Chapter - 6

Multi Agency Approach to Rural Banking
MULTI AGENCY APPROACH TO RURAL BANKING

A review of the programmes made by the commercial banks, co-operative credit institutions and the Regional Rural Banks in expanding banking facilities in the rural areas and in extending rural credit in the country in recent years was undertaken in the preceding chapters. The problems faced by these three types of banking institutions in extending banking facilities in the rural areas were also discussed. From the foregoing discussion it is clear that a multi-agency approach to the expansion of rural banking has been adopted in the country. This concluding chapter will now be devoted to a discussion of the nature of this multiagency approach to rural banking in the country and the problems that it gives rise to. An attempt will also be made to suggest certain measures to overcome such problems.

Meaning: -

Multi agency approach to credit implies the participation of different types of credit institutions in the provision of credit for productive undertakings in the economy. When two or more types of credit institutions participate in the provision of rural credit than it is considered to be a multiagency approach to rural credit. The concept of the multiagency approach to rural credit is not new. In a way, the approach to rural credit in
the country was essentially a multi agency approach even in the past. Data pertaining to the relative significance of the different sources of credit for agriculture in India presented in Table 2.6 shows that Government, Cooperatives, Commercial Banks, Land Lords, Agricultural money lenders, professional money lenders, traders and commission agents, relatives and others formed the different sources of agricultural credit in the country. While professional moneylenders formed the single largest source of agricultural credit in the country in 1951-52. The relative importance of these sources changed in recent years as the non-institutional moneylenders supplying the significant share at 40.0 percent in 1996-97. Different agencies were, therefore, involved in the provision of rural credit in the country even in the past so that the concept of multi agency approach to rural credit in the country is not a basically new approach.

It should be noted that the possibility of having such a multi agency approach to credit for productive undertakings can be traced to the presence, in a modern economy, of different types of financial institutions undertaking financial intermediation and different types of credit and financing activities. Many of such financial institutions like building societies or hire purchase finance institutions are specialised institutions financing certain types of specific transactions and raise deposits from the public through special deposit schemes. Commercial banks on the other hand, are not such specialised financing institutions and provide credit facilities for a variety of transactions provided the borrower is in a position to offer the type
of securities insisted upon by the banks against the loans granted by them. However, the distinction between banks and other financial intermediaries lies not in whether they provide credit facilities generally for all types of productive and business transactions or only for specific purposes but on whether they have the ability to create money in the form of credit or not. While banks are financial intermediaries, which have the ability to create money in the form of credit, non-banking financial intermediaries can only lend the money that they have collected as deposits from the savers and do not have the ability to create money. This distinction between banks and non-banking financial intermediaries is relevant to the expansion of banking facilities in the rural areas of the country since banking facilities in the rural areas can be expanded only by opening branches of commercial and co-operative banks in the rural areas of the country. The presence of a large number of credit institutions of the non-banking type in the rural areas of the country will not be sufficient to provide the rural areas with a developed and elastic system of banking, through such institutions provide finance for agriculture and other productive activities in the rural areas. In terms of this distinction between banks and non-banking financial intermediaries, it is possible to point out that through rural credit in the country was a multi-agency type even in the past, the rural areas of the country did not have the required banking facilities in the past since many of the traditional sources of rural credit in the country, like the government, landlords, agricultural and professional money lenders, traders and commission agents and relatives,
were of the non-banking type. Besides, landlords, agricultural and professional money lenders, traders and commission agents had their own demerits such as charging high rate of interest, their exploiting character and their inclustic nature in addition to being non-institutional in character.

Hence, with a view to provide agriculture and other rural productive activities with an elastic institutional source of credit, the government laid emphasis on the development of the co-operative credit movement in the rural areas of the country. Co-operative credit was considered to be the most suitable form of rural credit in the country due to its many advantages as was seen in the third chapter. As the All India Rural Credit Survey Committee (1954) pointed out, "the reorganisation of agricultural credit in India must be based on some form of Co-operative association of cultivators within the village itself ... there is no real alternative to the adoption of the Co-operative basis for the organisation of credit and economic activity." The primacy attached to co-operatives in providing an alternative institutional source of credit in the country as "Co-operatives will continue to be the principal agencies for agricultural credit. It is estimated that Co-operative short term and medium term credit will expand from the present level of 450 crore per annum to Rs. 750 crore in the final year of Fourth Plan. As regards long-term credit, the land development banks, which have made significant progress in recent years, are well organised to handle loan operations of over Rs. 1000 crore over the plan period.
However, on the basis of financial resources now in sight, a target of Rs. 700 crore has been fixed for the time being.\textsuperscript{2}

It was, however, reorganised that co-operatives by themselves will not be able to meet all the credit requirements of the agricultural sectors in the country and that they should be supplemented by other institutional source of credit. As was observed by the Planning Commission "while as in the past, co-operatives will have to be strengthened and treated as the principal agency for agricultural credit, the approach of the fourth plan will be to ensure that agricultural production is not inhibited by the weakness of the co-operatives. In areas where the co-operatives credit structure is weak, there will be a special effort to provide alternative institutional sources. The policy in the plan will be to institutionalise agricultural credit to the maximum extent possible and to reduce direct loaning by the government to the minimum.

Among the alternative agencies will be agricultural credit corporations, to be set up under a law enacted by Parliament in states where co-operative structure is unequal to the risk of task of providing adequate agricultural credit. The necessity for the functioning of different institutional agencies in meeting the credit requirements of the rural sector of the country's economy was thus recognised by the government, and there in can be found the origin of the present day multi agency approach to rural credit in the country. As the planning commission further observed, for meeting the gap in agricultural credit, the potentialities of commercial banks have to be fully mobilised.
Following social control, commercial banks had shown an increasing interest in the agriculture sector. The volume of direct agriculture finance outstanding from commercial banks increased from Rs. 5 crore during 1966-67 to Rs. 53 crore in 1968-69.\textsuperscript{3}

Since the nationalisation of the fourteen major commercial banks in the country in 1969, the nationalised commercial banks in particular and the commercial banks in general have been directed to use an increasing portion of their resources for lending to agriculture and other rural productive undertakings in the country and a definite role has been assigned to the commercial banks in expanding banking facilities in the rural areas of the country. The setting up of the first five Regional Rural Banks in the country, with their regional and target oriented, on October 1975, was another significant step in the transition from a single agency approach, the co-operatives being the single agency, to a multiagency approach to rural credit in the country. The Regional Rural Banks have made rapid progress since then, both in their number and territorial coverage with 196 Regional Rural Banks with their large network of branches covering 427 districts in the country as on March 31, 1996 (see data in table 4.2). Thus, the multi agency approach to the provision of institutional source of rural credit in the country took concrete shape by 1975.

It should, however, be noted that though the present multiagency approach to the provision of rural credit in the country includes different types of credit institutions they belong to three broad groups, namely, the co-
The co-operative structure with its country wide network of primary co-operatives, the commercial banking sector with 32984 rural and special agricultural branches (as at the end of June 1997) and the Regional Rural Banks numbering 196 with 14497 branches are the three main agencies involved in the provision of credit for agriculture and allied sectors. Of the three it is the co-operatives which still continue to have the predominant role in terms of both volumes and territorial coverage.

From the foregoing discussion it is clear that the multiagency approach to rural credit in the country was in existence even in the past. The basic distinction between the multiagency structure of rural credit that was in existence in the past and the one being developed now, is that while in the past the different agencies operating in the field of rural credit consisted of both institutional and non-institutional agencies, the later being predominant, the present day multi agency approach aims at developing different institutional sources of rural credit in the country. The objective of this approach is to institutionalise rural credit in the country and make it adequate timely and elastic and devoid of the various demerits of the non-institutional sources of credit like the professional and Agricultural money lenders, traders and commission agents and others.

**Need for Multi-agency approach:**

The need for multi agency approach to rural credit and rural banking in the country arises on account of the following reasons-
(i) Increasing need for rural credit in the country - The adoption of scientific farming and the increasing commercialisation of agriculture that has been taking place in the country since the beginning of the era of planned economic development in the country has been given rise to an increasing need for agricultural credit. The Co-operative form of credit was considered to be the most suitable institutional source of credit for agriculture in the country. But it was soon realised that the co-operative credit institution alone cannot meet fully the increasing need for agricultural credit in the country and there is the need to supplement co-operative credit by other sources of agricultural finance. Commercial banks were, therefore, directed to increasingly participate in the provision of rural credit in the country since the nationalisation of the fourteen major commercial banks in the country in 1969. The Regional Rural Banks were set up since 1975 to cater to the credit needs of certain target groups of people in the rural areas of the country. The resulting multi agency approach to rural credit in the country, therefore, represents an attempt at meeting the increasing need for rural credit in the country through institutional sources. Such a multi agency approach to rural audit is found to is necessary in the country in order to make rural credit adequate, prompt and elastic.

(ii) Need for different types of rural credit - The increasing need for different types of rural credit such as short term, medium term and long term credit, crop loans, credit for consumption or other purposes, credit needs of the weaker sections etc. is another reason for the multiagency approach to
rural credit since the different institutions specialise on the provision of different types of credit. While the co-operative credit societies grant short term and medium term loans, the land development bank are specialised institutions providing long term loans. While the commercial banks grant different types of loans to individuals on the basis of commercial considerations, the Regional Rural Banks are specially designed to meet the credit requirements of the weaker sections of the people in the society. The functional specialisation of the different credit institutions and the need for different types of rural credit also explains the need for the multiagency approach to rural credit in the country.

(iii) Need to develop rural banking: - The rural areas of the country were unbanked till recently and continue to be, relatively unbanked at present. The presence and operations of commercial banks, different types of Co-operative Banks and the Regional Rural Banks in the rural area of the country will tend to expand rural banking in the country on a scale much larger then what is possible if banking activities in the rural areas are left to be undertaken by only one type of banking institutions. The presence of different types of banking institutions with different types of deposits and lending activities will encourage the banking habit among the people in the rural areas and will expand rural banking in the country and will promote the productive use of rural savings.

(iv) Promotion of mobility of savings -- An advantage of the multi agency approach to rural credit in the country is the promotion of rural urban mobility
of savings. While the activities of the co-operative agricultural credit societies and the Regional Rural Banks are largely confined to the rural areas of the country, the commercial banks operate in the rural as well in the urban areas so that rural - urban mobility of savings can be promoted by the commercial banks by shifting resources from their rural to urban branches or from their urban to rural branches depending upon requirements and thereby promoting the productive use of savings. The presence of the commercial banks as a component of the multi agency approach to rural banking will, therefore, promote rural urban mobility of the savings and will thereby promote the productive use of rural savings in the country.

(v) Integrated development of the banking system - The activities of the Co-operative banks and the Regional Rural Banks in the country is confined to the regions in which they function. As such, if rural banking in the country is left to be developed by the co-operatives and Regional Rural Banks, it is difficult to bring integrated development of the Indian banking system. When rural banking is undertaken by the commercial bank also, it is possible to bring about an integrated development of the Indian banking system since the commercial banks have a nation-wide net work of branches. Through such a net work of branches in the different rural areas of the country can be financially linked with one another. An integrated development of the country's banking system will also promote interregional mobility of the funds of the banks and will help in bringing about a balanced regional distribution of banking facilities in the country.
Problems

Multiagency approach to rural banking, through desirable for many reasons, gives rise to certain serious problems.

(1) Overlapping of sphere of activity: - When different types of credit institutions function in an area, there arises considerable overlapping of spheres of the activity. For instance, both co-operatives and commercial banks provide short and medium term loans to agriculture in the country and commercial banks grant financial assistance to the weaker sections of the society along with the Regional Rural Banks. This result in unnecessary duplication of banking activities in the country. A single agency approach to banking will not have this type of disadvantages.

(ii) Overfinancing -- Overlapping of spheres of activity leads to multiple financing and overfinancing in certain cases. An individual is tempted to borrow from the different institutions for the same purpose and such a multiple financing often results in over financing giving rise to waste of resources. It has been noticed that commercial bank credit has also trended to flow largely to the very areas where co-operative credit structure was strong enough, with areas of low credit availability continuing to remain deprived. Since the loanable resources at the disposal of the country's banking system are limited in relation to the demand for them, such overfinancing in certain cases makes some other purposes deprived of their genuine needs for credit and thereby represents a waste of resources from the social point of view.
Multiple financing makes end use supervision of loans difficult and often results in overdues and bad debts which retard the rate of recycling of bank funds in the country. Unnecessary competition among the different institution to reach the deposit and loan targets set for them is another harmful aspect of the multi agency approach.

**Certain Suggestions**

The above discussion of the need for the multiagency approach to rural banking in country and the problems that it gives rise to points out to the need to adopt certain measures at co-ordinating the activities of the different institutional agencies of rural credit and banking in the country. It is possible to suggest some effective measures for co-ordinating the activities of the different institutional agencies to rural credit in the country.

These measure are based on a clear demarcation of the spheres of activity to be undertaken by the three broad types of institutional agencies, co-operatives, Regional Rural Banks and commercial banks involved in rural banking in the country. Corresponding to these three institutional agencies, the broad sphere of rural credit can be divided into three parts, namely

(i) *Lending to agriculture*,

(ii) *Lending to target groups*,

(iii) *Lending to non-farm non-target groups*

(i) **Lending to agriculture**: It is desirable and also possible to make lending to agriculture for farming operations, the exclusive sphere of activity of the co-operative credit institutions which, as was seen in the third chapter,
have many disadvantages from the point of view of lending to agriculture. It is also desirable to think of integrating the functions of the co-operative agricultural credit societies, undertaking short and medium term lending to agriculture, and of the land development banks granting long term loans. Since short, medium and long term loans are interlined with one another and the effective use of long term loans may require supplementary short term loans, an integrated co-operative credit system for leading to agricultural operations is preferable to the present dual system of co-operative credit, with the co-operative credit societies granting short and medium term loans and the land development banks granting long term loans to agriculture. Further in order to ensure productive use of credit granted, loans granted for agricultural purposes by the co-operative credit institutions should, as far as possible, be in kind in the form of supply of agricultural inputs. Similarly, loan repayment should also be in kind in the form of the agriculturists handing over their marketable surplus produce to the co-operatives in repayment of the loans borrowed by them.

(ii) Lending to target groups: - Lending to the socially and economically weaker classes of people in the rural areas such as landless agricultural labourers, rural artisans and others should be the responsibility of the Regional Rural Banks which are specially designed for such target group lending. Since such groups of people living in the rural areas of the country need credit facilities at concessional rates, it is desirable to preserve such credit activities exclusively for specialised institutions like the Regional Rural
Banks which should be given refinance facilities at concessional rates and other subsidies by the sponsor banks.

(iii)Lending to non-farm non-target groups: - The sphere of activity of the commercial banks should be that of undertaking non-farm non-target group lending in the rural areas of the country. This implies that financing of non-agricultural activity in the rural areas, such as small-scale industries, whole sale and retail trade self-employment projects, etc. Which are outside the target group, should be undertaken by the commercial banks. Financing of non-farm activities or non-agricultural purposes of agriculturists should also be undertaken by the commercial banks. Such a declaration of the spheres of lending activities of the three different credit institutions will have the advantage of avoiding the problems and waste of resources arising out of overlapping of the spheres of their activities as at present.

In respect of deposit mobilisation while the three types of institutions should mobilise as much deposit as possible within their own spheres of lending, there should not be any restriction on the commercial banks in respect of their deposit mobilisation activities and they should be free to collect deposits from all sections of the rural community. This is because, the commercial banks are highly suitable for deposit mobilisation and for the productive use of such deposits mobilised by shifting their resources from regions with surplus deposits to regions with large investment opportunities because of their country wide network of branches. Care should, however, be taken to ensure that the co-operatives and the
Regional Rural Banks are not put into difficulties by the commercial banks competing with them in respect of deposit mobilisation. This can be done by directing the commercial banks to set aside a certain portion of their rural deposits for granting loans at concessional rates to the co-operatives and to the Regional Rural Banks, as at present, in order to enable them to meet the demand for credit in the spheres reserved for them.

The foregoing discussion of the multi agency approach to rural banking in India shows that the concept of multi agency approach to rural credit in the country is not a new concept and that the approach to rural credit in the country was basically multi agency in character even in the past. What is novel in the present multi agency approach to rural credit in the country is the attempt at institutionalising this multi agency approach to rural credit. Through such a multi agency approach to rural credit is needed in the country in order to make the supply of rural credit adequate and elastic, it gives rise to problems of overlapping of spheres of activity, multiple financing and overfinancing resulting in waste of scarce resources from the social point of view. Measures should, therefore, be adopted in order to co-ordinate the activities of the three types of institutional agencies involved in the multi agency approach to the expansion of rural banking in the country.
REFERENCE


3. Ibid, P. 141.