CHAPTER II

RURAL DEVELOPMENT AND ROLE OF COMMERCIAL BANKS IN RURAL DEVELOPMENT
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Rural Development has been an integral part of India's development from the very beginning. In a nutshell, rural development may be viewed as a programme intended for the all-round development of the entire rural population through development of all sectors of rural society. Different schemes have been initiated to develop agriculture, small-scale and village industries, rural transport and communication, education, health etc. Rural development has assumed considerable significance through the planning era, the early development schemes such as community development programme, Intensive Agricultural Development Programme, Intensive Agricultural Area Development Programme, Drought-Prone Area Programme and Command Area Development Programme, etc., have all aimed at rural development. Considerable amounts have been spent over these different schemes. No doubt, to some extent, development has taken place in the rural areas because of these different schemes. However, these schemes have not helped significantly all sections of the rural society. It is noticed that rural poor with meagre or no
assets of any type like small and marginal farmers, village artisans, tenant cultivators, agricultural landless labourers etc., have been almost bypassed by development, it is concluded that "the contradictions between objectives of Integrated Rural Development and the existing structure of production relations are too strong to be ignored."\(^1\) Therefore, there is a strong case for a development strategy, with a thrust on the poor.

**Rural Development and Role of Commercial Banks in Rural Development:**

The decline of Indian economy during the colonial era was reflected more prominently in the improvement of rural India. Our country, of course, was, and still is, predominantly rural but the system of extracting revenues from agriculture and deliberately introduced distortions in the cropping pattern caused decline in food supplies and an overall deterioration in rural conditions. The decline of cottage industry and the artisan class in the face of onslaught of British industry further added to the misery in rural India. The Sixth Plan document has noted, based

on expert estimates of national income during the first half of the current century, that the trend of growth rate between 1900-01 and 1945-46 was 1.2 per cent for national income, about 0.3 per cent for agricultural production and 2.0 per cent for industrial production. Per Capita availability of foodgrains continuously declined over the first half of this century, and it is only during the fifties that the trend reversed. And this is in spite of the fact that long-run growth rate of the population during the first half of this century was around 0.8% per annum, whereas since 1951 it has been around 2% per annum. Rural population in middle of the century was around 89% of the total population.

The problem of Rural construction has to be seen in the background described above. In fact, the problem of Rural Development was the problem of Indian Economic development. However, the approach to the problem through various plans and over the year has been changing along with the changes in perception and experience.
Drive for Capital Formations

The perception about Indian Economic development and the approach towards it during early fifties was largely influenced by the predominant theories of economic development at that time. These theories emphasised a change in the employment structure in the economy, i.e., withdrawing labour force from low productivity (traditional) sectors and employing them in high productivity (modern) sectors and continuing this effort till the entire economy was transformed. This process required capital. Hence efforts at savings and capital formation were emphasised. In fact, it was perceived that idle, half-employed of little productive manpower, if mobilised and used, itself could become a source of capital formation. It is in this spirit that the First Five Year Plan of India, while analysing the problem of development, devotes considerable space and emphasis and the need for stepping up the capital formation. However, while making the plan allocation, the practical consideration of alleviating the food situation seems to have dominated, and very large proportion of plan resources were earmarked for agriculture and irrigation. Also the concept of
community development and national extension was introduced. Community development was described as the method of rural extension as the agency through which the process of transformation of the social and economic life of the villages was to be initiated.

The Second Five Year Plan was formulated under the framework of a more formal model of development (the Mahalanobi’s model which again emphasised the creation of a modern industrial sector and production of heavy and capital goods industries which would, in turn, accelerate the rate of capital formation in the economy. Availability of wage goods was considered necessary to help this process of transition and initially these wage goods (food and clothing essentially) could come from the traditional sector i.e., agriculture and village industries. Thus strategies of agriculture and community development were retained. Among programmes for agricultural development, precedence was given to irrigation. Other programmes included spreading the use of nitrogenous fertilisers, improved seeds, land reclamation, flood control, and land reforms (continued from the First Plan). During the First Plan itself, a Foundation for Agricultural Research was
laid through Indian Council of Agricultural Research and a number of specialised institutions under the Council. This thrust was continued.

**Significant Rise in Food Productions**

The decade of sixties added to our planning experience in several significant ways. On the positive side there was a breakthrough in the agricultural technology - particularly in wheat, in later part of sixties and this started the often quoted green revolution. Though the spread of green revolution was constrained by already existing infrastructure, but soon it was clear that agricultural development could itself become the basis of other developments, modernisation and even industrial development. Agriculture based development had the added advantage that labour absorption was high and surplus rural labour was absorbed in the rural area itself. The experience of labour absorption in the industrial sector was not very encouraging and structure of employment appeared to be very difficult to change.

There are two aspects related to the agricultural sector which will continue to dominate the perspective of Indian economy. One is the supply of Food. The need for
food security and the other is this sector's unique association with the problems of income distribution, employment and poverty alleviation. In 1950-51, the foodgrain output was about 51 million tonnes which reached to 70 million tonnes in 1954, and since then the output has shown an increasing trend barring the fluctuations caused by weather conditions. A peak of 159 million tonnes was reached in 1984 and another peak of 168 million tonnes is being estimated for the year 1988-89. Due to accelerated growth of population, production of foodgrains in per capita terms has not shown a significantly increasing trend. However during this period, there has been a growth in the production of fruits, vegetables, fishes and the products of animal husbandry, which is also reflected in the diversification of the food basket. The share of meat fish, eggs, fruits and vegetables, etc., in the total household expenditure on food increased from 11.7% in 1977-78 to 13.9% in 1983-84 in rural areas, and from 16.4% to 18.1% in urban areas. A calculation, taking into account the growth in population and income and the target of feeding 95% of people at a level above the minimum nutritional requirements, projects the foodgrains demand at over 240 million tonnes for the year 2000. The challenge of producing this and
mere is to be met keeping in view the inherent inelasticity of the basic resources like land, water and ecology. This naturally places more emphasis on technology and management inputs.

On the side of income generation and income distribution agriculture plays a vital role in the Indian economy. Nearly 2/3rds of the working people depend from for their main source of earnings on agriculture, withdrawal of labour force from agriculture and its divergence to non-agricultural sector has been much slower than expected. Employment elasticities in the non-agricultural sector are very low and are also declining over time and hence future of divergence of labour force from agriculture to non-agricultural sector will be slow unless the economy grows at a rate much beyond what has been achieved so far, or has been expected in the near future. This is one reason why fluctuations in agricultural production are strongly associated with the percentage of the poor population.
The green revolution and massive investment in irrigation and other infrastructure has raised land productivity significantly but labour productivity has not grown at an appreciable rate. The very fact that nearly 2/3rds of our work force which is engaged in agriculture contributes only about one-third to the national product shows that productivity growth in non-agricultural sector. In order to keep tolerable parity in income of those engaged in agriculture with those working in the non-agricultural sectors heavy does of subsidies are given to the agricultural sector in the form of subsidies inputs and irrigation. Also the price support system for major crops has been evolved to achieve this objective as well as to minimise the Cobweb type of fluctuations in agricultural production. This imposes severe strain on the public exchequer and in future also there is little possibility of reducing the element of subsidy to agriculture.

Programmes to Combat Poverty:

Since the early seventies a number of rural development programmes have been in operation with a view to alleviating poverty by increase income and employment.
Four categories of programmes were launched:

(a) individual beneficiary oriented programme aimed at small and marginal farmers (SFDA/MPAL) later supplemented by the Integrated Rural Development (IRDP),

(b) programmes for additional wage employment opportunities - Crash Scheme for Rural Employment (CSRE), Pilot Intensive Rural Employment Programme (PIREP), the Food for Works Programme and (c) programmes for development of ecologically disadvantaged areas where unemployment and poverty are markedly present apart from their low productivity - the Drought Prone Areas Programme and Desert Development Programme (DPAP and DDP), (d) a Minimum Needs Programme aimed at raising the level of living of the people in the rural areas through the provision of some basic social consumption inputs and vital components of rural economic infrastructure.

With the launching of the Sixth Plan, the attempts at tackling the problems of the deprived sections of the population and disadvantaged geographical areas were sought to be further consolidated rationalised and vastly expanded. The SFDA/MPAL programmes which were essentially confined to agriculture and allied sectors operating in
only 1616 blocks were merged with the Integrated Rural Development Programme and extended to cover all the blocks in the country and the scope of which included all activities in the primary, secondary, and tertiary sectors. Under this programme, income based criteria for indentification of the target groups were prescribed and a household approach was adopted. The programme aimed to provide productive skills (through TRYSEM) and assets (through a mix of subsidy and credit) with the objective of assisting 15 million households/families during the sixth plan with an investment of Rs.4500 crores.

The food for work programme redefined and restructured in the form of National Rural Employment Programme (NREP) was made a regular plan programme in 1981. This programme aimed at generating additional employment opportunities in the rural areas simultaneously creating durable community assets for strengthening the rural infrastructure. It also sought to improve the nutritional status and the living standards of the rural poor. The District Rural Development Authorities were expected to act as the coordinating agencies for planning and implementation of this programme at the District level. Another special employment programme - the Rural Landless Employ-
Guarantee Programme (RLSP) launched in 1983-84 has the specific objective of providing upto 100 days of employment per annum to at least one member of each rural landless household. The RLSP envisages creation of durable assets for strengthening the rural infrastructure which will lead to rapid growth. The State Governments are expected to prepare a schedule of projects for implementation under this programme.

The Drought Prone Areas Programme (DPAP) and the Desert Development Programme (DDP) are primarily area development programmes. The DPAP aims at promoting a more productive dryland agriculture on the basis of the soil-water-climate resources of the area, and productive use of water resources of the area, soil and moisture conservation including promotion of proper land-use practices, afforestation including farm forestry and livestock development including development of pasture and fodder resources. The DDP has the main objective of controlling desertification and promotion of opportunities to raise the level of production and employment through activities like irrigation, afforestation, soil and water conservation, dryland agriculture, ground water development, livestock development etc.
In addition to the major rural development programme of IRDP, NREP, RLEG, DPAP, and DDP, there are a number of other programmes under implementation. These include the Minimum Needs Programme (MNP), the special programme of assistance to small and marginal farmers for increasing agricultural productivity, command area development programme (CADP), Special Component Plan and Tribal Sub-Plan, Hill Area Development Programme etc. The Tribal Sub-Plan approach was adopted in the Fifth Plan and the Special Component Plans for the Scheduled Tribes were formulated in the Sixth Plan and these resulted in earmarked allocations for Tribal Sub-Plans and Scheduled Castes Socio-Economic Development apart from the general programmes of economic development. Beside these centrally sponsored All India Programmes, a number of States are implementing special programmes for the benefit of the poor, like employment guarantee schemes, mid-day meal schemes, old age pension schemes etc., on their own.

Rural poverty has been substantially alleviated. Estimate of proportion of people below poverty line in rural areas for 1972-73 was 54.1%, for 1977-78 it was 51.2% and for 1984-85 it was estimated at 39.9%. There are indications that poverty has further come down in
subsequent years. Such decline in poverty proportion is accompanied by diversification in consumption basket. This diversification in consumption basket is consistent with the diversification taking place in production structure in the agricultural sector and is a healthy dimension of growth.

There are however certain structural problems of growth which will have to be resolved with greater urgency in the coming phase of development.

Concentration in Certain Regions:

Poverty is unevenly distributed across the regions. There are well identified pockets of concentration of poverty. About 80 per cent of the total population below the poverty line is accounted for by eight states. These eight states together also account for 70 per cent of the unemployment in the country. The areas of concentration of poverty are mostly the areas with deficiencies in infrastructure and underdeveloped productive systems in agriculture, industry and other sectors. As such, the objective of poverty alleviation calls for an explicit focus in the plan strategy in general and in the anti-poverty and minimum needs programme in particular on regions and areas with heavy concentration of the poor.
Agriculture in the better developed and faster growing regions has shown a declining employment potential and in the areas where agricultural growth could be more labour absorbing, a stagnation or slow growth has characterised this sector features of rapid population growth, high levels of poverty and slow growth in agriculture and other sections are all concentrated in certain regions. A massive effort at better regional spread of growth is required but this is not an easy task. How to find ways of concentrating more resources in those areas - more than what is possible within the framework of existing principles of devolution is a matter which requires serious thinking.

Another structural problem of long-term nature is the growing disparity between agricultural and non-agricultural incomes. This is not the problem of terms of trade between agriculture and non-agriculture sectors. In fact the terms of trade have not been unfavourable to agriculture. But the problem of disparity of income is related to decreasing average size of holdings and large proportion of work-force development on agriculture. Agriculture contributes only about one-third of the GDP but accommodates about 2/3rds of the work-force. While the long-run solution lies in shifting the work-force away from agriculture in the short-run ways will have to be found to increase and supplement
the income of those engaged in agriculture by encouraging them to contribute combine agro-processing activities with farm activities and diversifying agriculture to more income generating crops and activities.

Planning in the last decade of this country has to gear up to meet these challenges. Major efforts at re-structuring the sectoral and regional patterns of growth will have to be made.

Role of Commercial Banks in Rural Development:

Banking in India on Western lines had started from the beginning of the 19th century. The first Joint Stock Bank was set up in Calcutta by the name of Bank of Hindustan and it was under European management. Later, the banks of Bengal, Bombay and Madras, were started with the financial participation by the Government. These Banks were called the Presidency Banks and were given the right to issue currency notes in their regions. The first purely Indian Joint Stock Bank was the Oudh Commercial Bank which came into existence in 1881, it was followed by the Punjab National Bank in 1894 and the People's Bank in 1901. The Swadeshi Movement in 1905 gave great stimulus to the starting of Indian Bank. The following table gives an idea of the growth of Indian Commercial Banks since 1950.
The Banking sector of India has made rapid strides since the dawn of Independence, particularly during the planning era. Under the premier banking institutions like State Bank of India and Reserve Bank of India, the commercial banking sector has widened and deepened in extending banking facilities for the diversified purposes.

The planned development has brought about a speedy transformation in entire economic structure, more so in the Indian Banking system. It is worth to study the Indian banking system as a whole - its achievements and even more its potentials. The evolution of banking system as an instrument of economic change started when the planning era was ushered in the fifties. A greater emphasis has been shouldered on banking system that can play to foster institutionalised savings and channel funds in desired direction in the first plan. The first step in this direction was nationalisation of Imperial Bank of India in 1955. The imposition of social control which aimed at balanced growth with equity in 1968 was followed by nationalisation of 14 commercial banks on July 19, 1969. Further, 6 more commercial banks were nationalised on April 15, 1980 and thus, bringing 28 commercial banks into the public sector. Progress and rapid strides were
made by public sector banks in extending banking facilities to the countryside. As a reaction to it, a large number of unbanked centres appeared on the banking map of the century. In brief, the experiment made by the banking sector in India is indeed unique and has its hides in the banking history of any country in the world.

PROGRESS AND PERFORMANCE OF COMMERCIAL BANKS:

Indian banking has made distinct and tremendous progress in terms of widening and depending banking facilities under the guidance of the premier institutes namely the Reserve Bank of India and the National Bank for Agriculture and Rural Development. The study of banking system as a whole - its achievements as well as potentials are worthy of survey to identify the pitfalls. Indian banking sector inherited a weak banking structure at the time of Independence of India. In otherwords, the economic and financial system conditioned in 1947 warranted the economic policy to the concept of development nature. There were 92 scheduled and 474 non-scheduled Commercial Banks in 1951. By the beginning of Second Five Year Plan their number was 89 and 334 respectively. At the beginning of Third Plan they were 82 and 210 at the Fourth Plan
beginning 73 and 27, and on the eve of nationalisation 71 and 14 in number respectively. It is learned from the above that, there was a decline of 22.83 per cent in Scheduled banks and 97.05 per cent in non-scheduled banks in 1969 to that of 1951. The main reason for this state of affair was a continuous process of consolidation to remove uneconomic banking units.

As far as the branches concerned they were increased to 8443 in 1969 from 4151 in 1951. In other words the increase was more than double. The number of branches of Scheduled Banks were 8262 in 1969 which were increased from 2647 in 1951. Thus more than three-fold decrease.

From the above discussion, it is observed that many Commercial banks particularly Non-Scheduled banks have disappeared through merger or amalgamation. And as a result, the net addition during 1951-69 was of the order of 4292 offices, means about 238 offices per year. This material change was a part of the overall strengthening of banking system. The relevant date is presented in Table 2.1
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<td>Number of Commercial Banks</td>
<td>566</td>
<td>423</td>
<td>292</td>
<td>100</td>
<td>85</td>
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<tr>
<td>Scheduled Commercial Banks</td>
<td>92</td>
<td>89</td>
<td>82</td>
<td>73</td>
<td>71</td>
</tr>
<tr>
<td>Non-Scheduled Commercial Banks</td>
<td>474</td>
<td>334</td>
<td>210</td>
<td>27</td>
<td>14</td>
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<tr>
<td>Number of Commercial Banks Branches</td>
<td>4151</td>
<td>4067</td>
<td>5012</td>
<td>6031</td>
<td>8443</td>
</tr>
<tr>
<td>Branches of Scheduled Commercial Banks</td>
<td>2647</td>
<td>2966</td>
<td>4390</td>
<td>5818</td>
<td>8262</td>
</tr>
<tr>
<td>Branches of Non-Scheduled Commercial Banks</td>
<td>1504</td>
<td>1101</td>
<td>622</td>
<td>213</td>
<td>181</td>
</tr>
<tr>
<td>Population per Branch</td>
<td>87000</td>
<td>88000</td>
<td>88000</td>
<td>76000</td>
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</table>

SOURCE: Srivasthava, R.M., Management of Banks, Meerut Pragathi Prakashan, p.68
DEPOSITS AND ADVANCES:

During the period of 18 years ended in 1969 the progress pertaining to deposits and advances was impressive. The deposits of Scheduled Commercial Banks were Rs. 662 crores in 1951 which went up to Rs. 4665 crores in 1969. In other words, the increase was Rs. 4003 crores or 604.7 per cent. If measured in terms of per branch deposits it accounted for Rs. 0.25 crores in 1951 and Rs. 0.56 crores in 1969. In other words, the increase was Rs. 0.31 crores or 124 per cent. There was higher growth in deposit mobilisation in comparison to the growth of branches. The Scheduled Commercial banks in 1951 has provided advances of Rs. 385 crores and Rs. 3597 crores in 1969. In other words, there was an increase of Rs. 3012 crores or 514.87 per cent in credit distribution. The performance of per branch credit distribution was Rs. 0.22 crores in 1951 and Rs. 0.44 crores in 1969, thus showing an increase of Rs. 0.22 crores or 100 per cent.

From the above discussion it is deduced that the increase in deposits was 604.7 per cent while the same with reference to per branch deposits was 124 per cent.
In case of credit distribution, the performance was less. In 1951, the per branch credit distribution in proportion to per branch deposits mobilisation was more (0.88:1.00) in comparison to that of 1969 position (0.79:1.00). The data on deposits and credit are given in Table 2.2.

**TABLE 2.2.**

DEPOSITS AND CREDIT IN COMMERCIAL BANKS

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<td>Deposit</td>
<td>662</td>
<td>907</td>
<td>1934</td>
<td>3000</td>
<td>4665</td>
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<tr>
<td>Credit</td>
<td>585</td>
<td>770</td>
<td>1306</td>
<td>2347</td>
<td>3597</td>
</tr>
</tbody>
</table>

**SOURCE**: Srivasthva R.M., Management of Banks Meerut; Pragathi Prakashan, pp.71-73.

**COMMERCIAL BANKS AND SOCIAL CONTROL OVER IT**

Before 1967, it can be said that Commercial Banks have not been involved to any important extent in providing at any rate, direct finance to agriculture. But after 1988, with the introduction of social control over Commercial Banks there has been some improvement in the involvement of Commercial Banks in the field of agriculture.
The term "social control of Banks" can note a sort of stiff regulation of banking activities, thorough appropriate policy measures and its policy was intended to ensure that particular clients or groups of clients are not favoured in the matter of distribution of credit.

The scheme of social control is primarily aimed at making bank credit a catalytic agent by its direct involvement in economic development of the country, spreading the banking habit to the semi-urban and rural areas. The credit policies and practices with national development programmes and making credit facilities available to much wider section of the population particularly to the higher to neglect sector of society.¹

With these aims the National Credit Council (NCC) was setup in February, 1968. It was felt that the scheme of social control over the Commercial Banks was not achieving the goals. Consequently on 19th July, 1969, Fourteen major Commercial Banks, in the country having total deposits of about ₹.50 crores, were nationalised.

¹ Kachan, M.G., Seven years of Bank Nationalisation, the Journal of the Indian Institute of Bankers, June, 1976, p.86.
This day will be remembered as the "red letter day" for the banking industries in India.

In April 15, 1980, the President of India issued an ordinance nationalising six more banks, each with demand and time liabilities in India of net less than ₹250 crores.

With the nationalisation of above six banks, the number of public sector banks excluding Regional Rural Banks, increased from 22 to 28 comprising the State Bank of India and its 7 subsidiaries and 20 nationalised banks. The share of public sector banks in the total outstanding deposits and credit of the Commercial banking system went up to 91 per cent each whereas it was only 84 per cent each prior to nationalisation.

The main objectives of nationalisation of Commercial Banks is to control the heights of the economy and to meet progressively and serve better the needs of development of the economy in conformity with national policy and objectives and for matters connected with or incidental
This objective is generous in its wording but it has no concrete content. The main objective of bank nationalisation, however, appear to be:

1. Removal of Control by a few.
2. Including banking habits among the masses.
3. Minimising regional imbalances and avoiding lopsided development.
4. Giving a professional bent of bank to bank management.
5. Carrying the banking to higher to unbanked/under-banked areas.
6. Encouragement of new classes of entrepreneurial class.
7. Providing adequate credit for the neglected sector, such as agriculture, small sole industry, small business, transport etc.

BRANCH EXPANSIONS

The first and foremost thrust in the nationalisation of commercial banks was Branch expansion particularly in the unbanked centres. People's participation is sine-qua-non for the economic progress. The branch expansion facilitates the people to participate in the programmes on the integrated

approach. This leads to better basis for better functioning of the commercial banks. In brief, the prospects and progress of bank are entirely envisaged by the branch expansion. The branch expansion has gained importance on account of a series of urgencies which are (a) a need for mobilising rural savings as the income of the people increased due to increased investments under plans and other rural development programmes. (b) Employing funds in the region or area collected from that region or area on bankable projects as it touches the lives of the area and (c) to transfer the surplus funds to the deficit areas. Thus the branch helps the people build up themselves so that they can also grow along with the growth of the branch.

The growth of the branches of the commercial banks during 1969-89 is presented in Table 2.3.

Table 2.3. shows that as many as 8,262 branches were functioning on the eve of the nationalisation. At the end of the first decade of the nationalisation the number of branches opened was 21,936, from 8,262 in 1969 to 30,200 in 1979, and 26,760 branches were opened from 30,200 in 1979 to 56,960 in 1989 during the first and second decade
<table>
<thead>
<tr>
<th>Year</th>
<th>Branches</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Obsolute</td>
<td>Relative</td>
</tr>
<tr>
<td>1969</td>
<td>8262</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1970</td>
<td>10131</td>
<td>1869</td>
<td>22.62</td>
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<tr>
<td>1971</td>
<td>12013</td>
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<td>13622</td>
<td>1609</td>
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<td>1973</td>
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<td>53840</td>
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<td>1989</td>
<td>56960</td>
<td>1945</td>
<td>3.53</td>
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</tbody>
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Growth

1969-89 21938 13.38
1979-89 26760 6.91
1969-89 48698 10.13

of the nationalisation they opened branches on an average were 2,194 and 2,676 for every year respectively. This fact unfailingly reveals that the branch expansion programme in fact more during the second decade of the nationalisation, in comparison with that of the first decade of the nationalisation. However in relative terms, the performance of the branch expansion was far better during the first decade (26.55 per cent) than the second decade of the nationalisation (8.86 per cent).

During the period of the two decades, the number of branches opened on an average, was 48,698 accounting to 2,435 per year in absolute terms and 29.77 per cent in relative terms.

As a result of the increase in the number of branches, the population served per branch has come down drastically from 60,000 in 1969 to 22,000 in 1979 and to 14,000 in 1989. In the developed countries like the U.S.A. and Japan, the per branch population served was 7,000 and 15,000 respectively at the end of 1968. If this standard is taken into account, it seems to be a greater potential for the branch expansion in the country. From the above figures, it is inferred that the impact of the post-nationalisation efforts on the branch expansion has been
more encouraging with the progress of time since the nationalisation. Figuratively, the number of branches opened during 1979-89 was more the annual compound growth rate of the branch expansion is worked out as 13.38 per cent and 6.91 per cent during 1969-79 and 1979-89 respectively. The growth rate for 1969-89 is worked out as 10.13 per cent. This fact shows a stupendous progress that has been achieved during the post-nationalisation period. But the progress was a little less during the second decade of the nationalisation. The progress of the branch expansion as said above is accompanied by 38.17 per cent, 20.55 per cent and 50.96 per cent variation during 1969-79, 1979-89 and 1969-89 respectively. Though fund more ununiform in the branch expansion the progress in the branch expansion is more discernible by the impact of the nationalisation.
ROLE OF COMMERCIAL BANKS IN RURAL DEVELOPMENT

The life of the rural poor is degraded by disease, illiteracy, malnutrition and squalor despite planned development through five year plans. What we could have provided in rural areas is absolutely nil. Poverty and unemployment are strangulating 50 to 60 per cent of our rural people. If the war against poverty has to succeed, it has to be fought mainly in rural areas. This is so because 80 per cent of our population still continues to live in villages. 70 per cent of our population continue to get its sustenance from agriculture and almost 60 per cent of our national income comes from the agricultural sector.

"India is essentially Rural India and Rural India is virtually the cultivator, the Village Craftsmen and the agricultural labourer". According to 1981 census data, nearly four of our every five Indians live in rural areas and within the Rural India itself, five out of every six are dependent on agriculture. Thus Rural India and particularly agriculture is the backbone of the Indian economy. Therefore in any developmental

effort failure to remember this central fact would mean going away from the heart of India.

Even though the planned approach to development started in India in the early "fifties". The initial plan documents did not assign any specific responsibility to commercial banks, either in rural or urban development. Banks were viewed as mere short term finance reports, however refer to credit planning, the sixth five year plan observes, "the aim of the sixth plan is to secure high rate of rural credit expansion to serve the productive needs of various economic groups among the poor". Interestingly enough, until the late sixties the different committees which enquired into the problem of rural credit did not assign any role to commercial banks in Rural Development. The Committee of Direction of the All India Rural Credit Survey, 1951-52, the V.I. Mehta Committee on Cooperative Credit, 1960 and Informal Group on Institutional Arrangements for Agricultural Credit, 1965 unequivocally asserted that commercial banks were not suited for lending to agriculture. Nationalisation of 14 major Scheduled Commercial Banks on 19th July 1969 marked the turning point in Indian Banking history.

The complexion of commercial banks charged phenomenally, the decade of the 'seventies witnessed a massive geographical expansion and functional diversification with a distant bias towards rural banking.'

In between June 1969 to December 1984 the banking map of the country was enlarged by opening nearly 33,000 offices, more than 60 per cent of which were in the rural hinterland. Consequently, the share of rural branches in the total branch network increased from 22.2 per cent in 1969 to 53.2 per cent in December 1983 and opened up immense opportunities for rural banking and development. Deposit accounts multiplied eight-fold and credit accounts sixteen-fold.

Banks up grudging attitude to shoulder the increasing demand made on them kindled hopes of making banks the engines of growth to bring about rapid development of the countryside and the following National Policy and Objectives were indicated to Banks.3

a. 40 per cent of total advances should go to the priority sectors by March 1985;

b. Direct finance to agriculture should constitute 15 per cent of total credit by March 1985 and 16 per cent by March 1987.

c. 25 per cent of priority sector credit or 10 per cent to total credit should go to weaker section includes:

i. Small and Marginal farmers, landless labourers, share croppers and tenant farmers;

ii. Artisans and village and cottage industries located at Centres with population below 50,000 and whose credit requirements are less than Rs. 25,000.

iii. Scheduled Castes and Scheduled Tribes.

iv. IRDP beneficiaries; and

v. DAI beneficiaries.

d. Minimum credit-deposit ratio of 60 per cent in Rural and Semi-urban areas separately;

e. One percent advances under differential rates of interest scheme (4 per cent) 40 per cent of which should go to Scheduled Castes/Tribes and 2/3rds of such advances should be disbursed through rural and semi-urban centres.
RURAL BRANCH EXPANSION

A close look at the history of Commercial Banking in India clearly reveals that till mid 50s, it had an urban bias. This is borne out by the fact that even the Imperial Bank of India, the mightiest commercial banks of those days, was not ready to open 274 rural branches over a period of 5 years as suggested by the Rural Banking Enquiry Committee of 1950. With a lot of reluctance, the Imperial Bank of India agreed to open 114 branches over a period of five years. The symbolised the apathy of commercial banks in opening branches in rural areas.4

It was only after the setting up of the State Bank of India by taking over the Imperial Bank of India in July 1955 that a new impetus was given to taking banks to unbanked areas. This policy of balanced dispersal of commercial bank branches was also greatly facilitated by the branch licencing policy adopted by the Reserve Bank of India with a greater thrust on rural branch expansion.

This new thinking found concrete expression in the form of social control over banks. The subsequent nationalisation of 14 major Indian Scheduled Commercial banks on 19th July 1969 paved the way for better regional spread of bank branches. Besides, the insistence by the Reserve Bank of Four Rural Branches by a Commercial Bank would make it eligible to open a branch at an urban or metropolitan centre also contributed significantly for the opening of bank branches in rural areas. Table 2.4 shows the trends in the patterns of branch expansion by commercial banks between June 1969 and June 1982.

As could be seen from Table 2.4 there has been a spectacular increase in the number of branches of commercial banks in the post-nationalisation period. Rural Branches numbering 1,832 at the end of June 1969 accounted for 22.4 per cent of total number of commercial bank branches. However, their number has increased to 25,446 as at the end of June 1982 accounting for 57.5 per cent of the total commercial branches in the country.

Further, a close scrutiny of the trends would indicate that in the period immediately after the nationalisation, there was a big push in the rural bank
branch expansion as evidenced by the fact that in the period between June 1969 and June 1974, the number of Rural Branches is seen to have increased from 1,832 to 6,165 thereby showing a rise of 336.5 per cent. But in the next quinquennium it registered an increase of only 248.5 per cent. It is clear that in the wake of social control and nationalisation measures there was a big leap in the setting up of rural branches by commercial banks. There has been a further increase in the number of rural branches of commercial banks which stood at 25,446 accounting for 57.5 per cent of the total bank branches as at end June 1982 and thus the overall performance of commercial banks in the matter of branching out into rural areas can be regarded as really praiseworthy.
### TABLE 2.4: DISTRIBUTION OF COMMERCIAL BANK OFFICES IN DIFFERENT POPULATION CENTRES

JUNE 1969 - JUNE 1982

<table>
<thead>
<tr>
<th>Centre</th>
<th>June 1969</th>
<th></th>
<th>June 1974</th>
<th></th>
<th>June 1979</th>
<th></th>
<th>June 1982</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>% to total</td>
<td>No.</td>
<td>% to total</td>
<td>No.</td>
<td>% to total</td>
<td>No.</td>
<td>% to total</td>
</tr>
<tr>
<td>Rural</td>
<td>1,832</td>
<td>22.4</td>
<td>6,165</td>
<td>36.4</td>
<td>15,323</td>
<td>47.6</td>
<td>25,446*</td>
<td>57.5</td>
</tr>
<tr>
<td>Semi-urban</td>
<td>3,322</td>
<td>40.1</td>
<td>5,085</td>
<td>30.0</td>
<td>7,845</td>
<td>24.4</td>
<td>8,763</td>
<td>19.8</td>
</tr>
<tr>
<td>Urban</td>
<td>1,447</td>
<td>17.6</td>
<td>2,899</td>
<td>17.1</td>
<td>4,717</td>
<td>14.6</td>
<td>5,360</td>
<td>12.2</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>1,661</td>
<td>20.0</td>
<td>2,783</td>
<td>16.5</td>
<td>4,307</td>
<td>13.4</td>
<td>4,659</td>
<td>10.5</td>
</tr>
<tr>
<td>Total</td>
<td>8,262</td>
<td>100.0</td>
<td>16,936</td>
<td>100.0</td>
<td>32,192*</td>
<td>100.0</td>
<td>44,228</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Notes:**
- *Includes 1,990 and 5,048 branches of RRBs as on 30 June 1979 and 30 June 1982 respectively. Hence total is also inclusive of branches of RRBs for the respective years.

**Sources:** Reserve Bank of India, Report on Trend and Progress of Banking in India for the relevant years.
ROLE OF COMMERCIAL BANKS IN RURAL DEVELOPMENT SINCE NATIONALISATION:

The inadequacy of the cooperatives and other institutional agencies in promoting rural development led to the banks being asked to play a leading role in the socio-economic development of rural areas after nationalisation. As a result of RBI's policies, banks have expanded their network at a faster pace in rural areas than in urban/metropolitan areas. They have also been instrumental in implementing various rural development programmes for the upliftment of the poor in accordance with the national priorities.

The increasing participation of Scheduled Commercial Banks (SCBs) in rural areas is enumerated below. The number of rural branches of Scheduled Commercial Banks increased from 1443 at the end of June 1969 (17.6 per cent of total number of branches in the country) to 21,142 at the end of December 1992 (constituting 51.8 per cent of total branches).
### TABLE 2.5: SCHEDULED COMMERCIAL BANK BRANCHES, DEPOSITS AND ADVANCES IN RURAL AREAS

<table>
<thead>
<tr>
<th>Year</th>
<th>Branches</th>
<th>Deposits</th>
<th>Advances</th>
<th>C-D in ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1969</td>
<td>1,442</td>
<td>144.96</td>
<td>54.29</td>
<td>37.5</td>
</tr>
<tr>
<td></td>
<td>(17.6)</td>
<td>(3.1)</td>
<td>(1.5)</td>
<td></td>
</tr>
<tr>
<td>June 1974</td>
<td>6,069</td>
<td>842.32</td>
<td>429.36</td>
<td>51.0</td>
</tr>
<tr>
<td></td>
<td>(36.1)</td>
<td>(7.9)</td>
<td>(5.3)</td>
<td></td>
</tr>
<tr>
<td>December 1982</td>
<td>21,142</td>
<td>7,413.59</td>
<td>4,472.86</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(51.8)</td>
<td>(14.2)</td>
<td>(12.5)</td>
<td></td>
</tr>
</tbody>
</table>

Notes: The Figures in brackets indicate the respective percentage share to the total number of branches, Deposits and Advances.

Between June 1969 and December 1982, rural deposits rose by 51 times while advances increased by 82 times during the same period. The share of rural deposits as well as advances increased by about 10 percentage points while the share of branches showed a far higher increase. The C-D ratio of rural branches increased from 37.5 per cent to 60.3 per cent between June 1969 and December 1982. The number of Semi-urban branches increased from 3,337 in June 1969 to 9,331 branches by December 1982.
<table>
<thead>
<tr>
<th>Year</th>
<th>Branches</th>
<th>Deposits (in crores)</th>
<th>Advances (in crores)</th>
<th>C-D Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1969</td>
<td>3,337</td>
<td>1,024.06</td>
<td>406.47</td>
<td>39.7</td>
</tr>
<tr>
<td></td>
<td>(40.8)</td>
<td>(22.0)</td>
<td>(11.0)</td>
<td></td>
</tr>
<tr>
<td>June 1974</td>
<td>5,134</td>
<td>2,436.79</td>
<td>1,184.02</td>
<td>48.6</td>
</tr>
<tr>
<td></td>
<td>(30.5)</td>
<td>(22.7)</td>
<td>(14.6)</td>
<td></td>
</tr>
<tr>
<td>December 1982</td>
<td>9,331</td>
<td>11,976.49</td>
<td>6,113.76</td>
<td>51.0</td>
</tr>
<tr>
<td></td>
<td>(22.9)</td>
<td>(22.9)</td>
<td>(17.1)</td>
<td></td>
</tr>
</tbody>
</table>

Note: The figures in the brackets indicate the respective percentage share to total branches, deposits and advances.

During the corresponding period the share of Semi-urban branches progressively declined from 40.8 per cent to 22.9 per cent in contrast to rural branches which showed a marked increase. Semi-urban deposits rose to ₹11,976.49 crores from ₹1,024.06 crores while that of advances from ₹406.57 crores to ₹6,113.76 crores between 1969 and 1982.
The Integrated Rural Development programme has been conceived essentially as an anti-poverty programme. This objective is proposed to be achieved by enabling the poorest families to acquire productive assets, technology and skills as would make their economic activities viable. These families will also need support from social services like health, education and housing. For the first time utmost priority to the rural development programme has been given in the Sixth Plan. The outlay to this sector at Rs. 5,364 crores, constituting 5.5 per cent of the total plan outlay was just marginally lower than the outlay of the agricultural sector which was Rs. 5,695 crores for the plan period.

**TABLE 2.7: PROGRESS OF INTEGRATED RURAL DEVELOPMENT PROGRAMME**

<table>
<thead>
<tr>
<th></th>
<th>1980-81</th>
<th>1981-82</th>
<th>1982-83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidy expenditure</td>
<td>156.9</td>
<td>262.4</td>
<td>320.6</td>
</tr>
<tr>
<td>(Rs. Crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total term credit</td>
<td>236.6</td>
<td>484.6</td>
<td>660.1</td>
</tr>
<tr>
<td>mobilised (Rs. Crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subsidy per family (Rs.)</td>
<td>561.0</td>
<td>928.0</td>
<td>983.0</td>
</tr>
<tr>
<td>Credit mobilised per</td>
<td>850.0</td>
<td>1,713.0</td>
<td>2,025.0</td>
</tr>
<tr>
<td>family (Rs.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment per family</td>
<td>1,411.0</td>
<td>2,641.0</td>
<td>3,008.0</td>
</tr>
<tr>
<td>(Rs.)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Banks were expected to play a vital role in helping to achieve the targets set in the Sixth Plan. They are expected to lend about ₹3,000 crores under the programme over and above ₹1,500 crores supposed to be available by way of subsidy from the Government. Between October 1980 and February 1983 banks have provided ₹1,200 crores under this programme.

In quantitative terms the progress of IRDP between 1980-81 and 1982-83 has shown a marked improvement as can be seen from Table 2.7.

The total number of families assisted increased from 2.78 million in 1980-81 to 3.26 million in 1982-83 subsidy per family (under IRDP) as well as credit mobilised per family during the same period showed a marked improvement. Investment per family during the same period than doubled in a two year period. During the Seventh Plan period, greater emphasis will be given to rural development. Outlay for Integrated Rural Development Programme is proposed to be raised to ₹5,000 crores as against only ₹1,500 crores in the current plan.
PRIORITY SECTOR TARGETS

In accordance with the national objectives, the public sector banks have been directed to extend credit to the priority sectors, which include agriculture and the allied activities, village and cottage industries, small scale industries, professionals and self-employed persons, small transport operators, retail trade and small business. Furthermore, Banks have been advised to reach a certain minimum level of lending to specified sectors and sub-targets have also been set for certain activities within the priority sectors and some specific target groups. Particularly it was felt that adequate investment in agriculture may facilitate to adopt new farm technology and to take up suitable cropping pattern which means an increase in agricultural production and in turn facilitate the higher income, to generate additional employment. The details in respect of targets, sub-targets prescribed from time to time are analysed in Table 2.6.
<table>
<thead>
<tr>
<th>Purpose/Category of Beneficiaries</th>
<th>Target Prescribed (of net Bank Credit)</th>
<th>To be reached by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Aggregate advances to priority sectors</td>
<td>40 per cent</td>
<td>March 1985</td>
</tr>
<tr>
<td></td>
<td>16 per cent</td>
<td>March 1987</td>
</tr>
<tr>
<td>2. Direct Advances for agriculture and allied activities</td>
<td>17 per cent</td>
<td>March 1989</td>
</tr>
<tr>
<td></td>
<td>18 per cent</td>
<td>March 1990</td>
</tr>
<tr>
<td>3. Advances to weaker Sections</td>
<td>10 per cent</td>
<td>March 1985</td>
</tr>
</tbody>
</table>

Sources: Reserve Bank of India, Report on Trends and Progress of Banking in India, 1990-91.
PRIORITY SECTOR ADVANCES BY PUBLIC SECTOR BANKS

Data in respect of outstanding advances to priority sectors by public sector banks are presented in Table 2.9. The proportion of priority sector advances of public sector banks to their total bank credit, which had touched 42.3 per cent at the end of June 1990, moved down to 40.9 per cent by the end of June 1991, but was above the prescribed target of 40 per cent. Within the priority section, the share of advances to agriculture declined from 18.0 per cent as at the end of June 1990 to 16.4 per cent as at the end of June 1991 reflecting the impact of the agricultural and rural debt relief scheme, 1990. The share of small scale industries in priority sector advances increased from 15.5 per cent to 16.1 per cent and the share of other priority sectors declined from 8.8 per cent to 8.4 per cent over the same period. The target for direct finance to agriculture was set at 18 per cent at net bank credit to be attained by March 1990; as against this target banks had reached a proportion of 16.7 per cent at the end of June 1990. However, the proportion declined to 15.3 per cent at the end of June 1991 due to the loan waiver scheme referred to above. The share of Scheduled Castes and Scheduled Tribes in priority sector advances stood at
<table>
<thead>
<tr>
<th>TABLE 2.9: ADVANCES TO THE PRIORITY SECTORS BY PUBLIC SECTOR BANKS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount Outstanding</strong></td>
</tr>
<tr>
<td><strong>June 1969</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td><strong>I. Agriculture</strong></td>
</tr>
<tr>
<td>a. Direct</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>b. Indirect</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>II. Small Scale Industries</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>III. Other Priority Sector advances</strong></td>
</tr>
<tr>
<td>advances</td>
</tr>
<tr>
<td><strong>IV. Total Priority Sector advances</strong></td>
</tr>
<tr>
<td>advances</td>
</tr>
<tr>
<td><strong>V. Net Bank Credit</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>VI. Percentage of Priority Sector advances to net bank credit</strong></td>
</tr>
<tr>
<td><strong>VII. Percentage of direct agricultural advances to net bank credit</strong></td>
</tr>
</tbody>
</table>

8.0 per cent as at the end of June 1991. Whenever the prices come down the farmer need not resort to distress sales as the commercial banks also provide credit against the warehouse receipt. The overall picture that emerged from the analysis is a result of branch expansion, the advances to agriculture, small scale industry have gone up considerably. Moreover the neglected sections of the society have also been benefited from the financial assistance extended by the network of commercial bank branches.

LEAD BANK SCHEME

The new strategy was reflected in the concept of the 'Lead Bank Scheme' formulated in December 1969 this scheme is born out of the 'area approach' recommended by the Study Group, named as the Gadgil Group (Chairman Dr D R Gadgil) of the National Credit Council. The Governor of the Reserve Bank of India appointed a Committee of Bankers under the Chairmanship of Shri R P Nariman for the lead bank scheme. The success of a lead bank in any district would depend upon the total improvement of the district economy brought about through the medium of banks and not merely from the work done by the lead bank.
Village Adoption Scheme: Village adoption has become the main strategy of several organisations to bring about rural development. It is another novel technique being experimented by public sector banks in the field of Rural development. Since 1969, it envisaged the adoption of cluster of villages within a manageable distance by branches to prepare and implement schemes for meeting the credit requirement of all sections of communities. This village adoption scheme, therefore, is one of the many innovations the banks have attempted to reach the villages. After conducting a detailed techno-economic survey of the villages in their area of operations select a village about adopt them for development assistance. Rural development can be extensive by increasing the number of villages adopted by the bank branch. As in June 1981, Banks have adopted 1,11,808 villages extending loan through 3,69 million accounts with an outstanding balance of ₹.944 crores. Looking at the total number of villages in the country, 5.96 lakhs, adoption of 1,11,808 by banks may appear reasonable, but the manner in which they are adopted is not very satisfactory. Because of heavy concentration on a few villages and absence of banks adoption in some villages many result in regional imbalances.
The differential rate of interest scheme was announced in the year 1972. To help the weaker sections of the society commercial banks have been assisting productive programmes by giving credit at concessional rate of 4 per cent per annum to those borrowers whose annual income does not exceed ₹2,000 in rural areas is eligible for maximum of ₹1,500 for working capital and ₹5,000 for term loan. The advances of public sector banks under this scheme went up from ₹0.87 crores in December 1972 to ₹2.25 crores in June 1981. The percentage of advances improved from 0.02 per cent in December 1972 to 40 per cent in June 1981. The number of borrowed accounts under DRI scheme also showed a large increase i.e., for 0.26 lakhs in December 1972 to 26.69 lakhs in 1981. Thus banks have supported the weaker sections of the society, mainly those who are below the poverty line, to undertake productive endeavours and earn their livelihood.

Rural financing is not merely the development of villages but also developing the people, in all walks of life. Thus finance rendered by the banks should be utilised in productive and income generating schemes other will the system of rural economic conditions will be deteriorated.