CHAPTER VI

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All the countries in the world have been working strenuously for achieving development since the beginning of civilization. Structural changes in social, political and economic field have taken place in a phased manner as the resources of the countries began to be augmented. Countries which were rich in natural, technological and financial resources achieved economic development faster than the poor countries, became economically stronger and as a result they were able to establish their political supremacy on poor countries. They introduced their own economic policies and political systems in the colonial countries. The resources of these countries were exploited for the development of their own countries. The poor countries thus became poorer, due to unfavourable policies of the rulers on the one hand and the inefficient utilization of available resources on the other. Hence, the gap between the rich and poor countries got widened.

Banks and Development

After attainment of political independence the poor countries became aware of their economic backwardness and thus desired to achieve development through planning. Development
is generally an economic concept but some of the poor countries have given much political shape in its decision. As a result, the 'high rate of economic growth' and the 'aggregate economic growth' strategies were helping to reach the fruits of development only to the industrial monopolists, vested interests and the rich elites. The pattern of income distribution was in favour of these few groups; the poorest groups belonging to the weaker sections like small and marginal farmers, agricultural labourers, artisans, petty traders and socially backward class people remained outside the sphere of economic growth. Inequality of income, unemployment and poverty were deep-rooted in the rural areas of these countries.

A majority of people (80%) in developing countries of the world are living in rural areas. Many of them belong to the weaker sections, who have been by-passed by whatever the economic progress attained. To understand the rural problems of these countries and to achieve socio-economic development of the down trodden, the poor countries have concentrated their attention towards the development of the rural area since the 1950's.

Community Development Programme marked the beginning of rural development. It emphasised the optimum utilization of
human resources for the development of the country. Its aim was to change for the better living conditions of the rural population. The people were motivated to raise their standard of living, health conditions, education and water supplies etc. But for various reasons, the programme failed to realise these objectives. As a result, alternative strategies like agricultural development, area development, integrated rural development etc. came to be established. The strategies emphasised about the participation of the rural population in the process of economic growth so as to reduce unemployment and poverty in rural areas. But the programmes instead of realising the objectives, increased unemployment and inequality of income as also poverty. Therefore, the Governments thought of re-orientation of the rural development strategy by integrating the social and economic aspects. Integrated Rural Development strategy is an important rural development strategy being implemented in most of the poor countries. The programme incorporates target groups as beneficiaries and assists them to derive economic benefits from the programmes. But the experience of the strategy in Indian context suggests that the benefits of the programmes have again been largely shared more by the rich than by the poor.

The institutional agencies (Banks) are engaging in promoting economic development of the poor as well as the rich countries. Banks and bankers have played and have been playing a
crucial role in the development of these countries. They are more efficient in mobilising and allocating resources. They are pursuing developmental activities through the network of business. The credit worthiness of the people will be decided and the use of credit will be pursued properly.

Though the banks and bankers have performed well in different parts of the world the farmers in African countries have borrowed meagre amount of credit, i.e. 1 per cent of total institutional credit. In Latin America and Asia (except Taiwan) it was 15 per cent, whereas in the distribution of credit the big farmers are the main beneficiaries. Nearly 60 per cent of the small farmers have not been able to possess institutional credit in rural areas. The potential resources like human as well as natural resources are remaining idle in the rural part of the backward countries. In such a rural context, credit is an essential input the increase agricultural productivity and to improve the income and employment of the poor.

The role of banks in the process of development is absolute, because they provide one of the important inputs, namely, credit. In a developing country like ours, financial resources are scarce and this scarcity acts as a severe constraint in accelerating the pace of economic growth. Since India has adopted a system of planning which seeks to attain social
justice and equitable distribution of wealth along with economic development, judicious allocation of financial resources is one of the means by which social justice can be attained. Therefore, banking system is required to subordinate the commercial approach and to encourage the development approach. In the light of this banks have changed their attitude from security oriented to production oriented loans.

The role of banks in the process of development is mainly savings promotion and savings collection. In the backward countries large gap exists between planned investment and realised savings. The banks should fill up this gap by mobilising savings. The adoption of technology in farm and non-farm sectors is biased towards machinery and therefore more funds are needed and in such a context the role of banks becomes more important.

Rural society is seized with traditional outlook. The peoples are generally not ready to take advantage of banking facilities. They prefer to keep cash with them or build up their resources in the form of assets. In view of such circumstances they have to be convinced about the security in banking system and the facility of withdrawals as and when need money. The bankers are required to spread the banking habit and encourage thrifty habits among the rural people.
The investment and re-investment facilities and opportunities are to be given wide publicity in different sectors of the rural economy in order to realise the goal of rural development.

Development does not just mean financial investment through the banks; it should mean that the totality of life and day to day living conditions of the rural people should change for the better and quality of life of the people should improve. Each village is a growth centre and the banks should attempt to exploit local resources and to achieve overall development of the rural areas.

**Commercial Banks and Co-operatives in Rural Credit**

Commercial banks were classified into scheduled and non-scheduled banks. These banks were small units, which were financially weak and called for a process of amalgamation. The 92 scheduled and 474 non-scheduled banks in 1951 were reduced to 76 and 80, respectively by the end of 1964.

The Scheduled Commercial Banks have established their supremacy in advancing loans and mobilising deposits mostly in urban and metropolitan areas. The banks may provide credit to promote the interests of the big industrialists and urban traders. The rural areas are regarded as unattractive for their profit oriented business. Such attitudes of the banks and the bankers have accentuated the rural credit problem in India, and
the rural people are deprived of the banking services. Professional and agricultural money lenders, traders, commission agents, friends, relatives and others are non-institutional agencies who advance 92.9, 83.2 and 71.0 per cent of credit to the rural households in 1951-52, 1961-62 and 1971-72 respectively. The commercial banks, co-operatives and the Government are the institutional agencies who advanced 7.1, 16.8 and 21.0 per cent of credit to the rural households in the corresponding year. This data shows that institutional agencies had advanced a negligible portion of credit when compared to the non-institutional agencies.

The Second Five Year Plan (1956-61) objectives like socialistic pattern of society, equal distribution of income and wealth, economic development with social justice on the one hand and the introduction of new agricultural strategy (Green Revolution 1966) on the other, increased the demand for institutional credit throughout the country. This resulted in more branches being opened and more credit being deployed in rural areas. The Government felt that fair distribution of credit from the privately managed commercial banks was impossible. It was against this background the policy of social control over commercial banks was introduced on 14th December 1967. Under the system of social control the lending policy of banks was guided by the National Credit Council. In persuasion
of the policy of social control over banks, the Government of India nationalised 14 major Commercial banks on 19th July, 1969 in order to decentralise the banking services from the private management. Another 6 more Commercial Banks were nationalised on 20th April 1980. Now the public sector banks control 93 per cent of the financial resources in the country. But both the social control and the nationalisation of banks were ineffective in achieving the basic objectives. The poor households belonging to the weaker sections were left out from the institutional credit.

The Commercial Banks have some internal and external problems such as organisational, operational, procedural, infrastructural, co-ordination, security and recovery. Because of these problems, the Commercial Banks were reluctant to open more branches and to provide credit in rural areas.

The National Credit Council emphasised about the Commercial Banks' increasing involvement in the financing of the priority sectors, i.e., Agriculture and small scale industries. The Reserve Bank of India, therefore, advised the Commercial Banks to raise the provision of credit to these two sectors (priority sectors) to 33 1/3 per cent by March 1979. The Report of the Krishnaswamy Committee made certain modifications to the definition of "priority sector" and earmarked 40 per cent of the total advances to the priority sector by March
1985, and the advances to the agricultural sector should at least be 16 per cent of the total advances. The advances to the weaker sections in sub-sector should be 50 per cent of the direct advance by 1983 and to the small scale industries 12.5 per cent by 1985. The report of the Ghosh Committee reviewed the Krishnaswamy Committee definition of priority sector and came to the conclusion that there was no need for any change in the composition of the priority sector advances. But, the Committee suggested some modifications with regard to finance to persons who really needed it.

The public sector banks have been actively participating in all the poverty alleviation programmes, and credit has been advanced under various programmes of the priority sector.

The Village Adoption Scheme was introduced to develop potential villages (by their adoption) by the Commercial Banks. It is an area approach scheme. Every village is to be made a growth centre for the removal of poverty, unemployment and inequality of income. The main objective of the scheme is to achieve total development of a village economy in a phased manner. The Lead Bank scheme was introduced to identify and to study the local problems and to evolve integrated credit plan for the development of a district. The NRI scheme was introduced to deploy credit at the concessional interest rate of 4 per cent to the weaker sections. The Reserve Bank earmarked 102 per cent
of Commercial banks' advances for this scheme in 1977 and it was increased to 1 per cent in November 1978.

The Co-operative institutions are voluntary institutions established with a view to achieving a common goal. The main aim of co-operation is to achieve maximum welfare of the society.

The co-operative credit structure in India has two wings—one for the provision of short and medium term loans, i.e., Primary Societies (PACS), District Central Co-operative Banks (DCBs) and State Co-operative Banks (SCBs) and another for long term loans, i.e., Primary Land Development Bank (PDBs) and State Land Development Banks (SLDBs).

The management of the co-operative institutions vests in the hands of the vested interests and the affluent. Most of the members of the co-operatives are big farmers, landlords and their relatives. The people belonging to the weaker sections are rarely found. Large portion of the co-operative credit goes to the rich and big farmers. The Survey Committee pointed out that the big and big farmers had borrowed an average amount of Rs. 24, in case of medium cultivators and small cultivators it was Rs. 4.7 and Rs. 1.9, respectively. Further the All India Debt and Investment Survey (1961-62) pointed out that the benefits of Rs. 10,000 and above, but the asset group of Rs. 5,000 and below was mostly the weaker sections, who received an insignificant portion of credit.
The mounting overdue\s in co-operative credit institutions have caused serious concern to the Government, the Reserve Bank, the State Governments and the Co-operatives themselves. The defaulters in co-operative institutions were mostly wilful.

Some of the co-operatives have resorted to unhealthy practice of financing the defaulters. The study team on overdues of Co-operative Credit institutions has pointed out that the overdues at primary societies level mounted year by year, i.e., 32 per cent in 1967-68 to 44 per cent in 1972. About 3/4 of the overdues was by and large wilful defaulters. The study team made it clear that the co-operatives resorted with so many mal-practices and varying degrees of camouflaging in the recoveries of societies with a view to presenting a better picture of their financial position in order to obtain refinance facility from the higher financial institutions.

The Reserve Bank, the Government of India and the State Government have taken measures to improve the financial position of the primary societies. It was hoped that things would be better than in the past, but the results were not so satisfactory as pointed out by the special study conducted by the Reserve Bank in selected districts of co-operative societies in 1978 and pointed out that the overdues were still mounting.
The reasons for such mounting overdues were due to wilful defaulters, irregular lendings, lack of supervision, indifferent recovery efforts, inaction against defaulters and unnecessary interference of state governments in recovery of the credit. It may therefore, be said that the co-operatives in the country may fail but co-operation will succeed.

Regional Rural Banks and Rural Credit

The commercial banks and co-operatives have created considerable regional disparity in rural areas. Large portion of credit has gone to a few irrigated areas and several parts of the country have remained without banking facilities and are under financed. In the large and complex situation of our rural credit structure there cannot be any one solution to solve the residual problems of rural credit system. In this regard several committees have suggested to establish alternative financial institutions suitable to the rural areas. The Banking Commission thus recommended to establish rural banks for the first time. But the government could not take any action on this recommendation. However, the national emergency and the private financial agencies gave much scope for the establishment of Rural Banks. The Regional Rural Banks (RRBs) were established on 2nd October 1975 as per the recommendation of the working group on Rural Banks submitted in July 1975. The main objective of the
The major thrust of the leading was on productive credit for small and marginal farmers, agricultural labourers, artisans, traders and other weaker sections of the rural society. Totally 40 RRBs were set up at the end of December 1976. Afterwards the establishment of RRB was frozen completely. Janata Government (1977) raised several doubts regarding the usefulness of the RRBs in the context of the existing situation. In such circumstances the Reserve Bank set up a Review Committee under the Chairmanship of M.C. Dantwala. Pending the Report of this Committee, no further RRBs were set up in the country.

The Review Committee examined the working conditions of the RRBs in rural area and came to the conclusion that the RRBs with some modifications in their organisation and functions could become very useful components in the totality of rural credit structure. Such an institution is needed to make good some of the inadequacies existing in rural credit system. The Committee felt that the RRBs can make a substantial contribution towards improving the credit flow to the rural areas and therefore the RRBs are to be made an integral part of the rural credit structure.

The NABARD is a national level refinancing institution established to provide refinancing facility to the state
Co-operative Banks, Regional Rural Banks and other financial institutions approved by the Reserve Bank. A total of 196 RRBs were set up in the country by 1990. These RRBs opened 14,315 branches in 369 districts as at the end of Feb. 1990. The RRBs have lent Rs. 20586.72 crores credit in rural areas during 1992.

Madhya Pradesh is one of the developing states in India. It consists of 45 districts and 459 community development blocks. Thirty three RRBs are working in all the 45 districts as on 30.6.1992. Totally 1608 branches were opened all over the state which raised Rs. 41285 lakh deposits and advanced Rs. 31606 lakh credit at the end of June 1992. The credit deposit ratio was 131 per cent and this is lower than the commercial banks' ratio (151%) in the state during 1992. Regional Rural Bank Hoshangabad is working in Hoshangabad and Raipsen districts of Madhya Pradesh since 1976. The bank has advanced Rs. 5440.65 lakh credit and raised Rs. 3579.95 lakhs deposits as in 1992-93. The C.D. ratio was 65.88 per cent and running under loss since the establishment of the bank. The bank has opened 92 branches in the two districts together.

The Government of India set up the Planning Commission which started the first five year plan in April 1951. The eradication of poverty, unemployment and inequality of income
was the main objective of the plan. The government framed various development programmes to realise the plan objectives. Such programmes were: (a) Community Development Programme, (b) Employment Generation Programme, (c) Area Development Programme, (d) Programme for Target Groups, (e) Minimum Needs Programme and (f) Integrated Rural Development Programme. The institutional agencies like Commercial Banks, Co-operatives and Regional Rural Banks have been involved in some of the programmes. Such programmes are the programmes for Target Groups - Minimum Needs Programme, Integrated Rural Development Programme.

The subsidy part of the amount if flow from the government and the credit part of amount if flow from the financial institutions, which exceeded the Sixth Plan (1980-85) targets under IRDP. The number of beneficiaries to be covered under this programme also exceeded its target during the corresponding period. However, the subsidy credit ratio did not reach its target during the Sixth Plan period.

The evaluation studies on IRDP concluded that an average 10-20 per cent of the beneficiaries misrepresented their economic status to reap the benefits. The beneficiaries who owned assets under the Livestock Scheme were not improving their financial condition. Hesekant Rath has pointed out
that the poorest who are at the bottom rung of the economic
ladder do not get proportionately larger loan and subsidy
compared to those above them.

Impact of Regional Rural Bank Credit on Weaker Sections:

Regional Rural Bank Hoshangabad (before and after financing) —

The impact of Regional Rural Bank through Integrated
Rural Development Programme in Hoshangabad district of Tawa
Command Area was examined for 90 farmers, 45 animal husbandry,
44 rural industry, 51 village level businessmen, beneficiaries,
which constituted the sample unit drawn from the three different
blocks each served by a branch of Regional Rural Bank. An
aggregate view of the impact was assist for each category of
beneficiaries considering the pre and post financing periods.
The socio-economic condition of the beneficiaries, before finan-
cing was measurable in terms of their literacy, consumption
pattern and overall financial condition. The impact has been
studied mainly in terms of the changes in the value of assets,
employment and income of the beneficiaries in 1988-89 over
1979-80 periods. As regards the value of assets is increased
by 50 per cent in case of farmer beneficiaries in comparison to
114 in case of animal husbandry, 108 per cent in case of rural
industry and 150 per cent in case of village level businessmen
beneficiaries. The funding through Integrated Rural Development
Programme did make positive and significant impact of creation of assets among different categories of beneficiaries. The structural implement of the beneficiaries resulted in to increase job opportunity and opening employment avenues among the beneficiaries. The overall increase in the level of employment taking all category of beneficiaries together was 85 per cent over and above the pre-financing period, while it was highest 207 per cent in case of village level businessmen. Next in order were the rural industry, animal husbandry and agricultural beneficiaries, who registered and increase in the level of employment by 71 per cent, 50 per cent and 38 per cent, respectively.

The impact of Integrated Rural Development Programme finances, besides increasing the value of assets and level of employment among the beneficiaries, also resulted in the increase in the level of income in sizable proportions. The income increased by 156 per cent among the farmer beneficiaries, 130 per cent among those involved in Animal husbandry, 66 per cent in case of Rural Industry and 98 per cent among the village level businessmen, beneficiaries. The statistically impact of Regional Rural Bank through Integrated Rural Development Programme finances in terms of assets, employment and income among the different categories of beneficiaries was tested and found highly significant, lead into acceptance of hypotheses generated.
The real test of the positive impact of Regional Rural Banks through integrated Rural Development Programme finances as measured in term of assets, employment and income is the proportion of beneficiaries who cross the poverty line. Out of 230 sample units studied comprising of different category of beneficiaries is 180, cross the poverty line which was 78 per cent of the total beneficiaries. The proportion of beneficiaries crossing poverty line were 84 per cent in case of village level business, 62 per cent Rural Industry, 76 per cent animal husbandry and 72 per cent of the total beneficiaries representing farming activities.

The basic problems were faced by the beneficiaries were the ignorance of the programme, procedural delays in the sanctioning of loans, lack of skill among the beneficiaries and lack of proper follow up of the programme financed by the concerned officials.

**Recommendations :**

On the basis of the findings of this study, the following recommendations are made so that the performance of the development programme can become more successful than at present -

1. The personnel who are incharge of identifying the beneficiaries should be properly trained in income
estimates of the households, even it could be better if they entrust this task to an expert body or a Research Institute and such estimates should be properly scrutinised by the bank and buses. The banks should also be associated with this work, then there will be less scope for wrong identification of beneficiaries.

(2) Once loans are sanctioned to the beneficiaries, they should be allowed to purchase the assets of their liking. This provides an opportunity to the beneficiaries to visit a number of markets to purchase good assets at a reasonable price.

(3) The loan amount should be at least Rs. 15000 per beneficiary. This will enable them to buy economically viable assets. This can also assure some guarantee for fetching income which can enable the beneficiary-households to cross the poverty line.

(4) While selecting the beneficiaries under IUP schemes, youth in the age group of below 40 years should be given preference, as this category naturally possess the ability, strength, interest and risk bearing capacity.

(5) Informal education and training should be given to the beneficiaries on maintenance of assets, prompt repayment
of loan instalments and on improving their social and economic conditions.

(6) A list of wilfull defaulters should be prepared and blacklisted for any further benefits.

(7) Every year a survey of assets of the beneficiaries to be conducted to know the condition of assets as well as retention of assets.

(8) An independent monitoring body should be established at the block level and this should be entrusted with the work of supervision, recovery of loans, guidance, training and evaluation. To a great extent the success of any scheme depends on its monitoring.

Suggestions:

There are various problems in planning and implementation of IRDP, some suggestions to minimise these problems are suggested below.

(1) In identification of beneficiaries, Village Panch must be involved to have detailed informations about their past experience, managerial capacity, know-how, etc. Poorest of poor households should be preferred.

(2) Selection of scheme must be done at village level in the presence of beneficiaries, Gram Panchayat Authority and
also, considering the availability of existing resources in that area and their prospects. If possible, financial institution must also be incorporated, when schemes are being finalised. But this work should not be left on the shoulders of village level workers. Two or three Gram Panchayats may be combined together for this strategy.

(3) Socio-economic infrastructure must be developed and coordinated with this programme in accordance with the magnitude of different social groups belonging to the below poverty line for a group of villages or Joint Village Panchayats.

(4) Rural Statistics Cell must be developed at the block level. Panchayat wise information should be collected and maintained and this should be used for resource planning of the block as a whole.

(5) TRYSEM and DCCCA must be strengthened by providing sufficient technical know-how and funds with supporting staff.

(6) Group financing should be made for some activities like fishery, brick making, etc.

(7) Sufficient staff should be provided to financial institutions, especially for regional rural banks to supervise the credit.
(c) *DFA* must be supported with technical personnel in proportionate to number of blocks and population of block.

(9) In blocks where forest area is found more and the tribal population is also dominant, small rural industry based on forest products should be emphasised along with development of market structure.

(10) Milch cattle activities should be strengthened in nearby block headquarters with full technical know-how and only those households should be preferred which have experience in dairying. Arrangements for green fodder through Dairy Development Board should be made. Cooperative milk unions may be established at Gram Panchayat with the block as the centre. Milk is an enterprise which has more opportunity to be developed in rural areas where irrigation water for green fodder in winter is available, because the demand for milk and its by-products is increasing in the city and other areas. Small farmer class should be preferred for this activity to whom lands are available near by block headquarters.

(11) The expansion of bank branches should be done by the Regional Rural Banks taking agriculture as business and priority sector financing must be extended for agriculture and allied activities.
(12) All the Government and Panchayat financial transactions must be routed through the banks located in rural areas. This will facilitate the smooth working and will save time and money involved in attending the branches of Regional Rural Banks at the tehsil headquarters.

In the ultimate analysis, it is obvious that the implementation of the programme cannot left to the prevailing styles of functioning of block level extension agencies. The slow and cumbersome process of reference and over-stress on conferences and seminars without intensive follow-up and the near absence of a scientific information system create problems. These are further aggravated by the existence of an information gap between the development agencies and the field staff and between the latter and the intended beneficiaries.

In this connection, the IMG is a unique well-tested anti-poverty programme. It has given a fair amount of change in Hoshangabad district of Tawa Command Area to assist the poorest of the poor to cross the poverty line. The strategy is sound, but the reported weakness of the programme in its implementation are related with the human aspects. In nutshell, the physical achievements were less than targeted, whereas the financial expenditure incurred was more than anticipated.
The help in achieving larger income through more productive activities by the beneficiaries leads to raise their status above the poverty line in rural areas.