CHAPTER II

REVIEW OF LITERATURE AND CONCEPTS USED

2.1 Review of Literature

Review of literature can help the researcher to find the research gap. Over the years, a number of studies on rural credit covering credit requirements, supply of credit, utilisation and repayment of credit by borrowers and impact of institutional credit on rural economy were made. In this section, an attempt has been made to review the various studies undertaken relating to rural banking and the impact of Regional Rural Banks (RRBs) like Pandyan Grama Bank on the eradication of poverty. For better exposition, review of literature and concepts used are presented under three heads, namely

(i) Individual studies

(ii) Institutional studies and

(iii) Concepts used.

2.2 Individual Studies

This part deals with the main findings of the studies undertaken by individuals for the past two decades relating to rural credit in general and RRBs in particular. The essence of individual studies relating to the working of RRBs,
mounting overdues, repayment performance, problem of non-viability and suggestions offered are presented here.

Wadhva\(^1\) has undertaken two case studies with the available secondary data for two RRBs for 2 years. The study relates to the Haryana kshetriya Gramin Bank, Bhiwani (Haryana) and the Jaipur Nagaur Aanchlic Gramin Bank, Jaipur (Rajasthan). The working of the RRBs reveals that they have been working largely for achieving the social objectives for which they were set up. The RRBs have succeeded in projecting the image of a ‘small man’s bank’ or the poorer villager’s ‘very own bank’.

Wadhva has offered a number of suggestions for improving and reorganising RRBs, such as a change in the ownership of capital by introducing local participation, allowing RRBs to be sponsored by co-operatives, strengthening their linkages with Primary Agricultural Co-operative Societies (PACS) and Farmers’ Service Societies (FSS) forming new small business societies and linking them with RRBs, strengthening the working of District Consultative Committees, allowing RRBs to lend to richer sections upto a maximum of 25 per cent of loans, voluntary turnover of uneconomic rural branches of commercial banks to the RRBs in a phased manner, restructuring interest rates in favour of weaker sections, strengthening the credit administration,

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popularising group loans, linking production credit with marketing, increasing the amount of consumption loans and providing full range of banking services of RRBs.

Satya Sundaram\(^2\) is of the opinion that monitoring, supervision and follow up a credit, assume great importance because of the present stress on advances to priority sectors. Banks have to adopt a more realistic approach on the following lines: (i) see that the money lent is spent for the specific purpose and not for other purposes; (ii) see that the borrower is having enough liquidity by preventing him from diverting funds for unauthorised purposes; (iii) extend all possible help in time so that the profitability of the borrower steadily increases and (iv) see that timely repayments are made in accordance with the terms of the sanction.

Sinha\(^3\) has stated that ‘we have rural branches but not rural bankers’. The statement is in the form of an accusation indicating lack of responsiveness – both attitudinal and emotional – to the needs and ethos of rural banking.

A study on ‘Profitability Performance of RRBs’ was made by Varsha S. Varde and Sampath P. Singh,\(^4\) in 1982 relating to a sample of 40 Regional Rural


banks. The empirical results of the study have indicated that in general the profitability performance of all Regional Rural Banks has improved over the 3 year period from 1978 to 1980. The decline in man-power and expense ratio is largely responsible for improvements in the profitability ratio.

Deshpande\(^5\) has observed that the problem of overdues is a matter of concern for the last so many years. Continuous rise in the percentage of overdues would soon dry up the loanable resources of the credit institutions, with the consequent damaging effect on the programmes of agricultural development. Such a situation would ultimately result in throwing the small farmers and artisans into the arms of money lenders, bigger farmers and pawn brokers.

Ravi Kumar\(^6\) has stressed the need for co-ordination between co-operatives and RRBs to avoid duplication of finance. He is also of the opinion that the lending activities of Regional Rural Banks should be confined to the target groups alone.

Krishna Bhaskara Rao\(^7\) has expressed that writing off the farm loans by the Government would not serve the real purpose and would severely hinder the


future of banking business in the country. In the case of willful defaults, stringent supervision and timely action will facilitate recovering the loans.

Noorbasha Abdul and Dakshinamurthy⁸ have observed that identification of the eligible party is the starting point in the credit development process of the Regional Rural Banks. There are many cases where the big landlords who have lands in two villages furnish documents concerning a small piece of land in one village only and avail the benefit meant for a small farmer. While the statistics of Regional Rural banks identify the small farmer as a beneficiary, the actual gainer is someone else. Unless the loopholes and imperfections that have caused leakage in credit expansion of Regional Rural Banks are diagnosed and rectified, the dream of uplifting the rural poor will never be realised.

In his case study on ‘Prathama Bank (U.P)’ Badar Alem Iqbal⁹ has observed that the lending policy of the bank was inconsistent with the national objective of economic growth with social justice. He has suggested that credit should be linked with the marketing of agricultural produce for effective repayment of loans. Since sugarcane is widely grown in the area and there are number of sugar factories, the bank should persuade the factory owners to make

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payments to the farmers through the bank so that the level of overdues can be reduced.

In his evaluation of the financing pattern of RRBs in Andhra Pradesh, Muni Doraswami\textsuperscript{10} has expressed that the RRBs in the state were facing the problems like non-viability, high cost of small loans and the consequent losses. Therefore, he recommended that the borrowing rate may be reduced by the banks so that the cost of loans would be lower.

Shetty\textsuperscript{11} in his analysis of the weaknesses of poverty alleviation programmes, has remarked that subsidy is responsible for leakages in the benefits of the programme (IRDP) to non-eligible households. Many had availed the bank loans under the programme because of Government subsidy. Many illiterate borrowers believed that the bank loans, like subsidy are not repayable. While the provision of subsidy is intended to reduce the cost of assets acquired by the poor beneficiaries, the administration of subsidy requires to be made immaculate to prevent its misuse in future.


Satyanarayana\textsuperscript{12} who studied the credit performance of Sri Visakha Grameen Bank branch in Srikakulam district of Andhra Pradesh has found that most of the farmers changed over from traditional to modern agriculture by availing bank credit. The study of 36 sample households revealed that as high as 98 per cent of the credit money was utilised for productive purposes.

Singh\textsuperscript{13} has observed that the performance of RRBs in achieving targets has been better in the case of deposit mobilisation when compared to loans and advances. The main hindering factors are inadequate and inefficient staff and lack of co-ordination from the Government departments of the rural areas. Therefore, the state government should co-ordinate with the RRBs officials in implementing schemes in rural areas.

Sharma and Tomar\textsuperscript{14} who studied the progress of RRBs during 1975-84 have remarked that the RRBs have succeeded to a great extent in the extension of their branch offices to the unbanked and underbanked centres in the interior rural areas especially in the backward states. The deposits of the RRBs have been increasing rapidly and the credit-deposit ratio of these banks remained above 100,

\textsuperscript{12}Satyanarayana, “Credit Performance of RRBs – A Case Study”, \textit{Khadi Gramodyog}, Vol.XXXIII, No.9, June 1986, pp.401-406.


indicating that they have deployed more funds than those collected by way of deposits. Moreover, the RRBs are working in close conjunction with the development programmes such as IRDP, DRY and 20 point economic programmes.

Reddy\textsuperscript{15} has observed that three important principles stand out as essential for credit advancement to farmers: (i) the quantum of credit should be rationally determined. It should take into account the normal savings of a big farmer which is supposed to plough them back for the agricultural operations as against the total demands of small subsistence level farmer. (ii) timeliness of advancement, that is, the credit needs of the cultivator should be met before the actual farming operations are started. (iii) cultivators are able to repay the loan out of the sale proceeds of the crops soon after the harvest.

While examining the credit repayment performance of IRDP beneficiaries financed by Regional Rural Banks, Nadeem Mohsin and Raghunath Jha\textsuperscript{16} have asserted that the beneficiaries should be adequately trained to make the best use of resources, to realise the importance of rural credit and their timely repayment. Unless the beneficiaries are motivated and made to understand that rural


development can come about through their effective participation, mere sanctioning of loans would be a futile exercise.

Pai\textsuperscript{17} in his study has warned the State Governments against the writing off bank loans in contravention of the established state procedures and norms. The rot had started with loan melas conducted by Central Government leaders. There are blatant violation of banking laws and all norms. Now the banking industry has become a football for politicians of various parties.

Rajendra Singh\textsuperscript{18} in his study on mounting arrears of agricultural credit has outlined that heavy and mounting overdues and poor recovery performance pose a serious threat to the process of institutionalising rural credit. The factors responsible for this state of affairs are: defective appraisal of loan applications and inadequate monitoring of credit utilisation, impact of natural calamities, misutilisation of credit and weaknesses in recovery procedures. The banks have, at present, any power to exert pressure on the defaulters.

Subhas K. Basu\textsuperscript{19} has observed that profitability of a banking institution depends on (i) a positive margin of the credit rate over the deposit rate and (ii) the


\textsuperscript{19}Subhas K. Basu, “RRBs and Institutionalisation of Rural Credit”, \textit{Commerce}, Vol.156, No.4007, March 5-11, 1988, p.29.
so-called credit creation by virtue of a bank being capable of lending more than the deposits it receives which in turn depends on a low cash-holding propensity of the public. Both these conditions have been more or less absent in the case of RRBs, because of the very nature of the commission for which they were initiated.

Subhas K. Basu in his study on RRBs has remarked that more than 75 per cent of the credit clientele of the RRBs came from the weaker sections of the village society who marginally hover around the poverty line. They could not be peeped through the credit windows unless a subsidy in interest rates was assured. Therefore, the RRBs are quite expectedly incurring losses.

In his analysis of the performance of RRBs, Vasan Anand Kumar has attributed the following reasons to the non-viability of RRBs: (a) the availability of thin margin between the cost of borrowing and the cost of lending; (b) low volume of business; (c) low rate of recycling of funds and (d) mounting overdues.

Asha has remarked that profitability of RRBs is in jeopardy. In fact only a small minority of them earn profit and in some substantial cases accumulated

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losses have wiped out their entire share capital. Political interference in the appointment of chairman and staff and disbursement and recovery of loans has been on the increase recently affecting the efficiency of RRBs operations. To put them back on rails, there is an urgent need for making sincere and concerted efforts to effectively implement the recommendations of the Dhar Committee (1984).

Expressing his concern over the mounting volume of bank overdues, Thingalaya\textsuperscript{23} has asserted that the banks have failed to maintain their standard of post sanction and supervision and counseling of borrowers, largely as a result of the increase in the volume of advances handled. It would be desirable to make the State Governments to appreciate bank’s responsibility in recovering their dues. He suggests enactment of legislation by the State Governments on the lines of Uttar Pradesh, Kerala, Madhya Pradesh and Haryana for the recovery of bank dues.

The case study made by Jain\textsuperscript{24} regarding the working of RRBs in Lalsot block of Rajasthan revealed the fact that the RRBs loan assistance programmes to the rural poor have produced favourable impact on income and employment situation of the beneficiaries as a whole.


Mujumdar\textsuperscript{25} in his study has expressed that while selective and discriminatory writing off of loans is a part of banking practices, indiscriminatory writing off of loans on a mass scale erodes seriously the repayment culture which is an integral part of any viable banking system.

Velayudham\textsuperscript{26} has observed that from the point of view of profitability or viability of RRBs it is necessary to recognise the weaknesses contradictions inherent in the structure of RRBs. Though RRBs are scheduled commercial banks, their area of operation is limited to one or two districts and this does not permit economies of scale or does not facilitate RRBs to break even. Similarly, the low cost concept is incompatible with efficient performance.

Pathak\textsuperscript{27} has observed that many studies have shown that affluent landlords even after getting huge income do not repay. on the contrary small farmers repay regularly despite a just sufficient income or otherwise. Both the situations are unfavourable to the banker. He should therefore impose deterrent punishment on willful defaulters and allow concessions to the genuine cases.


Dantwala\textsuperscript{28} has observed that in June 1986, the overdues of the commercial banks under agricultural loans amounted to Rs.1744 crores (43 per cent of the demand), those of the RRBs amounted to Rs.413 crores (51 per cent of the demand) and those of Primary Agricultural Credit Societies amounted to Rs.1807 crores (41 per cent of the demand). More than 50 per cent of the overdues were more than 3 years old indicating their sticky nature. In view of the above, further and faster extension of credit to agriculture should be undertaken with much caution. Over extension often manifests itself in the form of overdues and periodical write-offs.

Moin Qazi\textsuperscript{29} has pointed out that although many anti-poverty schemes have a ‘beneficiary orientation’, the ‘beneficiary perspective’ that is the scheme seen from the point of view of the beneficiary of the rural poor, is missing.

Krishnan\textsuperscript{30} has remarked that though there have been tremendous developments in the field of branch expansion, deposits and advances in RRBs the problem of overdues is very serious. Out of the 194 RRBs, functioning in the country at the end of June 1986, the overdues of all these RRBs had been to the


tune of Rs.412.87 crores constituting 51 per cent of the total demand. Thus, RRBs are no better than the commercial banks in respect of overdues.

Pramod\(^{31}\) has remarked that the Grameen Bank in Bangladesh has effectively demonstrated the feasibility of combining the savings and credit instruments for promoting self-reliant development of the poor with loan recovery rates of over 95 per cent. It would be advisable for our RRBs to learn from such experiences, and concentrate on bringing about improvements in hitherto neglected key areas, such as appropriate orientation and training of the development workers, organising the prospective borrowers into homogeneous groups, developing a decentralised and flexible framework for implementing the lending schemes including the government sponsored schemes, linking savings and credit at the borrower’s level, and intensive supervision of loans on regular lines.

While analysing the consequences of merger of RRBs with other sponsor banks, Shylendra\(^{32}\) has considered that the merger would be a retrograde step. The merger would mark the end of an institution established for the weaker sections with high hopes. If the proposal is implemented one cannot in future, think of any


institutional reform in favour of rural poor in the field of rural credit, with viability taken as the criterion given the present restricted interest rate policy.

Sankaranarayanan\textsuperscript{33} has observed that the share of deposits of RRBs was 25.9 per cent in Uttar Pradesh as against 12.4 per cent for other scheduled commercial banks. At the same time the number of branches of RRBs was lower (1,193) than that of other scheduled commercial banks (1,361).

Chayanika\textsuperscript{34} has observed that the RRBs have been growing like sick children and hard decision whether they should be merged with sponsor banks or set up as a district-based and district-oriented bank taking over the branches of the other commercial banks in the districts and extending its activities to cover all agricultural and small scale activity, need to be taken.

Agarwal\textsuperscript{35} has pointed out that a number of factors contribute to the low recovery of dues. They include: crop failure due to natural calamities, inadequate supervision, unsatisfactory management, unsound lending policies, defaults by relatively affluent sections of the farming community and agricultural

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\textsuperscript{34}Chayanika, \textit{Banks and Rural Credit – Some Issues}, A Transcription Services from State Bank College, Hyderabad, Vol.4, No.2, March-April, 1990, p.15.

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backwardness and also the unjustified assurance among the misguided borrowers that the loans would be written off at a later date.

Singh\textsuperscript{36} has criticised the suggestion that credit overdues of the banking sector should be written off to help the rural poor. But, in a country like ours, where financial resources are scarce, any attempt to write off the overdues will not only affect the recycling of funds, but also reduce the tempo of rural development.

Sankareswaran\textsuperscript{37} in his study has remarked that the policy of the governments is to dole out money or grant loans liberally to farm families so that they (ruling party men) may stay in power. This approach will commit the community and the country to perpetual indebtedness and the future generations will suffer the burden of inflation, debt and default.

Vijaya Kumar and Gurunath\textsuperscript{38} conducted a survey on viability problems from the point of view of employees of RRBs and public and gathered rural mass opinion on RRBs and their choice for credit assistance. Their study relates to Sri Venkateswara Grameen Bank (Andhra Pradesh), Bajapur Grameena Bank


(Karnataka) and North Malabar Grameen Bank (Kerala) and the following conclusions are drawn:

a) The richer sections refused to deposit in RRBs as credit is restricted only to the poorer sections:

b) The deposits of RRBs should be given the status of the National Savings Certificates with tax benefits and concessions; and

c) Low business potential per branch, high establishment charges, low margins between income receipts and payments and restricted customers are the causes for non-viability of RRBs.

Boraian\textsuperscript{39} in his approaches to rural development in India has lamented that our experience with rural approaches has been rather uniform. Unfortunately, there has been rarely been a single leakage proof programme in the last 40 years. The programmes only vary in respect of the degree of leakage.

Krishnamachari\textsuperscript{40} has observed that at the end of June 1991, the overdues of RRBs as a percentage to their demand stood at 66 per cent without taking into account the amounts due under Debt Relief Scheme. The poor recovery of the loan is due to improper identification of the beneficiaries by the Government.


\textsuperscript{40}K.S.V. Krishnamachari, “Regional Rural Banks: Sinned Against than Sinners”, \textit{The Economic Times}, Vol.32, No.263, 26 November 1992, p.12.
agencies without the involvement of the bank. For achieving better results regarding the loans and assistance provided under different anti-poverty programmes, rural branch managers need to develop contact with their clients through regular field visits.

Krishnamachari\textsuperscript{41} in his study on RRBs problems and prospectives has estimated that RRBs in the present set-up incur losses of about Rs.50 lakhs per day.

While examining the suggestion of Narasimham Committee (1991) that the sponsor banks should take over the RRBs as subsidiaries or by merging, Shankar\textsuperscript{42} has pointed out that save for a handful of RRBs, the others are running under heavy losses and have got their capital bases wiped off completely. With National Industrial Tribunal, decreeing sponsor bank pay scales for the RRB staff from November 1987, the losses have soared. With the NABARD who owns 50 per cent of all the RRBs, facing a severe cash crunch, the position of the RRBs is slipping from bad to worse with every passing day.


Sharavan Kumar in his study pinpoints several lapses and drawbacks of the rural development programmes. The funds instead of going to the needy find their way to some selected favourable families which are patronised by the local political leaders. The subsidy is the main attraction in Integrated Rural Development Programme for which a big landholder becomes a small and marginal farmer by hiding his land holdings.

Pawar is of the opinion that for real rural development, the institutional credit (RRBs disbursement) needs to be directed towards the potentially viable poor instead of the presently eligible but insufficient segment. The augmentation of field staff is considered to be one of the solutions to ensure proper planning and implementation. In addition, supply of area and activity, specific infrastructure, good quality, support services and market development for their produce will improve the economic efficiency of finance.

Bhayawan Rao and Sankaria in their study have observed that the present policy which is more inclined towards provisioning for writing off the bad debts

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will only an encouragement for imprudent lending as far as banks are concerned and impurity to defaulting to defaulting borrowers.

In his review of the financial performance of four publicly sponsored programmes in Asia, Jacob Yaron\textsuperscript{46} has observed that because of high risks, heavy transaction costs, and mounting loan losses, many of the programmes have drained state resources to little purpose, reaching only a small part of the rural population. Generally, the performance of state-sponsored rural finance operations has fallen substantially short of expectations and many of the credit programmes have become a costly drain on government budgets. The programmes have reached only a minority, often the wrong minority, of the rural population, generating an unintended ‘grant’ in the form of negative on–lending interest rates, which are captured by wealthy and influential farmers. Many of the rural finance institutions have been associated with heavy losses generated either by inadequate indication in a highly inflationary environment (such as Brazil and Mexico) or by poor loan collection in a stable economy (such as India).

Pathak\textsuperscript{47} in his study on ‘agricultural loan recovery’ has observed that writing off overdues is a double-edged and self-destructive weapon used by the


banks. On the one hand, banks have to write-off their precious funds lent for agriculture and on the other, a more harmful image of a helpless institution in the society is allowed to be generated which ultimately encourages other borrowers to follow the foot-steps of defaulters whose dues are written off. This develops a feeling that indiscipline is rewarded and results in undesirable trends in society. Thus the remedy is worse than disease.

Srinivasa Rao\textsuperscript{48} has observed that only 23 RRBs could get nominal profits in 1992-93 and 173 of the 196 RRBs incurring losses. An analysis of the working of RRBs in the past 18 years indicates their gradual transition from an initial low cost structure to an equally expensive establishment akin to commercial banks ultimately building up into reservoir of accumulated losses to the tune of Rs.906 crores in March 1993. He has suggested that the support of the Local State Government, Lead Bank, Sponsoring Bank, Reserve Bank of India, NABARD and Union Government will be required directly or indirectly to speed up recovery of loans of RRBs and to rekindle an element of commercial character in their functioning so as to turn them viable in the long run at least in a period of 5 to 10 years.

Khankoje\textsuperscript{49} in his study on ‘Banking with the Poor’ has observed that extension of banking facilities to the poor sections of the third world nations is a crucial subject of serious concern – more particularly during the past one and a half decades. Banking institutions in these countries have, within the broad framework of national goals and perspective, made efforts in their own way to serve the poor. In the process, they have evolved certain policies, adopted some strategies and followed some approaches. The experience is quite fascinating – a combination of success and failure. Time and again a strikingly important feature emerging is the mismatch between conventional banking practices and norms on the one hand and the developmental outlook and requirements of the poor on the other. In the quest for a way out, effective linkages between banks and Non-Government Organisations (NGOs) through the channel of Self Help Groups (SHGs) of the poor, are being increasingly conceived as one of the solutions.

Kala Rao\textsuperscript{50} has observed that no bank can operate profitably in a limited market (more so a depressed market). Agriculture is a perishable activity. That is, why illegal money lenders are still having roaring business in the rural areas despite the high interest rate they charge.


Naresh Minocha\textsuperscript{51} in his study has pointed out that the implementation of Agricultural and Rural Debt Relief (1990) has encouraged the growth of willful defaults in expectation of any write-off in future. The overdues in the case of RRBs have been growing at a much higher rate of 28 per cent. The overdues growth rate is 16 per cent in the case of Land Development Banks and 15 per cent in the case of commercial banks.

2.3 Institutional Studies

This part relates to the review of institutional studies undertaken by the Government of India, the RBI and other governmental institutions regarding the functioning of RRBs.

In the context of a large number of RRBs (now 196) being established in the country and in view of certain weaknesses discernible in their working results particularly relating to their profitability, the Government of India and the Reserve Bank of India (RBI) constituted various committees to review the working of RRBs and make suitable recommendations for future policy in the light of their observations. In addition to this, the RBI and other governmental institutions have reviewed the functioning of the RRBs and offered various suggestions for their better functioning.

Report of the Banking Commission\textsuperscript{52} (1972)

The Commission headed by Sariya recommended that in the areas where co-operative credit structure is weak, rural banks might be established. A rural bank should cater to the full credit needs of all medium and small cultivators. Its object is to provide at one place the special type of credit and banking facilities and other related services needed by agriculturists and other rural producers.

Working Group on Rural Banks\textsuperscript{53} (1975)

The Working Group headed by Narasimham recommended the setting up of ‘State sponsored regionally based rural oriented commercial banks’. It envisaged this new institution (RRB) as one which, ‘combines the local feel and familiarity with rural problems which the co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial bank has. The Group was of the view that the major objective of the RRB should be to mobilise resources from the region and deploy them within the same region, lending mainly for productive purposes.


Reserve Bank of India\textsuperscript{54} in its report has described the setting of the RRBs as a ‘development which will have far reaching effect on the extension of banking facilities to the rural areas’.

**Review Committee on RRBs (Dantawala Committee)\textsuperscript{55}**

Observations of the Review Committee are based on the results of a detailed study conducted by it on the working of some 12 selected RRBs. The Committee has observed that by and large the RRBs surveyed have been working in the right direction for fulfilling the objectives set out for them.

The most important functional aspect recommended by the Review Committee related to the transfer, in a phased manner, of the rural business of commercial bank branches to the RRBs. “ideally the jurisdiction of a rural bank should be confined to one district’. The composition of the share capital of a RRB recommended by the Review Committee was as follows: Reserve Bank of India 25 per cent, sponsoring bank 40 per cent, State Government 15 per cent and local participation 20 per cent. From the angle of financial feasibility and managerial efficiency the reasonable number of branches (per district) for RRB would be between 50 and 60.


On considerations of viability, the Committee recommended the financing of large farmers upto a limited extent, that is, upto 40 per cent of the total loans. The committee is definitely of the view that “RRBs with some modifications in their organisation and functions can become a very useful component in the totality of the rural credit structure”.

**Working Group on Multi Agency Approach in Agricultural Finance**

The Working Group headed by Kamath expressed the view, while all rural areas to be covered by a net work of viable co-operative credit institutions, the other agencies such as commercial banks and RRBs had necessarily to play a supplementary role, until the co-operatives at the field level were well established and placed on a viable footing. In the areas covered by the primary agricultural credit societies, commercial banks and RRBs might lend directly to the farmers wherever necessary but without entering into competition among themselves. The Kamath Group clearly preferred the RRBs to the commercial banks for the future expansion of banking in rural areas.

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Agricultural Finance Corporations (AFCs) Study on RRBs\textsuperscript{57}

It is an indepth study undertaken by the Agricultural Finance Corporation for evaluating the performance of 2 RRBs sponsored by the Syndicate Bank, namely Maleprabha Grameena Bank, Dharwar (Karnataka) and the Rayalseema Grameena Bank at Cuddapah (Andhra Pradesh). The main findings of this study include: (i) improvement in infrastructure facilities, (ii) loan on commercial banks to open branches in the areas falling within the operational areas of RRBs, (iii) organisation of farmers’ service societies by the RRB and (iv) linking the repayment with marketing for allowed purpose of ensuring repayment. The study also suggests that the RRBs should be allowed to lend to the richer sections in the selected villages within certain fixed proportion of their lending.

A comparative study by Bank of India\textsuperscript{58} was made on the growth of a nationalised bank branch and the rural branch of a RRB sponsored by it. The study reveals that the recoveries are better in the case of commercial bank branch than in the case of RRB branch.


\textsuperscript{58}Bank of India, \textit{Deposit Mobilisation and Advances by Two Rural Branches – Bank of India and RRBs}, Special Studies Division, Bombay, 1985, p.209.
Working Group on RRBs (Kelkar Committee)\textsuperscript{59}

The Kelkar Committee has observed that 90 per cent of the branches of the RRBs are opened in hitherto unbanked centres and 92 per cent of the branches in the rural areas that the bulk of the advances (90 per cent) were granted to the weaker sections. The Committee has suggested many amendments to the RRBs Act, 1976, like raising the paid-up share capital of each RRB from Rs.25 lakhs to Rs.100 lakhs and correspondingly the authorised capital to Rs.5 crores; change in the composition of directors; investing part of their SLR deposits in Government securities; restructuring the refinance formula to NABARD 50 per cent, sponsor banks 20 per cent and RRBs 30 per cent; the State and Local Governments may keep their deposits with the RRBs.

The committee feels that the State Governments should assist the RRBs in the recovery of their dues; in providing adequate security arrangements particularly for the branches in the remote rural centres and in preparing area-specific and bankable schemes to be financed by the RRBs. The committee also feels that total abolition of RRBs or merging them with commercial banks is not an answer to their problem of non-viability. The committee strongly recommended the retention of this small man’s bank image of the RRBs even in

the face of mounting losses already incurred by these banks. The RRBs are doing their best to translate the objectives for which they have been established, into action. They have fully participated in the poverty alleviation programme of the Government and extended financial assistance to the weaker sections of the society and especially those residing in rural areas are recipients of the credit facilities extended by RRBs.

The Working Group on RRBs has elaborated the role of RRBs in future, ‘In view of large branch net work, comparatively lower cost of operation, local investment through appropriate staffing pattern and the operations more in tune with the national objective of serving the weaker sections comprising of small and marginal farmers, artisans, village and cottage industries, RRBs as a part of multi-agency approach to rural credit are eminently suitable to the job envisaged for them’.

**High Level Committee on the Financial System (Narasimham Committee – 1991)**

The Narasimham Committee 60 Report on the Financial System, 1991, has observed that mounting overdues are due to defective loan policies and procedures of lending institutions which impair the borrower’s ability to repay. Apart from this, political and administrative intervention also contributed to

overdue. Today what is required is complete elimination of politicisation of loan assessment and recovery.

In regard to structural and organisational part of banking, the committee has recommended a four-tier system. In the first tier, 4 or 5 banks (including the State Bank of India) which could be allowed to operate internationally. In the second tier, 8 to 10 national banks which can have nation-wide branches. In the third tier, local banks whose operations would be generally confined to specific region. In the fourth tier, rural banks (including RRBs) whose operations would be confined to the rural areas and whose business would be predominantly engaged in financing agriculture and allied activities.

The Committee proposes that while RRBs should be allowed to engage in all types of banking business, their focus should continue to be to lend to the target groups and to maintain at a minimum the present level of their lending to these groups. With a view to improving the viability of their operations, the committee proposes that the interest rate structure of the RRBs should be in line with those of the commercial banks. The committee strongly recommended Special Tribunals to be set up to speed up the process of recovery.
Reserve Bank of India\textsuperscript{61} in its report has indicated that the institutional credit to agricultural sector purveyed by commercial banks, co-operatives and RRBs, is afflicted by the overdues syndrome that has over a period of time deliberated the process of recycling of funds.

The implementation of the Agricultural and Rural Debt Relief Scheme, 1990 has further accentuated the problem of recovery and this has implied greater recourse to rural refinance from NABARD/ RBI. This coupled with the fact that the rates of interest stipulated for agricultural advances are not only unremunerative but even do not cover the cost of funds and other expenses incurred by the credit institutions, has eroded their profitability. Out of 196 RRBs, only 44 banks were able to manage marginal profits while 152 banks were working at a loss (the accumulated losses amounting to Rs.550 crores) and 134 banks have eroded a part of their deposits. On account of National Industrial Tribunal award the pay and allowances of employees of RRBs are likely to go up by 60 to 65 pre cent.

Reserve Bank of India\textsuperscript{62} has remarked that RRBs have fared well in achieving the objectives of providing to the weaker sections of the society access


to institutional credit but the recovery position of RRBs on the whole has not been satisfactory.

Reserve Bank of India in its Annual Report 1993-94 has observed that the main reasons for low recovery performance of banks are incorrect identification of beneficiaries and activities, inadequate availability of proper infrastructure and lack of adequate marketing facilities. Target oriented approach has also compromised the quality of the programmes. Out of 196 RRBs as many as 150 have shown losses in each of the past five years and the number of loss making RRBs was still larger at 172 at the end of March 1993. Many have completely wiped out their equity and reserves and in some cases the losses have eroded the deposits too. As this situation is unsustainable there is a need for understanding long-term structural measures.

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2.4 Concepts Used

The operational definitions of various concepts used in the study are given below:

2.4.1 Household

The household is the basic sampling unit of the study. A household is taken to mean a group of persons related by blood, marriage or adoption, living under the same roof and sharing a common kitchen continuously for not less than one year at the time of interview. A single person constitutes a household, if a kitchen is maintained by him. Domestic servants are excluded although they might stay with the household and share the kitchen. The new born babies and newly married brides or bridegrooms have been treated as members of the household irrespective of the duration of their stay.

2.4.2 Target Group

The target groups of beneficiaries consist of small and marginal farmers, share croppers, agricultural and non-agricultural labourers, rural artisans, families belonging to Scheduled Castes/ Scheduled Tribes and infact all persons who are below the poverty line.
2.4.3 Marginal Farmer

A cultivator with a land holding of 0.5 acres and above and upto 2.5 acres of dry land or upto 1.25 acres of first grade irrigated land.64

2.4.4 Small Farmer

A cultivator with a land holding of 2.5 acres and above upto 5 acres of dry land or above 1.25 acres and upto 2.5 acres of first grade irrigated land.65 Small farmers constitute a majority of farm families and belong to the weaker sections of the community, living more of less on subsistence level.66

2.4.5 Rural Artisan

“A rural artisan household was one which has had less than 0.5 acre of operational holding of land and derived the major part of its income from such crafts.”67 A rural artisan was defined as “a skilled labour in traditional village crafts who worked on his own account”.68 Small artisans69 are found in traditional

65Ibid., p.283.
66Vivek Ranjan Bhattacharya, New Face of Rural India, Metropolitan Book Company Ltd., New Delhi, 1982, p.76.
activities such as carpentry, black smithy, silver smithy, gold smithy, weaving, pot making, masonry, copper and other metal work, printing on textiles, stone carving, rope-twisting, basket making, leather works as well as in activities adjunction to modern mechanical industry such as radio repair work, welding, automobile repair work and so on. Their skills are hereditary and handed down from generation to generation. They generally do not work in any fixed premises.

2.4.6 Agricultural Labour

“Agricultural labour is one who does not have any land holding, but has a permanent homestead and derives more than half of his income from agricultural pursuits”. Agricultural labour is one whose principal means of livelihood is wage income arising out of farm labour and other allied activities like animal husbandry, poultry and dairy.

The main features characterising Indian agricultural labour are as follows: their number is vast; they lie scattered over wide areas and all over the country; they are generally unskilled; they are not organised, their bargaining position vis-a-vis the village money lender cum landlord cum wholesaler is very weak; they


\[\text{Ibid.}\]
are (found to be) migratory; moving in search of jobs, especially at the time of sowing and harvesting; and therefore, they are open to grave exploitation.\textsuperscript{72}

2.4.7 Non-Agricultural Labour

A person whose total income from wage earning does not exceed Rs.200 per month is non-agricultural labour. Persons who derive their income partly from agriculture and partly from other sources can also be brought under this category, provided at least 50 per cent of their income is from non-agricultural sources. They need not have homesteads, but must be residents of the village in which they are identified.\textsuperscript{73}

2.4.8 Weaker Sections

The term ‘weaker sections’ refers to those cultivators (small and marginal farmers) and landless agricultural labourers who primarily depend for their livelihood on agriculture as their main occupation and earning income less than Rs.6400 per annum, described as poverty line in the VIII plan document.\textsuperscript{74}


\textsuperscript{74} N.D. Kamble, \textit{Poverty within Poverty – A Study of the Weaker Sections in a Deccan Village}, Sterling Publishers (P) Ltd., New Delhi, p.1.
According to the Ghosh Committee\textsuperscript{75} set up by the RBI, the weaker section comprises; (i) small and marginal farmers with land holdings of 5 acres or less, landless labourers, tenant farmers, share croppers, (ii) IRDP beneficiaries, (iii) Scheduled Caste/ Scheduled Tribes, (iv) beneficiaries of DRI scheme and (v) artisans engaged in village/ cottage/ small industrial activities.

\textbf{2.4.9 Short-Term, Medium-Term and Long-Term Credit}

Following the All India Rural Credit Survey Committee Report (1954) we have considered such loans as short-term, the period of which does not exceed 15 months; those which are longer than 15 months but are repayable in 5 years or less as medium-term loans and all the other loans exceeding 5 years are considered to be long-term loans.

\textbf{2.4.10 Poverty}

Poverty is a man’s lack of command over adequate goods and services to satisfy his basic needs of food, clothing, housing and medical aid.

\textbf{2.4.11 Poverty Line}

Poverty line is a term which suggests that it marks off the poor from the non-poor. All households earning family incomes below a given minimum level

\textsuperscript{75}Reserve Bank of India, Working Group on Role of Banks under the New 20-Point Programmes, Chaired by A. Ghosh, February 1982, p.58.
are deemed to be poor. The present study has taken Rs.6400 per household per annum at 1986-87 prices. This norm is used by Government as well.

2.4.12 Credit Plan

Credit plan is a plan prepared by a bank for advancing credit to the various sectors. A credit plan is a development plan of an area consisting of technically feasible and economically viable schemes, which can be taken up by the financial institutions for financing.

2.4.13 Savings

The present study adopts the savings of as earned surplus which is the difference between current income and consumption.

2.4.14 Household Income

The income of a household was computed as the sum of earnings of all members of the household, from all sources during one year. The various sources of income for household taken into consideration are: agricultural employment, non-agricultural employment, income from farm activity and non-farm activity.
2.4.15 Pre-Loan and Post – Loan Period

The pre-loan year, was the year immediately preceding the availment of the bank loan. The post-loan year was the year immediately succeeding the availment of the bank loan.

2.4.16 Income Generation

Income in an important variable which determines the pattern of consumption, saving and investment in the households. In the present study, family gross income or the value of total output which is the result of the combination of different factors employed is taken into consideration.

2.4.17 Employment Creation

Employment is measured in man-days of 8 hours of work per day. The difference between the man days- during the post-loan period and pre-loan period is taken as employment days created in the post loan period.

2.4.18 Credit Deposit Ratio

Credit-Deposit ratio envisages the proportion of the credit sanctioned by the banks in a region to the deposit collected in that region. It helps to investigate the extent to which a region has benefited out of their deposits.
2.4.19 Misutilisation of Credit

Utilisation of credit refers to the use of credit for the purpose for which it was originally granted by the bank. If the whole amount of the loan is fully utilised for the sanctioned project, it has to be considered as full utilisation. The term ‘mis-utilisation’ or diversion of loan may be defined as the use of credit for the purpose other than one for which it was originally sanctioned by the bank. If a part of the loan is diverted to other uses, it is partial misutilisation. If the entire amount of the loan is diverted to other uses, it is full misutilisation.

2.4.20 Willful Defaulter

The term ‘willful default’ means default of the debts when it is within the capacity of the borrower to repay but is not paid.\(^7^6\) Willful defaulter is one whose surplus income over consumption expenditure is adequate for loan service. This definition of willful defaulter is based on the realistic assumption of a minimum living standard for the family on its pre-existing debts and permitting diversion of 25 per cent of the incremental income to rise its standard of living.

2.4.21 Beneficiaries

The households which are identified as poor at the time of survey and selected for bank assistance are called beneficiaries. Beneficiaries are divided into

\(^7^6\text{C.L. Dadhich, } \textit{Overdues in Farm Co-operative Credit, } \text{Popular Prakashan (P) Ltd., Bombay, 1977, } \text{p.28.}\)
two groups. Target group beneficiaries are those household which are really poor and whose family income is below the poverty line and who are selected for assistance. Non-target group beneficiaries are those who are not eligible for assistance as their family income is well above the poverty line but who are provided assistance.

2.4.22 Working Fund

The term ‘working fund’ refers to the working capital. Working capital is the amount of funds necessary to cover the cost of operating the enterprises.\(^7\)

In calculating Profitability Ratio (PR) we have used some concepts which are explained below:

2.4.23 Interest Earned Ratio (r)

\[
\text{Interest Earned Ratio (r)} = \frac{\text{Total Interest Earned}}{\text{Total Volume of Business}} \times 100
\]

2.4.24 Interest Paid Ratio (K)

\[
\text{Interest Paid Ratio (K)} = \frac{\text{Total Interest Paid}}{\text{Total Volume of Business}} \times 100
\]

2.4.25 Spread Ratio (SR)

Margin or Spread Ratio (SR) is the difference between interest earned ratio (r) and interest aid ratio (K). Symbolically,

\[ SR = r - K \]

2.4.26 Man-Power Expenses Ratio (M)

\[
\text{Manpower Expenses Ratio (M)} = \frac{\text{Total Man-Power Expenses}}{\text{Total Volume of Business}} \times 100
\]

2.4.27 Other Expenses Ratio (O)

\[
\text{Other Expenses Ratio (O)} = \frac{\text{Other Total Expenses}}{\text{Total Volume of Business}} \times 100
\]

2.4.28 Other Income Ratio (C)

\[
\text{Other Income Ratio (C)} = \frac{\text{Total Non-Interest Income}}{\text{Total Volume of Business}} \times 100
\]

2.4.29 Burden Ratio (BR)

Burden Ratio (BR) is obtained by deducting the other income ratio (C) from the total of man-power expenses (M) and other expenses ratio (O). Symbolically,

\[ PR = SR - BR \]
2.4.31 Payout Per Employee Ratio (M1)

\[
Payout \text{ Per Employee Ratio} = \frac{\text{Total Man-Power Expenses}}{\text{Total Number of Employees}}
\]

2.4.32 Volume of Business Per Employee (M2)

\[
\text{Volume of Business Per Employee} = \frac{\text{Total Volume of Business}}{\text{Total Number of Employees}}
\]

2.4.33 Volume of Business

By adding the total deposits amount and total advances amount we get the total volume of business.