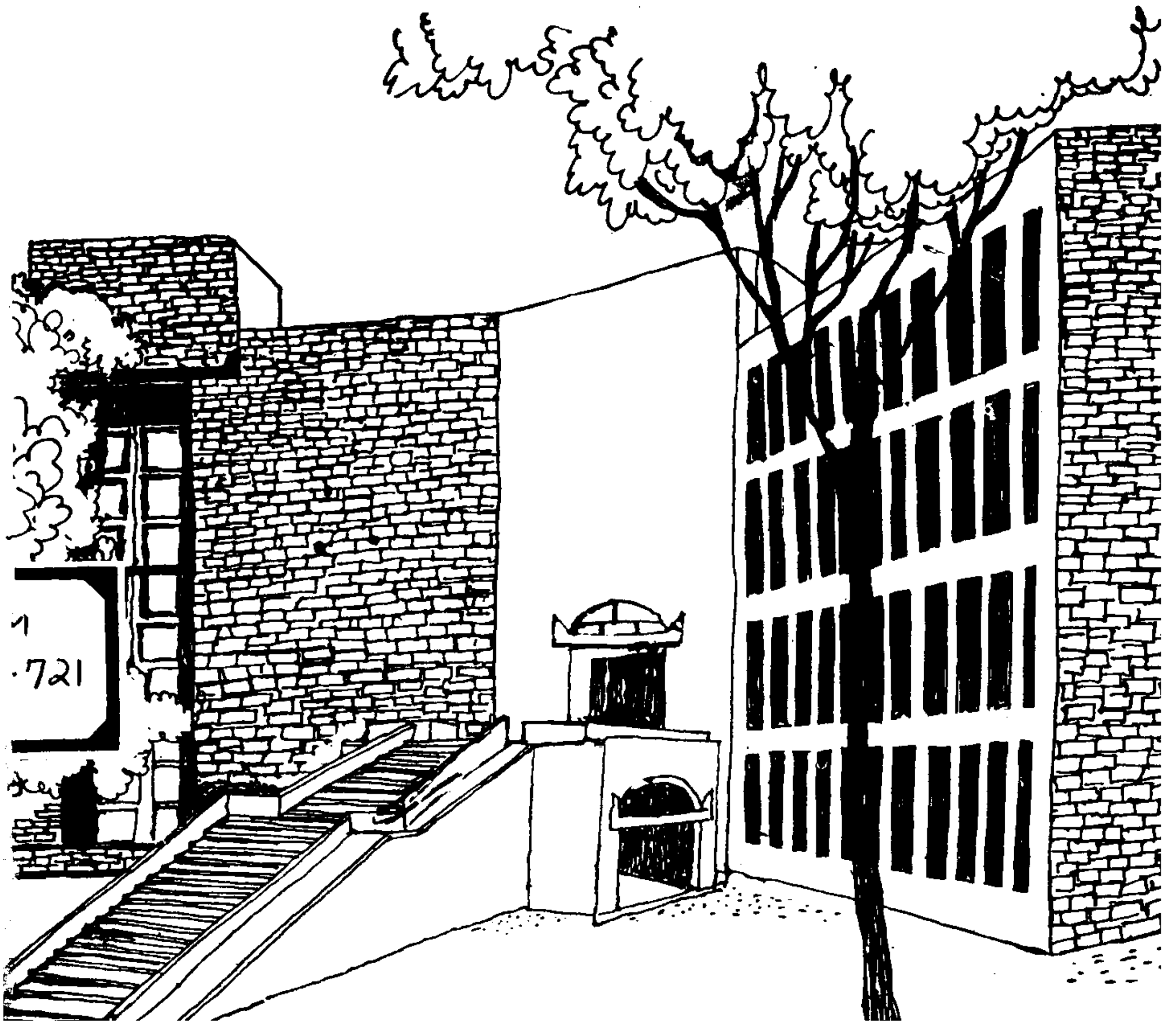
विद्याविनियोगाद्विकासः
IIM
AHMEDABAD

W. P. 721

Working Paper



COMMERCIAL BANKS FINANCE
FOR RURAL DEVELOPMENT

By

Gurdev Singh
&
S.R. Asokan

W P No. 721
December, 1987

The main objective of the working paper series of the IIMA is to help faculty members to test out their research findings at the pre-publication state.

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380015
INDIA

COMMERCIAL BANKS FINANCE FOR RURAL DEVELOPMENT

Gurdev Singh
S R Asokan

1. The Changing Scenario:

The participation of commercial banks in rural credit was started with the nationalization of Imperial Bank of India into State Bank of India in 1955. Initially it was to assist cooperative sector in term lending. Subsequently the facility was extended for direct credit to progressive farmers and tenant cultivators for purchase of inputs including labor, buying machinery and equipment, construction of farm structures and development of land e.g levelling, boring tube-wells, etc. and to finance allied activities such as fruit cultivation, poultry farming, dairy farming, etc. But because of poor banking facilities in rural areas and their uneven spread, rate of capital formation was low and rural savings mobilization was poor. On the other hand despite conscious efforts and policy measures it was found that cooperatives could not become effective instrument of transformation. Further, with the introduction of modern methods of cultivation which were scale neutral the demand for credit had risen manifold. Realising that cooperatives alone could not cater to the needs of the farmers, 14 major scheduled commercial banks were nationalized in 1969 (six more banks were nationalized in 1980). Bank nationalization and the subsequent policy changes brought about in lending and deposit mobilization were in consonance with the overall social objectives as enunciated in the Five Year Plans. The emphasis shifted from class to mass banking, wholesale to retail banking, traditional to innovative banking, wholesale to retail banking, money lending to developmental banking, profit to service motive, creditworthiness of person to purpose of loan, security to productivity of loan, serving urban developed areas to remote backward areas, etc. At this stage it is pertinent to review the role the commercial banks have played in rural development especially since 1969. The objective of this paper, therefore are:

i) to review the important policy changes with respect to participation of commercial banks in rural finance, and

ii) to examine the achievements of these banks in credit as well as deposit mobilization functions in rural areas.

2. Important Policy Changes:

2.1 Branch Licensing Policy: Although the branch licensing policy in vogue during the 1960s and the objective of extension of banking facilities to rural areas the commercial banks were operating only in few wealthy pockets. With bank nationalisation the branch licensing policy was rationalized under the lead bank scheme. It emphasised opening of branches by commercial banks in rural and semi-urban areas in under-banked backward regions of the country, so that inter-regional disparities in banking facilities were reduced. In September 1978, taking into consideration several recommendations by various committees and working groups a comprehensive branch licensing policy was announced covering the period of 1979-81 (later extended to March 1982). It was to i) accelerate the pace of expansion of bank offices in the under-banked/unbanked rural and semi-rural areas, and ii) reduce imbalances in the spread of banking facilities. The unbanked block headquarters in the country were to covered in a time bound manner due to their special place in the government's development administration. The thrust of the revised branch licensing policy for the next triennum: 1982-83 to 1984-85 continued to be on improving banking facilities in rural areas. District-wise plans for branch expansion were drawn up for all the states in the country in consultation with state governments and banks in the area. Priority in this respect was given to lead banks. Further banks having regional character were required to concentrate in their own areas of operation while opening new branches. The identification of new centres for opening branches was carried out by lead banks in consultation with state governments and district consultative committees. In 1983-84 only 58 block headquarters mostly in the north-eastern region were without banking facilities largely due to lack of infrastructural facilities.

2.2 Priority Sector Lending (PSL): Under the PSL the banks were supposed to lend a specified proportion of their total lending to specific hitherto neglected sectors. Such sectors were identified as agriculture, small-scale industries, road and water transport operations, retail trade and small business, education. Loans from commercial banks to small borrowers in the priority sectors were provided with guarantee cover by the Credit Guarantee Corporation since 1971. RBI provided refinance facilities at concessional rate to lend to priority sectors which was subsequently withdrawn from July 1973. However, in order to increase the flow of bank credit to the neglected sectors, government of India in 1974 advised the public sector banks to increase their PSL to one third of their outstanding credit by March 1979. In 1978, private sector banks were also advised to lend a minimum of one third of total advances to the priority sectors by the end of March 1980.

On the recommendation of the working group on priority sectors lending and 20 Point Economic Programme, the Government of India issued the following instructions to the commercial banks:

i) PSL should constitute 40 per-cent of aggregate bank advance by 1985.

ii) Agriculture and allied activities should get 40 percent of aggregate PSL by 1983.

iii) Direct advances to weaker sections (small and marginal farmers and landless labourers) should constitute at least 50 percent of total lending to agriculture and allied activities by 1983.

iv) Advanced to rural artisans, village craftsmen and cottage industries should constitute 12.5 percent of the total advances to small scale industries by 1985.

2.3 Integrated Rural Development Programmes (IRDP): The objective of the programme is proposed to be achieved by enabling the poorest of the poor families to acquire productive assets, technology and skills to make their economic activities viable. The programme which was launched in 1978-79 in 2000 blocks was later extended to all the 5000 blocks of the country. The aim was to bring 15 million people above the poverty line by the end of the Sixth Plan. The poorest of the poor would be identified and annually 600 families in each block would be provided financial assistance in terms of cash subsidiary linked with loan at concessive interest. The outlay for IRDP in the Sixth Plan was of the order of Rs. 5000 crores of which Rs. 3000 crores would be institutional finance. As such the success of the programme hinged on the effective distribution and utilization of the institutional credit.

2.4 Differential Rate of Interest Scheme: Since 1972 the scheme of differential rate of interest was in operation. Under the scheme banks were to lend to weaker sections of the society for productive activities at a concessional rate of four per cent per annum. The advances made by the banks under the scheme were covered under the Small Loans Guarantee Scheme of DIGGC. The scheme was initially implemented by all public sector banks and few private sector banks. From May 1977 other non nationalized banks also started financing under the scheme on a voluntary basis, and from April 1978 private sector commercial banks were asked to take up the scheme along with the public sector banks. Since 1981 the banks were allowed to route their advances under the scheme through RRBs in their area of operation on refinance basis which was taken into account by the sponsoring banks towards their lending under the scheme. The ceiling on annual income for eligibility under the scheme was upto Rs. 3,000 in the urban and semi-urban areas and upto Rs. 2,000 in the rural areas. Since 1975, members of the scheduled castes and scheduled tribes (ST/SC) could borrow irrespective of size of their land holdings provided they satisfy certain other conditions stipulated under the scheme. At least 40 percent of the credit granted under the scheme was required to be given to the eligible borrowers from ST/SC.

2.5 Lead Bank Scheme (LBS): The introduction of LBS in December 1969 was a significant effort in the .fulfillment of the objective of mobilization of deposits on a massive scale and stepping up of lending to the weak sectors of the economy. The emphasis under the LBS was to make banks an important instrument of local development by entrusting individual lead bank with the responsibility to find growth centres, assess deposit potential identify credit gaps and evolve a coordinated programme of credit deployment in consultation with other banks and credit agencies in the area of its operation.

All the districts in the country except the metropolitan cities of Greater Bombay, Calcutta and Madras and the Union Territories of Delhi and Chandigarh had been allotted to all public sector banks and a few private sector banks. The lead bank constituted consultative committees at district and block levels. These forums were to exchange views and information about lending to the priority sectors, identify bankable schemes and evolve methods of financing them in a coordinated manner.

?.6 District Credit Plan (DCP): A district credit plan was a blue-print of action by banks and other financial institutions for bringing about an overall development of the district. So far three rounds of DCPs were implemented. These plans identified the economic activities to be financed, prepared bankable schemes for them, and estimated credit demand under each bankable scheme.

The first round of DCPs was beset with lot of problems. For instance, no uniform methodology was adopted in the preparation of the plan, a long gap existed between the dates of launching of the plans and acceptance of commitment by the participating financial agencies. Further the plans failed to align with the development programmes of the government and allied activities.

Therefore, the banks were asked to terminate the plan by December 1979 and to undertake formulation of new credit plans for the years 1980 to 1982.

The new DCPs were comprehensive plans indicating credit targets for the institutional credit agencies in the district on a block-wise, sector-wise, scheme-wise and bank-wise basis. A new feature of participative planning was introduced in this mind. Annual action plans were prepared by the lead banks each year indicating sectoral, scheme-wise and institution group-wise break-up of the total credit outlays. The third round of DCPs covered the period from January 1983 to March 1985 in order to co-terminated with the Sixth Five Year Plan. These had a separate chapter on special programmes like 20 point Economic Programmes, IRDP, Social Component Plan for ST/SC, etc. The fourth round is being prepared for the remaining years of the seventh Plan.

2.7 Crop Loan System: Based on the recommendations of the Committee of Direction under AIRCS (1954), RBI has from time to time issued guidelines on crop loan system. Under the system appropriate scales of finance for each crop were fixed by the Field Workers Conference in each district. The scales were separately fixed for cash component (A) and kind component (B). These scales were worked out for an average farmer and separately for irrigated and unirrigated crops and for more developed and less developed areas within the district. Thus limits were worked out for each season and for the year using the scale of finance and proposed cropping pattern. The scales were revised in the beginning of each year. The payment for component B was made to the suppliers of inputs while cash component was disbursed to the borrowers directly. While no tangible security was required for crop loans up to Rs. 5000 per borrower. For loans over Rs. 5000 a change on land was necessary.

2.8 Risk of Default: Indian agriculture is largely dependent on monsoon. It fails quite often either in one part of the country or the other causing widespread crop failures resulting in farmers inability to repay the loan dues. Two important policy instruments to manage this risk are discussed below.

i) Credit Guarantee: With the shift from security to productivity oriented lending, it became necessary to encourage commercial banks to cater to the needs of small borrowers who generally did not have adequate security. Credit Guarantee Corporation of India (now DICGC) was set up in January 1971 to provide a guarantee cover on small loans to weaker sections. Under the Small Loans Guarantee Scheme credit facilities granted by commercial banks were provided with a guarantee upto 75 percent of amount advanced (defaulted) at a fee of 0.50 and 0.75 per cent per annum respectively for loans upto and over Rs.25000.

Subject to certain absolute ceiling).

ii) **Crop Insurance:** In 1979, the General Insurance Corporation of India in collaboration with the state governments started a Pilot Crop Insurance Scheme in three states. It was extended to 12 states in 1983-84. From Kharif 1985, the pilot scheme was replaced with Comprehensive Crop Insurance Scheme of the Government of India on all India basis covering major cereal crops of rice, wheat and millets; oil seeds; and pulses. All farmers availing of crops loans from any credit institution were covered. The insurance cover was built in as a part of the loan. In case of crops failures due to natural calamities, the banks get the loan dues recovered from the indemnity payable to the farmers.

3. Growth and Spread of Bank Branches:

The period after nationalisation witnessed a remarkable increase in number of bank offices. From just 8262 offices in June 1969 it had increased to 51978 in June 1985 (Table 1).

Table 1 : Growth in Rural Offices of Commercial Banks; 1968-69 through 1984-85

Year	Total offices	Rural offices		New offices	
		No.	% of offices	Total	Rural
1968-69	8262	1832	22	--	--
1969-70	10131	3062	30	1869	1230
1974-75	18730	6806	36	1794	641
1979-80	32419	15101	47	2217	1768
1984-85	51978	30336	58	6222	5061

Source : Compiled from Reserve Bank of India, Report on Currency and Finance, Vol. I, various issues

Further the proportion of rural bank offices had increased from 22 per cent in 1969 to 58 per cent in 1985. The share of rural offices in the newly opened bank offices in 1985 was as high as 81 per cent. This growth, however, was not uniform across the states(Table 2). The table also shows that per rural branch population coverage was reduced from 236000 in 1969 to 17000 in 1985 after considering the increase in population during the period in reference. Among the states in 1969 the rural population served per branch varied from 82000 in Gujarat to 1394000 in Manipur. In 1985 this range was narrowed to 9000 in Himachal Pradesh to 32000 in Assam. The net sown area served per rural branch has decreased from 7500 hectare in 1969 to 5000 hectare in 1985. Among the states the area served per branch in 1969 ranged between 14000 hectare in Kerala to 239000 hectares in Madhya Pradesh. This range was reduced to 2000 hectares in Himachal Pradesh, Jammu & Kashmir and Kerala to 10000 in Rajasthan

Table 2 : Changes in Coverage by Rural Offices of commercial Banks in Different States; 1969 and 1985

States	No. of rural offices		Rural population per branch(000)		Net sown area per branch (000 hectare)	
	1969	1985	1969	1985	1969	1985
Andhra Pradesh	134	2493	262	16	86	5
Assam	26	554	682	32	85	6
Bihar	47	2957	1079	21	178	4
Gujarat	233	1523	82	15	41	7
Haryana	51	644	162	16	69	9
Himachal Pradesh	29	447	111	9	19	2
Jammu & Kashmir	7	471	537	10	100	2
Karnataka	237	2161	94	12	43	5
Kerala	157	1187	114	17	14	2
Madhya Pradesh	77	2536	453	16	239	9
Maharashtra	156	2146	222	19	118	9
Manipur	--	40	--	26	--	5
Meghalaya	2	85	432	13	81	3
Nagaland	3	43	155	15	33	3
Orissa	25	1254	804	18	243	7
Punjab	116	1104	89	11	35	6
Rajasthan	147	1698	144	16	89	10
Tamil Nadu	142	1745	202	18	43	4
Tripura	1	72	1394	25	235	6
Uttar Pradesh	251	4782	302	19	69	5
West Bengal	42	1481	794	27	132	5
All India	1860	29837	236	17	75	5

Source : Compiled from i) Reserve Bank of India, Report on Currency and Finance, Vol 2 relevant issues, ii) Govt. of India, Census 1981, iii) Govt. of India, Statistical Abstract of India various years

4. Performance of credit function:

With the expansion of branch network especially in the hither to unbanked or underbanked areas the access to bank credit has been made easier. Moreover the banks were instructed to allocate a specific proportion of credit to the identified priority sectors, investments and sections of population on liberal terms. As a result credit disbursement had gone up from Rs. 3601 crores in 1968-69 to Rs.53122 crores in 1983-84. Compared to this total advances at rural centres had increased from Rs. 54 crores to Rs. 6891 crores. In other words, the share of rural centres in total advances of commercial banks had gone up from mere 1.5 per cent in 1968-69 to 13 per cent in 1984-85.

As could be seen from Table 3 total bank credit had witnessed a growth of over 14 fold in the amount outstanding . The amount outstanding had more than doubled between 1969 and 1974, 1974 and 1979, and 1979 and 1984 showing a consistent compound growth for three time periods. On the other hand, priority sectors lending (PSL) had gone up over 39 fold. It may be observed that the growth in PSL was nearly five fold for the first period but was less than three fold in the second in the third periods referred to as above. Over time share of PSL in the total bank credit had increased from only 15 per cent in 1969 to 41 per cent by 1984. The growth in lending to agriculture was recorded at 45 fold for the period in reference. It was nearly five fold in the first

Table 3 : Growth in Commercial Banks' Lending to Priority Sectors and Agriculture ; 1969 through 1984

(Amount outstanding in Rs. crores)

Year	Total bank credit	Priority sectors		Agriculture
		Amount	% of total	
1969	3016	441	15	162
1974	7705	2121	28	781
1979	19687	5908	30	2459
1984	42165	17378	41	7344

Source : Compiled from Reseve Bank of India, Report on Currency and Finance, Vol. I, various issues.

period three fold in the second and the third periods. In 1984 the share of agricultural sector in the PSL was increased to over 42 per cent.

4.1 Priority sectors lending: Table 4 shows relative allocation to various priority sectors. In 1969 lending to agricultural sector accounted for 37 per cent of PSL. It had risen to 42 per cent in 1984 against the stipulated share of 40 per cent by 1985. Another went to the small scale sectors. It may be noticed that direct lending was only one fourth of total lending for agriculture in 1969. It had gone over four fifths in 1984. Correspondingly the share of indirect lending had gone down. This was the result of changes in commercial banks lending policy after 1969 under which they had diversified their lending programme for agriculture. Similarly under small scale sector share of transport had gone up from 1.4 per cent to nearly 10 per cent of the total credit. Diversification under other sectors also increased over time.

Table 4 : Allocation of Priority Sectors Lendinsg ; 1969 and 1984

(Rs. in crores)

Sectors	1969	1984
I. Agriculture		
a) Direct Credit	40 (9.1)	5970 (34.5)
b) Indirect credit	122 (27.7)	1374 (7.9)
Total a + b	162 (36.7)	7344 (42.4)
II. Small Scale Sector		
a) Road & water transport	6 (1.4)	1774 (10.3)
b) Small scale industries	251 (56.9)	6156 (35.6)
c) Setting Industrial estate	–	78 (0.4)
Total a + b + c	257 (58.3)	8008 (46.3)
III. Other Priority Sectors		
a) Retail trade & small busi.	19 (4.3)	1413 (8.3)
b) Professionals & self empt.	2 (0.5)	510 (2.9)
c) Education	1 (0.2)	25 (0.1)
Total (a)+(b)+(c)	22 (5.0)	1948 (11.3)
IV. All Sectors	441(100.0)	17300(100.0)

Figures in the parenthesis are percent of respective total.

Source : Compiled from Reserve Bank of India, Report on Currency and Finance, Vol. I, relevant issues.

Table 5 gives the credit allocation to priority sectors among the states. It shows that in 1970, Tamil Nadu ranked first followed by Gujarat, Andhra Pradesh, Uttar Pradesh and Karnataka. These five states together accounted for nearly 50 per cent of PSL. The situation changed significantly in 1981 when Uttar Pradesh ranked first followed by Tamil Nadu, Andhra Pradesh, Punjab and Gujarat which together accounted for about 40 percent of PSL. The ranking of other states had also changed considerably.

Table 5 : Statewise Priority Sectors Lending; 1970 & 1981

(Rs. in lakhs)

State	1970		1981	
Andhra Pradesh	8542	(9.3)	84813	(8.8)
Bihar	1580	(1.7)	38337	(4.0)
Gujarat	8818	(9.6)	68949	(7.1)
Haryana	2139	(2.3)	39200	(4.1)
Himachal Pradesh	37	(-)	6660	(0.7)
Jammu & Kashmir	243	(0.3)	7767	(0.8)
Karnataka	7314	(8.0)	66070	(6.8)
Kerala	3873	(4.2)	42118	(4.4)
Madhya Pradesh	2594	(2.8)	41509	(4.3)
Maharastra	18581	(20.3)	132338	(13.7)
Orissa	442	(0.5)	16680	(1.7)
Punjab	3466	(3.8)	73019	(7.6)
Rajasthan	1929	(2.1)	32573	(3.4)
Tamilnadu	12432	(13.6)	94207	(9.8)
Uttar Pradesh	7795	(8.5)	105892	(11.0)
West Bengal	5447	(6.0)	53707	(5.6)
N. E. States	614	(0.7)	8285	(0.9)
Union Territories	5702	(6.2)	53272	(5.5)
All India	91548	(100)	965396	(100)

Figures in the parenthesis are percent of respective total
Source : Compiled from Reserve Bank of India, Statistical Tables Relating to Banks in India, relevant issues.

4.2 Credit for agriculture: Credit for agriculture could be divided into two components: direct and indirect. The growth in direct credit was much higher than the growth in indirect credit. As could be seen from Table 6 direct credit had grown from Rs. 40 crores in 1969-70 to Rs. 5970 crores in 1983-84 i.e., a growth of nearly 150 fold against only 12 fold increase in indirect credit for the same period. The growth in direct lending was over 13 fold for the firsrt period and over three fold for the second and third periods defined earlier. The corresponding growth in indirect lending was about two fold for the first and third period and 2.5 fold for the second period. It may be noticed that the increase in share of direct credit to agriculture was more pronounced in the first two years and thereafter the trend in per cent share was more smooth. Finally the ratio of direct to indirect credit had changed from 0.36 in 1969 to 3.43 in 1984.

Table 6 : Growth in Commercial Banks Lending to Agriculture; 1969 through 1984

(Rs. in crores)

Year	Direct	Indirect	Total
1969	40	122	162
1974	539	242	781
1979	1825	634	2459
1984	5970	1374	7344

Source : Compiled from Reserve Bank of India, Report on Currency and Finance, Vol. 2, relevant issue.

Table 7 gives the expansion of direct and indirect credit to agriculture in different states. It shows that in 1970 direct lending was highest in Maharashtra followed by Andhra Pradesh, Tamil Nadu, Gujarat and Karnataka. These five states accounted for about 58 per cent of the total direct credit. In 1981, Andhra Pradesh came at the top followed by Uttar Pradesh, Tamilnadu, Maharashtra and Punjab and they together accounted for 55 per cent of the total direct lending.

This showed that while growth in direct lending was more than proportionate in Andhra Pradesh, Uttar Pradesh and Punjab, it was less than proportionate in Maharashtra, Gujarat and Karnataka. Similarly, growth pattern was different in other states. Not only the growth was due to increase in number of beneficiaries but was

: 7 : Statewise Amount Outstanding under Direct and Indirect Lending to Agriculture by Commercial Banks, 1970 and 1981

T A T E	Direct credit						Indirect credit					
	1970			1981			1970			1981		
	Total (Rs.crs)	Per a/c (Rs)	Per hac (Rs.)	Total (Rs.crs)	Per a/c (Rs)	Per hac (Rs.)	Total (Rs.crs)	Per a/c (Rs)	Per hac (Rs.)	Total (Rs.crs.)	Per a/c (Rs.000)	Per hac (Rs.)
-a Pradesh	33.7	1960	29	516.2	2879	473	17.3	60	15	81.1	5	74
-	3.4	2584	4	141.5	2812	165	2.0	7	2	85.3	66	99
-at	30.2	4200	31	195.4	5473	285	5.0	31	5	81.1	11	85
ana	4.4	4360	12	163.9	9007	450	5.2	174	14	22.6	4	62
chal Pradesh	0.1	8490	2	14.8	1884	264	@	10	@	6.7	658	120
u & Kashmir	0.1	14545	1	13.9	3383	195	@	33	@	2.7	1	38
ataka	26.1	2555	25	293.4	3860	287	12.2	87	12	67.1	3	66
la	11.5	1143	53	181.1	2105	823	2.2	34	10	13.3	33	60
ya Pradesh	7.0	1081	4	179.3	4819	95	3.4	28	2	56.4	6	30
rastra	42.5	5000	23	329.3	5628	100	26.1	109	14	139.1	14	76
sa	0.9	1746	1	67.8	1662	113	0.5	69	1	35.8	3	60
ab	8.7	5141	21	325.8	8083	781	0.4	14	1	55.0	79	132
sthan	8.8	3817	7	139.2	4518	92	0.6	74	@	39.4	44	26
l Nadu	33.0	1116	54	401.9	2633	638	32.5	27	53	83.1	44	132
r Pradesh	17.3	2501	10	403.8	4002	232	25.6	284	15	162.4	12	93
Bengal	7.2	3428	13	134.2	2513	217	2.3	125	4	39.6	3	64
. States	0.7	7620	N A	16.5	1871	N A	N A	N A	N A	9.7	1	N A
n Terrotories	4.8	4385	N A	69.0	7105	N A	2.4	1060	N A	90.5	201	N A
India	240.4	2317	17	3586.6	3619	251	158.8	58	11	1070.8	8	75

Less than 0.05 units   N A = Not available
ce : Reserve Bank of India, Statistical Tables Relating to Banks in India, relevant issues.

also due to increased credit per account. For instance at all India level per account lending increased from Rs. 2317 in 1970 to Rs. 3619 in 1981. Except for Jammu & Kashmir, Orissa and West Bengal per account amount has gone up from marginal to substantial increases. The reasons are not hard to find. One, because of general rise in price of various inputs and investment items, the same amount of inputs/investment would cost more and hence more credit was required. Two, inputs use could have increased resulting in higher credit use. Three, the quality of inputs might have improved resulting in higher cost and hence higher credit use. Finally, a change in input mix could have resulted in increased per account requirements.

Indirect credit is supplied to the agencies which support the production system by way of supplying various inputs and investment items, marketing and processing of farm produce, etc. Because of backward and forward linkages all the factors which result in higher use of direct credit are relevant for higher use of indirect credit but to varying extent. Tamil Nadu ranked first on the basis of use of indirect credit in 1970. It was followed by Maharashtra, Uttar Pradesh, Andhra Pradesh and Karnataka. These five states together accounted for 71 per cent of the total indirect credit. In 1981, Uttar Pradesh came to the top followed by Maharashtra, Bihar, Tamil Nadu, Gujarat and Andhra Pradesh and these together accounted for 59 per cent of the indirect credit. Further the amount per account had also increased much more significantly for indirect credit compared to the direct lending owing to bigger size of business of the clients. Except in Bihar, Himachal Pradesh, Punjab and Tamil Nadu the per account indirect credit had decreased over time.

The table also shows that in 1970 the amount per net sown heactare was as low as Rs. 2 in Orissa. The highest amount per hectare was Rs 107 in Tamilnadu. This range had changed in 1981 to Rs. 118 in Rajasthan and Rs. 913 in Punjab.It may be noted that in direct credit contributed more than proportionate to the growth in total credit. However, in some states the growth in direct credit was less than proportionate especially where the base level use of indirect credit was very low.

4.3 Financing under IRDP: Financing under IRDP started in 1980 under which commercial banks lending was linked with central government subsidy for the development of weaker sections of the society namely, marginal farmers, rural artisans, fishermen, etc. By doing so, the credit institutions which are keen to recover loans would ensure that the loan use would result in creation and maintenance of income generating assets and subsidy is not used for consumption expenditure. In the very first year itself a total financial assistance of Rs. 447.7 crores was disbursed. Of this Rs. 158.6 crores i.e., a little over one third of the total disbursement was central subsidy (Table 8). Over four year period the assistance had increased to Rs. 1170.6 crores i.e., a growth of over 2.6 fold. The ratio of subsidy to loan remained almost unchanged. The growth in number of beneficiaries rose from 27 lakh in 1980-81 to 37 lakh in 1983-84 i.e., a growth of 1.4 fold. In other words, per account assistance had almost doubled. It

Table 8 : Commercial Banks Advances under IRDP; 1980-81 through 1983-84

(Rs. in crores)

Particulars	1980-81	1983-84
Central allocation	250.1	407.4
Subsidy utilised	158.6	406.1
Term credit	289.1	773.5
Total financial help	447.7	1179.6
No. of beneficiaries(lakhs)	27.3	36.6
ST/SC beneficiaries (%)	29	42
Per account (Rs.)		
i) Loan	1060	2099
ii) Subsidy	582	1102
iii) Total financial help	1642	3201

Source : Compiled from Planning Commission, Draft Seventh Five Year Plan, Government of India.

necessarily implied an improvement in quality of assets created. However, inflation was also responsible for some rise in amount per account. price of assets. The proportion of ST/SC in the beneficiaries had increased from 29 per cent in 1980-81 to 42 per cent in 1983-84.

4.4 Financing Under DRI Scheme: Financing under DRI was introduced to help the weakest of the weaker sections of the society to create productive assets. The performance under the scheme is depicted in Table 3.24. It shows that amount outstanding against the scheme had grown from Rs. 0.87 crores to Rs. 486.08 crores between 1972 and 1985. The growth in number of accounts was, however, less. In other words, per account amount outstanding under the scheme had increased from Rs. 335 to Rs. 1068 for the

Table 9 : Advances under DRI Scheme; 1972 through 1985

Year	No. of a/cs (000)	Amount outstanding	
		Rs. crores	% of bank credit
1972	26	.87	0.02
1975	465	20.99	0.31
1980	2510	193.50	1.04
1985	4551	486.08	1.15

Source : Reserve Bank of India, Report on Currency and Finance, Vol. I, various issues

said period. The share of credit under this scheme in total bank credit had increased from 0.02 per cent in 1972 to 1.15 per cent in 1985 against the target ratio of 1.00 per cent to be achieved by 1980. The share of SC/ST beneficiaries stipulated at 40 per cent of DRI advances had also been achieved. It was reported at 44 per cent in 1979-80.

4.5 Recovery Performance of Commercial Banks: The recovery for all Indian Scheduled commercial banks was 50.9 per cent in 1975. It increased to 53.1 in 1983 i.e. only marginal increase. Similar was the behaviour of public sector commercial banks in this regard. As shown in Table 10 in 1975 recovery was more than the average of 50 per cent only in nine states(it was more than 60 per cent in Andhra Pradesh, Haryana, Kerala and Punjab). However, in 1983 this number decreased to seven including two new states. Only Kerala and Punjab among the old states had recovery over 60 per cent. Over time, recovery percentage improved significantly in Punjab, Gujarat, Nagaland and Tamilnadu and marginally in Assam,

Table 10 : Statewise Recovery (per cent of demand) of Agricultural Advances of Indian Scheduled Commercial Banks; 1975 and 1983

States	1975	1983
Aandhra Pradesh	67.0	55.4
Assam	25.4	29.6
Arunachal Pradesh	33.3	31.5
Bihar	40.2	38.9
Gujarat	42.0	52.6
Haryana	68.5	59.8
Himachal Pradesh	56.7	48.0
Jammu Kashmir	46.8	44.0
Karnataka	53.9	51.3
Kerala	65.5	65.3
Madhya Pradesh	45.0	44.3
Maharashtra	38.3	42.8
Manipur	39.6	23.9
Meghalaya	32.6	33.9
Mizoram	-	62.2
Nagaland	39.6	46.9
Orissa	49.3	38.8
Punjab	63.2	73.6
Rajasthan	46.5	47.7
Sikkim	-	-
Tamil Nadu	51.0	56.5
Tripura	51.9	45.5
Uttar Pradesh	52.3	53.8
West Bengal	31.6	28.7
All India	50.2	53.1

Source : Reserve Bank of India, Trend and Progress of Banking in India, various issues.

Maharashtra, Meghalaya, Rajasthan and Uttar Pradesh. The recovery percentage declined marginally in Arunachal Pradesh, Bihar, Jammu & Kashmir, Karnataka, Kerala Madhya Pradesh, and West Bengal. Elsewhere the decline was significant.

5. Performance in Mobilisation of Deposits

5.1 Growth in rural, deposites: Mobilization of deposits is one of the twin functions of banking institutions. As such it should form a major source of loanable funds. A satisfactory performance in this function builds the confidence of the institution as it decreases its dependence on central monetary authority for raising funds. At the same time, it helps in building its credibility among the clients by providing them suitable instruments of savings. These observations are equally relevant for rural as well as for urban centres. In what follows is the performance of commercial banks in mobilization of rural savings.

Table 11 gives the growth in deposits mobilized by commercial banks. It shows that total deposits increased from Rs. 5502 crores

Table 11 : Mobilisation of Deposits by Commercial Banks, 1969-70 through 1982-83.

(Rs. crores)

Year	Total	Rural
1969-70	5502	400 (7.3)
1974-75	13711	1168 (8.5)
1979-80	33321	3966 (11.9)
1982-83	54404	7657 (14.0)

Figures in the parenthesis refer to percent of total
Source : Compiled from Reserve Bank of India, Report on Currency and Finance, various issues.

in 1969-70 to Rs. 54404 crores in 1982-83 i.e., nearly 10 fold increase. In comparison the growth in deposits from rural India was over 54 fold. In other words, contribution of rural deposits in the total deposits with commercial banks had increased from less than four per cent in 1968-69 to over 20 percent in 1982-83. A tremendous improvement indeed! However, the performance was not uniform across states. The relative performance of the states at two points in time is given in Table 12. The table reveals that in 1971, Gujarat ranked at the top followed by Punjab and Uttar Pradesh. In 1982 Uttar Pradesh replaced Gujarat to the third

Table 12 : Ranking of States on the Basis of Rural Deposits with Commercial Banks; 1971 and 1982

States	As on December 1971	As on June 1982
Andhra Pradesh	10	4
Assam	15	17
Bihar	9	5
Gujarat	1	3
Haryana	·14	13
Himachal Pradesh	11	14
Jammu & Kashmir	16	16
Karnataka	4	6
Kerala	5	10
Madhya Pradesh	13	11
Maharastra	6	7
Manipur	20	21
Meghalaya	18	19
Nagaland	21	20
Orissa	17	15
Punjab	2	2
Rajasthan	12	12
Sikkim	-	22
Tamil Nadu	8	9
Tripura	19	18
Uttar Pradesh	3	1
West Bengal	7	8

Source : Compiled from Reserve Bank of India, Report on Currency and Finance, Vol. II, relevant issues.

position. The high ranking of these states in rural deposites was due to faster advancement in agriculture and allied activities. These states were joined by Andhra Pradesh, Bihar and Karnataka of late.

5.2 Ratio of deposits to state income

Table 13 gives the details about the incremental deposits and their ratio with state income for two periods, namely 1971-73 and 1981-83. It shows that for the first period, Maharashtra had maximum deposits followed by Rajasthan. North eastern states had very low deposits. In terms of ratio of deposits to state income it was highest(13.1%) for Jammu & Kashmir followed by for Punjab(11.59) and Maharashtra (5.9). Elsewhere it was less than 5.0 per cent. In 1981-83 again Maharashtra ranked first in deposits. It was followed by Uttar Pradesh and West Bengal. The ratio of deposits to state income was highest for Nagaland followed by West Bengal, Maharastra, Kerala, Tamil Nadu, and Punjab. It was less than 5 per cent for Assam, Arunachal Pradesh, Haryana, Madhya Pradesh, Manipur, Orissa and Rajasthan.

5.3 Credit to deposits ratio: Credit to deposits ratio (C:D) indicates the absorption of funds collected with in an area. Nearer to unity this ratio is, higher is the degree of self reliance of the area in financing its developmental programmes. However, because of statutory cash and liquidity reserve requirements nearly 40 per cent of the deposits mobilized by the commercial banks could not be utilized by them in their financing programmes. Therefore a credit to deposits ratio of 60 per cent was considered desirable to recycle local savings within the area. And this ratio had almost been achieved by the rural bank branches.

Table 13 : Statewise Ratio of Incremental Deposits to State Income for Two Periods; 1971-73 and 1981-83

(Rs. crores)

State	1971-73 Incremental deposits	1971-73 Ratio (I:D)	1981-83 Incremental deposits	1981-83 Ratio (I:D)	C:D 1971	C:D 1985
Andhra Pradesh	68	2.0	534	5.8	142	102
ArunachalPradesh		2.0	5	4.5	-	-
Assam	11	1.2	117	3.7	30	67
Bihar	76	2.7	390	5.1	77	56
Gujarat	92	3.7	529	6.1	23	49
Haryana	23	2.1	148	3.9	50	78
Himachal Pradesh	38	13.2	58	6.6	9	43
Jammu & Kashmir	42	13.1	57	5.4	6	36
Karnataka	61	2.4	398	6.7	98	98
Kerala	44	3.0	334	8.0	61	70
Madhya Pradesh	40	1.5	311	4.1	40	32
Maharashtra	277	5.9	1305	8.0	69	79
Manipur	1	1.6	2	0.9	35	160
Meghalaya	4	-	13	7.1	22	55
Mizoram	neg	-	3	-	-	-
Nagaland	neg	-	8	20.5	-	38
Orissa	10	0.8	108	3.0	17	133
Punjab	207	11.5	435	7.3	17	33
Rajasthan	28	1.6	226	3.9	41	91
Sikkim	-	-	-	-	-	-
Tamil Nadu	122	4.1	500	7.3	91	95
Tripura	1	1.1	9	-	10	98
Uttar Pradesh	126	2.4	968	5.9	37	60
West Bengal	151	3.7	837	8.7	16	38

Source : Basic Statistics Relating to Indian Economy, Vol I, All India, 1985

The C;D for the rural centres in the country was less than 48 per cent in 1971. In 1985, it moved very close to the desired level of 60 per cent. However, the performance in different states varied widely. This ratio was as high as 141 per cent for Andhra Pradesh in 1971. Karnataka, Tamil Nadu, Bihar and Maharashtra were the other states where rural C:D ratio was greater than the desired level. On the other hand it was very low for Jammu & Kashmir, Himachal Pradesh, Haryana, Orissa, Punjab, West Bengal and north-eastern states of Assam, Meghalaya and Tripura. In 1985, however, the situation had changed significantly.While, rural C:D had gone up for most of the states, it decreased for Andhra Pradesh and Bihar. Though the increase was substantial for majority of the states, it surpassed the desirable level only for Assam, Haryana, Madhya Pradesh, Manipur, Orissa, Rajasthan and Tripura. In other words, more emphasis was laid on credit disbursement function in almost all the states so that this ratio is brought to the desirable level of 60 per cent.

6. Important Observations

i) Between 1969-70 and 1984-85, there has been tremendous expansion in the commercial banking facilities in rural India. Because of this and other policy changes the commercial banks finance for rural development had increased manifold. More importantly the emphasis has shifted to direct financing of agriculture and other priority sectors as well as weaker sections. The performance in different states and under different portfolio however, was not identical. Similarly there were significant variations in growth and level of deposits mobilized. It was found that the density of commercial bank offices in rural areas was relatively low in north-eastern and eastern states.

ii) Due to increased emphasis on priority sector lending and agricultural lending by the banks there has been more than proportionate increase in lending to these sectors. Within agriculture direct credit had grown much faster than indirect lending. Small scale industries attracted a major part of small scale sector lending. Retail trade and small business remained important among other priority sectors.

iii) While the major users of PSL were Maharashtra, Uttar Pradesh and Tamil Nadu,hill states of north and north-east got the least share. Similarly, while Andhra Pradesh, Maharashtra, Punjab, Uttar Pradesh, Tamil Nadu were the main beneficiaries of agricultural credit, hill states of north and north-east remained behind.On the other hand per hectare commercial banks credit outstanding was lower in Rajasthan, Madhya Pradesh and Orissa. It was highest in Punjab followed by Kerala, Tamil Nadu and Andhra Pradesh.

v) The overall achievements under IRDP as well as under DRI scheme were satisfactory. In other words, banks had fulfilled their social obligation in these regards.

vi) The recovery of the commercial banks loans remained poor. Among the states recovery was very poor in the hill states of north east and north.It was satisfactory only in Punjab.

vii) The growth in rural deposits between 1969-70 and 1982-83 was over 19 fold. This growth was more than proportionate in Uttar Pradesh, Bihar, Andhra Pradesh, Madhya Pradesh, Haryana, Orissa, Tripura and Nagaland, proportionate in Punjab, Rajasthan and Jammu & Kashmir and less than proportionate in other states. The ratio of incremental deposits to state income has shown a general rise but had declined in Himachal Pradesh, Jammu Kashmir and Punjab. It however, remained over 50 per cent.

viii) The credit to deposit ratio for rural centres had significantly increased between 1971 and 1985. It was as high as over 100 for Andhra Pradesh, Manipur and Orissa because of their poor performance in deposit function. On the other hand it was very low for Punjab, Nagaland and West Bengal because of better performance in deposits compared to credit.