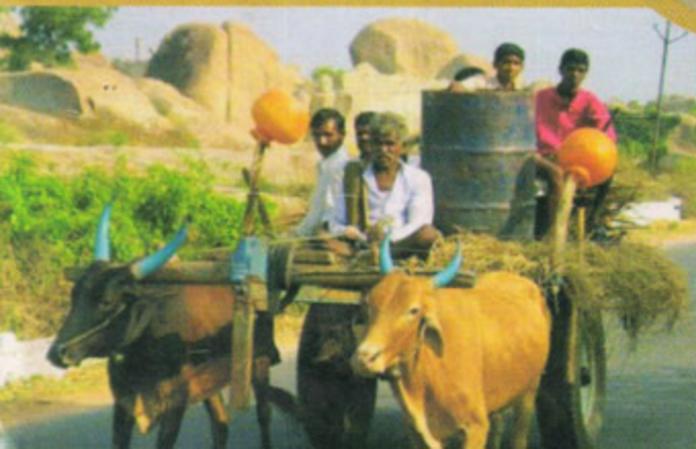


Issues on Rural Finance, Infrastructure and Rural Development



G.D. Banerjee
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ISSUES ON RURAL FINANCE, INFRASTRUCTURE AND RURAL DEVELOPMENT

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Preface

Rural Finance and Infrastructure in Rural Areas play a very vital role in Rural Development. As more than two-third of Indian population is living in rural areas, there has emerged serious problems of development of underdevelopment, economic backwardness, poverty, unemployment, hunger deaths, farmers' suicides, insurgency, poor health facilities, and roper education etc. Schemes like NREGS and Below Poverty Level Ration Cards have achieved very little for the upliftment of poor masses residing in rural areas.

The importance of the rural banking in the economic development of a country cannot be overlooked. Gandhiji said "Real India resides in its villages", and village economy is the backbone of Indian economy. Without revitalizing the rural economy as well as the rural people of our country, the objectives of economic planning and development cannot be achieved. In fact, the real growth of Indian economy lies in the emancipation of rural masses from acute poverty, unemployment, and socio-economic backwardness. To achieve the goals of health, education and employment to all we have to work harder in fields of rural economy, rural finance and rural institutions to create a healthy rural infrastructure which would enable to achieve the above mentioned goals of rural development.

(iv)

There are many plans, funds and schemes, which are operating in the field. However, an honest and real appraisal of the achievement of these programmes clearly reveals that such programmes failed to attain the desired objectives due to the backward economic condition, lack of adequate finance and rampant corruption at all levels. Hence the need to involving NGOs and honest selfless workers in the field of rural development arises.

The book constructively studies the problems related to rural finance, rural infrastructure and rural development and tries to provide some answers to the enigmatic questions related with this field.

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Restructuring Rural Banking

The rural credit strategy in the country has been founded on the philosophy of "growth with equity". Thus, besides the basic role of financial intermediation, Indian credit institutions play a unique developmental role. Social control over commercial banks and formation of National Credit Council were the first steps in this direction. The DR Gadgil Study Group (1968) set up by the Council recommended involvement of banks in rural credit through branch expansion and direct lending. The Bank Nationalisation in 1969 followed with the growing realisation that cooperative institutions alone could not meet increasing credit needs of rural sectors.

Multi-agency approach to rural lending, since then, has been a major strategy to meet the credit needs of the rural sectors through the elimination of informal agencies. Rural credit is now purveyed by 58 Commercial Banks, 29 State Co-operative Banks, 367 District Central Cooperative Banks and 196 Regional Rural Banks besides 19 Apex Agriculture and Rural Development Banks. As on 31 March 2001 there were 669 Rural Financial Institutions with about more than a lakh outlets from commercial banks, RRBs and Co-operatives. These three types of institutions generally provide rural credit under the overall guidance and regulation of

the Reserve Bank of India. In 1969, 14 of the major commercial banks were nationalised with an objective to control the heights of economy, followed by the establishment of RRBs in 1975 in different states with equity participation from Commercial Banks, Central and State Governments. With the establishment of large network of branches, a system was adopted to assign specific areas to each Bank branch in which it can concentrate on focused lending and contribute to the development of the area and accordingly the "Service Area Approach" for commercial banks had been introduced. To further supplement the institutional mechanism, a concept of "Local Area Banks (LABs)" was taken up in 1996-97 and in principle, approval had been given for eight LABs.

From any point of view it is essential that we put Indian agriculture on road to sustained growth. It is certainly important that we have modern farming methods to put agriculture on a higher technological plane and to provide for incremental income generation. It is therefore necessary that farmers make a wider use of fertilizers, provide more water to more areas, a farmers' desire to apply input and for this reason the provision of agricultural credit is closely linked with the ability of our farmers to transform traditional agriculture into rewarding business proposition. The future of banking in rural areas would, however, depend on how current concerns are addressed taking into account the dynamics of rural transformation, adequacy of production-marketing linkage, association between formal and informal markets and new realities in credit markets.

Structural changes that occur in farm sector in the face of increasing population and negligible scope for extension of cultivated area will pose challenges with increasing small and marginal farmers operating unviable holdings. The table below shows clearly that the number of operational holdings of less than 2 ha. increased from 63 per cent of total holdings in 1960-61 to 78 per cent in 1990-91. These holdings now operate 32 per cent of the area against 19 per cent in the early sixties. In another ten years more than four-fifths of the farmers will belong to this category with 45 per cent of the operational area.

Table 1: Percentage Share of Operational Holdings by Size-Groups

Size Group (ha)	1960- 61	1970- 71	1980- 81	1990- 91	2000- 01*	2001- 02*
<i>A. Number of Operational Holdings (per cent)</i>						
Small (<2)	63	70	74	78	81	83
Medium (2-4)	19	15	14	13	12	12
Large (> 4 ha)	18	15	12	9	7	5
<i>B. Area of Operational Holdings (per cent)</i>						
Small (<2)	19	21	26	32	39	45
Medium (2-4)	20	19	21	23	25	27
Large (>4)	61	61	53	44	36	28

Source: Indian Agriculture in Brief and Agricultural Statistics at a Glance, Directorate of Economics and Statistics, Department of Agriculture & Co-operation, Ministry of Agriculture, Government of India, New Delhi (various issues); All-India Report on Agricultural Census, 1985-86, Ministry of Agriculture, Government of India, New Delhi.

While a multi directional effort has to be made to develop the agricultural sector in line with our overall national needs, it is at the same time essential to ensure that as the above table indicates, credit assistance goes more to the small farmers than to the large farmers who will be in a position to look after the modes once the technology is available.

As against this, what we actually find is that a large proportion of concessional credit, technological assistance and various other subsidies and other institutional help are somehow taken advantage by the large farmers. The proportion of small borrowal accounts (outstanding of Rs. 25,000 or less, now revised to upto Rs. 2 lakh) of commercial banks and RRBs has declined from 95 per cent of all accounts in 1990 to 82 per cent in 1999. The proportion of the amount outstanding in such accounts has declined more sharply from 23 percent of all outstanding to 10 per cent during the same period. The number of small agricultural borrowal accounts fell from 213 lakh to 178 lakh between 1997 and 1999. The 1997 RBI Survey showed that 84 per cent of the

number and 75 per cent of the amount of small borrowal accounts are in rural and semi-urban areas. Agriculture and allied activities had a share of about 40 per cent of small borrowal accounts in both number and the amount. This is a disturbing trend considering the fact that the rural sector, specifically agricultural sector, is dominated by a large number of small borrower whose credit needs, in most cases, do not exceed Rs. 25,000 (Expert Committee on Rural Credit, 2001).

If we look closer at the problem, one has to agree that in a country where land is extremely scarce and where productivity of land is yet to reach higher levels, we cannot afford to neglect the production on 32 per cent of our cultivated land. Though credit availability to small farmers have increased over the years, their credit absorption capacity leaves much to be desired due to various reasons including their inability to undertake the risk of investment through borrowing.

Table 2: Scheduled Commercial Banks' Direct Finance to Farmers (outstanding)

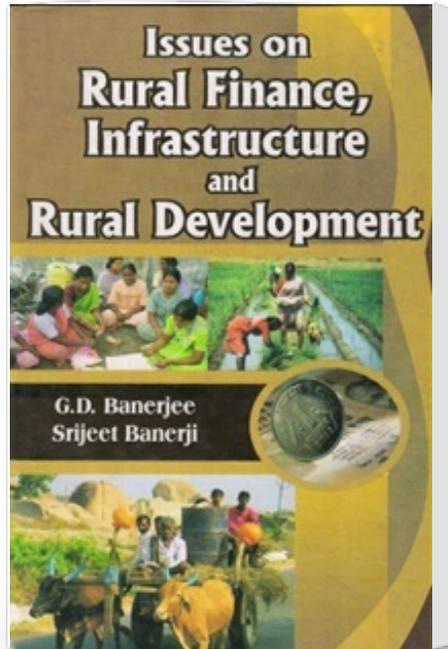
(Accounts in 000/Amount in Rs. Crore)

Years	Upto 5 Acres		Above 5 Acres		Total	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
1980-81	4662.5(70.7)	872.5(37.5)	1930.9	1453.9	6593.4	2326.4
1990-91	10482.6(74.6)	5764.8(46.5)	3562.6	6623.8	14045.2	12388.6
1999-00	8321.1(71.1)	12630(46.2)	3378.9	14718.9	11700.0	27348.9

Source: Reserve Bank of India: Handbook of Statistics on Indian Economy, 2001, Figures in brackets are percentage to total.

Many such farmers may possess the potential but the viability is adversely affected by weak linkage system. Expansion of credit is crucially dependent on the nature and quality of backward and forward linkages. Credit has been able to make more decisive impact in those regions where it has been supported by a developed infrastructure,

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