CHAPTER VII

CONCLUSION
In the Sixties, co-operative organisations were the only visible institutional sources of rural finance in the country which reduced to some extent dependence of rural households on usurious lending of the village money-lenders, an exploitative mode of surplus generation, perpetuated through and accentuated by interlocking of markets. A dynamic solution to the problem of rural indebtedness lay in formation of multi-agency approach to increase rural productivity by generating and meeting production oriented credit needs of millions of cultivating and non-cultivating families particularly of small and marginal farmers. The bank nationalisation gave real meaning to this approach and directed the flow of funds of major segment of banking industry to priority sectors such as agriculture, allied activities, small scale and cottage industries. The private sector banks came under pale of social control policy and with geographical and functional diversification of nationalised commercial banks, there has occurred an unprecedented spurt in rural financing in the Seventies and thereafter.

Formulation of District Credit Plan under the Lead Bank Scheme, a part and parcel of the 'area approach' adopted by the Reserve Bank of India, the central bank of the country, to neutralise inequitable regional distribution of bank credit and foster rural transformation with a stress on poor socio-economic target groups has inaugurated a new era
in banking and rural development in India. It has added in the mid-seventies a new dimension to multi-agency approach by extending the sphere of collective endeavour to the development departments of the State Government and the special development agencies like CADA and DRDA which are attempting to change the structural parameters of the regional economy by building physical infra-structure, imparting new technology, disbursing loan subsidy and extending horizon of development awareness and aspiration level.

Sambalpur, areawise the second largest district of Orissa, has gone the Lead Bank way since the year 1973 and four years after, its commercial banks, co-operative organisations and other financial institutions have started financing rural development through District Credit Plan formulated in the intervening period under the aegis of the State Bank of India. Our study which spans two credit plans from February 1977 to December 1979 and from January 1980 to December 1982 concentrates on rural financing by commercial banks, brings out interesting facts about credit distribution in and impact of bank finances on productivity of regional economy and offers workable solutions.

A significant aspect of our study deals with the intra-regional distribution of bank credit. The horizontal distribution corresponds to duality of this regional economy. There are variations in the levels of rural credit disbursed by commercial banks under different bankable schemes in the
two sub-regions which constitute rural economy of Sambalpur. There also occur divergences in the functional relation between levels of credit and household income status of the loanees which show that families in the irrigated region $R_1$ have inducement and ability to go in for more loan than their counterparts in the non-irrigated region $R_2$. A clue to minimising such intra-regional disparity to distribution of commercial bank credit lies in changing the structural indices of the sub-region $R_2$ by bringing more acres of land under every form of irrigation technologically feasible in these block areas. Around 45 percent of water of Hirakud Command Area is lost through seepage, evaporation and excess irrigation. Hirakud Command Area Development Authority should be provided with more funds to improve existing water conveyance system by lining the canals and constructing field channels. This can irrigate land in non-irrigated sub-region $R_2$.

There appears to have been some inequality in socio-economic distribution of bank credit because 38 percent of loanees belong to large farmer class, 62 percent of loanees have upper caste origin and 78 per cent of loanes hail from rural elite group as evident from our Sample Survey. The vertical disparity is not however a marked feature at all because some of the upper caste and rural elite loanees actually belong to small and marginal farmer classes. Then again, largest chunk of bank finances (66.75%) goes to the lower middle class with an annual income range of Rs.2400/- to Rs.12,000/-.
The income class classification of bank loanees and computation of percentage share of bank credit accruing to each class show that there occurs a regressive distribution of banking facility up to a particular range (Rs. 12,000/-) beyond which it becomes progressive in character. But this portion of the income class—bank credit distribution curve which shows regressive distribution belongs to lower middle class, lower class and poverty bracket. These classes together share as much as 93.69% of the banking funds distributed in the rural areas of Sambalpur. Therefore it is difficult to support the proposition that there has occurred concentration of bank credit in the landlord classes which constitute the upper middle and higher income brackets in the district. More specifically, the hypothesis that large farm houses are the significant beneficiaries of rural credit disbursed by commercial banks could not be accepted because this was not found to be statistically significant.

We did not find rural loan extended by commercial banks operating in Sambalpur district to be land-size dependent nor could we establish a hypothesis with sufficient level of confidence that the level of rural credit is functionally related to land concentration ratio in a positive way.

To the extent that there occurs a 'regressive distribution' of bank credit within lower income classes, it can be neutralised by bringing a larger number of rural households below the poverty line and just above it into the ambit of banks' promotional activities. The commercial banks need to consult these families and evolve suitable bankable
schemes. For example, the banks may seriously consider whether it is not desirable to wind up financing cow and goat loans to the poor families in view of the dismal performance and rather endow them with command over liquidity to purchase productive assets like land. An overwhelming opinion of a cross-section of villagers interviewed belonging to the lower classes has been in favour of formulation of a more comprehensive bankable land scheme which gives stress on credit need of the landless rural poor to purchase land asset in addition to covering on-going scheme of Land Shaping and Development.

A high percentage of loanees has returned bank loan and the percentage of loanee families securing net economic gain from the banking facility is also high. Primafacie it looks so encouraging until we note that there exists a gulf between primary data as reported and real life situations particularly in case of cow and goat loans due to unfair practices. Secondly, bank loan has been redeemed by selling land in a few cases where unfavourable weather adversely affected the outcome of loan utilisation or where pressing social obligations had to be discharged. Thirdly, we also observe that use of shadow prices raise the number of economically viable loanees. Our hypothesis—rural credit extended by commercial banks operating in Sambalpur district has a significant bearing on gross and net productivity in both the sub-regions—is found to be statistically significant. But in view of these aforesaid observations and doubtful validity of
this hypothesis in case of some individual bankable schemes such as cow, bullock, goat and dugwell loans, we accept it with reticence and reservation.

Even if we make a legitimate assumption that bank loan has positive effect on rural productivity, it is an infinitesimal impact because according to ORG estimates commercial and co-operative bank loanees constitute a little more than 9 percent of total rural households in Sambalpur district. Therefore, sustained attempts have to be made to increase rural productivity and production by policy oriented lending and ensure productive end-use of funds to facilitate loan redemption through effective supervision and monitoring.

Integrated rural development holds the conceptual key to rural transformation. The crux of the matter is to increase agricultural productivity with a stress on poor socio-economic groups. Agriculture is the main rural occupation and our study shows that sectoral deployment of credit corresponds to sectoral origin of income. Agricultural productivity is a function of a package of inputs such as irrigation, high yielding variety seeds, fertilizer, pesticides and other farm practices like deep sowing, soil-water management and macro level awareness about need for environmental protection through soil conservation and afforestation etc. The onus lies on the Departments of Orissa Government connected with rural development and special development agencies to build the infrastructure by providing social overheads like road,
irrigation and electricity and extending the package of inputs and technology. The television and radio are rendering valuable services by transmitting new farm technology and generating awareness about various activities allied to agriculture in Sambalpur district. This has to be supported by vigorous and extensive implementation of on-farm programmes. On the demand side, agriculture depends upon road network, transport and communication. Construction of Panchayat roads and implementation of Food for Work programme need to be speeded up under close supervision. The commercial banks can step in effectively where efforts are being made to change the structural identity of the region.

Integrated rural development is linked with the diversification of rural economy. It implies that banks are required to encourage activities allied to agriculture, help establish rural industries for utilisation of local resources and man power and support retail trade and service sectors. The Block Office, the District Industries Centre and the commercial banks have to reach the villages and villagers to bring them into the main-stream of national planning and development by formulating and implementing realistic Block Plan (which is closely connected with District Credit Plan at the block level) based on inter-sectoral linkages of a regional economy and credit needs of the rural households particularly of the lower income classes.
The Lead Bank staff of Sambalpur have done an admirable job in handling a difficult task i.e. formulation of the District Credit Plan. The commercial banks have been co-operative in providing logistic support. The host of state Government officers, representatives of financial institutions including a high ranking officer of Reserve Bank of India and of special development agencies have made valuable contributions by participating in District co-ordination Committee meetings or Review meetings which have been held under the chairmanship of the Collector, Sambalpur. But as we have discussed in Chapter IV, attempts have to be made to fix targets more rationally by using a sophisticated methodology, adopt rural-urban and service-trade classifications in presenting estimates and give more attention to rural industrialisation by setting plan targets disaggregatively so as to fix responsibility on individual banks and locate some small scale industries in the nodal villages.

There is a policy aspect to the formulation of credit plan. The State Bank of India, the Lead Bank of the district, has a responsibility to move the Reserve Bank to open new branches in the unbanked areas so as to mop up savings and extend policy oriented lending. In fact, geographical diversification is an important component of the Lead Bank Scheme. Secondly the State Bank has to formulate attractive bankable schemes after consulting the commercial banks and different cross-sections of rural community and send these
schemes for approval by the Reserve Bank. Thirdly, the Credit plan should continue its interaction with the policy and programme of the Government at the State and Central levels for rural development to retain its dynamic nature.

Implementation of the Credit Plan is as important as its formulation. Our study shows that the State Bank of India, United Commercial Bank, Bolangir Anchalik Gramya Bank, United Bank of India and Allahabad Bank have made sincere efforts in trying to achieve the targets set in the Credit Plan. There are, however, commercial banks like Syndicate Bank, Canara Bank, Bank of India and even Punjab National Bank which have hardly bothered to undertake rural financing. The Reserve Bank of India and the Government of Orissa or for that matter all the State Governments, have to find out ways and means to fix responsibility on the erring commercial banks. The Government of Orissa have done well by taking to task a few Managers of Gramya Banks, Block Development Officers and Veterinary Assistant Surgeons found guilty of corrupt practices. But it is quite another matter to create an incentive system with provision of penalty and rewards built into it to spur the callous, myopic and urban bank personnel to action in the rural areas.

The low key performance of the commercial banks with respect to rural industries and activities allied to agriculture may have been mainly due to absence of adequate vehicular support at the rural branch office level and lack of
extension work by the District Industries Centre, Village Level Workers and Extension officers in Block Office. These constraints have to be removed immediately at least with respect to pisciculture and poultry farming as there is an effective market for fish and eggs in the State.

Accelerated rural financing by commercial banks waits upon a bold land policy of the Government of Orissa. The landless peasants have to be provided with a few acres of land each which can support agricultural production and also generate income from allied activities like diary, pisciculture and poultry farming.

India has accepted the philosophy of evolving into, what its first Prime Minister, the late Jawaharlal Nehru said, a "socialistic pattern of society". The inception of planning has underscored the importance of State as the pace setter and accelerator of economic development. The State has played this role through ownership of means of production in some key sectors and keeping control over the commanding heights of the economy so as to guide the private sector into socially desirable lines. The Central Government is relying on the commercial banks since the Seventies as active instruments of rural transformation and removal of poverty. It implies that commercial banks have to take a step outside their metropolitan base and trade nexus to reach rural economic life and bring about a development resurgence among millions of Indian
villagers. So what is required is a change in banking culture which waits upon attitudinal changes and a commitment to assist the poor and their developmental effort for bringing about a transformation of rural life.