

## CHAPTER - II

### LITERATURE SURVEY

A survey of the existing literature of rural banking system in India was undertaken and it was found that most of the studies are undertaken by Expert Committees appointed by GOI/RBI, from time to time. Very few academic works are there. This is mainly because the rural banking system comprises of commercial banks (CBs) and co-operatives, for which separate data sets are available. Hence, if the system as a whole is to be studied compilation of data poses several problems.

The All-India Rural Credit Survey Committee Report<sup>1</sup> (1954), presented the scientific survey of the Indian rural credit system. They strongly recommended for strengthening the co-operative credit system. Secondly, it was suggested that Imperial Bank of India and 10 major state associated banks should be converted into State Bank of India (SBI) owned by GOI, with a mandate to open 400 branches within 5 years in the rural and semi-urban areas. With the establishment of SBI in 1955, the first step was taken towards giving a rural bend to commercial banking system in the country. This process was carried further with the state induction of CBs in the field of rural banking under the policy of 'Social Control' over banks on recommendations of the National Credit Council( under the

chairmanship of the Finance Minister) in 1968 to adopt the multi agency approach to meet the growing credit needs of the farmers. Further, in 1969, the All-India Rural Credit Review Committee<sup>2</sup> strongly emphasised the need of CBs to enter the field of agricultural finance and this eventually led to the policy of nationalisation of 14 major CBs in July 1969 (another 6 banks were nationalised in April 1980). With this the penetration of CBs in the rural sector began in a big way. The branch licensing policy of RBI was used as a major tool for rapid increase in the semi urban and rural branches of CBs during the last two decades, which transformed the commercial banking system from urban to rural oriented system.

Further, on the recommendations of Working Group on Rural Banks (Narasimham Group) Regional Rural Banks (RRBs) were established in 1975, to serve exclusively the credit needs of the rural poor.

Hence, the change from single agency of co-operatives to the multi-agency of rural banking was brought over with a view to increase the flow of rural credit and to deliver credit at the door step of the farmers.

For monitoring and developing the multi agency system, NABARD was set up in July 1982 on the recommendations of The Committee to Review Arrangements for Institutional credit for Agriculture and Rural Development<sup>3</sup>, (1981). Consequently, the functions of providing refinancing of Agricultural Credit Department of RBI and of providing investment finance of Agricultural Refinance and Development Corporation, were transferred to NABARD.

With the advent of green revolution in mid-sixties, the question of mobilising resources from rural areas and linking credit with production and developmental needs assumed importance. Further, social objectives of rural credit system necessitated changes in the organisational frame work of rural credit. Thus, several organisational and functional reforms were introduced in the late sixties. The Gadgil Committee<sup>4</sup> (October 1969) and Nariman Committee<sup>5</sup> (November 1969), recommended area approach to banking development. Consequently, district was recommended as the suitable unit and lead bank as the tool for bringing about the change. Under the LBS of 1969, each commercial bank was allotted certain number of districts where they were assigned the responsibility of lead bank. This was the first step of providing institutional support for regional credit planning<sup>6</sup>.

From the seventies the issue of linking the rural credit system with rural development planning rose to the fore-front. The study Groups on the working of the Lead Bank Scheme in Gujarat and Maharashtra<sup>7</sup> recommended the development of Credit plans as tool of the LBS.

From the beginning of 1970's several state programmes were introduced for diverting credit to preferred sectors, groups and areas under the development plans. Some of the major programmes were; Differential Rate of Interest Scheme (March 1972), 20-point programme (July 1975), Integrated Rural Development Programme (October 1980), Self Employment for Educated Unemployed Youth (August 1983), Self Employment Programme for the Urban Poor (August 1986), Special Food-grains production Programme (April 1988), and Service Area Approach (April 1989). Further, the CBs were directed to provide priority sector lending<sup>8</sup>. For this, a minimal ratio of 33 1/3 per cent of the total advances was prescribed to be achieved by march 1979 and was further raised to 40 per cent to be achieved by march 1985 and same is expected to be maintained thereafter.

Sarma Committee<sup>9</sup> (1982) reviewed the operations of the LBS. The Group evaluated the implementation of AAPs for 1980 in 177 districts covering 19 states and 3 union territories. It found only 47 per cent of plans realistic,

in so far as aggregate credit was concerned. This disturbing observation prompted us to investigate the position in Gujarat state after four years of experimenting. An indepth probe in the operations of DCPs/AAPs, alone can provide clues to understanding the problems and making suggestions for achieving better alignment between the credit and planning system for rapid rural development.

There are a few studies on the implementation of LBS, which have attempted to examine the issue of alignment of banking system with the economic planning system for rural development. Three major studies are reviewed here-under.

Dr. A.B.P. Singh's study<sup>10</sup> examines the operations of the LBS in a Muzaffarpur district of Bihar state with reference to the DCP 1980-'82. M.S. Turan's study<sup>11</sup> is with respect to Haryana state, covering all the 12 districts, for the DCP 1980-'82. Both these studies are of descriptive type, explaining the evolution of LBS, DCPs and AAPs, with very little data impact on the alignment of the two systems. Only the percentage of achievements to targets are computed at the district level. A recent Ph.D. Study by Ashok Bohra<sup>12</sup> also deserve mention here. The study refer to the 3 categories of lending institutions viz. lead Banks,

Non-Lead Banks and other Agencies. This being an unpublished Ph.D. thesis, the details of the observations and findings were not available.

The above literature review indicates an urgent need for an indepth analytical study for measuring the extent to which the rural credit system has achieved alignment with the economic planning system for rural development and to identify the environmental as well as institutional factor, responsible for promoting or constraining the alignment process. This study is an attempt to fill up this lacuna.

Khusro Committee Report<sup>13</sup>(1990) is the last in series of the Expert Committees on rural credit. It has reviewed the growth of the various component of rural credit system in the country with a special focus on the overdues syndrome.

An examination of various Expert Committee Reports mentioned above, reveals a common problem of consistently rising levels of overdues, cutting across the various states as well as the various lending agencies operating in the country. This problem emerged from the beginning of 1960's in the co-operative credit system and

stiffed its growth completely by the end of that decade. Several co-operatives and co-operative banks turned defunct. The CBs faced the same problem during the 1970's and the following decade. The first major comprehensive study on the problem of overdues was undertaken by Datey Committee appointed by RBI in 1974.

All the Committees have examined the overdues problem at the agency level. The observations and findings of all these committees are widely known and need no repetition. One study which needs special mention here is that of C.L. Dadhich<sup>14</sup> (1977). He has examined the causes of overdues of agricultural credit mainly at the borrowers level and has only reviewed the policies of co-operative lending institutions and is restricted to the few districts of Rajasthan State. However, the latest Report of the Khusro Committee referred above, deals at length with this problem. The overdue problem is examined with reference to various states, lending agencywise, purposes, and types of borrowers. Age-wise composition of overdues is also provided. It concludes that, "The high incidence of overdues in the agricultural credit system has become a major constraint to the expansion and smooth delivery of credit. However, the bulk of the overdues get recovered in course of time leaving only a small proportion of it ultimately becoming irrecoverable. It is only these which turn bad. It would, therefore, be wrong to construe, as is sometimes done, all "overdues" as "bad

debts". Our estimate of bad debts as on June 30, 1986, of the credit agencies under agricultural loaning works out to Rs. 846 crores forming 5.1 per cent of the total agricultural loans outstanding on that date. But overdues in absolute terms have increased during the last one decade. Thus, the overdues at the level of the ultimate borrowers of all credit agencies increased from Rs. 853 crores at the end of June 1976 to Rs. 4,262 crores at the end of June 1986 and constituted 42 per cent of total demand<sup>15</sup>. However, the Committee has examined the overdue problems only with reference to agricultural credit and the thrust of the investigation was at the borrowers (defaulters) level. Several external and internal factors influencing the level and trends of overdues were identified. Most of them are widely known.

The most important contribution of the Khusro Committee is the large quantum of data on overdues at all levels. We have used some of these data for examining the overdues in the state of Gujarat. We have extended our search to comprise non-agricultural credit, which is currently receiving the prime attention of policy makers. Besides this, our approach to examining the overdue problem is different from the traditional one in the following



respects : Firstly, the overdues of each lending institution in Gujarat are computed separately by collecting data from primary source. Secondly, the overdues are examined with reference to major economic sectors viz. Agriculture, Industry and Tertiary. Lastly, the problem is examined for the rural banking system as a whole in Gujarat and making a comparison with the all-India position.

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