CHAPTER-7

SUMMARY OF FINDINGS
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Institutional Financing for Rural Development

Institutional finance is a significant ingredient for financing rural development. In the existing credit delivery system, there are four channels for institutional credit in rural areas: (i) Co-operative banks, (ii) State Bank of India (SBI) and Subsidiaries, (iii) Nationalised Banks, and (iv) Regional Rural Banks (RRBs). These institutions have been engaged in providing finance in both ways-direct and indirect. Flow of Total Institutional Credit to Agriculture has increased Rs. 18744 crore to Rs. 51460 crore (2.8 times) during 2000-01-2006-07. Institution-wise flow of credit was highest in case of Commercial Bank which have disbursed Rs. 8255 crore in 2000-01 increased to Rs. 24693 crore (3.0 times) in 2006-07 while Co-operative Bank ranked second and they have disbursed Rs. 9406 crore in 2000-01 and increased to Rs. 22706 crore (2.4 times) in 2006-07. The Regional Rural Banks have disbursed Rs. 1083 crore in 2000-01 and increased Rs. 4061 crore (3.7 times) during 2006-07.

Direct institutional credit for agricultural and allied activities has increased by 3.5 times i.e. from Rs. 10187.7 crore in 1996-97 Rs. 35970.9 crore in 2005-06 Cooperative Banks have financed Rs. 4819.1 crore (44.8 per cent) in 1996-97 and increased to Rs. 17235 crore (56.5 per cent) in 2006-07. State Government funding has increased from Rs. 358.6 crore to Rs. 520.3 crore. The Commercial Banks have provided finance for Rs. 4675.5 crore (36.0 per cent) in 1996-97 which has increased Rs. 16350.5 crore (45.5 per cent) in 2005-06 RRBs has sanctioned Rs. 2985.1 crore (8.3 per cent) in 2005-06 compared to Rs. 334.5 crore (3.5 per cent) in 1996-97 Indirect Institutional Credit for agriculture and allied activities has been sanctioned for Rs. 26451 crore in 1996-97 which has increased to Rs. 27104 crore in 2006-07. The percentage distribution of total
indirect finance sanctioned by Co-operative Bank, Commercial Banks, RRBs and REC Ltd. was 65.3 per cent, 7.5 per cent, 0.4 percent and 26.8 per cent respectively in 1996-97 which has been changed as 83.1 per cent, 8.0 per cent, 0.1 per cent, 8.8 per cent respectively in 2006-07. It has been observed that the contribution of public sector banks in indirect finance was almost stagnant at 8 percent during the period under study.

Kisan Credit Card Scheme was introduced in 1998-99 implemented by 27 public sector banks, 334 Central Co-operative banks and 187 Regional Rural banks. The total Kisan Credit Cards has increased from 7.85 lakh in 1998-99 to 47.59 lakh during 2006-07 while amount disbursed on the basis of these cards has increased from Rs. 2314 crore to Rs. 23247 crore during the same period. Poverty reduction through gainful employment or by way of asset creation supported by credit for raising the income level of the poor was the main objective of the IRDP programme implemented throughout the country since 1982. Under this programme, 5.2 crore families have been benefited until March 1998 and total credit sanctioned by banks was to the tune of Rs. 20324 crore. The assistance from the banks and subsidy by the government had resulted an increase in the investment of Rs. 32824 crore are at the ground level commercial bank and RRBs together accounts for major share about 85 per cent of the credit disbursed under IRDP, while the remaining was shared by the co-operative banks.

**State Bank of India and Rural Development**

According to the recommendations of the All India Rural Credit Survey Committee, the Government of India nationalised the Imperial Bank of India and renamed as the State Bank of India (SBI) in 1955. One of the main objectives of the SBI is the extension of banking facilities on large scale particularly in the rural areas.
Analysis of branch expansion of SBI in rural, semi-rural, urban and metropolitan areas during 1969 to 2007 that there is almost increase in their branches from 1571 to 11287 of which 4111 branches constituting 47 per cent of total branches in the rural areas. 2443 accounting for 27.2 per cent of total branches in semi-urban areas, 1408 (15.7 per cent) in urban areas and 990 (11.1 per cent) in Metropolitan areas. There are 972 specialized branches which have been set up in different part of the country exclusively for financing the agriculture and allied activities these branches include 427 agriculture Development Branches (ADBs) and 547 branches with Agricultural Banking Divisions (ADBs) and 2 Agricultural Business Branches at Chennai and Hyderabad catering to the needs of hi-tech commercial agricultural project. The deposits of SBI during 1969 to 2006 had increased by 254 times, i.e. from Rs. 1227 crore with to Rs. 311452 crore. The advances sanctioned by SBI were Rs. 841 crore 1969 but it became 192454 crore in 2006 showing the continuously increasing trend. The advances increased by 229 times during the period. The CD ratio of SBI has declined trend from 77.4 per cent in 1970 to 61.8 percent in 2006.

The advances by SBI to agriculture had increased from Rs. 92 crore (10.9 per cent) in 1969 to Rs. 16203 crore (13.4 percent) in The advances to agriculture by SBI has increased 176.1 times during the period. SBI has shared 28 per cent of total agricultural advances sanctioned Public Sector Banks (PSBs) in 2006.

SBI financing to small scale industries has shown a decline from Rs. 104 crore (12.3 per cent) in 1969 and increased to Rs. 12582 crore (10.4 per cent) in 2006. Thus SBI advances to SSI, increased by 123.57 times during period of analysis.

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the Prime Minister Rozgar Yojana, SBI has sanctioned loan aggregating Rs. 363 crore to 53698 applicants and disbursed Rs. 183 crore to 30304 beneficiaries. In the Swarnjayanti Shahri Rozgar Yojana, SBI has sanctioned loan of Rs. 69.26 crore to 20033 applicants and disbursed Rs. 49 crore to 14138 beneficiaries.

The SBI has launched three new schemes for agricultural development viz. Kisan Gold Card Scheme, Land Purchase Scheme, scheme for financing the purchase of Harvesters and two new scheme for SSI i.e. Small and Medium Enterprises (SME) 'Credit Plus and General purpose during 2001-02.

**National bank And Rural Development**

Since Nationalisation of Commercial Bank, it has been the focus of the Government policies to introduce social responsibilities in banks. In fact, one of the main objectives of the bank nationalisation is to provide banking facilities for the common man living in remote rural areas of the country. Overall progress in branch expansion of nationalised banks in rural, semi-urban, urban and metropolitan areas indicates that their branches have increased from 4168 to 32635 during the 1969 to 2001. Rural branches expanded at the faster rate and increased from 703 to 13866 near about 20 times during post nationalisation period. The proportion of Rural branches in total branches of commercial banks has increased from 22.5 per cent in 1969 to 49.6 per cent in 2001.

The concept of priority sector advances was formulated in 1968 with the introduction of social control over banks. After nationalisation, the commercial bank finance has been increasingly made available to many sector of the economy like agriculture, small sale industries and retail trade self-employment scheme education etc. which were till then considered to the ill advised lines of the credit activities for the commercial banks and hence were denied of
their genuine need for bank finance. These sectors are now called priority sector of the economy. Government of India (GOI) and RBI have laid down the target for lending to priority sector that at least 40 per cent of total bank credit must be extended to priority sectors. The sub targets have also been prescribed by the GOI and RBI that 18 per cent of the bank credit to agriculture sector, of which at least fifty per cent to agriculture and small marginal farmers and agricultural labourers; to weaker sections of the society; and the remaining of bank credit 10 per cent, and 12 per cent for other sectors.

Bank-group-wise classification of advances to priority sector indicates that the major scheduled commercial bank has increased from Rs. 50321 crore in 1998-99 to 179931 crore in 2006-07 Public sector banks advances to priority sectors have increased from Rs. 47848 crore in 1993 to Rs. 146546 crore in the 2006-07, but the percentage share of Public Sector Banks advances to total priority sector declined from 95 per cent to 81.9 per cent during the period. The share of private sector banks in priority sector advances was for Rs. 3917 crore in 1998-99 and increased to 21550 crore in 2006-07. The percentage share of private sector banks has increased from 6.5 per cent in 1998-99 to 12 percent in 2006-07. The share of Foreign bank advances to priority sector was for Rs. 2473 crore (4.9 per cent) in 1998-99 and increased to Rs. 11835 crore (6.5 per cent) in 2006-07.

Public Sector Bank advances to agriculture and other priority sector during 1997 to 2007 indicates that it was 18 per cent of total bank credit in 1997 and declined to 13 per cent in 2005 with a marginal increase upto 14.3 per cent in 2007 the absolute amount of advances to agriculture has increased from 16515 crore to 45296 crore during the period. The advances to small scale industry have been ranging between 8.3 per cent and 16 per cent of total bank credit. The total amount of advances to retail trade and small
business has increased from Rs. 480 crore to Rs. 13389 crore during the period. The advances of professional and self employed period have increased to Rs. 2926 crore from Rs. 1332 crore during the period. The advances for housing have increased from Rs. 330 crore to Rs. 9225 crore during the period. The advances for other purposes have increased from 1581 crore to 10607 crore during the period.

The Lead Bank Scheme was introduced by Reserve Bank of India in 1969. The main focus of the Lead Bank Scheme (LBS) is to enhance the proportion of bank finance to priority sector. The objective of the scheme has been to coordinate the activities of bank and other financial institutions for facilitating the flow of the credit to priority sector. The Lead Bank Scheme has covered 575 districts as on March 2000. The annual credit plan of financial institutions under the Lead Bank Scheme is covering the agricultural and allied activities, small scale industries and services. The credit plan for agriculture and allied activities has increased from Rs.12915.43 crore to Rs. 32337.5 crore during 1997-98 to 2004-05.

The achievement of the credit plan under Lead Bank Scheme was 85.9 percent of target in 1997-98 which has increased to 96.32 per cent in 2004-05. The credit plan for small scale industries was for Rs. 2858.68 crore in 1997-98 and increased to Rs. 11629.67 crore in 2004-05 The achievement regarding the credit plan for small scale industries has been 107.31 per cent, 114.1 per cent and 112.4 per cent of the target respectively during 1999-2000, 2000-2001 and 2001-02. The credit plan for services has increased from Rs. 3127.52 crore to Rs. 53873.4 crore during 1997-98 to 2004-05.

The total plan amount has increased from Rs. 18901.63 crore to Rs. 55873 crore during the period. In the year 1997-98 the achievement was 84.4 per cent of target. In the year whereas the achievement was 96.65 per cent of the target in 2004-05. It has
remarkable fact to mention that during 1999-2000 to 2001-02, the actual disbursement was more that that of the targeted amount.

Regional Rural Bank And Rural Development

On the basis of recommendation of the working group headed by Mr. M. Narsimham, RRBs came into existence in 1975 for providing banking services to rural masses and extending wide variety of financial assistance to the weaker sections and poorer sections of the rural society. The first five RRBs were set up in 1975, then their number grew up to 196 by 1987 and remained same at end of March 2002. The banks have their presence in all parts of the country with 14452 branches covering 484 districts in the last 25 year. Regional Rural Banks (RRBs) have been active participant in rural development in general and in financing the rural programmes designed to provide credit assistance to identified beneficiaries in particular. They are also implementing Differential Rate of Interest (DRI) scheme for the weaker sections and physically handicapped persons of the rural areas.

Mobilisation of deposit is one of the major tasks of RRBs. It depends upon the saving capacity of the rural people. It has been increased from Rs. 0.20 crore in 1975 to Rs. 35995 crores in 2005-06. The deposit mobilisation of per RRB increased from Rs. 0.04 crore to Rs. 183.64 crore between 1975 to 2006 The average deposit per branches was equal to Rs. 2.49 crore in March 2006 as against Rs. 0.012 crore in 1975.

The advances are the crucial component of business plan of the RRBs had tried to touch the doors of each and every neglected section of society. They devote the special attention to the weaker section of the target groups in order to enable them to participate in activities and share the benefit of rural development. There was
continuous increase in the aggregate advances of RRBs in India over the year. It increased from Rs. 10 crore in 1975 to Rs. 959.97 crore in 1985, Rs. 9860.81 in 2000 and Rs. 1521 crore in 2006. Advances per bank increased from Rs. 0.017 crore in 1975 to Rs. 77.6 crore in 2006. The average advance per branch increased from Rs. 0.014 crore in 1975 to Rs. 1.05 crore in 2006 showing an increase more than 75 times. The credit deposit ratio related to RRBs during 1975 to 2006 indicates that it was 50 per cent in 1975 and substantially increased to 164 per cent in 1978 and thereafter declined to 42 per cent at the end of March 2006.

Purpose wise break up of loans provided by RRBs has covered short term (crop loan), agricultural investment and allied activities, rural artisans, village cottage industry, retail trade/business, self employment, consumption loan and others. The agricultural loan has shared 60.10 per cent of the total advances in 1982 which has declined to 47.3 per cent of total advances in 2006 whereas the RRBs loans to non-agricultural sector have increased from 39.9 per cent to 52.7 per cent during the period. Total advances increased to Rs. 12108.84 crore in 2006 from Rs. 577.11 crore in 1982.

NABARD And Rural Development

The Reserve Bank of India had maintained a separate department for agricultural credit which requires reorganization as per policies of the Government for rural development. Accordingly, the Reserve Bank of India appointed a Committee known as Committee for Reviving Arrangements of Financial Institutions Credit for Agriculture and Rural Development (CRAFCARDS) in 1979 to go into the detailed study of rural credit and make recommendation for reorganizing and strengthening the Agricultural Credit Department of the RBI. The committee submitted its report in March 1981 and recommended among other things the setting up of
National Bank for Agriculture and Rural Development. Thus, the National Bank for Agriculture and Rural Development (NABARD) was established in 1982 by an Act of Parliament.

NABARD has been playing a vital role in proper hannelisation of bank credit in the rural sector of the economy. In addition to refinance, NABARD augments resource base of those institutions which are engaged in providing credit to rural sector in the form of investment credit. The investment credit has been disbursed to four major agencies viz. State Co-operative Agriculture and Rural Development Banks (SCARDBs), Scheduled Commercial Banks, Regional Rural Banks and State Cooperative Banks. The SCARDBs has accounted for 32 per cent share in total investment credit in 1996-97 and increased to 54 per cent during 2001-2002 but again it started declining upto 38 per cent in 2005-06.

The Scheduled Commercial Bank has shown decreasing trend from Rs. 952 Crores (46 per cent) in 1996-97 crores (9 per cent) in 2002-03. The share of Scheduled Commercial Banks in total disbursement has shown an increasing trend thereafter and reached to Rs. 1089 crore (16 per cent) in 2006 The disbursement of investment credit to Regional Rural Banks has been declined from 19 percent to 13 percent during the period. The share of co-operative banks was only 7 per cent in 1997-98 and increased to 36 per cent in 2005-06.

Total disbursement of investment credit by NABARD was Rs. 2054 crore in 1996-97 and increased to Rs. 6683 crore in 2006-07. The South Region accounted for 29 per cent, Central Region 26 per cent, Western Region 17 per cent, Northern Region 15 per cent, Eastern Region 11 per cent and Northern Eastern Region 2 per cent of the total sanctions in 1996-97 which has been changed as Southern Region (27.9 per cent), Central Region (21.8 per cent),
Northern Region (21.2 per cent), Western Region (16.1 per cent), Eastern Region (12 per cent) and N/E Region (1 per cent) in 2006-07.

Purpose-wise disbursement of Refinance Under Investment Credit by NABARD exhibits that the amount of disbursement of refinance for minor irrigation has increased from Rs. 502 crores to Rs. 691 crores during the period but as a percentage to total disbursement of refinance, it has declined from 24.4 per cent to 10.3 per cent during the same period. The aggregate amount of refinance disbursed for land development was Rs. 135 crore in 2006-07 as compared to Rs. 14 crore in 1996-97. The proportionate share of refinance disbursement for land development has increased 0.6 per cent in 1997-98 to 2 per cent in 2006-07. The amount of Refinance disbursed for farm mechanization has gone upto Rs. 1359 crore in 1997-98 from 381 crore in 1996-97. Proportionate share for farm mechanisation has been ranging between 18.5 per cent 1996-97 and 30.8 percent 2006-07.

Plantation and Horticulture have shared Rs. 99 crore in 1996-97 and Increased to Rs. 280 crore in 2006-07. The percentage share of plantation and Horticulture has been ranging between 4 per cent to 4.8 per cent during the period. Although the poultry sheep breading and piggeries have been observed at an increasing rate till 2003-04, its proportionate share in total refinance has varied between 2.6 per cent, 5.4 percent during the period. The dairy development has been sanctioned Rs. 84 crore in 1996-97 which had increased to Rs. 821 crore in 2006-07, its proportionate share has been increasing from 4.1 per cent to 12.5 per cent during the period. The store and market yard has absorbed only Rs. 9 crore 1996-97 and increased to Rs. 227 crore in 2006-07.

NABARD has been working as a catalyst in promoting and linking more and more Self Help Groups (SHGs) to the banking
system. In addition awareness creation on SHGs, implementing special programmes and formulating appropriate development policies were other policy measures adopted by NABARD. The NABARD has been propagating, promoting and financing the Self Help Groups and bank linkage programme since 1998. The number of SHGs linked increased from 225 in 1998-99 to 94645 in 2005-06. The credit linkage programme covered 362 districts in 24 state and all union territories at the end of March 2005-06. The notable features of linkage programme are that more than 85 per cent of the group formed exclusively by woman member. The bank loan disbursed to was only 0.29 crore in 1998-99 and increased to Rs. 192.98 crore in 1999 2000.

The Union Budget for 1995-96 proposed the creation of Rural Infrastructure Development Fund (RIDF) in NABARD with a corpus of Rs. 2000 crores. This corpus was contributed by all the Indian Scheduled Commercial banks (other than RRBs) to make up their short-fall in agricultural lending target of 18 per cent of net bank credit. With every successive budget, the Indian Government Continued RIDF, designating as RIDF-I, RIDF-II and so on. The RIDF-I was established with the major objective of providing funds to state governments and state owned corporations to enable them to complete various types of rural infrastructure projects. This development scheme was continued in subsequent years, as RIDF-II in 1996-97 (Rs. 2500 crores), RIDF-III in 1997-98 (Rs. 2500 crores), RIDF-IV in 1998-99 (Rs. 3000 crores), RIDF-V in 1999-2000 (Rs. 3500 crores), RIDF - VI in 2000-01 (Rs. 4500 crores), and RIDFVII in 2001-02 (Rs. 5000 crores). Under the RIDF-V the scope of the scheme was widened so as to provide loans to Gram Panchayats, Self Help Groups and other eligible organisations for implementing village level infrastructure. The amount mobilised under the various RIDF schemes increased from Rs. 350 crores as at end of March 1996 to Rs. 8648 crores at end of 2000-01.
Suggestions

(i) The management of the RRBs continue to vest with the sponsoring banks who also have their own rural branches in the same area of operation of the RRBs. This has given rise to certain anomalies and to avoidable expenditure on control and administration. There is need to give more functional autonomy to RRBs so that they can achieve the basic objectives for which they were set up.

(ii) Banking system in rural areas should be equipped in such manner that it may itself identify the eligible clients based on prescribed norms in the government sponsored programmes, so that the full responsibility for all aspect of the credit decision remains with it. This should also help to improve the client-bank relationship.

(iii) During post nationalisation period, branches of nationalised banks in rural areas have been continuously increased. There is need that these branches must perform their function in most suitable manner for the rural development of the country and a National Rural Bank be established to co-ordinate the functions of these rural branches of commercial banks.

(iv) Still, RRBs have been assigned specific functions to perform in rural areas. Under the present liberalisation regime, it is needed that RRBs be permitted to engage in all types of banking business so that they could sustain in the banking world.
(v) State Bank of India was established for opening more and more branches in rural areas for providing banking services to rural masses of the country. This objective could not be appropriately achieved till date by the performance of SBI.

(vi) The security norms should be simplified for attracting more and more needy and deserving beneficiaries towards the bank finance. The bank should take lenient view for selecting the beneficiaries of the rural sector.