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CREDIT SUPPORT FOR INTEGRATED RURAL DEVELOPMENT PROGRAMME—A CASE STUDY OF SURAT AND PANCHMAHALS DISTRICTS

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The Integrated Rural Development Programme (IRDP) was introduced in the last quarter of 1978-79, initially in 100 blocks and has been extended to cover all the 218 blocks of the Gujarat State from 1980-81. The total financial assistance provided under IRDP in the State increased from Rs. 10.81 crores in 1980-81 to Rs. 37.48 crores in 1982-83. Commercial banks provided Rs. 31.57 crores to 1.25 lakh borrowers, accounting for 85 per cent of the total financial assistance; co-operative banks accommodated 0.10 lakh borrowers with loan assistance of Rs. 3.20 crores, accounting for nine per cent of the total financial assistance and the other institutions like Tribal Development Corporation and other voluntary organizations provided Rs. 2.70 crores to 0.13 lakh borrowers in 1982-83. During 1982-83 as many as 2.28 lakh applications were sponsored to different credit agencies and the credit agencies sanctioned loans to 1.48 lakh borrowers. The remaining 0.80 lakh applications forming about 35 per cent of the total applications were rejected.

AGENCYWISE ALLOCATION OF IRD PROGRAMME IN GUJARAT

Information relating to the total number of loan applications sponsored and sanctioned and amount sanctioned, institutionwise is presented in Table I.

TABLE I — AGENCYWISE CREDIT SUPPORT UNDER IRDP, 1982-83

Credit institutions	Number of applications (lakhs)			Amount sanctioned (lakh Rs.)
	Sponsored	Sanctioned	Rejected/ Pending	
Commercial Banks	1.96 (85.9)	1.25 (84.5)	0.71 (88.7)	3157 (84.2)
Co-operative Banks	0.15 (6.6)	0.10 (6.8)	0.05 (6.3)	320 (8.5)
Other institutions	0.17 (7.5)	0.13 (8.7)	0.04 (5.0)	270 (7.3)
Total	2.28 (100)	1.48 (100)	0.80 (100)	37.48 (100)

Figures in parentheses indicate percentages to the total.

It was observed that the number of applications rejected by the co-operative banks was comparatively lower than the commercial banks. In spite of this fact, there has been very limited involvement of the co-operative banks in the programme in the State. The number of applications sponsored to the co-operative banks was hardly 6.6 per cent of the total number of applications sponsored by the District Rural Development Agencies (DRDAs) and the number of loan applications sanctioned and the amount sanctioned constitut-

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* The views/observations expressed in the paper are of the author and not of the institution to which he belongs.

ed 6.8 per cent and 8.5 per cent of the total respectively. Viewed from the point of view of branch network and local involvement of co-operative banks in the State, one finds that as against 28 per cent share in branch network (Table II), co-operative banks have been allocated only 8.5 per cent of the total loan amount sanctioned under IRDP in 1982-83.

TABLE II—BRANCH NETWORK OF BANKS IN GUJARAT

Sr. No.	Credit institutions	Number of branches as on 31.3.1983
1.	Commercial Banks	2,498 (72.3)
2.	District Co-operative Banks	775 (22.4)
3.	Gujarat State Land Development Bank	183 (5.3)
	Total	3,456 (100)

Figures in parentheses indicate percentages to the total.

In order to study the involvement of credit agencies at the district level, Surat and Panchmahals districts were selected for detailed study. The involvement of the selected co-operative banks and commercial banks in IRDP has been summarised in Table III.

TABLE III NUMBER OF APPLICATIONS SPONSORED, SANCTIONED AND REJECTED WITH SELECTED CO-OPERATIVE BANKS

Sr. No.	Name of bank	Sponsored during the year 1982-83		Sanctioned during the year 1982-83		Number of applications rejected *
		Number	Amount (lakh Rs.)	Number	Amount (lakh Rs.)	
A.	**Surat district**					
1.	Gujarat Land Development Bank Ltd.	116 (0.58)	4.63 (1.07)	115 (0.71)	4.63 (1.19)	1 (0.08)
2.	Surat District Co-operative Bank	118 (0.59)	2.95 (0.68)	118 (0.72)	2.95 (0.76)	– –
	Total for the district	20,041 (100.0)	431.58 (100.0)	16,193 (100.0)	388.57 (100.0)	1,216 (100.0)
B.	**Panchmahals district**					
1.	Gujarat Land Development Bank	187 (0.86)	13.93 (2.21)	112 (1.06)	7.58 (2.34)	32 (0.62)
2.	Panchmahals district Co-operative Bank	4,608 (21.32)	120.01 (19.00)	2,229 (21.13)	74.96 (23.17)	547 (10.55)
	Total for the district	21,609 (100.0)	631.49 (100.0)	10,849 (100.0)	323.50 (100.0)	5,187 (100.0)

Figures in parentheses indicate percentage to the total.

* Column shows rejected application only excluding pending applications.

It may be observed from the table that in Surat district the share of land development bank and district co-operative bank was 1.19 per cent and 0.76 per cent respectively of the amounts sanctioned during the year 1982-83 in the district. It is interesting to note that these banks have sanctioned loans to all the beneficiaries sponsored by the DRDA and not a single application was pending with the bank at the year end. This reveals that while allocating the programme co-operative institutions have been given least preference and the major share has gone to the commercial banks.

In the case of Panchmahals district, while the land development bank has improved its share marginally, the district co-operative bank has a share of almost 25 per cent in the total lending programme under IRDP in the district. The performance of the district co-operative bank has been remarkable in the sense that it has a better share in the loans sanctioned as compared to the number of applications sponsored by the DRDA. The rate of rejection of loan applications has been noticeably low. The allocations made and the actual number of applications sponsored by the DRDA had hardly any relationship with the number of branches. Judging from the allocation made, it suggests that the co-operative banks have been neglected while allocating the programme although co-operatives on their part have, however, faired well, as the proportion of applications rejected and pending was comparatively low as compared to their counterparts in the commercial banking structure. Viewed from the network of the branches and the primary co-operative societies there exists wide scope for improvement in the share of co-operatives. Table IV suggests that the share of co-operative institutions could be increased as the share of the co-operative banks in the branch network was 18 per cent and 32 per cent respectively in Surat and Panchmahals districts.

TABLE IV — BRANCH NETWORK OF CREDIT INSTITUTIONS IN SELECTED DISTRICTS

Sr. No.	Credit institutions	Total number of branches	
		Surat district	Panchmahals district
1.	Commercial Banks	215 (82.1)	84 (67.7)
2.	District Co-operative Banks	34 (12.9)	29 (23.4)
	Primary Agricultural Co-operative Societies (PACS)	280	494
3.	Land Development Bank	13 (5.0)	11 (8.9)
	Total	262 (100.0)	124 (100.0)

Figures in parentheses indicate percentages to the total.

REASONS FOR POOR INVOLVEMENT OF CO-OPERATIVE BANKS

The DRDAs generally do not prefer to sponsor loan applications to district co-operative banks and land development banks on account of reasons given below:

District Co-operative Bank

(a) Cumbersome loaning procedure

The loaning procedure involving preparation of normal credit statement by primary societies, scrutiny of applications by the Branch Manager and final sanction of Head Office has been followed by the co-operative banks even for sanction of loans under IRDP. This practice causes lot of delay and difficulties in the sanction of loans.

(b) Unfavourable terms and conditions

Terms and conditions particularly relating to the rate of interest and security are disadvantageous to the borrowers of district co-operative banks as compared to their counterparts in commercial banks. It was surprising to note that Panchmahals District Co-operative Bank has charged 14.5 per cent interest on loans issued under IRDP and the borrower had to furnish two sureties for obtaining loan even under IRDP. As against this, the commercial banks have liberal terms and conditions to offer as they charge only 10 per cent interest per annum stipulated by NABARD. Moreover, the commercial banks do not insist on security for loans upto Rs. 5,000. The differential rate of interest is another shot in the arms of commercial banks, and DRDAs generally recommend all applications with an annual income below Rs. 2,000 to the commercial banks.

(c) Stipulation regarding share capital contribution

In principle it has been decided not to insist for share contribution in the ratio of 1:8 from the members obtaining loans under IRDP as applicable to other members. Similarly, agricultural labourers can be issued loans for milch cattle amounting to Rs. 2,500 even with a share capital contribution of Rs. 10. However, in practice the share capital contribution in the ratio of 1:10 has been invariably deducted from the loan amount. The beneficiaries borrowing from the district co-operative banks had to contribute share capital in the ratio of 1:10 and the practice of using subsidy as down payment or purchase of shares of co-operatives has never been followed in the case of selected banks. In other words, this in effect reduces the net financial assistance to the beneficiary, thereby affecting the quality of asset.

It may be added here that the borrowing power of a primary society is to the extent of 10 times its share capital and reserve funds (after adjusting accumulated losses, if any). In order to overcome this lacuna either the borrowing power of the society should be increased by waiving the above stipulation, or the share capital contribution of other members (non-IRDP) should be increased.

Land Development Bank

(a) Cumbersome lending procedure

The Land Development Bank follows the age-old and most cumbersome lending procedures for financing. They insist on the submission of following documents along with loan application form: *(i)* copy of land records, *(ii)* copy of cropping pattern for last five years, *(iii)* no-due certificate from PACS and other commercial banks, *(iv)* certificate from milk co-operative society in the case of milch cattle financing, *(v)* family hereditary chart, *(vi)* certificate regarding consolidation of holdings and *(vii)* documents showing tenancy right and purchase of land, etc. It is interesting to note that the commercial banks do not insist on all these documents, except the land records, previous year cropping pattern and the declaration from the borrower regarding no-dues of other credit agencies. Subsequent procedures involved in the sanction of loan are also comparatively easier due to delegation of powers to Branch Managers.

(b) Security

Mortgage of land is invariably insisted upon by the land development banks. In the case of landless labourers financed for diversified purposes such as milch cattle, etc., land belonging to the surety is taken as a mortgage. This practice not only discourages such borrowers but at times makes the bank unpopular also. Insistence on mortgage of land is not only a discouraging factor but the system followed for valuation of land is another disadvantage. Surprisingly, the loan eligibility of a borrower of the land development bank is determined on the basis of 66 per cent of the value of land offered for mortgage and 50 per cent of the cost of the proposed capital investment. A scheme of per acre land has been prescribed by the land development bank for each of the talukas in the district along with the minimum requirement of benefiting area. On the basis of present norms, an exercise has been done in regard to the eligibility of loan amount particularly for farmers taking up investment in pumpsets, dug well and composite unit. On account of this policy the small farmers have been under-financed and the unit cost recommended by the National Bank for Agriculture and Rural Development (NABARD) has not been adhered to. Under such circumstances, small farmers and DRDAs take shelter of commercial banks.

(c) Wide network of rural branches of commercial banks

Wide network of rural branches of the commercial banks have also placed the land development banks at a disadvantageous position. Farmers generally prefer to borrow from a branch in the vicinity of their village rather than from a branch of a land development bank situated at the taluka level.

(d) Lack of participation in Taluka Level Consultation Committee (TLCC)

Surprisingly enough, the Branch Managers of land development banks have not been invited to participate in the deliberations of TLCC, which provides a forum for discussions of issues involved in financing IRDP. This also makes them somewhat indifferent about IRDP.

(e) Adherence to technical parameters

It was reported by the officers of the land development banks that commercial banks generally do not adhere to technical parameters as prescribed by NABARD for the investments and that is how farmers prefer to borrow from them. This aspect however could not be examined in detail.

(f) Lack of diversification of lending portfolio

It was observed that land development banks have not gone beyond the traditional items of investments such as dug wells, pumpsets, pipe lines, milch cattle, bullocks, etc., in spite of amendments incorporated in their bye-laws empowering them to issue loans for other diversified purposes covered under IRDP. In fact the staff members engaged in financing were not aware of these amendments.

(g) Ineligibility to finance Industries, Services and Business (ISB) component of IRDP.

It is a well known fact that the land development banks have not been allowed to finance for ISB component of IRDP and in turn this limitation has restricted their involvement to the required level.

GENERAL PROBLEMS ISSUES

During the course of the study, the following general problems/issues came to light which require the attention of the planners and also the implementing agencies.

(a) There is no involvement of financing agencies in the process of identification of beneficiaries and therefore, there was a general feeling that the programme was thrust upon them for financing more as a political weapon. The household surveys have been undertaken mainly with a view to completing the instructions from the higher authorities rather than to make a real assessment of the felt demand of the people below the poverty line.

(b) The items of investment are suggested on an ad hoc basis mainly with a view to achieving the targets. The purposewise analysis of the financing shows that the majority of financing was done for milch animals without having any regard to the availability of milch animals, fodder and the borrowers' capacity to maintain such animals and also assessing the potential for marketing the milk.

(c) The quality of lending has been observed to be much below the standard inasmuch as that in financing milch animals no proper care was taken regarding their milk yield, breed, availability of fodder, etc.

(d) The administrative pattern of subsidy has resulted in unscrupulous elements taking advantage of subsidy rather than the real purpose of improving the standard of people. Cases of pocketing of subsidy by the bureaucratic local politicians and farmers are quite large.

(e) The transaction cost of loan including informal costs generally makes the credit quite dearer than what it appears to be. Such costs include frequent transportation cost for visiting bank branches, Block Development Office and DRDA and other miscellaneous expenditure.

(f) Most of the commercial bankers are not yet attuned to this type of financing nor the supervision machinery is adequate for the purpose nor even their style of functioning is satisfactory.

(g) It was observed that the loans are given for the single purpose which in turn does not help the small farmers to meet their consumption needs.

SUGGESTION AND RECOMMENDATIONS

(a) The programme should not be target-oriented but should follow the need-based criteria.

(b) Many of the deficiencies and irregularities in the implementation of the programme were attributed to the linking of subsidy with the loan. Therefore, it is suggested that *(i)* the subsidy can better be given in the form of interest which could be charged to the DRDA by the bank. *(ii)* The subsidy amount should be deposited as fixed deposits in the beneficiaries' account and this could be adjusted after the completion of repayment by the borrowers. *(iii)* The benefit of subsidy should be linked with timely repayment.

(c) Attempts should be made to develop the tertiary sector and link it with such productive activity which may supply such of the items of investments required by other beneficiaries.

(d) "Basket Approach" of financing needs to be adopted under the programme so as not only to generate income but also to meet the consumption needs of family. This may help in pulling them above the poverty line.

(e) Awareness about insurance should be generated among the beneficiaries for lodging claims. The Insurance Companies should streamline their procedure and give prompt and efficient service. Banks should utilize the amount of insurance claim for restoring the assets to the beneficiaries.

(f) There is urgent need for the training of the bankers.