CHAPTER III
A BRIEF REVIEW OF RURAL CREDIT SYSTEM IN INDIA
3.1 STATE OF RURAL ECONOMY IN INDIA

Rural economy forms the predominant part of the overall Indian economy. Agriculture dominates the Indian rural economic scene. Therefore, agriculture is the mainstay of the Indian economy. This sector constituted 36.9 per cent of total Gross Domestic Product (GDP) at factor cost in 1985-86. The output of foodgrains increased from 111 million tonnes (MTs) in 1976-77 to over 150 MTs in 1985-86, due to large scale investment for irrigation purposes, in addition to increased use of High Yielding Variety (HYV) seeds, fertilisers, chemicals through credit. It is targeted to increase the gross cropped area (GCA) to 190 million hectares (MHa) in 1989-90 from 180 MHa in 1984-85, like-wise, cropping intensity to 133% from 126% and total foodgrain production to 183 MTs from 150 MTs. The rain fed area constitutes over 70% of 180 MHa of GCA and contributes about 42% of total foodgrain production $^1$.

The country's population is predominantly rural. Nearly 77% of the total population lived in rural areas
in 1981. Table 3.1 shows the distribution of population among rural and urban areas.

**TABLE 3.1**

<table>
<thead>
<tr>
<th></th>
<th>1951</th>
<th>1961</th>
<th>1971</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural population</td>
<td>298</td>
<td>360</td>
<td>439</td>
<td>525</td>
</tr>
<tr>
<td></td>
<td>(82.7)</td>
<td>(82.0)</td>
<td>(80.1)</td>
<td>(76.7)</td>
</tr>
<tr>
<td>Urban population</td>
<td>63</td>
<td>79</td>
<td>109</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>(17.3)</td>
<td>(18.0)</td>
<td>(19.9)</td>
<td>(23.3)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets are percentages to total.

The total number of operational holdings was 89.35 millions. Of these, marginal farmers with less than 1 hectare of land accounted for 50.52 million or 56.5 per cent of total operational holdings and 12.2 per cent of the area operated, while the small farmers having land between 1 and 2 hectares formed 16.08 million or 18 per cent of the holdings and 14.1 per cent of the area operated. Thus, the proportion of holdings of these groups was 74.5 per cent of the total operational holdings in the country. The pattern of land holdings is skewed in India. The average size of the land holding due to fragmentation declined from 2.3 hectares in 1970-71 to 1.8 hectares in 1980-81. It is estimated that per
capita land availability will further decline from 0.94 hectares in 1951 to 0.33 hectares in 2000.

Table 3.2 exhibits the distribution of operational holdings in India.

**TABLE 3.2**

**DISTRIBUTION OF OPERATIONAL HOLDINGS**

<table>
<thead>
<tr>
<th>Size of holdings (Hectares)</th>
<th>No.of holdings</th>
<th>Area of holdings</th>
<th>Average holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large (10 and above)</td>
<td>2.15 (2.4)</td>
<td>37.13 (22.8)</td>
<td>17.3</td>
</tr>
<tr>
<td>Medium (4-10)</td>
<td>8.09 (9.1)</td>
<td>48.34 (29.7)</td>
<td>6.0</td>
</tr>
<tr>
<td>Semi-medium (3-4)</td>
<td>12.51 (14.0)</td>
<td>34.56 (21.2)</td>
<td>2.8</td>
</tr>
<tr>
<td>Small (1-2)</td>
<td>16.08 (18.0)</td>
<td>22.96 (14.1)</td>
<td>1.4</td>
</tr>
<tr>
<td>Marginal (Below 1)</td>
<td>50.52 (56.5)</td>
<td>19.80 (12.2)</td>
<td>0.4</td>
</tr>
<tr>
<td>Total</td>
<td>89.35</td>
<td>162.79</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Note: Figures in brackets are percentages to total.

**SOURCE:** Statistical outline of India - 1987.
The number of rural households in India substantially increased during the period 1951-1981. Of the total rural labour force the share of cultivators declined from 59.9% in 1961 to 51% in 1981, and the share of farm labourers increased from 19.5% to 30% during the same period. Table 3.3 shows the classification of rural workers in India.

**TABLE 3.3**

CLASSIFICATION OF RURAL WORKERS

(In millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>1961</th>
<th>1971</th>
<th>1981</th>
<th>Variation(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1961-71</td>
<td>1971-81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workers cultivators</td>
<td>93.85</td>
<td>73.90</td>
<td>89.00</td>
<td>-20.36 15.51</td>
</tr>
<tr>
<td>(59.9)</td>
<td>(51.2)</td>
<td>(51.0)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural labourers</td>
<td>30.42</td>
<td>45.14</td>
<td>52.57</td>
<td>14.72 7.43</td>
</tr>
<tr>
<td>(19.5)</td>
<td>(31.4)</td>
<td>(30.1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other workers</td>
<td>32.31</td>
<td>25.00</td>
<td>32.95</td>
<td>-7.31 7.95</td>
</tr>
<tr>
<td>(20.6)</td>
<td>(17.4)</td>
<td>(18.9)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>156.58</td>
<td>143.63</td>
<td>174.52</td>
<td>-12.95 30.82</td>
</tr>
</tbody>
</table>


15% of the area under foodgrains account for 56% of the increase in foodgrains productions in post-green revolution period resulting in regional imbalances\(^2\). As
a result of conscious efforts on the part of the Government of India (GOI), the rural poverty declined from 51.2% in 1977-78 to 39.9% in 1984-85. The poverty in rural area is more acute than in urban area, about 373 million of the rural families are estimated to be living below the poverty line, defined in terms of an annual income of Rs.640 per annum. Table 3.4 presents the details relating to population below poverty line in India.

### TABLE 3.4
POPULATION BELOW POVERTY LINE

<table>
<thead>
<tr>
<th>Category of population</th>
<th>1977-78 (millions)</th>
<th>1984-85 (millions)</th>
<th>1989-90 (estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>253.1 (51.2)</td>
<td>222.2 (39.9)</td>
<td>168.6 (28.2)</td>
</tr>
<tr>
<td>Urban</td>
<td>53.7 (38.2)</td>
<td>50.5 (27.7)</td>
<td>42.2 (19.3)</td>
</tr>
<tr>
<td>Total</td>
<td>306.8 (48.3)</td>
<td>272.7 (36.9)</td>
<td>210.8 (25.8)</td>
</tr>
</tbody>
</table>

**SOURCE:** NSS, Consumption Expenditure, Yojana, July 16-31, 1987, p.57.

The rural households comprise the cultivator households and the non-cultivator households. The latter cover agricultural labourers, artisans, and other non-
The average value of total assets per rural household was Rs.36090 as on 30.6.1981. This average per urban household was higher at Rs.40573, within rural households, the average value per rural cultivator household was Rs.44524, which was about 5 times that of the non-cultivator household (Rs.8974). The average value of total assets per rural household increased more than three fold in absolute terms from Rs.11311 in 1971 to Rs.36090 in 1981.

The rural industries are also playing an important role in rural development in India. The spectrum of industries in our country extends from organized large and medium industries to modern small scale industries and organised traditional industries. The traditional industrial sector is divided into six sub-sectors, namely, Khadi, Village industries, handlooms, sericulture, handicrafts and coir. These traditional industries are mostly rural and semi urban in character which sustained and created employment opportunities, increase income generation and preserve craftsmanship and art heritage of the country, promotion of these industries primarily pass within the responsibility of the state Governments. The Centre, however, supplements their efforts. The achievements of traditional village industries are presented in Table 3.5.
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industry</th>
<th>Production (Rs. in crores)</th>
<th>Export (Rs. in crores)</th>
<th>Employment coverage (lakhs persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Khadi</td>
<td>33</td>
<td>92</td>
<td>170.00</td>
</tr>
<tr>
<td>2.</td>
<td>Village industries</td>
<td>122</td>
<td>348</td>
<td>758.56</td>
</tr>
<tr>
<td>3.</td>
<td>Handloom</td>
<td>840</td>
<td>1740</td>
<td>2880.00</td>
</tr>
<tr>
<td>4.</td>
<td>Sericulture</td>
<td>63</td>
<td>131</td>
<td>316.57</td>
</tr>
<tr>
<td>5.</td>
<td>Handicrafts</td>
<td>1065</td>
<td>2050</td>
<td>3500.00</td>
</tr>
<tr>
<td>6.</td>
<td>Coir</td>
<td>60</td>
<td>86</td>
<td>100.50</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>2183</td>
<td>4447</td>
<td>7725.63</td>
</tr>
</tbody>
</table>

The production in the traditional village industrial sector has increased from Rs. 2183 crores in 1973-74 to Rs. 7726 crores in 1984-85 at current prices. With regard to employment, the increase is around 61 per cent during the period 1973-74 to 1984-85. There is phenomenal increase in the value of exports by traditional industries during the period under reference. The simple average annual rate of growth in exports by traditional industries is worked out to nearly 5% per cent. The overall output at 1984-85 prices in the traditional industrial sector is targeted to increase from about Rs. 7726 crores in 1984-85 to Rs. 11760 crores by the terminal year 1989-90 of the Seventh Plan, registering an annual growth rate of 8.7%. During the same period, employment coverage (both full time and part time) is estimated to increase from 164.95 lakh persons to 217.41 lakh persons. The target for export by 1989-90 has been set at Rs. 3304 crores envisaging an annual growth rate of 8.3 per cent during the Seventh Plan.

Rural artisans are found engaged in traditional activities such as carpentry, goldsmithy, pottery, weaving, shoe making, brick making and blacksmithy. There was a steady decline in their strength and income year after year. At the end of June 1971 there were
19 lakhs artisans households, constituting only 2.4 per cent of the total number of rural households in India\(^6\). Artisans as a class, belong to the socially and economically backward sections of the rural population. Nearly 75 per cent of the households are living below the poverty line\(^7\). Agricultural labour accounts for one fifth of the rural work force and 50 per cent of the agricultural labour force is landless. They have very little or no productive assets and their meager income is derived from casual or irregular employment. There is a large scale unemployment and under employment in this sector.

Rural development in India is mainly a function of the development of agriculture and allied activities and rural industries. Finance has to play a key role in the development of agriculture and allied activities and rural industries. Since the availability of internal finance is very much limited in the case of many rural households, the external financial assistance especially from the institutional agencies including development banks is essential for rural development in India.
3.2 EMERGING SCENARIO IN AGRICULTURAL ECONOMY

Agriculture still remains the mainstay of the Indian economy; one per cent increase in agricultural growth is co-related with an increase of 0.7 per cent in national income. The share of agriculture in the net domestic product is estimated to decline to about 32 per cent in 1990-91 and to about 25 per cent by 2000-2001. The proportion of the population dependant on agriculture has, however, declined slowly from 70 per cent in 1950-51 to 65.5 per cent in 1984-85. Further, Indian agriculture is characterised by small farmers and high population density.

The index of agricultural production as also the foodgrains production rose by over 50 per cent during the period 1969-70 to 1985-86 but Indian agriculture has still not moved away from the cyclical pattern of peaks and troughs. This pattern has to give way for a sustained and stabilised growth pattern for accelerated development. Supply and demand pattern in respect of inputs, needs corrective steps to avoid mismatches. Higher levels of public and private investments are needed to correct imbalances between the supply and demand. Further, land reforms should get the top priority to boost productivity of investments in agriculture.
Among the constraints on extending production are:

(i) the declining size of farms due to a continuous process of sub-division of holdings,
(ii) over exploitation of water in the green revolution areas where paddy and wheat are grown by rotation, year after year,
(iii) the energy constraint persisting as a critical factor in spite of large public investment going into the energy sector. These constraints have operated more severely in underdeveloped regions than in the better developed regions of the country.

Economic development can be accelerated when all the supporting systems work in harmony. The price policy and the terms of trade should also be favourable to the agricultural sector since the capital formation in agriculture is becoming increasingly costly. For sustained agricultural development, more attention has to be paid to resource conservation research, soil and water conservation, better water management, conservation of flora and fauna and conservation of post-harvest food losses in quantity as well as quality.

Now that the food situation has become somewhat comfortable, the emphasis has shifted to diversification of agriculture, correction of regional imbalances, promotion of more labour intensive technological improvements
and improving farm systems. Also, a pattern of regional specialisation will have to be evolved so as to produce cereals, processed food, marine products, etc., on a cost effective basis and compete in exporting these products outside India. Strong technological developments are necessary in livestock farming, fisheries, farm forestry, social forestry and horticulture, etc., which operate as agricultural sub-systems. Another sub-sector which needs special attention is edible oils, as the per capita domestic production has been declining over the years as against the rising trend in per capita consumption. A more pragmatic approach will have to be adopted in formulating and implementing support prices which will go a long way to help the country to achieve self-sufficiency. Further, high priority to dry land farming has to be accorded with a view to raising productivity of unirrigated land and reducing unemployment in agricultural sector. Conscious policy decisions will have to be taken to strengthen agricultural research and extension education institutions with an added thrust to evolve and adapt new cost effective technological knowledge and associated inputs.

In sum, it can be said that Indian agriculture will experience larger growth by the turn of the
century. It can also be expected to be a scene of relative sub-sectoral shift. This will need agricultural development programmes in different States being strongly supported by financial institutions to make agricultural and rural economies more viable, productive, progressive and profitable.

3.3 RURAL CREDIT SYSTEM IN INDIA

The present system of rural credit in India consists of two sectors viz., the institutional and the non-institutional or formal and informal or organised and unorganised. The non-institutional sector consists of mainly, professional and agricultural money-lenders, landlords, traders, relatives and friends. The institutional sector comprises co-operatives, commercial banks, regional rural banks and the Central and State Government agencies. Inspite of significant expansion of the institutional sector, non-institutional agencies still continue to play an important role in the supply of credit for production and consumption in rural areas. Their lending procedures being simple, moneylenders are known for quick service but they charge high rates of interest and follow unethical practices. To tackle the rural credit problem in a more effective
manner, the Government of India in recent years has formulated several rural credit programmes at action level, having a significant bias towards weaker sections. Various measures have been taken over the years to improve credit delivery system to rural people. The share of non-institutional sector in the outstanding debt of rural households has recorded a decline. Table 3.6 clearly shows the changing trend in the structure of rural credit in India.
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Governments</td>
<td>3.3</td>
<td>2.6</td>
<td>7.1</td>
<td>3.9</td>
<td>1.5</td>
<td>3.3</td>
<td>2.6</td>
<td>7.1</td>
<td>3.9</td>
<td>3.3</td>
<td>2.6</td>
<td>7.1</td>
<td>3.9</td>
</tr>
<tr>
<td>2.</td>
<td>Co-operatives</td>
<td>3.1</td>
<td>15.5</td>
<td>22.0</td>
<td>39.8</td>
<td>1.5</td>
<td>5.3</td>
<td>6.0</td>
<td>13.9</td>
<td>2.9</td>
<td>3.1</td>
<td>15.5</td>
<td>22.0</td>
<td>39.8</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>2.0</td>
<td>1.4</td>
<td>0.8</td>
<td>17.3</td>
<td>1.1</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
</tr>
<tr>
<td>4.</td>
<td>Insurance</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>2.0</td>
<td>1.4</td>
<td>0.8</td>
<td>17.3</td>
<td>1.1</td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
</tr>
<tr>
<td>5.</td>
<td>Provident Fund</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>A.</td>
<td>Institutional (1 to 5)</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
<td>7.0</td>
<td>7.3</td>
<td>10.8</td>
<td>36.3</td>
<td>37.1</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
</tr>
<tr>
<td>B.</td>
<td>Non-Institutional (6 to 11)</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>93.0</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
</tr>
<tr>
<td>C.</td>
<td>GRAND TOTAL (A+B)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: 1. Reserve Bank of India, Report of the All India Rural Credit Review Committee, December 1969, p.100.
There was a significant structural transformation in the field of rural credit system in India during the period 1951-1981. The share of institutional agencies in the total rural credit increased from 7 per cent in 1951 to a record level of 61 per cent in 1981. This is mainly due to the expanded role of co-operatives and commercial banks including regional rural banks in the supply of rural credit. During the above period, the share of co-operatives have increased from 3 per cent to 29 per cent and the share of commercial banks increased from 1 per cent to 28 per cent. The relative decrease in non-institutional credit is mostly accounted for, by the decline in the share of professional money-lenders and agricultural moneylenders. In 1981, co-operatives dominated the rural credit structure in India and was closely followed by the commercial banks. Among the non-institutional agencies relatives and friends were the major source for rural credit and it was closely followed by agricultural moneylenders and professional moneylenders. In all the years under reference, the share of institutional agencies in the case of cultivator households was greater than that of non-cultivator households, commercial banks were more active in the supply of credit to non-cultivator households in the
year 1981. The results of the All India Debt and Investment Survey 1981-82 clearly indicate that the grip of rural trinity (Landlords, moneylenders and Traders) has loosened in rural credit market in India.

3.4 TRENDS IN INSTITUTIONAL CREDIT

Efforts to build up the institutional financing system for rural people commenced with the adoption of the Co-operative Societies Act in 1904. Co-operatives are nurtured as the primary institutions to relieve farmers from the traditional burdens of debt and to promote thrift. The co-operatives have established firm roots in the rural areas through their wide network in the country. Nearly all the villages are brought under the coverage of co-operatives. Although the overall performance of the co-operatives credit structure has considerably improved, it is marked by regional disparities and imbalances and mounting overdues. Further it is observed that the small and marginal farmers and agricultural labourers did not receive their proper share in the co-operative credit.

In the context of the green revolution and modernization of agriculture which has started taking place
since the late 1960s, the multiple credit requirements of agriculturists could not for obvious reasons be met by any single institutional agency. A multi-agency approach has, therefore, been viewed as a better alternative. Commercial banks were, therefore, inducted into the field of rural credit, first through the instrument of social control in 1967 and latter by the nationalisation of 14 major commercial banks in 1969. Since then the commercial banks have been evincing growing interest in rural finance. They have experimented with a number of alternatives and combination of methods and approaches in different parts of the country with varying degrees of success. A latter innovation in 1975 was the setting up of regional rural banks with their focus exclusively on the specific target group of weaker sections consisting of small and marginal farmers, agricultural labourers and rural artisans and small businessmen. Finally the responsibility of rural credit has fallen mainly on the three institutional agencies, namely: Co-operatives, commercial banks, and regional rural banks. They together are visualized as the instruments for rooting out the non-institutional agencies from the rural credit scene, over a period of time in a phased manner.
Co-operatives, commercial banks and regional rural banks receive active financial and non financial support from the central and state Governments and national level institutions such as Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD), Agricultural Finance Corporation, National Co-operatives Development Corporation, Industrial Development Bank of India etc. The field level institutions which provide credit to rural borrowers consists of (1) primary agricultural co-operative credit societies (PACS), (2) primary land development banks and their branches, (3) branches of commercial banks (4) branches of Regional Rural Banks and (5) industrial co-operatives. Chart 3.1 shows the existing institutional set up for rural finance in India.
CHART 3.1

EXISTING INSTITUTIONAL SET UP FOR RURAL FINANCE IN INDIA

* Reserve Bank of India
  * National Bank for Agricultural and Rural Development
  * Commercial Banks
    * State Co-operative Banks
    * State Co-operative Land Development Banks
  * District Central Co-operative Banks
    * District Land Development Banks
  * Regional Rural Banks
    * Branches of State/primary Land Development Banks
      * Primary Agricultural Credit Societies (PACS)
      * Farmers Service Societies (FSS)
      * Large Size Multi-purpose Societies (LSMPS)
  * Taluk level
    * Branches
  * Primary level
    * Branches
  * Beneficiaries
    * Farmers with special emphasis on coverage of the small and marginal farmers, agricultural labourers, rural artisans and those engaged in productive activities in rural areas.

Refinancing Agencies.

3.5 CO-OPERATIVE BANKING SYSTEM—AN OVERVIEW

Promotion of credit co-operatives in the later part of 19th century was a pioneering effort among many measures taken by government in institutionalising provision of credit in rural areas. To begin with, it was essentially to solve the problem of indebtedness, usury and a stagnant rural economy, with a large peasantry.

The co-operative credit system had by the Nineteen Twenties, become the principal institutional agency for the provision of agricultural credit, both for production and investment. However, as a result of the economic depression of the Thirties the movement suffered a serious setback. But, with the Second World War, which saw a period of economic recovery, the co-operative banking system acquired a place of importance in the Indian Banking System by the late Forties. The Rural Banking Enquiry Committee (1950) made special reference to the role of the Provincial (now State Apex) Co-operative Banks as well as the District Level Central Co-operative Banks. It came to the conclusion that a sound and satisfactory co-operative banking system had come to stay though it has developed then in some States only, but they noted that in other States also the structure was in the process of reorganisation, consolidation and rehabilitation. It was of the view that in regard to
functions as well as clientele, there could be a broad division of labour between commercial banks and co-operative banks.

Various expert committees have opined that from the point of view of structural appropriateness, there is no alternative to co-operatives at the village level for provision of agricultural credit. The Rural Credit Survey Committee, which was set up by the RBI in 1951, summed up its findings in the celebrated dictum that 'co-operation has failed, but co-operation must succeed'. It diagnosed certain failures of co-operatives in purveying agricultural credit and made many recommendations, to correct the positions, which among others, included state partnership, effective integration of credit with marketing and processing and management through trained personnel. The Committee also recommended a greater role for the State Bank of India in providing the needed credit support for the commercial transactions of co-operatives. The RBI was required to constitute certain funds to provide financial strength and make the co-operative structure commercially viable.

The All India Rural Credit Review Committee reported that for various reasons the performance of the co-operatives had not measured up to the expectations and it
came to the conclusion that there was need for some supplementary effort, so that agricultural production did not suffer. It, therefore, recommended a multi-agency approach to rural credit. With the establishment of the regional rural banks commencing from 1975, one more institutional device was added to the banking structure.

While the refrain of all committees and working groups had been that the co-operatives have not done as well as they should have, the experience of commercial banks and RRBs has shown that the weaknesses which were earlier considered at those peculiar to the co-operative system in fact arise from such deficiencies as relate to the structure of agricultural production itself.

Numerically, in terms of membership, the co-operatives have spread widely in the country. By 1985-86, they covered 65 per cent of the rural population. The ST and MT credit recorded an increase from Rs.22 crores in 1950-51 to Rs.3140 crores in 1985-86, while the long-term credit increased from Rs.12 crores in 1960-61 to Rs.533 crores in 1985-86. Other areas in which co-operatives have made an indelible impression are fertiliser distribution, milk production, sugar production, cold storages and distribution of consumer goods.
## PROGRESS OF CO-OPERATIVES

<table>
<thead>
<tr>
<th>Particulars</th>
<th>SCBs 1975-76</th>
<th>SCBs 1985-86</th>
<th>DCCBs 1975-76</th>
<th>DCCBs 1985-86</th>
<th>PACSS 1975-76</th>
<th>PACSS 1985-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number</td>
<td>26</td>
<td>31</td>
<td>344</td>
<td>352</td>
<td>1348.38</td>
<td>924.08</td>
</tr>
<tr>
<td>2. Deposits</td>
<td>723.68</td>
<td>3385.41</td>
<td>984.92</td>
<td>5088.20</td>
<td>113.31</td>
<td>571.48</td>
</tr>
<tr>
<td>3. Borrowings outstanding</td>
<td>343.73</td>
<td>1227.00</td>
<td>570.32</td>
<td>2287.73</td>
<td>1154.44</td>
<td>3927.22</td>
</tr>
<tr>
<td>4. Loans outstanding</td>
<td>893.60</td>
<td>3852.79</td>
<td>1428.16</td>
<td>5475.30</td>
<td>1299.21</td>
<td>4323.20</td>
</tr>
<tr>
<td>5. Overdues</td>
<td>43.60</td>
<td>291.76</td>
<td>459.56</td>
<td>1696.07</td>
<td>560.51</td>
<td>1806.08</td>
</tr>
<tr>
<td>6. Percentage of overdues to demand</td>
<td>7.0</td>
<td>9.2</td>
<td>25.0</td>
<td>37.8</td>
<td>41.4</td>
<td>41.8</td>
</tr>
</tbody>
</table>
However, while in some States like Punjab and Kerala, the system is strong, in many others it continues to operate at much below the desired level of expectation.

It has been said of co-operation that it has failed in India because it has been both state sponsored and state patronised. With the excessive government intervention in the affairs of the co-operatives, effective non-official leadership along with democratic management disappeared altogether.

The basic requirement for all the tiers working as a cohesive system is the mutuality of support among various tiers. There must be a system of mutual accountability and obligations among the higher and the lower tiers. The higher tier should exercise an effective leadership role through an efficient system of supervision, training and management guidance by professionally skilled personnel. There must also be a commonly shared interest in deposit mobilisation and in profits and reserves.

The organisational set up for the ST credit consists of three tiers - SCBs, DCCBs and PACSs - the lower tiers being members and shareholders of the next higher tier. The higher tier while having the right to exercise
supervision over the performance of the lower tiers must also share in their losses, extend legal and other help, provide refinance and management assistance. For sharing the losses of primary level organisations, a fund to be built up by regular contributions from SCB and DCCBs needs to be created.

A major weakness of the co-operative system has been the neglect of the base level institutions and the tendency of the higher level institutions to look after their own interests often at the cost of the primaries. The co-operative credit system has woefully neglected its basic responsibility towards mobilising deposits, with the lower tiers looking up to the higher tiers for refinance at all levels.

Organisational and financial ties in the co-operative system have to be so designed that each tier strengthens the other. Only in such a cohesive structure can the co-operative credit system be rebuilt as a sound system.

The essence or basic features of co-operative banking system must be a larger reliance on resources mobilised locally and a lesser and lesser dependence on higher credit institutions. Heavy dependence on outside
funds has, on the one hand, made the members less vigilant, not treating these funds as their own, and on the other led to greater outside interference and control. Overall, this has made the co-operatives a mediocre, inefficient and static system.

There is a distinct change now in the savings scenario. The rate of savings in India has steadily risen over the year to as much as 23 per cent. Larger rural savings are now available. The mobilisation of local resources will reduce the dependence of the co-operatives on higher institutions/government. Further with higher dependence on deposits, the members would be more concerned about the safety of their deposits and will keep a critical eye on lending and recovery.

The powers which vest in the government under the co-operative law and rules are all pervasive. Compounded further by their lack of self-reliance and their dependence on higher tiers and the government, the state has come to gain almost total financial and administrative control over the co-operatives, in the process stifling their growth. This trend must be reversed. Progressively, the powers which lie with the Registrar today should be vested in the higher tier organisations in respect of its lower tier.
Some of the unhealthy results of politicisation are interference in recovery of co-operative dues or promise to write off the dues if elected to power, and determination of interest rates on considerations other than financial returns, i.e., with an eye on populist appeal. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardising the financial interest of credit agencies. Besides, mass supersessions are resorted to on political consideration. Another lever for greater politicisation has been the incorporation of certain undesirable provisions in the Co-operative Societies Acts and Rules of various States. Paradoxically, state partnership which was conceived, as an effective measure for strengthening the co-operative credit institutions has paved the way for ever-increasing state control over co-operatives, culminating in virtually depriving the co-operatives of their democratic and autonomous character. The time has come to reverse this process.

Progressive officialisation and politicisation have caused damage to the co-operative system. This phenomenon has now reached such immense proportions that unless this trend is reversed, the agricultural credit system in general, and the co-operative system in particular, will get seriously jeopardised.
The net outcome of all the above factors has been to impart a great deal of inefficiency, high costs, low or negative profitability, inefficient service and lack of self-reliance in the co-operative organisations, especially at the level of the PACSs. It is thus necessary that the country recaptures the spirit of co-operation, its culture, its discipline and above all its ethos. This can only be achieved with a cohesive structure based on a strong foundation at the primary level deriving inspiration from the higher tiers which are professionally managed under a dynamic and motivated leadership.

3.6 COMMERCIAL BANKS AND RURAL CREDIT

Until late Sixties, the commercial banks with the exception of state Bank of India were largely confined to urban areas. However, with the introduction of social control in 1967 and subsequently, the nationalisation of major commercial banks in July 1969, these banks started playing a substantive role in dispensing rural credit and to this end began opening branches in rural areas. During the period from June 1969 to December 1996, priority sector advances of 28 public sector banks (which account for more than 90 per cent or the total business of all scheduled commercial banks) increased from Rs.441 crores to Rs.23811 crores and their branches from
5596 to 36265. The total number of branches increased over five times, and rural branches eleven times. The growth in deposits and loans during this period was about 23 times and 19 times respectively. Thus, after nationalisation, rural people have come to be served quite extensively by commercial banks.

PROGRESS OF PUBLIC SECTOR BANKS SINCE 1969

<table>
<thead>
<tr>
<th>Item</th>
<th>June 1969</th>
<th>Dec. 1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total No. of offices in India</td>
<td>6596</td>
<td>36264</td>
</tr>
<tr>
<td>2. Rural</td>
<td>1505</td>
<td>16557</td>
</tr>
<tr>
<td>Semi-urban</td>
<td>2622</td>
<td>8386</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>1176</td>
<td>6248</td>
</tr>
<tr>
<td>3. Population per office</td>
<td>65000</td>
<td>13000</td>
</tr>
<tr>
<td>4. Deposits (Rs. crores)</td>
<td>3897</td>
<td>92515</td>
</tr>
<tr>
<td>5. Advances (Rs. crores)</td>
<td>3035</td>
<td>56779</td>
</tr>
<tr>
<td>6. Priority sector advances (Rs. crores)</td>
<td>441</td>
<td>23811</td>
</tr>
</tbody>
</table>
The commercial banks are mandated to achieve certain targets and sub-targets under priority sector lendings. Forty per cent of the total credit is thus required to be channelled to identified priority sectors such as agriculture, small scale industry, small business, etc. Direct finance to agriculture and allied activities is to reach a level of 17 per cent of net bank credit and credit for weaker sections 10 per cent. All these targets were achieved by the banks by March 1988.

One of the objectives of nationalisation of commercial banks was to increase the flow of credit to weaker sections. The commercial banks' involvement in various poverty alleviation programmes such as IRDP, Differential Rate of Interest Scheme, Self-employment Scheme for Educated Unemployed Youth and Self-Employment Programme for Urban Poor, increased substantially after nationalisation. During the Sixth Plan, the share of commercial banks in IRDP (16.6 million beneficiaries were provided term-credit of Rs.3210 crores by all agencies) was about 49 per cent or the amount. This share of commercial banks in IRDP loans has since gone up to 69 per cent, as against 23 per cent in the case of RRBs and eight per cent in the case of co-operatives.
There has been a sharp increase in the branches of commercial banks in all States and regions of the country. As against 5321 branches at the time of nationalisation, the commercial banking system (including PRBs) had 54736 branches as at the end of December 1987. As at the end of 30 June 1969 rural branches (22 per cent) and semi-urban (40 per cent) accounted for 62 per cent of total branches. While at the end of 1987, these branches accounted for 76 per cent of the total branches, i.e., 56 per cent rural and 20 per cent semi-urban branches.

As regards population coverage, as against an estimated 65000 served by a commercial bank branch in 1969, coverage in December 1986 was 13000 per branch. Since the main objective of branch expansion has to a large extent been fulfilled in the last decade and half since nationalisation, there has lately been a shift in policy from further expansion to consolidation and from quantitative to qualitative improvement.

With the rapid expansion of commercial bank branches in the rural areas, it was though necessary to emphasise deployment of deposits mobilised by rural branches locally in the rural area. The Banks were, therefore, advised to achieve a credit-deposit ratio of at least 60 per cent in their rural and semi-urban branches.
It was not, however, envisaged that this ratio should be achieved separately for each branch, district or region although banks were asked to avoid any wide disparity between different States and regions. Commercial banks as a whole could achieve these targets in respect of their rural branches, although not in respect of semi-urban branches. As at the end of December 1986, CD Ratio of public sector commercial banks was 60.5 per cent for their rural branches and 51.3 per cent for semi-urban branches. An analysis of the regional distribution of commercial bank deposits and advances showed a marked variation in the deployment of credit and mobilisation of deposits. Perhaps this is only to be expected considering the widely prevailing regional differences in resource endowments and infrastructural facilities in the country.

The overall recovery of commercial banks in respect of their direct advances to agriculture as at the end of June 1987 was 57.4 per cent. Their recovery under IRDP was relatively less at 45.3 per cent. There has, however, been variations in the recovery Statewise and bankwise. Whenever commercial banks geared up their organisational structure, adopted schematic lending,
Improved pre-lending appraisal of schemes and launched recovery drives, the recoveries have improved.

Under the Lead Bank Scheme started in 1969, the Lead Bank was mainly intended to act as a consortium leader for co-ordinating the efforts of all credit institutions in the allotted districts for branch expansion and for meeting the credit needs of the rural economy. The various machineries created under Lead Bank Scheme have, no doubt, created an awareness for better understanding of the problems at the ground level. However, many of these committees under the LBS have tended to become more ritualistic than functional. To tone up the quality of rural lending by the commercial banks, a new approach known as the 'service area scheme' was initiated by RBI from April 1989. The crucial element of the scheme is the preparation of the branch credit plan taking into account the financial support and infrastructural facilities available in the area. Credit planning for a village or for that matter any area, will be more meaningful only if all the credit agencies in the area effectively coalesce in the preparation of the credit plan and each agency is given a task to perform in its implementation. It is necessary to have a better collaboration between bankers and development planners in this effort.
The overall profitability of the commercial banks has been under strain for some time due to rise in the cost of deposits, declining yield on advances, rise in establishment expenses, etc. However, in recent years there has been some improvements in the absolute net profits of commercial banks. Losses on account of rural business of commercial banks have been contributing to their overall losses. Low interest rates on agricultural advances, lendings under IRDP, relatively poor deposit mobilisation in rural branches, lower staff productivity, etc., have contributed to the poor profitability of rural business. As rural lending has been found contributing to losses compared with the rest of the business necessitating cross-subsidisation, commercial banks have been rather reluctant to expand their rural business.

Initially commercial banks were rather hesitant to enter the field of rural finance but today they have forged ahead of co-operatives in extending rural credit. One of the problems of such rapid expansion has been the deterioration in the quality of scheme preparation, particularly under the anti-poverty programmes. Such deterioration in the quality of lending was also due to heavy workload of day-to-day housekeeping, without
commensurate -“create in the supporting staff. Over-
dependence on standard norms without adequate flexi-
bility in individual cases, under provision of produc-
tion finance in support of investment finance, fixa-
tion of shorter repayment schedules than what is
warranted, lending under poverty alleviation programmes
without assessing the realistic potentials, etc., were
certain other deficiencies in their rural lending. There
was a tendency to rely more on walk-in-business or
sponsored loan applications by the branch managers. Too
many detailed instructions on several aspects of rural
lending have led to a decline in the professionalism of
rural branch managers. It is necessary to give them
sufficient discretion so that credit decisions are taken
within the overall framework of guidelines and for which
they can be made accountable.

If commercial banks are to emerge as a strong
system to be able to purvey credit effectively and
efficiently in rural areas in the years to come, they
should tackle several issues such as reduced staff pro-
ductivity, increase in overdues, lower staff motivation,
etc. They should be accorded greater autonomy in their
functioning. Their rural branches need to be strength-
ened. They should be allowed to have a higher margin
and their equity base should be fortified. The targets for financing weaker sections and the rural poor should be reasonable such as the system can bear. They should also be in a position to protect the interest of depositors with adequate cover to the depositors. Unless urgent action is taken on these lines to put the house in order, the magnificent edifice of commercial banks which has been built over time, would not be able to meet the emerging challenges in financing the rural sector.

3.7 REGIONAL RURAL BANKS - AN OVERVIEW

The Working Group on Regional Rural Banks set up by the Government of India in 1975, recommended the formation of RRBs to supplement the efforts of the commercial banks and co-operatives in extending credit to weaker sections of the rural community. The intention in having these new banks was that there should, in the Indian context, be an institutional device which combined the local feel and familiarity with the rural problems which the co-operatives possessed and the degree of business organisation and modernised outlook which the commercial banks had, with a view to reaching the rural poor more extensively. Partnered by Government of India, State Government and sponsor bank in the equity in the ratio 50, 15 and 35, these new banks were conceived as low cost district banks exclusively to meet the credit
needs of the target group, i.e., small and marginal farmers, agricultural labourers, artisans and other rural residents of small means.

Between 1975 and 1989 the RRBs increased their number from 6 to 196, their branches from 17 to 14079 and districts covered from 12 to 369. During the same period, their deposits increased from Rs.0.20 crore to Rs.3119 crores and lending from Rs.0.10 crore to Rs.2918 crores. Admittedly, the RRBs have achieved considerable degree of success in taking the banking service to the very remote areas which had hitherto remained unbanked, and making available institutional credit to the weaker sections in these areas.

These indices of fast progress, however, do not reveal the whole story. The various Working Groups on RRBs had brought out the deficiencies in their working and in particular their inability to operate on a viable basis. A closer look on their performance to evaluate their impact on the rural credit structure reveals that RRBs have developed some serious organisational problems. These critical areas relate to their steep decline in profitability, poor recoveries and problems relating to management and staff. The number of RRBs working
at loss increased from 14 in 1976 (incurring an annual loss of Rs.2.55 lakhs) to 150 in 1989 (incurring an annual loss of Rs.4745 lakhs). The accumulated losses in respect of 157 RRBs at the end of December 1986 amounted to Rs 9431 lakhs and these losses had wiped out the entire share capital of 117 RRBs as on that date.

The major factors which had contributed to the erosion of RRBs' profitability were their lendings exclusively to weaker sections, low interest rate margins and high operating cost involved in handling small loans. Even those 46 banks which were in profit during 1986 earned their profits primarily from sources other than by way of interest on lending. With the financial cost of 7.80 per cent p.a. and transaction cost of 8.65 per cent p.a. if RRBs have to break even, they have to charge interest on their advances at least 16.45 per cent p.a.

Since RRBs have to cater to the weaker sections, this is obviously not possible. Also, in the absence of loans which could yield higher returns, they do not have any scope for cross-subsidisation.

As on June 1989, the recovery of RRBs was 48.50 per cent of demand, recovery of dues in respect of 81 RRBs
was 50 per cent or less of the demand. Wilful defaults, misuse of loans, lack of follow-up, working identification of borrowers, extension of benami loans, staff agitations, etc, contributed to the poor recovery in the RRBs.

Although weaknesses such as poor recovery, bad management and proliferation of unsound loans are common to the other institutional structures in the credit system, what really places RRBs on a different footing is their built-in non-viability. Experience has shown that the objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions. RRBs, structured as they are, are not institutions which could fulfil this role.

The merger of RRBs with commercial banks will offer a solution to the problem of insolvency and the in-built non-viability of the majority of RRBs. The merger would also solve the problem of accumulated losses of the RRBs. Further, by providing the structural arrangement, it will have a built-in self-strengthening and internal cross-subsidisation capability and would remove the innate weaknesses of RRBs. The emerging system will be able to achieve the goal of creating a strong viable credit system in which the interests of the small man would be better served.
3.8 NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT

In pursuance to the recommendations of CAFICARD, NABARD was established in July 1982 for giving undivided attention and purposeful direction to integrated rural development. The NABARD was visualised as a centre-piece for the entire rural credit system at the national level and as a provider of supplemental funding to rural credit institutions. The institution operates within the policy framework of RBI and Government of India. Apart from providing financial assistance to NABARD, RBI has continued to maintain close links with it.

NABARD was formed by the merger of ARDC, ACD and RPCC in RBI. NABARD's functions are an amalgam of activities inherited from these parent organisations rather than those of a unified apex institution. Several deficiencies in the organisational structure have been examined by the consultants and they have made several recommendations. These may be adopted with such modifications as NABARD may consider appropriate.

The three main functions of NABARD are refinancing, institutional development and inspection of client banks. On evaluation of these functions, it seems that the refinance function has attracted relatively more attention.
and resources over the years. If NABARD has to fulfil its leadership role, it has necessarily to enlarge its activities much beyond those of refinance. The NABARD should emerge as the primary source of inspiration, of conceptual guidance, of information and research in all matters relating to credit for rural development.

Two aspects of NABARD’s role in future need to be emphasised. One relates to its role in institution building, particularly in the promotion of viable co-operatives. A strong directing hand from NABARD with necessary support from the State Governments and RBI is necessary to revitalise the co-operative system. Secondly, NABARD should give greater attention to non-farm business and agroprocessing activities than what it has so far done.

NABARD provides assistance by way of refinance or otherwise at concessional rates of interest to client banks. While refinance for term investment credit is available to all the client banks, short-term credit for production and marketing purpose and medium-term for investment and for conversion of short-term loans are confined to SCBs and RRBs. Agency-wise, the share of commercial banks in investment credit has been
progressively increasing as compared with that of the SLDBs. Over 50 per cent of NABARD's refinance for term loans has been granted for minor irrigation, land development and farm mechanisation. NABARD has also earmarked a sizeable portion of refinance for the benefit of the weaker sections. In addition, it has also strongly supported IRDP with about 30 per cent of its long-term refinance. In future NABARD's new thrust areas would include rainfed farming, non-farm sector, social forestry and waste land development.

A lack of co-ordination amongst various activities together with the absence of monitoring and evaluation of the effects of NABARD's refinance activity upon the credit system, has made the operating cycle of refinance work less effectively. NABARD has initiated several remedial measures and has started what is called potential-linked credit plans for the districts. The adoption of these plans should help hasten the process of upgrading the 'Service Area Approach' to the suggested 'Development Area Approach'.

NABARD has started the process of decentralisation of powers to the Regional Offices. ROs are being delegated more powers in the matter of scrutiny, appraisal
of schemes and sanction of loans. Close monitoring of the ROs would be necessary in order to ensure that the delegated powers are being in fact exercised.

NABARD could resort to direct lending under special circumstances in the wider interest of regional or sectoral development, especially in respect of the proposed development corporations in the eastern and northeastern States. Such selective direct lending would not detract NABARD from its efforts in strengthening the credit institutions.

NABARD has taken several initiatives for the development of selected PACSs, CCBs and PLDBs. Under these rehabilitation schemes, financial assistance from NABARD is available for a variety of promotional purposes. The 15 point pilot programme to strengthen PACSs, 12 point time-bound action programme for the rehabilitation of CCBs and 10 point action programme for PLDBs, etc., initiated by NABARD come under this category.

NABARD Act requires it to undertake the responsibility for institutional development and accordingly it uses the lever of refinance as an instrument for this purpose. However, at present NABARD's activities in
institutional development are primarily reactive rather than proactive in nature. NABARD should undertake a more effective role in institutional development, particularly with regard to co-operative development. A greater degree of professional management has to be brought about in the co-operatives by NABARD.

NABARD commenced its operations with highly favourable debt-equity ratio due to initial share capital of Rs.100 crores and the National Agricultural Credit Funds of the RBI to the extent of Rs.1390 crores. However, with the present lending and borrowing rates of NABARD most of its loans if funded through borrowings, will result in its making losses. If NABARD expands its operations in future based on market borrowings at the current rates, its profitability will decline and even result in losses. The situation has further worsened due to recent reduction in NABARD's lending rates to member institutions for short-term loans. If NABARD has to expand its operations, either its equity base has to be strengthened or low cost borrowings resorted to.

If NABARD has to emerge as a strong development bank for rural re-generation, it has to take certain fresh initiatives. It should concentrate more on the building up of the co-operatives, improve its functional
capabilities in project identification, preparation, appraisal and monitoring, forge a better linkage between inspection and development function, pay greater attention to the non-farm sector and staff training and extend its net-work to the district level. NABARD will have to play its part in open market borrowing also, so that it could meet its refinance commitments. The present lack of control over its member institutions should be rectified by developing necessary clout with the help of and in co-ordination with RBI. In course of time, however, NABARD will have to evolve its own image to enforce the required discipline among member banks. 19

3.9 THE OVERDUES SYNDROME

The high incidence of overdues in the agricultural credit system has become a major constraint to the expansion and smooth delivery of credit. However, the bulk of the overdues get recovered in course of time leaving only a small proportion of its ultimately becoming irrecoverable. It is only these which turn bad. It would, therefore, be wrong to construe, as is sometimes done, all "overdues" as "bad debts". Our estimate of bad debts as on June 30, 1986, of the credit agencies under agricultural loaning works out to Rs.846 crores
forming 5.1 per cent of the total agricultural loans outstanding on that date. But overdues in absolute terms have increased during the last one decade. Thus, the overdues at the level of the ultimate borrowers of all credit agencies increased from Rs. 853 crores at the end of June 1976 to Rs. 4262 crores at the end of June 1986 and constituted 42 per cent of total demand.

The overall position in respect of recovery of loans has continued to be unsatisfactory in all types of credit agencies although it varied as among the different agencies and different regions/states. Recoveries in aggregate were thus relatively better in land development banks than in PACSs, commercial banks, and RRBs, the position being the poorest in RRBs. State-wise, the recovery of agricultural credit was consistently better in certain States like Punjab, Kerala and Haryana irrespective of the type of agency dispensing credit, whereas it was far from satisfactory in some other States like Manipur, Tripura, Assam and Meghalaya. Similarly, recoveries were better in the irrigated areas and in cases where high value crops were grown. Since recycling is as important as mobilisation of additional resources, effective measures are called for bringing down overdues to the minimum level within a definite time-frame.
A wide range of external and internal factors influence the level of and trend in overdues. Factors external to the credit agency comprise natural calamities like floods and droughts, absence of backward and forward linkages, defective legal framework and lack of Government assistance in effecting recoveries through legal measures, socio-political environment in which the credit agencies are required to function, etc. In agricultural projects and production programmes the absence of linkages for ensuring input supplies, and extension services on the one hand and processing, storage, marketing and other services on the other, have been serious lacunae, impairing effective use of the assets and impeding the production activities. For combating these, the Directorate of Institutional Finance in each State should be strengthened. It is necessary that a multi-disciplinary team of experts undertakes long-term planning of the agricultural sector and develops projects which will provide the necessary linkages and supporting services. The main thrust of the plan would be to secure optimum exploitation of the growth potential of the area through formulation of location-specific bankable projects and planned deployment of State resources to build up the necessary infrastructure and linkages.
The existing dual legal framework for recovery, viz., legislation on the lines recommended by Talwar Committee in the case of commercial banks and RRBs, and co-operative societies Acts in various States for co-operative credit institutions, itself suffers from various shortcomings. Administrative arrangements for recovery through legal measures, such as recovery staff, are inadequate resulting in heavy arrears in disposal of recovery cases. Besides improvements necessary for making the existing legal framework more effective and augmentation of concerned government staff for effecting recoveries, what is called for in the long-term is the need for a single common legal framework covering both co-operatives and commercial banks for the country as a whole, constitution of Special Tribunals at the State level and a single Government department in each State exclusively entrusted with the task execution of awards obtained through such Tribunals.

Providing loans to groups of persons or associations of farmers for a common purpose needs to be facilitated and in fact encouraged. Unlike individual loans, the group loans besides being secured by the joint and several liability of those constituting the group/association, are also backed by their responsibility including moral one to discharge the loan liability. Similarly, there is an imperative need to educate the borrowers on the right use of bank credit and the commercial disciplines that go with it.
There has been a growing tendency to use agricultural credit as an instrument for achieving short-term populist objectives. Government measures such as write off of agricultural dues, concessions/relief announced by political functionaries from public platforms, stay orders on legal processes of recovery, disbursement of loans/assets at the hands of political dignitaries in loan melas, etc., have vitiated the recovery climate. The need for a strong political will cannot be over-emphasised if politicisation of the agricultural credit institutions is to be checked. A general consensus is also needed among all political parties so as to ensure that agricultural credit is not used as an instrument for achieving political purposes. Government of India and State Governments should evolve a concrete long-term policy for recovery of agricultural dues and take a firm and objective view in respect of wilful defaulters.

Mass programmes for disbursement of loans such as 'Loan Melas' should be stopped as they have deleterious effects on the functioning of credit agencies.

Factors internal to the credit system, directly affecting recoveries, include defective loan policies and procedures, inadequate supervision over credit and unsatisfactory management. These relate to the unrealistic
scales of finance/unit costs, delay in sanction and disbursement of loans, fixation of defective repayment schedules, failure to provide working capital to borrowers under term credit, over-emphasis on target approach, etc. Several recommendations on streamlining the crop loan system have been made by earlier committees and policy decisions taken but these have regretfully remained unimplemented. There is also need for scrupulous adherence to prescribed policies/procedures as well as suitable changes in loan policies, such as shifting of due date for rabi crops loans from 30th June to 31st August so that repayment dates have meaningful relation to marketing seasons, need for periodical revision of unit costs, etc. Other corrective measures cash credit system and disbursement in cash instead of in kind. Thus, in areas where perennial irrigation facilities are available and multiple cropping is in vogue, banks could switch over from fixed duration (crop) loans to cash credit system in providing crop finance This would obviate the delays necessarily involved in the sanction and disbursement of loans for each crop season. In other areas, banks and co-operative societies could switch over to the preparation of the normal credit limit statements for a three-year period subject to the safeguards indicated. Similarly, in areas where farmers are fertiliser conscious and are already accustomed to the use of fertilisers, there need be no insistence on disbursement in 'kind' and the
banks may be given discretion to determine the mode of disbursement of credit for inputs purchase. Besides, it is equally necessary that where defaults arise on account of defective policies, corrective measures are taken to rehabilitate the non-wilful defaulters so as to obviate denial of fresh credit to them. There is also a need for a long term recovery strategy envisaging recovery targets and efforts to achieve them and case-by-case analysis of overdues, etc., besides strengthening the supervising staff in the credit institutions.

Overdues position has got unduly inflated on account of lack of a realistic policy in regard to assessing bad debts and the failure of credit agencies, particularly co-operatives, to write off their bad debts. It is necessary that each credit agency makes, as a charge on its Profit and Loss Account, full provision for estimated bad debts, irrespective of whether it earns profit or not, and writes off its irrecoverable debts periodically.

Where overdues under term loans are attributable to system failures or procedural lacunae and not because lapses of the borrowers, the solution would be on appropriate corrective measures to rehabilitate the defaulters.
In all such cases, therefore, a case-by-case analysis needs to be undertaken so as to ensure that there is no denial of institutional credit to them.

Overdues are at once a symptom and a cause of the weakness of the credit system, compounded further by the socio-economic environment in which the system operates. A number of recommendations have been made which seek to upgrade and strengthen the total framework, structure and management of the credit system. These would call for concerted action both in precept and practice by all concerned at all levels. It is, however, equally necessary that a programme of action be also simultaneously drawn up to contain and recover the overdues. The various recovery disciplines and stipulations laid down so far take the current demand and the arrear demand as one whole, with the result that the inevitably poor performance in recovery of old overdues pulls down the overall recovery percentage, leaving the institution disheartened and with, at best, only a marginal improvement in its eligibility for further finance. It is, therefore, necessary that in the programme of action for recovery, separate norms are set for the two categories of demand. The expected performance norm for current
demand should be a recovery of at least 90 per cent in perenially irrigated areas and 80 per cent in other areas, to be achieved within a period of three years. Likewise, a programme of action should be drawn up for the arrear (overdues) demand also, but the norms of year-wise performance and the time span for its achievement will be determined for each institution individually having regard to the particular nature and age of the overdues. If the recovery of current demand itself reaches the desired level, further growth of overdues would have been substantially contained. The NABARD needs to consider the nature of specific incentives it could offer to institutions which have successfully implemented the action programme.

REFERENCES


2. Ibid.


11 Ibid., pp.180-186.

12 Ibid., pp 80-81.

13. Ibid., p 95.


15. Ibid., p 137.
16  Ibid., p.156.


18. Ibid., p.358.

19. Ibid., p.409.

20. Ibid., p.535.

21. Ibid., pp.550-52