

Banking for Rural Transformation: Issues for the Nineties

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Credit has been an important instrument of technological and social change during the last two or three decades. Almost every major programme aimed at poverty alleviation or growth of agriculture relied on availability of credit. Easy availability of credit somehow became more important an issue over time than quality of its end use, increase in resource productivity or quickness of recoveries. Socio-political compulsions leading to this shift in the emphasis in the past are likely to become even more complex in future due to challenges emerging on demand and supply side.

Challenges facing the banking industry from demand side are: (a) declining profitability and sustainability of agriculture, (b) continued stagnation in rural employment, marginalisation of land-holdings and thus need for self-employment for large rural masses not likely to find productive avenues in the farm or industrial sector in the near future, (c) rising aspirations of rural disadvantaged people expecting speedy redressal of their historical deprivation, (d) increasing regional imbalances and worsening ecological imbalance in high risk environments triggering in some cases social conflicts, and (e) diversification of skills and resource use options requiring flexible eco-specific institutional response.

On the supply side, the key complexities are: (a) increasing budget deficit and reduced ability of state to subsidise the growth and distribution oriented policies, (b) increasing cost of lending with declining profitability of banking system as a whole, (c) manpower constraints with banks to provide adequate follow up of loans and reduced ability

to discriminate between genuine and wilful defaulter, (d) weakening of relationship between rural borrowers and bank staff due to very large and wide coverage, and 'lengthening of lines of control and weakening of housekeeping', (e) insufficient upgradation of skills of bank officials to deal with group or common property based investments or other means of reducing transaction costs, (f) mismatch between banking technology and work-load, and (g) lack of suitability of standardised organisational design for highly variable environmental needs.

Several institutional innovations have been introduced in the past to make banking more accessible and to an extent responsive and accountable as well. Rural service centre scheme, farm clinics, farm information and exchange clubs, future farmers club, satellite branches, rural service volunteers (RSV), change agents etc., are only some of the innovative attempts to make banking more accessible to people.

In addition to the innovations by the individual banks, there have also been system-wide policies or organisational innovations such as: lead bank scheme, district credit planning, annual action planning, farmers' service societies (FSS), large agricultural multipurpose cooperative societies (LAMPS), regional rural banks, district and block level consultative committees (DLCC and BLCC), state level bankers committee (SLBC), high level bankers committee (HLCC), setting up Agricultural Refinance Development Corporation later merged with National Bank for Agricultural and Rural Development (NABARD), rural credit surveys and reviews (though only the latest survey or 'review' has been done with the help of Indian and foreign consultants), village adoption scheme and its latest version service area planning, loan *melas*, credit camps etc.

We do not intend to review the effectiveness of each of these and other innovations in this paper. We do however, feel that we have perhaps not learned the right lessons from the success or failure of different innovations. The result is that many of the inadequacies noted once continue to recur without making the banking system more efficient with every innovation. In fact we have a great capacity to move to new innovations even before we have stabilised the earlier ones. By default many otherwise appropriate policy responses become over time ineffective due to half-hearted support and inadequate attention and linkages with other public policies. The cost of continuing this trend in the nineties will be very high.

We have tried to capture only some of the major trends in the banking and development policies and approaches so that pointers for the future can be properly identified. The paper is divided into three parts. Part I deals with the major transitions that the banking system has experienced. In Part II we list the challenges in agricultural technology system, emerging organisational constraints including the problem of viability, overdues, banking non-farm sector and backward regions. Inventory of issues that we have to face in the nineties is given in Part III along with some possible alternatives to overcome the emerging constraints.

PART I: TRANSITIONS IN BANKING

There have been primarily six transitions which have characterised the banking developments in the last two decades in the country. An analysis of these transitions may help in understanding the stresses under which the banking system is working. The transitions are from: (a) class to mass banking, (b) selection based to rejection based screening of clients, (c) supervised to generalised lending, (d) dispersed to concentrated banking, (e) project to programme lending, and (f) discipline to default.

a) CLASS TO MASS BANKING

The most notable achievement of post-nationalisation phase has been transition from class to mass banking. Lending to only selected elite in rural or urban areas gave way to lending to rural masses particularly the target groups. This has been made possible through branch expansion, creation of regional rural banks, strengthening of cooperative institutions and of course through, 'loan *melas*'. Various development programmes for the development of small and marginal farmers and agricultural labourers, tribal people, hill and drought prone areas besides integrated rural development programme (IRDP) have broadened the base of banking. In the process the number of accounts for officers have increased, the relationship between bank and client has been weakened and the feedback from borrowers has become almost muted.

Perhaps some pressure in the early period was necessary to generate conditions for financial support for the technological change that was being programmed during the early seventies. The branch expansion policies were initially guided by the concern to mobilise

deposits likely to accrue on account of increased incomes due to the "green revolution". At the same time increasing capital needs for input intensive technological change required injection of capital on a large scale. Almost 90 per cent or more of the tractors continued to be sold on the strength of bank loans which is the case even now. The extent of mechanisation, minor irrigation, fertiliser and pesticide use would thus not have been so widespread had banking support not been available.

In the wake of banking expansion most meritorious graduates and post-graduates from wide ranging disciplinary backgrounds including agriculture were attracted to this industry. The intensity of skill utilisation unfortunately got contracted progressively. To what extent a meritorious professional when underutilised or misutilised can get demotivated in turn affecting the quality of lending adversely is a matter to be explored. Our own feeling is that no other wastage is as colossal in a scarcity ridden developing society as the wastage of highly skilled manpower through "brain drift". The proper utilisation of these highly trained professionals particularly agricultural graduates and post-graduates is going to be an important challenge in the nineties.

It was assumed that the poor were too poor to be able to ever save any amount for any duration. And thus no relationship was forged between willingness and capacity to save and willingness to borrow and capacity to pay. The era of state sponsored programmes sought to graduate every poor producer from an economy of hundreds to an economy of thousands. The investment in building capital utilisation skill was not considered necessary.

b) SELECTION BASED TO REJECTION BASED SCREENING OF CLIENTS
Banking essentially is the relationship between the bank and the borrower based on mutual trust and respect. Under no circumstances can a policy short circuiting this relationship ever lead to the development of healthy banking business. When transaction costs are high *individual based* screening systems may have to give way to the *group based* screening systems. Or, screening by an officer may be assisted by screening by social institutions such as *gram sabha* or village councils. Failure of state and its political institutions to organise such screening cannot be a good enough reason for shifting to a suboptimal system of transactions where the only choice available to the banker is to reject

or return an application. The selection is made by a village level worker, school teacher or *patwari* (village revenue official) who has no responsibility nor accountability in the process afterwards. The initiation of borrower to the banking system like this could only have had the consequences that we witness today. This is not to say that the banking system invited this problem by not going out sufficiently strongly on its own to strengthen the selection based lending programmes. There are several other problems associated with the rejection based system. The procedural propriety overtakes the performance and moral proprieties. In the early years no loan would be given without a pre-loan inspection to: (a) ascertain the genuinity of the need and ability of a client to pursue a given economic enterprise, and (b) send a message around that it was not enough to have willingness to borrow but it was also necessary to have the ability to do so.

Rejection based screening thus took away the basic foundation of bank borrower relationship, so much so that the choice of enterprise was determined not on the basis of skill or aptitude but on the basis of ease with which screening criteria could be met. The preponderance of dairy loans and a few other such activities proves the point.

c) FROM SUPERVISED TO GENERALISED LENDING

The number of accounts per bank officer have changed from 250 in the early seventies to 500 and later to 750. In reality the number has ranged from 1,000 to 1,500 and even more in many cases. The concept of supervised agricultural credit systems is no more applicable in such cases. The follow up is no more considered a necessary feature of lending. In a large number of banks there was no file for each account and thus no record of any discussion that might have taken place between an officer and the borrower. In the absence of organisational memory of such exchanges there was no way in which a new officer could know about the understanding a borrower might have been given by the officer in the past. It has also made a discrimination between a genuine and a wilful defaulter difficult except in extreme cases. Perhaps if this follow up had been done by a group of borrowers through peer pressure or by borrowers' associations, need for doing away with individual based follow-up could have been understood. Except for sample surveys nothing much was done to strengthen this department. The mass banking thus became the banking less and disbursement more.

d) FROM DISPERSED TO CONCENTRATED BANKING

Originally the idea was to have concentrated banking and accordingly the village adoption scheme was conceived almost as a part of the lead bank scheme. However, when studies showed that village adoption was used more to deny loans to farmers from other villages than to saturate the needs in the adopted villages the concept was given a go by. It was argued that competition among different institutions was necessary so that a borrower could have a choice of the banks. It was also argued that competition would bring out the excellence and thus generate greater accountability among the banks. However, without systematically appraising whether this assumption was wrong or right a new policy was initiated to bring back the village adoption under the name of service area planning. The earlier experiences of area demarcation among banks on the basis of credit maps pursued in 1979-80 was not drawn upon nor was it looked into as to whether the skills for appraising potential for lending needed to be updated first before making a transition. Unofficially the policy makers argued that this scheme was being pushed through to prevent the recurrence of 'loan *melas*' under which banks were forced to lend to people from anywhere and for whatever purposes. The concept of credit planning had merit only for those clients, spaces and sectors that would fail to attract credit on their own. In the rest of the villages where endowments were favourable and thus clients were articulated, the market forces would have been able to determine at lesser cost and better efficiency about who should get the loan from where for what purpose and how much credit plans amount. Studies after studies have shown that tons of papers used in compiling and printing credit plans had no effective bearing on the actual managerial decision, and for good reasons.

Instead of strengthening monitoring and consultative processes, energy was spent on getting some kind of a plan document out. It was ignored that a banker would lend for a tractor or a pumpset or other such low risk enterprise no matter from where the demand arose, and regardless of the targets under banks. The diversification of lending expected under new dispensation, early indications show did not take place to any appreciable extent. The problems of coordination in any such demarcation for the purposes of follow up and recovery of earlier dues were left unsolved as ever before. The concentration over space was not linked with concentration over sector or season. The inadequacy of the system only got intensified.

Perhaps the need for reinforcing competitive processes in high growth regions and planned allocative processes in backward pockets still remains.

e) FROM PROJECT TO PROGRAMME LENDING

In the bilateral and multilateral negotiations with foreign agencies the Indian Government argued that NABARD had learnt to manage its portfolio and therefore should get a general line of credit instead of project tied credit. It is also true that in earlier years need to borrow from abroad was felt not so much because of paucity of funds with NABARD but because of the country's need for foreign exchange. While an institution was assumed and perhaps rightly so to have learnt the management of portfolio, the farmers who have managed their husbandry for thousands of years were not given the same benefit of learning. The result was the assumption that what was best for the farmer could in fact always be better determined by the banker or an outside agency. We do not deny the validity of supply side interventions for widening the choices of farmers and artisans in cases where the available technologies or product lines would not be accessible to people on their own. Excessive emphasis on enterprise efficiency subsumed the concern for improving allocative efficiency. However, of late some banks have recognised the merit of programme lending and have started providing agricultural credit cards to selected borrowers. Even though the number is negligible the trend is certainly positive. It appears that once a general line of credit is given to the farmers, they would be able to modify their portfolio efficiency by shuffling resources from one enterprise to another depending upon the exigency of the situations. This may also reduce the transaction costs by way of the documentation involved in sanction, renewal of loans and release of instalments. It works like a cash credit and is generally available to borrowers who have maintained healthy accounts for several years.

f) FROM DISCIPLINE TO DEFAULT

The most unfortunate development in the contemporary banking system is removal of the stigma on being a defaulter. There were regions and banks which had excellent recovery earlier. The best example is Kerala where the recovery performance was between 70 to 80 per cent till 1988-89 except in the land development banks where it was lower. In February 1990 the recovery percentage had drastically

come down. Obviously the write off of debts has had considerable effect on overdues. Though the intriguing aspect is that there are still branches which have overdues as low as about 6 per cent (Kottayam). Nearly 22 branches out of 42 had overdues of less than 32 per cent [1].

Even though 70 per cent of the banking overdues are concentrated in urban and metropolitan regions, write off of rural overdues up to Rs 10,000 creates anxiety on the following accounts: (a) the defaulters are being rewarded, while those who paid their dues completely or partly despite various hardships are being penalised; (b) even though the policy provides for write off of dues of only those who had two successive bad crops, it is well known that the year 1988 and 1989 were two of the best years both in terms of crop yield and also recoveries in some parts of the country; still the loans had to be written off; (c) the identity of drought and flood prone regions is well known and the write off could have been restricted to only those regions but the extent of loans written off is many times more in non-drought prone regions; (d) no undertaking has been taken and insisted upon from the borrowers that they would: (i) try their best to keep their account regular in future, (ii) keep the bank informed in future of any disability experienced warranting any concession, and (iii) cooperate with the banks in identifying the wilful defaulters and persuading them to regularise their accounts through social and moral pressures.

There is still time to modify the draft of the letter which NABARD has already communicated to the banks for informing the borrowers of the benefit received or asking them to pay the balance amount. Despite good crops, the borrowers having irrigated agriculture have not been asked to pay the balance instalment before being given the benefit of the write off. Even those farmers who belonged to the villages eligible for the write off benefit but paid their dues have not been given any advantage though the chronic defaulters are likely to be given the benefit.

The saving grace is that there are still a lot of borrowers (about 20 to 30 per cent by some estimates) who have either put the money due for repayment in their saving account so that the balance left after adjustment of the write off subsidy is debited to their account. Or, they have already paid their dues realising that they would not get the benefit if they had not kept their account regular in the past.

Our studies have shown that there was no definite relationship between the *scarcity index* (worked out by developing a weighted

mean of the *anavari* scores and their frequency during the previous 10 years from 1973 to 1983) and the extent of default in some regions. The villages with low scarcity index did not have any better or worse recovery than the rest [2].

The report of the agricultural review committee suggests that overdue is much less in irrigated regions for certain purposes while for other purposes it did not differ much compared to the unirrigated regions. In any case the discipline is unlikely to be restored if the basic premise of write off is not clarified. If it was to give relief to those who had suffered bad crops then such relief should have been given strictly only to those people. Ignoring the borrowers with good repayment ethics and not showing the same commitment to penalise the defaulters (though numerous committees and evaluation studies have highlighted the need for the same) has made the future scenario of banking very depressing, and worse is the case with the cooperatives. They would get most likely another round of write offs after three years. They are expected to pay back the loan to be taken from NABARD for providing relief within three years at 10 per cent rate of interest. The assumption is that they will be able to recover the loans they would now lend and also generate the surplus to continue to remain in business. Given the financial conditions of cooperatives making such an assumption is perhaps not realistic.

The transition from discipline to default is total. Bankers are apprehensive that not withstanding the claims of the government, borrowers would expect a write off in the future also. Whether government would recognise the problems and agree to get an oath from all the future borrowers to generate moral pressure for better recovery performance in future remains to be seen. Government has also not explained as to how would it account for the increase in production from about 136 million tons in 1987 to 170 million tons in 1988-89. Whether a part of the surplus should have gone to the banks is now a moot point. Some of the banks reported that they had excellent recoveries during 1988 but only in some parts.

There seems to be a positive relationship between the extent of credit disbursed and the extent and proportion of overdues. Loans for irrigation tended to be overdue. The banks seemed to lend less to the regions and to the clients whose repayment ethics were still intact [3]. The viability of investment is also getting impaired due to nonsustainability of current technological policies.

PART II: SUSTAINABLE AGRICULTURAL AND INSTITUTIONAL DEVELOPMENT: EMERGING CHALLENGES [4]

Agricultural Scenario

The proportion of marginal holdings (below 1 hectare) has risen from 50.6 per cent of the total in 1970-71 to 56.5 per cent in 1980-81 and is likely to reach 60 per cent in 1990. The total operational holdings have already reached about 90 million. The nature of technology and its use may require new organisational and institutional approaches.

Pressure for allowing small farmers in the developed regions to be given loans for tractors is already mounting. It may be recalled that earlier decision to reduce the extent of refinancing for tractors was rescinded in the early eighties, not because the employment position had improved, but because the tractor industry had accumulated huge inventories. Increasing capital intensity in agricultural sectors as well as in the industrial sector makes the task of generating employment extremely difficult. Labour force would have grown by 78 million by the turn of the century. Taking into account the existing backlog of 28 million jobs about 106 million new jobs will have to be created by 2008. Reliance on non-farm sector and the service sector for this purpose, as we shall see later in here, needs a more imaginative approach than used hitherto.

The per annum growth rate for agriculture during 1951-52 to 1987-88 has been about 2.7 per cent. The productivity of the inputs has declined considerably and the cost of inputs purchased by the farmers has gone up at the same time. The share of the purchased inputs in the agricultural sector has also gone up. The terms of trade had been unfavourable to the agricultural sector during the last few years. The expenditure on drought relief was as high as Rs 2000 crores in 1987.

The per capita availability of the foodgrains and pulses has hovered around 440 grams per day. The per capita income of the rural producers ranges from Rs 1,627 in Punjab, Rs 1,270 in Haryana to Rs 395 in Bihar. It lies between Rs 600 and Rs 750 in six states and Rs 490 and Rs 600 in 12 states. The estimates of the extent of poverty may vary but there is no doubt that the patience of the poor is fast running out.

Declining water table, increase in pest and weed infestation, use of chemical pesticides leading to treadmill effect in pest population

with high residual toxicity, micronutrient deficiency and poorer drainage leading to lowered response functions of fertiliser are some of the factors raising questions about the sustainability of current technological paths.

The problems in high growth regions, moderate and slow growth regions are quite different and therefore strategies for linking banking, technology and infrastructure development have to be differentiated. It is unfortunate that while awareness has increased considerably in the recent past with regard to agro-climatic zone based primary production similar sensitivity has not been visible with regard to differentiating the design of delivery systems such as banking organisations and approaches.

Institutional Development: Problems of Viability, Development of Backward Regions, Overdues and Non-farm Sector for Poverty Alleviation

VIABILITY

There is a view that a loss of about Rs 32.24 crores in case of regional rural banks in 1986 is not much compared to the subsidy of Rs 800 crores in fertiliser and several other sectors [5]. In commercial banks out of a loss of about Rs 128 crores 40 per cent is estimated due to IRDP and 70 per cent of the total loss in banking industry is reported to emanate from the branches located in urban and metropolitan areas. The cost of funds for rural branches has been estimated to be about 7.3 per cent and interest spread between 5 and 11 per cent. Loss turns out to be 38 paise per Rs 100 of business. There is a feeling at the highest level that needs of social banking have to be matched with needs of commercial viability through a proper policy adjustment. Only about half of the credit is lent through rural branches. The share of such branches (43 per cent of total branches) in deposit ranges from 12 to 14 per cent. Average productivity has been estimated to be about Rs 14.5 lakh per employee in rural branches compared to Rs 21 lakh per employee in non-rural branches [6].

SOURCES OF STRESS

Prof. Rangarajan, Dy. Governor of the Reserve Bank of India identified (RBI Bulletin Jan, 1989) three sources of stress in banking: (a) speedy expansion and diversification, (b) inadequate training of staff posted in rural areas, and (c) lengthening of lines of supervision

and control and weakening of housekeeping due to wide geographical coverage. The published profits were estimated to range from 0.09 to 0.17 per cent of the working funds. Among the three elements of return of advances that is, cross-subsidisation, available funds to banks for advances after pre-emption and levels of non-performing assets, he felt that the choice of manipulation was very little. Unless work technology was changed, with rigidities in the areas of personnel policy on recruitment and the organisational structure adapted to the emerging challenges, not much scope for banking improvements could be identified. If quality of loan asset was considered as a true test of improved efficiency then rethinking on the future direction was necessary.

There has already been a slow down of the branch expansion. As against 18,960 branches opened during 1980 to 1985, only 7,500 branches were opened during 1985 to 1990.

The amount locked up in 13.5 lakh court cases is of the order of Rs 3,490 crores. Recognising that a large proportion of decreed debts cannot be recovered this is a much more serious cause for concern than just the losses posted in the balance sheet. Recent efforts by the Reserve Bank of India to modify the system of preparing the balance sheets of banks will of course reveal a more accurate picture with regard to the losses. It is acknowledged that once the contribution of accrued interest on non-performing assets was not included in the income, the estimation of loss would be more realistic.

Other contributing factors towards the losses of rural branches include poor cash management because of limited remittance facilities and lower share of non-interest income. How much of losses are due to inefficient use of given resources and how much are attributable to improper transfer ~~of~~ pricing system is difficult to suggest at this stage. There is a fear that with laxity in the follow up, restriction on recruitment, reduced facilities for transport and broader regional and sectoral coverage of accounts the share of non-performance assets may only increase over time.

GROUP BASED APPROACHES

There are three ways in which the group based approaches can help reduce the losses by lowering the transaction costs of the borrowers and the banks, namely, by (a) appraisal, disbursement and follow up of loans by the peer groups of borrowers/genuine NGOs, (b) linking

banking and technology in watershed programmes as well as otherwise, and (c) subcontracting the recovery and follow up activities.

In the first case there is no need for these groups to register as cooperatives or societies. These groups should be encouraged to generate a revolving fund by charging a fee in lieu of providing appraisal and follow up facilities [7]. There has been a suggestion made earlier that just like banks had been paying commission to the agents for collecting small savings they could consider appointing farmers, artisans or landless borrowers with consistently good repayment performance as recovery agents. This fee could be shared between banks, NABARD and the borrower.

The second alternative is extremely important for rainfed regions where demand for credit for farm as well as non-farm purposes will remain limited unless technology change takes place. The viability of investments may depend upon: (a) policy linkages between access and use of private/common property resources, and (b) between farm and non-farm and employment programmes [8]. Even in the high growth regions transaction costs can be reduced through group action [9].

INVOLVEMENT OF THE ENTIRE BRANCH STAFF IN THE FOLLOW UP
Involvement of the entire bank staff, conversion of three days into non-business working days and setting up of mobile branches may be some other ways of reducing the costs. There is a need to put the issue of participation of workmen in follow up on the agenda of bipartite negotiations with the unions.

The advantage of increasing the non-business working days would accrue only if the number of returns to be sent are reduced so that these days are not spent in clearing the pending housekeeping work. The computer systems installed under national informatic centre (NICNET) at district level have underutilised capacity which can be easily used by the banking system.

Overdues: Emerging Trends and Issues

STATE SUPPORTED RECOVERY CELL

At long last some of the state governments are acknowledging their responsibility in improving recoveries of bank loans. Recovery cells have been set up on experimental basis manned by the deputy collectors on loan from the state government along with some other supporting staff for enabling recovery of dues under the Public Money

Recovery Act. Banks bear 50 per cent of the cost. Time will prove whether or not this initiative is helpful for recovery.

The basic issue of the weak relationship between bank and borrower, however, remains. Unless the relationship is strengthened, other measures will have only limited utility. One has to look at both positive and negative implications of increasing the use of coercive power for improving the recovery. Fears that such powers were most likely to be used against small, powerless and even genuine defaulters are not totally unfounded.

NEED FOR DEVELOPING TAXONOMY OF DEFAULT

Conceptually NABARD has suggested a case by case approach to deal with overdues. We do not believe that one should either treat all cases alike or uniquely. Typologies of defaulters can be developed, and therefore an analysis should be more parsimonious [10].

SHIFTING BRANCHES FROM OVERDUE VILLAGES

For a long time the location of the bank branches has been taken almost as a permanent address. There is a need to consider the possibility of shifting the branches from villages with poor recoveries to villages with better recovery performance if the experience over the years is consistent. It might give the right type of signals to the community.

FLEXIBILITY IN REPAYMENT SCHEDULES ACROSS SPACE AND SECTOR

In a large number of cases, problems of inadequate finance, inflexible repayment schedules and improper combination of credit facilities may lead to default. In backward regions it has been argued for some time that one could not expect recoveries to be made in the same time period as in the developed regions from the same enterprise. However, the experience shows that bankers very seldom adapt repayment schedules to the eco-specific conditions. NABARD has already established different definitions of small farmers on the basis of the varying size holdings of land giving the same amount of minimum income. Thus in a dry region one may require 20 acres to generate the income sufficient to meet the subsistence needs which may be met from just three acres in an irrigated tract. By implication therefore the repayment schedule ought to vary for the same enterprise in different agro-climatic regions. Unfortunately NABARD has yet not been able to appreciate the merit of this suggestion.

SKILLS FOR GRADUATING FROM SMALL LOANS TO LARGE LOANS

In the wake of IRDP it was ignored that for several very poor people transition from few scores of rupees to few thousands was quite large. Overfinancing could be as serious a reason for default as underfinancing.

REDUCING WORK-LOAD TO IMPROVE FOLLOW-UP

Among various factors contributing to increase in the work-load is the tendency on the part of the government to pass on many non-banking functions such as, disbursement of salaries, collection of electricity dues and road tax which are causing a tremendous strain on the banking system. Many functions which it finds difficult to handle itself it pushes them on to the banking system resulting in reduction in the time available with banks for pursuing their own activities.

T AND V SYSTEM OF IMPROVING RECOVERIES

A pilot project on strengthening the delivery system was launched by NABARD to try 'Training and Visit' system in banking without sufficient critical scrutiny of conceptual merit of the advice from the World Bank. It was sought to be confirmed that improvement in the availability of staff and infrastructure will help improve the recoveries – a lesson well known in the banking industry for ages. Also it was assumed that there was a 'technology' available which could be imparted to the practicing bankers in fortnightly or monthly 'capsules' of information [11].

The Agricultural Credit Review Committee has reported that this scheme is difficult to replicate because of the excessive cost implications. Under the circumstance the recovery strategies in the nineties will also have to involve outside agencies such as NGOs, borrowers organisations, intermediary marketing or processing organisation. The reliance on a legal course may have limited utility in view of a very large extent of non-executable decrees. There is of course no substitute to greater government support for this purpose through media as well as political communications.

Non-farm Sector

With limited increase of employment in the agricultural as well as industrial sector, attention is getting focussed towards non-farm

cottage good/tiny sector and service sector. The major strategies that may prove useful in the nineties are the following:

NATIONAL INFORMATION SYSTEM FOR BANKING FOR NON-FARM SECTOR

The need for networking and disseminating information is highest when the experience with a particular sector is least. In the non-farm sector, unlike the agricultural activities in well-endowed regions, making standard schemes does not help. Because apart from the variability in the resources, the market conditions and consumer preference also vary a great deal in different regions. Experience of one branch with a particular activity in non-farm sector is not accessible to another branch receiving request for the same activity. The strengthening of lateral learning systems is most necessary if this sector has to receive support in the nineties. KVIC, State Councils of Science and Technology and other related organisations have to pool their experience and provide opportunity for artisans to share their experiences. For instance, the rope makers in Orissa and Uttar Pradesh using the same raw material, that is, *bhabar* grass should be able to exchange notes and develop proper strategies for production, storage and marketing so that they do not cut into each other's margins. It is well-known that market forces coordinate the interests of surplus producers engaged in the high return – low risk agricultural activities. For the remaining activities state support would be necessary for some time [12].

SETTING UP A SUBSIDIARY ORGANISATION FOR TECHNOLOGICAL UPGRADATION, MARKET RESEARCH, DESIGN AND PRODUCTION

The innovations in the industrial banking sector, be they venture capital, merchant banking or offshore banking etc., have been far more frequent and well-designed. The same cannot be said about rural banking. Perhaps the nature of pressure that industrial clients put on the institutions is qualitatively quite different from the nature of pressure that farmers, agricultural labourers or artisans can put on the policy making system. Some banks have already joined hands to set up entrepreneurial development institutes. Similar cooperation may be useful for setting up an autonomous professional organisation on the above lines for providing support to the non-farm sector (and other related activities based on off-farm processes or minor forest produce). Joint sector or private sector institutions may also be encouraged to provide these facilities to the small-scale producers

[13]. The demand for credit from this sector would pick up only if technology, market research, packaging, design etc. are strengthened.

POLICIES FOR USING RAW MATERIALS DERIVED FROM COMMON PROPERTY RESOURCES

For such non-farm products which are made out of raw material derived from common property resources or public lands or forest areas, the banking policies cannot be designed in isolation of the public policies for management of common property resources. This is an area which has been consistently ignored by the banking system in the last decade.

A large number of social conflicts are emerging on the issue of poor access of tribal or other small artisans to the raw materials. Invariably the forest corporations sell minor and major forest produce in bulk larger than what can be afforded by these small producers. Unless: (a) the forest corporations take over the additional cost of retailing or (b) poor consumers of these products organise themselves to participate in the bids opposing established contractors, there does not seem to be any hope of reducing the exploitation involved in this process. Organisation of consumers into groups as attempted by some NGOs could be helpful if working capital support is also linked with storage facilities. The intermediaries otherwise will continue to exist and pre-empt considerable margins in the process.

Viability of banking thus cannot be delinked from viability of the enterprise which in turn depends upon the institutional arrangements in a particular resource market. The case for proper region specific adaptation of public policies for non-farm activities remains to be made [14].

Khadi and Village Industries have provided employment to millions of households but at a very low level of wages or margins. The coordination between Khadi Village Industries Commission and NABARD will be necessary if designs have to be an important intervention for adding value and increasing the producers' margins. The R and D fund of NABARD as well as KVIC could be pooled to take major initiatives in this regard.

Banking for Backward Regions

The major characteristics of the backward regions such as drought and flood prone areas, hill areas and forest regions are:

- (a) Low population density (except flood prone regions).

- (b) Weak infrastructure and market network.
- (c) Excessive reliance on multiple enterprises to deal with risks.
- (d) High rate of male emigration and thus preponderance of women headed or women managed households.
- (e) Heavy reliance on livestock with poor productivity and dependence upon grazing in wastelands, public pastures lands or forest regions.
- (f) Deficit household budgets in the case of most of the marginal producers because of repeated calamities.
- (g) High cost of transportation and other transaction costs.

MOBILE BRANCHES

Given the fact that people in these regions are mobile, the institution of weekly or fortnightly markets or hats/shandys had emerged to deal with variabilities in supply and demand. Setting up fixed address, stationary bank branches was incorrect [15]. The mobile branches or satellite branches would be the only viable choice in providing access to banking to large population inhabiting such regions in the short run. Reserve Bank of India would have to consider modifying the existing policies so that special counters and satellite branches could be set up to be opened on weekly market days. This will reduce the transaction costs and also reduce the extension costs.

PORTFOLIO FINANCING APPROACH

There is a high degree of risk and uncertainty in backward regions leading to diversified portfolios. The enterprise lending approach is inadequate because viability can be arrived at only through pooling of variance of all the enterprises in the portfolio rather than dealing with any one of them separately. Thus loan for the entire portfolio will have to be given to enhance the allocative efficiency of the households. The timing of loans would be extremely important and therefore seasonality of disbursement will have to be monitored. The general experiences are in regions where the time available for making decisions is limited; the institutional efficiency is rather low either on account of limited staff or inadequate appreciation of criticality of timeliness in operations. Given the deficit in the household budget the consumption requirements are fairly high. It is understandable that banks could not lend as much flexibility as the money-lenders there would nevertheless be a need to support rotating savings and credit

associations of the borrowers wherever they exist. Alternatively consumption loans could be linked with employment entitlements as mentioned earlier.

Sustainability of Farming System *vis-a-vis* Sustainable Banking System

In most of the drought prone regions majority of the marginal producers are engaged in several economic activities. Banking policies which do not try to forge appropriate linkages between these activities may exacerbate the ecological imbalance by concentrating on only one or two activities. The result would be that investment even in those activities would become less and less viable with passage of time. The sustainability of the agricultural systems in these regions is closely linked with sustainability of the banking system. Historically various crafts, handloom and other non-farm activities provided a means of livelihood support during the lean season or years [16]. The policy for development of these regions has to build upon the local strengths. Livestock in these regions is unlikely to become sedentary at any point of time in future because mobility is the time tested way of achieving sustainability in such regions.

Rather than considering mobility of pastoralists as a disadvantage we have to develop banking instruments that make it possible for these pastoralists to remit their savings and instalments of the loans at par through any of the bank branches located on the migration route. On a small scale, such an attempt was indeed made by an innovative bank with Vedu Tribe in Ahmednagar with the help of an equally motivated social research activist.

Banking in the nineties cannot continue with segmented, isolated, enterprise-based lending approach. The implications for farming or total rural systems and in turn with the ecological balance will have to be drawn out. There is no point in emphasising crop cultivation in regions where agro-forestry, silvi-pastoral systems, agro-horticulture etc. are more suitable [17].

Extending Time Frame

One implication of such an approach to backward area development is that banking system extends the time frame for appraising the

investment options. It is natural that the shorter the time frame the greater is the possibility that sustainable technologies with low average return and also low fluctuation/variability will be rejected outright. At the same time technologies which will be selected offering high return with higher or lower variability in most cases would not be sustainable in the long run. Deep tube wells aimed at drawing fossil water or water held between the rocks may be one such case. Tractorisation in regions with light soils and strong winds is another case. It is well-known that almost any field in dry regions would have had a few trees till ploughing and sowing were being done with the help of bullocks or camels. Once the tractors were brought in, the possibility of by-passing spontaneously sprouted tree seedlings in the cultivated fields was eliminated. The long-term result is reduction in tree cover and supply of fodder from the leaves during the dry period. The wind erosion and the sedimentation rate of the river beds increases causing floods even in the deserts. On the other hand the productivity of the soil also goes down because of uprooting of the plant cover and non-incorporation of tree leaves in the soil.

Substitution of Grazers by Browsers

The hard choices in these regions have to be exercised carefully and the banking system will have to be a part of overall ecological restoration plan in these regions. Once the time frame is shortened, the substitution of the heavy grazers like cattle by the browsers like sheep and goat becomes inevitable. This has its own feedback effect on the long-term viability of the farming systems. No enterprise by itself is unproductive including goats. It is only as a part of a system that changes in their relative weights disrupt the environment.

Long-term Credit Needs

One of the major failures in the backward regions has been absence or weak long-term financing system. It may be added that recent innovations like cyclical credit system introduced for crop loans (to be recovered in five years with two good and three bad years to average out failure in some years with surplus in other years) is also inadequate because focus is still at only one enterprise. On the other hand if the household viability is taken as the primary measure of success of banking policies, then one may have to take the entire

portfolio of activities in which dry farming households are engaged in. This would also help banks because they would then have a claim on all the sources of income of the household be they from craft, livestock, penning on the migration route or crop etc. Thus relationship between bank and the borrower may be transformed.

Location Specific Technologies and Credit Packages

Another facet of sustainability in dry regions or hill areas is the development and diffusion of location specific technologies in a watershed framework. A bank and the scientists may have to join hands so that bankers are a part of the process of technology generation. Their role in the eventual diffusion will be more spontaneous, because they would have been convinced about the viability having observed technology closely and critically in its development phase. The classical approach of lab-to-land transfer of technology would just not work in these regions. In the industrial sector ICICI has set up a subsidiary already to provide venture capital and other support for enterprises using new technologies. Similar support is required in the backward regions as well.

We summarise next some of the other key points or directions in which the banking policy will have to sharpen itself during the nineties.

PART III: ISSUES FOR THE NINETIES

Science and Technology

Studies of consultative fora at central, state, district and block levels have shown most conspicuous neglect of the role of science and technology in making banking more effective in rural areas [18]. Neither Indian Council of Agricultural Research (ICAR) nor Council of Scientific and Industrial Research (CSIR) were represented in any of the consultative committees for coordination among credit and development agencies from top to bottom. So much so that even in such districts where either a regional research laboratory or ICAR research institution is located they are not permanent invitees to the credit planning committees. The result is that we have credit plans which continue to have the same activities year after year without improving productivity of capital over time. On the other hand the

science and technology institutions feel frustrated that they have technologies which had not been taken up for trial or prototype testing. Unless the banking system takes note of this gap and sets up standing committees on science and technology at central, state and district levels we do not see how rate of return on investment would improve in turn improving the viability of households and the bank. The R and D fund of NABARD which remains highly underutilised should be used in a big way for bridging the gap between technology and banking in different sectors and spaces [19].

Clearing House for Technological Information

A clearing house may be established in each bank so that technical information flowing out from different sources is regularly disseminated among the bankers and farmers groups wherever the same have been financed. The lead district officer being appointed by NABARD may like to spend time on environmental scanning, pooling information on science and technology and other innovations being tried by the entrepreneurs or the farmers rather than concentrating on just complication of statistics and organising meetings [20]. In the short run instead of burdening these officers with many responsibilities it will be enough if he/she could apart from strengthening the learning systems, help establish the bridge between banks and science and technology institutions so that agriculture in the nineties becomes more knowledge intensive. Diversification of portfolios of households and the bank branches also may take place in the process. Simultaneous changes in the policies for fixing the scale of finance/unit cost will also be required. For any new enterprise refinance should be automatically available without any prior approval being necessary except at district level. Review of SLBC minutes would demonstrate how time consuming is the process of getting sanctions from NABARD for any new schemes.

Policies for Risk Diffusion, Negotiation and Elimination by Small Farmers

RISK DIFFUSION AND NEGOTIATION

Studies have shown that farmers tried to diversify their enterprise over space, season and sectors to diffuse risks. They not only do not put all eggs in one basket but do not rely equally on each basket in which they put their eggs [21]. *Risk negotiation* is a fire-fighting response in the

event of actual occurrence of risk and *risk elimination* refers to preventive strategy of making durable or permanent changes in the resource endowment as well as in the allocation system.

The risk diffusion policies would require encouragement of lending for household portfolios including multiple cropping systems, silvi-pastoral and agro-horticultural systems, craft and other components of the portfolios including consumption loans (prior to starting the migration) and have already discussed the logic of portfolio financing earlier and may add that it is not enough to issue a circular encouraging financing of silvi-pastoral system or other purposes mentioned here. It will be necessary to have action-research projects in collaboration with the relevant ICAR, CSIR and other social science institutions.

Having invested money in any enterprise farmers try to negotiate risks through various strategies [22]. We mention here four specific measures which had been proposed earlier in 1983 and may still have relevance for future policies [23].

- Consultancy, Contracting and Curative Services.
- Rescheduling and Rehabilitating Finance or Nursing Finance.
- Credit Linked Insurance.
- Reorienting Policies for Subsidies.

Consultancy, Contracting and Curative Services

Consultancy Services imply hiring or contracting technical expertise available in public or private sector to provide specialised services to client farmers or groups thereof. Canara Bank has already set up an agricultural consultancy cell which has built up its reputation in a very short period of time. ACS provides expert advice or mobilises such advice at a very nominal fee. It also takes up studies, project preparation and appraisal for not necessarily the clients of Canara Bank only. Banks may like to maintain a panel of experts at regional as well as district level so that their services can be mobilised for the interested clients at a reasonable fee. This suggestion is applicable to advanced regions as well. This measure will reduce the cost of the banks involved in maintaining this expertise within.

Contracting and Curative Services will imply tie up between insurance cover and other sources of expertise. Assumption is that for an individual and dispersed client it is difficult to ensure regular facility of pumpset repair or periodic servicing or vaccination of live-stock or preventive spray of plant protection chemicals particularly of

non-toxic chemicals. Given weak market forces in backward regions, the possibility of clients organising supply of such services on their own is very remote. The low return on productive capital through high breakdown rates of pumpsets has been known to be one of the serious problems in medium and low growth regions.

Studies by NABARD have shown that by replacement of a valve or two, considerable energy saving can be made at an aggregate level. It is difficult to assume that such changes will be brought about by the individual client particularly when the saving from some of these parts will not accrue to the individual due to fixed rate of electricity tariff.

Whether banks can organise the manufacturers to set up facilities for extending these benefits to the clients in backward regions will determine the viability of many of these investments. Given high transaction costs, it is not realistic to expect private market forces to provide these facilities on their own. It is possible though that with appropriate incentives some beginning can be made. The experience of setting up service centres for fertiliser distribution by some of the cooperative fertiliser factories has not been very successful. Many of these service centres were wound up because the business turnover was expectedly very low. Unless these costs were transferred to other consumers of these inputs or absorbed by the factory itself, the credit extended would remain suboptimally utilised.

Rescheduling and Rehabilitation Finance

The cyclical credit system started by NABARD takes care of this suggestion to some extent. However, as mentioned earlier by restricting the scheme to only crops it does not meet the real needs in dry regions where the anchor of the household economy is livestock system. The experience indicates that in the drought years the supply of contingency financing or nursing financing by the commercial banks has been quite tardy. One of the reasons for this has been the cumbersome procedures requiring among other things the gazette notification by the district authorities. It is difficult to appreciate as to why should bank management not rely on the judgement of its own officers in this regard (knowing the politicising of *anavari* declaration). The recent write off is no answer to this chronic problem in the high risk environments. The "guarantee fund for failed enterprises" should be built up through a charge on each account. DGCIC cover does not meet this need because availing that benefit requires making

provision under bad and doubtful debts. The interest rates cannot be increased in the present political climate. The ability of the government to subsidise the failed wells or other enterprises is quite limited. The insurance cover is also not available for many activities or the premia obligations are too high.

Credit Linked Insurance

This policy since introduced has been modified to take the crop productivity at *mandal* level instead of block level into account. Given the fact that productivity is highly uneven in different parts of the same rainfed village but certainly among different villages, need for disaggregated estimation of reference yields cannot be denied. But even more important is the issue of ability of insurance companies to pay the losses if the states which faced low risk such as Punjab and Haryana did not participate in the scheme. Unless the banking system could make it obligatory for every borrower to take the insurance without which a loan will not be available there does not appear to be any way of cross-subsidising. We therefore strongly recommend that credit linked insurance be made mandatory for every borrower in developed as well as backward regions.

Reorienting Policies for Subsidising Loans

Discussion on the subject is relevant for developed regions as well. The subsidies on rural credit can be looked at from the following angles: (a) Instead of subsidising the cost of enterprise in the beginning of the loan as done under IRDP, bonus for timely and quick repayment is given. In Kerala cooperatives are given 5 per cent interest subsidy for prompt repayment. It is not surprising that they top the country in recoveries. (b) The interest cost is waived for the marginal farmers and landless labourers rather than providing one-third or one-fourth subsidy to the small farmers. (c) The risk fund is developed progressively by pooling the money earmarked for the subsidy to liquidate the loans for only the failed enterprises rather than subsidising the interest on capital cost of all loans. (d) The interest cost subsidy is allocated among all the classes of farmers cut at different rates depending upon the regularity of the payment and the initial endowment. Thus a small dry farmer and a small irrigated farmer would not be treated alike at present. (e) The capital subsidies wherever applicable may be adjusted towards the end of loan rather

than the beginning. Subsidy amount is put in special fixed deposit account earning the same rate of interest as applicable to the loan account so that a regular borrower does not lose on account of this policy.

We of course believe that the best use of subsidy money would be to set up afresh or strengthen the existing institutions to provide various types of services to the clients in developed and backward regions. For instance, in developed regions increasing cost of cultivation and declining margins might require a very judicious use of inputs. This in turn would require a computer-based expert system drawing upon the data on soil fertility in different parts of the village and district, climate, response functions, trends in market prices, transport and acreage costs, etc. The Punjab, Haryana and Tanjavur farmers should be able to reduce the costs by using such system at a nominal fee. In backward regions, on farm research, investment in action research for watershed development, various types of consulting, curative and contracting services as mentioned above may be organised.

Finally, the quality of services rather than the subsidies at the current level will become the major issue in the nineties.

RISK ELIMINATION STRATEGY: DEALING WITH COMMON PROPERTIES

Investment in soil conservation, agro-forestry, minor irrigation, sprinkler or drip irrigation, management of drainage, strengthening of indigenous water harvesting structures etc., are some of the ways in which risk can be eliminated or considerably reduced. Since many of the investments would require dealing with common property resources there is no way banks can strengthen these without dealing with indigenous institutions. Public institutions in general lack capacity to deal with common property institutions. Therefore, such capability may have to be developed through participative research. The importance of common property resources as viable alternatives for privatised resource management is going to increase in the nineties. A number of stream-based irrigation systems in hill areas have suffered damage because these systems were sought to be managed either departmentally or just ignored. In either case the institutions suffered. Policy changes will also be required for extending loans to unregistered groups.

Human Resources Development: Building and Sustaining Skills for the Future

Various HRD functions like recruitment, induction, training career planning, succession planning, incentives for innovation etc., have in general received a low priority in the banking system. The handling of these functions with regard to rural banking may have suffered in our view by erroneous assumption that agriculture and rural development did not require a separate cadre. Banking system has done away with such a cadre. After two levels or so, all functions are expected to be performed by any person no matter what background or future orientation. In fact many banks have stopped or considerably reduced the induction of agricultural officers. Our case is not that the rural banking necessarily requires agriculture experts. We suggest that this subject is serious enough deserving a fresh look.

Our own bias is in favour of developing a committed cadre of officials drawn from different backgrounds but with a long-term interest in agriculture and rural development. It should be possible for the officers to make lateral movement. As an incentive, these officials (particularly serving in the backward regions) should be given a special allowance for the education of their children.

There is a need to renegotiate the agreement with the unions so that involvement of the entire branch staff in developmental activities including follow up does not pose any problem. At the same time instead of providing city compensatory allowance the compensation could be inversely proportional to the level of facilities available at the place of posting.

In a large number of banks agricultural officers spent three-fourths of their time on general internal banking routine work. There was a time in some of the banks when no general banking work was entrusted to the officers. On one hand the work pressure has increased and on the other the time available for follow up has declined. We believe that one of the greatest demotivating factors among the developing officials may be their inability to do what they think they are capable of doing. No amount of training and incentives can substitute the need for an official to have the freedom and ability to discharge his or her responsibilities to the best of his or her ability.

In view of the emerging organisational complexities it may be useful to develop contractual arrangements for some of the routine

functions and even some of the field functions such as periodic follow up.

Specialised training programmes for the senior executives will have to be designed in view of the technological challenge and increasing complexities of agro-industrial interactions. The detailed operational guidelines for better human resources development in banking system can be worked out by a special working group.

Reorienting rural banking requires transforming relationship between banks and the clients. These relationships cannot be transformed unless all the employees in the branch consider themselves accountable to the rural people. In one of the nationalised banks when an extremely imaginative scheme was launched to invite volunteer clerks to work in rural areas for two years, the staff union objected. There could not be a better example of undesirable conflict between the interests of the organised work force and the needs of the unorganised disadvantaged rural population.

Strengthening Bank-client Relationship

There is general dissatisfaction among the clients of the banking services even in urban areas. Part of the dissatisfaction stems from increased work-load and archaic working methods. Without getting into the issue of computerisation and other important modifications in the work method, we intend to focus on the issue of improving the client participation in modifying banking policies and procedures at various levels.

There is no organised attempt for good borrowers of a branch to periodically assess the working of the rural banking activities and make suggestions for improvement. Sometimes, by the very compulsion of circumstances more time is spent with defaulters rather than the good borrowers. At all the levels beginning from the branch to head office, consultative councils of rural clients should be constituted so as to institutionalise for a feedback. It is obvious that only the regular clients need be selected for these councils or advisory committees.

The idea of appointing recovery agents should also be discussed in this forum so that borrowers having the responsibility of following up the loans of others is recognised by the borrowers groups. Earlier efforts like Volunteer Vikas Vahini did not work because the programme was imposed from the top without providing scope for

innovation at the local level. Greater freedom to the branch manager is necessary to evolve arrangements suitable for local ecological, cultural and social conditions to improve the involvement of local clients in modifying the working of the branch by having a say in the matter.

Involvement of voluntary organisations has been suggested as another way of improving bank-client interaction and at the same time reducing the transaction costs of the borrower and the bank. Some attempts have also been made to organise credit and savings management groups as a part of watershed development project or independent of it.

DEALING WITH VOLUNTARY AGENCIES/ORGANISATIONS (VOLAGS)
There is considerable international pressure on NABARD to support so-called self-help groups or route finance through voluntary organisations or finance voluntary organisations themselves. There is no doubt that like any other institution, there are good volags and bad volags. Some take a cooperative approach and others take a confrontationist approach to mobilising the people and creating a demand system on the bureaucracy. It is natural that generally any public institution would tend to deal with groups which do not threaten its authority. However, such groups may not be necessarily genuine and committed to the concerns of the poor. To begin with it may be useful to use the following guidelines to deal with the voluntary organisations.

Whether or not the volags/NGOs claiming to generate self-reliance among the poor acknowledge clear accountability towards the people. Do they share their balance sheet and summary of accounts with the people with whom they are working?

Whether volags believe in generating internal resources by charging some fees or using transfer pricing mechanisms to generate self-reliance for meeting minimum establishment costs. Those volags which do not do so may continue to depend upon donor agencies – national or international – and at the same time impair the self-reliance potential of the poor (as relief oriented strategies have done).

Whether the volags believe in strengthening the saving potential of their members so as to meet their own small credit needs. Unless a group learns to deal with collective savings for sometime, there is no justification for entrusting it with a common fund contributed by any outside agency including NABARD. Credit management groups

being promoted by various agencies without generating among the people ethics and skill of dealing with collective savings may not succeed.

Whether volags are interested in local technology development or building upon people's indigenous knowledge. Unless some investment in research and development is made, it is unlikely that the cost of providing services would go down over a period of time.

The peer group of borrowers or members of NGOs could perhaps decide at a lesser cost who should borrow how much for what purpose. As mentioned earlier this skill would take time to develop and therefore it will be useful to have patience while dealing with such groups. Sometimes overenthusiastic response may do more damage than good. Also the dynamics of peoples' organisation cannot be legislated or converted into a standard guideline suitable for various regions. One must allow these guidelines to emerge from participative research process. It should be possible for any grass-root officer to request funds. Once the lead bank committee or DCC level bank clears it the funds should flow to that officer for experimentation purposes from NABARD or from the head office of the bank or from even DRDAs.

ENCOURAGING INITIATIVES AMONG BANK STAFF

It is regrettable that some banks and apex agencies are showing considerable keenness to learn about supporting voluntary organisations and groups but are not showing the same keenness to encourage initiatives among their own officials. There may be at least 15 to 20 per cent officers in commercial banks, RRB and cooperatives who are capable of taking on additional responsibilities for enriching their own work and make banking for rural disadvantaged groups more meaningful. We are aware of examples where bankers have moved from a state of total scepticism about bankability of watershed technology to popularising soil conservation technology among the farmers even without any credit support. Likewise there are examples of bank officers who have introduced new crops or other enterprises, set up innovative marketing arrangements or even recovery systems. There is no way at present that such innovative officers can receive encouragement for these initiatives. No amount of organisational reforms can do away with the need of individual initiatives. Banking system has not yet created a niche for grass-root experiments. NIBM's

experience also confirms the potential which exists for such bottom up experimentations. It is worthwhile to note that not one grass-root bank officer has received any public commendation. Should we conclude that there has been no creditable performance worth recognising at the national or RBI level?

Strengthening the Learning System

Organisational learning is important for any service be it for urban or rural areas. Its importance in rural banking is enhanced because of greater variability and complexity in rural environment. Some of the challenges that have to be faced in the nineties are:

INTRA-ORGANISATIONAL LEARNING

It is an experience in general that the various monitoring and evaluation studies done by the banks themselves have very limited effect on modifying the operational policies. The result is that some of the findings brought out in the seventies by ARDC or banks own studies can be located even in the contemporary reports. There is no way that a system can improve if consolidation of these lessons does not take place periodically. It is regrettable that the recent review of agriculture credit system in 1989-90 preferred to rely on its own small sample surveys rather than on hundreds of studies already done by various banks and NABARD. We strongly recommend that an urgent consolidation of the lessons brought out by these studies be undertaken. An earlier attempt by us in 1984 had shown that there was a tremendous richness in most of these studies [24].

LEARNING AT INTERORGANISATIONAL LEVEL

Various fora of coordination such as high level credit committees (HLCC, SLBC, DCC) or state or district level review meetings (DLRM and HLRM) generate extremely relevant feedback as well as agenda for policy and procedural reform. However, no systematic attempt is being made to analyse the minutes of these meetings, longitudinally or regionally [25]. In the absence of this analysis the same issues tend to get repeated year after year leading to the loss of considerable creative energy of the development officials and the bankers [26]. The coordinating forum should not be used only for the administrative coordination.

It might be a good idea if each district officer of NABARD summarises sector and theme-wise issues which have been thrown up in the DLCC and VLCC during the last decade or so (BLCC minutes would only be available for a few years). Based on such compilation from district and state level review meetings special workshops may be organised to identify region specific patterns in the articulation of problems and suggest solutions. Perhaps the very act of pooling these lessons together and acknowledging the merit of good ideas would generate tremendous motivation among the bank and lower level officers. If some of these are implemented even on experimental basis, the enthusiasm would know no limits. Likewise, as the analysis of the minutes at high level consultative committee (HLCC) has shown very often the issues emerging in SLBC do not get put on the HLCC agenda automatically.

The institution building requires strengthening the decision making processes and reinvigorating channel of communication. Creating new institutions and ignoring the existing ones will hardly help in facing the complexity of the nineties.

As suggested earlier, the NGOs and the scientists could also have been invited to be the members of review meetings at central, state and district level. A standing committee on science and technology and non-farm sector could be added to the existing four committees on agricultural, industry and sponsored programmes and service sectors.

DISTRICT ORIENTED MONITORING (DOM)

This was one of the most important innovations started by NABARD some years ago. The idea was to move away from schematic monitoring to area specific monitoring so that interrelationships between different schemes sanctioned by NABARD or otherwise could also be studied. Unfortunately while a good beginning was made very soon DOM reports became almost like routine inspection reports. The idea of using these reports for improving the working of banking system as well as interrelationship of different schemes got lost. In our view this is an innovation which still has a future. In fact we would suggest that DOM studies should be periodically synthesised by the economic research and planning department of the banks and outside experts (as already being done to some extent) so that the lessons are not lost. Reserve Bank of India should make a point of taking an annual stock of the lessons learnt from various subsystems for learning.

LEARNING TO LIMIT PLANNING

We have made repeated pleas to review the current policy thrust for planning for all sectors and spaces. We have accepted a mixed economic system for our country and recognised the futility of producing huge credit plan documents (which were never opened by any branch manager for any operational decision ever after they were bound and circulated). Would it not be useful if planning resources and energy were restricted only for those sectors and spaces which do not get served by the market forces. Monitoring certain functions through markets and thereby regulating specific patterns of allocation could be quite fruitful as has been the practice in case of selective credit controls. At the same time recognising the pressure on the time of officers and validity of the principle of 'bounded rationality' we should make more effective use of the planning skills and energy by restricting credit planning to strategic priority sectors and spaces. Operationally it would mean a basic rethinking of the service area concepts. Competition in the developed pockets and allocation for the backward pockets sectors and client groups should be the hallmark of future banking scenario in the nineties. Excessive fears of multiple financing are unfounded as the experience of the borrowers lists prepared for deciding allocation of write-off amount has shown. It did not take a very long time for the banks to compile such lists and share the information [27]. In our view it would be useful to get data generated in the process of write off entered in the district level computer system so that future exchange of information can be quicker and need for no objection certificate can be done away with. We also suggest that these data should be used to get credit density maps prepared in each district so that banks can use these maps to identify the underbanked pockets. We had prepared such maps in 1980 taking in to account entire credit dispersed (58,000 accounts) by all the branches in all the villages of a district. Maps showed that while banks were very efficient in deciding which regions and sectors not to finance they were quite inefficient in allocating credit to the remaining regions in any systematic manner. We, therefore suggest that investment in preparing these maps be made for improving, monitoring, coordinating and planning. The unbanked pockets are invariably the high risk zones and are also the pockets of maximum poverty. In the nineties there has to be a targeting of development policy in a focussed manner.

RECASTING LINKAGE WITH EMPLOYMENT PROGRAMMES

We see no justification for allocation for IRDP or other employment programmes for the regions where market wage rates are reasonably high. We should allow market forces to trickle the benefits of development in high growth regions, and concentrate poverty alleviation programmes in the regions where even minimum wage rates are almost double of the actual wage rates. This would reduce the pressure for mechanisation by making labour markets more efficient in high growth regions. At the same time it would also spur investment in the backward pockets by retaining at least those labourers who also own land but do not invest in the same because of poor banking support or weak linkage with employment programmes. The employment entitlement in these regions could enable the workers to borrow against the instrument of entitlement and thereby meet their consumption need (particularly prior to seasonal migration for grazing livestock).

Disbursement is not Development

Banks have been reduced to almost a status of a treasury of the government. Banks may be given internal targets derived in the framework of limited planning (as mentioned above) and draw upon government subsidies in the best possible way without impairing the viability of the system. Households cannot be made viable if these institutional conduits become non-viable [28]. Unfortunately, government and the banking systems have taken too much satisfaction from just disbursement as an end rather than as a means. Government has burnt its fingers through *takavi* loans. The corporations set up for the welfare of scheduled castes or specific occupational groups such as brassware artisans or leather workers have also turned out to be bad paymasters. Therefore, the route of lending through these corporations does not seem feasible unless these corporations are run professionally and banks appoint directors on their board. Nothing would be gained if banks also lose their banking instincts.

Certification Authority with Bankers

Certificate by a *patwari* or VLW or DDO is considered more reliable than certification by the branch manager. Several seminars on banking have suggested that branch managers with certain minimum

experience could be notified as eligible for certifying certain kind of documents so that the cost of borrowing by the people could be reduced and at the same time bankers could take more responsibility in the process.

Financing Women in Backward and other Regions

In the light of high male emigration from hill areas and drought prone areas banks have to deal with women managed or headed households. Unfortunately, while fixing quotas for loans to women region specific speculation had not been kept in mind. The role of women in development process is going to become more and more important in the nineties because of the increasing economic stress. Studies have shown that women participation in agriculture goes down with the increasing level of development and *vice versa*. Therefore, in the present socioeconomic context it may be prudent to direct the women oriented policies primarily to backward regions. In such cases the condition of requiring male co-obligant will have to be relaxed [29]. We, however, feel that this suggestion has still some relevance. We have to also appreciate that title to land often is not in the name of women. In any case availability of land records has not made any difference to the repayability of the loans. Insofar as the needs for records for ascertaining operational holdings is concerned everybody in the village knows everybody else's holdings.

Setting up Specialised Institutions for Rural Banking

In the earlier section we have shown the need for considering setting up a few new institution for fulfilling specific needs. For instance, the organisation for market research and product design in non-farm sector, clearing house for bankable technologies; venture capital support for innovative technologies such as for herbal medicine, agro-processing, extraction of biochemicals from crop, fruit, vegetable residues, biotechnology and development of herbal non-toxic pesticides. The agriculture sector has to become more specialised in some regions and diversified in others.

Lack of cadre building in agriculture sector is reducing the possibility of developing specialised expertise within the time. In the process of decentralisation some of the important head office functions, such as, nurturing innovative professionals, identifying new areas for

investment and making specific arrangements for insulating certain functions from the mainstream organisational culture have been underplayed in some banks. Likewise, training institutions in the banking system have emphasised more and more on the training of lower and middle level functionaries. The training of top level executives within and outside the country has received rather a low priority. The influence of bilateral and multilateral institutions on policy initiative has been increasing with not necessarily a positive consequence.

We have suggested certain broad areas in which discussion on improving viability, reducing overdues, reaching the rural poor in disadvantaged regions in cost effective manner can be pursued. We believe that any major departure from the current institutional enclaves would require collective thinking but individual initiative. The environment for encouraging excellence in qualitative terms has to be the top priority in the nineties. The achievement of the Indian banking system in quantitative terms has certainly surpassed everybody's expectation. Challenge is to prove that the Indian banking system has strength and resilience to overcome the policy pressures for conformity, compliance and standardisation in the last two decades. Rekindling the competitive spirit, reinforcement of the approach of limited planning for the by-passed sectors and regions, and reliance on market instruments [30] for the developed regions has to be the focus in future. Even in the current system some banks have already shown the way by creating new institutional alternatives for making the banking system more efficient and effective.

If we have to believe that the recent write off is the first and the last such attempt then burdening poor with the loans that they cannot repay cannot be justified. Capacity for disbursing small loans has to be created so that borrower's skill for absorbing larger loans can be enhanced. This would require linking science and technology with banking; reducing banker's and borrower's transaction costs through viable intermediaries be it the groups of borrower's, genuine voluntary organisations or independent corporations or cooperatives; and generating scope for transfer pricing between developed and less developed enterprises, regions and sections of society.

Sustainable development of agriculture requires: (a) extending the time frame for appraising technologies, (b) reducing the chemical inputs and their cost so that the treadmill effect in the pest attack can be reduced, (c) recognition of the limits to which land or water can be

mined and thus generating respect for common properties, (d) accepting bio-diversity as a necessary insurance for avoiding catastrophies and incorporating farming systems perspective for improving viability and desirability of investment choices.

Rural banking in the nineties requires balancing very difficult objectives of achieving long-term sustainable development through short-term viability of institutional channels.

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NOTES AND REFERENCES

1. I am grateful to Shri Vishwanath, Secretary, Kerala State Cooperative and Agricultural and Rural Development Bank Ltd., for providing data and answers to my questions on this aspect at a very short notice.
2. Gupta, Anil K. "Banking the 'Non-Bankable' Poor: Bridges, Brokers, Banias or Bankers" Final Report of NABARD Sponsored Study on *Poverty Control through Self-Help*, Centre for Management in Agriculture, IIM-A, Mimeo, 1989.
3. Contribution of several other factors responsible for forcing farmers to be defaulters against their will should not be minimised such as: shorter repayment schedules, insufficient or total absence of rescheduling and rehabilitation (in case of commercial banks, in cooperatives this has been done regularly for a long time, or contingency financing, inadequate remedy for loss due to natural calamities or failure of enterprise due to faulty planning (such as, insistence on bringing animals under IRDP from outside which find it difficult to adapt), family contingencies, inability of banking system to collect small instalments from the doorstep of the small borrowers whose prior household budget deficit somehow never lets enough money for a full instalment accumulate.
4. For detailed discussion on this theme see, Anil K. Gupta, "Understanding Institutions, Technology and Politics for Sustainable Development" *Third Review Report of the Joint Project on Sustainable Development of High Risk Environment*, IIM-A, 1990, May 12-13.
5. Nayak, P.R. (Chairman, NABARD) Observations of the Chairman of the Session in *Bank Economists Meet-1987-Proceedings and Papers*, Vijaya Bank, Bangalore, 1989, pp 389-390.
6. *Report of the Agricultural Credit Review Committee* (Reserve Bank of India), Bombay, 1989.
7. Banks or NABARD should contribute towards this fund only as an incentive for proven efficiency in their working. Groups could be allowed to lend these internally generated or matching grants received from outside at whatever rate of interest they deem fit. These groups should be allowed to be stabilised for

- some time through an operation of their own fund. Granting doles in the beginning can ruin the group ethics.
8. The entitlement under employment programmes could become a negotiable instrument so that banks could advance against these to those who have limited capacity to borrow but have a need for the same. This would avoid the borrowing from informal sources at high rate of interest and thus becoming defaulters in the bank because of prior claim of these lenders. Since watershed based activities are area based it will be difficult to exclude certain plots belonging to such defaulters. Support from the government for such plots would of course have been better in the write off of funds because of improved value addition in the given micro catchment. Public support for CPR lands or work on public lands part of micro-watersheds will be necessary in areas where catchment level groups (or *sangha* as being tried by Dry Land Development Board in Karnataka) have been formed by the bankers, NGOs, autonomous boards or even private corporations interested in the resource development.
 9. For instance, synchronised schedule of sowing of certain crops so as to avoid synchronisation in pest reproduction cycles is an important agronomic means of pest control in rainfed and irrigated regions depending upon crops varieties and region specific conditions. The drainage and irrigation, biological pest control, preventive plant protection sprays at collective level etc., are other such activities where group action is necessary and where banking policies for group based lending would be needed in the nineties. The linkage with insurance in such group based activities involving technological inputs may be necessary. With greater assurance of returns and the reduced cost of dealing with the individual loans, viability of investments may go up.
 10. Whether factoring services can also be offered in rural areas particularly in the case of contractual finance needs to be explored. In a particular case in 1976, a bank did try to discount the unpaid sugar cane bills for extending mid-term crop loans with very successful results. These bills were paid by the sugar factory on priority at the commencement of the next crushing season and a lot of people got timely availability of credit leading to timely application of inputs and thus an increase in productivity. Sugar factory paid the bills to the bank with interest. Similarly with increased scope of agro-processing in the future, need may arise of providing such accommodation to the farmers and thereby to improve the recoveries of the dues.
 11. The intriguing part was that the decision was taken to replicate the project in 20 other districts even before the methodology for its evaluation in three initial districts was finalised. Also ignored the fact that most of the basic assumptions regarding training aspect had been found wanting. Even the experience about the recovery was not so outstanding or could not be unambiguously attributed to the project interventions.
 12. For instance, market yard facilities for informal sector can be established for improving storage and marketing opportunities.
 13. To illustrate, honey is one such minor forest produce collected from different base flowers and then pooled together for eventual disposal as intermediate product or final consumer product. World over honey is marketed in separate packages such that a consumer could choose among honey with different

- fragrances depending upon the base flower. There is no reason why similar grading and branding cannot be done in India to add value to the product.
14. Consumer awareness about the product, of non-farm sector is one area where several agencies will have to join hands. The preference for organic products is slowly increasing. Special campaigns may be supported in this regard. The cultivation and processing of the herbs and medicinal plants particularly in the dry regions or the wastelands can be a land-based cottage industry with tremendous potential in future. Biotechnology is another area where urban-based biological processes can provide both intermediate and the final products. It is well-known that in several agro-processing industries particularly those dealing with fruits and vegetables a lot of enzymes and other biochemicals are thrown away as a part of waste. Venture capital support for extraction and marketing of such enzymes and biochemicals will have to be one of the important areas of value addition in future.
 15. Gupta, Anil K and Manu Shroff, "Rural Credit: How do the Poor See it?", *Vikalpa*, 1987, 12 (4), pp. 3-10 and "Rural Banking Learning to Unlearn: An Action Research Enquiry", Oxford and IBH, New Delhi, 1990.
 16. In fact desert and design are closely interlinked. The monotony of climate and environment has always been sought to be broken by people by developing colourful designs, patterns and crafts.
 17. It may be useful to recall that in 1869 the proceedings of the Agro-Horticultural Society of India also highlighted many of these questions of eco-specific developmental needs of the then Punjab Province.
 18. Gupta, Anil K "Viable Projects for Unviable Farmers—An Action Research Enquiry into the Structure and Processes of Rural Poverty in Arid Regions", paper presented in the *Symposium on Rural Development in South Asia*, IUAES Inter Congress, Amsterdam, 1981;—"Role of Public Enterprises in Backward Regions: Generating Peasants—Perspective, *IIMA Working Paper* No. 511, 1984, June also presented at *XV International CIRIEC Congress* at Florence, 1984;—"Socio Ecological Paradigm for Analysing Problems of Poor in Dry Regions, *Ecodevelopment News*, 1985, No. 32-33, March, pp. 60-74; Mathur, Kuldeep, and Anil K. Gupta, "Action Research for Micro, Level Planning: A Self Appraisal", *International Review of Administrative Sciences*, 1984, Vol. L (1) pp. 60-68.
 19. What is necessary is a close involvement of science and technology institutions so that a feasible and realistic repayment schedule can be worked out. It is strange but true that out of seven programmes of ICAR involving work on the farmers fields such as experiments on cultivators field, lab-to-land, operation research projects, national demonstrations, and on-farm research, not one has been linked with either the earlier Village Adoption Scheme or the present Service Area Planning. Both the systems, that is, research and the banking would perhaps gain through collaboration in this regard. Once a protocol was established at the highest level, changes at the lower level might not take long to get initiated. Committees of Secretaries of Science and Technology in Government of India in fact did not include Secretary of the Department of Agricultural Research and Education and perhaps also of Finance. Linkage between industrial and agricultural research on one hand and banking system

- on the other have to be established or monitored periodically at the highest level to give it a sense of urgency.
20. In any case Scale III officers of the banks appointed as lead district managers would not perhaps need much guidance on lead bank from the district officers functioning in NABARD whose experience in practical banking is limited at present. Instead of a supervisory relationship the NABARD's district officials should really backstop the lead district manager.
 21. Bharadwaj, Krishna "Towards a Micro-Economic Framework for Developing Economy: The Indian Case", *Journal of Manchester School*, 1979, pp. 270-301.
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Government of India, *National Committee on the Development of Backward Areas*, Planning Commission, New Delhi, 1981.
 22. For instance, in livestock predominant regions farmers sell off young calves to the farmers from well-endowed regions. It is well-known that value addition curve has much steeper upward slope after about nine to ten months in the case of cattle. The crop as if, is sown in dry regions and harvested in irrigated regions. If only schemes for calf rearing particularly for bullocks of indigenous breeds had been given the due attention, the economy of dry regions would not remain so vulnerable. At the same time given higher mortality rates of the younger calves, the farmers also have no choice but to dispose these off to the extent necessary in the absence of any policy support for health, fodder, management etc.
 23. Gupta, Anil K. "Credit Arrangements for Drought Prone Region, Policy Prescriptions and Planners Reactions", Background paper for a *National Seminar organised by NABARD*, Bombay, 1983.
 24. The tradition of getting detailed assessment from field officers so that time response to the emerging environmental challenges can be given, has also been abandoned in most of the banks. Whichever banks tried to set up special arrangements for learning from clients such as farm clinics or rural service

volunteer scheme, have not tried to generate feedback on the macro-policies through these attempts.

- 25 Khanna, Indrajit. "Credit Coordinating Mechanism: A Study of Committee at Centre, State, District and Block Level". Part of IIM-A Project on *Sustainable Development of High Risk Environments*, 1989.
26. We have come across examples through an analysis of such minutes for different districts and states which could improve the efficiency of banking systems in rural areas as well as in other sectors considerably. For example, a bank officer had suggested the need for smaller size packs of fertiliser easy to transport in hill areas way back in the mid-seventies. It took almost 15 years for the fertiliser industry to identify this as an idea worth implementation. Likewise at the state level many useful suggestions emerging from district level meetings can be synthesised and analysed so that decentralised response to different problems can be identified through collective genius.
27. Gupta, Anil K. "Planning for Rural Credit in a Backward District: Area Demarcation and Action Intervention for Credit Flow", *Indian Institute of Public Administration*, New Delhi, Mimeo 34, 1980.
Gupta, Anil K. "*Management of Rural Credit and Support System in Drought Prone Districts: An Organisational Analysis*", Unpublished Ph.D. thesis, Kurukshetra University, Kurukshetra, 1986.
28. The experience of dairy projects under Operation Flood is quite instructive. Even though the very basis of Anand pattern is the year long assurance of milk purchase at given price, milk routes which were non-viable had been consistently closed in most of the districts in the lean season. It would have been useful to use DPAP/IRDP subsidies to keep such routes viable so that markets could contribute to the development of clients.
29. In a national seminar in 1985 the then Chairman of NABARD had dismissed such a suggestion.
30. Studies have shown that rates of interest in informal market are quite competitive in well endowed regions due to higher competition among lenders, greater flow of institutional credit and public investments (Gupta, 1984).