

# Rural Development & Poverty Alleviation

By Expanding Rural Lending

Author



Vipul Yadav

The author is Head,  
Dept. of  
Management,  
Dewan Institute of  
Management  
Studies, Meerut.

## ABSTRACT

*It must be recognised that without development of the rural area a country cannot banish poverty. This study also reveals about availability of institution credit to greater equality between rural & urban society.*

*Indian banking is in a better position with respect to technology, capital adequacy, credit management, risk bearing capacity, international competitiveness and contribution to the national economy. The author, thus, empharizing on rural lending suggests to increase it.*

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Since the nationalisation of 14 major commercial banks in 1969, banking sector has been actively participating in lending to rural areas mainly for agriculture purpose. Later in IRDP and other poverty alleviation programmes also, all the banks actively participated. In this connection particular mention has to be made about Lead Bank Scheme. Through Lead Bank Schemes, all the districts in the country were allotted to one major bank or the other. District Credit Plans are being drawn up every year with credit budgets pertaining to different sectors of the economy. Since 1979 sub-targets of 40% lending to priority sectors and since 1985 sub-targets to agriculture were introduced. District Consultative Committee with Collector/District Magistrate as head with members drawn from different banks, development agencies played a prominent role in channel zing credit to agriculture and rural areas.

The economic reforms of 1991 are a defining moment in the Indian Economic History. The reforms of 1991 have brought about sea change in every facet of The Socio-economic Life of the Country. In the aftermath of reforms, rural credit has not increased to the desired extent. RBI and Central Government have been consistently advising the banks to lend more to agriculture and other activities in rural areas. During the Financial Year 2004-05 by the time budget was presented to parliament on 28th February, Rs. 1, 05,000 crore incremental credit was extended to Agriculture. This is a major turn around in lending to rural areas. This need is to be sustained in future also. It must be recognised that without development of the rural areas, India cannot banish poverty. Availability of institutional credit at low affordable rates would accelerate the development process leading to greater equality between rural & urban society.

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## 1. IMPACT OF ECONOMIC REFORMS ON BANKING

Economic Reforms have brought about irreversible changes in several sectors of the economy. The early initiatives of the reforms focused on external sector, industrial sector and financial sector. Consequently economy has been opened up, rupee has been made fully convertible on current account, custom duties have been brought down, industrial licensing has been abolished, foreign capital is being permitted in hitherto closed areas. With reference to financial sector, CRR and SLR have been brought down to 5% and 25% respectively. Throughout the decades of 70s and 80s, banks were struggling to find funds for increasing their lending operations. Consequent upon liberalization and opening up of the economy, banks are experiencing excess liquidity. As a result, interest rates on both deposits and advances steeply declined with adverse impact on net interest margin. Banks are advised by RBI to strengthen their balance sheets in line with stringent norms of asset classification, income recognition and capital adequacy. As a result of the reforms, Indian banking is in a better position with respect to technology, capital adequacy, credit management, risk bearing capacity, international competitiveness and contribution to the national economy.

## 2. RURAL LENDING

It is a great opportunity at present due to following reasons-

- **Vital Historical Linkages**

The current scenario offers a fertile opportunity for the Nationalized Banks and old Private Sector Banks with large branch network in rural and semi-

urban areas. The gap between demand for and supply of international credit is very vast in rural and semi-urban areas. The historical linkages coupled with traditional ethics offer a unique advantage to the existing rural and semi-urban branches in expanding their business and lending.

- **Technology Advantage**

Technology is a big boon to the present day commercial banking. It was not available to the Bankers of 70s and 80s. Information and Communication Technologies have to be leveraged to serve the customers in general and rural customers in particular. Traditional money lender offers wide range of products to the rural borrowers while charging higher interest rates. Commercial Banks have to leverage technology on a greater scale to bring down the cost of Borrowing. Once the cost is brought down, the possibility for arbitrage would diminish, luring greater number of rural borrowers to migrate to formal banking system from the traditional money lender.

- **Forward and Backward Linkages**

One area where traditional money lender is superior to that of bankers is with regards to input/output chain. The traditional money lender supplies inputs like seeds, fertilizers and also gets repayment by way of produce which banks are unable to provide. Now, technology would enable the Banks to penetrate into these activities also.

- **SME Sector and Value Addition**

Unemployment in general, rural unemployment in particular, is the cause of socio-economic discontent.

Admittedly, government and organised sectors are not in a position to generate adequate employment. Financing self employment ventures for value addition to the agricultural produce would be another area banks can concentrate on. India is the second largest producer of rice and wheat in the World, first in pulses production, fourth in coarse grains and second largest producer of fruit and vegetables. New technologies are emerging to preserve the shelf life of these products and also for value addition. By financing these activities, banks can generate better profits for themselves while making the country more competitive in several respects.

● **Financing Tenant Farmers**

Many farmers and landless labourers are cultivating lands through formal and informal tenancy. By forming Farmers' groups like that of Self Help Groups, many Banks are financing tenant farmers. This can be replicated on larger scale.

**3. SUGGESTIONS FOR**

**INCREASE IN RURAL LENDING**

The following steps would increase rural lending:

1. Every staff member should work in rural areas with dedication & devotion.
2. By very nature, the slant of banking is towards urban areas. Banks while recruiting new staff have to lay down the condition that they have to work in rural areas for a minimum period of three years.
3. Good work in rural areas by the staff must be rewarded with accelerated promotions to encourage staff to work in rural areas.
4. Nothing works better than self motivation, self motivated individual have to be recruited by calibrated interviews.
5. Proper training and career progression plans would also motivate youngsters to give their bit for rural development leading to overall development of the country.

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