rural Credit



Source: Rudra Pradap Singh (1994); "NABARD", Organisation Management and Role" Deep and Deep Publications, New Delhi, p. 31.

1.4. Statement of the Problem

Kerala, the state in the coastal tract of the extreme south west corner of the Indian peninsula, has received world wide acclaim for its unique development pattern. Kerala's development experiences during the planned development period indeed is unusual, a high level of quality of life index coexists with relatively low per capita income. In the changing economic scenario, investment by agencies other than Governmental sources, particularly in the productive ventures in agriculture and infrastructure development, are gaining more importance. Especially in a state where budgetary resources are scarce, the national level financial institutions have a major role to play. But Kerala's share of assistance sanctioned by All India financial institutions has been declining over the years. This has decreased from 1.56 percent 1993-94 to 1.05 percent of the total assistance made by them is, next only to Assam and Bihar (Economic Review 95-96) NABARD contributes a major share of this (i.e. 14.9 percentage is 1995-96). But this forms only 4.01 percentage of the total assistance sanctioned by NABARD during the year. Here also exists severe criticisms that, the Co-operative credit movement, in which Kerala is much ahead than other states, is also being deprived of adequate financial assistance from NABARD. Under this context a study in to the various dimensions of NABARD's assistance to the state of Kerala has much significance. This is more relevant in the limelight of central Government's policy for building the limbing infrastructure in the states by the actions of a fund out of the shortfall is commercial banks lending in agriculture by the name Rural Infrastructure Development Fund (RIDF) to be managed and operated by NABARD.

1.5. Objectives of the study

The objectives of the present study are:

- (i) To examine the nature of NABARD's long term refinance to the state of Kerala.
- (ii) To study the working of Rural Infrastructure Development Fund (RIDF) with respect to Kerala.

1.6. Methodology

The study is done on the basis of secondary data (regarding agency-wise, purpose-wise and district wise allocations of refinance) from NABARD Regional office to the state and from published annual reports of NABARD. The related statistics were obtained from Economic Reviews of Kerala State Planning Board, and Statistics for Planning published by Department of Economics and statistics.

The necessary analysis was done using mathematical tools like percentages and ratios.

1.7. Scope and Limitations of the study

The scope of the study is limited to the long term refinance provided to the specified institutions for Investment credit and loans given under Rural Infrastructure Development Fund (RIDF) Kerala for the years from 1992-93 to 1996-97 from the Regional Office of NABARD. Another major area of refinance i.e., Production Credit has not been included in the present study which is also a limitation to the study.

1.8 Scheme of the study

The study is presented in six chapters. The first chapter being the Design of the study, the second chapter Summarises the Review of Literature, the third chapter Explained the Organisational Profile, fourth chapter describes the Nature and analysis of NABARD's long term refinance, fifth chapter gives the picture of Rural Infrastructure Development Fund and the sixth of chapter include the summary of findings and conclusion followed by the Abstract of the Project Report.

REVIEW OF LITERATURE

CHAPTER - 2

REVIEW OF LITERATURE

Review of literature related to the specific problems and dimensions of assistance from NABARD to Kerala is much limited due to the absence of necessary and adequate literature on the topic. Hence sincere efforts have done to study the related aspects of the problem. The review is focused on mainly three topics.

1. Need, importance and supply of rural credit.
2. Role of NABARD in Agricultural credit.
3. Issues related to agricultural credit in Kerala and NABARD.

Literature including earlier studies, reports, books and journals have been reviewed for this and a brief summary of which is presented in this chapter.

2.1. Need, importance and supply of rural credit

Earlier studies on rural credit have been a fight against symptoms rather than a crusade against the causes of low productivity and consequent need of rural credit. The main symptoms identified were high rate of interest, heavy debt burden and mal-practices of money lenders which is evident from the reports of *Frederic Nicholson* (1895)¹ and *committee on Co-operation in India* (1915)². The important empirical studies on rural credit have been made by RBI in *All India Rural credit Survey* in 1951-52 with a view to assessing the magnitude of credit requirement, performance of existing credit organisations and to draw up a long term programme for rural credit (1954)³.

¹ Frederic Nicholson, (1895) *Report Regarding the possibility of Introducing Rural and agricultural Banks in Madras Presidency*, Vol. I, RBI Report; May 1960, p. 3.

² R.B.I. *Report of committee in co-operation*, (1915), Reprinted by RBI in behalf of GOI; November, 1957.

³ RBI, *General Report of Committee in Direction of All India Rural Credit Survey*, Bombay, 1954

Regarding the supply of rural credit *All India Rural credit Review Committee Report (1969)*⁴ revealed that the non institutional agencies are playing an important role in the India's rural credit scenario.

The importance of credit is emphasised by *CRAFICARD (1981)*⁵ in these words, "Capital is considered to be one of the factors constraining development in developing countries. It lubricate the wheel of development in either agriculture or industry. Owing to the inherent character of agriculture, a large number of cultivators can not manage the necessary finance with out resumes to borrowing due to the fact that an agriculturist's capital is locked up in his land and stocks. Agricultural credit is considered as an economic ladder helping in the upliftment of rural peasantry credit therefore, is consciously used as a ladder of development".

*K.N. Prasad (1983)*⁶ observed that in traditional agriculture, capital and hence credit play a relatively less role than do land and labour. But modern agriculture requires large infusion of credit to finance the use of purchased inputs.

The importance of long term credit is mentioned by *M. Singh and Sharma (1991)*⁷ as "Because Indian farmer require mainly for hand and its improvement for purchase of agricultural implements, machines, livestock irrigation etc.; Investment credit plays a crucial role is Indian rural economy."

According to *Agriculture and Industry Survey (1997)*⁸ "In India the crux of the problem to allot farm credit and subsidies for investment in agriculture is not only to produce more food, but also to keep the people in the land and in the villages. Otherwise all the Budget making for Industry and urban infrastructure will be unsustainable so long food production, population pressure and urban migration

⁴ RBI, *Report of All India Rural Credit Review Committee*, 1969. Vol. II.

⁵ RBI, *Report of CRAFICARD*, Bombay 1981, p. 25.

⁶ *K.N. Prasad*, (1983) *India's Rural Problems*, Concept Publishing Company, New Delhi.

⁷ *M. Singh & Sharma*, (1991), *Agricultural Finance and Management its nature and Problems*, Friends Publication, Meerut, p. 65.

⁸ Editorial, *Agriculture and Industry Survey*, February, 1997, p. 7.

makes all our plans 90 in unpredictable fashion".

2.2 Role of NABARD in Agricultural credit

The review begins with the opinion of *National Commission on Co-operation* (1965)⁹ about the idea of a National Bank which is as follows "As a legal culmination of a process that have been going on for years, steps may be initiated for setting up a National Co-operative Bank which would from the apex bank of the Co-operative financial structure in the country. All finances to be provided by the central govt. as well as the RBI may flow to the co-operative movement through this national institution."

The *All India Credit Review Committee* (1969)¹⁰ examined the issue and suggested that the agricultural credit infrastructure should continue under RBI. In the words of the committee, "A new institution in this context at the All India level will only add to the cost of credit and red tape associated with its procedure without adding to the resources or the efficiency of the system or to the cultivator."

CRAFICARD (1981)¹¹ examined the pros and cons of establishing a National Bank for Agriculture in Detail and recommended NABARD in these words. "We are, therefore, convinced that the balance of advantage in the present context lies in setting up a national level Bank with close links with RBI, further we envisage the role of RBI as one of spawning, fostering and nurturing the new bank, same what in the same manner as the ARDC."

K.N. Prasad (1985)¹² observed that institutional term finance has expanded

⁹ Govt. of India, *Report of the Committee on Co-operation*, (1965) Ministry of Agriculture, Community Development and Co-operation (Dept. of Community Development and Co-operation) New Delhi, 1965, p. 61.

¹⁰ RBI, *All India Review Credit Committee Report*, Bombay (1969), p. 707.

¹¹ RBI, *Report of CRAFTICARD*, Bombay (1981), p.p. 255-256.

¹² K.N. Prasad, *Rural Development Problems*, (1985) Concept Publishing Company, New Delhi.

with reorientation of the Banking system and establishment of institutions like NABARD.

*Venkatta.R. Reddy (1990)*¹³ is also of the opinion that the NABARD is expected to play a crucial role in the development of rural sector. It has to give adequate attention to the aspects of the problems of rural credit so as to ensure that the weaker section are fully and adequately covered by institutional credit. Credit must support to the rural poor not as a hangman's rope supports the hanged, but as a necessary ladder for the rural poor to attain a higher standard of living and NABARD has a greater responsibility in this direction."

*S.C.Anand (1990)*¹⁴ gave the opinion that the guidelines formulated by NABARD for several innovation schemes relatively to dryland, farming, production of charcoal by using portable metal, development of farm forestry, breeding of rabbit for meat etc. may be well efficient for the overall changes in the rural income generation.

*Malti Anagol (1995)*¹⁵ expressed the opinion that NABARD has emerged in a short span of few years, a domination force in rural development justifying the establishment as a separate apex financial institution exclusively entrusted with rural finance and it can perform the task of providing finance with the help of rural capital and if need be, attracting capital elsewhere.

A report in the *Agriculture and Industry Survey (1996)*¹⁶ appreciated the creation of Rural Infrastructure Development Fund (RIDF) by RBI and NABARD saying that it would give boost to Agriculture and Rural Infrastructure.

¹³ Venkatta. R. Reddy (1990), *Rural Development in India - Poverty and Development*, Himalaya Publications.

¹⁴ S.C. Anand, (1990) *Rural Banking & Development*, UPH Publishing House, Delhi - 110 006.

¹⁵ Math Anagol (1955) "Schematic Refinancing for Rural Development by NABARD - Needed Thrust of technology based Rural Industrialisation". - *Experiences of Banking in Rural Development* edited by B.L. Mathur, Bhagirath Singh. R. BSA Publishers, Jaipur - 302003.

¹⁶ *Agriculture & Industry survey*, May (1996) p. 35.

The Banker (1997)¹⁷ critically opined that it is high time that as a development bank, NABARD changes its management style and makes it a highly functionally oriented management cutting bureaucratic leaders and tapes and cross references in the name of 'examination of policy matters'. In fact it should try to impose upon itself certain disciplines like time taken to dispose of the schemes and proposals which are present for consideration.

Navin Chandra Joshi (1997)¹⁸ opined that as far as credit stabilisation arrangements are concerned, conversion of Short Term loans to Long Term loans on area basis has done more harm than good. Such conversion should be left to the financing institutions in the basis of merit an individual cases and the amount required for conversion should be fully reimbursed by NABARD and NABARD should evolve such policies to reduce regional imbalances.

2.3 Issues related to agriculture credit in Kerala and NABARD.

K. Samsudheen (1996)¹⁹ critically observed that NABARD's stipulation to provide 40 percent and 25 percent of total credit to agriculture by the DCCB's and SCB respectively have been worthy affecting Kerala. Due to this the banks are forced to provide agricultural loans having lower rate of interest which is to be given from highest deposits mobilised by the banks. This affects the financial viability of these banks adversely. And this policy of NABARD discourages the Deposit mobilisation measures in Kerala as well as create hesitation to provide loans. Thus the required refinance assistance is denied by NABARD. So in order to change this policy there should be strong political pressure at the centre and NABARD.

On the contrary *C. Vipinachandran* (1996)²⁰ observed that the cause of

¹⁷ *The Banker*, September (1997), Vol. 44. No. 7, p. 7.

¹⁸ *Navin Chandra Joshi* (1997), "Rural credit and Development - a fresh look". Kurukshetra, Vol. XIV., No. 11, August 1997. P. 88.

¹⁹ *K. Samsudheen* (1996), *Co-operative Agriculture Credit in Kerala; Problems and Solutions*, "Sahakarana Veedhi - December, Volume - 9, Page - 27.

²⁰ *C. Vipinachandran*, (1996), *The problems faced by co-operative sector in Kerala and the solutions*, Sahakarana Veedhi, October, Volume 7, p. 19

problem is the wrong credit policy of Co-operatives in Kerala and their lack of interest in development banking. The discouraging attitude of apex bank and DCEB's towards agricultural lending due to its low profitability, is the major reason for non-availment of refinance assistance from NABARD.

2.4 Conclusion

The first part of the review reveals the need, importance and major concerns of credit especially long term agricultural credit. The second part focuses on the genesis of NABARD and its role in the institutional credit delivery system and rural development in India as a refinance and apex institution. This section also includes applauds and functional criticisms about NABARD. In the third part the role of NABARD is being related to specific problems related to the Kerala Agriculture in general and credit in particular. Thus the review of literature includes various opinion and dimensions to derive at the pros and cons of the problem. Which also facilitate the study to attain certain pragmatic conclusions.

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NABARD - A PROFILE

CHAPTER 3

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD) - A PROFILE

The National Bank for Agriculture and Rural Development (NABARD) was established by an Act of the parliament in 1981 and started functioning from 12th July 1982.

3.1 Genesis

As per the recommendations of National Commission on Agriculture (1976) Govt. of India (GOI) advised Reserve Bank of India. (RBI) to take steps for integrating the total structure for financing agriculture and rural development. The RBI appointed a committee to Review Arrangements for Financing Institutional credit for Agriculture and Rural Development (CRAFICARD) under the chairmanship of Sri. B. Sivaraman. Based on the recommendations of CRAFICARD, the National Bank for Agriculture and Rural Development (NABARD) was established by merging the Agriculture Refinance and Development Corporation (ARDC) and Agricultural Credit Development wing of RBI. The NABARD Act was approved by parliament in 1981 and started functioning from 12th July 1982.

3.2. Objectives of NABARD

Preamble of NABARD Act reads out;

"An Act to establish a Bank to be known as National Bank for Agriculture and Rural Development for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural area with a view to promote integrated rural development and securing prosperity of rural areas and for matters connected with or incidental there to".

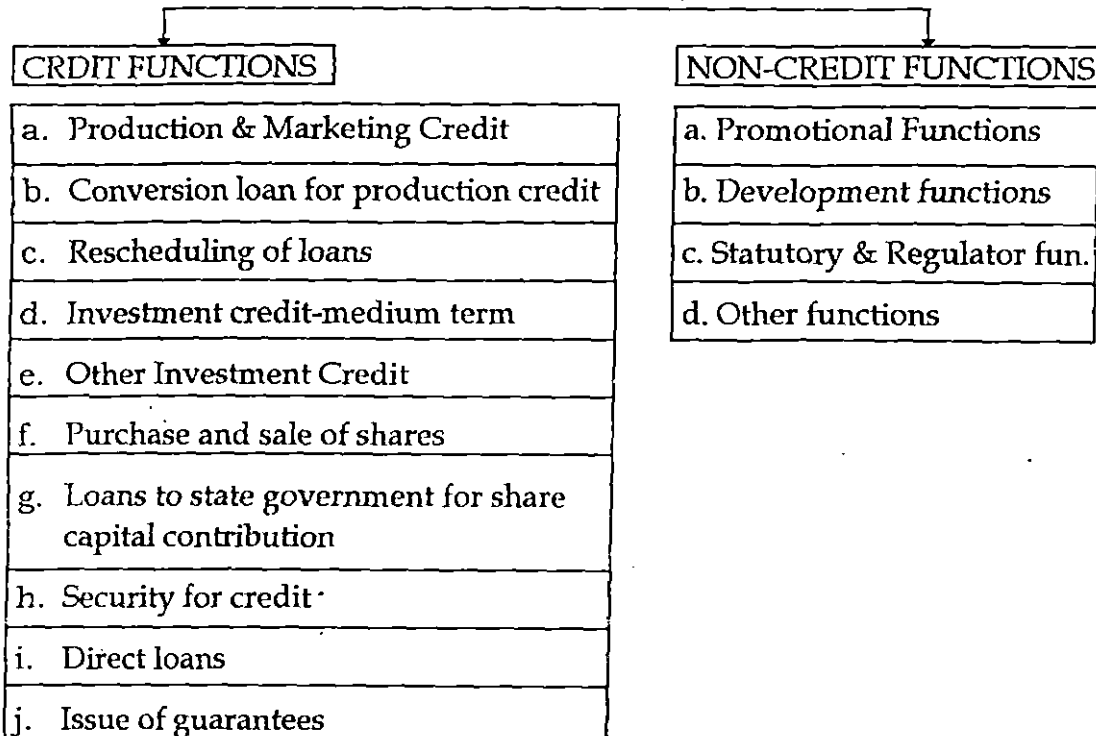
Central Govt. in the statement of objectives while placing the bill before Loksabha stated;

- (i) National Bank shall be the apex organisation with respect to all matters relating to planning and operational aspects in the field of credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in the rural areas.
- (ii) The Bank serve as a refinancing institution for extending short term credit for the promotion of activities in the said field. Similarly, the bank will provide refinance to various banks for their term lending operations for the purpose of agriculture and rural development.
- (iii) A provision has also been made for direct lending to any institutions as may be approved by the Central Govt.
- (iv) The Bank is to have organic links with RBI and the RBI's close link with rural credit should be retained and its authority as Central Bank over monetary and credit accretion should not be diluted in any manner.

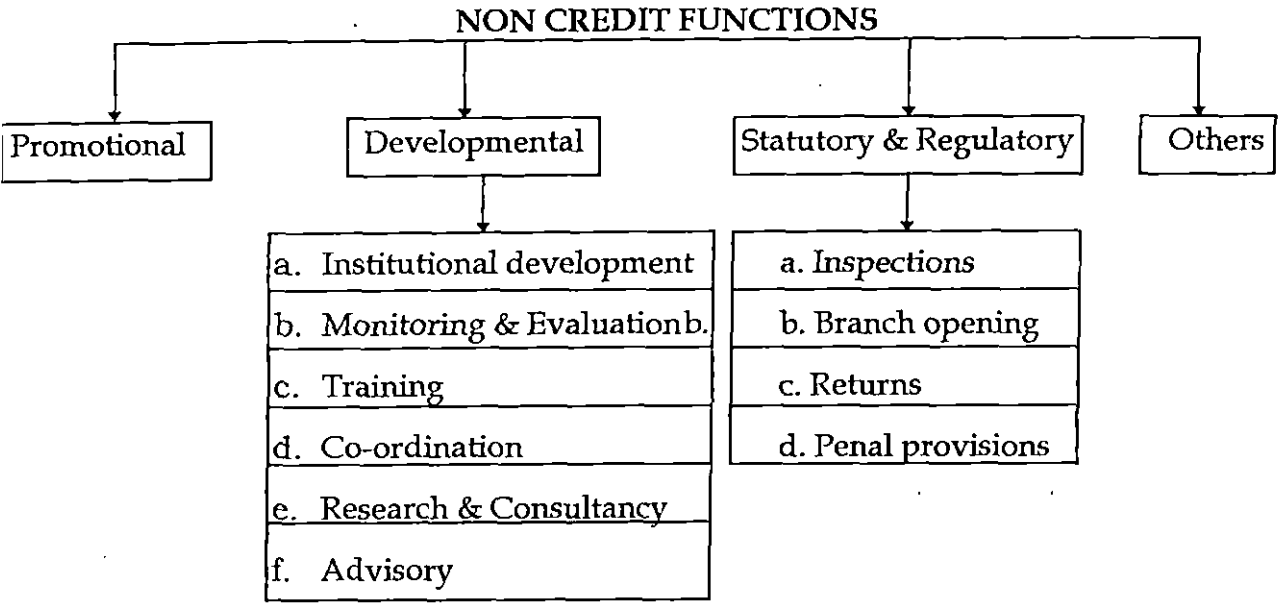
3.3 Functions of NABARD

The functions of NABARD as per the act can be diagrammatically represented as.

FUNCTIONS



Non-Credit functions can be further sub divided as follows:



3.3.1 Credit functions

(a) Production and Marketing credit:

NABARD may provide by way of refinance, loans and advances, repayable on demand or on the expiry of fixed periods not exceeding eighteen months to State Co-operative Banks (SCB), Regional Rural Banks (RRB), or to any financial institution or to any class of financial institutions, which are approved by RBI on this behalf, for financing.

- (i) Agricultural operations and marketing of crops, or
- (ii) The marketing and distribution of inputs necessary for agriculture or rural development, or
- (iii) Any other activity for the promotion of or in the field of agriculture or rural development, or
- (iv) Bonafide commercial or trade transactions, or
- (v) The production and marketing activities of artisans, or of small scale industries, industries in the tiny and decentralised sector, village and cottage industries or of those engaged in the field of handicrafts or other rural crafts.

(b) Conversion loan for production credit

Where the NABARD is satisfied that, owing to drought famine or any other natural calamities, military operations or enemy action, any SCB or RRB or any such financial institution, as may be approved by RBI on this behalf, requires assistance, it may provide to such bank or institution such financial assistance as it may deem fit by way of loans and advances repayable on the expiry of fixed periods not exceeding seven years and on such terms and conditions as may be specified in this behalf by NABARD.

(c) Rescheduling of loans

Where NABARD is satisfied that owing to unforeseen circumstances the rescheduling of any loans and advances made to artisans small scale industries (SSI), industries in the tiny and decentralised sector, village and cottage industries, and those engaged in the field of handicrafts and other rural crafts, by any SCB, RRB or any other financial institution as may be approved by RBI in this behalf, has become necessary, it may provide to such bank or institution such financial assistance as it may deem fit by way of loans and advances repayable on the expiry of fixed periods not being less than 18 months or not exceeding 7 years against such securities as may be specified on this behalf by NABARD.

(d) Investment Credit Medium term

NABARD shall provide such financial assistance as it may consider necessary by way of making to SCBs, RRBs, loans and advances repayable as the expiry of fixed periods not being less than 18 months and not exceeding 7 years against such securities as may be specified, in this behalf, by NABARD and such loans and advances may be made for agriculture, rural development or such other purposes as NABARD, from time to time determine.

(e) Other Investment Credit

NABARD may provide such financial assistance as it may consider necessary for promoting agriculture and Rural Development by making loans and advances, by way of refinance, on such terms and conditions as the NABARD may fit to impose, to a state Agriculture and Rural Development Bank, or state Co-operative Bank or a scheduled bank or any other financial institution approved by RBI in this behalf, and also rescheduling the payment of such loans and advances. Maximum period of credit is up to 25 years.

(f) Purchase and sale of shares

The NABARD may contribute to the share capital of or purchase and sell shares of, or invest in the securities of any institution engaged in agriculture and rural development, which the GOI may notify in consultation with RBI.

(g) Loans to State Governments for share Capital contribution.

NABARD may make loans and advances to state Governments, repayable on the expiry of fixed periods not exceeding 20 years from the National Rural Credit (Long term operations) Funds established under Section 42 for enabling them to subscribe directly or indirectly to the share capital of a Co-operative Society.

(h) Security for credit.

No accommodation shall be provided by NABARD under clause (a) or clause (c) of subsection (i) of section 25 or section 30 or section 32 to an institution other than a scheduled bank unless it is fully and unconditionally guaranteed by the Government as to repayment of principal and payment of interest.

(i) Direct Loans.

NABARD may make loans and advances otherwise than by way of refinance to any institution approved in this behalf by the central Government on such terms and conditions (including security) and repayable within such period not exceeding twenty five years.

(j) Issues of guarantee

NABARD may guarantee with the prior approval of the Central Government on such terms and conditions as may be agreed upon, deferred payments in connection with the purchase of capital goods.

3.3.2 Non Credit functions

3.3.2.1 Promotional Functions:

Promotional functions includes the following

- i. Planning and policy framing on matters pertaining to rural development.
- ii. Spelling out the principles of development through credit and disseminating them as widely as possible. This also includes setting up of Vikas Volunteer Vahini (VVV) for borrowers education through their involvement and promotion of parallel credit delivery systems like self help groups (SHG) for the poor and needy.

3.3.2.2 Developmental Functions

The responsibility for fostering the growth of credit institutions especially co-operative credit institutions and RRBs, has been entrusted to NABARD. This includes the following functions.

(i) Institutional Development

- a) Building up of sound co-operative credit structure, removal of structural weaknesses, operational constraints etc.
- b) Improvement of operational efficiency in policies of co-operative banks and RRB's.
- c) Professionalisation of management.
- d) Setting up of working groups - standing committees etc. to go into problems of organisation and financial strengthening.
- e) Development of handloom sector and non farm sector.

(ii) Monitoring and evaluation

- a) Monitoring and reviewing the performances of co-operative banks and RRBs.
- b) Overseeing implementation of various development programmes independently and also in close co-ordination with Govt./RBI/Lead Banks.
- c) Monitoring and implementation of various projects.
- d) Conducting evaluation studies.

(iii) Training

- a) Financing courses at college of Agricultural Banking, Pune.
- b) Setting up of Banker's institute of Rural development at National level and staff training centres/colleges etc.

(iv) Co-ordination

Co-ordinate the operations of rural credit institutions. This responsibility was taken over from RBI. Bank maintains close co-ordination with

- a) Govt. of India/State Governments.
- b) Planning Commission.
- c) Commercial Banks, RRBs/Co-operative Banks at national, State, district and block levels. NABARD has posted its officers as District Development Managers in most of the districts to Co-ordinate the activities of banks in the areas at grass root level credit planning and monitoring.

(v) Research and consultancy

NABARD maintains Research and Development Fund for funding research in agriculture rural development, providing assistance to RRBs/Co-operatives banks for setting up of Technical, Monitoring and Evaluation Cells (TME cells), assistance to voluntary organisations involved in development of non-farm sector activities etc.

(vi) Advisory

NABARD gives advice and guidance to State Governments, Federations of co-operative banks, other Co-operative organisations etc. in regard to co-operative movement, agricultural credit and rural development etc.

3.3.2.3 Statutory and Regulatory Functions

These functions includes.

i) Inspections

Section 35(6) of Banking Regulation Act 1949 empowers NABARD to undertake inspections of RRBs/Co-operative Banks (other than Primary Urban Co-operative Banks). Further section 35 of NABARD Act also empowers National Bank to have free access to records of institutions availing financial assistance from it.

i) Branch Opening

RRBs and SCBs have to submit applications for branch opening to RBI through NABARD.

iii) Returns

RRBs/Co-operative banks (other than primary Co-operative Banks) submitting returns to RBI should furnish copies of respective returns to NABARD.

iv) Penal Provisions

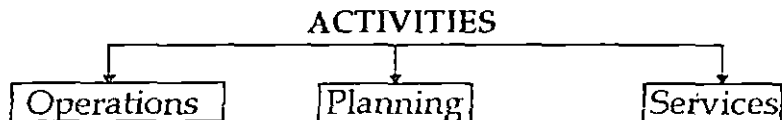
NABARD is also empowered (Section 56 of NABARD Act) to impose penalties for non-submission of information statements etc. to it.

3.3.2.4 Other Functions

NABARD can act as an agent for the Central Govt., RBI or state Govts. in respect of loans and advances granted or to be granted, bonds and debentures subscribed etc. It can also act as an agent of RBI (an being appointed by RBI) at all places or at any place specified by it (section 45 of RBI Act).

3.4 Major Activities of NABARD

Major activities can be classified in to three parts.



3.4.1 Operations :

This includes all relevant banking operations, which is divided into

3.4.1.1 Sanctions

3.4.1.2 Operations related Functions

- a) Inspection
- b) Monitoring
- c) Technical Services

3.4.2 Planning

This includes.

- a) Short and long term credit planning at micro and macro level
- b) Evolving corporate policy
- c) Programming
- d) Institution development
- e) Research
- f) Advisory and Related Functions

3.4.3 Services

This includes

- a) Administration
- b) Accounts
- c) Personal Management
- d) Human Resource Management
- e) Training

3.5 Administrative set up

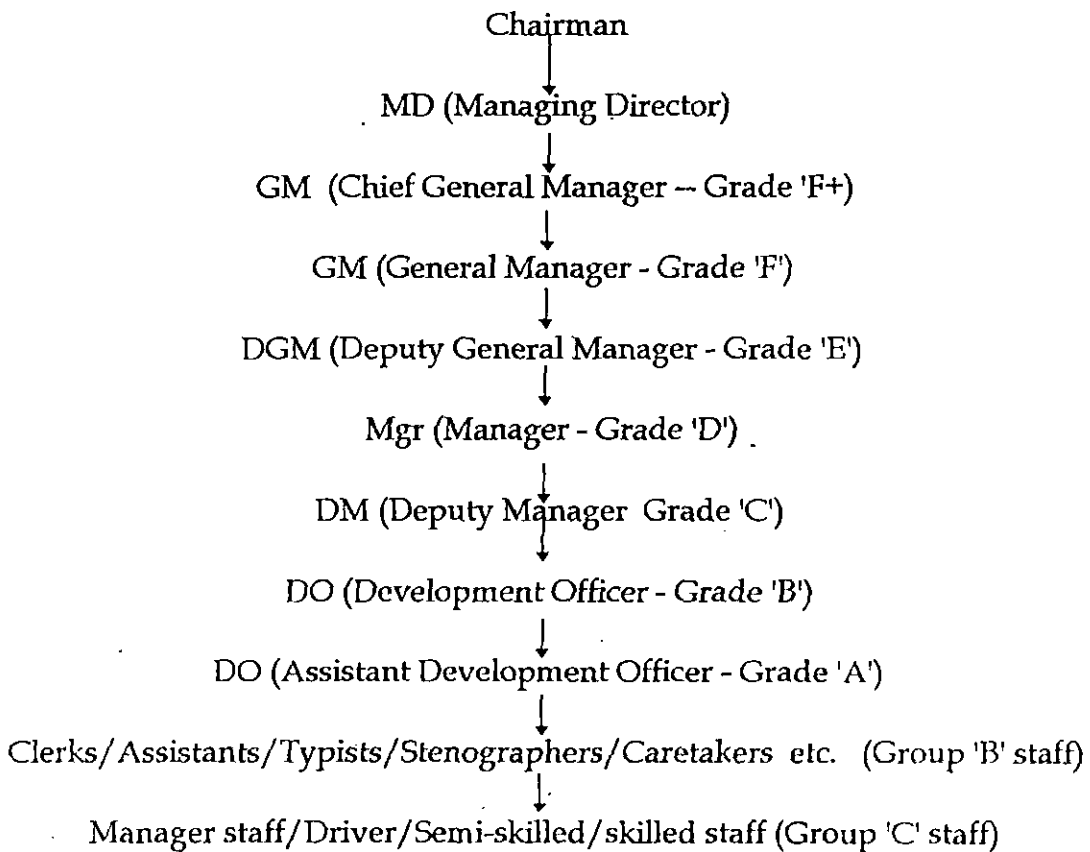
NABARD operates through its Head Office at Mumbai, 17 Regional Office and 10 sub offices in the country. The Head office of Inspection Department is at Hyderabad. Operations in the field are conducted through District Development

Managers posted at district level.

The Board of Directors of NABARD comprises of the Chairman, two experts in rural economics and rural development activities, two persons with experience in the working of Co-operative Banks, one with experience of working in commercial banks, three representatives each from Govt. of India and RBI, two from state governments and a Managing Director (MD). The MD is assisted in his day to day working by Chief General Managers, General Managers, Deputy General Managers and other staff who are assigned specific roles in the Head Office and Regional Offices.

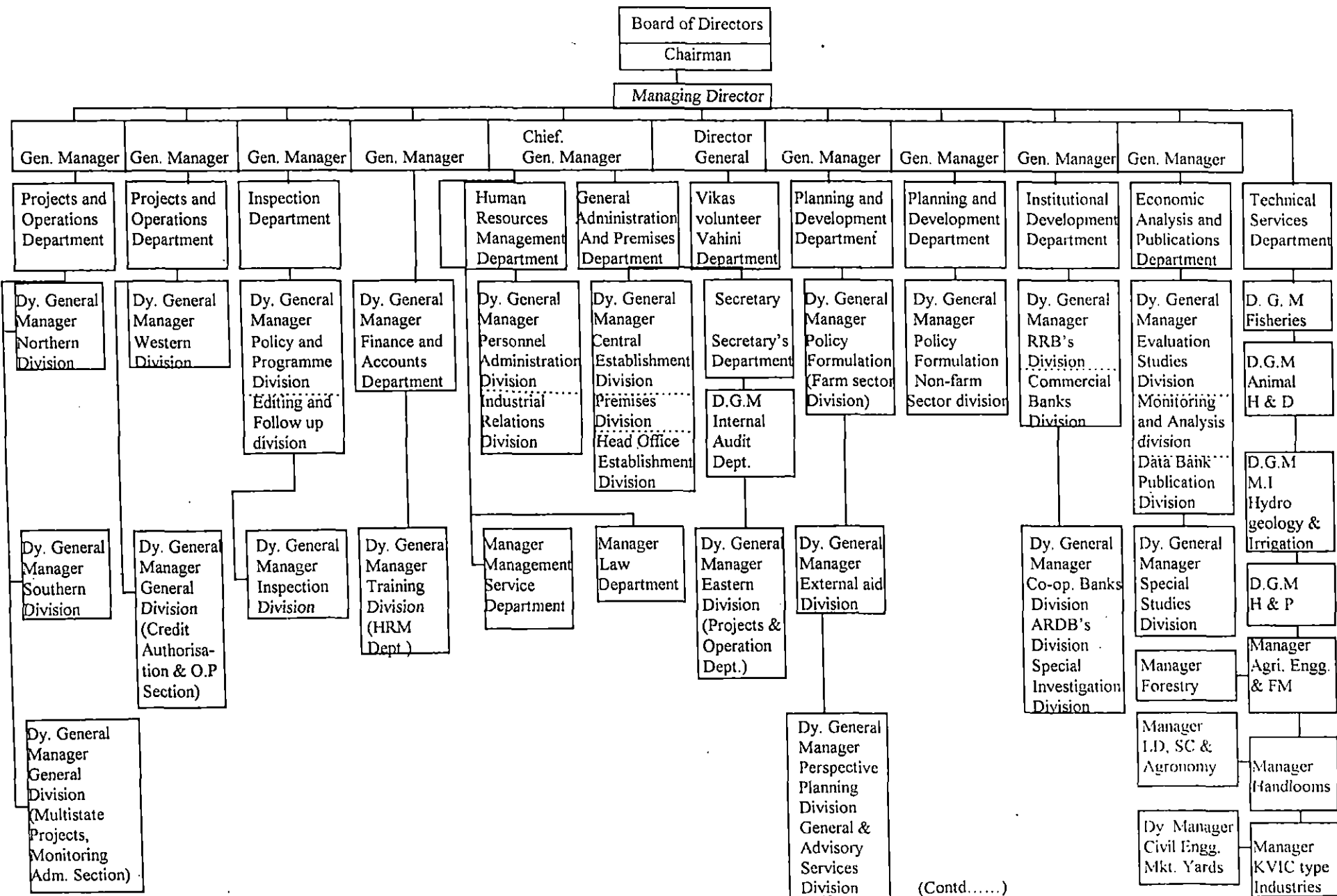
3.6 Hierarchical levels

A chart indicating hierarchical level in NABARD is given below.



The organisation chart of the Head Office is given in chart 3.A.1.

Chart III A 1
Organisation Chart - Head Office



(Contd.....)

Animal H & D	- Animal Husbandry and dairy
MI	- Minor Irrigation
H & P	- Horticulture and Plantations
FM	- Farm Mechanisation
LD	- Land Development
SC	- Soil Conservation

Projects and Operations Department

Eastern Division	- Bihar, Orissa, West Bengal, Assam & North Eastern States
Northern Division	- UP, Punjab, Jammu & Kashmir, Hariyana and Himachal Pradesh
Western Division	- Rajasthan, Gujarat, Maharashtra and Madhya Pradesh
Southern Division	- Andhra Pradesh, Kamataka, Tamil Nadu and Kerala

Source: Rudra Prasad Singh (1994), "NABARD; Organisation, Management and Role", Deep and Deep Publication, New Delhi.

3.7 NABARD - Sources and uses of Funds

3.7.1 Sources of Funds

3.7.1.1. Capital

The paid up capital of NABARD stood at Rs.500 crore as on 31 March 1997. Additional contributions of Rs. 100 crores and Rs. 400 crore received from GOI and RBI, respectively have been kept in an account styled as 'Advances received from GOI/RBI against share Capital' pending amendments to the NABARD Act, 1981 for enhancement of Capital from R. 500 crore to Rs. 2000 crore.

3.7.1.2. Reserves

NABARD has created following funds out of profits and grants received by it

These are as under

- (a) *Reserve fund* - for strengthen its own Funds position
- (b) *Research and Development Fund (R&D Fund)*

The R&D Fund is intended mainly to support (i) Research projects (ii) studies on subjects relevant to NABARD (iii) National and international conferences etc. (iv) Setting up/strengthening Technical, Monitoring & Evaluation (TME) cells and appointment of Tribal credit specialists (TCS) by the eligible banks (v) establishment of chair units by select institutions (vi) training activity and (vii) other developmental purposes.

(c) *Credit and Financial Service Fund (CFSF)*

The objective of CFSF is to support Banking and Financial service institutions and activities for undertaking innovations and other financial service programmes so as to improve the officers of the credit delivery and services to rural enterprises, particularly the artisans and other micro entrepreneurs.

(d) Rural Promotion Corpus Fund (RPCF)

The objective of RPCF, set up as a permanent fund, is to support linkage activities such as input supply marketing support, technology, skill upgradation etc., so as to improve the opportunities and capabilities of micro entrepreneur as also support services for their expansion and growth.

(e) Soft loan Assistance Fund

Provides margin money to entrepreneurs.

(f) Rural Infrastructure Development Fund: (RIDF)

RIDF was set up in 1995-96 for the completion of on going rural infrastructure projects. The fund with an initial corpus of Rs. 2000 crore was to be made up of contributions from all scheduled commercial Banks, excluding foreign banks operating in India, to the extent of shortfall in agricultural lending in the priority sector target, subject to a maximum of 1.5 percent of the net bank credit.

(g) National Rural Credit Funds

NABARD maintains (a) National Rural credit (Long term operations) Fund and (b) National Rural credit (stabilisation) Fund with a view to providing and stabilising production and investment credit for economic activities in rural areas. RBI, Central/State Governments can also contribute to these funds.

3.7.1.3 Deposits

NABARD does not accept deposits from public at large. However it is empowered to accept deposits from institutions/Central/State Govts./RBI.

3.7.1.4 Borrowings

This includes

(a) *Market - bonds/Debentures:-*

The portion of market borrowings by issue of bonds guaranteed by central Govt. in regard to payment of interest and repayment of principal is limited.

(b) *Reserve Bank of India (RBI)*

RBI makes available funds to NABARD for short term purposes under section 17 (4E) of RBI Act. National Bank (NABARD) approaches RBI each year with its lending programme for seasonal agricultural operations and also its needs for other S.T purposes. RBI sanctions short-term credit limits for one year under General line of Credit (GLC).

(c) *Govt. of India (GOI)*

The borrowings from GOI represent rupee equivalent of foreign exchange amounts disbursed under various projects assisted by World Bank/IDA and other external credit agencies.

3.7.1.5 Gifts/Donations/Grants etc.

National Bank is authorised to accept gifts, grants donations and benefactions for creating infrastructure, training of personal, strengthening of credit delivery system etc.

3.7.2 Uses of funds

The resources are deployed in the following ways as Loans and Advances.

This include

3.7.2.1 Schematic/Project lending (Medium Term and Long Term)

The major portion of NABARD's loans and advances in the form of refinance is under schematic lending i.e., under schemes/projects sanctioned to commercial Banks/RRBs/Co-operative Banks/State Agriculture and Rural Development Banks (SCARDBs). For support of its schematic lending operations NABARD draws funds from GOI and National Rural credit (Long Term Operations)Funds.

3.7.2.2 Assistance to state Co-operative Banks and Regional Rural Banks

This include

a) *Short term loans*

This loans are advanced for the following purposes.

- (i) Seasonal Agricultural Operations (SAO)
- (ii) Produce (Marketing) Loan Scheme and scheme for Marketing of crops including cotton and kapas.
- (iii) Purchase and distribution of fertilisers.
- (iv) Production and marketing of activities of weaver's societies.
- (v) Financing production and marketing activities of small scale industries.
- (vi) Financing industrial rural artisans through Primary Agriculture Co-operative Societies (PACS).
- (vii) For purchase and scale of yarn
- (viii) Advances against pledge of securities are marked towards agricultural credit stabilisation fund for meeting the share of SCB's in medium term (conversion) Loans.
- (ix) Financing of collection and marketing of minor forest produce.
- (x) Working capital requirements of co-operative sugar factories.

(b) *Medium - Term Loans (Non-Schematic)*

NABARD sanctions separate limit to SCB' and RRB's for supporting their

Medium Term sporadic lending in their area of operation.

c) Medium Term (Conversion/Rephasing/Rescheduling)

In the event of calamities when the SCB'/RRB' to whom Short Term limits have been sanctioned are unable to repay the same, NABARD sanctions the above limits to help them to repay the Short Term limits and borrow afresh.

3.7.23 Loans to State Governments

NABARD Sanctions and disburse loans (Long Term) to state Governments to enable them to contribute to share capital of Co-operative Banks.

3.7.24 Loans under RIDF to state Governments

NABARD gives loans to state Governments for completion or establishment of agricultural projects.

Table 3.1 Sources of funds of NABARD

Sources of funds	Position 31-03-1996	As on 31-03-97	Net accretion
Capital	500	500	-
Advances received form GOI & RBI towards capital	-	500	500
Reserves and surplus	1738	2280	542
NRC (LTO) fund	8185	8636	451
NRC (Stabilisation) fund	840	842	2
Deposits	102	461	359
Bonds & Debentures	1045	1245	200
Borrowings from Govt. of India	1294	1170	(-)124
Borrowings from RBI			
i. General Line of Credit (GLC)	4787	4765	(-)22
ii ARDR Scheme, 1990	204	110	(-)64
Foreign currency loan (KFW Germany)	70	171	101
RIDF Deposits	350	1392	1042
Other liabilities	493	499	6
Total	19608	25571	2963

Source: NABARD Annual Report, 1995-96 to 1996-97.

Table 3.2 Uses of funds by NABARD

(Rs. in crore)

Use of funds	Position as 31-2-96	As an 31-3-97	Net utilisation
Cash and Bank balance	129	920	791
Money at call and short notice	161	-	(-)161
Investment in GOI Securities ADFC equity	1298	1243	(-)55
Loans and advances			
a. Production and marketing credit	4789	4908	119
b. Conversion of product in credit into M.T. loans	32	100	68
c. M.T. Investment credit (Non-project loans)	178	128	(-)50
d. Other investment credit			
1. M.T. & L.T. Project loans	11145	12359	1214
2. L.T. Non-project loans	363	418	255
e. Bills rediscounted	108	25	(-)83
f. ARDR Scheme, 1990	198	104	(-)94
Other loans	3	6	3
Loans out of RIDF	387	1475	1088
Fixed assets	171	175	4
Other assets	646	710	64
Total	19608	22571	2963

Source: NABARD Annual reports 1995-96 to 1996-97.

CHAPTER 4

THE NATURE OF NABARD'S LONG TERM REFINANCE TO KERALA

4.1 Introduction

The refinance facility, provided by NABARD for different purposes covers both investment and production credit as explained in Chapter III. These credit facilities cover a wide range of activities, both in farm and non farm sectors. This chapter is divided in two two parts. Part A. explains the objectives and general terms and conditions for availing NABARD refinance in respect of investment credit (long term credit) Part B. includes the analysis of the nature and extent of refinance provided by NABARD for Investment credit to the state of Kerala and this analysis is done to derive some pragmatic conclusions based on the first objective of the study.

4.2 PART - A

The Major objectives which guide the refinance support for various activities through various institutions. (*)

- (i) *to support national policies for increasing agricultural production and rural employment through efficient use of national resources.*
- (ii) *Reduction of regional imbalances,*
- (iii) *Equitable distribution of growth, ensuring credit support to weaker sections of the society through special programmes like IRDP.*
- (iv) *Increasing the credit absorptive capacity of the credit delivery system by improving the health or agencies involved in the disbursement of credit and*
- (v) *Improving quality of credit through proper control of technical and financial parameters and propagation of the repayment ethics.*

* "The role of National Bank in the sphere of rural credit, NABARD; 1987, p. 4.

4.3 Lending Terms and Conditions

NABARD has prescribed detailed terms and conditions, which are the basis of sanctions of NABARD's refinance facility on Schematic basis for investment credit; a brief of which are given below.

a. Unit Cost

Unit cost is based on technical parameters. NABARD has prescribed realistic average unit cost for each type of Investment. However realistic average unit cost in the individual cases are determined on the basis of technical plans, invoices, quotation etc. In each Regional offices of NABARD a standing committee has been constituted, which reviews the norms of unit cost of various investments on half yearly basis.

b. Beneficiaries Contribution

As stipulated by NABARD, the borrower have to contribute a sum of money to the total Investment cost. The limit of contribution depends upon the borrower, such as small, medium or large farmer and the nature of investment.

c. Amount of Refinance

NABARD has adopted the policy of involving the financing bank/state Govts. In project lending. They are required to make certain stipulated level of contribution towards financing the project. The amount of refinance sanctioned by NABARD ranges from 50 percent to 90 percent, of the priority sectors gets higher amount of refinance.

d. Security of Refinance

The refinance should be guaranteed by the state Govt. of the financing bank should furnish other security to the satisfaction of NABARD.

e. Security from ultimate borrowers

It is the financing banks who prescribe the security from ultimate borrowers. For this purpose, the RBI and NABARD issue guidelines from time to time.

f. The rate of interest

The rates of interest charged by NABARD in its refinance and the rates of interest charged by financing institutions, are subject to be determined from time to time keeping in the view the general interest rate structure and the policy of GOI and RBI in this regard.

g. Evaluation Fee and Period of Loan

For the purpose of meeting appraised and processing charges of loan applications, the banks are allowed to charge 0.5 percent evaluation fee of the cost of investment.

h. Repayment of Loan

The repayment schedule

All repayment of loans eligible for refinance and due from borrowers	Repayment of refinance on or before
(1) From 1 January to 30 June each year	31 July each year
(2) From 1 July to 31 December of each ear	31 January of subsequent year

i. Eligibility Criteria

NABARD has adopted the policy of linking the refinance to the recovery performance of the Banks. The norms are

Units having recovery of 60% and above demand	Unrestricted
Units having recovery of below 60% of demand	Limited to the extent of recoveries made or the average of an amount recovered/lent in the preceding 3 years which ever is greater.

j. Commitment charges

NABARD may charge commitment charges at the rate of 1/3 of 1 percent per annum on the short fall of refinance availed by the Banks as at the end of each year.

k. Sanction of Schemes - Documentation

The technical feasibility and financial viability are examined by the NABARD of scheme/proposals made by the eligible institution for the different purposes. After proper examination, NABARD sanctions the schemes and release the refinance against drawel application.

l. Automatic Refinance facility

The total procedure relating to release of funds under refinance to banks under certain stipulated schemes, is made simplified by dispensing with the pre sanction procedures. For there, the banks are required to appraise the proposals received and provide loans in uniformity with the guide lines as also the terms and lending criteria relating to the various schemes and submit their refinance applications to NABARD.

4.3 PART B - ANALYSIS

In order to study the nature of NABARD's long term refinance to Kerala, certain parameters are used for analysis.

They are;

- 1) *The investment credit refinance disbursement by NABARD at all India level, to Kerala and percentage share of Kerala for the last 15 years from 1982-93 to 1996-97.*
- 2) *Per Capita and per Hectre long term refinance assistance by NABARD at all India level and Kerala level for 1996-97.*
- 3) *Purpose-wise long term refinance from 1992-93 to 1996-97 to the state of Kerala by NABARD.*
- 4) *Agency-wise long term refinance disbursement for 5 years from 1992-93 1995-96 to Kerala by NABARD.*
- 5) *Comparative percentage share of various agencies in all India and Kerala level for long term refinance disbursement for the last 3 years. (1994-95, 1995-96 and 1996-97).*
- 6) *District-wise long term refinance disbursements for 2 years. (1995-96 and 1996-97).*

4.3.1 Share of Kerala in the Investment Credit disbursement by NABARD

Table 4.3.1.1 shows the all India disbursement of Investment Credit, disbursement in Kerala and percentage share of Kerala in the all India Investment Credit disbursement with respective growth indices from 1982-83 to 1996-97. From the analysis of the table, the following observations can be made;

- (i) The percentage share of Kerala in the all India Investment Credit disbursement has been increased from 3.17 percentage 1982-83 to 5.22 percentage in 1996-97. The trend shows a gradual and uniform growth rate.
- (ii) The change in growth indices of disbursements figures at all India and at Kerala shows that the rate of increase in the growth index is more in Kerala than that at all India level. i.e., The amount of Investment Credit which was Rs. 703 crore at the all India level at the base year has been increased to Rs. 3523 crore in 1996-97, showing an increase of 501 percentage, while that of Kerala has been increased from Rs. 22.32 crore to 184 crore, showing increase 724 percentage.

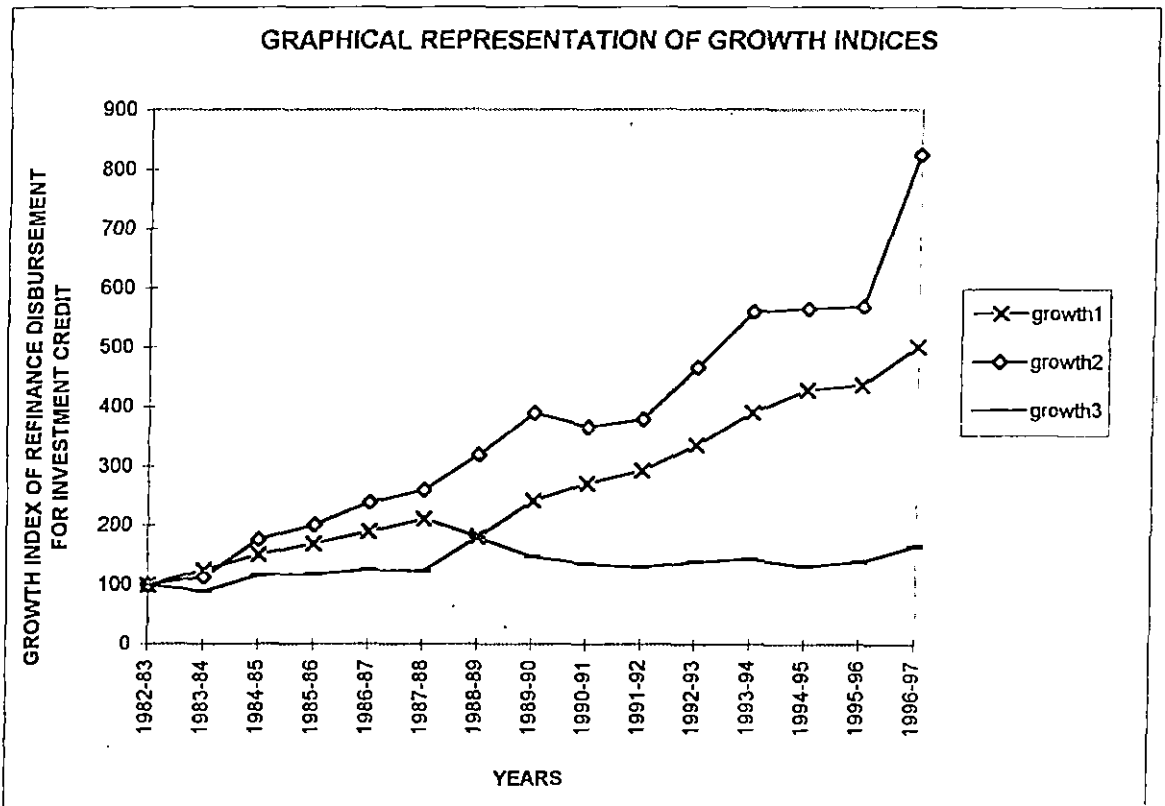
Table 4.3.1.1 Refinance disbursement of investment credit by NABARD (All India and Kerala) for the last 15 years from 1982-83.

Year	All India Disbursement	Growth Index	Disbursement in Kerala	Growth Index	Percentage share of Kerala	Growth Index
1982-83	703	(100)	22.32	(100)	3.17	(100)
1983-84	892	(126)	25.55	(114)	2.86	(90)
1984-85	1061	(151)	39.43	(177)	3.72	(117)
1985-86	1192	(170)	44.79	(201)	3.76	(119)
1986-87	1334	(190)	53.35	(239)	4.0	(126)
1987-88	1482	(211)	58.03	(260)	3.94	(124)
1988-89	1270	(181)	71.26	(319)	5.61	(180)
1989-90	1702	(242)	80.05	(389)	4.70	(148)
1990-91	1902	(271)	81.59	(366)	4.28	(135)
1991-92	2157	(293)	84.57	(379)	4.11	(130)
1992-93	2360	(336)	104.00	(466)	4.40	(139)
1993-94	2745	(390)	125.00	(560)	4.57	(144)
1994-95	3011	(428)	128.00	(565)	4.19	(132)
1995-96	3064	(436)	127.00	(569)	4.15	(140)
1996-97	3523	(501)	184.00	(824)	5.22	(165)

Source: Annual reports of NABARD (Combined), ICD reports.

(iii) The graphical representation of the growth indices for Investment Credit disbursement at all India level, Kerala level and percentage share of Kerala are shown in Figure 4.3.1.A.

Figure 4.3.A. Graphical Representation of Growth Indices of Investment Credit Disbursement by NABARD



- Growth 1 -- Growth Index for All India Investment Credit Disbursement
- Growth 2 -- Growth Index for All Kerala Investment Credit Disbursement
- Growth 3 -- Growth Index for Percentage Share of Kerala in the All India Investment Credit Disbursement

The first phase from 1982-83 to 1986-87 shows a uniform growth pattern of the figures, and the second phase from 1986-87 to 1991-92 there is an increase in Kerala share and the all India refinance disbursement figures shows a downward trend especially in 1988-89 and increased steadily. On the same year the percentage share to Kerala increased sharply and then declined, which is contrary to what happened at national level. In the third phase from 1991-92 to 1996-97 both the growth indices for all India and Kerala refinance disbursement has been increased considerably, while the percentage share of Kerala has not been much changed. In 1996-97 all the three figures reached at there peak.

From the NABARD annual reports and Investment Credit Department (ICD) reports, it can be seen that in 1995-96 Kerala's position was 11th in the all India Investment Credit disbursement and in 1996-97 the state could achieve the 8th position which is far above than the disbursements made by some bigger states like Madhya Pradesh, Orissa, Bihar and Assam. Kerala share amongst the South Zone states remained at 13 percent during 1994-95 and 1995-96 which has been increased to 16.48 percent during 1996-97.

4.3.2 Per Capita and per Hectare Investment Credit refinance disbursement.

Though Kerala has been receiving less than 6 percentage of the all India refinance disbursement over the last years the per Capita and per Hectare refinance assistance in Kerala is much higher than the all India level and Southern State's average, which is detailed in table 4.3.2.1.

Table 4.3.2.1 Per capita & per Hectare refinance during 1996-97.

	Per Capita (Rs.)	Per Hectare (Rs.)
All India	42	253
Southern Region	57	375
Kerala	63	835

Source: ICD Analytical Report (1995-96), NABARD & Statistics for Planning (1993), Government of Kerala.

4.3.3 Purpose-wise analysis

The major purposes to which long term refinance in Kerala has been going to Minor Irrigation (MI), Land Development (LD), Farm Mechanisation (FM), Plantation and Horticulture (P&H) Dairy Development (DD), Fisheries (FISH), Poultry Farming & Sheep, Goat and Piggery (PF&SGP), Bio-Gas (BG), Integrated Rural Development Programme (IRDP), Non Farm Sector (NFS), Agro Processing (AGROPRO) and Others.

Table 4.3.3.1 Purpose wise Refinance Disbursement in Kerala (Rs. in Lakhs)

Purpose	1992-93	1993-94	1994-95	1995-96	1996-97
MI	2138 (21)	1962 (16)	1612 (13)	2304 (18)	2609 (14)
LD	217 (2)	139 (1)	270 (2)	397 (3)	924 (5)
FM	470 (5)	429 (3)	509 (4)	378 (3)	37 (2)
P&H	2077 (20)	2324 (19)	2295 (18)	2433 (19)	4217 (23)
DD	462 (4)	382 (3)	514 (4)	674 (5)	1042 (6)
FISH	157 (2)	205 (2)	152 (1)	209 (2)	222 (1)
PF&SJP	139 (1)	208 (2)	241 (2)	381 (3)	842 (5)
BG	22 (0.2)	34 (0.3)	15 (0.1)	11 (0.1)	10 (0.1)
IRDP	1488 (14)	1288 (10)	1451 (12)	631 (5)	867 (5)
NFS	3171 (31)	5033 (40)	5050 (40)	5187 (41)	7233 (38)
AGROPRO	- (4.1)	598 (4)	504 (0.7)	84 (0.2)	46
OTH	50 (0.5)	22 (0.2)	2 (-)	11 (0.1)	15 (0.1)
TOTAL	10391	12534	12615	12702	18406

(Percentages are given in Parenthesis)

MI	-	<i>Minor Irrigation</i>
LD	-	<i>Land Development</i>
FM	-	<i>Farm Mechanisation</i>
P&H	-	<i>Plantation and Horticulture</i>
DD	-	<i>Dairy Development</i>
FISH	-	<i>Fisheries</i>
PF & SJP	-	<i>Poultry, Farm & Sheep, Goat and Piggery</i>
BG	-	<i>Bio Gas</i>
IRDP	-	<i>Integrated Rural Development Programme</i>
NFS	-	<i>Non Farm Sector</i>
AGROPRO	-	<i>Agriculture Processing</i>
OTG	-	<i>Others</i>

Table 4.3.3.1 shows the comparative purpose -wise disbursements of refinance from the Regional Office, NABARD from 1992-93 to 1996-97. The analysis of the table gives the following inferences;

- (i) Non Farm Sector (NFS) has been receiving the major portion of refinance followed by Minor Irrigation (MI) and Animal Husbandry (AH) for the reference period.
- (ii) The share of IRDP in the total disbursed has been decreased for 14 percent to 5 percent during the period.
- (iii) The share of MI is also showing a declining trend while others are not shown much variations in disbursement figures.

A micro analysis of the Purpose-wise refinance disbursement against the target fixed by NABARD for the year 1996-97 is given in table 4.3.3.2

The analysis of the table reveals the percentage achievement of each sector during the period.

It can be seen that the target under some importance sectors such as DD, SJP, IRDP, FISH (In land) have been surpassed. MI, LD, FISH (Marine and Brackish water), BG, SC/ST Action Plan and AGROPRO where fell short of targets. According to the NABARD sources, the problems affecting the Fisheries sector continued to plague the credit flow during the period. The banning of brackish water fish culture within 500 meters from the high tide level by the Supreme Court further aggravated the situation.

Table 4.3.3.2 Purpose wise Refinance / Target Disbursed during 1996-97

(Rs. in Lakhs)

Sl. No.	Purpose	Target	Achievement	% Achievement
1.	Minor Irrigation	2898.8	2609.5	90
2.	Land Development	977.7	923.9	94
3.	Farm Mechanisation	378.0	378.0	100
4.	Plantation & Horticulture	4517.0	4216.7	93
5.	Dairy Development	1028.0	1042.3	101
6.	Fisheries (Marine)	89.0	86.8	98
7.	Fisheries (In Land)	130.0	134.7	104
8.	Fisheries (Brackish Water)	7.0	0.7	10
9.	Forestry	1.2	0.0	-
10.	Bio Gas	18.0	9.5	53
11.	Poultry	744.0	721.0	97
12.	Sheep, Goat, Piggery	104.0	120.8	116
13.	SC/ST Action Plan	72.0	5.7	8
14.	Non Farm Sector	7133.3	7233.6	101
15.	Agro Processing	510.0	45.8	9
16.	Others	0.0	9.2	-
	Total	19283.0	18406.0	95

Source : (As shown in Table 4.3.1)

The Purpose-wise refinance disbursement pattern in Kerala is different from the all India pattern which is shown in Table 4.3.3.3.

Table 4.3.3.3. Major Purpose wise disbursement - Percentage to total (All India and Kerala) for 1996-97.

Purpose	All India (%)	Kerala (%)
FM	25	2
NFS	18	41
MI	17	16
PH	-	17
IRDPA	15	5
OTHERS	25	19

Source: (As shown in Table 4.3.3.1)

4.3.4 Agency-wise analysis

The agencies through which Investment Credit is disbursed are Commercial Banks (CB's), Regional Rural Banks (RRB's), State Co-operative Bank (SCB) and State Agricultural and Rural Development Bank (SCARDB).

A comparative Agency-wise refinance disbursement for the years from 1992-93 to 1996-97 is shown in Table 4.3.4.1.

Table 4.3.4.1 Comparative Agency-wise Refinance (Long Term) disbursements from 1992-93 to 1996-97 to Kerala.

Agency	1992-93	1993-94	1994-95	1995-96	1996-97
CBs	3718 (35.8)	4005 (32)	4348 (34.5)	2362 (18.6)	926 (5)
RRBs	686 (6.6)	1221 (9.7)	1208 (9.6)	1266 (10)	2762 (15)
SCB	2045 (19.7)	1908 (15.2)	1873 (14.8)	1224 (9.6)	1521 (8.3)
SCARDB	3942 (37.9)	5400 (43.1)	5186 (41.1)	5850 (61.8)	13197 (71.7)

Source: (As shown in Table 4.3.3.1)

From the table, following inference can be made. The share of Commercial Bank in the total disbursement, which was 35.8 percent in 1992-93 has been reduced to 5 percent in 1996-97, while that of RRB's increased from 6.6 percent to 15 percent, of SCB decreased sharply from 19.7 percent to 8.3 percent. Thus for the last years SCARDB has been disbursing the major share of NABARD's long term refinance in Kerala.

Table 4.3.4.2 shows the percentage share of various agencies in all India and at Kerala for 1994-95, 1995-96 and 1996-97. In all India level also SCARDBs disburse the major share of NABARD's long term finance.

Table 4.3.4.2 Percentage share of various agencies in disbursement at all India/Kerala level

Sl. No.	Agency	All India			All Kerala		
		1994-95	1995-96	1996-97	1994-95	1995-96	1996-97
1.	CBs	36	28	17	34	18	5
2.	RRBs	15	16	18	10	10	15
3.	SCARDBs	40	47	54	41	10	72
4.	SCB	9	9	11	15	62	8

Source: As shown in Table 4.3.3.1

A micro analysis of the disbursement pattern of SCARDBs for the year 1996-97, as per Table 4.3.4.3 reveals that, at all India level major portion of the disbursement through SCARDBs goes to the farm sector i.e., mainly to FM, MI and DD. But the major portion of refinance disbursement through SCARDB in Kerala goes to Non-Farm Sector.

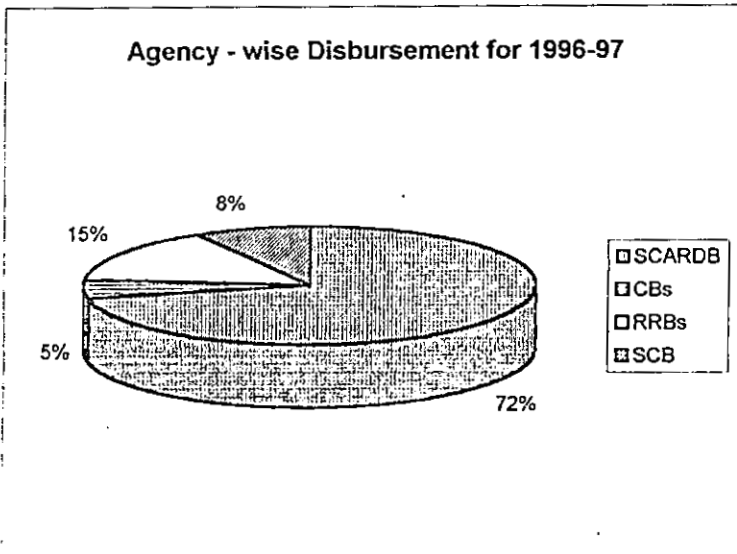
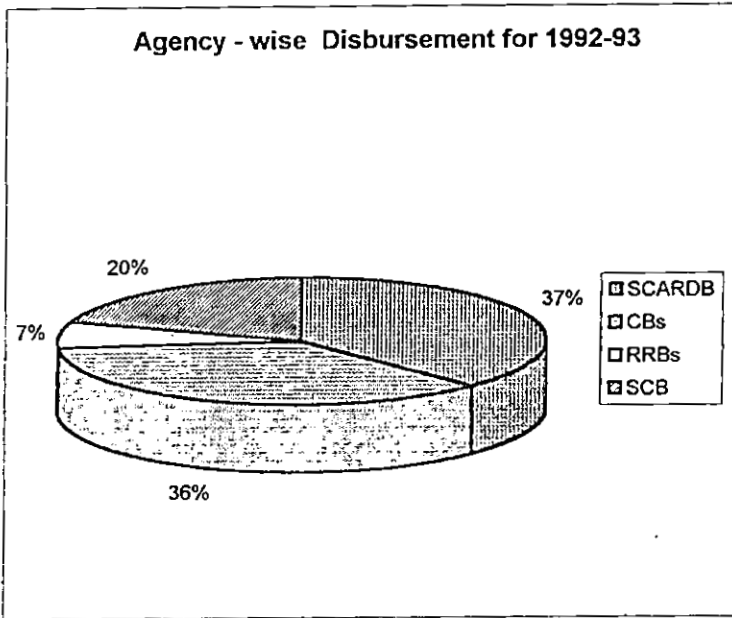
Table 4.3.4.3 Comparative Purpose wise disbursement pattern of SCARDB's (1996-97)

Purpose	SCARDBs (All India)	SCARDB (Kerala)
FM	28	3
MI	26	12
NFS	17	39
PP	10	6
Ph / Others	19	40

Source: (ICD, Analytical Report, Annual Report, NABARD - 1996-97)

Figure 4. 3. B shows the diagrammatic representation of agency wise disbursement for the years 1992-93 and 1996-97, from which the change in the disbursement pattern can be understood.

Figure 4.3.4.A Comparative Agency - wise Refinance disbursement of Investment Credit for 1992-93 and 1996-97 by NABARD to Kerala



4.3.5 Spatial Distribution of Refinance

The district wise refinance flow for 1995-96, The Target for 1996-97, Achievement of target during 1996-97, Percentage of Achievement and Percentage increases in the disbursement of long refinance during 1996-97 over that of 1995-96 are shown in Table 4.3.5.1

Table 4.3.5.1 District wise Long Term refinance Flow (Comparative Performance for 1995-96 & 96-97) (Rs in Lakhs)

Sl. No.	District	Disbursement as on 31.3.96	Disbursement as on 31.3.97	% Increase in disbursement	Target for 96-97	% of achievement
1.	Trivandrum	682(5.4)	1260(6.8)	85	1376	92
2.	Kollam	841(6.6)	1123(6.1)	34	1229	91
3.	Pathanamthitta	623(4.9)	612(3.3)	-2	690	89
4.	Alappuzha	754(5.9)	704(3.8)	-7	805	87
5.	Kottayam	587(4.6)	989(5.4)	68	943	104
6.	Idukki	927(7.3)	1582(8.6)	71	1476	107
7.	Ernakulam	949(7.5)	1010(5.5)	6	962	105
8.	Thrissur	788(6.2)	858(4.8)	9	1014	85
9.	Palakkad	1064(8.4)	1573(8.5)	47	1653	95
10.	Malappuram	1150(9.0)	1805(9.8)	57	1915	94
11.	Kozhikode	1048(8.3)	1559(8.5)	49	1752	89
12.	Wayanad	688(5.4)	989(5.4)	44	1147	86
13.	Kannur	1458(11.5)	2653(14.4)	82	2583	103
14.	Kasaragod	1143(9.0)	1699(9.2)	49	1733	96
	Total	12702(100)	14406(100)	45	19283	95

(Figures in parenthesis shown percentage to total)

Source: (as shown in Table 4.3.1)

The analysis of the table reveals that Kannur district is at the top of the order in the matter of absorption of refinance followed by Malappuram and Kasaragod districts. Pathanamthitta, Alappuzha and Thrissur districts stand at the lower order and

have the least increase of refinance flow from 1995-96 to 1996-97. In the matter of percentage achievement of target of 1996-97; Kottayam, Idukki, Thrissur and Kannur districts exceed their target. The other district fell short of their targets and this forming an average achievement of 95 percentage.

CHAPTER - 5

RURAL INFRASTRUCTURE DEVELOPMENT FUND (RIDF)

PART A

5.1 Prologue

In the context of the need for stepping up agricultural growth rate to 4.5 percent in the Ninth Five Year Plan, the importance of rural infrastructure in sectors like roads, irrigation, bridges etc. needs no emphasis. Good infrastructure is essential for better productivity of capital and labour. In addition, it also helps checks the migration of rural population to urban areas. In India where more than 60 percent of population lives in rural areas and nearly two-third of the work force derive their livelihood from agriculture, the rural infrastructure assumes crucial importance. However, one of the basic limitations to create adequate infrastructure is lack of resources. Difficult financial position of state governments, mainly responsible for development and maintenance of rural infrastructure, has been a cause of concern, with many well intentioned infrastructure projects found languishing for want of resources. This apart, it was found that the commercial banks who were assigned the role of channelling at least 18 percent of their total lending to agriculture were not able to fulfil their commitment. It was, therefore, considered desirable to create a fund out of the shortfall in commercial banks lending for agriculture by the name of Rural Infrastructure Development Fund (RIDF) to be managed and operated by NABARD. This was announced by the finance minister, while presenting the Union Budget for 1995-96 and started operations during the same year.

The Fund RIDF-I was established with an initial corpus of Rs.2000 crore which was to be made up of contributions from all Scheduled Commercial Banks, excluding foreign banks operating in India, to the extent of shortfall in agriculture lending in the priority sector target, subject to a maximum of 1.5 percent of the net bank credit. RIDF-I was completed in 1995-96. The successful completion of the

sanction process under the first tranche of Rs.2000 crore under RIDF-I created considerable enthusiasm among the state governments. With the availability of resources to complete several projects which had remained incomplete for want of funds, the state governments started counting upon RIDF as one of the important sources for taking up projects to benefit the community at large. The loans under RIDF-I were expected to help completion of 4530 on-going projects and revive the sunk investment of Rs. 3476 crore in the incomplete projects. NABARD continued to extend loans under RIDF-II for 1996-97 with the announcement of the second tranche of Rs. 2,500 crores and RIDF-III for 1997-98 with Rs. 2,500 cores as the third tranche.

5.1.2 General Terms and Conditions

- (i) Loan amount shall not exceed the borrowing power of the state governments as stipulated under article 293 of the constitution of India.
- (ii) The state government shall utilise the loan amount solely and exclusively for the purpose for which it sanctioned.
- (iii) The state Governments shall execute and complete the projects within the time frame stipulated in the sanction letter and CPM/PERT chart shall be submitted to NABARD.
- (iv) The loan would be sanctioned against the irrevocable letter of authority (Mandate) to be furnished by the state govt. in favour of RBI to debit their current account upon the requisition issued by NABARD in case of default in repayment of the principal and/or the payment of interest. In the case of loans sanctioned to state owned corporations, in addition to the mandate, the state government would be required to provide guarantee in respect of repayment of principal and payment of interest.
- (v) The loans under RIDF-I carried an interest rate of one half of one percentage point above the rate payable by NABARD on deposits received by it from the banks. However, at the instance of NABARD, RBI had stipulated that for the years 1995-96 the rate of interest on RIDF I deposits and advances would be 12.5 percent and 13 percent respectively which were fixed as 11.5 percent and 12 percent respectively per annum for RIDF-II.

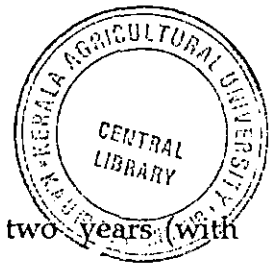
- (vi) The loan shall be for a period of five years with an initial grace period of 2 years.
(for RIDF-I, which increased to 3 years for RIDF-II)
- (vii) Loan amount shall be restricted to either 50 percent of the revised / updated project cost or the balance cost to be incurred for completion of the project whichever is less. (which increased to 90 percent under RIDF-II)
- (viii) The state Governments shall furnish to NABARD an audited statement of accounts within 12 months from the close of financial year, in respect of projects financed.
- (ix) After completion of projects, the state governments shall provide adequate funds for their maintenance.
- (x) The project implementing Departments of the State Governments shall maintain separate accounts for the project expenditure.

5.1.3 Project Selection

The ongoing projects which would be completed in two years (with preference to those which could be completed within one year) were selected during the year. Projects submitted by state Governments were appraised by an Appraisal Mission constituted for each state comprising of Economist, Agronomist having specialised knowledge relating to the types of projects under consideration.

5.1.4 Monitoring

The implementation of the projects sanctioned under RIDF was monitored by a High Power Committee constituted by the state government, headed by Chief Secretary as its Chairman with Agriculture Production Commissioner, representatives from NABARD, Department of Finance, Agriculture, Irrigation, Command Area Development and other concerned departments. The projects are also monitored through field visits by the officials of Head Office and Regional Offices of NABARD. The District Development Managers (DDMs) of NABARD also visited the projects on a monthly basis to assess the progress of work and likelihood of completion within the stipulated period.



PART B

5.2 Analysis

As per the second objective of the study is to, here an attempt is done to review the performance of RIDF-I and II with respect to Kerala using the following parameters

- (i) Number of projects sanctioned
- (ii) NABARD loan sanctioned
- (iii) State Government contribution
- (iv) NABARD loan Disbursed, and
- (v) Expected benefits.

Tables 5.2.1 and 5.2.2 gives a comparative picture of Kerala's assistance given under RIDF I and II respectively with that of total All India allocations and Southern Region allocations. Analysis of the parameters based on the data of the tables reveals the following.

**Table 5.1.1 RELATIVE POSITION OF PROJECTS SANCTIONED, LOANS DISBURSED AND EXPECTED
BENEFITS UNDER RIFP. I (as on 31st March 1997)**

Sl. No.	All India/ Southern Region/ Kerala	No. Of Projects Sanctioned								TOTAL FINAN- CIAL OUTLAY	NABARD LOAN SANCT- IONED	STATE GOVT. CONT- RIBU- TION	Expected Benefits			
		MJP	MIP	MIS	RB	WSM	FPS	RR	TOTAL				NABARD LOAN DISBU- RSED	IRRIGATION POTENTIAL	VALUE OF PRO DUCTION	No. OF JOBS CREA TED
1	All India total	19	112	4303	18	52	7	19	4530	6249.39	2010.05	493.65	1183.14	2248892	2674.27	725676
2	Southern region total	1	20	242	-	40	-	-	303	1095.33	450.59	161.84	247.53	198226	651.55	84531
3	Kerala	-	4	92	-	40	-	-	136	285.79	99.72	47.76	65.29	39349	110.56	14575
4	Percentage share of Kerala to all India total	-	3.6	2.1	-	77	-	-	3.0	4.6	5.0	9.7	5.5	1.7	4.1	2.0
5	Percentage share of Kerala to southern region total	-	20	38	-	100	-	-	45.0	26.0	22.0	29.4	26.3	19.9	17.0	17.2

Source: (NABARD Annual Reports 1995-96 and 1996-97)

Notes: 1. Southern Region includes Andhra Pradesh, Karnataka and Kerala

2. Irrigation in *Hectares*, Rural Bridges in *metres*, Rural Roads and Inland Water Transport in *Kilo meters*.

3. **MJP** - Major Irrigation Project, **MIP** - Medium Irrigation Project, **MIS** - Minor Irrigation Scheme, **RB** - Rural Bridges
WSM - Watershed Management, **FPS** - Flood Protection Scheme, **RR** - Rural Roads Project.

Table 5.1.2
Relative Position of Projects Sanctioned, Loans Disbursed and Expected Benefits under RIDF - II (As on 31st March, 1997) (Rs. in crore)

Sl. No	All India Southern Kerala	No. Projects Sanctioned								TOTAL OUTLAY	NABARD LOAN	STATE GOVT. CONTRI.. BUTION	NABARD LOANS DISBU- RSED	Expected Benefits					
		MJP	MIP	MIS	RB	WSM	RR	IWT	TOTAL					IRRIGATION POTENTIAL	RB	RR	IWT	VALUE PROD.	NO. OF JOBS CREATED
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
I	All India total	25	31	3839	396	40	3918	1	8250	4043.54	2646.88	495.80	291.60	918799	25262	16797	7	932.57	220694
II	Southern region	11	15	193	197	32	1989	-	2437	1335.76	867.99	180.83	28.5	145879	10777	8135	-	207.66	45167
III	Kerala	-	2	129	21	32	-	-	184	288.98	89.43	18.68	-	29694	2271	-	-	95.42	15846
IV	Percentage Share of Kerala In the all India total	-	6.5	3.36	5.30	80.0	-	-	2.2	7.14	3.4	3.8	-	3.23	9.0	-	-	10.2	7.1
V	Percentage share of Kerala in southern region total	-	13.3	66.8	10.6	100.0	-	-	7.5	21.6	10.3	10.3	-	20.4	21.0	-	-	46.0	35.0

Source: (NABARD Annual Report)

Notes 1. Southern region includes Andhra Pradesh, Karnataka, Tamil Nadu and Kerala.

2. Irrigation in *hectares*, rural bridges in *meters*, rural roads and IWT in *Kilometers*.

3. **MJP** - Major Irrigation Project, **MIP** - Medium Irrigation Project, **MIS** - Minor Irrigation Scheme, **RB** - Rural Bridges, **WSM** - Watershed Management Scheme, **RR** - Rural Roads Project, **IWT** - Inland Water Transport.

5.2.1 Number of Projects sanctioned

- (a) The share of Kerala in the total number of projects sanctioned under RIDF-I was 3 percent and 45 percents respectively of those at All India level and Southern Region which has been reduced to 2.2 percent and 7.5 percent respectively in RIDF - II. This is mainly due to the presence of Tamilnadu in RIDF-II which was not included in RIDF - I as per the table and increased share to Andhra Pradesh because of Cyclone calamities.
- (b) In RIDF-I & II Kerala received the most significant share of projects sanctioned under Watershed Management (WSM) i.e. 77 percent and 80 percent of the total projects sanctioned at all India level under RIDF I and II respectively. Kerala is the only state in Southern Region which received projects under WSM.
- (c) Under Minor Irrigation Project (MIP) Kerala received 3.6 percent and 20 percent share in the projects sanctioned at all India level and southern Region respectively. Which changed to 6.5 percent and 13.3 percent in RIDF - II.
- (d) Under Minor Irrigation Scheme (MIS) Kerala received 2.1 percent and 38 percent share of the projects at All India totals and Southern Region total respectively under RIDFI which increased to 3.36 percent and 6.68 percent under RIDF - II.
- (e) Though no projects under Rural Bridges were received by Kerala is RIDFI, 5.3 percent of the projects sanctioned at All India level (which is 10.6 percent of the share of Southern Region) was received under RIDF - II.
- (f) No projects were sanctioned to Kerala under RIDF I and II for Major Irrigation Project (MJP) Rural Roads (RR), Flood Protection Scheme (FP), Inland Water Transport Projects. (IWT)

5.2.2 NABARD Loan sanctioned

Loans sanctioned by NABARD under RIDF - I form 5 percentage and 2.2 percentage of the total loans sanctioned at all India level and at Southern Region level respectively which decreased to 3.4 percent and 10.3 percent respectively under RIDF-II.

5.2.3 State Government Contribution

The Kerala state Government contribution to the projects under RIDF-I was 9.7 percent of that of All India level figures (and 29.4 of Southern Region figures) which changed to 3.8 percent (and 10.3 percent) respectively under RIDF-II.

5.2.4 NABARD Loan Disbursed

NABARD disbursed 5.5 percent of the total disbursements under RIDF to Kerala which from 26.3 percent of disbursements to Southern Region. No figure related to this was available under RIDF II as on 31.03.97.

5.2.5 Expected benefits

5.2.5.1 For Kerala RIDF - II shows a brighter picture than RIDF-I in the matter of expected benefits. The share of irrigation potential, which was 1.7 percent and 19.9 percentage of the total expected irrigation potential at all India level and Southern Region level respectively in RIDF-I has increased to 3.2 percent and 20.4 percent in RIDF-II.

5.2.5.2 The share of Kerala in the value of production was 4.1 percent and 1.7 percent of that at all India and Southern Region respectively, which also increased to 10.2 percent and 46 percent respectively.

5.2.5.3 In RIDF-I Kerala received 2 percent and 17.2 percent of the number of jobs created at all India level and at Southern Region level which increased 7.1 percent and 35 percent respectively under RIDF-II.

SUMMARY OF FINDINGS & CONCLUSION

CHAPTER - 6

SUMMARY OF FINDINGS AND CONCLUSION

6.1 Summary of findings

National Bank for Agriculture and Rural Development (NABARD) is the apex level institution in the matter of agricultural credit refinance and rural development in India. The mission of NABARD is to promote sustainable and equitable agriculture and rural prosperity through effective credit support, selected services, institutions development and other innovative initiatives. In this study an attempt is made to inquire in to the various dimensions of two major functional areas of NABARD with respect to the state of Kerala. The role of institutional finance for investment purposes in supporting sustainable economics activities and infrastructure development especially in agriculture and rural sector assumed greater importance to day with the operation of Panchayath Raj System through decentralised planning in the state. The present study is thus oriented towards to overview the role of NABARD in the investment credit and infrastructure development in the state of Kerala. The objectives of the study are to examine the nature of NABARD's long term refinance to Kerala and to study the working of Rural Infrastructure Development Fund (RIDF) with respect to Kerala. The analysis of data for this purpose is being done in Chapter IV and V, and the major findings of the study can be summarised as follows;

- (1) The disbursement of refinance (Investment Credit) by NABARD to the state of Kerala has been increased impressively from 1982-83 to 1996-97. The rate of growth in refinance disbursement in Kerala is relatively higher than that at all India level. The growth indices have been increased from 100 of the base year (1982-83) to 501 and 824 respectively for all India and Kerala.
- (2) Though the disbursement have been increased, the percentage share of Kerala in the all India refinance disbursement remains around 4 percent to 5 percent during the period. The share has been increased from 3.17 percent (1982-83) to 5.22 percent (1996-97).

- (3) The graphical representation of the growth indices shows that during the period between 1991-92 and 96-97 Kerala received comparatively more refinance disbursements than the previous periods.
- (4) The position of Kerala in the all India refinance disbursement has been improved from 11th in 1995-96 to 8th in 1996-97 and the share of Kerala amongst the southern zone states have been also improved from 13 percent to 16.48 percent during this period.
- (5) The per capita and per hectare refinance assistance to Kerala is much higher than all India and southern states average.
- (6) Purpose wise analysis shows that non farm sector has been absorbing the major portion of refinance disbursements for the last years, while the share of IRDP and Minor Irrigation has been declining. Thus is the purpose wise disbursement pattern of long term refinance is different in Kerala then the all India pattern.
- (7) A micro level analysis of the purpose wise refinance disbursement against targets for the year 1996-97 reveals that, the targets under certain section like Dairy Development, Sheep, Goat, Poultry, IRDP, Fishing has been surpassed while that of certain other sectors, like Minor Irrigation, Land Development , Fisheries, Bio-Gas , SC/ST Action plan and Agro processing fell short of targets.
- (8) A comparative agency wise analysis reveals the fact that SCARDBs are disbursing the major share of NABARD's investment credit in the state. The share of SCARDB and RRBs have been increased during the period from 1992-93 to 1996-97 and that of Commercial Banks and SCB has been decreased.
- (9) A Micro analysis of the disbursement pattern of Kerala SCARDB with that all India level SCARDBs reveals that in Kerala, major share of disbursement by SCARDBs goest to the Non Farm Sector, While that at all India level goes to farm sector.
- (10) A Micro level Analysis of District level refinance flow for two years (1995-96 and 1996-97) reveals that Kannur, Malappuram, and Kasargod districts are at the top of the order in the matter of refinance absorption while,

Alappuzha, Pathanamthitta and Thrissur districts are at the lowest order in this regard.

- (11) The share of Kerala in the total number of projects sanctioned under RIDF - I was 3 percent and 45 percent respectively of those at all India level and Southern Region level which has been reduced to 2.2 percent and 7.5 percent respectively under RIDF - II.
- (12) In RIDF I & II Kerala received the major share of project sanctioned under Watershed Management (WSM).
- (13) Loans sanctioned by NABARD under RIDF-I was 5 percent and 2.2 percent of the total loans sanctioned at all India level and at Southern Region level respectively which decreased to 3.4 percent and 10.3 percent respectively under RIDF II.
- (14) The state Govt. contribution in the total financial outlay under RIDF I and II were 16.7% and 6.5% respectively. This forms 9.7 percentage and 3.8 percentage of the total all India level figures.
- (15) NABARD disbursed 5.5 percent of the total disbursements under RIDF to Kerala which forms 26.3 percent of disbursements to Southern Region.
- (16) For Kerala RIDF - II shows a brighter picture than RIDF I in the matter of expected benefits. Kerala performs better than Southern Region states in the share of expected benefits including irrigation potential, value of production and number of jobs created.

6.2 Conclusion

There has been a phenomenal increase in the quantity of financial assistance for investment credit by way of refinance by NABARD during the period of study to the state of Kerala. The state having 1.2 percent and 3.3 percent share in the total area and population at all the all India figures, has been receiving around 4 - 5 percent share of long term refinance for the last decade. The study also reveals that the per capita and per hectare share of refinance is higher in Kerala than the all India and Southern Region states. Non farm sector has been receiving the major share of investment credit refinance and SCARDBs disburses the major portion or disbursement. Under Rural Infrastructure Development Fund, the share of Kerala in total outline is low and decreased from RIDF-I to RIDF-II. Loans sanctioned by NABARD under RIDF and state Government's contribution also decreased from

RIDF-I to RIDF-II. But in the matter of expected benefits Kerala could have more hopes in RIDF-II rather than RIDF-I.

To conclude, NABARD as national level institution has been showing justification in every manner to the disbursement of Investment credit to the state of Kerala. For RIDF, though the programme has not much matured for an assessment, the working of the fund for the last years from 1995-96 shows that the better results are yet to come.

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ROLE OF NABARD IN REFINANCE (INVESTMENT CREDIT) AND RIDF IN KERLA

By
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ABSTRACT OF THE PROJECT REPORT

Submitted in partial fulfilment of the requirement for the degree of:

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FACULTY OF AGRICULTURE
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ABSTRACT OF THE PROJECT REPORT

National Bank for Agriculture and Rural Development (NABARD), as a national level refinance institution has a crucial role to play in agriculture credit and the rural development fund in a state like Kerala, where, budgetary resources are scarce. This Project work is an attempt to study two major functional areas of NABARD viz., Refinance (Investment Credit) and Rural Infrastructure Development Fund (RIDF). The nature and extent of NABARD's Investment Credit refinance is studied using the analysis of share of Kerala in the total refinance disbursement as well as Purpose wise, Agency wise, and District wise analysis. The per capita and per hectare refinance disbursement is also studied in this regard. The study reveals that though Kerala has been receiving 4 to 5 percentage of NABARD's total refinance disbursement for the last 15 years, the per capita and per hectare disbursement is much higher in the state than the All India and Southern Region figures. SCARB is the major disbursement agency and Non Farm Sector is absorbing the major portion of long term refinance. With respect to RIDF, the analysis is done based on parameters such as number of project sanctioned, NABARD Loan and disbursed, State Government's contribution and Expected benefits. The study reveals that the share of Kerala in the number of projects and loans sanctioned has been decreased from RIDF - I to RIDF - II, the state can hope better results in the matter of expected benefits. Thus the study concludes that, NABARD as a national level institution has been showing justification in every manner to the disbursement of investment credit to the state of Kerala. for RIDF; though the programme has not much matured for an assessment the working of the fund for the last years from 1995-96 shows that better results are yet to come.

PLACEMENT REPORT

PLACEMENT REPORT

As part of the B. Sc. (Co-operation and Banking) Programme, I had undergone departmental training in the Department of Co-operation, Govt. of Kerala, for a period of 4 weeks and practical training and project work in a selected institution (National Bank for Agriculture and Rural Development NABARD, Regional Office, Thiruvananthapuram) for 35 days.

The objective of department training is to acquire a comprehensive exposure in the functioning of the Dept. of co-operation. The project work is meant for identifying an operational problem in the selected institution and to analyse it at length so as to arrive at a pragmatic solution. A brief report of my experiences and observations during the period of placement at the department of co-operation and at NABARD are presented below:

PART I TRAINING - DEPARTMENT OF CO-OPERATION

I had undergone the departmental training at the office of the Assistant Registrar of co-operative societies (General and Audit) of Thrissur Taluk.

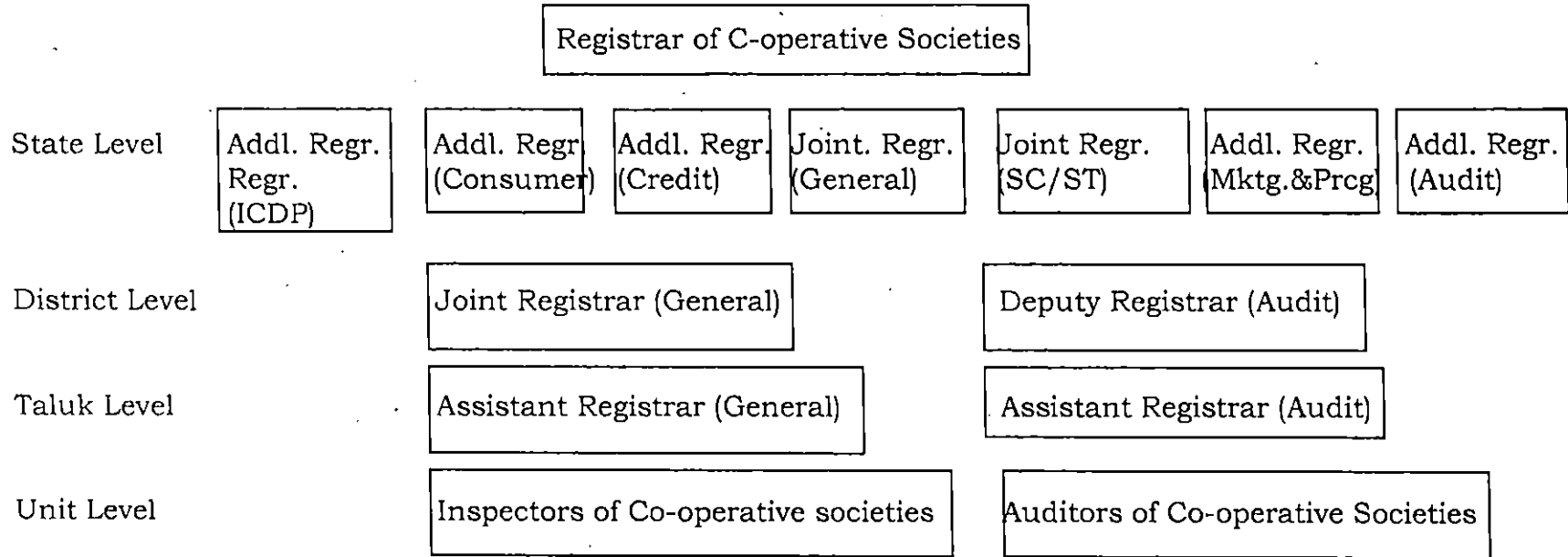
A. General Wing

I reported to the Assistant Registrar (General) of co-operatives of Thrissur Taluk on 5th November, 1997 at 10 a.m. I was deputed to be under the charge of the Co-operative Inspector, Ollukkara unit. The training under his guidance formally commenced with the understanding of the Department structure. (Chart given below.)

The General Wing deals with all matters regarding general administration of all the societies in the taluk. For administrative convenience, Thrissur circle co-operative union is divided into 9 units, each being under the charge of a unit inspector. Minimum five inspections should be done by the unit inspector including two surprise and three detailed inspections. This unit inspector is often appointed by the Registrar as returning officer, arbitrator and liquidator.

The co-operative inspector explained me about the procedures and practices followed for the various functional aspects of the department. The information and work experience gained during the practical training in the General Wing is as follows.

ORGANISATIONAL HIERARCHY OF DEPARTMENT OF CO-OPERATION



1. Registration of co-operative society

The registration procedures could be understood from the files submitted by the Thrissur Taluk Ration Dealers Co-operative Society. For the purpose of registration of a co-operative society, there should be at least 25 members, each of such persons being a member of different family, who select a chief promoter. Before collecting share capital from the willing persons, the promoter must get permission from the Joint Registrar. This is done in order to avoid overlapping of area of operation of two societies of the same kind. The promoters should apply to the Joint Registrar for registration in the specified form signed by each of the promoter, accompanied by 3 copies of the draft bye-laws of the proposed society. There should be also a certificate from the financing bank in token of having received initial share capital, list of promoters in duplicate and a scheme showing economic soundness of the proposed society. All those applications are directed through the Assistant Registrar. He will after enquiry, recommended it to Joint Registrar. If the Registrar is satisfied, he issued a "Certificate of Registration". The refusal is intimated within 7 days of receipt of application.

Every society shall commence working within a period of six months after its registration and the chief promoter should convene the first general body meeting within 3 months from the date of registration.

(ii) Amendment of Bye-laws

The proposal for amendment of bye-laws shall be made by a resolution passed by two third of majority of members present and voting at the general body meeting. If the general body favours the proposal, the same should be forwarded to the joint Registrar within one month from the date of general body together with necessary application. A copy of present bye-law inforce and four copies of the proposed bye law should accompany the application. If the Registrar is satisfied that the proposed amendments are beneficial to the better working of the society, he will forwarded a copy of the registered amendment together with a certificate of registration signed and sealed by him to the society. If amendments is refused, he will communicate the order of refused to the society within one week.

The procedures were explained to me with reference to the files of amendments by Thrissur Electricity Board Employees Co-operative society.

(iii) Conduct of Election

The inspector of Co-operative Societies, Ollukkara unit explained to me about the procedures for conduct of elections. The procedure is as follows:

The resolution regarding the election must be passed by existing committee of the society at least 60 days prior to the expiry of its term. On receipt of resolution passed for conduct of election, the Registrar appoints a Returning Officer. Returning officer will publish the list of voters and will issue the election memorandum which will contain the details regarding date of filing of nomination, scrutiny, withdrawals, election, counting etc. The used and unused ballot papers shall be handed over to the secretary of the society. The whole procedure will be entered in the minutes book of the society by the Returning Officer.

(iv) Inquiry

The inspector explained to me about the inquiry conducted in societies. Inquiry is conducted by the Registrar, suo-moto on application of the concerned society or on application of 1/3rd of the members. The inquiry is done to probe into the constitution, financial situation and general working of the co-operative society. The inquiry report contains all the details of the society along with the findings and the reason for defects, if any.

(v) Inspection

Inspection of a society is done as per section 66 of the Kerala Co-operative Societies Act 1969. Any person duly authorised by the Registrar can inspect the affairs of the society. It is normally done by the unit inspector. The inspecting officer has the right to examine relevant books of accounts and other documents in the possession of the society. If any defect is detected, it must be communicated to the Assistant Registrar. After inspection the inspector has to prepare the inspection report.

(vi) Arbitration and execution

Along with the Inspector, I visited the Vellanikkara Co-operative Bank in connection with the disposal of arbitration. I was also able to refer the various cases received by the office. The procedure for arbitration and execution was also explained to me by the inspector.

After passing a resolution in the Board meeting for filing the case, the secretary of the society files a suit in the arbitration court. The society should remit the necessary fees at the nearest treasury and attach a receipt of the same along with the petition and a copy of resolution passed, to the registrar. The registrar appoints an arbitrator who summons all parties involved in the case and obtain their hearing and proceeds to take action in the case of default in payment of debt. First of all the arbitrator sends a demand notice to the concerned party. If no action takes place, a second demand notice is handed over to the party in person and still payment is not made, the property of the defaulter is auctioned in public. In case of perishable goods, it is done after one day and in case of non perishable goods, it is done after 15 days. A copy of the 'award' is given to the Assistant Registrar. During the period of training, I have got the opportunity to assist the inspector in the preparation of 'awards' for the Pazhuvil Service Co-operative Society Ltd.

B. Audit Wing

I was deputed for training in the audit wing on 14th November 1997. A senior auditor for the Fathima Nagar Co-operative Bank Ltd., Thrissur, guided me to familiarise with the various aspects of auditing. Following informations were given by him regarding the various aspects of co-operative auditing.

The audit wing deals with all matters regarding the statutory audit of all co-operative societies in the taluk. The wing is headed by assistant Registrar (Audit) who is assisted by auditors of co-operative societies.

i) Preparation of audit programme

As the first step, the auditor prepares the audit programme which is the plan of the audit. The audit programme of Fathima Nagar Co-operative Bank Ltd. consists of auditing of Head office and branches in a regular basis. The bye-laws and amendments are also studied along with the preparation of audit programme.

ii) Verification of cash balance, assets and liabilities.

The physical verification of cash balance is done by counting the exact cash balance with the day book, and if any difference is found is noted separately. The physical

verification of assets and liabilities is also done separately.

iii) Vouching and checking.

I acquainted practical experience by assisting the auditor in the process of vouching and checking of receipts and vouchers. The auditors give much attention on the signature of the payee and purpose mentioned, while vouching. The receipts and vouchers are then checked to assure that the amount has been posted clearly in the concerned day book. From the day book, the entries are posted to the general ledger and subsequently to the subsidiary ledger. The auditors cancel each receipt and voucher, by putting his signature across the face.

iv) Verification of Loans

I verified the simple loans and Hire purchase loans accounts and related files along with the auditor. The main aspects verified were related to the amount of loan, security provided; documents attached, the procedure followed etc.

v) Estimation of bad and doubtful debts.

The auditor explained me the method of estimations of bad and doubtful debts. Those loans and advances which are overdue for over six years are bad debts. The auditors see whether the society has maintained adequate reserve for bad and doubtful debts.

vi) Auditing of books

The various books of accounts like the simple loan registrar, hire purchase registrar, monthly deposit scheme registrar, loans schedule registrar etc. were checked. The major concerns are maintenance of required books, correctness of posting, book balancing etc. They are verified at random and defects are noted.

vii) Preparation of final accounts

The auditor has to prepare the Receipts and Disbursement statement, Profit & Loss account and the Balance sheet. I was able to go through the audited final accounts of

Fathima Nagar Co-operative Bank Ltd.

viii) Preparation of Audit note, Audit memorandum and audit certificate.

The audit note and audit memorandum is prepared after the audit in triplicate. One copy is retained in the audit section, another is general section and are sent to the society. Audit note contains all details regarding the operations of the society and also the report of the auditor viz., Final amounts and balance sheet as on the date up to which the accounts have been audited, membership, share capital, working capital, Reserve funds etc.

Audit memorandum contains the audit classification statement and full particulars of all transactions which appeared contrary to the Kerala Co-operative Societies Act, 1966, Rules and Bye-laws.

The auditor submits the statements to the Assistant Registrar (audit) and he/she after verification, will issue the Audit certificate to the concerned society.

Thus the practical training in the General and Audit wing of the Department of Co-operative enlightened me to understand the various duties of the functionaries of the department and its organisational and operational systems and aspects.

PLACEMENT REPORT - PART II

The second phase of my training was at *National Bank for Agriculture and Rural Development (NABARD)* Regional office, Thiruvananthapuram from 5th December 1996 to 9th January 1997. The NABARD is the apex development bank of the country for supporting and promoting agriculture and rural development and was established by an Act of the Parliament on the recommendation of CRAFI CARD (Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development). NABARD was set up on 12th July 1982, by merging the Agricultural Credit Department and Rural Planning and credit cell of Reserve Bank of India and entire undertaking of Agriculture Refinance and Development Corporation (ARDC).

The Departments of NABARD Regional Office

The Head Office and Regional Offices were set up on the basis of the guidelines made by a team of management consultants from Indian Institute of Management, Ahmedabad. The Regional office of NABARD has an important role in the agricultural and rural development affairs in the state and this office co-ordinates the activities of the 13 District Development offices.

The Departments to which I was introduced during the period of my institutional training are the following.

Investment Credit Department (ICD)

This department is responsible for the refinance facilities for the long term projects which will be aiming for the development of agriculture and rural areas. The department is divided into two divisions i.e., ICD Appraisal and ICD Operations. The refinance for investment credit is given to Commercial Banks, State Co-operative Agriculture and Rural Development Banks (SCARDBs), Regional Rural Banks and Kerala State Co-operative Bank. The projects/schemes, proposals made by eligible institutions for different purposes are examined with reference to technical feasibility and financial viability and other related aspects are appraised by the ICD Appraisal Division. Project appraisal is done by technical and professional experts in different areas and they will act as advisors for all the aspects of project preparation/formulation. The appraisal includes risk appraisal and

field appraisal. Risk appraisal will be undertaken by assessment from the proposal itself. Field appraisal will be undertaken by field visit by the technical officer. Thus the appraisal is a study to understand and clarify the probable effects and chances of success and investigate the economic, financial, social environmental and other consequences of the project.

After the appraisal, the sanction is accorded by the operations division with the terms and conditions for its refinance. The refinance is released against drawl applications submitted by the institutions and through the credit Disbursement Division.

ICD looks after the Rural Infrastructure Development Fund (RIDF) which is created out of the shortfall in the priority sector lending for agriculture by commercial banks. The thrust of the RIDF support is to accelerate completion of rural infrastructure projects promoted by state governments remaining incomplete for want of funds and covers projects such as medium and minor irrigation, rural roads and bridges, watershed management etc.

Production Credit Department (PCD)

This Department is responsible for sanction and disbursement of short term refinance limits i.e., production credit limits to seasonal Agricultural Operations (SAO), short term (other than SAO) limits and conversion loans to Co-operatives including DCCBs and RRBs. Generally these loans are given for a period not exceeding 12 months which can be converted to Medium terms loans, in case of natural calamities. Apart from this medium term loans (not exceeding 3 years) to the approved purposes, short term credit limits for financing production and marketing activities of primary weavers societies and short term credit limits for financing working capital requirements of industrial co-operatives (other than weaves) and rural artisans are also sanctioned by this Department.

Institution Development Department (IDD)

This Department formulates and implement developmental programmes and policies for co-operatives including State Co-operative Bank, DCCBs, SCARDBs and RRBs. Separate managers are in charge of various institutions well help in the preparative of Development Action Plans (DAP), for each institutions. The basic philosophy of DAP is to enable the institutions to prepare specific plans taking in to account of their strengths and weakness and to improve their viability and business potential. This department prepares memorandum of understanding with the Government, KSCB, DCCBs, SCARDBs and RRBs

in order to make the Banks financially viable, organisationally vibrant and operationally efficient for the dispensation of adequate and timely credit for Agriculture and Rural Development. NABARD has been keeping Co-operative Development Fund for provision of finance to Co-operative Banks for building up of improved management informations, computerisation of operations and development of human resources.

Department of District Planning and Development (DDPD)

The Department is responsible for the preparation of Potential Linked Credit Plan (PLPs) for each districts. The basic objective of PLPs is to explore the existing potential for development and evolve an appropriate mechanism through which sunk potential may be exploited over a specified time frame. These plans represent an effort at making projections of credit requirements in different sectors in a district, taking into account the long term physical potential, availability of infrastructure/marketing support and refinance absorption capacity and other strengths and weaknesses of credit institutions. The synthesised PLPs along with the service Area Plans for the various districts are consolidated by this Department. This Department also keeps a close contact with the District Development Officers and other Government agencies/Departments.

Department of Supervision (DOS)

This Department will conduct inspection and supervision of various institutions like KSCB, DCCBs, RRBs and SCARDBs. The fundamental objective of Bank inspection is to develop and maintain a sound and efficient Banking system in the state in conformity with the Banking laws and regulations as well as socio-economic objectives. Accordingly the supervision serve as a tool for overall appraisal of the financial and managerial systems and performance of Banks. This department draw inspection programmes on quarterly basis and keep the H.O of Inspection Department at Hyderabad informed about this programmes. Along with inspection of Head Office of a Bank, same branches are also taken up by the Inspection team which consists of officers of this Department. This team is allowed, 18 to 22 working days for completion of inspection of CCBs/RRBs depending upon its size, Branch network etc. Inspecting officer after completion of the inspection is required to give his final recommendation on the health of the Bank and Indicate the future course of action to be taken by NABARD/RBI in the format called Recommendatory note which is a confidential report for the use of NABARD/RBI/DICGC and is not given to the Bank.

After the drafting of the Inspection Report by the Inspecting Officers, that is reviewed and edited by another officer in this department and finalised by the Manager/Deputy Manager. These Inspection Reports help Banks in modifying policy guidelines etc. to remove field level problems. Operational Departments also utilise them which sanctioning the credit limits to Banks, allowing draws of limits etc.

Development Initiative Department (DID)

This department is responsible for initiating Developmental activity for strengthening the rural credit delivery system. The Department works after the following major aspects.

- (a) Promotional aspects which include establishing Training cum Production Centres, Rural Employment Development Programme, Mother Units and bulk lending.
- (b) Promotion of Self Help Groups and linking SHGs with Banks. Under the SHG Bank linkage programme, three linkage models have broadly emerged. Under the first model banks are directly linking SHGs without the intervention of the NGOs. In the second model Banks are providing credit to SHGs and NGOs act as a Self Help Promoting Institutions (SHPIs). Under the third model, NGOs are acting both as SHPIs and financial Intermediaries.
- (c) Vikas Volunteer Vahini (VVV):

V V V satellite programme of the NABARD is an indigenous way to achieve "Development through Credit". The purpose of concerning need based, location specific, borrower or gender specific club such as women clubs, Artisans Clubs, Small/Marginal farms clubs is to identify and assess the credit requirements of these subgroups of the community and also to address to their specific problems.

This Department also promotion "Gender Sensitisation Programmes" for gender equality.

General Administration Department

This department looks after the overall administration of the R.O. which include General administration, personnel administration Funds and Accounts division.

In addition to the R.O at Thiruvananthapuram, NABARD has an extended are at each other district Head Quarters with form of District Development Managers. (DDMs)

Conclusion

Both the Training and project work at NABARD enabled me to for supplementing the theoretical knowledge gained from class room with real, field problem and realities.

