UNIT 4 RURAL CREDIT AND BANKING

Structure

4.0 OBJECTIVES

After studying this unit you should be able to:

- define the role of credit in rural development;
- explain the source and nature of non-institutional credit in rural areas;
- analyse the functioning of credit cooperatives and micro-credit providing sources, like self-help groups, and describe their evolution and development; and
- assess the functioning of organized sector rural banking credit institutions and describe the overall policy framework and structure under which they work.

4.1 INTRODUCTION

Even today, a large section of the population of developing nations like India lives in villages. These people carry out several economic activities like production, consumption, saving, investment, etc. All these activities are prone to fluctuations and it is quite likely that there are fluctuations in the level of income and consumption among many rural people. Therefore, there is a need for augmenting finances through ways other than the known and expected incomes of the rural populations. Hence the role of credit sources is, as you might anticipate, crucial for rural development. Rural people have to borrow for a variety of needs.

In the rural areas of developing nations, there is tremendous inequality in the distribution of income. There are a few individuals who own a disproportionate amount of all assets, and have very high incomes. On the other hand, there are people without any assets, such as the landless labourers, and also people with low incomes, such as the labourers and marginal farmers. Thus, different people or sections of the population have different credit needs. To satisfy these needs in a timely fashion, the state has taken policy initiatives to provide institutional credit. Such initiatives are required for another reason as well—to weaken the traditionally informal sources of credit such as the *moneylenders*, who have a strong grip on the provision of credit for the rural people.

Historically, the provision of credit for the rural sector has been beset by several problems. First, institutional credit was almost negligible. Secondly, rural credit markets have been segmented, fragmented and highly imperfect. On top of this, the huge presence of informal credit has helped moneylenders charge high rates of interest with complicated terms and conditions, sometimes accompanied by an element of cruelty. Finally, historically credit has not been distributed equitably or fairly, and there have been huge disparities in terms of class, caste and regions. At the time of independence, the rural credit scenario was rife with these problems.

This unit discusses the problems faced by rural people, particularly the poor in terms of their consumption in relation to their income. This unit discusses the role of credit in rural development, prevalence of risks in rural economic activities and the strategies that are adopted to cope with these risks. Later we discuss non-organisational and organisational sources of credit in rural areas. The roles of institutions like credit cooperatives, self-help groups, formal commercial banks, regional rural banks, etc. also have been discussed. Finally, we attempt an assessment and evaluation of the performance of the credit sources and the outcomes these have led to.

4.2 THE ROLE OF CREDIT IN RURAL DEVELOPMENT

In this section, we provide some basic ideas about the importance of credit in the rural economy. It is of help to know what role credit and finance play for the rural populace, both for consumption and investment purposes. Who needs credit? Why do they need it? Who provides this credit? These are the questions we will look into. Before we describe the situation of rural credit in India, we must get some theoretical points out of our way.

For any strategy of rural development, the provisions of credit and the generation of savings are essential. Credit plays an important role not only in modernisation of agriculture, but also in the fight against rural poverty. But we must be careful not to equate credit flow with capital creation in rural areas. The mere increase in the flow of money to rural areas does not constitute credit. Similarly, if the savings of the rural people are used only for consumption purposes, capital accumulation will not take place.

What are the main characteristics of rural credit markets? To attempt to answer this question, we must try to understand the basic features of a 'market'. A market in an abstract sense is an institutional arrangement for the exchange of commodities and services, or even the factors of production, for the mutual benefit of buyers and sellers. At 'equilibrium' or a 'state of balance', the prices prevailing are such that no buyer or seller has any incentive to change the quantity that they would like to buy or sell. Whenever conditions arise to create shortages or gluts, prices are supposed to adjust to bring back the situation to equilibrium. For these things to take place, a number of conditions are supposed to hold. All buyers and sellers are assumed to possess perfect information about all the aspects of the transactions concerned. No buyer or seller should ideally be in a position to influence or control the market and acquire a disproportionately large share of wealth. Also there should not be any spillover effects. Often, the credit market does not conform to what has been detailed above.

There are several features of the rural credit markets. First, they are characterised by imperfect and incomplete information. All the parties do not have the same level of information. Credit providers typically do not have all the required information about their clients, their habits, and their credit-worthiness. Secondly, credit markets are often segmented. Small farmers for small quantum of loans tend to go to the same moneylenders, bigger farmers to another set of moneylenders, and so on. Thirdly, there is credit rationing. Even at the going interest rates, all those who desire to borrow do not get loans, while there is no upward pressure on interest rates.

4.2.1 Risk in Rural Economies

The nature of risks faced by rural people in their day-to-day lives is different from those faced by people outside the rural sector. The rural poor in developing nations do not face risks, like stock market crashes, business cycles, and product cycles, which those living in the developed nations face. The rural poor, however, face a much larger incidence of risks. First, the rural poor are more vulnerable to disease and ill health. They also face environmental hazards. Infectious and communicable diseases are much more prevalent in poor societies. Secondly, the rural people, particularly the poor, face risks in carrying out their work or profession. For many rural people, unlike those working in the urban organised sector, there is no fixed and assured wage. Rural people may be self-employed farmers or landless labourers. These groups are much more vulnerable to risk. This type of risk is exacerbated by the fact that the rural poor typically depend on the cultivation of a few basic primary products. Thirdly, the rural people are also faced with technology related risks, and these tend to spread through the entire society. On top of this, the rural poor are spatially less integrated, as they tend to be isolated. They are also less able to cope with risk. Let us now see what strategies are adopted by the poor to cope with risks.

4.2.2 Risk Coping Strategies

Broadly, two types of strategies to cope with risks may be identified. The first type comprises those strategies which are used before the occurrence of a shock, while the second type consists of those strategies which are used after the shock has taken place. The first type is also known as 'risk reduction' strategies, while the latter type is called 'risk coping' strategies. The first type thus comprises strategies that are devised to reduce exposure to risk, and the magnitude of the shock. The risk coping strategies are themselves of two types, those that try to build and accumulate assets, and those that help share risk with others.

4.3 NON-ORGANISATIONAL CREDIT IN RURAL AREAS

Non-organisational, non-institutional, or informal credit is an important part of the rural financial system. It provides the bulk of credit for the poorer sections of the rural society. An important part of credit for the rural poor happens to be consumption credit, which is not met by organized sector credit institutions.

4.3.1 Informal Credit Sources

Informal credit in the rural areas of many developing nations, including India, has many common features all over. As the name suggests, the informal sector escapes regulatory mechanisms and a legal framework, which together bind organized sector credit institutions. Since there are no restrictions on capital subscription, liquidity, lending and deposit rates, the lenders of informal credit do not have to pay legal fees, and transaction costs related to paperwork and documentation are reduced considerably. The borrower, too, avoids the hassles of paperwork and processing fees. Also, the time between when the need for the loan is felt and actually obtaining it is much shorter in the case of informal credit. The informal moneylender usually is willing to accept many different types of assets as collateral. The poor often have only labour or somewhat less often some land as collateral. Formal credit institutions are often not willing to accept these things as collateral, but the moneylender, who is often also a trader or large farmer-employer, does accept them all. Another way in which the rural moneylender controls the borrowers is to employ them on his/her farms or to compel them to purchase his/her products. Thus the credit market is interlinked with the labour and the commodity market.

Informal credit has historically played an important role in meeting the financial needs of the rural people in India. Even after independence, its importance has continued. In 1951-52, the All-India Rural Investment Survey found that professional moneylenders provided almost 83 per cent of cash loans. As part of a general development strategy, the government decided to focus on rural credit needs, and to actively intervene in the rural credit markets. It aimed at expanding the institutional credit infrastructure systematically, with the RBI playing a supervisory role. Formal credit arrangements and their growth are discussed in the next section, but here we may point out that the hold of professional moneylenders has come down over time. By 1971, only 36.1 per cent of cash loans were provided by moneylenders.

In 1990, the report entitled 'A Review of the Agricultural Credit System in India' mentioned that by 1982, 6.12 per cent of the rural household borrowings were provided by the formal sector. For cultivators, the formal sector provided 63.3 per cent of the total loans. We must, however, keep in mind the fact that the total quantum of loans does not by itself reflect the pattern of distribution. In 1981-82, for instance, according to the All India Rural Debt and Investment Survey conducted by RBI, only 13 per cent of the rural cultivator households borrowed from the formal sector. Loans from the formal sector went mainly to the better off households. In stark contrast, for those in the lowest asset group, those having assets of up to Rs. 1000, only about 6 per cent of cash loans were from the organised sector institutions.

The informal financial market is legal but consists of unregulated financial markets. These are outside the ambit of regulated financial intermediaries. Other than informal borrowing and lending among friends and relatives, which (strictly speaking) should not be considered a part of the rural credit, the indigenous lenders provide informal credit, but they do not maintain their books properly and are not regulated by the monetary authorities.

4.3.2 Credit Cooperatives

We should start discussing credit cooperatives by taking a look at the credit cooperative scenario in India. There are non-credit cooperatives as well, but here we are concerned with credit cooperatives only. There are two types of credit cooperatives: short-term credit cooperatives, and medium and long-term credit cooperatives. The term has to do with the period for which credit is provided to the members of the cooperatives.

At the village level, the Primary Agricultural Credit Societies are the backbone of the credit structure. A cooperative society can be started by 10 or more members. Membership and the quantum of loans advanced by PACs have steadily increased over the years.

The second level of the cooperative credit structure for short and medium term loans comprises the Central Cooperative Banks. These banks perform the important function of linking the primary agricultural credit societies with the state level credit cooperative banks, called the state cooperative banks. The Central Cooperative Banks lend to the affiliated primary societies.

4.3.3 Micro Credit

It has been noted that in many developing countries, formal credit and financial institutions have not been able to penetrate much into the rural credit markets, and even where they have, they have not been able to displace the indigenous moneylender entirely. The providers of credit in informal markets enjoy some advantages over their formal-sector counterparts. They have more intimate knowledge of the borrowers, especially regarding the small borrowers and are better able to deal with the risk of default. One policy implication is that if these informal sector institutions cannot be supplanted by the formal institutions, it is quite possible to design and develop small micro-level institutions that mimic the informal credit institutions, without the attendant exploitative conditions that accompany the traditional informal credit institutions. Micro-finance institutions have emerged at many places with this policy perspective behind them.

Since the skills, resources and the technology base of the poor are weak, and scales of their operations small, they need to rely on self-help to meet credit needs and to alleviate poverty. But individual effort would be very weak. Credit programmes for the rural poor can help to expand their economic base through the multiplier effect of investment. In developing countries, particularly in rural areas, there is what is called a vicious cycle of poverty: low income means low saving; low saving leads to low investment; low investment, in turn, generates low income, and the cycle continues

It is usually the case that savers and those who borrow (for investment) are two separate groups of people. Savers deposit their savings in banks to earn interests, while borrowers borrow from banks for investment at the prevailing rates of interest. In the case of poor people, often the investor himself is the saver. If the habit of saving is encouraged, the quantum of savings can be enhanced. Here self- help groups have a role to play. *Groups* imply that there is peer pressure, and possibilities of building collective strength. Group savings have several advantages over individual savings. They create discipline among the members of the group. Also, in groups there is better protection against normal business risks**.** Hence savings and credit can be a useful source that Self-Help Groups can depend on. If a group comprises poor people, who have low incomes and feel that they have very little access to credit, they will be encouraged to form a Self-Help Group. Such credit groups could come up on their own, or could be formed through the interventions of NGOs, which can provide the starting capital. These groups should ideally have less than 50 members, who should emphasis *saving* among other strategies of self-help.

Check Your Progress I

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) Describe the characteristics of rural credit markets.

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2) What are the elements of risk faced by the rural people, and what strategies do they adopt to reduce, as well as to cope with such risks?

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Self Help Groups (SHGs) work on much the same principles as cooperatives, but being less formal, are much more cohesive. SHGs are better than cooperatives in making the poor aware of their problems, to enhance their skills and build their capacities for resource management. SHGs are better instruments for empowerment of the rural people. SHGs have a deep participatory nature. Cooperatives are more formal, and the poor have less representation in them. Stand-alone credit programmes also do not help the poor very much because they are temporary, and can be inflationary. SHGs, on the other hand, are more open-ended and wider in scope.

4.4 ORGANISED BANKING AND RURAL CREDIT

In the previous section, we have acquainted you with some features and characteristics of informal credit markets. There is also the formal financial sector that operates in the rural areas. Chief among the formal sector institutions are the commercial banks. To study the role and impact of commercial banks on rural credit, we divide the period beginning with independence into two: one till 1969, and the other the period since 1969. The year 1969 is chosen as the dividing point since 14 major commercial banks were nationalised in that year.

4.4.1 Commercial Banks and Rural Credit in India: the pre-1969 Period

The All- India Rural Survey Committee (1951) had found that cultivators depended on private moneylenders for about 94% of their credit needs. Looking at the future credit needs, the committee felt that rural credit would be needed for production as well as consumption. It hoped that credit would be available to all who are credit worthy, and that this credit should be properly supervised. The interest rate also must not be too high. The committee put a lot of hope in cooperatives. It averred that "cooperation has failed, but cooperation must succeed". The All India Rural Credit Survey Committee (1954) proposed an integrated scheme for rural credit. It suggested that the RBI should take steps to strengthen the cooperative movement.

An important step towards gearing the banking system for rural credit was the formation of the State Bank of India by amalgamating the Imperial Bank of India with other state-associated banks. It was felt that with the assistance of the RBI, the State Bank would play a crucial role in providing rural credit.

4.4.2 Commercial Banks and Rural Credit: the Later Phase

In July 1969, 14 major commercial banks were nationalised. The government had observed that although the quantum of agricultural credit had increased, the direction and channelling of rural credit had not taken place to the desired extent. This was particularly true in the context of the Green Revolution in agriculture. The New

Strategy favoured rich farmers because of the large scale of its operation. It also necessitated the purchase of a large amount of inputs. This meant that credit was required. Unfortunately, credit was grabbed by the better off farmers. Also, private banks were not too keen to lend in areas and for purposes where profit was not high enough. All this meant that nationalisation of banks seemed a reasonable policy response.

Since nationalisation, branch expansion and deposit mobilisation have both increased. An important aspect of rural credit in the post-1969 period has been the priority sector lending, whereby rural banks had to direct a substantial proportion of their credit to rural areas.

4.4.3 Regional Rural Banks

By the mid seventies, the government wanted to take stock of the institutional credit in rural development. Rural cooperatives were already several years into their operation. Bank nationalization had taken place about half a decade earlier. Thus the Government appointed a Working Group under the chairmanship of Shri M. Narsimham to assess the flow of institutional credit in the rural sector, particularly to the weaker sections. The Group examined the working of two major credit provides, the cooperatives and the commercial banks. It found that there were some deficiencies in the provision of credit. One of the major deficiencies was that several geographical gaps and regional disparities existed in the provision of credit. These deficiencies, the Working Group felt, could not be removed by taking short-term measures to restructure cooperatives and commercial banks. A long-term concentrated effort was needed. The Government took steps to remedy the situation. To this end, the Regional Rural Bank Act came to be passed in 1976. Thus the Regional Rural Banks were established under the Regional Rural Bank Act, 1976, although technically they have been in operation since 1975.

The idea behind the Regional Rural Banks (RRBs) was that these would combine the strengths of both the cooperative banks as well as the commercial banks. It was felt that these would extend cheap and adequate credit, while at the same time be operationally efficient and provide easy access. The primary objective of Regional Rural Banks was to end the culture of rural debts and narrow the gaps that existed among geographical regions in the provision of credit. Operationally, the RRBs are sponsored by the scheduled banks, which in most cases happen to be public sector commercial banks. Instead of burdening commercial banks by extending their functioning over large areas and spreading resources thinly, it was felt that RRBs could function intensively and confine their operations to a single region comprising one or two contiguous districts. Thus RRBs function like commercial banks but with a smaller geographical reach for each for them.

The RRBs aimed at developing the rural economy by providing credit for both agriculture and non-agricultural productive activities, particularly to the weaker sections like small and marginal farmers, agricultural labourers, artisans and small enterprises.

The Central Government, the State Governments, the Reserve Bank of India (RBI) along with the smaller banks, all cooperate for setting up new RRBs and help in their operations. Since 1978, the promotional functions have been carried out mainly by RBI, while the statutory functions are to be carried out by the state governments.

To examine the functioning of RRBs, the government set up the Review Committee on Regional Rural Banks under the chairmanship of Prof. M.L. Dantwala in 1977. The committee made certain recommendations, some of which were that setting up of RRBs should be promoted in areas where central co-operative banks can be transferred to RRBs. According to the committee, the better off sections of rural society should not be entirely deprived of credit because that would affect mobilisation and also depress it.

4.4.4 NABARD

In the sixth five-year plan, tremendous emphasis was laid on rural credit and its proper disbursal. It was also felt that there should be greater emphasis on recovery of loans and proper planning and monitoring of credit. Coordination was sought to be effected among the different levels. To this end, operational efficiency was sought to be enhanced. It was felt that this could be done if the cooperative system was strengthened. It was also felt that total reliance could not be placed only on the cooperative system. The National Commission on Agriculture in 1976 had strongly recommended the setting-up of an organisation at the apex level to integrate the total structure of agricultural finance. In 1979 the Reserve Bank set up the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) under the chairmanship of Shri B. Sivaraman. The committee submitted its report in January 1981. It led to the formation of NABARD, which came into operation in 1982. We will discuss its role and evaluate its performance in section 4.5 below.

4.4.5 Service Area Approach

Since some years after the nationalization of commercial banks in 1969, a disturbing view gained ground progressively—that although the number of branches had increased in rural areas and the quantum of credit disbursal had gone up, yet the rise in the quantity of credit had not borne fruit in the sense of rise in agricultural productivity. The government thus felt that the quality of credit needs should be looked into. To this end, the RBI introduced the Service Areas Approach on 1st April 1989. Under this approach, each branch of a commercial bank or an RRB was assigned a group of 20 to 25 villages. This group of villages was termed a ‘service area’. The bank branch concerned would meet the credit needs of the actual and the potential borrowers in this service area.

Each bank was expected to prepare an economic profile of the villages concerned. On the basis of this economic profile, an annual credit plan would have to be prepared. Accordingly, the annual credit plan of each branch in a district was required to be prepared. The plans of the districts in a state would likewise be aggregated to from the State Credit Plan. A computerized Service Area Monitoring and Information System (SAMIS) was introduced in 1991. The main purpose of the Service Area has been to prepare credit plans at various levels, including the micro credit plans at the grassroots level.

Another important step has been the creation of village profiles and the preparation of databases. Occasionally, service area violations have taken place. Also, there have been several cases where the service area plans have not matched with the performance budgets of the banks. To facilitate the working of the Service Area Banks, the concept of Local Area Banks was introduced in many states in 1996-97.

Check Your Progress II

Note: i) Write your answers in the space provided.

ii) Check your answers with the possible answers provided at the end of the unit.

1) Describe the functioning of the commercial banking system and its role in meeting the rural credit needs.

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2) When was NABARD set up? How successful has its functioning been?

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3) Analyse the working of the Service Area Approach.

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4.5 ASSESSMENT AND EVALUATION

Any assessment of rural credit in the post-independence period has to focus on the provision of credit by the formal organizations, largely cooperatives and banks, as well as in recent times, on Self Help Groups. We should also keep in mind that the Government has started a number of programmes for direct attack on poverty, and several of these are credit linked.

We have already discussed the growth of formal commercial banking in India. Here, we will discuss some of the measures taken with respect to rural banking after 1991, when economic reforms were initiated in India. Till the onset of economic reforms, the interest rate was under an administered regime. At present, the government has deregulated interest rates, and there is no link between interest rates and priority lending. But the practice of priority sector lending continues, whereby banks have to channel part of their total credit to priority sectors—while 18 per cent of the total credit should be specifically for agriculture, of this, 13.5 per cent should be as direct loans.

When a bank fails to meet its target of priority sector lending, it needs to contribute to Rural Infrastructure Development fund set up by NABARD, which in turn provides these funds to state governments to help them to complete various types of rural infrastructure projects.

The reforms of 1991 included reforms in the financial sector. These reforms aimed at making the credit organizations operationally and financially efficient, and increasingly self-reliant. Accordingly, budgetary support given to these institutions by the government was reduced, as were commercial resources. Many prudential norms for RRBs pertaining to asset classification were introduced and they have become operationally more efficient as a result. Among the cooperatives, too, there is greater awareness about efficiency and deregulation.

Some important committees were set up by the Government to assess the working of the Credit System in the rural areas. The RBI set up the Agricultural Credit Review Committee (ACRC) to evaluate the major problems afflicting the system and agricultural credit. This evaluation was to be done on the basis of five earlier review studies carried out by consulting firms to look into various aspects of rural credit, such as the operation and management of NABARD, credit-based poverty alleviation programmes, over dues in agricultural credit system, and so on.

The ACRC went into the issues in depth and submitted its report in1989. It made adverse remarks about the rural credit system. It observed that the credit system was inefficient, poorly managed, and had inadequate resources. The system was characterized by large-scale non-payment and had very poor participation. The committee felt, that banks were more interested in disbursing credit than taking step for their recovery. Basically, the banking system was characterised by too many targets and procedures, with the result that efficiency and professionalism had suffered.

This led the government to set up a high-level committee under the chairmanship of M. Narasimham to look into all aspects of the financial system. The committee submitted its Report on November 30, 1991, and made its recommendations on the general financial system in the backdrop of the then recent reforms. Its recommend aims also reflected the then current thinking. Among its suggestions were: banks should raise capital through public issues; there should be no bar on new private sector banks; policy towards foreign banks should be liberalized; concessionary rates of interest should be gradually phased out; and dual control should be abolished. The committee's approach was that the financial system should function on the bases of operational autonomy and flexibility and that efficiency, productivity and profitability should not be lost sight of.

To improve the functioning of the rural credit system, the government set up the Gupta Committee in December 1997. Its major recommendations were provided in April 1998. These included:

1) Like cooperative banks and RRBs, commercial banks should be free to determine their interest rates.
2) Banks should prepare special agricultural credit plans.
3) Ninety per cent of all loan applications should be decided at the branch level to ensure timely loans.

4.6 LET US SUM UP

In this unit we familiarised you with credit and banking in rural areas. We introduced you to some concepts and ideas of rural saving, investment and finance, and then moved on to a discussion on rural financial markets and their features. We also discussed the role of credit. The concept of risk and the various forms in which it can emerge was explained. How people in rural areas, who face risk, cope with it was also explained.

Later we took up for discussion the institutional and non-institutional sources of credit. Three types of non-institutional sources were discussed: the informal sources of credit, such as moneylenders who are not easily regulated by rules and policies; credit cooperatives, which continue to play an important role as providers of credit and micro-credit providers such as self-help groups, which are increasingly gaining importance in the rural areas of several developing nations.

The story of organized finance and banking pertaining to rural India after independence was discussed in detail, including details about the role of commercial banks, both before and after nationalization of some major ones; the growth in deposits: the increase in the quantum of credit: and the expansion of branches. Two important banking institutions related to rural development and agriculture, namely the Regional Rural Banks and the Lead Bank Scheme have also been discussed. We also analysed the working of the apex institution for organized sector rural credit, namely the

National Bank for Agriculture and Rural Development. Finally, we presented an analytical assessment and evaluation of the rural credit situation in India. It looked at various achievements of formal organizations in providing credit, mentioned the various shortcomings and the areas where institutional credit has performed poorly and also discussed the impact of micro-credit and self-help groups.

4.7 KEY WORDS

Commercial Banks : The banks, which operate in the formal sector, engage in accepting deposits and providing credit and function under the regulations of the Central Bank of India.

Cooperatives : Usually, non-profit voluntary organisations formed by association of people to engage in production, savings, investment, etc.

Credit Market : An abstract concept denoting a set of arrangements where suppliers of credit try to meet the needs of borrowers.

Micro-credit : Credit that is small in quantum and is provided to a large group usually by non-formal sources.

Risk : Broadly it implies such uncertainties in outcomes as can in principle be insured against.

4.8 SUGGESTED READINGS AND REFERENCES

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4.9 CHECK YOUR PROGRESS–POSSIBLE ANSWERS

Check Your Progress I

1) Rural credit markets are characterized by imperfect and incomplete information. These markets are often segmented. There is credit rationing in these markets.

2) The rural poor are vulnerable to disease and ill health. They face environmental hazards. They face risks in their work, and often do not have any fixed or assured wages. When self-employed, they face risks in relation to production. They are spatially less integrated and tend to be isolated. They cope with risks by trying to reduce risks, usually by attempting to accumulate assets or devise ways of pooling or sharing risks with other poor people.

Check Your Progress II

1) The history of the functioning of commercial banks can be divided into two periods: the pre-1969 period, when most of these were not nationalized, and the

post-1969 period, when first 14, and later six more banks were nationalized. In the latter period, the outreach of rural banks increased tremendously, and the number of branches and the quantum of deposits have gone up. Poorer sections of the society have greater chances of obtaining credit now, and also credit is going to priority areas.

2) NABARD was set up in 1982 on the basis of recommendations of the Committee to Review Arrangements for Institutional Credit for Rural Development, which was set up in 1979, and submitted its Report in 1981. The institution has been fairly successful in acting as an apex bank for the provision of rural credit and integrating the structure of agricultural finance.

3) The Service Area Approach was introduced by the RBI on April 1st, 1989. Under this approach, each branch of a commercial bank or Regional Rural Bank was assigned a group of 20 to 25 villages. To facilitate better functioning, the concept of *local area banks* was introduced in 1996-97. The *service area approach* has played a major role in improving credit availability in rural areas. Some problems of operational efficiency, however, continue unresolved.

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MRD-101
Rural Development:
Indian Context

Rural Development Administration

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