1 Introduction

“It was the best of times, it was the worst of times, It was the age of wisdom, it was the age of foolishness, It was the epoch of belief, it was the epoch of incredulity, It was the season of light, it was the season of darkness, It was the spring of hope, it was the winter of despair, We has everything before us, we had nothing before us, We were all going direct to heaven, we were all going direct the other way—in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.”

Thus opens Charles Dickens “Tales of Two Cities”. Perhaps these lines capture the current Indian context brilliantly like none other. At a time when it appears that India finally managed to free itself from the shackles of the ‘hindu rate of growth’ to clock a rate of growth of over 8%, a sizable segment of population should reel under the strain of severe agrarian distress. This systemic distress which is typically characterised by arduous burden of debt and is manifest in the form of mass suicides is recognised even by the oft apathetic official circles. The crisis is multifaceted but largely attributed to the introduction of the neo-liberal economic reforms in the early 1990s, with which rural livelihood, food security and land use stands endangered. (Patnaik, 2003) It is a pity that the magnitude of crisis was acknowledged by policy makers only after so many lives were lost.

The crisis in rural livelihood is precipitated by the combination of declining farm income and limited non-farm opportunities. The decline in farm income is attributed to the sharp decline in the growth of agriculture. (Chand et al 2007, Patnaik 2003, Ghosh 2003, Radhakrishna et al 2007, Ghosh and Chandrasekhar 2004) This decline is significant because, the declining contribution of agriculture to GDP is not matched by a decline in the percentage of population engaged in agriculture for their livelihood. According to economic survey, GDP agriculture has reduced to a little over 21% in 2004-05, the share of agriculture in total employment has remained over 54% during the same period. The other factors accentuating the crisis in agriculture are increasing input prices, price fluctuations, declining public investment in agriculture, non-availability of quality inputs,
inadequate extension service & research and drying up of formal credit. These factors have rendered cultivation unviable. (Jhol et al 2006 Radhakrishna et al 2007, Mishra 2007, Jha 2007) The crisis in agriculture is aggravated by the shift in cropping pattern favouring export crops at the expense of food grains. This has increased the vulnerability of farmers not only in terms of price fluctuations but also in terms of food security. The deflationary macroeconomic policies pursued under the neo-liberal policy regime has led to lower purchasing power due to lower price realisation on export crops in the international markets. (Patnaik 2003) Cultivation of commercial crops which are generally favoured for exports is subjected to price volatility and invariably the cultivator bears the risk. A short term increase in the international markets leads the price sensitive Indian farmer to engage in "unsustainable credit- financed expansion of cash crop" the result of which is invariably glut, price crash and a subsequent burden of debt; all the while reducing the availability of food grains. This has also lead to the annual absorption of food grains per head to reach an all time low of 155 kilograms in 2004. (Patnaik 2004)

Though the crisis is perpetuated by myriad factors, the immediate causal variable is identifiably indebtedness. The symptomatic expression of the distress is by the way of suicides triggered by increased debt burden. The declining farm earnings coupled with restricted access to cheap formal credit are major factors behind the increased debt burden. Therefore, non-availability of cheap formal credit assumes relevance as one of the most of the most compelling factors behind the crisis. This study attempts to examine this particular thread in the strand; the role of state in the rural credit markets and impact of formal credit viz-a- viz informal credit.

Rural financial market is defined as a "relationship between buyers and sellers of financial assets, who are active in rural economy. These relationships are based on transactions that include borrowing, lending and transfer of ownership of financial assets. Financial assets consist of debt claims and ownership claims. Debt claims are promises to

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1 Patnaik 2003 pp 52
pay and ownership claims give the holder rights of access and use.” (Von Pischke, Adams & Donald 1983) Both formal and informal agencies are active in the rural financial markets. The formal agencies like commercial banks, State backed special purpose institutions, co-operatives and rural financial institutions act as intermediaries by both mobilising deposits from savers as well as providing credit facilities to the borrowers. Informal agencies consist mostly of money lenders, traders, landlords, informal associations like ROSCAs and chit funds. Except for ROSCAs and chit funds, lending is the only activity practiced by the informal agencies. Mostly, private funds are employed for the purpose. Besides, the informal sector is not governed by any laws, statutes or bound by other legal enforcement agencies; instead, it operates on coercion, social customs/traditions, position in society, sometimes muscle power too. Formal credit institutions are regulated by State agencies, whereas, informal credit is generally self-regulated and self-governed. It is obvious that, because of these differences, the impact of these two types of operators will be substantially different.

Rural population need a variety of financial services. They need credit, a safe and trust worthy keeper for their savings, however little it might be and they also need insurance against failure of crops, ill heath, disease and collapse of livelihood. Credit is a vital requirement, perhaps more important than the rest of the services. Credit is required for both productive and consumption purposes. Farm households need long term credit for making capital investments on the farm. They also need medium term loans for raising crops, purchasing livestock and for working capital i.e. to buy seeds, fertilisers, hire labours and others. They also need short term credit to tide over immediate requirements. On the other hand, they also need credit for consumption purposes. Given that expenditure is spread over the year and income from farm output is seasonal, they need credit to smoothen their consumption. More over in a country like India where the provision of free and universal health care is absent, healthcare becomes a major expense which is met through borrowings. In fact, these days increasing healthcare costs are one of the most important reasons for increasing rural indebtedness (Utsa Patnaik 2003 P. Sainath 2005 Radhakrishna et al 2007). Also, credit is resorted to educate young members of the family. In addition, due to the profusion of festivals and obligatory
religious ceremonies, one has to procure credit to meet such stochastic expenditure. In fact, J. Moore's opinion on credit and indebtedness in India in 1954 still holds good even in today's context. Peasant's indebtedness, he says is caused by, "Pressure of population on the land, excessive fragmentation of holdings, soil erosion and low productivity, insufficient irrigation and inadequate access to a supply of credit for agricultural purposes on reasonable terms. Accumulation of debt and current borrowings is also brought about by expenditure on feasts and ceremonies on a scale quite beyond the normal farm income." (Moore 1954) He estimated that expenditure incurred on ceremonies accounted for more than 10% of the rural income. Taking into account such expenditure incurred in the past also leads to accumulated burden of debt.

Credit market in rural areas has always been more complicated, enigmatic and therefore challenging than the formal credit system. The rural credit market is beset by most of the typical problems faced by the formal credit markets and more. These include dominance of informal credit, imperfect and fragmented markets, skewed distribution of credit, and prevalence of high interest rates and inadequate supply of funds. These issues are elaborated in the following chapters. It is because of these complications that there is scope for an exclusive policy on rural credit.

Rural credit policies can deal with the two important forces operating in the rural credit markets; the demand for and the supply of credit. The demand side of the rural credit market is reflected by the indebtedness—a parameter reflecting the borrower's position in the market; formal institutions like banks and informal lenders constitute the supply side. Therefore, it becomes imperative to review both the sides to portray the functioning of the rural credit markets. Under the earlier policy regime, the State was expected to play an active role in the provision of credit. The initial impetus to this policy was accorded by the All India Rural Credit Survey (1954). The spirit of the survey is aptly captured in the following lines.

"One of the prior objectives of policy has to be the creation of conditions in which co-operative and other institutions will function effectively in the interests
of the rural production and for the benefit of the rural producer, and not as hitherto be largely stultified by the operation of more powerful private interests; for this, the necessary assistance, in the form of finance, technical personnel, etc and not merely advice, supervision and administration has to come from the State; hence State partnership in some of the more strategic institutions, cooperatives and other, existing or new, is recommended as an important feature of the reorganisation that should take place”.

(All Indian Rural Credit Survey 1954)

The recommendations were received in the right spirit and the State nationalised the State Bank of India followed by other commercial banks in two phases. A regime which was known as ‘social and development banking’ was ushered in. Nationalisation of commercial banks, directed credit, subsidised credit for target population and improved access to credit & other banking facilities were the pillars of this regime. During this phase, infusion of formal credit into rural areas was seen as the fastest way to reach out to those left behind in the process of development. The stress was on providing formal finance to agriculture and also activities that provided opportunities of self employment in rural areas (All India Rural Credit Survey 1954). An increased volume of credit also worked well as one of the inputs during the green revolution period ultimately leading to the success of green revolution in terms of increased food grain productivity in north and north-west India (Ghosh 2005). Credit was expected to support the extensive use of agricultural inputs like fertilisers, high yielding varieties of seeds, new technology and thereby improve agriculture productivity. Increased productivity in turn was expected to boost farm income and therefore usher farmers- the majority of rural population on to the path of development. It was under this premise that specialised institutions to provide credit facilities in rural areas were established as a policy prerogative in various parts of the world (Mohan 2004). The State played a very important role under the regime and acting directly or indirectly made provision for subsidized credit for a class of population otherwise excluded by the then prevailing formal credit system. In India, under the backdrop of the publication of the All India Rural Credit Survey, and the role of usurious money lender in the agrarian economy, the policy of State provisioning of credit in rural

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2 Example BRI BIMANS, Indian Public Sector Commercial Banks.
areas was adopted and nurtured till the early nineties. Later the special agency devoted to rural financial services— the Regional Rural Banks were started at the behest of Narasimham working group (1975). These banks were expected to combine the local familiarity along with the professionalism of commercial banks. Till the early 1990s the State pursued this kind of multi-agency approach towards rural credit. However, after the Narasimham committee report on financial systems (1991) submitted its recommendations, the State decided to liberalise the financial sector and there was a paradigm shift from supply leading ‘social and development banking’ to the current era of financial liberalization (Ghosh and Chandrasekhar 2002, Joshi and Little 1996, EPW Research Foundation 2004, Chandrasekhar and Pal 2006). Major changes that were effected because of the recommendation of the committee were the relaxation of branch licensing rule which required liberated banks from the requirement of having to open at least four branches in un-banked region in order to open a single branch in areas where banks already function and liberalised interest rates. Also, the regional rural banks were liberalised from their requirement to serve only priority sector. Subsequently, interest rates were also liberalised. There were major changes in the NPA norms to increase transparency. In case of agricultural loans, the practice of treating an advance account as NPA if the interest and/or instalment of principle remains unpaid after it has become overdue for two harvest seasons, but for a period not exceeding two half-years was adopted. (Satish 2007) This norm was adopted regardless of the fact that the stipulation of two and a half years goes against crops with longer maturity period, invariably landing farmers in trouble.

In recent years, microcredit and such informal credit programmes are being expected to fill in the gap created by the withdrawal of formal agencies. (Swaminathan, Madhura 2007) This era signals a policy regime inspired by the neo-classical school of thought. The critical difference between the supply leading and neo-classical paradigms is the way finance is treated. The supply leading theorists considered finance as a productive input, while the neo-classicists treat finance as just a process of intermediation (Von Pischke, Adams & Donald 1983). Microcredit has become the darling of development practitioners, policy makers, bankers and even venture capitalists world over. Recently, the Nobel committee acknowledged the contribution of Prof Mohammad Yunus to world
peace in the form of Grameen bank that “developed micro-credit into an ever more important instrument in the struggle against poverty”. The emergence of Microcredit as a viable alternate credit channel to the poor is justified by the provision to access credit unconstrained either by the lack of collateral or high transaction costs unlike the conventional sources.

The impact of the policy environment is felt both on the demand and the supply side of rural credit markets. On the demand side is the indebtedness amongst the rural population. As elaborated in one of the following sections, according to NSSO there has been an increase in the indebtedness amongst all rural households from about 23% in 1991-92 to about 27% in 2002. In fact, the cultivator households are more than proportionately indebted; they constitute about 60% of the total households account for more than 73% of the debt. According to the same source, the percentage of indebted cultivator households is highest in the State of Andhra Pradesh at 82%. Other States with a high percentage of indebted cultivator households include Tamil Nadu, Karnataka and Punjab at 75%, 62% and 65% respectively. For all rural households, the growth of real debt has accelerated from 66.34% for the period 1981-91 to a high of 195.8% in 1991-2001. By all accounts, indebtedness is found to be increasing since the last decade. Borrowings from institutional sources increased from about 29% in 1971 to about 66% in 1991. However, since then it has reduced to about 57% in 2002. At the same time, the borrowings from money lender have increased from about 21.4% to about 30.2%. The rate of growth of real borrowings from money lender which had contracted by 30% for the period 1971-81 accelerated by 83% during 1981-91 and to a further 573.5% during 1991-2001. Indebtedness amongst the social groups also show that more than half the total borrowings of marginalised caste groups like Scheduled Castes are sourced from non-institutional agencies, whereas for other castes, it is only about 32.3%. Indebtedness amongst the small asset holding class also reveals that the share for their non-institutional borrowings has increased from about 63% in 1991-92 to about 73% in 2001-02. Whereas,

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the share of small asset holding (AHC of less than Rs 30,000) class in the institutional borrowings has decreased from 34% in 1991-92 to 27% in 2001-02. Conversely, in case of asset holding class of more than Rs 100,000 and Rs 150,000, the borrowings from institutional agencies has increased from 40% in 1991-92 to about 48% in 2001-02. This development clearly reveals the disadvantage of the smaller asset holding class vis-à-vis the larger asset holding class, and marginalised caste groups vis-à-vis other caste groups in procuring credit from institutional sources. In short, the progress in terms of outreach of institutional agencies achieved under the earlier policy regime has been negated by the reverses in policy atmosphere.

On the other hand, the supply side constituted both Institutional and non institutional agencies. Scheduled commercial banks, co-operative banks, the government, insurance and financial institutions constitute the major suppliers of institutional credit in rural areas. Of them, the public sector commercial banks and regional rural banks are widely active in rural areas. Whereas the co-operatives are quasi-State operated, the public sector commercial banks and regional rural banks are State owned and operated. Because of this reason, co-operatives are ignored in this study while concentrating mostly on commercial banks and regional rural banks.

A study of recent statistics on commercial banks indicates a gradual withdrawal of these banks from rural areas. Not only the number of rural bank branches is decreasing, but also there is a simultaneous increase in the number of urban and metropolitan bank branches. The evidence supporting the urban-bias exhibited by the commercial banks, including the public sector banks, after the liberalisation of branch licensing rules is substantial. Coupled with this is the decreasing credit deposit ratio in rural areas along with slightly better credit deposit ratios in the urban branches. The phenomenon of declining credit deposit ratio is by and large noticeable all over India. Also, there is a decline in the proportion of advances to small borrowal accounts. According to the data published by RBI it was as high as 25.4% in 1989, but has reduced to a little over 4% by 2004. As against, large advances like over and above Rs 10 crores has increased from about 8.6% in 1989 to more than 28% by 2004. Along with this decline is the decline in
the proportion of advances to priority sector despite the increase in the number of accounts under the classification. It was as high as 43.8% in 1988 which has progressively declined to about 32.8% in 1996, marginally improving to 36.7% in 2004. Advances to agriculture and rural transport have decreased considerably, while advances to professionals and personal loans have increased. The proportion of advances to agriculture was about 17.56% in the year 1988, which has declined to a little over 10% by 2004. The proportion of industrial advance has also decreased from over 46% in 1988 to about 38.77% by 2004; On the other hand, the proportion of personal loans has increased from just over 5% in 1988 to more than 22% in 2004. In short the evidence is more than clear to suggest a toned down activity of commercial banks in rural areas.

1.1. Objective of the Study

There have been several changes in the policy of State on rural credit which were periodically influenced by the larger theoretical paradigms and global political economy. These changes not only affected the design of the credit products but also the institutions that dealt with it. The policy changes also had an impact on the way credit affected the beneficiaries too. At one point in time the theoretical developments supported an active role for State in rural financial markets that was when a multi-agency approach was followed which promoted the formation of regional rural banks. In recent years, with the wave strongly in favour of neo-liberal economics; State support is not favoured. As an alibi for the withdrawal of the State, Microcredit self-help-groups and such similar programmes are being pushed, under the guise of ‘innovative financial products’. It is therefore imperative to examine the relative importance of the theoretical developments and also assess the effectiveness of each of the agencies as a vehicle to deliver rural credit. Regional Rural Banks were completely State-owned and operated; they were envisaged as effective vehicles for public provisioning of rural credit. Microcredit self-help-groups are formed either by NGOs, banks or communities. They are not directly operated by the State. Given this difference, the evaluation of programme design, the impact both the agencies have over their clientele and their ability to reach out to the poorest of the poor too needs to be studied.
Microcredit programmes have been attracting a lot of attention these days. Such programmes are seen as the most prominent tool in poverty alleviation. A surfeit of case studies published by government and NGO, always highlight the few women who manage to eke out living from the micro loan and the way the women steadily manage to build up small assets. But it should be remembered that these are isolated case studies, and what is true for case studies might not be true for the entire population.

Outreach of a credit programme is a critical issue, in terms of the poorest of the poor serviced by the programmes. Microcredit and Regional Rural Banks were basically designed for two different sets of clients. While Microcredit seeks to serve the assetless, the Regional Rural Banks serve the small and marginal farmers. However, RRBs do have the mandate to serve the assetless. Therefore there is a degree of comparability between the two credit programmes. The outreach and the client profile of both Microcredit self-help-groups and Regional Rural Banks are examined and compared. The outreach of Regional Rural Banks assumes added importance in recent years because the institution is now liberalised in its terms of operation and they are permitted to function like any other commercial banks unlike the past when they were mandated to serve only the target groups. The role of social opportunities on the outreach of credit programmes is also critical. That means examination of the possibility of literate clients with some sort of skill being able to access faster loans and generate income more than say an illiterate/unskilled person and that of clients belonging to upper castes enjoying better access to credit facilities than the lower caste people. The breadth and depth of outreach is therefore carefully analysed. Secondly, the credit design of Microcredit programmes and Regional Rural Banks differ widely and so does the cost of credit. The cost of credit is one of the crucial determinants of the burden of debt which needs to be examined. Thirdly, the amounts disbursed to each individual by the way of loan, and the way the loan is put to use also becomes important. Clients require credit for both consumption and investment purpose. Shedding light on the usage of loans will definitely lead to a better credit design. Both Microcredit and Regional Rural Banks clients need to be studied for utilisation of loans. Generation of additional income is possible only in case
of judicious investments. A study of the changes in borrowers’ income generation after the disbursement of loans should help us understand the role of Regional Rural Banks viz-a-viz Microcredit in the rural productive activity. Apart from the loan, other factors might be affecting the borrowers’ ability to generate additional income, which should be explored in order to get a holistic picture. There are many possible factors affecting income generation. The purpose for which the loan has been used is the first and foremost determinant of income generation. If the loan has been utilised for consumption purposes like ceremonial expenditure, treatment for medical conditions, repairing houses, it is obvious that income generation is nil. If the loan is utilised for agriculture purposes, it is a gamble. There could be a bumper harvest or a total wipe out, either making the borrower better off or worse. If the loans are used for other small income generating, short gestation projects like petty trade, animal husbandry, there might be a marginal improvement in the condition of the borrower. There might be other factors like the asset position of the family, the caste that they belong to, education levels which could possibly affect income generation vis-à-vis the loan borrowed. So studying the income generation using loans assumes importance.

There is no doubt that most of the Microcredit programmes boast of very high repayment rates. More than the issue of repayment what assumes importance is the reason behind the repayments. The impact of the programme will be different if the record repayments are backed by additional income generation from the credit received or by liquidation of existing assets. Besides, repayments are also possible with the earnings of other members of the family. Therefore, repayment vis-à-vis income generated from the borrowed sum assumes importance. In case of borrowers failing to generate income to even service their debt, the chances that they are entering into a potential debt trap is very high. In such a scenario, it is just the matter of time that the problem of micro-indebtedness emerges. The factors affecting income generation should also be studied. Along with repayments, the issue of sustainability- the ability of the programme to survive over long periods of time as well as profitability is examined. On the other hand Regional Rural Banks have always faced the problem of high delinquency. The repayment rates are pathetically low compared to the Microcredit programme. The causes for high delinquency need to be
examined because, for a rural credit institution to be viable in the long run, it is essential that they are at least able to recover their principle and operating costs. There are various possible reasons for the high delinquency in RRB including the agrarian distress, which is prompting the farming community to default their debt obligations. With the governments succumbing to political pressures and writing off loans at regular intervals, there exists no incentive for a borrower to promptly repay debts. It sort of compliments the moral hazard problem. In the era of liberalisation, when the very existence of Regional Rural Banks model of rural credit institution is jeopardised, a study of two most important rural credit institutions can be expected empirically verify the theoretical models driving the policy decision. This kind of exercise helps not only in identifying the lacunae in the theoretical models but also prescribes alternative paradigms.

In particular, the issues examined by the study in detail are as follows,

1) An examination of the formal credit supply system in rural areas, in particular the role of commercial banks based on the available secondary data
2) An impact assessment of Microcredit self-help-groups in the context of financial liberalisation with respect to Karnataka
3) An impact assessment of Regional Rural Banks in the context of State backed institutions operating in rural credit markets, with specific reference to Karnataka
4) A comparative assessment of Regional Rural Banks and Microcredit programmes in terms of their impact on borrowers.

1.2. Methodology

The study made of large scale data systems using standard statistical tools and econometric tools. The methodology used in the study can be broadly separated in two stages, the first is based on secondary data and the second stage is based on primary data in the second stage. The performance of commercial banks in rural areas was evaluated using time series data published by the Reserve Bank of India. The evaluation also considers Regional Rural Banks in particular. Extensive data like geographical expansion, the spread of branches in rural, urban, semi urban and metropolitan areas were
compiled from various issues of Basic Statistical Returns. The expansion of credit, deposits etc were also compiled using Basic Statistical Returns. Available large scale data for the self-help-groups were compiled using the NABARD data. A State wise spread of Self-help-groups, the agency with which they are linked, the role of scheduled commercial banks in linking the SHGs with formal institutions were reviewed using the NABARD data.

In the second stage, the study needed micro level intensive data. The study required a field investigation since it involved collecting information from borrowers of Regional Rural Banks and Microcredit Self-help-groups in rural areas. Therefore, a suitable area for field investigation was identified. The study was on Karnataka; an area served by both a regional rural bank and Microcredit self-help-groups was chosen. Separate questionnaire was prepared for the borrowers of Regional Rural Banks and Microcredit self-help-groups. In case of RRBs, loans of size $\leq Rs.25000$ which is comparable to Microcredit loans was isolated and only such borrowers were interviewed. In the case of borrowers of Regional Rural Banks, data was collected using a standard questionnaire. The questionnaire contained two parts; the first part carrying personal information about the borrowers/respondents including the name, age, education, sex, occupation, spouses' occupation, their asset holding pattern, their annual income, thrift and borrowing habits. The second dealt with the credit history of the borrowers and his behaviour as a debtor. The purpose for which loan was sanctioned and the actual utilisation of the loan was also documented along with the quantum of loan, the repayment pattern, asset creation if any, employment creation if any. In order to investigate the cost of borrowing from a Regional Rural Bank, information on interest rates charged, transportation cost to reach the bank, other expenses incurred in order to process the loan and opportunity cost as perceived by the borrowers were collected.

In the case of borrowers of Self-help-groups, data was collected using a standard questionnaire. The first part of the data dealt with the personal information of the borrower/respondent, mostly related to the respondent's age, sex, education, occupation, spouses' occupation, their asset holding pattern, their annual income, their thrift and
borrowing habits. The second part dealt with the credit history of the borrowers and their
behaviour as a debtor. Information about the groups, number of members, their behaviour
as joint borrowers, the quantum of loan, their repayment habits, the actual usage of loan,
the stream of income generated from the loan, asset creation if any, employment creation
if any, the length of time period over which the group was active was dealt with, in this
section. Also, the advantages of having joined the group were documented.

Once the data sets were complete, a comparative assessment of the two sets was
attempted. The assessment was based on six parameters, depth and breadth of outreach
(Navajas et al 2000, Adams 1988), cost of credit (Adams and Nehman 1979, Adams
1988), income generation, repayments (Adams 1988), sustainability (Adams 1988) and
profitability. In case of calculation of outreach and cost of credit descriptive statistics are
utilised. Factors affecting income generation was analysed using a simple multiple
regression model checking for a variety of factors like caste groups, asset classes, social
opportunities and information on groups. Since there was no problem of delinquency in
case of Microcredit self-help-groups, repayment was studied using descriptive statistics.
So were sustainability and profitability.

In case of regional rural banks, outreach was complied using the data published by the
reserve bank of India as well as the primary data. Cost of credit was mostly descriptive.
There was a problem of repayments with regional rural banks, therefore factors affecting
repayments is analysed. Since the dependent variable is qualitative, a logit model was
used. The factors examined included caste groups, asset class, utilisation of loan and sex.

Data Sources:
A large part of the data employed for the study was primary data. Data on Microcredit
SHGs is collected from a field work conducted by the author. Detailed information on the
group, members and information about the members were also collected during the
course of the field work. Macro data for regional rural banks published by the Reserve
Bank of India in the Basic Statistical Returns, statistical tables relating to Banks in India
and trends and progress of Banking in India annually. Time series data was compiled
using various issues of these publications. The online database on Indian economy hosted by the Reserve Bank of India has also been used.

Other large scale data systems like NSSO data on indebtedness, CSO data on population have also been employed in the study. General information on Madhugiri, the taluk where field work was conducted was sourced from Government of Karnataka publications. Data has also been used from the Statistical Abstract published from the Reserve Bank of India.

1.3. Outline of the Study
The study is divided into seven chapters. The first chapter is introductory in nature, briefly explaining the context of the study, background and a very brief history of rural credit policies in India.

The second chapter reviews the problems specific to rural credit markets and the policy responses to those problems. This chapter also overviews the theoretical developments with respect to rural credit and its influence on the policies. Some of theoretical frameworks identified are the Supply-leading paradigm, neo-classical paradigm and the information asymmetry paradigm. The last one is an extension of the neo-classical models. An attempt to present arguments supporting as well as criticising the paradigms has been made.

The third chapter attempts an enquiry on the current supply and demand positions in rural credit markets. It is an effort to isolate the impact of the recent policy changes empirically. Strong evidence suggesting increasing indebtedness as well as informalisation of debt was revealed. Also, the performance of scheduled commercial banks was found to be dispirited when compared to its own performance during the pre-liberalisation era. There is an obvious strategic shift in the focus from serving larger social purposes to a much narrowed profitability.

The fourth chapter presents a review of recent developments associated with rural credit. It continues from the third chapter to focus on one of the most important rural credit delivery vehicles viz Regional Rural Banks. The most importance institutional rural credit agency viz Regional Rural Banks is analysed for its performance in the changed
policy atmosphere. Also the emergence of an alternate paradigm to supply credit in rural areas in the form of microcredit is recognised and a brief history of such informal programmes is reviewed.

The fifth chapter is an impact assessment of Regional Rural Banks based on a set of six parameters. They are outreach, cost of credit, income generation, repayments, profitability and sustainability. The sixth chapter presents the impact assessment of microcredit self-help-groups based on the same six parameters. In the final section of the chapter, the Regional Rural Banks are compared to microcredit self-help-groups along with other national and international examples.