CHAPTER II

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Policy of Credit Deployment:

The credit deployment of scheduled commercial bank is, by and large governed by money and credit policies on the one hand and social objectives on the other hand. Monetary and credit policy, on the one hand and banking policy on the other, set broad limits within which banks can operate, which maximising returns on their resources. Credit policy measures flow from macroeconomic policy consideration such as maintenance of price stability: while banking policy measures such as those relating to branch licensing and direct credit allocation stem from certain societal considerations\(^1\). The major determinant of monetary policy has been the objective of controlled expansion\(^2\). The expansion of money supply and bank credit is necessary mainly to match a rapid increase in investment and production. However, this expansion should be regulated by taking into account the growth rate of national income as well as sectoral growth.

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In order to contain scheduled commercial banks' total credit to be deployed, monetary and credit policy is resorted to. To achieve price stability, the Reserve Bank of India (R.B.I.) regards money supply and the volume of bank credit as the two major variables. The RBI seeks to control the former through the latter\(^3\). There is a belief that money supply does not change on its own, it changes because of certain underlying developments with regard to bank credit, and the expansion of money supply and bank credit are the two sides of the same coin\(^4\). Thus regulation of bank credit to be deployed is sine qua non as banks have monopoly of producing demand deposits which are counted as money at par with currency\(^5\). Nevertheless, the control of money supply expansion and bank credit is complicated process in Indian context. Monetary policy formulation also becomes difficult as several issues apart from the broader socioeconomic objectives, impinge on monetary policy framework.\(^6\) First,

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there is difficult question of determining the appropriate rate of growth of liquidity. Second, with the demand for domestic credit outstripping supply at the going cost of credit and with certain societal concern, there is the need for credit policy to play an allocative role.

A large of credit to be deployed by Scheduled commercial banks has become more or less administered because of CRR, SLR and social objectives. Consequently, discretionary part of credit deployment has become smaller and smaller during post nationalisation period.

To ensure the allocation of resources mobilised by the banks as per national plan priorities, a system of 'administered' interest rates and deployment pattern of resources is pursued by the central banking authority. This administered interest rate and deployment pattern mainly form the broad contours of the credit policy. During the period since 1973, the RBI pursued an anti-inflationary credit policy which implied a severe restraint an credit expansion. Further, this anti-inflationary credit policy was supplemented by directives for credit allocation to meet the social objectives. There are three stages of containing total credit and its deployment.

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First stage CRR requirements:

Under Section 42 of the Reserve Bank of India (RBI) Act, 1934, each scheduled commercial bank is required to keep 3 percent of its net resources (demand and time liabilities) with the RBI, on which the RBI pays no interest. Further, the RBI has statutory power to raise this ratio up to 15 percent. Effective from July 1989, the RBI has raised the CRR to 15 percent, the maximum ceiling limit under the existing provisions of the Act.

Second Stage: SLR requirements:

Under Section 24 of the Banking Regulation Act, 1949, scheduled commercial banks are required to maintain liquid assets equivalent to 38 percent of their net resources. The liquid assets comprise cash in hand, net current account balances with notified banks, excess cash with the RBI and Investments in unencumbered Government and other approved securities.

The CRR and SLR, thus, together absorb 53 percent of the net demand and time liabilities of banks, keeping only 47 percent of the resources to be deployed as credit.
Third Stage targets for Social Banking:

For this 47 percent of the resources; the directives for credit deployment to meet the objective of social banking (i.e. Social banking targets)\(^8\) are as under:

1. Banks are required to deploy not less than 40 percent of the total advances to priority sectors (in actual practice, this percentage has already exceeded 45 percent for public sector banks).

2. 10 percent of the total bank credit of 25 percent of the total priority sector credit to be given to weaker sections such as small & marginal farmers, landless labourers, shre-croppers, etc, artisans and village and cottage industries and beneficiaries belonging to SCs/STs.

3. 18 percent of total banks credit to be provided as direct finance to agriculture and allied activities by March 1989.

4. 1 percent of total bank credit has to be given under the Scheme of Differential Rates of Interest (DRI) at 4 percent.

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Within the above statutory pre-emptions and targets for social banking, banks have to ensure.9.

i. Minimum C-D ratio of 60 percent, both at rural and semi-urban branches.

ii. Removal of regional/inter-state imbalances in respect of deployment of credit.

iii. That production of no Sector/unit suffers due to inadequacy of credit.

As a result of the statutory pre-emptions of bank funds and social banking targets, the loanable sums with banks on which they can charge truely commercial rates of interest tended to become smaller and smaller over the years.10

Schemes for Credit Deployment:

A number of Schemes have been formulated to facilitate flow of credit to specific sectors. Development of a framework of instruments and institutions reflected in


various specialised schemes

Action Programme under the 'Area Approach':

Under this approach, the programme consists of the following schemes:

1. Lead Bank scheme;
2. District Credit Plans,
3. Village Adoption scheme,
4. Credit Guarantee Scheme for small Scale Industries and Small Borrowers, and
5. Regional Rural Banks.

Each of these schemes is briefly discussed below:

(1) Lead Bank Scheme:

This scheme introduced by the Reserve Bank of India in December 1969, represents a major step in the attainment of the two-fold objective of mobilization of deposits on a massive scale and of stepping up of credit to the weaker sections of the society. Under this scheme the emphasis is on making banks as important instrument of local development by entrusting individual bank.

The essential features of the scheme:

i. The lead bank scheme has imparted development orientation to banking operations, thus providing institutional support for regional credit planning.

ii. The branch licensing policy of the Reserve Bank has been greatly influenced by this scheme for planned extension of banking facilities in credit starved areas to bring about greater regional balance in development of credit in favour of the weaker sections from all parts of the district.

iii. The scheme gives concret shape to the 'area approach' to development by evolving plans and programmes for credit development, recommended by the Tandon Study Group (1968) set up by the National Credit Council. The group was assigned the task of identifying the territorial and functional credit gap for recommending extension of adequate institutional credit, on reasonable terms and on the basis of local conditions, to the neglected areas, sectors and weaker sections of the community.

iv. As recommended by the group, the 'District' became the unit of the area approach:
v. Each lead bank is made responsible for surveying its respective district's potential and resources for deployment of banking through branch expansion and widening credit deployment and;

vi. The Scheme formulates dynamic relationships between the nationalised and non-nationalised banks, between commercial banks and cooperative credit institutions and the integration of credit and banking business with other activities.

Functions (Responsibilities) of Lead Banks under the lead Bank Scheme are:

1. To survey the resources and potential for banking development in its district. The Lead Bank identifies the places suitable for branch expansion. The Lead Bank with other Banks operating in the area establishes new offices in unbanked areas to bring banking services within the reach of the entire area.

2. It estimates the credit requirements of the districts and prepares different scheme of financing priority and neglected sectors of the area with the help of other sister institutions.
3. To survey the number of industrial and commercial units and other establishments and farms which do not have banking accounts or which depend primarily on money lenders.

4. To examine the facilities for marketing of agricultural produce and industrial production, storage and warehousing space and linking of credit marketing in the district.

5. To study the facilities for stocking of fertilizers and other agricultural inputs and for the repair and servicing equipments.

6. To recruit and trained staff and offering advice to small borrowers and farmers and for the follow up of inspection of end-use of loans.

7. To assist other primary lending agencies.

8. It mobilised rural deposits through attractive and effective schemes also tries to raise the rate of saving of the district.

9. To monitor and implement district credit plains; and

10. Lead Bank also identifies the major bottle-necks of the area and suggests remedies so that all around development of the area is achieved.12

2. **District Credit Plans**:

Formulating District Credit Plans has been responsibility of the lead banks. The period of District Credit plans in our country dates back to 1st April 1974. It is a blue-print for action by banks and other financial institutions, envisaging overall development of the lead district. This involves identification of economic activities which could be financed by credit institutions.

The main features of the District Credit Plan:

i. It ensures a smooth flow of credit for the district from the banks are the institutional agencies for self-employment opportunities in rural areas and upliftment of the weaker sections.

ii. A definite direction is provided by the Reserve Bank of India to the lead bank to formulate, realistically, systematically and methodologically, uniform credit plans for performing the said tasks without any discrepancies.

iii. It is a comprehensive framework indicating credit targets for all the agencies in the district on a block-wise, sector-wise, scheme-wise, and bank-wise.

iv. While the Lead Banks are free to distribute their share in the credit plan to their branches in the district for different schemes and purposes, they are to ensure a reasonably even spread of the share among their branches in the rural and semi-urban areas to correct regional imbalances in credit deployment. A special feature of the plan is its stress on promoting optimum use of the chief factors of production, viz., land, labour, and capital for increasing productivity and production. To ascertain this, the lead Bank is enabled, under the directives of the Reserve Bank of India and the Government of India, to formulate bankable scheme for specific areas for improving the credit absorptive capacity of the rural sector especially its capital-deficit areas - specified sectors like agriculture, the weaker sections, and the scheduled castes/scheduled tribes, the revised 20 point programme and the IRDP.

v. Sharing of responsibilities among the financial institutions operating in the district and review thereof, to ensure that the share of each agency is within its technical and organisational capability to fulfil.

vi. In the absence of the district development plans, the guideline have incorporated formats in which essential data
have to be provided by the State Governments, regarding the programmes to be sent and other support required befitting the national objectives.

3. **Village Adoption Scheme**:

The Scheme relates the banks' credit operations which concentrate on compact areas with intensive programme for integrated development of the adopted villages, to do away, with the obvious difficulties of scattered nature of agricultural lending e.g., follow up, supervision and credit recovery.

Integrative approach and availability of credit in a phased manner to all potential borrowers of the adopted villages for technically viable purposes is the most important feature of this scheme. Another important feature is its simple documentation facilities, easy requirements of margin money and security. Longer repayment periods, lower rates of interest etc. Moreover, credit schemes for joint ownership of assets, whereever feasible, are encouraged in order to ensure larger credit flow to small and marginal farmers and other weaker sections in the adopted villages.
The first step under the scheme is to select a village for adoption. The guidelines usually followed by banks for selecting a villages for adoption and formulation of an integrated credit scheme are:

(a) the village to be at a manageable distance from the bank office (not more than 15 Kms), to be accessible throughout the year;
(b) assured resources of irrigation and possibility of multiple cropping;
(c) existence of larger credit gaps;
(d) availability of necessary infrastructural facilities for rapid and intensive agricultural development;
(e) exclusion from selection of natural calamity prone (framine, flood etc.) villages;
(f) timely repaying attitude of borrowers;
(g) marketing facilities for agricultural inputs and output; and
(h) progressive outlook of borrowers for increasing income, e.g. adoption of new technology:

The productive activities which could be financed include: food-grains, Cash crops, minor irrigation facilities, farm mechanisation equipments, poultry, dairy, fisheries, fruit-cultivation, fertiliser, marketing, storage
and process, agro-custom services, etc. These activities indicate vertical and horizontal integration of the credit needs of the adopted village.

(4) **Credit guarantee Scheme for Small-Scale Industries and Small Borrowers**

Various credit guarantee schemes for small borrowers and small scale industries and non-industrial sectors of the economy, have been introduced by the credit Guarantee corporation of India, to promote and increase flow of credit to them.

The scheme covers all types of credit facilities granted to small-scale industrial units, e.g.; working capital advances, term loans, instalments credits, letters of credit, acceptances credit, deferred payment and loan guarantees.¹⁴

The credit Guarantee Corporation of India has formulated a comprehensive credit guarantee scheme, which has come into effect from 1st April 1971. Under the scheme, credit facilities extended by Scheduled commercial banks on or after this date to transport operators, traders in

fertilizers and other goods, professionals and self-employed persons, owners of business enterprises and farmers engaged in cultivation and allied agricultural operations will be covered by the guarantee covered by the corporation\textsuperscript{15}.

There are the small but needy borrowers for whom three credit Guarantee schemes to guarantee loans deployed by various credit institutions were launched; the schemes are now taken over by the Deposit Insurance Corporation. The three schemes are very briefly discussed:

(i) \textbf{The Small Loans (Small-Scale Industries) Guarantee Scheme:}

Under this scheme guarantee credit is deployed by commercial banks including Regional Rural Banks, along with other institutions. Only eligible credit institutions, on entering into an agreement with the corporation, can join the scheme which is voluntary. No prior approval for guarantee cover is required for an individual credit proposal; it automatically become applicable on entrance.

\textsuperscript{15} Ibid, p. 69
The credit facilities eligible for the guarantee cover under the scheme are related to the factors that concern the productive process, such as acquisition/replacement of or repairs to fixed assets or equipment like building, machinery, furniture and fixtures, vehicles, and working capital requirements for both production and its marketing. The leading feature of the scheme is that it is weighted in favour of the weakest of the weaker section of the society, the guarantors available to these borrowers being 90 percent of the amount in default (i.e. exceeding an aggregate credit of Rs. 25,000 granted). The borrowers with credit facilities not exceeding Rs. 2 lakhs get the cover to the extent of 50 percent. As to the small scale industrial units from the backward districts, a higher cover of $66\frac{2}{3}$ percent is provided. In respect of advances to technicians entrepreneurs, the highest cover of 90 percent is provided. In all cases of borrowers, however, the claim liability per borrower will not exceed Rs. 10 lakhs. With the approval of the Reserve Bank of India, varying rates of guarantee fee are levied by the corporation for different (a) categories of credit institutions, (b) types of credit facilities, and (c) areas of credit utilisation.

The number of institutions participating in the scheme declined from 555 as at the end of June 1990 to 375 as at the end of June 1991, comprising 56 commercial banks,
148 Regional Rural co-operative banks, 3 state development agencies and 168 co-operative banks. Total amount of guarantied advances to Small-scale industries under the scheme rose from Rs. 14,094 crores as at the end of March 1989 to Rs. 16,826 crores as at the end of March, 1990, recording a rise of 19.4 percent 16.

(ii) The Small Loans (Financial Corporation) Guarantee Scheme, 1971

The objective of the scheme introduced on July 1, 1971, is to provide guarantee to a substantial extent in respect of Small Loans to borrowers in the priority and neglected sectors. The scheme covers credit facilities granted by the State Financial Corporation to transport operations, hoteliers, and business enterprises engaged in the generation and distribution of electricity or any other form of power. In the case of loans to transport operators (operating a rickshaw, cart, boat, barge, steamer or launch for carrying passengers or goods for hire), the cover is available to the extent of 75% without any ceiling on the amount of loan. In regard to the business enterprises other than transport - operators, the original cost of equipment used for the purpose of the business should not exceed Rs 2 lakhs. The guarantee cover available to them is to the

extent of 75% of the amount of default or Rs. 50,000.00 which ever is lower. The guarantee fee, with effect from July 1980; was fixed at the rate of ½% per annum on account of small borrowers enjoying eligible credit facilities not exceeding Rs. 25,000/- and 3/4% per annum on account of other borrowers.

As at the end of June 1991, the number of Commercial banks including 194 RRBs participating in the corporation's small loans Guarantee Scheme, 1971 stood at 258. This scheme continued to account for the bulk of total guarantted advances at 99.9 percent. Advances to farmers and agriculturists under the scheme accounted for 67 percent of total guarantted advances to small borrowers.

(iii) **The Small Loans (Service Cooperative Societies) guarantee Scheme, 1971:**

The scheme is introduced on October 1, 1971, and is applicable to certain cooperative societies which may be assisting workers, artisans and other self-employed persons engaged in industrial activity. Only non-credit, registered service cooperative are eligible, i.e. societies providing their members services like the securing of orders, purchase of raw materials, display and marketing of finished goods,
and any other assistance relating to manufacture, processing or preservation of goods and the sale of disposal of such goods. The guarantee cover is to the extent of 75% of the amount in default or Rs. 30,000, which ever is lower.

The graduated scale of guarantee fee, as under the first two schemes mentioned above, is applicable with effect from July 1, 1980, to the eligible credit facilities covered by this scheme.

At the end of June 1991, the institutions participated in this scheme number 150, comprising 48 commercial banks, 70 RRBs, and 32 co-operative banks.

5. The Regional Rural banks (RRBs):

As part of the new economic programme announced on July 1, 1975, the Government of India decided to set up regional rural banks throughout the country. The main objective of these banks is to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepeneurs. Accordingly, the Regional
Rural Banks Ordinance, 1975 was promulgated on September 26, 1975. Each rural bank will have an authorised capital of Rs. 1 crore and issued/paid up capital of Rs. 25 lakhs. The share capital of these banks would be contributed as follows: 50 percent by the Central Government, 15 percent by the State Government concerned and 35 percent by the sponsoring commercial bank. Initially, five banks have been established on October 2, 1975 at Marathahat and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan, and Malda in West Bengal. These banks have been sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India, respectively.

The new regional banks, though basically scheduled commercial banks, differ from the existing commercial banks in the following respects:

(i) Their area of operation would be limited to a specified region comprising one or more districts in any state.

(ii) They will grant loans and advances particularly to small and marginal farmers and agricultural labourers and to rural artisans and to small entrepreneurs and persons of small means engaged in trade and other productive activities in their area of operation.
(iii) The lending rates of these banks will not be higher than the prevailing lending rates of co-operative societies in any particular state.

(iv) The salary structure of the employees of the regional rural banks will be prescribed by the Central Government having regard to the salary structure of the employees of the State Government and local authorities of comparable level and status in the area of operation of the bank.

It is expected that these banks will act as alternative agencies to provide institutional credit in rural areas when the private money-lender is eliminated. The number of district covered by 196 RRBs increased to 397 as at the end of September 1992 from 385 as at the end September 1991. The number of RRBs branches stood at 14,540 as at the end of September 1992. The aggregate outstanding deposits of 196 RRBs registered an increase of 20.8 percent (Rs.1098 crores) during 1992-93 as compared with that of 15.6 (Rs. 711 crores) during 1991-92. Aggregate advances (direct and indirect) of RRBs grew by 12.7 percent (Rs. '500 crores) as compared with that of 13.0 percent (Rs. 454 crores) in

the previous year. Of the total outstanding advances 47 percent were for agriculture and allied activities.\footnote{RBI - Report on Currency and Finance Vol. I, 1992-93, p. 152.}

**Action Programme under the Schemes Approach:**

We now consider the schemes which are specially designed for the weaker sections and aim at improving their economic and social conditions through credit deployment by banking institutions, especially the public sector banks. Most of the schemes deal with various aspects of lending, which are related to creating opportunities for income or employment, coordination between various financial agencies, locating viable borrowers, granting loans in time and at lower cost, and make available short, medium and long-term credit for spreading and increasing productive activities and at the same time reducing economic inequality. A brief outline of the nature and functioning of each the schemes is given below:
(1) **Credit Authorisation Scheme:**

The scheme was introduced in November, 1965. Since 1965, the scheme has been playing a significant role as an effective instrument of credit regulation. This scheme was introduced with a view to restricting excessive advances of commercial banks to a few borrowers to the neglect of others. It also ensured some amount of financial discipline and end use of credit, and required the banks to advance credit for economically viable and technically feasible projects. The Reserve Bank of India though the scheme restricts powers of scheduled commercial banks to extend credit. Under the scheme, a borrower was allowed credit upto a maximum amount only from the banking system, and this too was subject to the viability and feasibility of a project and peak season requirements$^{19}$.

The scheme also helps to improve appraisal techniques in banks and has proved to be an important instrument for strengthening credit control and allocative measures.

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$^{19}$ H.W. Agrawal, 'A portrait of Nationalised Banks, Inter-India Publications, Delhi, p. 53. (1980)
Fast tract proposals:

Subject to fulfilment of certain requirements relating to maintenance of adequate discipline in the use of bank credit, (i) reasonableness of estimates/projections of production, sales current assets and current liabilities in conformity with the Reserve Bank guidelines; with the reserve Bank guidelines:

(iii) prompt submission of quarterly operating statements as also annual accounts by borrowers; and (v) regular annual review of credit facilities by banks; proposals for sanction of working capital limits falling within the purview of credit Authorisation scheme can be put on 'fast tract' and banks can release funds at their discretion upto 50 percent of proposed additional limits without waiting for prior authorisation of the Reserve Bank (upto 75 percent in the case of predominantly export oriented manufacturing units).

All proposals seeking benefit of the 'fast tract' would be subjected to normal process of scrutiny in the Reserve Bank as at present and, if it is found that the credit limit sanctioned by a bank were not need-based or were excessive, corrective action would have to be taken by that bank as directed by the Reserve Bank

(ii) **Group Guarantee Scheme:**

Group guarantee means that loans granted to a group of borrowers are guaranteed by all the members of the group. This scheme relates to small farmers. Obviously, a majority of farmers in India are small cultivators and cannot either give proper security or afford capital assets; therefore, the group membership can make a small farmer eligible for borrowing from commercial banks. In securing short-term credit like crop loans, agriculturists do not face difficulties as such. But in getting term loans for meeting capital expenditure on agriculture, such as improving land, purchase of tractors and pumpsets, lift-irrigation, agro-industries etc., they as individual borrowers face procedural difficulties. Hence this scheme under which term loans are granted expeditiously and at a lesser cost to a large number of small farmers who could jointly own capital assets and guarantee for the loan is offered combinedly by all members of the group.

The scheme aims at (a) including a sense of collective responsibility in the matter of utilisation and repayment of loans, and (b) enabling acquisition of capital assets which can be used commonly, i.e. among members of
homogenous groups of farmers with identical status or cropping pattern who are financed for the same common activity. An important feature of the scheme is that, generally five members comprise a group; even three are allowed if a larger group is operationally inconvenient. Another feature is that renewal or additional loans to members will be granted only when the total repayment of loans by all the members of the group is completed. In genuine cases, however, the defaulters are individually dealt with and other members who have repaid their loans are moved into other groups and granted fresh credit facilities.

So far, there is not enough experience in relation to the commercial bank credit under Group Guarantee Scheme for acquiring Joint capital assets as envisaged by the scheme. There has been a more unequal distribution of terms loans, according to the size of holding, among the members which can give rise to quarrels among them. The commercial banks have to avoid such quarrels and undue influence and keep a continuous watch on the use of such assets. In the absence of such group schemes, the role of commercial banks in providing term loans to small farmers will become negligible.21

(iii) **Differential Rate of Interest Scheme (DRI):**

This scheme, operative since June 1972, is intended to benefit the weaker sections of the community. The scheme envisages lending by banks at a concessional interest rate of 4% per annum, to selected low-income groups who deserve financial assistance. It benefits small and marginal agriculturists, small industrial units retailers, Small Hoteliers, Cobblers and other small professionals who do not employ regular paid employees, as also institutions for physically handicapped persons, Orphanages, Women's homes, etc. Since 1975, members of the Scheduled Castes and Scheduled Tribes are also made eligible to borrow under the scheme.

The borrowers are selected mainly on the basis of the weak economic status of the borrowers who can not offer tangible security of their own or offer the guarantee of a well-to-do party and of the productive character of the activity which is to be financed. Borrowers with annual incomes of upto Rs. 3,000 in urban or semi-urban areas and upto Rs. 2,000 in rural areas are considered eligible for finance. On the other hand, the ceilings on loan for working capital and term loan to a single borrower are Rs. 1,500
and Rs. 5000 respectively. Since February, 1980, banks are empowered to grant advances upto Rs. 6,500 by way of composite loan in the case of small-scale industrialists, village artisans, etc, in the decentralised sector without making any distinction between working capital and term-loan.

The scheme, earlier implemented by all the public sector banks and a few private sector banks with lead responsibilities, was extended to cover also the other non-nationalised banks, on a voluntary basis, from May 1977. Since January 1981, the operating banks are permitted to route advances under the scheme, through the RRBs sponsored by them, on 'refinance' basis in addition to the 'agency' basis which carries a rate of interest of 2% and can be considered by these banks for the targeted 1% lendings under the scheme.

The interest to be charged by banks is fixed at a uniform rate of 4%, i.e. 2% below the banks' rate prevailing in 1972 irrespective of the subsequent changes in the latter. Loans and advances granted by banks under the scheme are covered under the small loans Guarantee scheme of the Deposit Insurance and credit Guarantee corporation.
From December 1978, the banks are required to lend a maximum of 1% (One-half of 1% earlier) of their aggregate advances. However, the target for small banks with deposits of less than Rs. 25 crores is \( \frac{1}{4} \) of 1%. They have an obligation to route, through their rural and semi-urban branches, at least two-thirds of their advances to the rural weaker sections. Further, at least 40% (as against \( 33\frac{1}{3} \) % earlier) of the credit granted under the scheme i.e. a fair share, is required to be reserved for those belonging to Scheduled Castes and Scheduled Tribes.

Certain modification have been effected in the scheme during the year. Against the earlier loan limit of Rs. 2500 under the scheme, banks may now assist handicapped persons for acquiring aids, appliances and equipments to the extent of their actual cost but not exceeding Rs. 5000. This assistance will be independent of the productive loan limit of Rs. 6,500 eligible under the scheme. Housing loans upto Rs. 5,000 (direct and indirect advances) granted to scheduled caste/scheduled tribe beneficiaries who satisfy the income criteria stipulated under the scheme will now be classified by banks under the scheme. SC/ST beneficiaries availing of housing loans upto Rs. 5000 have been brought under the DRI scheme.
(iv) Integrated Rural Development Programme: (IRDP)

The concept of Integrated Rural Development Programme is based on the knowledge of local needs, resource endowment and potentialities. The Draft Fifth Five year Plan stated "This integrated development should encompass both special and functional integration of all relevant programmes bearing on increased agricultural production and reduction of unemployment and under-employment among small farmers and agricultural labour. The aim is towards all round development and not combined to increasing production alone". But all these programmes did not bring about any change in the problem of poverty. Therefore, the planning commission introduced a single programme i.e. IRDP throughout the country during Sixth Five Year Plan. IRDP was launched in the year 1978-79 with 2300 blocks of the country. This programme has been extended to cover all the 5011 blocks in the country with effect from 2nd October, 1980. Since the IRDP continuous to be a major instrument of poverty alleviation in the rural areas.

However, latter on, with a view to provide technical skills to rural youth to equip them to take up self employment in the fields of agriculture and allied activities, industries, services and trade:

The Government of India gave the guidelines for implementation of the IRDP. They are -

i. In the programmes priority is to be given for target group (i.e. agriculture labourer, Small and marginal farmers, SC/ST, non-agricultural labourer, tenants etc.)

ii. For the IRDP atleast 30 percent of the assisted families should be drawn from the SC/ST, population at district/block level.

iii. To prepare of Five years plan for each block/district.

iv. To use the uniform pattern of subsidy.

v. To extend the benefit to the poorest among the poor.

vi. Intensive field supervision will be required at the block level.

vii. To set up an agency for implementation of IRDP.

Thus, IRDP has been evolved as the main programme for the all round development of rural areas.

Objective of the IRDP:

According to the Government of India, the IRDP is a beneficiary oriented programme. Its main objective is to enable selected families in rural areas to cross the poverty line. (A family with an annual income of Rs. 3500 less is considered to be below the poverty line). Latter on this limit is extended annual income of Rs. 4800 during seventh five year plan.

Integrated Rural Development programme seeks the overall transformation of rural life by tackling the problem of rural poverty, housing, rural infrastructure, social amenities and employment. In view of this, the Government decided to achieve the following objectives:

i. To raise the level of per capita income and standard of living of rural masses below the poverty line.

ii. To increase production and productivity in agriculture and allied activities in the rural areas.

iii. To generate the minimum possible employment opportunities in rural areas especially for the weaker weaker sections of the rural society.

iv. To provide certain basic amenities like drinking water, electricity, roads, market centres, health care centres and education centres; and

(v) Making the rural families viable and self-sufficient.

(v) **Credit Camps:**

The organisation of credit camps envisages taking the entire credit machinery right to the door steps of the borrowers in the villages, particularly of the small and marginal farmers. The main objective is to go in search of prospective borrowers in remote villages where credit deployment is at a very low level and the nationalised commercial banks find it difficult to locate viable borrowers. The banks, therefore, study their total credit needs and sanction loans on the spot, to eliminate delay and inconvenience in the grant of loans. The organisation of credit camps is preceded by a number of steps amongst which the most essential are:

(i) Constituting panels consisting of bank officials and the district development functionaries, and

(ii) Convening a meeting of the villagers for exchanging views and assessing their credit needs.
Before participating in the workshop, the branch managers have to identify and survey at least five potential villages located within a manageable distance from the respective branches and having substantial credit gaps. The bank's agricultural development policies, schemes, procedures, and other requirements are explained in the workshop. The Government Officials explains Government's specific programme, with subsidy and other assistance, to be provided to the banks. The draft credit plan for the individually identified villages is also discussed and finalised during this workshop. It also finalized the time schedules for organizing villages meetings and identification procedures. These meetings are convened jointly the Branch Managers, Taluka Development Officers, Extension Officers, Village level workers and Agriculture Officers, of the bank/s.

After the village meeting, the identification of eligible borrowers is done. Then, the banks' loan-cases in the prescribed form are prepared on the basis of the information supplied by local officers. The cases then get screened by a screening committee, consisting of the Branch Manager, Agriculture Officer, and the State Officers engaged in rural development. The eligible applicants are interviewed in the village itself and the eligible loan applications are
recommended. The rejected cases, however, got reasons for rejection from the branch manager. The disbursement of loans is done, on a predetermined date, in the credit camp itself. On this day, the leading persons of the area are invited for creating awareness amongst the borrowers, about various facilities. Thus, all those interested in rural development are involved in this scheme. As the processes of screening and lending are more or less open, it would have substantial demonstration effect.

(vi) **Schemes for Assistance to Self-Employed and Professional Persons:**

With a view to help the weaker sections, banks are taking increasing interest in financing also those people from these sections who are self-employed.

The banks identify, under these schemes, potential entrepreneurs with meagre means and train them for becoming efficient entrepreneurs/managers. In providing institutional support for the self-employed schemes like poultry fisheries and animal husbandry, banks have been facing a number of difficulties like identification and recommendation (by 5 persons) of prospective borrowers, which involve under delay and heavy cost, lack of coordination between officials agencies at the district level.
and the bankers, etc. To illustrate, the Milch-cattle programme, as a lonable field, got suffered because of lack of veterinary services and fodder supply. Moreover, banks are required to grant loans without sufficient homework, mainly due to political rather than economic reasons. Again, Banks' difficulties mount when the beneficiaries do not extend full co-operation for obvious reasons. For instance, some of the agricultural loans get diverted to other purposes. The DIF loans are either misused or used for consumption. However, the poultry and dairy units have proved to be a success when they are promoted in clusters. In this case, the Government gives subsidy, arranges margin money, and provides infrastructural facilities.

Consumption Credit Scheme:

This is another weaker section - oriented scheme which was started in 1977. It is based on the recommendations of the Sivaraman Committee (1976). Even before this, some commercial banks (such as Bank of India, Canara Bank and Punjab National Bank) had formulated certain schemes of consumption credit on an experimental basis.

On the recommendations of the Committee, the State Bank of India and other Commercial banks have devised the following two schemes of consumption credit for the borrowers in rural and semi-rural areas:
(a) The 'General Consumption Credit' schemes for all borrowers at rural and semi-urban centres, the amount to be lent being made against pledge of gold or silver ornaments, and up to a maximum of Rs. 1,000 per borrower.

(b) 'Clean Demand Loans' Scheme for the under-mentioned purposes.

i) Medical expenses

ii) Marriage

iii) Educational needs

iv) Religious ceremonies, Birth and Funerals, etc.

These consumption loans are covered by the Credit Guarantee Scheme.

So far very few commercial banks have come forward to extend the consumption loan facility. The very purpose and nature of the scheme calls for scrutiny.

(viii) Schemes for providing Employment to the Educated Unemployed youth:

During the year (1983-84), Government of India in consultation with the Reserve Bank of India, formulated a scheme for providing Self-employment to the educated un-
employed youth, who are matriculates and above and within the age group of 18 to 23 years to undertake self employment ventures in Industry service and business. The scheme will extended to all areas of the country (except cities with more than one million population) and it aims at providing self-employment to 2.5 lakhs educated unemployed youth by August 15, 1984. The overall quantum of funds to be provided by the banking system would be around Rs. 325 crores, i.e. about 1% (One percent) of bank credit at the end of June 1983. Advances granted under the scheme will be included in banks' priority sector advances. For implementation of the scheme, DICS in consultation with the lead banks of the respective areas would function as the nodal agency for motivating and selecting entrepreneur beneficiaries, identifying and preparing schemes in trade, services establishments and cottage and small-scale industries. A composite loan not exceeding Rs. 25,000 will be admissible to an eligible entrepreneur. It will repayable in 3 to 7 years, with a moratorium of 6 to 18 months and will carry interest at 10 percent per annum for backward areas and 12 percent for other areas. The beneficiaries will be eligible for capital subsidy computed at 25 percent of the total amount of loan from the Government, which will be held in term deposit in the name of the borrower for a
minimum period of 3 years before it is adjusted to his loan account. The subsidy will be routed through the Reserve Bank of India.

From 1986-87, ITI trained candidates were also eligible for assistance under the scheme for industrial service ventures. A sub target of 30 percent for SC/ST beneficiaries, a ceiling on family income of beneficiaries of Rs. 10,000 per annum, enhancement of limit of loan per beneficiary for industrial ventures from Rs. 25,000 to Rs. 35,000 and reduction of loan limit for business ventures from Rs. 25,000 to Rs. 15,000 were the additional modification introduced in the scheme from 1986-8726.

(IX) **Self-Employment Programme for the Urban Poor (SEPUP):**

With effect from September, 1986 the Government of India introduced a new poverty alleviation programme for the urban poor. The scheme envisaged provision of self-employment opportunities to the urban poor and covers all cities/towns with a population exceeding 10,000 (1981 census) and not covered under Integrated Rural Development Programme. One beneficiary per 300 population would be assisted under the scheme and the programme would be implemented through selected branches of public sector

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banks. Persons whose total family income was not more than Rs. 600 per month were eligible for assistance and an assistance not exceeding Rs. 5,000 per family would be available to the selected beneficiaries at an interest rate of 10 percent per annum. The Central Government would also provide a subsidy of 25 percent of the loan amount. 27

(X) The Scheme of Urban Micro Enterprises (SUME):

The scheme has been introduced from 15th June, 1990, with a objective of providing employment to unemployed and under-employed poor in urban areas. It covers unemployed urban poor living below the poverty line with an annual family income of Rs. 7,200 and below in metropolitan areas, cities and towns not covered by IRDP. No physical targets have been fixed under the scheme. However, the Government of India has allocated subsidy to each urban local body/state who are expected to ensure that loan proposals commensurate with the allocated subsidy are sponsored to banks. The urban local bodies are primarily responsible for identifying beneficiaries. Maximum loan amount presently permitted in Rs. 15,000 in the case of SCs/STs and of 25 percent of the project cost, subject to a ceiling of Rs. 5,000 for

Scheduled Caste/Scheduled Tribes and women beneficiaries, Rs. 4000 for others. The subsidy is routed through the urban local bodies. The rate of interest is related to size of loan.  

(XI) **Prime Minister's Rozgar Yojana:**

A new scheme called the Prime Minister's Rozgar Yojana (PMRY) has been introduced from October 2, 1993 with the objective of providing sustained self employment in Micro-enterprises to about ten lakh educated unemployed urban youth in the group of 18 and 35 years belonging to families having incomes of less than Rs. 24,000 per annum. The salient features of the scheme are: (1) the beneficiary would bring in 5 percent of the project cost as margin money and be entitled to a composite bank loan upto Rs. One lakh without a collateral guarantee and a Government Subsidy of 15 percent subject to a ceiling of Rs. 7,500; (ii) the rate of interest on loans granted under the scheme, to be treated as priority sector advances, will be guided by the Reserve Bank's directives on interest rates issued from time to time; (iii) the subsidy sent to the disbursing bank in advance is to be treated as fixed deposit in the name of the

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beneficiary; (iv) the beneficiary would hypothecate/mortgage/pledge assets created out of the loan to the bank; and (v) banks would need to exercise special care in scrutinising those cases where no fixed assets are proposed to be created from loans above Rs. 50,000.0029.