CHAPTER - I

INTRODUCTION

Rationale

Investment in rural areas is largely influenced by the structure and operations of the financial institutions. Over the last three decades, the developing countries of the world are experimenting in the process of adepting the existing institutional financing system to the need and challenges of the process of rural development. India has succeeded in developing one of the largest rural banking system in the world. With the nationalisation of 14 major commercial banks in the country in July 1969, the single agency approach to rural credit was replaced by the multi-agency system. The Lead Bank Scheme (LBS) was introduced by the Reserve Bank of India (RBI) in December 1969, to give a rural bend to the commercial banking system. Under the Sixth Five Year Plan (1980-'85) emphasis was put at the policy level to bring the rural banking system in close alignment with the process of rural planning, through the tools of district Credit Plans and district development plans.

In view of the paramount importance of this innovations in setting the pace of rural development, an in-depth probe in the operation of the alignment process assumes significance. This study aims at evaluating the

performance of the multi-agency system of rural banking in Gujarat State. India, being a very big country, has diversified structure of agriculture and rural economy. The process of rural development and financing are location and time specific. Hence, the study of rural banking system becomes meaningful only at the state/district level.

Under the LBS for the first time arrangements were made for planning and implementing credit based programmes in the context of the multi agency system for rural financing and area approach for rural development. The "lead bank" concept arose out of the recommendations of the National Credit Council's Study Group on the Organisational Framework for the Implementation of Social Objectives, which submitted its report in October 1969. This Group felt that in attempting to overcome the glaring disparities in the availability of banking facilities, adeptation to local condition was essential[1]. Further, the concept of planning at the district level for credit and banking development was also advocated by the Study Group and it recommended the adoption of district which constituted the main administrative unit as the base unit for the purpose[2]. The Nariman Committee also recommended an area approach to banking development and lead bank scheme under which banks could be alloted specific districts, where they would take the lead in surveying the

potential for banking development in extending branch banking after identifying growth centres. Lead Banks were to extend credit facilities and mobilise deposits out of rising levels of income[3].

In 1969, RBI assigned all the 335 districts (except Metropolitan districts) in the country to the State Bank Group, 14 Nationalised banks and 3 large private banks namely, Andra bank, Punjab and Sind bank (since nationalised in April 1980) and Jammu and Kashmir Bank (P) Ltd.. The allocation of districts amongst banks was based on a variety of criteria such as, resource base and size of bank in the area, geographical contiguity of districts so that lead districts could fall in cluster, desirability of having more than one lead bank in a state and allocation of lead bank responsibility to a bank in more than one states[4]. Thenafter, the lead banks were to play a major role in the development of banking and credit in the allocated districts. In the first phase of the lead bank scheme, lead banks conducted impressionistic surveys in the districts allotted to them and identified growth centres where the local economy was expected to be stimulated by opening bank branches. With the rapid branch expansion of commercial banks during the seventies, the stage was set for the second phase of the LBS, viz., the formulation and implementation of credit

based area development programmes. Subsequently, in 1973, the lead banks initiated credit planning at microlevel and prepared the District Credit Plans (DCPs)[5]. Lead banks have so far prepared four rounds of DCPs. The last DCPs covered 3 years period ending December 1990. The success of the LBS mainly depend on the effective co-operation and co-ordination not only among the credit institutions but also between the credit institutions on the one hand and the concerned government and other development agencies on the other. This raport is yet not achieved in several districts, and this is the root cause of poor implementation of the DCPs[6].

In view of the fact that the lead bank scheme has completed a decade of working, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) suggested that the review of its working may be undertaken by Reserve Bank of India[7]. Reserve Bank of India set up the Working Group (Sarma Committee) in November 1981, to review the working of the lead bank scheme in all its aspects. The Group reviewed the performance in implementation of Annual Action Plans (AAPs) for 1980 in 177 districts covering 19 states and 3 union territories. The working Group found only 47 per cent of the plans realistic, in so far as aggregate credit was concerned. This findings prompted us to review the situation in Gujarat State. Hence, the evaluation of the

alignment process is the first problem examined in this study.

The consistently rising levels of overdues is very well known problem of rural credit in India. Inspite of several recommendations of Expert Committees followed by policy measures of government the problem has belied all solutions till date. The Khusro Committee Report[8](1990) provides data,indicating that Gujarat was the only state in the country having a continuously rising levels of overdues of agricultural advances during the period under review. Hence, the problem of overdues is the second focal point of our analysis. The overdues in Gujarat are examined with reference to the state as a whole. Further, the overdues in each lending institution and various sectors of the economy are investigated with a view to identifying the institutional and environmental factors responsible for the high levels of overdues.

Objectives

This study aims at measuring the growth and examining the composition of the rural banking system in the state of Gujarat. The focal point of analysis are the two major problems confronting the rural banking system. Firstly, the poor alignment existing between the rural banking system and the development planning system, at the district level, and secondly, the rising & alarming levels of overdues.

The specific objectives are as follows :

(1) To measure the growth of the rural banking system in Gujarat State and to identify the place of Gujarat State in the all-India rural banking scenerio.

(2) To undertake performance evaluation of participating banks under the Annual Action Plans in all the 19 districts of the state, for examining the alignment of the banking system with the development planning system.

(3) To examine the problem of overdues in the rural banking system in Gujarat state, with specific reference to lending institutions and economic sectors.

Significance Of The Study

This study is a problem-oriented enquiry into the operations of the multi-agency system of rural banking in Gujarat State. The analytical frame work covers the various components and the rural banking system as a whole. The overall system analysis is a major contribution of this work, as most of the previous studies are restricted only to examining the operations of one of the credit agencies. Further, the two major problems of rural banking system- firstly, the poor alignment between the banking and development planning systems at the district level and secondly, the rising trend and very high levels of overdues-

are examined with a view to understanding the working of the multi-agency system and making suggestions for improvising its performance perse and in the context of the urgent need of promoting rapid rural development. The study identifies the environmental and institutional factors which promote or constrain the alignment process and are responsible for high overdues, which have significance from the policy point of view.

Data Source and Methodology

The time series data of Gujarat state for measuring the growth trends of banking parameters, viz., bank outlets, deposits mobilised and credit deployed, relates to the period 1973 to 1989. This data was collected from the Banking Statistics, Basic Statistical Returns (BSR) and Quarterly Hand out, published by RBI, and Statistical Statements Relating to the Co-operative Movement in India, Part-I, Credit Societies, published by the National Bank for Agriculture and Rural Development (NABARD).

The primary data on credit deployed by the participating banks was obtained for all the 19 districts of Gujarat state from the DCPs/AAPs, prepared by the Lead Banks. The cross-section data on credit distribution relates to

the four years period ending December, 1986. For each participating bank, the districtwise data for credit allocation and achievements under each sector and total AAP was collected for each of the four years period ending December, 1986.

The agency wise data on overdues and demand of agricultural loans in various states were collected from Khusro Committee Report (1990). The primary data on sectorwise overdues and demand of credit for all the lending institutions operating in Gujarat state was obtained from the A enda Notes and Background Papers circulated by Dena Bank, Convenor, Gujarat State Level Banker's Committee Meetings and from the Annual Report of Gujarat State Co-operative Land Development Bank Limited (GSLDB), at Ahmedabad. The study relates to the three years period ending June 1986.

The data and information on agricultural and population parameters are taken from the Census figures published by Government of India (GOI)/Central Statistical Organisation and the office records of the Directorate of Economics and Statistics, Government of Gujarat, at Gandhinagar. Published data were mainly drawn from Statistical outline of Gujarat (1988) published by Directorate of Economics and Statistics, at Gandhinagar and

Indian Agriculture in brief (22nd edition) 1988, published by Directorate of Economics and Statistics, Department of Agriculture and Co-operation, Ministry of Agriculture, GOI, New Delhi.

For measuring the growth trends, the statistical techniques of compound growth rate and annual growth rate are used. The techniques of rank correlation coefficient, ranking, percentages and averages are used for other analysis.

The Working Group to Review the Working of the Lead Bank Scheme (1982), appointed by the RBI, Considered ± 25 per cent range of variation of achievement of target as an ideal norm for evaluation : "Ordinarily, if the performance is within a range of variation of 10 per cent on either side of the target, it could be considered as reflecting realistic achievement. However, considering that the district credit planning exercise is still in its initial stages, performance in the range of 76 - 125 per cent of the target may be taken to reflect a realistic situation"[9]. As we felt that no significant change has occured till date we have adopted the same methodology, for our evaluation.

The alignment of the banking system with the process of rural planning is analysed agency wise /

bank wise and sectorwise, in each of the 19 districts of Gujarat state by calculating the percentages of credit deployed to the credit allocation given in the AAPs prepared by the lead banks.

The problem of overdues is examined at two levels. Firstly, at the national level and secondly, in the state of Gujarat. The all-India analysis, focuses on statewise and lending agency wise positions of overdues of agriculture advances, mainly with a view to finding out the position of the Gujarat state. For the state of Gujarat the focus is on overdues position of lending institutions and economic sectors analysis. The multi dimensional analysis of overdues is attempted with a view to get clear understanding of the problem and identify the causal factors. Overdues as a percentage of demand of rural credit at the end of the year, is used as the indicator of the overdues position.

Socio-Economic Profile of The Rural Gujarat

The state of Gujarat was formed on May 1, 1960 as a result of the bifurcation of the former Bombay state. It is situated on the west coast of India between 20.1 and 24.7 degree north latitude and 68.4 and 74.4 degree east longtitude[10]. The state is bounded by Arabian sea in the west, Rajasthan in the North, Madya Pradesh in the east and

south east and Maharashtra in the south. The geographical area of the state was 196024 sq.kms. in 1988, which is 5.96 per cent of the area of the Indian union. Administratively Gujarat is divided into 3 regions. Saurashtra region which comprises of 7 districts viz Amreli, Bhavnagar, Jamnagar, Junagadh, Kutch, Rajkot and Surendranagar. North Gujarat region covers 7 districts. These are Ahmedabad, Banaskantha, Gandhinagar, Kheda, Mehsana, Panchmahals and Sabarkantha. And lastly, the South Gujarat region includes 5 districts of Bharuch, Dangs, Surat, Vadodara and Valsad. Gujarat had 4.60 and 3.25 per cent of the districts and inhabited villages respectively, in the country.

Sr. No.	Item	Number
1	Districts	19
2	Talukas	184
3	Development Blocks	218
4	Inhabited villages	18114*
5	Uninhabited villages	436
6	Total villages	18550
7	Towns	244
8	Cities	11
9	Municipal Corporation	6
10	District Panchayats	19
11	Taluka Panchayats	182
12	Nagar Panchayats	139
13	Gram Panchayats	13117

* As on March end 1987, 17651 or 97.4 per cent of villages were electrified. The corresponding percentage at the all-India was 71.4.

Demographic Features

Gujarat is relatively more urbanised state as indicated by item(3) of the following table. The proportion of SC/ST population in the state was almost similar to that at the all-India level. In Gujarat the per cent of rural work force item no.(8) and literacy rate item no. (11) was much higher than that of the all-India level.

Sr. No.	Item	Gujarat	All-India
1	2	3	4
1	Total population(in crores) (1981 census)	3.41 (4.98)	68.52
2	Rural population(in crores) (1981 census)	2.35 (4.47)	52.55
3	Rural population in total population(in per cent).	68.91	76.70
4	SC/STs (in crores)	0.73 (4.67)	15.64
5	SC/ST in total population (in per cent)	21.41	22.83
6	Density of population per sq.Km.	174	216
7	Total rural workforce(in crores)	1.27 (5.19)	24.46
8	Rural work force to rural population (in per cent).	54.04	46.55
9	Agricultural workers(in crores)	0.66 (4.46)	14.80
10	Cultivators(in crores)	0.41 (4.43)	9.25
11	Rural literacy rate	36.20	29.65

Note : Figures in bracket indicate per cent share of Gujarat in All-India.

Source : 1 Population census 1981.

2 Indian Agriculture in brief (22nd edition)1988 Published by Directorate of Economics and Statistics, Ministry of Agriculture, GOI, New Delhi.

Land Use

In 1984-'85 the net area sown measured 9.58 million hectares, which was 6.81 per cent of the total area sown in the country. The total cropped area of the State was 10.26 million hectares, accounting for 5.83 per cent of all-India. The cropping intensity of the state was 107.1, as compared to 125.0 at all-India level.

Major Crops

The principal food crops in Gujarat state are Wheat, Rice, Bajra and Jowar. While oilseeds, Groundnut, Cotton, Tobacco and Sugarcane are the main cash crops.

Rain-fall

The normal rainfall of the State in 1988 was 826.45 mm. In Saurashtra region, Kutch district had lowest rainfall (340mm) and Bhavnagar had highest (620mm). In North Gujarat, Mehsana had minimum (613mm) and Panchmahals had the Maximum (1027mm). In South Gujarat, Bharuch district received the lowest rainfall (877mm) and Valsad had the maximum (1805mm). Among the regions, Saurashtra region, recorded lowest rainfall (552mm) and South Gujarat had the highest (1290mm) rain fall in the state.

Irrigation

Irrigation makes possible double and multiple cropping and hence, influences intensive agriculture and rural credit. The net irrigated area of the state was only 2.24 million hectares in 1984-'85, accounting for around 5.36 per cent of the national total. The gross irrigated area was 27.3 per cent of the net area sown, which was far below the corresponding all-India percentage (38.4 per cent).

As for the sources of irrigation is concerned, in 1984-'85 the largest source of irrigation in the state is wells (79 per cent). The share of canals was 19 per cent and that of tanks was just 2 per cent. For the state as a whole irrigation in-tensity was 23.37 per cent compared to 29.69 per cent at the all-India level.

Land Holding

The number of operational farm holdings in the state in 1985-'86 was 3.12 million, which accounted for 3.3 per cent to all-India operational land holding. The percentage classification of the number and area of operational land holding in the state and all-India is presented in the following table.

Size-wise Classification of Holdings

Sr. No.	Size class Hectares	Number of Holding		Area of Holding (hectares)	
		Gujarat	all-India	Gujarat	all-India
1	2	3	4	5	6
1	Marginal (up to 1)	25.6	58.0	4.2	13.1
2	Small (1 - 2)	23.5	18.2	10.9	15.5
3	Semi-medium (2 - 4)	25.0	13.6	22.5	22.2
4	Medium (4 - 10)	21.4	8.2	41.5	28.7
5	Large (More than 10)	4.5	2.0	20.9	20.5
6	Total	100.0	100.0	100.0	100.0

Source : For Gujarat : Statistical outline of Gujarat-1988. Published by Directorate of Economics and Statistics, Gandhinagar. For all-India : Statistical outline of India 1989-'90 Published by Tata Services Ltd.Bombay.

It is clear from the above table, that the inequalities in land holdings were greater at all-India level than in Gujarat. Whereas inequalities in area of holding were more pronounced in Gujarat compared to the all-India level. The marginal farmers accounted for

58 per cent of total holding at the all-India level, whereas in Gujarat their share in the total holdings was only 25.6 per cent. Similarly, small and marginal farmers had 76 per cent of holdings in the country against only 49 per cent in Gujarat. Their respective shares in the area were 28.6 per cent and 15.1 per cent.

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