

Occasional Paper — 1

**Funds Flow Between Rural and Urban Areas**  
**— A case study of Kolhapur and Parbhani**  
**Districts in Maharashtra**

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**National Bank for Agriculture and Rural Development**  
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## **Funds Flow Between Rural and Urban Areas - A case study of Kolhapur and Parbhani Districts in Maharashtra\***

The availability of funds and its judicious utilisation are the prerequisites for the development of a region/state. This issue has assumed much greater importance in view of the fact that the Gross Domestic Capital Formation (GDCF) in agriculture has shown a declining trend in the eighties. With a view to promoting capital formation in agriculture in the private sector through bank credit, household savings need to be mobilised and deployed keeping in view the development potential of the area. There are several forms of mobilising savings, of which, the deposits mobilised by the financial institutions are the most important. Rural savings are mobilised through various saving instruments by the Commercial Banks (CBs), Regional Rural Banks (RRBs), Co-operative Banks (Co-ops), Post Offices, etc. For exploiting the development potential, there are several means, such as, public investments which are funded through budgetary resources of Central and State Governments and individual/private investments which, to a large extent, are supported by the credit agencies through the savings mobilised by them. However, the scope of this paper is limited to the deposits mobilisation and deployment of credit only through banking channels.

2. Credit deployed by CBs, RRBs and Co-ops (DCCBs and PLDBs) is generally as per the priorities laid down by Government, RBI and NABARD. While RRBs and DCCBs mobilise and deploy resources mostly from and in rural areas, the CBs mobilise resources from and deploy in rural, semi-urban and urban areas as per demand. Besides, with a view to supplementing their lendable resources, all the credit agencies avail of refinance facilities from the Development Financial Institutions (DFIs) such as NABARD, IDBI, SIDBI, etc. This enables the grass root level credit institutions to deploy larger resources for lending than those mobilised (after setting-off the statutory reserve requirements like cash reserves, liquid assets to be maintained as per the directive of RBI under the Bank-

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\* The authors acknowledge the guidance of Dr. A.S. Kahlon, former member of the Board of Directors of NABARD and Dr. H.P. Singh, Chief General Manager, Department of Economic Analysis and Research, NABARD, Bombay in the preparation of the paper and Dr. Rajendra Singh who was associated in the preliminary stages of work on this paper.

ing Regulation Act). A portion of the liquid assets maintained by the banks under the statutory liquidity ratio in Government securities and bonds of apex institutions is also invested in rural areas by the Government for building infrastructure and by the DFIs through refinancing the credit agencies.

3. A view has been expressed in certain quarters that the resources mobilised by the banks from the rural areas are being diverted to the urban areas, thus, depriving the rural area of investments and development through credit related activities. The issue of funds flow between rural and urban areas has assumed much greater importance in the recent years in view of the steep decline in gross capital formation in agriculture on which the long-term growth potential of the sector depends. An attempt has been made in this paper to test the validity of this hypothesis by examining the pattern of flow of funds between rural and urban areas through the banking channels. An attempt has also been made to identify the factors which influence the pattern of flow of funds between the two areas. The scope of the study has been limited to two districts in a State as a case study.

#### **1. Selection of State and Districts**

4. It was decided to select first a state which is representative of the level of agricultural development of the country and select two districts from the state, representing developed and laggard districts. The classification of states by level of agricultural development was attempted by use of two important development indicators, viz., level of agricultural development expressed in terms of growth in agricultural productivity and relative level of infrastructure development. Growth in agricultural productivity was observed to be an appropriate index for measuring the level of agricultural development and as such it was used as one of the criteria for selection of the state. For the purpose of classification of the states by agricultural development, time-series data on productivity of foodgrains for a period of 23 years from 1967-68 to 1989-90, i.e., after the advent of green revolution in the country, were used. The growth rates have been computed for the entire period for 14 major states and at all-India level using a semi-log function.

5. Based on the growth rates in agricultural productivity, Maharashtra was identified as a state which recorded a growth rate

close to that of all-India level as the difference (0.23 percentage point) between the growth rate of the state (2.64%) and all-India (2.41%) was minimum (Annexure I). The selection of the state as above was also justified when ranking of the states was done using the Index of Relative Development of Infrastructure computed by the CMIE. The state represents both agriculturally and industrially developed areas and as such provides scope for studying the funds flow between rural and urban areas in an effective manner.

6. At the micro level, two districts, viz., Kolhapur and Parbhani, representing agriculturally developed and laggard districts, respectively, were selected for an in-depth study of the trend in funds flow between rural and urban areas. The per ha. value of output of major crops and the index of infrastructure development were used as criteria for selection of the districts. The per ha. value of output (trienium ended 1988-89) for Kolhapur was the highest at Rs. 6,657 while it was the lowest at Rs. 1,893 for Parbhani district. The relative index of development was 104 for Kolhapur district compared to 67 for Parbhani. The selection of the districts was also justified when viewed against the classification of districts based on the levels of development attempted by Prabhu and Sarker.\*

7. The study covered all types of credit agencies, viz., CBs, Co-ops and RRBs (Kolhapur District does not have any RRB) operating in the selected districts. Data on credit (term loans, cash credits, overdrafts, etc.) and deposits (current, savings and term deposits) for a period of one decade, from 1981-82 to 1990-91 (end-June position upto 1988-89 and end-March from 1989-90 onwards) were collected\*\* and analysed. Data on deployment of credit in respect of different sectors (Agriculture, SSI and Other Priority Sectors) were also collected for a period of five years so that the actual deployment of credit vis-a-vis the potentials indicated in the Potential

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\* Seeta Prabhu and Sarkar (1992), "Identification of level of development - A case study of Maharashtra", Economic and Political Weekly, September 5-12, 1992.

\*\* For commercial banks, the data on deposits and credit were compiled from Banking Statistics, Basic Statistical Returns published by the Reserve Bank of India while the data for the co-operative banks (including Land Development Banks) were compiled from the Statistical Statements Relating to the Co-operatives Movement in India published by National Bank for Agriculture and Rural Development. The deposits and credit referred to in this paper pertain to the outstandings, i.e., in other words they refer to the stock. Since the LDBs do not mobilise any deposits, only their lendings have been considered.

Linked Credit Plans (PLPs) prepared by the National Bank could be compared.

8. Trend growth rates in deposits and credit were computed (using a semi-log function) separately for the rural, semi-urban and urban areas for studying the pattern. Trends in the relative share of deposits and credit between the different areas were also analysed to study if there were any changes in the pattern. The changes in the Credit-Deposit Ratios and the pattern of net flow of funds were also studied.

## **II. Profile of Kolhapur and Parbhani Districts**

9. The salient features of the two districts are given in Annexure II. It is evident from the details given in the Annexure that Kolhapur is relatively better developed as compared to Parbhani district, although in terms of geographical spread, the district is smaller in size than Parbhani district: The amount of rainfall received in the two districts also show a marked difference. Kolhapur district receives an annual normal rainfall of 1828.7 mm. while Parbhani district receives only 967.5 mm\*. Despite having a large proportion of area (76.45%) under cultivation as compared to Kolhapur district (53.21%) and larger sized operational holdings (3.01 ha. as compared to 1.27 ha. in Kolhapur), agricultural productivity in Parbhani district continues to be low. The value of output per ha. of major crops (triennium ended 1988-89) was Rs.1,893 in Parbhani district as compared to Rs. 6,657 in Kolhapur. This can be largely attributed to the differences in the levels of irrigation development (6.51% of GCA under irrigation as compared to nearly 18% in Kolhapur district), fertilizer consumption (32 kgs. as compared to 236 kgs. per ha. in Kolhapur district) and the domination of low value crops in the cropping pattern of Parbhani district (Annexure III). Jowar, a coarse cereal accounted for more than a third of the gross cropped area in Parbhani district.

10. Although there was no substantial difference in the proportion of workers to the total population between the two districts, the proportion of the workers engaged in agriculture, i.e., 82 per cent in Parbhani district was higher as compared to 65 per cent in Kolhapur

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\* Source: District General Statistical Information of Agricultural Development - 1991-92 & 1992-93. (Part-II — Epitome of Agriculture in Maharashtra)

district. The proportion of workers in manufacturing (non-household sector) was higher at 12 per cent in Kolhapur district as compared to only three per cent in Parbhani district. This shows that Kolhapur district is relatively better developed than Parbhani district both in terms of agricultural and non-agricultural sectors. Even in terms of availability of general infrastructure, Kolhapur district ranked higher. In terms of banking network, Kolhapur district was better served compared to Parbhani district as the number of bank branches in the district was six per lakh of population as compared to five in Parbhani. The per capita bank deposit (Rs. 1,503) and bank credit (Rs. 1,146) in Kolhapur district was more than two times the per capita bank deposit (Rs. 563) and bank credit (Rs. 466) in Parbhani district.

### **III. Growth in Deposits and Credit**

11. The data on deposits mobilised by the banks in the two districts revealed that there were no marked differences in the growth rate in the deposits between the advanced district (Kolhapur - 15.31%) and backward district (Parbhani - 16.37%). In the case of credit deployed, the difference in growth rates was of the order of about four percentage points. The higher growth rate of credit in Parbhani district (18.10%) as compared to Kolhapur district (14.28%) could mainly be attributed to the low level of credit (Rs. 4,250 lakh) in Parbhani district during the base year (1983-84). In absolute terms, during 1990-91, the level of deposits (Rs. 56,439 lakh) in Kolhapur district was nearly four times the level of deposits (Rs. 14,215 lakh) in Parbhani district whereas the level of credit (Rs. 36,509 lakh) in Kolhapur district was two and a half times the level of credit (Rs. 14,123 lakh) in Parbhani district.

Table 1

## Deposits Mobilisation and Credit Deployment in Kolhapur

Year*	(Rs. lakh)									
	Rural		Semi-Urban		Urban		Total			
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1981-82	3726	4303	2491	1792	9893	4234	16110	10329		
1982-83	4872	5304	2869	1986	10965	5481	18706	12771		
1983-84	6170	6112	1555	1399	14982	7610	21807	15121		
1984-85	5847	6239	1830	1385	16523	8457	24200	16081		
1985-86	7595	7336	2214	1687	19374	9337	29183	18360		
1986-87	8060	7857	2787	2397	22568	10457	34215	20711		
1987-88	10867	8575	3573	3005	25322	12080	39762	23660		
1988-89	11936	10791	4019	3443	27812	13688	43767	28102		
1989-90	14316	10295	4702	3137	32465	17953	51483	31385		
1990-91	15859	11790	5136	4724	35444	19985	56439	36509		
<b>CGR (% p.a.)</b>	<b>16.99</b>	<b>11.24</b>	<b>10.82</b>	<b>12.26</b>	<b>15.60</b>	<b>17.39</b>	<b>15.31</b>	<b>14.28</b>		

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

Table 2

## Deposits Mobilisation and Credit Deployment in Parbhani

Year*	(Rs. lakh)									
	Rural		Semi-Urban		Urban**		Total			
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1981-82	918	1279	2494	1683	476	6	3888	2968		
1982-83	1163	1740	3152	2091	416	14	4731	3845		
1983-84	1019	1625	1788	1737	1648	898	4455	4250		
1984-85	1369	1637	2464	1799	2000	1210	5833	4646		
1985-86	1977	1909	3104	1867	2642	1128	7723	4904		
1986-87	2025	2815	3468	2121	3423	2376	8916	7312		
1987-88	2480	3392	4051	2391	3970	1504	10501	7287		
1988-89	2357	5266	4174	1651	4662	1325	11193	8342		
1989-90	3085	5567	4845	3248	4633	3428	12563	12243		
1990-91	3645	5712	5656	3476	4914	4935	14215	14123		
<b>CGR (% p.a.)</b>	<b>16.53</b>	<b>19.98</b>	<b>10.33</b>	<b>06.47</b>	<b>17.71</b>	<b>22.78</b>	<b>16.37</b>	<b>18.10</b>		

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

\*\* Since the deposits and credit were too low in the initial two years, the growth rates were computed for the period 1983-84 to 1990-91 only.

12. The growth rates in deposits in the rural (16.99% and 16.53%) and semi-urban areas (10.82% and 10.33%) in both the developed and backward district were almost of the same order while the urban areas in Parbhani district registered a higher growth in both deposits (16.37%) and credit (18.10%) than that in Kolhapur district (15.31% and 14.28%, respectively). This was perhaps because of the very low level of deposits and credit in the initial years. Based on the population criteria, RBI had not categorised any centre as urban\* (till 1982-83) in Parbhani district while the DCCB reported that they had mobilised deposits from the urban area.\*\* Credit deployed by the banks had increased at a compound annual growth rate of about 20 per cent in the rural areas of Parbhani district while credit deployed in the rural areas in Kolhapur district had registered a growth rate of only 11.24 per cent. The growth in credit deployed in the semi-urban areas of Kolhapur district was nearly double of that in semi-urban areas of Parbhani district. The higher growth of credit in semi-urban areas of Kolhapur district could be attributed to the fact that many small scale industrial units are located in these areas. Another possibility could be that as a district becomes agriculturally developed, there is a shift in the deployment of credit from agriculture to industrial units which are generally located in the semi-urban areas, because of relatively better developed infrastructural facilities.

13. The data on the deposits mobilised and credit disbursed in Kolhapur, in absolute terms, showed that the deposits increased from a level of Rs. 16,110 lakh in 1981-82 to a level of Rs. 56,439 lakh in 1990-91, i.e., by two and a half times. Although the deposits in Parbhani district also increased by a little over two and a half times during the corresponding period (from Rs. 3,888 lakh to Rs. 14,215 lakh), it constituted only about 25 per cent of the level of deposits mobilised in Kolhapur district. Likewise the credit disbursed in Kolhapur district went up from Rs. 10,329 lakh during 1981-82 to a level of Rs. 36,509 lakh during 1990-91, an increase of about two and a half times. In contrast, though the credit disbursement in Parbhani district had grown nearly four fold during the period under reference, the level of Rs. 14,123 lakh reached during 1990-91 was only about 39 per cent of that in Kolhapur district.

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\* As per the RBI, banking centres are classified as rural areas (population upto 10,000), semi-urban areas (population between 10,001 and 1 lakh) and urban areas (population above 1 lakh and upto 10 lakhs).

\*\* Parbhani city, which is also district headquarters.

14. The deposits had increased by more than three times in rural areas of Kolhapur from Rs. 3,726 lakh in 1981-82 to Rs. 15,859 lakh while the credit had increased by less than two times, i.e., from Rs. 4,303 lakh in 1981-82 to Rs. 11,790 lakh in 1990-91. In the case of Parbhani district, the observed trend was just the opposite, as the deposits in the rural areas had increased by about three times from Rs. 918 lakh to Rs. 3,645 lakh while the credit had increased by a level of about three and a half times from Rs. 1,279 lakh in 1981-82 to Rs. 5,712 lakh in 1990-91.

15. In the urban areas of Kolhapur, the deposits had increased by a little more than two and a half times from Rs. 9,893 lakh in 1981-82 to Rs. 35,444 lakh in 1990-91, whereas credit had increased by more than three and a half times from a level of Rs. 4,234 lakh in 1981-82 to Rs. 19,995 lakh in 1990-91. In the urban areas of Parbhani, the deposits had risen from a level of Rs. 1,648 lakh in 1983-84 to Rs. 4,914 lakh in 1990-91. The figures for credit were Rs. 888 lakh and Rs. 4,935 lakh during the corresponding years, an increase of more than four and a half times.

#### **IV. Share of Deposits and Credit**

16. The network of branches and their location are an important factor which has a bearing on the deposits mobilisation and credit disbursement by the banks in an area. There were 314 branches (as on 31 March, 1993) of commercial banks in Kolhapur district of which 186 (59%) were located in rural or semi-urban areas whereas the remaining 128 (41%) were located in urban areas. In the case of Parbhani district, however, there were in all only 51 branches (as on 31 March, 1993) of commercial banks of which 39 (76%) were located in rural and semi-urban areas while the remaining 12 (24%) were operating in urban areas. Thus, the district of Parbhani had relatively poorer branch network which could be due to its low level of development.

17. A comparison of the relative share of the deposits and credit in rural, semi-urban and urban areas to the total deposits in the districts between the trienna ended 1984 and 1991 revealed that the relative share of rural deposits (24%) remained unchanged during the two periods in Parbhani district (Table 3) while the share of rural credit had gone up from 42 per cent to 48 per cent. However, the analysis for Kolhapur district showed that the relative share of rural

deposits had exhibited a marginal increase of less than two percentage points while credit deployment in rural areas had declined by nearly seven percentage points. Despite these changes in relative share of rural credit in total, the relative share of credit deployed in the rural areas had been larger than the share of deposits mobilised from these areas. This disproves the hypothesis that there is a flight of deposits from rural areas to urban areas. The higher share of credit in the rural areas could be attributed to the directed lending and to the implementation of the centrally sponsored poverty alleviation and employment generation programmes of the Government.

**Table 3**

**Relative share in Deposits and Credit**

(per cent)

Triennium ended	Rural		Semi-Urban		Urban		Total	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
<b>Kolhapur</b>								
1983-84	26.08	41.13	12.21	13.54	61.71	45.33	100.00	100.00
1990-91	27.76	34.25	9.14	11.78	63.10	53.97	100.00	100.00
<b>Parbhani</b>								
1983-84	23.71	41.98	56.86	49.81	19.43	8.21	100.00	100.00
1990-91	23.93	47.81	38.65	24.20	37.42	27.99	100.00	100.00

18. The share of deposits and credit in the semi-urban areas of both the districts had come down while in urban areas it had gone up. The reduction in share of both deposits and credit in the case of Parbhani district was much more pronounced than that in Kolhapur district. However, the relative share of credit in the semi-urban areas of Parbhani had been lower than its relative share of deposits mobilised indicating that a part of the deposits mobilised in the semi-urban areas were being deployed in the rural and urban areas. In contrast, in the case of Kolhapur district, the share of credit was larger than the share of deposits mobilised in the semi-urban areas, signifying that semi-urban areas offered avenues of investments in the industrial sector.

**Table 4****Share of Commercial and Co-operative Banks in Deposits Mobilisation and Credit Disbursement**

(per cent)

Year*	Kolhapur				Parbhani			
	Deposits		Credit		Deposits		Credit	
	CBs	Co-ops	CBs	Co-ops	CBs	Co-ops	CBs	Co-ops
1981-82	66	34	70	30	61	39	67	33
1982-83	65	35	71	29	63	37	63	37
1983-84	67	33	76	24	62	38	72	28
1984-85	65	35	77	23	66	34	73	27
1985-86	64	36	77	23	62	38	73	27
1986-87	63	37	80	20	62	38	61	39
1987-88	62	38	80	20	63	37	70	30
1988-89	63	37	78	22	68	32	59	41
1989-90	61	39	84	16	64	36	61	39
1990-91	63	37	84	16	63	37	56	44

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

19. For ascertaining the relative share of commercial and co-operative banks in the deposits mobilised and credit disbursed in the two districts, the share of each type of agency was computed (Table-4). As may be observed from the table, the CBs had not only been mobilising a larger share of the deposits but also had been disbursing larger share of credit in the two districts. The deposits mobilised by CBs in both the districts ranged from 61-68 per cent while the credit disbursement in Kolhapur by CBs ranged from 76 to 84 per cent, excepting during 1981-82 and 1982-83, when their relative share was lower at 70 and 71 per cent of the total credit disbursed in the district.

20. An analysis of the area-wise deposits mobilised and credit deployed by the banks showed that the co-operative banks had been disbursing credit only in rural areas whereas they had mobilised deposits from urban areas also. However, the share of co-operative banks in the deposits mobilised was higher (ranging between 55 -

60%) than that of CBs (40-45%) in rural areas of both the districts. The only exception was during 1983-84 when CBs mobilised a slightly higher proportion of the deposits (53%) in Kolhapur district. As the Co-ops neither attracted deposits nor disbursed credit in semi-urban areas of Kolhapur district, this function was performed by the CBs. However, in Parbhani district, the share of Co-ops in deposits mobilised from semi-urban areas ranged from 18-30 per cent, although no credit was deployed by them in these areas. To a large extent in urban areas, i.e., two thirds of the deposit mobilisation and credit disbursement in full was taken care of by CBs. Thus, CBs had been mobilising almost double the size of deposits that were mobilised by Co-ops. The proportion of credit disbursed by CBs was higher than their proportion of deposits mobilised in the district.

#### V. Credit-Deposit Ratio

21. Since bank credit plays an important role in development of the economy, the Credit-Deposit (CD) ratio is normally used as a measure of credit deployed in relation to the deposits mobilised in different regions/states. Under the Lead Bank Scheme, CD ratio of 60 per cent is taken as one of the norms for judging the satisfactory performance of banks/branches in credit delivery. The CD ratios for the two districts, computed separately for rural, semi-urban and urban areas, are presented in Table-5.

**Table 5**  
**Credit-Deposit Ratio**

Year*	Kolhapur			Parbhani		
	Rural	S-urban	Urban	Rural	S-urban	Urban
1981-82	115.48	71.94	42.80	130.72	67.48	1.26
1982-83	101.66	69.22	49.99	131.38	66.34	3.37
1983-84	96.87	89.97	54.04	147.99	97.15	53.88
1984-85	104.59	75.68	51.18	114.76	73.01	60.50
1985-86	94.30	76.20	48.19	92.41	60.15	42.69
1986-87	86.99	86.01	46.34	127.80	61.16	69.41
1987-88	76.64	84.10	47.71	121.77	59.02	37.88
1988-89	87.07	85.67	49.86	198.43	39.55	28.42
1989-90	69.15	66.72	55.30	167.59	67.04	73.99
1990-91	71.88	91.98	56.41	147.43	61.46	100.43

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

22. The CD ratio for the rural areas in the selected districts was well above the norm of 60 per cent prescribed by the RBI. However, a declining trend was observed in Kolhapur district while in Parbhani district, the CD ratio for rural areas showed an increasing trend with marked year to year fluctuations. In fact during the year 1988-89, the CD ratio had reached a level of 198 per cent. Similarly, the CD ratio in the semi-urban areas of Kolhapur district showed an increasing trend. The high CD ratio in the rural areas could be attributed to the availment of refinance by the credit agencies from the higher tiers. The CD ratios stipulated by RBI do not take into account the credit disbursed by the LDBs since they do not mobilise any deposits. If the credit disbursed by the LDBs is also considered, then the CD ratio, especially, for the rural areas would be still higher. As is true of ratios, one of the limitations of the CD ratio is that it ignores the absolute difference in the level of deposits and credit disbursed. A more appropriate measure could be the ratio between credit plus public investments and the deposits mobilised in the respective states. However, if the objective is to examine the flow of funds between rural and urban areas, this measure may also not give the correct picture as it may not be possible to apportion the exact amount of public investments between rural and urban areas. Therefore, an appropriate measure to ascertain the flow of funds would be to compute the net flow of funds into the area and express it as a proportion of the total deposits mobilised in the area.

#### **VI. Net Flow of Funds**

23. Net flow of funds has been defined as the absolute difference between the credit and deposits and expressed as a per cent of the total deposits mobilised. In Kolhapur district, in the initial years (upto 1985-86), the net flow of funds was positive in favour of rural areas which became negative in later years (Table-6) and that too at an increasing rate. In the semi-urban and urban areas, although the net flow was negative, it was decelerating in the semi-urban areas implying that a higher proportion of the deposits being mobilised from these areas are being deployed there itself. On the other hand, in Parbhani district, the net flow of funds in rural areas was not only positive but was also increasing (Table-7) indicating that the credit agencies had been disbursing more credit than the deposits mobilised by them while in the semi-urban and urban areas the net flow was negative. It is evident that in the case of rural areas of the less developed district there is a net inflow of funds from the bank-

ing channels while in the case of developed district there is a net outflow of funds from the rural areas.

**Table 6**  
**Net Flow of Funds in Kolhapur District**

(Rs. lakh)

Year*	Rural		Semi-urban		Urban		Total	
	Amount	% to Deposits	Amount	% to Deposits	Amount	% to Deposits	Amount	% to Deposits
1981-82	577	15.48	(-) 699	(-)28.06	(-) 5659	(-)57.20	(-) 5781	(-)35.89
1982-83	432	8.87	(-) 883	(-)30.78	(-) 5484	(-)50.01	(-) 5935	(-)31.73
1983-84	(-) 58	(-) 0.95	(-) 156	(-)10.03	(-) 6472	(-)45.96	(-) 6686	(-)30.66
1984-85	392	6.70	(-) 445	(-)24.32	(-) 8066	(-)48.82	(-) 8120	(-)33.55
1985-86	(-) 256	(-) 3.41	(-) 527	(-)23.80	(-)10037	(-)51.81	(-)10823	(-)37.09
1986-87	(-)1003	(-)11.32	(-) 390	(-)13.99	(-)12111	(-)53.66	(-)13504	(-)39.47
1987-88	(-)2292	(-)21.01	(-) 568	(-)15.90	(-)13242	(-)52.29	(-)16102	(-)40.50
1988-89	(-)1145	(-) 9.59	(-) 576	(-)14.33	(-)13944	(-)50.14	(-)15665	(-)35.79
1989-90	(-)4021	(-)28.09	(-)1565	(-)33.28	(-)14512	(-)44.70	(-)20098	(-)39.04
1990-91	(-)4069	(-)25.66	(-) 412	(-) 8.02	(-)15449	(-)43.59	(-)19930	(-)35.31

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

**Table 7**  
**Net Flow of Funds in Parbhani District**

(Rs. lakh)

Year*	Rural		Semi-urban		Urban		Total	
	Amount	% to Deposits	Amount	% to Deposits	Amount	% to Deposits	Amount	% to Deposits
1981-82	361	39.32	(-) 811	(-)32.52	(-) 470	(-)98.74	(-) 920	(-)23.66
1982-83	577	49.61	(-)1061	(-)33.66	(-) 402	(-)96.63	(-) 886	(-)18.73
1983-84	606	59.47	(-) 57	(-) 2.85	(-) 760	(-)46.12	(-) 205	(-) 4.60
1984-85	268	19.58	(-) 665	(-)26.99	790	(-)39.50	(-)1187	(-)20.35
1985-86	(-)68	(-)3.44	(-)1237	(-)39.85	(-)1514	(-)57.31	(-)2819	(-)36.50
1986-87	790	39.01	(-)1347	(-)38.84	(-)1047	(-)30.59	(-)1604	(-)17.99
1987-88	912	36.77	(-)1660	(-)40.98	(-)2466	(-)62.12	(-)3214	(-)30.61
1988-89	2909	123.42	(-)2523	(-)60.45	(-)3337	(-)71.58	(-)2951	(-)26.36
1989-90	2482	80.45	(-)1597	(-)32.96	(-)1205	(-)26.01	(-) 320	(-) 2.55
1990-91	2067	56.71	(-)2180	(-)38.54	21	0.43	(-) 92	(-) 0.65

\* The data pertain to June end position upto 1988-89 and March end position for the years 1989-90 and 1990-91.

## **VII. Funds Flow Between Rural and Urban Areas among Different Credit Agencies**

24. For an indepth study of the pattern of flow of funds among various types of financial institutions in the selected districts, analysis of funds flow was carried out at the bank level and the findings are discussed in this section.

### **A. Co-operative Banks**

#### **i) Kolhapur District**

25. In the case of Kolhapur District Central Co-operative Bank (KDCCB), the analysis of deposits mobilisation and the deployment of funds in different areas revealed that besides disbursing credit from out of the deposits mobilised, its own funds and refinance availed of from apex institutions, the bank had deployed a sizable chunk of its total lendable resources in different types of investments like government securities, debentures, shares of co-operative institutions (Table-8). The relative share of investments had come down from a high level of 33 per cent during 1984-85 and 1985-86 to about 18 per cent during 1991-92 and 1992-93, thereby implying that a larger proportion of deposits mobilised were deployed as credit. It could be observed from Table-9 that the credit deployed in the rural areas ranged from a minimum of 177 per cent (1985-86) to as high as 252 per cent (1990-91 and 1992-93) of the deposits mobilised in these areas, thereby, indicating that in the case of KDCCB, there has been no outflow of funds from rural to urban areas. On the contrary, there had been a steady flow of funds to rural areas which made it possible for KDCCB to advance credit at two and a half times the level of deposits it mobilised from rural areas. Discussions with the bank officials revealed that the deployment of funds of this magnitude was possible due to excellent recovery performance at around 95 per cent in respect of production credit and an overall recovery of around 60 per cent. For deployment of credit, besides mobilising the deposits, it was also availing refinance from NABARD. However, the refinance availed of from NABARD constituted a negligible proportion (ranging from 4 to 19% of the loans advanced excepting during 1982-83 when it was much higher at 52%) mainly because of the stipulation by NABARD about minimum involvement of owned funds by DCCB in respect of production credit for Seasonal Agricultural Operations.

**Table 8**  
**Funds Deployment by Kolhapur DCCB**

(Rs. lakh)

Year	Loans and Advances	Investments	Total
1981-82	5318.47	—	5318.47
1982-83	6776.11	—	6776.11
1983-84	6770.15	2208.76 (24.60)	8978.91
1984-85	7487.33	3245.85 (33.57)	9668.51
1985-86	7487.33	3714.37 (33.16)	11201.70
1986-87	9895.33	3526.37 (26.27)	13421.70
1987-88	11229.99	5174.37 (31.54)	16404.36
1988-89	12276.14	4280.12 (25.85)	16556.26
1989-90	16033.87	4904.01 (23.42)	20937.88
1990-91	21584.19	5391.38 (19.99)	26975.57
1991-92	25517.11	5761.63 (18.42)	31278.74
1992-93	30913.68	6901.68 (18.25)	37815.36

Figures in parentheses are percentage to total funds. Investments include government securities, debentures and shares of co-operative institutions.

**Table 9****Deposits Mobilisation and Credit Deployment by Kolhapur  
DCCB**

(Rs. lakh)

Year	Rural		Urban		Total	
	Deposit	Credit	Deposit	Credit	Deposit	Credit
1981-82	2238.77 (237.56)	5318.47	3253.87	—	5492.64	5318.47 (96.82)
1982-83	2693.25 (251.60)	6776.11	3768.56	—	6461.81	6776.11 (104.86)
1983-84	2913.67 (232.36)	6770.15	4177.90	—	7091.57	6770.15 (95.47)
1984-85	3221.47 (199.37)	6422.66	5149.02	—	8370.49	6422.66 (76.73)
1985-86	4218.69 (177.48)	7487.33	6222.62	—	10411.31	7487.33 (71.71)
1986-87	4881.45 (202.71)	9895.33	7644.55	—	12526.00	9895.33 (79.00)
1987-88	6186.48 (181.52)	11229.99	8823.15	—	15009.63	11229.99 (74.82)
1988-89	6539.44 (187.72)	12276.14	9786.42	—	16325.86	12276.14 (75.19)
1989-90	7928.67 (202.23)	16033.87	11937.60	—	19866.27	16033.87 (80.71)
1990-91	8549.91 (252.45)	21584.19	12460.50	—	21010.41	21584.19 (102.73)
1991-92	10741.96 (237.55)	25517.11	14695.88	—	25437.84	25517.11 (100.31)
1992-93	12265.47 (252.04)	30913.68	16146.53	—	28412.00	30913.68 (108.80)

Figures in parentheses are percentage of credit deployed to deposits mobilised.

ii) **Parbhani District**

26. An analysis of the investment pattern of the Parbhani DCCB indicated that the bank had invested only in government securities unlike the Kolhapur DCCB which had also invested in debentures and shares of co-operative institutions. The relative share of the investments to the total funds of the bank has been showing a declining trend over the years, especially from 1988-89 onwards (Table 10). However, the relative share of investments to the total funds of the bank was very low compared to the Kolhapur DCCB. Investments, as a proportion of the total funds ranged from a low of 2.88 per cent to a high of 6.30 per cent as compared to Kolhapur DCCB where it ranged between 18.25 per cent and 33.57 per cent.

**Table 10**  
**Funds Deployment by Parbhani DCCB**

Year	Loans and Advances	Investments	(Rs. lakh)
			Total
1981-82	902.38	46.18 (4.87)	948.56
1982-83	1221.37	49.42 (4.22)	1171.95
1983-84	1096.20	54.88 (4.77)	1151.08
1984-85	1179.17	79.22 (6.30)	1258.39
1985-86	1219.45	77.22 (5.96)	1296.67
1986-87	2633.24	78.17 (2.88)	2711.41
1987-88	1800.72	95.54 (5.04)	1896.26
1988-89	2819.57	176.02 (5.88)	2995.59
1989-90	4400.99	183.52 (4.00)	4854.49
1990-91	5906.00	185.52 (3.05)	6085.52
1991-92	5093.66	191.07 (3.62)	5284.73
1992-93	5573.06	186.07 (3.23)	5759.13

Figures in parentheses are percentage to total funds. Investments include only government securities.

27. The analysis of data on credit and deposits of Parbhani DCCB brings out an entirely different picture about the funds deployment (Table-11). The proportion of credit disbursed to deposits mobilised in rural areas was more than 100 per cent excepting during two years (1991-92 and 1992-93) when it was only two-thirds of the deposits mobilised. There was practically no deployment of funds in the semi-urban areas while the proportion of funds deployed has been increasing in the urban areas. The increase in credit deployment in the urban areas was mainly due to the quantum jump in cash credit advances by the DCCB since 1988-89. During the period 1988-89 to 1992-93, the cash credit advances in urban areas constituted 94 to 97 per cent of the total credit disbursement in urban areas. But when rural and semi-urban areas were combined together, the figure varied from as low as 43 per cent in 1981-82 to as high as 126 per cent in 1988-89. Unlike in Kolhapur district, where the DCCB mobilised deposits from urban areas and deployed the same in rural areas, the DCCB in Parbhani district deployed the deposits mobilised from semi-urban areas in both rural and urban areas.

Table 11

**Deposits Mobilisation and Credit Deployment by Parbhani  
DCCB**

(Rs. lakh)

Year	Rural		Semi-Urban		Urban		Total	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1981-82	582.93	895.89 (169.50)	458.95	0.56 (0.56)	476.31	5.93 (1.24)	1463.79	902.38 (61.65)
1982-83	697.03	1206.36 (173.07)	615.94	1.10 (0.18)	415.50	13.91 (3.35)	1727.47	1221.37 (70.70)
1983-84	552.56	1052.26 (185.55)	541.80	4.43 (0.82)	601.34	39.51 (6.57)	1695.70	1096.20 (63.05)
1984-85	795.90	1005.37 (126.32)	641.77	4.47 (0.70)	550.74	169.33 (30.74)	1988.41	1179.17 (59.30)
1985-86	1206.72	1084.09 (89.84)	794.84	4.49 (0.56)	895.26	130.87 (14.62)	2896.82	1219.45 (42.10)
1986-87	1175.89	1408.62 (119.39)	943.05	3.50 (0.37)	1292.98	1221.12 (94.44)	3411.92	2633.24 (74.25)
1987-88	1452.87	455.96 (100.21)	1058.82	7.50 (0.71)	1413.05	337.26 (23.88)	3923.74	1800.72 (45.89)
1988-89	1252.84	2687.52 (214.51)	890.70	15.60 (1.75)	1433.63	116.45 (8.12)	3577.17	2819.57 (78.82)
1989-90	1761.25	2627.38 (149.18)	1149.49	15.09 (1.31)	1616.09	1758.52 (108.81)	4526.83	4400.99 (97.22)
1990-91	2138.43	2643.25 (123.61)	1409.52	66.56 (94.72)	1707.77	3196.19 (187.15)	5255.72	5906.00 (112.37)
1991-92	3038.05	1928.77 (63.49)	1773.23	16.70 (0.94)	1961.50	3148.16 (160.50)	6772.78	5093.66 (75.21)
1992-93	3969.79	2597.228 (65.43)	2335.23	17.55 (0.75)	2556.17	2958.23 (115.73)	8861.19	5573.06 (62.89)

Figures in parentheses are percentage of credit deployed to deposits mobilised.

## **B. Commercial Banks**

### **i) Kolhapur District**

28. In order to analyse the pattern of flow of funds in the case of commercial banks, data on credit and deposits for two major banks operating in the district, viz., Bank of India and Bank of Maharashtra were studied in Kolhapur district. In the case of Bank of Maharashtra, data for last five years, i.e., 1988-89 to 1992-93 were analysed and the results are presented in Table-12. It may be observed from the table that in the rural areas the bank deployed about 76 to 82 per cent of the deposits mobilised from the rural areas itself. The credit deployed in semi-urban areas was of the order of 159 to 226 per cent of the deposits mobilised. Even when deposits mobilised and credit deployed in rural and semi-urban areas were pooled together, credit deployment ranged from 98 to 121 per cent of the deposits mobilised indicating that there was no flight of deposits to urban areas. Even after accounting for NABARD refinance, which is available in respect of credit disbursed in rural and semi-urban areas only, credit deployed as a proportion of deposits mobilised was in the range of 94 to 117 per cent.

29. In the case of Bank of India, the data for the last three years only, i.e., 1990-91 to 1992-93 were made available by the bank (Table-13). It can be inferred from the table that the bank had extended credit at around 44 to 54 per cent of the deposits mobilised in the rural areas. On the other hand, the credit deployed was around 75 to 93 per cent of the deposits mobilised in the semi-urban areas while it was as high as 87 to 112 per cent in the urban areas. This clearly indicates that there was a flight of deposits from rural to urban areas in the case of Bank of India despite the fact that for the district as a whole the position was just opposite.

### **ii) Parbhani District**

30. In the case of Parbhani district, the breakup of the areawise deposits mobilised and credit deployed was not available with the district level co-ordinating branches and, hence, it was not possible to analyse the pattern of flow of funds for commercial banks in the district. The limited data made available to us also did not show any discernible trend.

**Table 12****Deposits Mobilisation and Credit Deployment by Bank of Maharashtra in District Kolhapur**

(Rs. lakh)

Year	Rural		Semi-Urban		Urban		Total	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1988-89	1245.56	1017.00 (81.65)	501.39	1090.00 (217.39)	2750.37	2085.00 (75.81)	4497.32	4192.00 (93.21)
1989-90	1483.87	1216.00 (81.95)	639.63	1189.20 (185.92)	3449.85	2160.00 (62.61)	5573.35	4565.20 (81.91)
1990-91	1710.59	1354.00 (79.15)	641.88	1234.00 (192.25)	3367.04	2240.00 (66.53)	5719.51	4828.00 (84.41)
1991-92	1863.77	1420.00 (76.19)	673.45	1072.00 (159.18)	3762.99	2436.00 (64.73)	6300.21	4928.00 (78.22)
1992-93	2022.05	1564.19 (77.36)	716.70	1620.98 (226.17)	4199.78	2560.80 (60.97)	6938.53	5745.97 (82.81)

Figures in parentheses indicate proportion of credit to deposits expressed in per cent.

**Table 13****Deposits Mobilisation and Credit Deployment by Bank of India in District Kolhapur**

(Rs. lakh)

Year	Rural		Semi-Urban		Urban		Total	
	Deposits	Credit	Deposits	Credit	Deposits	Credit	Deposits	Credit
1990-91	129.34	69.67 (53.86)	53.34	46.33 (86.86)	32.17	34.70 (107.86)	214.85	150.70 (70.14)
1991-92	150.67	73.32 (48.66)	50.50	46.99 (93.05)	31.22	34.98 (112.04)	232.40	155.29 (66.82)
1992-93	170.07	74.33 (43.70)	65.77	49.15 (74.73)	39.87	34.70 (87.03)	275.71	158.18 (57.37)

Figures in parentheses are percentage of credit deployed to deposits mobilised.

**VIII. Factors Affecting the Flow of Funds**

31. The flow of funds in general, and rural credit in particular, is influenced by the credit absorption capacity of the area, the

organisational structure of credit agencies and the network of their branches, the recovery performance of the banks and the level of public investments in infrastructure and other development works. In this section an attempt is made to relate the flow of credit in the rural areas to these factors.

#### **A. Credit Absorption Capacity**

32. The adequacy or otherwise of the credit deployed in the rural areas by the banking channels can be assessed by comparing the actual credit deployed by them with the potential for development through credit. The Annual Action Plans (AAPs) under the Lead Bank Scheme of the RBI indicate the scope for lending since these plans take into account not only the potential under various sectors (limited to priority sectors only) but also the resource position of the banks by way of incremental deposits, recoveries of earlier loans and refinance available from apex institutions during the year.

33. The data on the targets and achievements under the AAPs for the two districts (Tables 14 & 15) show that the achievements had always exceeded the targets in Kolhapur district (till 1990-91) and in Parbhani district (till 1989-90). Thereafter, the achievement had been of the order of 97 per cent in Kolhapur district while these were lower at 94 per cent (1990-91) and 69 per cent (1991-92) in Parbhani district.

34. Since the AAPs do not give the break up of the achievements in terms of rural, semi-urban and urban areas, it was thought appropriate to study the sectoral composition of the achievements in the two districts. In the developed district of Kolhapur, it was observed that the share of agriculture had come down from 66 per cent during 1986-87 to 60 per cent during 1991-92 as compared to SSI which showed an increase from 12 per cent in 1986-87 to 19 per cent in 1991-92. Perhaps the increase in share of SSI over the years led to a larger credit deployment in semi-urban areas of Kolhapur district. The share of priority sectors other than agriculture and SSI advances marginally declined from 22 per cent during 1986-87 to 21 per cent during 1991-92.

35. On the other hand, the share of agriculture sector in Parbhani, the backward district, had been relatively higher and recorded an increase from 77 to 81 per cent during the period 1986-87 to

1991-92. The share of SSI and other priority sector advances had ranged between 8 and 12 per cent and 9 and 13 per cent, respectively, during the corresponding period.

36. The above analysis clearly supports the theory that as the agricultural sector tends to reach full development stage in an area, the share of credit for agriculture comes down and the share of secondary and tertiary sectors in the total credit goes up. The agricultural development also leads to diversification which in turn calls for specialised skill building. This type of transformation in the economy of Kolhapur district has been taking place for some time. The increasing share of SSI in the credit disbursed by the banks in Kolhapur district is due to the fact that there are 6 major industrial units established in Kolhapur district with scope for financing and setting up ancillary units. Besides, there are 55 medium and large industries, 7,875 SSIs, and 2,302 agro-based industries. The district is also well known for the weaving units at Ichhalkaranji and for Kolhapuri chappals.

37. The lower share of agriculture in the total credit flow of Kolhapur district is due to the fact that the district falls in the assured rainfall region (normal annual rainfall of 1828.70 mm which is well distributed). The demand for credit for minor irrigation structures is limited, except in the hilly tracts of the district. The increase in credit flow in rural areas of the district can be brought about by promoting agro-processing units in the rural areas and diversification into the non-farm sector.

**Table 14**

**Targets and Achievements under Annual Action Plan -  
Kolhapur District**

	(Rs. lakh)					
Year	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92
<b>Targets</b>	8968	9284	10436	14536	16514	20472
<b>Achievements</b>						
Agriculture	5956	6227	9251	7952	10724	11908
SSI	1098	1380	3154	2847	4249	3845
Other Priority Sector	1985	2028	4241	4361	5356	4101
<b>Total</b>	9039	9635	16646	15160	20329	19854

**Table 15****Targets and Achievements under Annual Action Plan -  
Parbhani District**

(Rs. lakh)

<b>Year</b>	<b>1986-87</b>	<b>1987-88</b>	<b>1988-89</b>	<b>1989-90</b>	<b>1990-91</b>	<b>1991-92</b>
<b>Targets</b>	2800	2500	2900	4620	5900	6057
<b>Achievements</b>						
Agriculture	2323	2293	3823	3923	4332	3219
SSI	321	295	385	560	679	414
Other Priority Sector	316	396	598	350	512	536
<b>Total</b>	<b>2960</b>	<b>3074</b>	<b>4806</b>	<b>4833</b>	<b>5523</b>	<b>4169</b>

38. One of the limitations of the AAPs prepared by the Lead Banks is that they do not give break-up of the credit deployed on the basis of area classification. On the other hand, the PLPs prepared by the National Bank are an improvement over the AAPs in as much as these plans give realistic estimates of the potential for credit deployment in rural and semi-urban areas. A comparison of the PLPs (updated) estimates for 1990-91 and 1991-92 (for which the achievements under the AAPs were also available) indicated that the potential estimated in the PLPs constituted only about 35 and 44 per cent of the AAPs' achievement in Kolhapur. Such vast difference between the AAPs and PLPs could be attributed to the fact that while the AAP covers only priority sector advances for the entire district, the PLP gives estimates of the potential for all types of advances in rural and semi-urban areas since refinance from the National Bank is available for financing activities/investments only in these areas. This clearly indicates that the potential for development through credit in the urban areas in Kolhapur district is larger than that in rural and semi-urban areas.

39. In Parbhani district, the potential estimated under the PLPs constituted 86 and 130 per cent, respectively, of the AAPs' achievements during 1990-91 and 1991-92. During 1991-92, the achievements under AAP were lower than the potential assessed in the PLP document mainly because of the introduction of subsidised programme of Million Wells Scheme which was having an adverse impact on credit off-take under the minor irrigation sector and, con-

sequently, the targets had to be scaled down by about Rs.1,000 lakh. The benefits under the ARDR Scheme were not passed on to the banks and the overdues in the district had been mounting, especially, in the case of DCCB, RRB and Bank of Maharashtra. As a result, some of the banks had become ineligible for availing of refinance from NABARD. If these facts are taken into account, then it is evident that there is a close match between the PLPs and AAPs and that credit is being deployed in the district according to the potential.

### **B. Recovery of Loans**

40. The recovery of loans not only facilitates the banks to recycle the funds for further deployment in the areas but also enables them to avail of refinance from the DFIs. The recovery of loans in Kolhapur district, which ranged between 65 and 72 per cent of the demand, during the period 1989-90 to 1991-92 was much better than that of Parbhani district, which ranged between 27 and 62 per cent. In Parbhani district, the recovery of loans was very poor in the last two years (1990-91 and 1991-92) with the result that the banks were not able to even avail of the refinance facility. In the case of Marathwada Gramin Bank in Parbhani district, the recovery of loans had been so poor that the bank had discontinued lending, excepting under government sponsored programmes. Discussions with the bank officials indicated that the bank was not able to maintain even the SLR and had also defaulted in repayment to NABARD. Relatively poor recovery of loans in Parbhani district adversely affected the capacity of banks to recycle the funds and in turn their financial health.

### **C. Organisational Structure**

41. The organisational structure of the credit agencies and the level (branch, district, controlling office, HO) at which decisions are taken for allocation of performance budget influences the flow of funds into the area. This varies according to the type of credit institutions, i.e., whether it is a co-operative, commercial or regional rural bank. Discussions with the district level officers of the banks revealed that all decisions regarding investment as well as deployment of credit are taken at the district level in the case of DCCB. The DCCBs advanced loans to the farmers depending upon its recovery performance in the preceding year. Normally about 70 per cent of the

incremental deposits and a part of the recovery during the year was earmarked for credit deployment. Twenty-eight per cent of the deposits were accounted for by statutory requirements of SLR and CRR. Generally, the magnitude of advances depended upon the recovery performance of the bank and the amount of refinance received from various agencies like NABARD, SIDBI, etc. As far as production credit was concerned, lending in a particular year was around 20 per cent higher than the previous year's lending. As far as MT (Agricultural) loans were concerned, its quantum depended on the credit programme as decided in the District Consultative Committee (DCC) meeting. As regards MT (Non-Agricultural), decisions regarding advances were taken by the bank depending upon the merit of the applications received. Besides, loan limits were also sanctioned to sugar factories, cotton ginning and processing units, and salary earners' society.

42. Loans for various purposes were advanced by the LDB branches as per the assessed needs of the borrowers. The quantum of advances at the branch level depended upon the recovery and advances of the preceding year as well as average of last 3 years' advances and recovery, and whichever was higher was fixed as target for advances during the year. In other words, the performance budget of lending depended on the eligibility criteria of availing refinance from NABARD. On this basis, the branch draws a performance budget in consultation with the Regional Office and HO concurrence is sought. As LDBs are not mobilising any deposit, they are not under any obligation to meet the statutory liquidity requirements.

43. As far as commercial banks were concerned, their target for loans and advances was decided irrespective of the deposits mobilised and recovery performance of the branch. The targets in respect of government sponsored programmes and other priority sectors were decided in the DCC meetings. The quantum of finance for other purposes was decided by the Head Office of the bank depending upon the targets as envisaged for the bank as a whole and not the branch alone. Out of the total deposits mobilised by the branch, the branch was permitted to retain only 0.75 per cent (Bank of India) of the deposits and the rest was transferred to the branches maintaining currency chests at the taluka/district level. In the case of State Bank of India, the quantum to be retained at the branch level depended on the normal daily requirements of cash and varied from branch to branch.

44. The performance budget for the bank as a whole was prepared at the HO of the commercial banks, initially, after taking into consideration the statutory liquidity requirements. The performance budget at the corporate level was further broken at the next tier, i.e., local head offices (SBI) or the zonal offices. They in turn further prepared performance budgets at the regional or controlling offices' level and allocated targets of deposits and credit deployment to the branches based on their past performance and the potential available. Thus, it would be seen that in the case of commercial banks, the deposits mobilised by the branch did not determine the amount of credit allocation but the past performance and the potential in the area were considered as main factors in fixing credit targets. Further, in the case of Commercial Banks, the branches were categorised as advances or deposits oriented branches. As long as potential existed for credit deployment, the branches could advance loans since there is an inter-branch pricing mechanism for the deposits and the advances oriented branches usually have access to funds of the deposits oriented branches.

45. In the case of RRB in Parbhani district, the bank did not make any advances for the past three years, excepting under government sponsored programmes, since the bank not only defaulted in repayment to NABARD but also in maintaining the stipulated level of SLR/ CRR.

#### **D. Infrastructure Development**

46. The role of infrastructure development in inducing investments in the private sector is well recognised. The data relating to the development of various sectors through the budgetary resources during the Seventh Five Year Plan revealed that in the case of Kolhapur district, the investment by the government for agriculture, rural development and irrigation/ flood control sectors was of the order of Rs. 11,649 lakh in absolute terms while in Parbhani district it was only Rs. 7,356 lakh. Since absolute figures are not amenable to comparison because of variations in the size of the two districts, the amount per sq. km of geographical area has been computed. The per sq. km. budgetary expenditure for Kolhapur district was Rs. 1.52 lakh as compared to Rs. 0.66 lakh in Parbhani district. The budgetary expenditure per ha. of net sown area in the agriculture sector in Kolhapur district was Rs. 230 as compared to only Rs. 44 per ha. in Parbhani. In case the flow of credit is to be further aug-

mented in Parbhani district, there is a need to step up the investments in the public sector for building of infrastructure through budgetary resources.

## **IX. Summary and Conclusions**

47. The above discussion clearly brings out that there had been no outflow of funds mobilised in the rural areas to other areas in the developed district of Kolhapur as well as laggard district of Parbhani. On the contrary, there was inflow of funds from urban and semi-urban areas to rural areas in both the districts. This is clear from the fact that the relative share of credit deployed in the rural areas of both the districts for the triennia ended 1984 and 1991 had been more than the share of deposits mobilised in the rural areas. The converse was true in the case of urban areas of both the districts.

48. The picture was contrasting in the two districts for the semi-urban areas as the relative share of credit deployed was lower than the deposits mobilised in Kolhapur while it was higher in Parbhani district. The CD ratios for rural areas were far above the stipulated level of 60 per cent in both the districts. The CD ratios for rural areas showed a declining trend in Kolhapur while an increasing trend was observed in Parbhani.

49. The net flow of funds was observed to be positive for rural areas in Parbhani district while in the urban and semi-urban areas the net flow was found to be negative. In Kolhapur district, in the initial years (upto 1985-86) the net flow was positive in the rural areas which became negative in later years and that too at an increasing rate.

50. The study has also brought out the fact that after an area tends to reach full development stage in the agriculture sector proper, the emphasis gets shifted to development of industrial units mainly in the small scale sector. The flow of funds to semi-urban and urban areas in Kolhapur in the recent years proves this point beyond doubt. Therefore, the development strategy has to be so designed that the focus gets shifted from agriculture proper to agro-processing and rural non-farm sector. This will also ensure proper integration of both farm and non-farm sectors as the two sectors will be mutually supporting each other. In order to achieve better results from such a development strategy, skill building in the rural area

needs to be given higher priority. The study also highlights the fact that after the agriculture sector reaches full development stage, the supply led approach makes way for the demand led approach indicating the need for formulating appropriate credit packages to effectively meet the demand for credit.

## Annexure I

### Development Indicators - Statewise

Sr. No.	State	Growth Rate in Productivity of Foodgrains (% per annum)	Relative Development of Infrastructure*	
			Index	Rank
1.	Andhra Pradesh	3.34	101	9
2.	Bihar	1.69	96	11
3.	Gujarat	1.70	125	5
4.	Haryana	3.41	149	2
5.	Karnataka	1.26	99	10
6.	Kerala	1.02	140	3
7.	Madhya Pradesh	1.71	72	13
8.	Maharashtra	2.64	112	7
9.	Orissa	0.65	82	12
10.	Punjab	3.45	214	1
11.	Rajasthan	1.74	82	12
12.	Tamil Nadu	1.78	139	4
13.	Uttar Pradesh	3.30	108	8
14.	West Bengal	1.93	116	6
	All India	2.41	100	—

\* Source: Basic Statistics Relating to States of India, September 1994, Centre for Monitoring Indian Economy Pvt. Ltd., Bombay

**Annexure II**

**DISTRICT PROFILE**

<b>Particulars</b>	<b>Unit</b>	<b>Kolhapur</b>	<b>Parbhani</b>
Geographical area	sq.kms.	7685.00	11041.00
Area under forests	sq.kms.	1432.00	377.00
Net sown area	sq.kms.	4131.00	8388.00
Net irrigated area	sq.kms.	555.00	601.00
Annual Rainfall (Normal)	mm.	1828.70	967.50
Occupied households	thousands	537.34	375.57
Population	thousands	2989.51	2117.03
Males	thousands	1524.73	1083.79
Females	thousands	1464.78	1033.24
Urban	thousands	787.00	476.60
Rural	thousands	2202.51	1640.44
Literates	thousands	1694.72	795.24
Workers	thousands	1379.19	966.84
Main workers	thousands	1169.73	890.31
Population growth (per annum)	per cent	1.93	2.56
Population density	persons/ sq.km.	389.00	191.00
Urbanisation	per cent	26.33	22.51
Literacy	per cent	66.94	47.58
Male literacy	per cent	80.33	64.90
Female literacy	per cent	53.08	29.41
Urban literacy	per cent	79.31	65.79

Contd.

Particulars	Unit	Kolhapur	Parbhani
Rural literacy	per cent	62.47	42.20
Workers as per cent of total population	per cent	46.13	45.67
Agriculture and allied activities	per cent	64.51	81.66
Mining and quarrying	per cent	0.23	0.12
Mfg. (non-household)	per cent	12.30	2.99
Household industries	per cent	2.20	1.27
Construction	per cent	2.28	1.74
Services	per cent	18.48	12.21
Forest area as per cent of reporting area	per cent	18.45	3.44
Net sown area as per cent of reporting area	per cent	53.21	76.45
Gross irrigated area as per cent of GCA	per cent	17.96	6.51
Average size of operational holding	hectare	1.27	3.01
Fertiliser consumption/ha.	kgs.	236.00	32.00
Value of major crops/ha.	Rs.	6657.00	1893.00
Value of major crops/capita	Rs.	1005.00	1016.00
Per capita foodgrains production	kgs.	131.00	159.00
Road length per 100 sq. kms.	kms.	53.40	47.45

Contd.

<b>Particulars</b>	<b>Unit</b>	<b>Kolhapur</b>	<b>Parbhani</b>
Railway route length per 100 sq. kms.	kms.	0.49	2.32
Post offices per lakh population	Nos.	17.39	12.33
Telegraph offices per lakh population	Nos.	2.81	1.09
Telephones per lakh population	Nos.	655.00	222.00
Bank branches per lakh population	Nos.	6.96	5.20
Per capita bank deposits	Rs.	1503.00	563.00
Per capita bank credit	Rs.	1146.00	466.00
Per capita bank credit to agriculture	Rs.	262.00	210.00
Per hectare bank credit to agriculture	Rs.	1732.00	392.00
Per capita bank credit to SSI	Rs.	179.00	15.00
Per capita bank credit to industries	Rs.	394.00	34.00
<b>Relative Index of Dev.</b>		<b>104.00</b>	<b>67.00</b>

Source: District Profiles, November, 1993,  
Centre For Monitoring Indian Economy Pvt. Ltd., Bombay

**Annexure III**  
**MAJOR CROPS**  
**DISTRICT KOLHAPUR**

Crop	Area as % of District Total	Production (tonnes)	Value as % of District Total
Sugarcane	14.12	4601833	43.96
Rice	26.45	204800	20.00
Groundnut	18.73	100333	19.15
Jowar	13.79	95266	6.09
Ragi	9.17	39666	2.38
Tobacco	1.19	4233	1.71
Wheat	4.94	24433	1.64
Gram	3.36	7533	1.17
Maize	2.25	15900	1.08
Chillies	1.90	2300	0.99
Sweet Potato	0.31	16200	0.71
Arhar	1.45	2566	0.48
Soyabeans	1.22	1550	0.26
Nigerseed	0.84	633	0.12

**Major Industries**

Indo Count Industries Ltd.  
Ghatge Patil Industries Ltd.  
Manugraph Industries Ltd.  
Eurotex Industries & Exports Ltd  
Kolhapur Sugar Mills Ltd.

Source: *ibid*

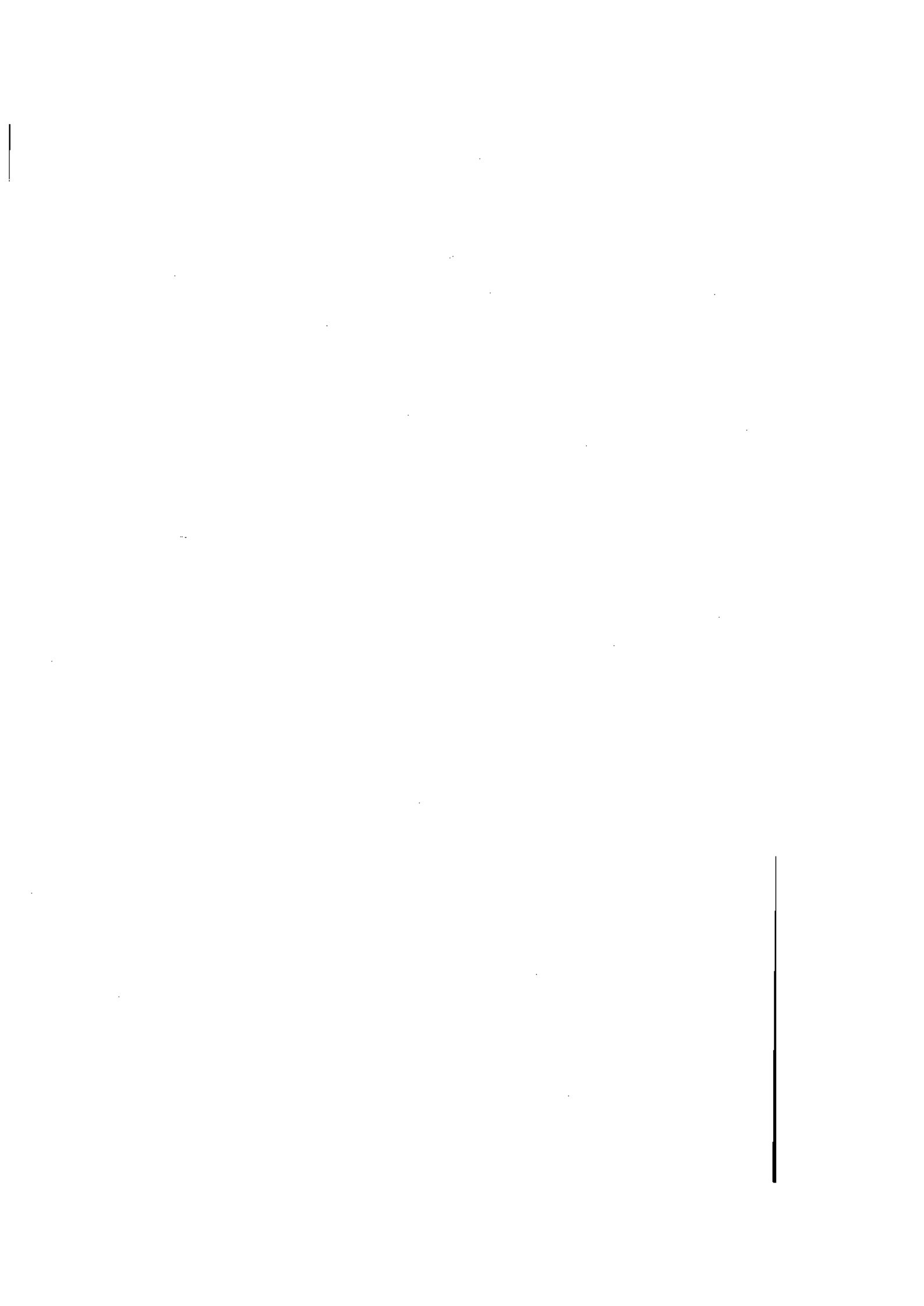
## DISTRICT PARBHANI

Crop	Area as % of District Total	Production (tonnes)	Value as % of District Total
Cotton	25.69	116733	19.79
Jowar	37.30	226833	19.69
Safflower	7.29	50633	12.36
Arhar	6.27	38333	10.13
Groundnut	2.96	35466	9.26
Banana	0.31	89800	7.34
Sugarcane	0.52	271233	3.63
Wheat	4.57	36893	3.54
Gram	3.85	11893	3.00
Sunflower	2.77	11066	2.85
Rice	2.34	17300	2.37
Linseed	2.15	4266	1.37
Turmeric	0.23	2564	0.97
Sesamum	0.83	2500	0.89
Chillies	0.30	1233	0.64

### Major Industries

NIL

Source: *ibid*



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