CHAPTER - XI

SUMMARY AND CONCLUSION

During the past two decades the realisation has been growing in the Third World Countries that traditional approaches to rural development are inadequate to tackle the problem of rural poverty. With the passage of time, larger numbers of population are joining the ranks of poor and the gap between well-off and poorer sections is widening. There is a need to arrest this process which, if unchecked, can create harmful social tensions and endanger the national endeavours. This trend is visible in our sample area of Cooch Behar which is in the northern part of West Bengal and borders Assam.

The most important new approach which is being adopted increasingly is to enhance the productive capacity of this poor by helping them to acquire new assets, so that they can produce the goods and services needed by the society, earn better livelihood and improve socio-economic standing. It is assumed that by placing the hitherto unavailable produce resources in the hands of the poor, the problem of poverty can be addressed directly and solved in a more satisfactory manner. Governments are expecting the financial institutions to play the lead role in the strategy. In our country, specific financial targets in terms of credit to be offered to poor target groups are being

set for the financing institutions. Besides, Government has also launched target group oriented development programmes in which involvement of financing institutions is important. Thus, at present, a wide range of financing institutions, such as Commercial Banks, Co-operative Banks, Co-operative Credit Societies, Rural Banks, Lead Banks etc. are participating in implementing Anti-poverty programmes. Some of these institutions are specialised agencies dealing with only the agricultural sector and rural poor while others are involved in all the sectors of the economy.

The progress in implementing this new strategy has been quite uneven and mostly unsatisfactory, though there are cases of success in some regions and areas. The commercial banks have not been able to reach their services to the poor successfully to a significant extent. The poor still are unable to take the path of development because of inadequate financial resources. They experience difficulties in borrowing from the banks and complain of Cumbersome procedure and long dealys. They find the bank's schemes rigid and unsuited to their varied needs. They worry about the unsympathetic attitude and corrupt practices in the banks in some cases. The psychological distance between the poor and the banks continue to prevail. The relationship of trust and confidence between the banker and the customer which is foundation of/ banking

was missing. The situation was nearly same with the different Co-operative banks. The co-operative financial institutions had the additional problem of paucity in resources and default in payment. In the absence of continued dependable support from the banks, the poor have no alternative but to turn to the non-institutional source of credit notably the money lender.

It is in this context Regional Rural Banks came into existence from 1976. In Cooch Behar the RRB's progress has been steady. The RRBs helped in granting loans and advances to specific economic and occupational groups like the small and marginal farmers and agricultural labourers for the development of agriculture. The RRBS have also helped the village artisans in the rural areas of Cooch Behar.

With the growth of RRBs, the distinction between the commercial banks and development banks has not been that clear cut. The RRBs, therefore, bring in a new approach to the problems of rural development in the backward economy of India.

The basic concept of development banking is that credit is consciously used as a lever of development. Development banking assumes anticipation and adoption of a

plan of action. It calls for initiative and energetic involvement on the part of the bank in developing the potential opportunities of the underdeveloped or undeveloped sections or sectors through selective and strategic input of credit. The development banker has to ensure (1) that his credit institution will have tailor-made loans according to the needs of specific areas and specific target groups (II) that the loans are linked to the credit worthiness of the person (III) that the loans will be distributed as a part of an overall integrated programme which provides the necessary backward and forward linkages. All the development agencies including credit institutions have to plan and progress together. As a part of overall approach to the problem of the poor, unco-ordinated efforts by a multiplicity of agencies do not lead to desired results. The goal of rural development designed to minimise rural poverty can be achieved to any satisfactory extent only through a multi-diciplinary apparatus at the local level.

Some agents are considered to be catalyst of development. North Bengal specially Cooch Behar district of North Bengal is a poor and backward area. Cooch Behar is a no-industry district; its per capita income is lower than state average; its rate of urbanisation is lower than both state and All India average; per capita road kilometre infrastructure is one of

the lowest in India; communication system is extremly primitive; railway lines have a poor mileage; it has a large scheduled caste population; the proportion of scheduled caste population is higher than the West Bengal State average; the literacy rate is lower than the State average; infant mortality rate is higher than state average; agriculture of the region is very primitive with low productivity and consequently, it may be treated as a very poor backward rural area of West Bengal and India. The district symbolises the poverty of India - poverty in all its manifestations.

The growth of banking institutions in this backward district like Cooch Behar was slow and tardy before nationalisation. There were only 4 branches of commercial banks in 1969, while it rose to 80 upto December, 1987. The branches have increased by 20 times in 18 years. The noteworthy point here is that after the establishment of Uttarbanga Kshetriya Gramin Bank (a Regional Rural Bank) in the district in 1977, the branch expansion net-work has increased enormously. The branch expansion network of this regional rural bank in the district Cooch Behar is very impressive in comparison to other commercial banks. Out of the total number of 80 commercial bank branches, the UBKGB alone accounts for 40 branches in the district. In order to extend rural banking facilities to the weaker sections in the unbanked and hitherto neglected areas,

the regional bank has already opened 101 branches upto December, 1987 among three underdeveloped districts of West Bengal viz. Cooch Behar, Jalpaiguri and Darjeeling.

The UBKGB has made a considerable thrust in mobilising rural savings and improving the banking habits among the rural poor of the districts under its jurisdiction. But the growth rate in deposit did not grow as much as expected. The stiff competition with other financial institutions restricts the bank in securing required rate of deposit. The performance of UBKGB regarding credit expansion is relatively satisfactory in comparison to other commercial banks. The bank has created a favourable impact by providing adequate and timely credit assistance to the poor.

The trend of credit-deposit ratio of this regional rural bank is significantly negative. Inspite of significantly negative trend, the credit-deposit ratio of UBKGB is much higher in comparison to other commercial banks. Another noteworthy point is that the bank has by passed even the national object to obtain by March 1985, a credit - deposit ratio of 60 percent in respect of semi-urban and rural branches separately.

The performance of Cooch Behar unit of the West Bengal State Co-operative Bank Ltd. and the Cooch Behar

Co-operative Land Development Bank, in regard to loan issued to different types of farmers, is not at all satisfactory because of poor recovery of loans. The performance of primary agricultural credit societies is not also satisfactory.

The performance of the regional rural bank i.e. UBKGB in regard to priority sector advance is satisfactory. On an average, the share of 'priority sector' advance to total advance is 98.08 percent which is much higher than the national object of obtaining by March 1985, a level of 40 percent of total lending to priority sector advances. Another good feature for the bank is that the average share of agriculture within priority sector advance is 45 percent, which is also higher than National target of 40 percent. However, the performance of different banking institutions regarding priority sector advance is unequal. Bankwise, priority sector advance is also highly satisfactory in case of State Bank of India and Allahabad bank.

The banking institutions are facing serious bottlenecks to serve the assetless poor belonging to priority sector. The bottlenecks are - increasing unemployment, chronic poverty, lack of proper infrastructural facilities, lack of organised marketing system in rural areas, absnece of organisation of the vast masses and the rural poor, educational backwardness, underutilised local resources, non-existence of

centralised administrative machinery etc.. There has been marked a good impact of banking institutions regarding accessibility and impact of credit on earnings of the rural poor. Field survey result regarding accessibility of credit indicated that an overwhelming proportion (89 percent) borrowers obtained institutional credit (mainly from RRB) while only a small proportion (11 percent) availed non-institutional credit. Among the institutional borrowers, the most dominant class was found to be the scheduled caste and other backward classes. They accounted for 57.19 percent and 51.69 percent in terms of institutional assistance and institutional borrowers respectively. Households belonging to lower income groups availed larger percentage share of institutional credit (68 percent). Thus, a considerable enlargement of the role of institutional credit agencies has been marked resulting into corresponding reduction in the role of non-institutional sources of credit. As regards the impact of credit on earnings, the survey result showed that rural borrowers utilised credit in enhancing their incomes more or less judiciously. Only 31 percent of borrowers failed to use credit judicously and their incomes did not increase after the use of credit.

The performance of UBKGB towards sanctioning loan and the number of beneficiaries covered under IRDP in the district Cooch Behar are comparatively good than that of other

Commercial Banks. But the overall evaluation of the impact of IRDP on the target group of people of the district is not at all encouraging. The sample survey report showed that only 17.24 percent families crossed the poverty line, 58.51 percent beneficiaries mis-utilised/mis-appropriated their assets, and 82 percent beneficiaries were found as defaulter in repaying bank loan. Desired results under the scheme could not be achieved for some important limitations. The limitations are : wrong and slow identification of beneficiaries, misutilisation of income generating assets, lack of infrastructural facilities, low quality supply of inputs, shortage of banking facilities, low recovery of bank loan, ignorance of consumption credit initially, lack of guidance, supervision and follow-up actions at different levels and shortage of DRDA staff at block and village level.

Under Village Adoption Scheme (VAS), the nationalised commercial banks and regional rural bank (UBKGB) adopted the total number of gram panchayats (128) in 12 blocks of the district for intensive operation in rural belt. By December 1987, the nationalised commercial banks adopted 46.88 percent gram panchayats while the UBKGB alone adopted 53.12 percent gram panchayats. Thus, the performance of UBKGB in this respect is more outstanding.

In recent times, the poor performance of loan repayment or high level of overdue has been a great cause

of concern to the rural credit institutional agencies. Rural credit institutions in the district of Cooch Behar are not exceptions. They are also plagued by the problems of non-recovery of credit extended. However, the recovery position of the branches of U.B.K.G.B. is marginally better than that of branches of nationalised commercial banks. The recovery trend of the Central Co-operative bank and primary land development bank is found to be significantly negative. The major reasons of non-recovery of bank loan are : failure to tie-up lending with development programmes, defective lending policies, under financing/overfinancing, ineffective supervision, misapplication of loans, apathy and indifference of management of societies to taking coercive measures, want of sense of decipline and responsibility among the loanees etc.

Field survey result of loan repayment showed that the percentage of defaulting borrowers of institutional credit is much higher than that of non-institutional credit. Borrowers having higher social status, good contacts with the lending agency and officials of the government, higher income level and better education have poor repayment performance to institutional agencies. On the otherhand, the borrowers having lower social status, poor contacts with the lending agency and officials of the government, lower income level and less education showed better recovery performance. Out of

200 borrowers, 42% were classified as non-defaulter and 58% as defaulters. Further, the defaulters were sorted out into wilful and non-wilful on the basis of family net surplus available for each respondent and it was found that 68 were wilful defaulters and 48 were non-wilful defaulters.

The discriminant function analysis in the borrowers' repayment performance indicates that the characteristics like incremental income after the use of credit, occupation, utilisation of loan, contacts with the lending agency and officials of the government, timely receipt of loan, per capita borrowing and adequacy of loan are very helpful in classifying the borrowers into defaulters and non-defaulters. Among these, the two factors viz. incremental income after the use of credit and occupation have the highest discriminating power.

As regards classification of defaulters into wilful and non-wilful, the relevant factors are found to be incremental income after the use of credit, per capita borrowing, education and contacts with the lending agency and officials of government. However, among these, two factors viz. incremental income after the use of credit and per capita borrowing are the prominent determinants. The characteristics like incremental income after the use of credit, per capita borrowing and contacts with the lending agency are found to be the valid factors in both the analyses.

(ii)

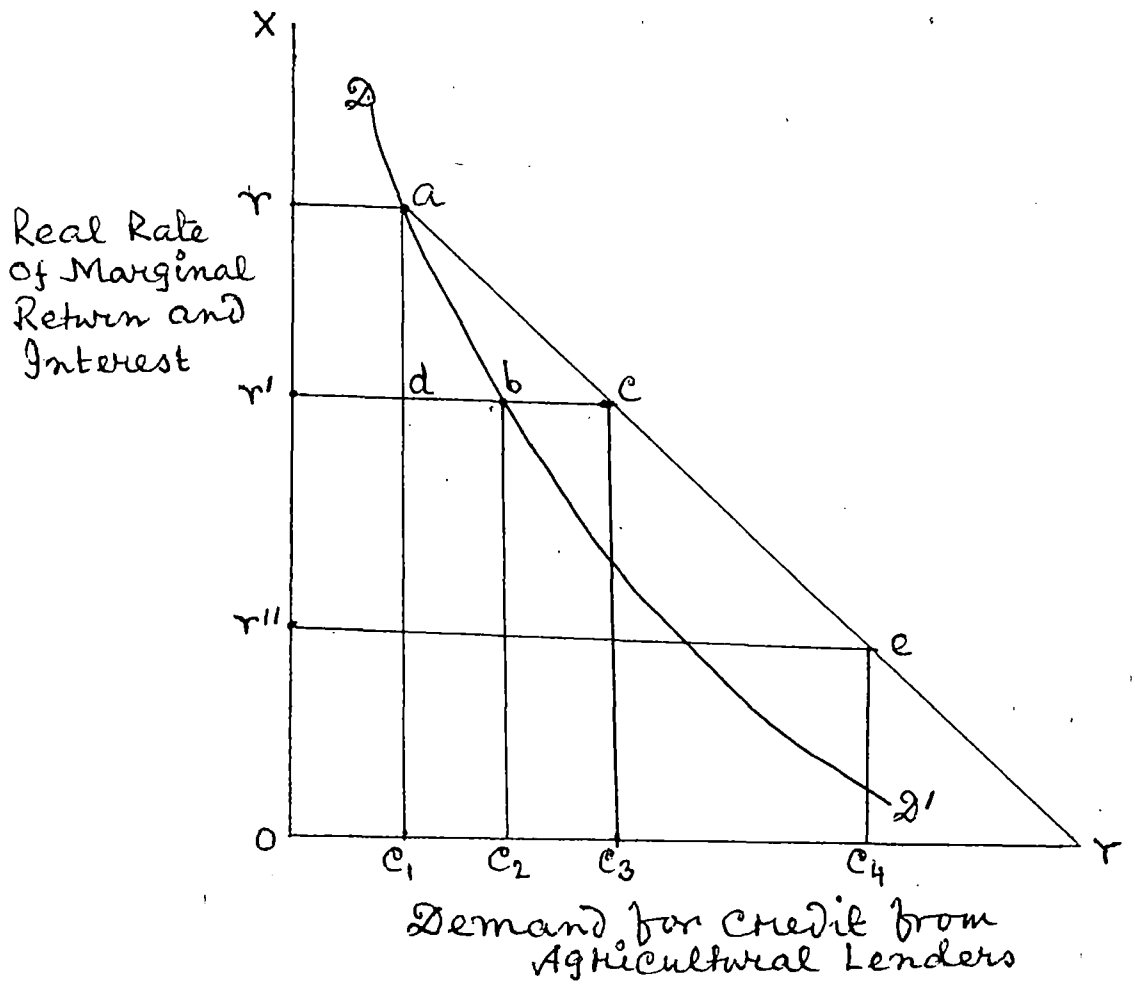
From the study of agricultural credit programmes of Cooch Behar, it may be presumed that these are fundamentally economically oriented. But these programmes have indeed some political objectives. From the study of Cooch Behar we can give five major reasons why a theory of political economy of agricultural credit can be developed. First, governments typically control the supply of formal rural credit and they can strongly influence its distribution and allocation. Second, concessionary interest rate policy which is almost unique in India's agricultural credit system provides an attractive income transfer to borrowers. Third, when governments or government controlled financial institutions tolerate long-term delinquency default (as is not uncommon in Cooch Behar), the non-repaying borrower receives a default income transfer · Fourth, when inflation is present, concessionary and income transfers are magnified. Fifth, the advantages of obtaining these transfers are so sufficiently attractive that they can be used by governments to gain the favours of borrowers and, conversely, by borrowers to influence the government.

Credit programmes are particularly alluring to governments for political purposes. First, they are easy to establish and administer. Second, they are very legitimate for economic objectives. Third, because money is fungible and

because of the hidden transfers, the true uses of such funds are difficult to identify. Thus, credit lends itself to being used for political purposes under the guise of economic development. This is substantially true in case of Cooch Behar - the area of our study.

The extent to which credit allocation decisions are influenced by political factors, or vice-versa, is difficult to ascertain in practice. But our study of Cooch Behar has highlighted this problem.

Diagram - 11.1



Historically speaking the commercial financial banks have shunned lending in agricultural and rural sector. It was left to co-operative banks. But the experiment proved to be not too successful and the void was filled in by the establishment of the Regional Rural Banks. The RRBs have made various "Concessionary transfers".(1) The concessionary transfers create tremendous political advantage or political leverage. But little attention has been paid to this leverage.

Diagram 11.1 presents a regionwise demand curve DD' for credit from agricultural lenders to be used for agricultural purposes when interest rates are equalised throughout the economy. Assume that the prevailing real interest rate is 'r' and that farmers would want to utilise OC_1 credit. Suppose, however, that the government subsidised agriculture by means of concessionary interest rate (r') for agricultural loans but left interest rates for non-agricultural loans (say for the purpose of commerce or industry) at the previous levels. Two effects would occur. First, borrowers would increase the quantity of funds demanded for agricultural purposes from C_1 to C_2 and if non-price rationing were not employed, they would simultaneously receive a subsidy or income transfer (the concessionary transfer) equal to the area designated by the points r' rab.(2)

Second, since money is fungible, credit can be

ostensibly borrowed for agricultural purposes but be diverted to non-agricultural activities such as "Consumption". This gives rise to "agricultural illusion" -- a situation where some agricultural loans have the appearance of going to that sector, but in fact are used elsewhere. With the relatively lower interest rates for agricultural loans, it would be expected that borrowers would behave in this manner - especially those with multiple occupations -- and the demand for credit for agricultural lenders would shift right to DD". Borrowers would want to use OC_3 quantity of credit to practice "agricultural illusion" and the concessionary transfer now becomes r' rac.

If further concessions were granted e.g. r" there would be yet further demand shifts to the right e.g. to OC_3 for farm credit. The horizontal distance between OC_3 and OC_4 would represent the amount of credit demand from "agricultural illusion" due to concessionary rate r". The locus of all equilibrium points for the "illusion demand curve" for agricultural credit when concessionary interest rates are employed at that sector lies along DD". This demonstrates how agricultural illusion increases the concessionary transfers.

Delinquency provides another possibility for an income transfer. A "delinquency transfer" may be temporary, when farmers do not repay their loans on time, or permanent when they never repay the loan. In the case of the temporary transfer,

the farmer gains from improved income or reduced costs resulting from control over cash flow. The permanent transfer is equivalent to the real value of the loan principal plus the real value of interest charges less any real amount repaid on loan and interest. In terms of Diagram - 11.1 the amount of permanent delinquency transfer would be OC_3 loan principal plus interest, assuming a concessionary interest rate of r', "agricultural illusion" and no repayment (equal to the area $or'CC_3$).

When inflation is present, a situation common everywhere, the real rate of interest may be quite low or even negative. The effect is to enlarge the concessionary transfer and temporary delinquency transfer (because of the lower real value of the loan when repaid). When inflation is anticipated by farmers, the amount borrowed will increase in accordance with the demand schedule and will further enlarge both transfers. The higher the inflation, the greater will be these transfers. In the case of temporary transfers, the longer the delinquency, the greater the transfer.

Clearly the concessionary and delinquency transfers themselves and the additions to these transfers resulting from inflation are to be coveted. Therefore, a government with its control over agricultural credit institutions can use these potential transfers to induce certain types of economic activity. More-

over, borrowers, will undoubtedly be willing to bargain with government. Thus, there is an interplay between government and farmers in which political factors may take considerable importance.

Heavy delinquency and default rates may be symptomatic of the degree to which political factors have entered into a loan programme; when the government does not take legal measures to bring pressure on borrowers to repay, this indicates an unwillingness to bear either the economic or political costs of such action.

The mere existence of these concessionary transfers, and the possibility of an easy default transfer create a potential for corruption. Government or bank officials could easily appropriate part of the transfer for themselves by directly or indirectly lending to themselves, or by receiving kick-backs from borrowers.

A concessionary interest rate policy leads to sub-optimal social allocation of credit. Experience demonstrates that non-price rationaing schemes to offset sub-optimal social allocation are difficult to enforce and even more unworkable when political factors intervene. If inflation is present, the additional inflationary transfer enhances the attractiveness of using credit for political objectives and exacerbates the resource allo-

cation consequences.

The concessionary and the delinquency transfer will affect income distribution. Those with access to them will gain at the expense of others. Inflationary conditions will increase the benefits of those who receive these transfers. Concessionary interest rates lead to lower interest revenues for the lending institution if the demand for credit is inelastic and/or the supply of loanable funds is restricted over the relevant range of the demand schedule. This, in combination with well recognised high costs of administering agricultural credit programmes will jeopardise a credit institution's financial viability. Further, political lending will lead to erosion of loan funds due to extensive delinquency inherent in such loans. The result is that, to maintain or increase its loanable funds, the institution must be subsidised by the government.

The obvious economic solution to prevent all these distortions is to raise interest rates and decrease default. Why, then, have policies of higher rates not been put into effect? Furthermore, why do not many lenders use their legal powers to limit default? The suggested answer is that the political cost is too great. First, governments would lose attractive elements available to them to bargain for political support. Second, farmers accustomed to the concessionary and/or default transfers

would stand to lose substantially. In particular, the impact would fall on the larger and more influential farmers who practice agricultural illusion.

In our study we have noted that defaulting farmers predominate the rural scene. Moreover, those who have been benefitted most by institutional credit arrangement pay back the least. In otherwords, the rich farmers are mostly defaulters and the poor farmers try to repay the loan. Does it mean that the rural society of Cooch Behar has a tendency to be divided further on the basis of class? Does it signify that class division will be sharpened further by the credit arrangement?

The delinquency transfers in our sample area Cooch Behar run into a few millions of rupees. Till recently the governments would not permit the banking authority to pressure for payments. In the last election (1989) further concessions were declared. Even if loans are paid back as scheduled the borrowers will pay back virtually nothing in terms of real value due to depreciating effects of inflation -- the equivalent of a permanent transfer.

In case of Cooch Behar income transfer for borrowers can not be entirely attributed to political factors. Poor client selection, bad weather, flood and marketing are other reasons. There are many inadequacies within the rural banking

system, in so far as their ability to work with poor is concerned. These banks are traditionally oriented to business with non-poor sections of the community whether urban or rural. Most of their personnel have urban background and their aspirations are directed to urban living, facilities and culture. The understanding of the problems faced by the poor and the ways and means of solving them and sympathy for the poor are low.

As a consequence their commitment to the cause of serving the poor and motivation for the job are lukewarm. The traditional management techniques and systems which are in vogue in banks do not match well with the requirements of banking for the poor. In essence, the corporate culture which could help the banks to make a success of their business with the poor is far from being in existence in many of these banking institutions. Further, the programmes implemented by the banks for the poor are often characterised by lack of involvement of the poor themselves in conceiving, planning and evaluating them. The capacities and needs of the poor and the ways of meeting them are assumed by banks or government departments and rigid schemes are formulated for implementation in wide areas having dissimilar conditions. Participation of the poor is also expected in schemes planned for isolated sectors which do not suit their mixed enterprise situation. Not unusually the eagerness of the banks to achieve the national goals or target set for them under the poverty oriented programmes becomes the

sole motive of implementation of the schemes irrespective of their development impact. In otherwords, the poor unwillingly become the objects of development rather than being the subjects of development exercising their will and capacities. Our study shows that Cooch Behar's farmers are not exception to this "rule".

Inspite of the limitations of the banking programmes, credit programmes are particularly alluring for political purposes. While patronage in distribution and allocation of credit may contribute to short run political stability, it is subject to abuse and undesirable consequences for resource allocation, income distribution and financial institution's viability. The degree to which credit can be used as a political instrument would be reduced if concessionary interest rates were eliminated, a tougher stance on default were taken and inflation were reduced.

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