CHAPTER II

COMMERCIAL BANKS

and

RURAL DEVELOPMENT: THEORY, HISTORY & POLICY
This chapter is divided into three parts: theory, history and policy of commercial banking with reference to rural development.

2.1 Theory

In the traditional Murukse, Lewis, Ranis and Fei unlimited labour supply models, rural transformation waits upon capital formation and industrial development. It can be reasonably postulated within the framework of these models that urban-based industries supply critical inputs to agriculture and village industries and bring about in the long-run all round rural development. The surplus rural labour, which gives rise to the phenomena of unemployment and disguised unemployment, is siphoned off to the industrial sector. The labour becomes scarce factor in the rural areas and receives a higher reward. It occasions a demand for farm mechanisation not only to retain the level of rural output, but also to increase it so as to feed the growing industrial work force. Improved farm methods including irrigation, HYV, fertiliser and pesticides are adopted which boost up agricultural productivity. Activities allied to agriculture and agro-based industries develop and per capita income of the village communities increases further as a result of the rural transformation. In these models, it
can also be hypothesised that commercial banks finance rural development when a dominant motive to produce for the market appears and replaces agricultural production as a family occupation or a way of life.

The problem with these capital formation—industrialisation models is the tacit assumption of a long time-lag involved in ushering in rural development. In a democracy, particularly in the case of a country emerging from the dominance of foreign rule, a high level of aspiration is generated to free the vast mass of populace living in rural areas from the dungeon of poverty and bring about perceptible improvement in their socio-economic status in a reasonably short period of time. An indefinite postponement of fulfilment of these expectations may give rise to socio-political tensions leading to a collapse of the very framework of development.

In fact, perpetration of poverty and widening of inequality inspite of high rates of growth in the last two decades have made the situation intolerable and the broad unanimity among development economists in the early fifties in advocating maximisation of G.N.P. as the welfare policy has been replaced by a growing sense of scepticism and reservation which has initiated thinking in new directions. Gunnar Myrdal, Mehboub Hague, I.L.O. and Harry Oshima have started the ball rolling. "The discussions of the late sixties appear now to have led to a fairly wide consensus among
economists. It began with dissatisfactions over the outcome of the strategy pursued in the 1950s, which stressed industrialisation, rural to urban migration, urbanization, import substitution, capital formation etc. To day, with the appearance of excess industrial capacity, unemployment, urban congestion, income inequalities, food shortages, rural stagnation and widespread poverty what may be called a new development economics has come to the fore, advocating a new strategy. We hear less and less of concepts such as the big push, take off, leap forward, unbalanced growth, linkages, growth inducing mechanisms, commercialisation points, disguised unemployment etc. Instead, the talk now is about integrated rural development, agricultural intensification, intermediate technology, appropriate education, labour force explosion, small industry and export promotions, employment generation, nutrition and health development, social and human resource development, income distribution and institutional changes.¹

Integrated rural development is a basic component of stable and equitable growth strategy. Given a critical level of capital formation which implies establishment of basic and key industries, the Governments of LDCs can reduce the time lag in initiating and accelerating the pace of rural development. This not only directly contributes to growth of G.N.P., but also neutralises pro-inflation bias of a developing economy to a considerable extent and given a stress on poor socio-economic target groups, ensures a pattern of progressive distribution of wealth and income in the society.\(^2\)

The commercial banks are expected to play a pivotal role in financing rural development under the aegis of the Government and help remove extreme disparity in productivity and income of about 80 percent of the population engaged in the traditional sector represented by the highly peaked mode of the skewed income distribution curve and the area to the left of it and those of 20 percent of the population in the flat portion representing the modernising and modern sectors.

Rural is essentially agricultural; its settlement system consists of villages or homesteads, socially it connotes greater inter-dependence among people, more deeply rooted

\(^2\) This has been given a more elaborate treatment elsewhere: Fiscal Weapons and Front Co-ordination, Jyoti Prakash Patnaik, Peacock publishers, Burla, India 768017, 1982, P. 403 - 408.
community life and a slowly moving rhythm of life built around nature and natural phenomenon; and occupationally it is highly dependent on crop farming, animal enterprises, tree crops and related activities.  

Agriculture being a game in monsoon in the LDCs and even under the most favourable climatic conditions, land remaining fallow half of the year, rural communities are steeped in poverty. They need command over cash to gain access to irrigation sources and improved farm technology to break the bonds of stagnation. While the development officials of the Government are expected to generate new awareness and create an urge in the peasantry to eschew traditional farming methods in favour of investment in agriculture in the form of adoption of new technology and a will to produce for the market to earn a margin of profit, the commercial banks can play a crucial role in extending credit facility for financing the investments. Accordingly the banks may mop up saving of the richer sections in the urban and rural areas and channelise them for agricultural development. Diversification of the rural economy is necessary not only to provide employment, but also to raise the income standard of the people. The commercial banks may therefore aim at achieving integrated rural development.

development by encouraging investment in small scale and cottage industries and retail trade in the rural areas.

There are two basic tasks before the commercial banks committed to rural reconstruction: (1) to mobilise rural saving and (2) to redirect it towards integrated rural development.

There are basically three mechanisms or modes through which surplus originates in the rural areas. Firstly, it takes place as the 'absolute rent' of private landed poverty. In this mode of surplus generation, the labourer is a petty producer in his family enterprise, but is under control of private landed property. Secondly, surplus arises in the form of interest payments accruing to the moneylenders. Thirdly, surplus is generated in the form of profit. This can be divided into two parts (a) profit-on production arising from the employment of wage-labour in agriculture and allied activities and small scale industries, (b) profit-on-distribution earned by the mercantile class through their operations in the commodity markets.

The economic system generates the surplus and the banking industry takes upon itself the task of mobilising as large a part of the surplus as feasible and disburses it in such a way that as will make the utilisation pattern consistent with the pattern of generation.⁴ The vertical

disparity which this mechanism creates spills over into regional dimensions aggravating horizontal disparity.

The modern approach to the use of banks as an instrument of development consists in mobilising savings of the richer sections of the community and channelising a significant part of it for generation of income in the poorer socio-economic classes and in the regions inhabited by poor so as to neutralise individual and geographical divergences. The commercial banks based on Anglo-Saxon tradition are averse to lending to the agricultural sector. But the nationalised banks serve as instruments of public policy and therefore are required to finance rural development by extending credit to the large and middle class farm households while giving a predominant emphasis on lifting the rural target groups from the morass of poverty.

In order to understand the mechanism which creates and perpetuates poverty in the rural areas and accordingly map out the contours of banks' promotional activities, let us broadly distinguish between three classes of peasant households and three types of market involvements.

There is, first, the category of operators with a clearly dominant 'bargaining' position like the big landlord in the land (base) market or the money lender in the credit market. These operators are powerful enough to be able to exploit the market from a position of vantage and, more
importantly, are able to shape the character of the market relations themselves through contracts which interlock markets. Secondly, we can envisage the category of the economically very weak sections of the peasantry, landless agricultural labourers, very small owners or tenants, all of whom have an extremely weak 'bargaining' position in the market. Yet they can not avoid involving themselves in market operations. As they do not have enough land to cultivate, they have to depend upon hiring out their labour and hence submit to the vagaries of the labour market. Given the uncertainty of employment, they often prefer to lease in a tiny plot of land even on extremely onerous conditions. Not having enough circulating capital to produce even their subsistence, they have to rely on credit, thus depending precariously upon the credit market. The high degree of monetisation of inputs and outputs on very small farms indicates this element of compulsive involvement in markets, reflecting conditions of distress. The third category of peasants falls somewhere between these two; while not powerful enough to exploit markets like the large operators, they can be somewhat more self-reliant than the landless or very small farmers and may be able to protect themselves from markets if they turn unfavourable. They have (or can make provision for) adequate circulating capital, possess bullocks and implements of their own with some holding capacity over market supplies of output.  

A closer study of exploitation as a cause of rural poverty would indicate that the rural rich combines multiple functions enjoying a superior position simultaneously in a number of markets and the markets get interlocked through price and non-price links. When a landlord combines the functions of a lessor and a merchant, the terms of lease are not only themselves quite stringent (given his position vis-a-vis the tenants in the lease market) but quite often include stipulations as to what crops the tenants ought to grow and the mode as well as terms of payment of rent. For instance, he dictates the rent to be paid in kind and the time of payment. Thus the tenants' involvement in the lease market restricts his freedom to exercise choice in production (in terms of crops to be grown) and in the output market (to whom and when to sell the produce). If the landlord also possesses land under personal cultivation, it is not unusual for him to extract under-paid or unpaid services from the tenant (or his dependents) on his own land. In case the landlord happen to be the money lender, the tenant is exploited in both the markets in a number of ways. Similarly, a money lender-cum-merchant may extract a very high rate of interest by giving commodity loans and stipulating suitable conditions on time and terms of repayment in kind. Again, the weaker position of the borrower imposes limitations on the opportunities to phase his sale of output over time. Such interlocking of markets increases the exploitative power of the stronger sections because, while there could be limits to exploitation in any one market - due to
traditions or conventions - or due to economic factors, the interpenetration of markets allows them to disperse exploitation over the different markets and to phase exploitation over time as well.6

In mobilising surplus for rural development, the strategic role of commercial banks lies in reorienting its loan operation to meet production, consumption, commercial and social needs of the poor rural households so as to unlock the markets, close down major avenues of exploitation, increase agricultural productivity and free large segment of peasantry from the grip of poverty and despair.

While giving a stress on the poor target groups, the banks nonetheless may extend credit facilities to large and middle class farmers to generate the required thrust in rural development and retain the viability of the credit organisation.

The new philosophy of commercial banks financing small and marginal farmers is related to one proposition of the farm Management Surveys7 (FMS) which has attracted attention

6. K. Bharadwaj, Op cit. P. 4
of the economists and political leaders in India. It refers to the alleged inverse relationship between yield (i.e. value of output) per acre and the size of holding. Production potentialities of different size-groups cannot be judged on the basis of productivity of an isolated input, land. But despite this limitation, the 'inverse' relation acquired significance as it could provide some justification for supporting land reforms. One could now argue that the small farms were superior to large ones on purely economic grounds and commercial banks would do well to extend loan to small farmers as it would be viable.

Amartya Sen\(^8\) (1962) supported the EKS hypothesis and attempted an analytical explanation of this proposition with two other observations, namely that when market wage is imputed to family labour, many of the farms show losses, and that, by and large, profitability increases with the size of holdings. Although Sen himself expressed some caution\(^9\) regarding statistical basis of the inverse relation proposition in a subsequent paper (1964), yet the phenomenon was taken more or less as well established by most economists.\(^*\)

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A predominant empirical support to IMS hypothesis, regarding inverse relation between yield per acre and size of land holding, strengthens the logic of commercial banks finances for small and marginal farmers. Sen's arguments that most of the farms show losses if market wage is computed to family labour and profitability increases with size of farm have validity for calculating shadow net returns or economic viability of the farm in the broad sense of the term. But since agriculture is a family occupation for the small and marginal farmers and market wage is not paid to family members, therefore actual net returns curve like the average and marginal productivity curves slope downwards with increase in the size of the farm. As such, commercial banks concerned with commercial viability of the loan may find it worth while to lend to small and marginal farmers.

New agricultural technology viz HYV, fertiliser and pesticides was unknown in the fifties. With the introduction of new strains of high yielding crops and chemical fertiliser, the law of increasing returns seems to be in operation in agriculture. There is ample evidence\(^\text{10}\) that investment in agriculture and gross as well as net returns from it are positively correlated. The improved technology being size neutral and not finance neutral, the commercial banks have a positive role in extending credit to the small as well as

\(^{10}\) K. Sharadwaj Op cit P. 91 - 92.
large peasant households to enable them to undertake investment for adopting improved farm practices.

The commercial banks are also expected to play an important role in seeking to generate income in the poor classes such as landless rural labour and inducing them to take up activities allied to agriculture viz diary, poultry, pisciculture, sericulture, goatry and bee keeping etc. Although banks are not lending money for purchase of land, yet this consideration may be relaxed for landless labour allowing them to own land which is the most productive asset in the rural sector. Success of dairy scheme considerably depends upon ownership of land, even small parcels, necessary for grass cultivation. The banks may extend loan for land shaping and development and finance dug wells to turn unproductive, poor quality uplands possessed by landless labour into cultivable plots of land. The Government may formulate land transfer programmes to endow the landless labour particularly socially backward Scheduled caste and Scheduled tribe communities with productive land. The banks are expected to support cultivation after land transfers are executed by the Government.

In addition to extending crop loan which covers cost of cultivation arising mainly from purchase of high yield crop seeds, fertilizer and pesticides and labour charges, the banks are envisaged to grant term loans to small as well as
large farmers for purchasing working animals, tractor/power tiller and pump sets and finance land development, dug-well, horticulture and bio-gas plant schemes.

Another dimension of the banking activity lies in fostering rural industrialisation. Raison d'etre of rural industrialisation lies in diversifying rural economy by harnessing local resources to generate employment and income for unemployed and disguised unemployed persons in the villages. The landless agricultural labour and marginal farmers may find off season employment and improve their income status. Like the small-scale industries, household industries deserve banking support. Rural artisans who combine traditional skills with local resources and are in an unorganised, poverty ridden state can only be rescued if the banks come out with a sense of commitment to rehabilitate them and preserve regional culture.

The commercial banks are expected to play a dynamic role in bringing out integrated rural development. In pursuance of this objective, the banks in addition to financing agriculture and rural industry, may finance retail trade and extend credit facilities to the poor households like washermen and barbers rendering social services in the villages.
2.2 History

The traditional theory of commercial bank liquidity which acquired widespread acceptance in the past is that commercial banks should make only short-term self liquidating productive loans. According to this principle, bank loans should be made for financing production and movement of goods. Such loans secured by physical goods in the process of production in a factory or in the process of shipment or of orderly marketing and repayable out of the price fetched by their sales were considered to liquidate themselves automatically. This was the so called 'real bills doctrine' which held the field throughout the nineteenth century.  

The development of joint stock firms was a crucial factor in reducing the significance of the traditional theory and increasing that of shiftability theory. The shares and debentures issued by these firms to mostly reputed industrial houses came to be purchased by commercial banks. These were liquid assets which could be shifted as a basis of collateral loan to other banks in good times and to the lender of the last resort in bad period.

One of the most important banking developments in the 1935 has been extension of term loans by American

commercial banks for financing the medium and long-term capital and credit needs of business against the security of machinery and equipment, stocks and bonds and to a small extent against real estate. It is clearly a breach of the traditional theory which enjoined commercial banks to make only short-term loans for working capital purposes and to expect an annual extinction of indebtedness. The term-loan, in sharp contrast, is liquidated by the anticipated income of the borrower. Repayments are made serially over the life of the loan out of future earnings. This new theory of bank liquidity, 'the anticipated income theory', is being applied to consumer credit for purchase of durable consumer goods. A system of hire-purchase is now in vogue in the U.S.A. and the West European countries.

Faced by challenge from the financial intermediaries like building societies, hire-purchase finance companies and specialised institutions for financing industries in the first part of the twentieth century, the British commercial banks diversified their business to finance term-loans. The advent of personal loan in British banking in the year 1958 as a result of tremendous social change that took place after the world War II redistributing income in favour of the working class, also brought new meaning and strength to operation of commercial banks in that country.

While long term financing of industries has indirectly taken place through financial intermediaries, there appears to be a broad trend in the advanced countries
like Federal Republic of Germany, France, Italy, Australia and U.K. towards a shift of commercial banks' interest in favour of direct term-loans on American lines to trade and industry.

French industry was largely under traditional tutelage of the State. It was plagued by lack of drive, initiative and imagination of the French entrepreneurs. Some financial institutions, particularly the Credit Mobilier snatched French industry from its dilemma by providing it funds and undertaking entrepreneurial functions. The Credit Mobilier, which was a special commercial bank like the modern development bank, created and financed railways, canals, insurance and banking companies. French enterprise in heavy industry in Germany is the handiwork of this institution.

This synoptic history of commercial banking reveals a glimpse of the evolution of the interests of these institutions in the developed countries. Till to-day the banks have hardly shown any inclination to move out of sectoral confines of trade, industry and consumer credit to finance agricultural development.

The commercial banking structure in the newly independent Afro-Asian countries, the LDCs, is composed of three categories of banks (1) ex-patriate banks functioning

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under legal control, (2) nationalised banks and (3) private indigenous banks. The latter two categories are subsumed under national banks.

The ex-patriate banks did establish a banking tradition of integrity and sound financial management in the dependent countries. But these institutions had their head offices in the respective mother countries and were mainly engaged in, apart from acting as banker to the State Governments, providing working capital to ex-patriate-owned primary and extractive industries and export finance for shipment of agricultural raw materials and minerals. The ex-patriate banks were by and large unsympathetic to the national interests. National banks were formed by nationalising some of these ex-patriate banks to meet the growing credit demand of the indigenous industrialists and traders. But even now, the banking scene in the ex-Afro-Asian British colonies is dominated by the British banks. The Indian scenario was no different before bank nationalisation.

The commercial banks in the LDCs are mainly involved in financing trade and to some extent small scale industries and providing consumer credit. The development banks, a category of financial institutions, like the Industrial Finance Corporation of India (I.F.C), the Industrial Credit and Investment Corporation of India (I.C.I.C), the State Financial Corporations (S.F.Cs) and the Industrial development Bank of India have come to meet the capital and credit needs
of medium and large-scale industries in these countries.
Except the Indian nationalised banks and some of the banks
like the Malaysia banks financing plantations, the commercial
banks in the Afro-Asian countries have mostly remained shy of
financing agricultural activities.

2.3 Policy

In the pre-independence period, moneylenders were
the main source of agricultural credit in India and the lending
was usurious and exploitative in nature. One of the most
important objectives behind nationalisation and conversion of
the Imperial Bank into the State Bank of India in 1955 was
the Central Government's commitment to agricultural development.
Yet the co-operative institutions rather than commercial banks
were developed as the main source of rural credit due to their
grass root linkages. During the second and third plan period,
acute food shortage forced the attention of the Government on
agricultural production. From the mid 1950s and particularly
after 1961, the Government became concerned with unequal
distribution of co-operative credit. Secondly, it was also
found that co-operatives could not meet the credit needs of
large farmers arising out of adoption of new farm technology
and of the weaker sections simultaneously. The launching of
High-yielding varieties programme (HYVP) in 1966 envisaged the
use of new strains of hybrid seeds followed with higher dose
of fertiliser, pesticides and connected inputs in 2,920 blocks
in 293 districts with reasonably good irrigation resources or rainfall. The co-operative banks could hardly cope up with the growing credit demand. At this time, particularly in the immediate pre-social control days, a thinking was gaining ground that the commercial banks should finance production credit needs of agriculturists.13

The commercial banking system in India was based on the anglo-saxon tradition and was as such heavily trade oriented. Government's commitment to planned development further enhanced ability of the captains of industry and established business houses to obtain a lion's share of banking funds. A skewed pattern of loan operations was also made possible because banking policy was mainly addressed to maintenance of stability of the system rather than regulating directions of its growth. From the early sixties, one sees the beginning of some concern over the pattern of distribution of bank credit and some conscious efforts to alter it by inducing a greater flow of finance for small scale industry and at the same time, by arming the Reserve Bank with direct powers of intervention over the managerial affairs of commercial banks. Within the industrial sector, there was little qualitative change in the composition of credit. The impetus

for a sectoral change originated in the mid-sixties, from the agricultural sector particularly as the constraints of co-operative credit agencies were coming to stand in the way of meeting the requirements of credit for financing the requirements of high-yielding varieties programme.  

The Social Control Policy pursued by the Government of India in 1967 signalled public recognition of the need to maintain a close vigil on the working of the commercial banks. There was a persistent complaint that several priority sectors such as agriculture, small scale industries and exports had not been receiving their due share of bank credit. The National Credit Council was formed with the basic objective to "ensure in the immediate future, an equitable and purposeful distribution of credit, within the resources available, keeping in view the relative priorities of developmental needs."  

Finally the bank nationalisation came in 1969. The Social Control had legally come into force on 1st February that year. It had hardly worked for six months when Government of India acting under leadership of the Prime Minister,


Mrs. Indira Gandhi, nationalised fourteen major commercial banks of the country. It changed the landscape of banking in India.

Twenty years before, the Imperial Bank of India, controlling about a quarter of total deposits was taken over by the Government of India and renamed the State Bank of India. Eight banks of the erstwhile princely states were constituted as subsidiaries of the State Bank of India (Subsidiary Banks) Act, 1959. Subsequently in 1963, the two banks of Bikanir and Jaipur were merged to form one bank. So nationalisation was not a novel experiment. But it looked dramatic due to its revolutionary thrust and promise to terminate strangulation of poverty. The decision to own fifteen major commercial banks of the country constituting four-fifths of the banking sector was a step in the direction of what the Prime Minister described in her broadcast to the nation on 19th July 1969 - 'keeping control over the commanding heights of the economy.'

The aim of the bank nationalisation was to 'accelerate achievement' of the objectives of social control. The explanatory statement on bank nationalisation made in Parliament two days later on 21st July reads as follows:

"The banking system touches the lives of millions and has to be inspired by larger social purpose and has to subserve national priorities and objectives, such as rapid growth in agriculture,
small industries and exports, raising of employment levels, encouragement of new entrepreneurs and the development of the backward areas. For this purpose, it is necessary for government to take direct responsibility for the extension and diversification of banking services and for the working of a substantial part of the banking system.  

One of the major achievements of the nationalisation has been the geographical diversification of banking. Rapid expansion of branch network of the commercial banking system led to a significant improvement in their population coverage. From 65,000 as on 19th July 1969, population per bank office came down substantially to 26,000 in June 1976. There was a noticeable improvement in the banking facilities in the traditionally underbanked States and districts. There was also a striking increase in the expansion of branches in rural and semi-urban areas. Between 1969 and 1979, the number of rural branches increased from 1832 to 14444. The biggest thrust came during June 1969 to June 1971 when 65% of the new officers opened in that period were in the rural areas.

There also occurred functional diversification in the sense that credit to priority sectors recorded a sharp

increase under the impact of nationalisation. The sectors to which commercial bank credit began flowing were agriculture, small industries and exports, but a few new categories came to be added, namely, road transport operators, professional and self-employed persons, retail traders and education. The lending to the priority sectors which was 14.9% of their total advances in June 1969 improved to 25.5% at the end of June 1976.

At the end of June, 1969, the public sector banks had received deposits in the form of borrowal accounts relating to the priority sectors of the order of Rs.2.6 lakhs. By the end of June 1976, it went up to Rs.47.22 lakhs, a more than 18-fold increase over a period of seven years.

Development of banking in India came into its stride in the sixties. Bank deposits began to increase much faster than national income due to spread of banking habit, expansion of branch network and increase in interest on bank deposits. In the post-nationalisation period, the growth of banking (as shown by the Table below) was still faster.

Table 1 computed by I.J.H. Seshadri\(^\text{17}\) compares the rate of growth of branches, deposits and advances before and after bank nationalisation.

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<th>Ten years before nationalisation</th>
<th>Ten years after nationalisation</th>
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<tr>
<td>Branches</td>
<td>9.4</td>
<td>13.3</td>
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<tr>
<td>Deposits</td>
<td>11.6</td>
<td>19.0</td>
</tr>
<tr>
<td>Advances</td>
<td>13.7</td>
<td>19.3</td>
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* Eight years after nationalisation.

Within the priority group, the most striking increase has been with regard to agriculture. Agricultural advances of the commercial banks are of two types, direct and indirect finance. Even during brief spell of Social Control, indirect finance to agriculture had increased. This is granted to individuals and primary agricultural co-operative societies engaged in the supply of production inputs and other services to agriculturists. Loan is extended to the Electricity Board for financing well energisation programme. The composition of commercial banks' agricultural credit underwent a significant change in favour of direct finance after bank nationalisation. Direct finance to agriculture as a proportion of aggregate lending increased from 1.4% in June 1969 to 7.3% in June 1976 while indirect finance declined from 4.1% to 2.8% during that
period indicating a change in the banking policy in favour of establishing direct contact with rural people for generating shocks of development.

The mid seventies witnessed formulation of 'area approach' to banking policy. Accordingly, the banks were assigned districts to act as leader of consortium of banks in initiating and accelerating development in the respective unbanked areas. The decision to formulate District Credit Plan as a component of Lead Bank Scheme was a bold initiative which sought to ensure policy oriented lending and large scale deposit mobilisation and for the first time brought operation of the commercial banks into the main stream of national planning.

Among the lending operations adopted by the banks, the two operations which had direct bearing on rural development were the Village Adoption Scheme (VAS) and the Differential Interest Rate Lending Scheme (DIRLS). The VAS when initiated was considered conceptually as an integrated programme of rural development. It, however, turned out to be a programme in which coverage of farm villages was given more importance than the coverage of farm families in the adopted villages. Lending to weaker sections of the society at concessional rate of interest is a laudable programme which was started in 1972. This programme brought the banks into direct interaction with
the weaker sections more intensively than any programme in
the past. 18

Establishment of regional rural banks is yet another policy measure through which banks are committed to rural development. Under the Regional Rural Banks Act of 1976, banks were required to sponsor the regional rural banks through capital participation and other supportive measures. These banks were established in districts having the concentrations of small and marginal farmers. The rural banks, by and large, have given a good account of themselves.

Rural branches, Agricultural Development Division, Agricultural Development Branches (ADB), Grama Vikas Kendras and Farm Clinics and appointment of specialists like agricultural development officers or farm extension officers and formation of Farmers' Service Societies are the building blocks of an emergent banking base in India. 19 The banking industry has now established a rural base which did not exist in 1969. It has expanded its resource base both in terms of financial and human resources.


Economic Rehabilitation of the Rural poor programme (ERRP) and the Integrated Rural Development Programme (IRDP) are recent policy measures adopted by the Government of India to bring about rural change with a stress on poor socio-economic groups. These programmes have deepened the commitment of the commercial banks to rural development and removal of poverty.