CHAPTER - 2

INSTITUTIONAL FRAMEWORK OF RURAL CREDIT STRUCTURE IN INDIA
2.1 THE EXTENT OF RURAL POVERTY IN INDIA

India is predominantly an agriculture based economy and the agricultural sector is mainly dominated by small and marginal farmers. The drought, floods and other natural calamities faced by the country have always distored the economy as a whole and their impact upon the rural people has been found as severe and acute. At the beginning of the Six Five Year Plan (1980-81), nearly 48 per cent of Indian population was found to be living below the poverty line.¹ The extent of poverty of the country can easily be imagined from Table 2.1.

Table 2.1 reveals that the total number of poor people of India decreased from 291.5 million in 1972-73 to 210.8 million in 1989-90. Similarly the number of urban and rural poor also declined from 47.3 million and 244.2 million respectively in 1972-73 to 42.2 million and 168.6 million respectively in 1989-90. It is also clear from Table 2.1 that the percentage of poor people to that of total population came down from 51.5 to 25.8 during the period 1972-73 and 1989-90. But the percentage of urban and rural poor declined from 41.2 and 54.1 respectively in 1972-73 to 19.3

### TABLE - 2.1

**POVERTY RATIO AND THE NUMBER OF POOR**

<table>
<thead>
<tr>
<th>YEARS</th>
<th>POVERTY RATIO (PER CENT)</th>
<th>NO. OF POOR (MILLION)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RURAL</td>
<td>URBAN</td>
</tr>
<tr>
<td>1972 - 73</td>
<td>54.1</td>
<td>41.2</td>
</tr>
<tr>
<td>1977 - 78</td>
<td>51.2</td>
<td>38.2</td>
</tr>
<tr>
<td>1983 - 84</td>
<td>40.4</td>
<td>28.1</td>
</tr>
<tr>
<td>1984 - 85</td>
<td>39.9</td>
<td>27.7</td>
</tr>
<tr>
<td>1987 - 88</td>
<td>33.4</td>
<td>20.1</td>
</tr>
<tr>
<td>1989 - 90</td>
<td>28.2</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Source: (1) Statistical outline of India, 1992-93, (Tata Services Ltd., Department of Economics and Statistics), p. 27.

and 28.2 respectively in 1989-90.

It is thus clear from Table 2.1 that the extent of rural poverty is more acute than that of urban poverty profile. The acute poverty of rural India can be reduced only through generation of fruitful employment, which in turn depends upon the availability of credit for the rural people on the one hand and reconstruction and development of the rural economy as a whole, on the other. The term rural development actually means developing the necessary infrastructure, cottage and small scale industries as well as secondary and tertiary sectors.²

2.2 NECESSITY OF INSTITUTIONAL CREDIT FOR REMOVAL OF POVERTY

With the vicious circle of low productivity, low income, low savings and low investment in operation, farmers of India are not in a position to make adequate investment which is essential for adopting modern technology. As a result, the rural farmers of our country are compelled to borrow. F.A. Nicholson had rightly observed as early as in 1895 that "the history of rural economy alike in Europe, America and India has no lesson more distinct than this, that the agriculturists must and will borrow", and this observation

is found as true even to-day particularly in case of rural India.

The institutional credit agencies, namely the banks can be considered as an important instrument for accelerating the growth of the tertiary sectors and act as a backbone of economic progress and development of the country as a whole. The banks are the key-institutions to rural economy like India that can facilitate credit to marginal farmers, landless labourers, artisans, petty-shop keepers, crafts-men and people engaged in cottage and small scale industries. The All India Rural Credit Survey Committee has also observed that "what providing adequately for essential items of consumption, its main concern should be with loans for production." The Sivaraman Committee has also reiterated that "credit has to be adequate, neither more or less. In the case of poorer groups, there has to be a provision for consumption component in the loan to enable them to meet their family needs till the sale of crops/products." Thus, the most urgent need of rural India is to create adequate credit facilities through the proper expansion of branches of banking specially in the distorted rural areas.


In the beginning of the nineteenth century, there was nothing like rural banking for the villagers of India. Rural credit was supplied mostly by agencies like money lenders, landlords, village traders and the various categories of relatives. But the credit supplied by these sources was quite unfavourable for agricultural development and the unscrupulous practices of these non-institutional agencies ultimately adversely affected the rural economy and the rural poor too. As a result, the supply of adequate credit to the required needs of the rural sector through proper institutional credit set-up, has received the better attention of Policy Framers and the Government of India.

SOURCES OF RURAL CREDIT IN INDIA

2.3 THE GOVERNMENT

The development of institutional system of rural credit was originally started with Government's direct lending to the farmers through the "Land Improvement Loans Act" of 1883 and "Agriculturists Loans Act of 1884". These loans are known as "Taccavi loans" and were generally given to farmers in times of difficulties like floods, droughts and famine etc. These loans provided by the Government, carried low rate of interest and were to be repaid in instalments spread conveniently over a period of years along with land tax.


RURAL FINANCE — INSTITUTIONAL SET-UP.

I. NATIONAL LEVEL
   - GOVT OF INDIA
   - RESERVE BANK OF INDIA
   - NATIONAL CO-OPERATIVE DEV'T CORPORATION
   - NABARD
   - INDUSTRIAL DEV'T, BANK OF INDIA
   - STATE GOVERNMENTS

II. STATE LEVEL
   - STATE LAND DEV'T BANKS
   - COMMERCIAL BANKS
   - STATE CO-OPERATIVE BANKS
   - STATE/CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS

III. DISTRICT LEVEL
   - REGIONAL RURAL BANKS
   - CENTRAL CO-OPERATIVE BANKS

IV. PRIMARY LEVEL
   - PRIMARY LAND DEV'T BANKS
   - COMMERCIAL BANK BRANCHES
   - REGIONAL RURAL BANK BRANCHES
   - PRIMARY AGRICULTURAL CREDIT SOCIETIES/ FARMER'S SERVICE SOCIETIES/ LARGED-SIZED MULTIPURPOSE SOCIETIES.

SOURCE: KARLON A S AND SINGH KARAN, "MANAGING AGRICULTURAL FINANCE: THEORY AND PRACTICE", PHILOS PUBLISHERS PRIVATE LIMITED, NORTHEASTERN INDORE.
But from the experience over a long period, it has been found that the volume of direct Government's loans to cultivators constitutes only a very insignificant part of the total agricultural finance of India. In 1951-52, Government loan constituted only 3.3 per cent of total agricultural loans and in 1961-62, it further decreased to 2.3 per cent. Again, in 1977-78, out of the total agricultural loans Rs. 2576 crores, direct short term loan provided by the Government was only Rs. 109 crores.

The main reason behind such poor coverage of taccavloans was that the cultivators except in times of distress, generally showed no interest in taking such loans. These loans were associated with large number of problems, such as, lengthy and complicated procedures, unnecessary formalities, undue delay in getting loans and lack of effective supervision of loans etc. These factors as a whole, ultimately reduced the percentage of recovery of these loans and enlarged the extent of overdues.

2.4 THE CO-OPERATIVES

Due to a large number of deficiencies of direct loans provided by the Government, the first bold step was taken by the Central Government to replace the village money lenders with the propagation of Co-operative Credit System. The idea of using co-operation in India as a means of combating

9. Ibid. p. 212.
indebtedness and supplying rural credit was first suggested in the Report of Frederick Nicholson in 1896. The real era of co-operative movement in India was started with the passing of first Co-operative Societies Act by the Government of India in 1904. Accordingly, a large number of co-operative credit societies were established and this system soon emerged as the premier institutional agency for provision of agricultural credit in the country.

In 1912, some major amendments of the Act (1904) were made by the Government of India with a view to create some non-credit co-operatives affecting distribution, sale, production, insurance, housing, purchase and so on. In 1919, another Act was passed by the Government of India and this Act was able to give a great stimulus to the co-operative movement of the country. Following this act, many Provincial Governments, namely Bombay, Madras, Bihar and Orissa replaced the Central Act with their own legislations in 1925, 1932, 1934 and 1935 respectively in order to improve the co-operative credit movement in their own perspectives. The Royal Commission on Agriculture (1928), hence realised that "if co-operation fails, there will fail the best hope of rural India".


11. Ibid. p. 160.
The Great Depression of 1929-33 dealt practically a death blow to the Co-operative Movement in India. The rapid fall in the prices of agricultural products and steep increase in the indebtedness of Indian peasants threatened the very existence of primary co-operative credit societies. In 1945, the Agricultural Finance Sub-Committee under the Chairmanship of D.R. Gadgil was appointed by the Government of India to examine thoroughly and comprehensively the whole question of rural credit. The Committee recognised Co-operation as the best and most lasting solution for the problem of agricultural credit and recommended that, an agency alternative to money lenders for providing adequate finance to agriculturists for all reasonable terms should be established.

The next important step in the evolution of Co-operative movement in the Country was the appointment of the "Co-operative Planning Committee" by the Government of India under the chairmanship of R.G. Saraiya in 1945. The Committee recommended that the village level Co-operative credit societies should be made multipurpose and the Government should contribute to the share capital of Central Co-operative banks (i.e. District level Co-operative banks) and the State Co-operative banks. The Committee further recommended that Governments' participation was


indispensable in regard to the management of Co-operatives so that adequate institutional credit could be made available to all credit worthy agriculturists.

After Independence, the Co-operative movement in India registered a remarkable progress with the appointment of All India Rural Credit Survey Committee in 1951 by the RBI with a view to examine the sources of rural credit, magnitude of rural indebtedness and measures to rationalise and strengthen the rural credit system. The Committee submitted its report in 1954 with a number of recommendations.14 In view of the recommendations of the Committee, the old structure of Co-operatives was radically altered and their structure and operational policies were re-organised in the light of experiences gained in the past.

In 1959, the Government of India appointed another Committee on "Co-operative Credit" under the Chairmanship of V.L.Mehta.15 The Committee recommended that the Primary Societies should cover all types of cultivators and at least short-term and medium term loans should be given to cultivators without any mortgage of land or property. The Committee also recommended that, state participation in the share capital of Primary Agricultural Co-operative Credit

---


Societies should be increased to the extent of Rs. 5,000 per society. The Government of India practically accepted all the recommendations of the Mehta Committee and as a result after 1960, attention came to be given for the reorganisation of Primary Societies and supplying adequate credit to all types of cultivators with special emphasis on the financial needs of small and medium class cultivators.

Since mid sixties, a gradual change had been taking place in the agricultural sector of the country and agriculture had been treated as a business rather than as a way of life. In the changing situation of agriculture, co-operatives alone had failed to supply finance efficiently and adequately to the credit needs of cultivators. The Review Committee, appointed by the RBI under the chairmanship of B. Venkatappiah, in 1966, submitted its report in 1969 and highlighted that the credit needs of the agricultural sector for the year 1973-74 was about Rs. 2,500 crores, whereas the co-operative societies had been able to provide loan upto a maximum extent of Rs. 750 crores only.

Further, many Committees and Working Groups were appointed by the Government of India and RBI in the past to strengthen the co-operative credit structure in India. But despite these efforts, the share of co-operative's credit in the total volume of rural credit did not increase consi-

derably. The Primary Agricultural Credit Societies (PACS) were able to increase their flow of short-term loans for agricultural purposes from Rs. 183 crores in 1961-62 to Rs. 3594 crores in 1988-89 and the medium term advances from Rs. 20 crores to Rs. 602 crores during the same period. 17 Again, the total loans issued by PACS increased to Rs. 4819 crores only in 1991-92 from Rs. 4716 crores in 1990-91, and the accumulated losses at PACS level as at the end of 1991-92 stood at Rs. 184 crores as compared to Rs. 265 crores as at the end of 1990-91. 18 Similarly, the total loans advanced by co-operatives (excluding long term loans) rose up from Rs. 21,525 crores in 1987-88 to Rs. 22,259 crores only in 1988-89. 19

The progress of the co-operative credit system was again evaluated by the Agricultural Credit Review Committee, 1989, appointed by the RBI under the chairmanship of A.M. Khusro. The Committee in its report highlighted that the percentage of rural population covered by the agricultural


credit co-operatives was only 7.8 in 1951, which increased to 36 in 1960-61 and then to about 65 in 1985-86.20 Again, the credit disbursed by Primary Societies (both short and medium term) increased from Rs. 22 crores in 1951-52 to Rs. 3140 crores in 1985-86 and then to Rs. 4200 crores in 1988-89.21

Still another Committee was appointed by the Planning Commission under the Chairmanship of Shri Choudhury Brahm Perkash, to review the status of co-operative laws in vogue and recommend a model for co-operative laws that would conform to the basic character of the co-operative movement.22 The Committee submitted its report in May 1991. The model Act, as suggested by the Committee was giving thrust on various aspect of co-operatives and the major aspects were such as, to impart a genuine character to the co-operatives, to facilitate building of an integrated co-operative structure, to make the federal organisations at various levels more responsive, transfer to be responsible towards their members, to minimise Government control, to provide interference so as to enable co-operatives to develop self-reliance and self-confidence and to eliminate politicisation.


Thus, there is no doubt that due to various efforts taken by the Government of India, the Reserve Bank of India, and the Co-operatives themselves, the flow of institutional credit to agricultural sector has increased considerably. But, despite this progress, it has been realised that after a long time of functioning at the village level, the co-operatives, have failed to make a dent on the rural credit problems. The Report of the All India Rural Credit Survey Committee (1954), the Report of the All India Rural Credit Review Committee (1969), the various data available in the All India Debt and Investment Survey (1971-72) and the Working Group on Regional Rural Banks (1975) also corroborate the above view. The Agricultural Credit Review Committee (1989) also accepted the above view by saying that, "The classic assertion of the Rural Credit Survey made 35 years ago still seems valid that co-operation has failed but co-operation must succeed."\(^{23}\)

According to All India Rural Credit Survey (1954), in 1951-52, only 7.3 per cent of total rural credit was supplied by the Government and the Co-operatives and the remaining 92.7 per cent by a host of non-institutional sources comprising professional money lenders, agricultural money lenders, relatives, traders, landlords and commission agents etc.\(^ {24}\) The


comparative position of different financing agencies as on 1951-52 and 1961-62 is presented in Table 2.2.

TABLE 2.2
RELATIVE POSITION OF FINANCING AGENCIES AS ON 1951-52 AND 1961-62

<table>
<thead>
<tr>
<th>SL.NO.</th>
<th>SOURCES</th>
<th>PERCENTAGE SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1951 - 52</td>
</tr>
<tr>
<td>1</td>
<td>Government</td>
<td>3.3</td>
</tr>
<tr>
<td>2</td>
<td>Co-operatives</td>
<td>3.1</td>
</tr>
<tr>
<td>3</td>
<td>Commercial Banks</td>
<td>0.9</td>
</tr>
<tr>
<td>4</td>
<td>Money Lenders etc.</td>
<td>90.9</td>
</tr>
<tr>
<td>5</td>
<td>Others</td>
<td>1.8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Report of the All India Rural Credit Review Committee, 1969, P. 100.

Table 2.2 reveals that the share of Co-operatives, in total agricultural credit increased from 3.1 per cent in 1951-52 to 15.5 per cent in 1961-62 and that of other non-institutional sources decreased from 92.7 (90.9 + 1.8) per cent in 1951-52 to 81.3 (67.4 + 13.9) per cent in 1961-62.

Till recently co-operatives have been considered as the most suitable and ideal agency for the purpose of providing rural credit. But unfortunately, co-operatives in
India have not been able to discharge the responsibilities assigned to them to the extent expected of them. The major reasons responsible for such inefficiency of co-operatives can be stated as follows -

(a) In many countries, the co-operatives have emerged as a reaction against poverty and have resorted to self-help and mutual well-being. According to Charles Guide, "Co-operatives are the children of necessity and the state has nothing to do with co-operatives". Contrary to this, co-operatives in India have emerged with a piece of legislation and the necessity of the movement had been felt by the state seriously, not by the actually needy persons.

(b) The co-operative sectors in India have been working since their inception within a particular set-up and catering to the needs of mainly to medium and large farmers, leaving the small and marginal farmers, landless labourers and village artisans at the mercy of village money lenders. As a result, under the co-operative credit structure, the rural poor who form the core of rural society have been left high and dry.

(c) Again, the co-operatives in India have failed to

mobilise adequate resources from the various categories of poor and this can easily be imagined from their continuing and unbridled dependence on the RBI (NABARD) and the Government. In the words of Khusro Committee, 1989, "They (co-operatives) thus come to depend heavily on refinancing and other funds coming down vertically from the higher tier institutions and shunned self-reliance on own funds".  

(d) The co-operatives in India have also failed to develop the climate and culture for timely repayment resulting in heavy overdues and poor performance in a number of states. In 1984-85, the percentage of overdues to demand was 42.1 in case of Primary Agricultural Credit Societies, 36.9 in case of Central Co-operative Bank and 42.8 in case of both State Co-operative Land Development Bank and Primary Land Development Bank.  

Again, by the end of June, 1989, the percentage of overdues to demand for that of Primary Agricultural Credit Societies and State Co-operative Banks stands at 42.6 and 13.6 respectively.


Thus, despite the best efforts made by the co-operatives, they have hardly covered about 40 per cent of the rural families and the major reasons responsible for such poor coverage of these institutions are manifold. To sum up, these reasons are the lack of adequate financial resources, absence of full time paid and trained secretary, defective lending policies, ineffective post-credit supervision, lack of efficient management, undue delay in disbursement of loans, mounting overdues, regional imbalances in the growth of co-operatives, organisational inadequacies, weak staff structure and lack of effective contact with agricultural and rural development programmes etc.

2.5 THE AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION (ARDC)

It will be convenient to mention here that co-operatives were providing only short term loans to agricultural sector and as such, a grave need was felt for long-term loans for bringing permanent improvements on agricultural lands. It was perhaps for this purpose that a network of Land Development Banks came to be set-up. But experience over a long time operations of these banks showed that they also suffered from paucity of funds and long-term loans given by them to agriculturists were either for the purpose of redemption of old debts or for the purchase of new lands by cultivators.

Therefore, the necessity to make provision for long-
term loans to cultivators was felt by Government of India and accordingly, the "Agricultural Refinance Corporation (ARC)" was established on 1st July, 1963 by an Act of Parliament. Though it was primarily a refinancing agency, it assumed certain essentially developmental and promotional functions and was renamed as "Agricultural Refinance and Development Corporation (ARDC)" in 1975.

The main objective of ARDC was to provide credit for agricultural investments by making long-term and medium term funds available to land development banks, commercial banks, and other approved institutions to refinance agricultural schemes which are considered as sound both economically and technically and are located within a reasonably compact area. In addition to this function, it also helps in formulating of schemes particularly in less developed states and consequently it has been able to influence lending policies and procedures of the agencies to whom it provides assistance. Further, it also deals with diversified lending policies penetrating into backward and under developed areas for correcting regional imbalances and for achieving a broad based growth of the economy.

The ARDC since its inception has also been laying a great stress on greater co-ordination between different credit institutions and improvement in the recovery of various institutional advances for the purpose of raising continuous recycling of funds. It has been operating with its Head Office
in Bombay, an office in Delhi and 14 State Regional Offices. These Regional Offices maintain contact with State Governments and financial institutions and assist them with scheme preparation and implementation.

From its establishment in 1963 till June 1982, the ARDC provided total assistance to about 19,000 schemes involving ARDC's financial commitment of Rs. 4650 crores.29 About 40 per cent of this long-term assistance was provided for the purpose of minor irrigation projects, while the remaining part of the advances were provided for schemes like permanent improvement of lands as reclamation and levelling of agricultural lands, development of plantation of various products and development of allied activities like animal husbandry, poultry, farming, dairying, horticulture, sheep breeding and so on.30

In 1971-72, the total disbursement made by ARDC was Rs. 350 million, which increased to Rs. 1000 million in 1974-75 and further to Rs. 5,000 million during 1980-81. Thus, the share of ARDC in the investment support (term loans) increased from 25 per cent in 1974-75 to nearly 36 per cent in 1980-81.31 It has also been placing greater emphasis on improved

30. Ibid. p. 213.
coverage of small farmers under its schemes by providing special concessions, such as, low rate of interest, longer repayment period for investments etc. and emphasis was also given on a larger coverage of the scheduled castes and scheduled tribes.

Although over the years, the ARDC has made a continuous effort to diversify its lending activities, it could not contribute very effectively towards integrated rural development of the economy due to some reasons as mentioned below -

(a) The ARDC had been dealing with the sanctioning of single purpose investment schemes individually, such as minor irrigation schemes, diary schemes, forestry schemes, fishery schemes etc., but not the integrated development schemes involving all aspects.

(b) Again, the financial facility provided by ARDC did not cover short-term loans and as such, missed the necessary link required for complementary effects to generate better income and repaying capacity of the borrower.

(c) The ARDC did not make dent in direct financing as distinguished from refinancing.

(d) Further, the terms of statute of ARDC did not permit it to refinance non-agricultural schemes.
2.6 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Considering the various deficiencies of ARDC, the Reserve Bank of India appointed a committee in March 1979 under the Chairmanship of Shri B. Sivaraman, known as the "Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)" mainly to review the entire problem of rural credit in comprehensive way. The Sivaraman Committee submitted its Interim Report in November 1979 and as per recommendation of the Committee, the "National Bank for Agriculture and Rural Development" Act (1981) was passed by the Government of India and NABARD commenced functioning from 12th July, 1982. By this time onwards, NABARD has taken over the entire functions of ARDC as well as the refinancing function of the RBI in relation to co-operative and commercial banks.

The major objective in the establishment of the National Bank was to provide credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and also the other allied activities in rural areas. Apart from its credit functions, the Bank was entrusted with the responsibility of co-ordinating the operations of various institutions engaged in the field of rural credit. Besides, the National Bank was also empowered to provide facilities for training,

dissemination of information and promotion of research in the fields of rural banking, agriculture and rural development. Thus, the Bank has a mandate for promoting integrated rural development and securing prosperity of rural areas.

The NABARD was set-up as an independent institution at the national level, but retains its close links with the RBI. The Government of India and RBI are the joint owners of NABARD. The authorised share capital and paid up capital of this Bank were fixed at Rs. 500 crores and Rs. 100 crores respectively. The paid up capital of this bank was constituted by the payment of equal proportions both by the RBI and the Government of India.

The main role of NABARD can easily be expressed with the help of the three main functions, such as providing refinance to lending institutions in rural areas, bringing about or promoting institutional development and evaluation, monitoring and inspection of client banks etc. Table 2.1 presents the year-wise position of refinance provided by NABARD for various purposes during the period 1982-83 to 1991-92.

Table 2.3 reveals that the total amount of refinance disbursed by NABARD has increased from Rs. 703 crores in 1982-

### TABLE - 2.3

**PURPOSE-WISE VOLUME OF REFINANCE PROVIDED BY NABARD (1982-83 TO 1991-92)**

(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Minor Irrigation</td>
<td>244</td>
<td>312</td>
<td>335</td>
<td>385</td>
<td>460</td>
<td>473</td>
<td>387</td>
<td>498</td>
<td>496</td>
<td>502</td>
</tr>
<tr>
<td>2.</td>
<td>Land Development</td>
<td>21</td>
<td>29</td>
<td>43</td>
<td>27</td>
<td>26</td>
<td>25</td>
<td>18</td>
<td>11</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>3.</td>
<td>Farm Mechanisation</td>
<td>147</td>
<td>204</td>
<td>170</td>
<td>200</td>
<td>192</td>
<td>200</td>
<td>158</td>
<td>225</td>
<td>338</td>
<td>381</td>
</tr>
<tr>
<td>4.</td>
<td>Plantation &amp; Horticulture</td>
<td>27</td>
<td>38</td>
<td>47</td>
<td>63</td>
<td>68</td>
<td>75</td>
<td>65</td>
<td>97</td>
<td>94</td>
<td>99</td>
</tr>
<tr>
<td>5.</td>
<td>Poultry/Sheep/Piggery</td>
<td>13</td>
<td>13</td>
<td>23</td>
<td>26</td>
<td>32</td>
<td>38</td>
<td>45</td>
<td>68</td>
<td>73</td>
<td>85</td>
</tr>
<tr>
<td>6.</td>
<td>Fisheries</td>
<td>4</td>
<td>7</td>
<td>10</td>
<td>13</td>
<td>18</td>
<td>20</td>
<td>19</td>
<td>21</td>
<td>21</td>
<td>31</td>
</tr>
<tr>
<td>7.</td>
<td>Dairy Development</td>
<td>24</td>
<td>13</td>
<td>23</td>
<td>29</td>
<td>48</td>
<td>52</td>
<td>51</td>
<td>75</td>
<td>73</td>
<td>84</td>
</tr>
<tr>
<td>8.</td>
<td>Storage &amp; Market yards</td>
<td>13</td>
<td>9</td>
<td>12</td>
<td>19</td>
<td>26</td>
<td>29</td>
<td>16</td>
<td>13</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>9.</td>
<td>Forestry</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>10</td>
<td>9</td>
<td>19</td>
<td>11</td>
<td>17</td>
<td>29</td>
<td>22</td>
</tr>
<tr>
<td>10.</td>
<td>Gobor Gas Plants</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>19</td>
<td>20</td>
<td>17</td>
<td>8</td>
<td>12</td>
<td>12</td>
<td>9</td>
</tr>
<tr>
<td>11.</td>
<td>Non-Farm Sector</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>1</td>
<td>16</td>
<td>45</td>
<td>59</td>
<td>62</td>
<td>80</td>
<td>104</td>
</tr>
<tr>
<td>12.</td>
<td>IRDP</td>
<td>185</td>
<td>233</td>
<td>354</td>
<td>376</td>
<td>379</td>
<td>448</td>
<td>403</td>
<td>549</td>
<td>602</td>
<td>647</td>
</tr>
<tr>
<td>13.</td>
<td>Others</td>
<td>16</td>
<td>24</td>
<td>32</td>
<td>24</td>
<td>40</td>
<td>41</td>
<td>30</td>
<td>56</td>
<td>54</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>703</td>
<td>892</td>
<td>1061</td>
<td>1192</td>
<td>1334</td>
<td>1482</td>
<td>1270*</td>
<td>1702</td>
<td>1902</td>
<td>2054</td>
</tr>
</tbody>
</table>


Note: * Relates to 9 months.
83 to Rs. 2054 crores in 1991-92. Again, it is clear from Table 2.3 that in 1982-83, the amount of refinance disbursed by NABARD for minor irrigation ranks first (Rs. 244 crores) followed by IRDP (Rs. 185 crores) and farm mechanisation (Rs. 147 crores). But in 1991-92, the amount of refinance disbursed by NABARD for IRDP (Rs. 647 crores) ranks first followed by minor irrigation (Rs. 502 crores) and farm mechanisation (Rs. 381 crores).

Since its inception, NABARD's strategy has been to provide refinance support for activities aimed at improving the productive capacity of the economy as a whole with the help of natural resources of different regions and the available technological opportunities. Obviously, the initial attention that is to be given by NABARD is to increase the productivity of the nation's most important but scarce resource, namely land. Therefore, emphasis was given for increasing the volume of agricultural output mainly, through the use of investments for minor irrigation, largely ground water, shaping land for using water, mechanisation of farming operations and the diversification of land to horticulture and other tree crops.³⁴

Thus, being an apex institution, NABARD has a formidable uphill task of co-ordinating the co-operative and

commercial streams of credit, at least when they reach the ultimate borrower and merge successfully the short and long-term credit in the co-operative structure. Apart from meeting the targets for rural credit requirements in general and the weaker sections in particular, its challenge involves ensuring credit flow to backward areas, effective support to credit based schemes (such as, Integrated Rural Development Programmes), increased credit support to various non-farm activities, bringing co-ordination between different types of credit agencies on the one hand, and on the other hand between credit institutions and development agencies of the Government. Thus, the NABARD has to perform a formidable task indeed and its ultimate success will depend upon sincere, cooperative and everhelping attitude of the various categories of employees to a marked extent.

2.7 THE COMMERCIAL BANKS

When it was realised that co-operatives alone would not be able to meet the increased demand for agricultural credit, the commercial banks were brought into the field of rural credit for supplying adequate finance for production and marketing requirements of agriculture. The All India Rural Credit Survey Committee (1954) also recognised a supplementary role to be played by commercial banks in the sphere of rural credit. The All India Rural Credit Review Committee, 1969 (under the Chairmanship of Shri B. Venkatappiah) also made a firm conclusion that as the demand for credit was going up and supply there of remarkably lagging behind, the programme of
agriculture should not be tied to the programme of cooperative credit only. The Committee also made an assessment of the role of commercial banks in dispensing rural credit and recognised that being essentially urban in origin and conception, these banks in their operations had till then been traditionally involved in meeting the credit needs of industry and trade.35

In August 1969, the RBI appointed a Committee under the Chairmanship of Shri F.K.F. Nariman with a view to evolve a scientific policy for the development of branches of commercial banks so that these banks could take up the new task of agricultural finance. The Committee recommended that the new branches of commercial banks should be established specially in unbanked and under-banked areas and they should be allowed to act as instruments for achieving socio-economic objectives of the country.36 The Committee also recommended that in time with the socio-economic objectives, these banks would have to undertake more responsibility in accelerating the process of economic development of regions. But in reality commercial banks have not been able to meet the growing requirements of the people particularly in the underdeveloped regions.

Another important development during mid sixties was

35. Reserve Bank of India, "The Reserve Bank of India and Rural Credit" (RBI, Rural Planning and Credit Department, 1985, Bombay) PP. 62 - 63.

36. Ibid, P. 64.
the rising tempo of modernisation of Indian agriculture through the so-called "Green Revolution" which in turn associated with a growing demand for credit, mainly for the purpose of marketing, processing and storage. More precisely, the adoption of planned development approach and with the introduction of rural development programmes, such as, (1) Intensive Agricultural District Programmes (1960), (2) Intensive Agricultural Area Programmes (1964), (3) Rural Manpower Programmes (1960-61), (4) High Yielding Varieties Programmes (1966), (5) Drought Prone Area Programmes (1970-71), (6) Integrated Rural Development Programmes (1976-77), (7) Training of Rural Youth for Self Employment (1979), (8) National Rural Employment Programmes (1980) and (9) Jawahar Rojgar Yojana (1989-90) etc., attention was focussed on optimum utilisation of agricultural inputs, such as, irrigation, fertilisers, high-yielding varieties of seeds and pesticides and also the adoption of modern techniques of agriculture etc. Such a change in the technology of Indian agriculture called for a ready availability of adequate and timely credit and accordingly, vast credit gaps existed in rural India. It was, under these circumstances that led to the acceptance of "Multi-agency approach" to agricultural finance and inducted the commercial banks into the sphere of rural finance.

It will be convenient to mention here that one of the far-reaching recommendations of the All India Rural Credit Survey Committee (1954) was regarding the establishment of the
State Bank of India. In pursuance of the recommendations of the committee, the "State Bank of India" Act was passed in 1955 and accordingly the State Bank of India was established by the nationalisation of the Imperial Bank of India (which was established in 1921). The bank started its functioning from July 1, 1955 and was assigned the task of opening 400 new branches in rural areas during the first five years of its establishment.

The State Bank also evolved a new strategy and techniques, such as the "Area Approach" and the "Village Adoption Scheme" for the purpose of supplying agricultural finance and in this way, the bank has been able to make a significant contribution to agricultural sectors over the years. By the end of June 1991, the number of branches of the bank has increased to 12,264 and out of these total branches, a network of 5,875 and 3,379 branches were operating in rural and semi-urban areas respectively. But, the formation of State Bank of India in 1955 actually made a beginning for the provision of agricultural finance by commercial banks in an indirect way. It was only after the Government's policy of "Social Control" over commercial banks in 14th December 1967,


and subsequently by the nationalisation of the 14 major commercial banks in 19th July, 1969 and another 6 more commercial banks in 15th April, 1980, the commercial banks as a class began to enter into the rural sector in a significant way. From this time onwards, the commercial banks started to finance agricultural sector both directly and indirectly in a gigantic way.

After nationalisation, the public sector commercial banks were reoriented in response to the socio-economic environments of rural India. But the entry of commercial banks in the field of rural finance created more serious problems and failed to fulfil the objectives for which they were brought into the field of rural finance. It was even observed that in many rural areas, the commercial banks rather weakened co-operatives instead of supplementing them and these banks mobilised substantial savings especially from the richer sections of the rural communities and channelised such rural savings into urban and metropolitan areas in the process of making substantial profits. Thus, it was realised that nationalisation of banks was only a means to bring about radical transformation in the economic conditions of the poor masses and not an end in itself.

It was in this perspective of socio-economic

40. Govt. of India, "India 1990", A Reference Annual, Publication Division, Ministry of Information and Broadcasting, New Delhi, P. 324.

conditions of rural India, the National Credit Council appointed a Study Group in October, 1969, under the Chairmanship of D.R. Gadgil to suggest an appropriate "Organisational Framework for the Implementation of Social Objectives". The most important recommendation given by the Study Group was that the banks should adopt "Area Approach" to evolve plans and programmes for the development of banking and credit structure. In August 1969, another Committee was also appointed by the Reserve Bank of India under the Chairmanship of Shri F.K.F. Nariman to endorse the recommendations of the Gadgil Study Group. The Nariman Committee also favoured the view that in order to enable the public sector banks to discharge their social responsibilities, each bank should concentrate on certain districts where it should take lead in surveying the potential for banking development, in extending branches of banks and credit facilities.\textsuperscript{42} Thus, giving careful consideration to the recommendations of the above noted Study Group and Committee, the Reserve Bank of India introduced the "Lead Bank Scheme" in December, 1969.

According to this scheme, particular commercial banks were designated as the "Lead Banks" for selected districts and they were entrusted with the responsibilities of bringing about all round banking development of the districts placed under the charge of the former. The lead banks prepared the

\textsuperscript{42} Jha, Markandeya, "Lead Bank Scheme and Regional Development", Deep and Deep Publications, New Delhi, 1988, P. 61.
first set of credit plans for all districts and launched them by March 1978 (the target date set by the Government of India) and over the years, it has become the main instrument for ensuring better spatial and sectoral distribution of credit by the commercial banks. Again, the commercial banks were encouraged to establish specialised branches, such as the Agricultural Development Branches of the State Bank of India, Gram-Vikas Kendras of the Bank of Baroda, Rural Service Centres of the Dena Bank and Farm clinics of the Syndicate Bank etc. to provide rural credit so that the banks may have a better feel and familiarity with the various aspects of rural credit. As a result of the speedy implementation of the "Lead Bank Scheme" and other associated measures taken by the Government of India and the Reserve Bank of India, the commercial banks have extended their services by opening a huge number of branches in rural areas.

The commercial banks, after nationalisation have been used as a powerful instrument of development of agriculture and rural industries and of the amelioration of the lot of the weaker sections of the rural community. One major achievement of the commercial banks has been the spread of branches, specially in rural areas. The overall progress of scheduled


commercial banks in the country after nationalisation is given in Table 2.4.

Table 2.4 reveals that in June 1977, the total number of rural branches of all scheduled commercial banks in India was 9,537, which increased to 32,577 in June 1989. Similarly, the priority sector advances also increased from Rs. 34,88 crores in June 1977 to Rs. 35,242 crores in June 1989. The number of rural branches of all scheduled commercial banks also increased to even 34,611 in June 1990 and then again to 35,479 in June 1991.45 Due to such rapid expansion of the branches of these banks, the population covered by each bank branch has decreased considerably and this trend is shown in Table 2.5.

Table 2.5 reveals that average population covered by each bank branch of commercial banks has decreased from 66,000 in June 1969 to 18,000 in June 1979 and then again to 14,000 in September 1993.

It should be noted here that the Reserve Bank of India was also laying continuous stress on channelising of bank credit to the preferred sectors and borrowers of small means, namely the persons dealing with the various activities of priority sectors. As a result, the priority sector advances of commercial banks has increased to a considerable extent

## TABLE - 2.4

**PROGRESS OF COMMERCIAL BANKING IN INDIA**

<table>
<thead>
<tr>
<th>SL.NO.</th>
<th>IMPORTANT INDICATORS</th>
<th>JUNE, 1977</th>
<th>JUNE, 1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of Commercial Banks</td>
<td>126</td>
<td>278</td>
</tr>
<tr>
<td></td>
<td>(a) Scheduled Commercial Banks</td>
<td>119</td>
<td>274</td>
</tr>
<tr>
<td></td>
<td>(b) Non-scheduled Commercial Banks</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>No. of Offices</td>
<td>24,802</td>
<td>57,197</td>
</tr>
<tr>
<td></td>
<td>(a) Rural</td>
<td>95,37</td>
<td>32,577</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(38.45)</td>
<td>(56.96)</td>
</tr>
<tr>
<td></td>
<td>(b) Semi-urban</td>
<td>72,48</td>
<td>11,157</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(29.22)</td>
<td>(19.51)</td>
</tr>
<tr>
<td></td>
<td>(c) Urban/Metropolitan</td>
<td>8017</td>
<td>13463</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(32.33)</td>
<td>(23.53)</td>
</tr>
<tr>
<td>3</td>
<td>Deposits of Scheduled Commercial Banks (Rs. in crores)</td>
<td>18894</td>
<td>147143</td>
</tr>
<tr>
<td>4</td>
<td>Deposits of per bank office (Rs. in lakhs)</td>
<td>76</td>
<td>257</td>
</tr>
<tr>
<td>5</td>
<td>Credit of Scheduled Commercial Banks (Rs. in crores)</td>
<td>13491</td>
<td>88397</td>
</tr>
<tr>
<td>6</td>
<td>Credit of per Bank Office (Rs. in lakhs)</td>
<td>55</td>
<td>155</td>
</tr>
<tr>
<td>7</td>
<td>Credit Deposit Ratio (%)</td>
<td>71.4</td>
<td>60.1</td>
</tr>
<tr>
<td>8</td>
<td>Amount of advances to Priority Sectors (Rs. in crores)</td>
<td>3488</td>
<td>35242</td>
</tr>
<tr>
<td>9</td>
<td>Percentage Share of Priority Sector advances in total credit of scheduled Commercial Banks</td>
<td>25.85</td>
<td>39.8</td>
</tr>
</tbody>
</table>

**Source:** Compiled from "Report on Trend and Progress of Banking in India", Reserve Bank of India Bombay, for the relevant years.

**Note:** The figures in the brackets indicate percentage share in total of bank branches.
<table>
<thead>
<tr>
<th>YEARS (AS ON JUNE)</th>
<th>NUMBER OF BANK BRANCHES</th>
<th>COVERAGE OF POPULATION (PER BRANCH) ('000')</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>8262</td>
<td>66</td>
</tr>
<tr>
<td>1975</td>
<td>17730</td>
<td>29</td>
</tr>
<tr>
<td>1979</td>
<td>30203</td>
<td>18</td>
</tr>
<tr>
<td>1980</td>
<td>32419</td>
<td>17</td>
</tr>
<tr>
<td>1981</td>
<td>35707</td>
<td>19</td>
</tr>
<tr>
<td>1982</td>
<td>39180</td>
<td>17</td>
</tr>
<tr>
<td>1983</td>
<td>42079</td>
<td>16</td>
</tr>
<tr>
<td>1984</td>
<td>45332</td>
<td>15</td>
</tr>
<tr>
<td>1985</td>
<td>51385</td>
<td>13</td>
</tr>
<tr>
<td>1986</td>
<td>53265</td>
<td>13</td>
</tr>
<tr>
<td>1987</td>
<td>54431</td>
<td>13</td>
</tr>
<tr>
<td>1988</td>
<td>55015</td>
<td>12</td>
</tr>
<tr>
<td>1989</td>
<td>57197</td>
<td>12</td>
</tr>
<tr>
<td>1990</td>
<td>59632</td>
<td>11</td>
</tr>
<tr>
<td>1991</td>
<td>60430</td>
<td>14</td>
</tr>
<tr>
<td>1992 (Dec.)</td>
<td>60906</td>
<td>14</td>
</tr>
<tr>
<td>1993 (Sept.)</td>
<td>61470</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Compiled from various publications of Reserve Bank of India, from 1969 to 1993.

specially after the nationalisation of banks. The trend of priority sector advances of the public sector commercial banks in India is presented in Table 2.6.

It is clear from Table 2.6 that the priority sector advances of the public sector banks in India was Rs. 441 crores in June 1969 and it increased to Rs. 39,574 crores in June 1990. Again, in June 1969, the percentage of priority sector advances to total advances was only 14.6 and it increased to 43.1 in June 1990. Similarly, due to the sustained efforts of these banks, both direct and indirect finance to agricultural sector have increased considerably. In June 1969, the total amount of advances given to agricultural sector was Rs. 166 crores and it increased to Rs. 16,515 crores in June 1990.

Besides, in March 1991, the advances of banks to agricultural sector was found as Rs. 29,082 crores, out of which 38.7 per cent was provided by public sector banks alone. The advances of public sector banks to the agricultural sector again increased to Rs. 16,864 crores in June 1991 and thus indicated a very remarkable progress in the field of rural finance.

In addition to the above noted progress the commercial

47. Ibid. p. 441.
TABLE - 2.6

PRIORITY SECTOR ADVANCES PROVIDED BY PUBLIC SECTOR BANKS
(OUTSTANDING ADVANCES) IN INDIA
(Amount in crores of Rs.)

<table>
<thead>
<tr>
<th>SL.NO.</th>
<th>SECTORS</th>
<th>YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>June 1969</td>
</tr>
<tr>
<td>1</td>
<td>Agriculture</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Direct</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.3)</td>
</tr>
<tr>
<td></td>
<td>(b) Indirect</td>
<td>126</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(4.1)</td>
</tr>
<tr>
<td>2</td>
<td>Small Scale Industries</td>
<td>251</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(8.3)</td>
</tr>
<tr>
<td>3</td>
<td>Industrial Estates</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Road and Water Transport</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Operators</td>
<td>(0.2)</td>
</tr>
<tr>
<td>5</td>
<td>Retail Trade</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.6)</td>
</tr>
<tr>
<td>6</td>
<td>Small Business</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Professional and Self-employed</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Persons</td>
<td>(0.1)</td>
</tr>
<tr>
<td>8</td>
<td>Housing</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Consumption and others</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.03)</td>
</tr>
<tr>
<td>10</td>
<td>Total Amount of Priority Sector</td>
<td>441</td>
</tr>
<tr>
<td></td>
<td>Advances</td>
<td>(14.6)</td>
</tr>
</tbody>
</table>

Total advances of public sector banks

<table>
<thead>
<tr>
<th></th>
<th>June 1969</th>
<th>June 1979</th>
<th>June 1988</th>
<th>June 1990*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3017</td>
<td>16220</td>
<td>66856</td>
<td>91732</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>

Source: Compiled from various publications of Reserve Bank of India from 1969 to 1990.

Note: The figures in the brackets are percentage to total advances.

* Provisional.
banks in India recorded a significant progress in regard to stipulation of credit deposit ratio. Between June 1969 and December 1986, the credit deposit ratio of all scheduled commercial banks increased from 37.2 per cent to 65.0 per cent in rural areas and from 39.7 per cent to 51.5 per cent in semi-urban areas. Further, in June 1990, the credit deposit ratio of these banks increased to 65.25 per cent in case of rural areas and decreased to 50.49 per cent in case of semi-urban areas.

Thus, due to continuous efforts of commercial banks since nationalisation, the share of institutional credit in meeting the total requirements of agricultural inputs has been able to show a very rising trend. It increased from 7.3 per cent in 1951 to 18.7 per cent in 1971 and then to 63.7 per cent in 1981. Again, as per the latest estimates (1989-90), the share of institutional credit in total agricultural finance has increased to 75.0 per cent. Further, during the period 1972 to 1988, more than 22 million agriculturists were brought under the purview of banking credit.

51. Ibid, p. 16.
52. Ibid, p. 16.
Besides, the Government of India and Reserve Bank of India have sponsored a large number of schemes from time to time for helping the commercial banks to expand their activities so as to increase the flow of agricultural credit in general and to the weaker sections in particular. The important among them are, (a) the Lead Bank Scheme, (b) schemes of Financing of Primary Agricultural Credit Societies, (c) Village Adoption Scheme, (d) Farmer's Service Societies, (e) Regional Rural Banks Scheme, (f) Credit Guarantee Scheme and (g) Differential Rates of Interest Scheme etc.

There is no doubt that the commercial banks have made extensive efforts in spreading branch network in every nook and corner of the country and thereby extending credit both in volume and number. But after six years of bank nationalisation, it was observed that the rural poor, namely small and marginal farmers and also other weaker sections of the rural community were left high and dry without any benefits from the large amount flowing into the rural sector. Of course, prior to nationalisation, commercial banks were hesitant in supplying finance to agricultural sector due to the banking tradition in the country. After nationalisation, though these banks made considerable efforts to supply adequate finance to rural sector, these banks suffered from a large number of problems (even at the existing stage also) as noted below -

(1) On account of the process of transformation of the subsistence agriculture under the impact of green
revolution, the demand for agricultural credit has increased considerably. But financial institutions, specially commercial banks, do not rely on the integrity and honesty of the poor farmers and as such hesitate to provide large amount of credit to these sections of rural poor.

In rural India, there are still some areas which are known as Zamindary areas and tribal areas and in such areas, land records have not yet been completed clearly. Under such circumstances, disbursement of loans by commercial banks for agricultural development is extremely cumbersome and time consuming. As such, the commercial banks have failed to provide adequate credit facilities to such areas.

The procedures of getting loans from commercial banks are too complicated and as such, the poor and illiterate farmers have been compelled to face a large number of difficulties during the process of collecting various documents needed by banks for the sanction and disbursement of loans.

For supplying rural credit, commercial banks are in a position to deal with multiplicity of schemes. As a result, monitoring and implementation of these schemes pose a great hazard for the individual banks.

Further, the environmental adjustments with the rural lending pattern cannot be brought about by the
industry oriented and security conscious commercial banks as fast as the opening of bank branches in rural areas can be achieved. In short, the attitudinal problem arises due to their basic urban orientation in nature.

(6) It is still felt that the city based bank officials are not easily adjustable to the rural culture and environment. As such, most of such officials fail to give proper services for the rural poor.

(7) Still another problem of these banks in providing rural credit is the fairly high cost structure of their branches operating in rural areas, which in turn reflects the salary structure, staffing pattern and high establishment costs etc.

(8) Another problem faced by commercial banks in rural areas is the problem of overlapping of operational areas associated with the problem of double or multiple financing and unhealthy competition among financial institutions. This unhealthy competition again leads the financial institutions in general and commercial banks in particular to neglect the backward rural areas and agriculturists too.

2.8 REGIONAL RURAL BANKS (RRBs)

It is clear from the foregoing discussion that though
sincere efforts were made by the RBI and the Government of India from time to time to extend institutional credit facilities for the development of rural India, the entire credit requirements of the rural poor could not be met fully either by the co-operatives or by the commercial banks and as such, there is still vast credit gap in the rural areas of the country. It was against this background, that it came to be contemplated that a specialised financial institution should be established to handle effectively the problem of providing credit to rural areas.

In December 1971, the National Commission of Agriculture in its interim report on credit services for small and marginal farmers and agricultural labourers, expressed the view that it was actually essential to set-up an Agricultural Development Bank of India like the Industrial Development Bank of India. The Banking Commission, 1972 also recommended that a chain of rural banks be established in addition to the huge number of branches of commercial banks operating in rural India.53 Expressing the various constraints experienced by the co-operatives and commercial banks in mobilising rural resources and channelising rural credit to the rural poor, the Banking Commission recommended for the establishment of the Special Sponsored Rural Banks which would act as an instrument for all round and multifarious development of the villages of India.54

54. Ibid. p. 395.
It is clear from the above analysis that a new institution which would combine the rural touch and local feeling and well familiar with rural problems, is of urgent need of a country with diversified rural problems like India. In other words, an institution which is rural oriented, locally based, commercially organised and professionally efficient is highly essential to cover the historical credit gap of the agricultural sector of the country and this is the rationale for the establishment of Regional Rural Banks.

The Government of India also felt the necessity of the establishment of new Institutions on the basis of attitudinal and operational ethos which may differ entirely from those obtaining in the public sector banks. Keeping this view in mind, the Government of India appointed in July 1, 1975, a Working Group under the Chairmanship of Shri M. Narasimham to study the possibilities of establishment of such banks. The Committee submitted its report within a very short time of one month, i.e., on 30th July, 1975. The Working Group observed the various weaknesses of the co-operative credit societies and the commercial banks and realised that the present structure of the existing institutions would not be able to fill up the geographical and functional gaps in the rural institutional credit system within the reasonable period of time. The Group even expressed its view that the newly established institutions will be able to combine the strength of both the co-operatives and commercial banks and as such forwarded its recommendations in favour of the setting up of
The Government of India accepted the recommendations of the Working Group and subsequently promulgated an ordinance on 26th September 1975 and on 2nd October, 1975, on the birth anniversary of Gandhiji, five RRBs were established in the states of Uttar Pradesh (Prathama Bank and Gorakhpur Bank), Haryana (Haryana Kshetriya Bank), Rajasthan (Jaipur Nagar Anchalik Gramin Bank) and West Bengal (Gour Gramin Bank). These banks were sponsored by the Syndicate Bank, the State Bank of India, the Punjab National Bank, the United Commercial Bank and the United Bank of India respectively.

The RRBs have been designed as low cost local institutions and the staff of these institutions have been recruited preferably from the districts assigned to each of them. Again, as the commercial banks have their own efficiency and strengths, such as competent and professional management, highly qualified and adequacy of resources etc., the RRBs are allowed to be sponsored by commercial banks.

The RRBs are specially established institutions for the development of rural economy by providing credit facilities to weaker sections, particularly to small and marginal farmers, agricultural labourers, scheduled castes and  

tribes and the rural artisans etc., for the purpose of agriculture, trade, commerce, industry and other productive activities in rural areas.

The credit needs of the rural India is so vast that it was not possible for any single financing institution to tackle the problem of rural finance satisfactorily. The Narasimham Working Group has rightly said that "in a country of the size and regional diversity as ours, no single pattern, be it commercial banks or co-operatives can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternative widened". 56

The establishment of RRBs in no way should go to disturb the co-operative credit structure at its grass root level, where as RRBs should function at the intermediate level. The areas where the co-operatives are weak and inadequate, the gap should be filled by the RRBs.

The Review Committee on Regional Rural Banks 1978, 57 appointed by Reserve Bank of India under the chairmanship of M.L. Dantwala also recommended that RRBs should be made as an


integral part, not exclusive of the rural credit structure and by becoming such a part, it could make a considerable contribution towards improving the quality and quantity of credit flows to the rural areas. The Review Committee also laid its stress on the fact that RRBs with some modifications in their organisation and functions, could become a very useful component in the totality of the rural credit structure of the country.

Thus, the RRBs came into being specially to provide credit facilities to the weaker sections of the rural areas. The credit need of rural India is so vast that even if there are a few more institutions for providing rural credit, they would not be superfluous. As a result, RRBs have emerged as the latest component of the multi-agency credit system. These banks have so designed and devised that they would be able to develop the banking activities in rural areas for integrated rural development of the country. To-day, the RRBs of the country as a whole have been able to mobilise adequate resources from the rural poor and also been able to fill the geographical and functional gaps of the rural credit structure of the country to a considerable extent. As such, if desired modifications in their present organisations and functions are allowed with immediate effect by the RBI and the Government of India, in due course, they may be able to prove as a highly effective instrument for removing regional and class inequalities of rural India.