CHAPTER I

INTRODUCTION
CHAPTER-I

Introduction

India is a land of villages. More than three fourth's of the people live in villages. There can be no real progress and development to the economy unless villages improve. In order to remove poverty, employment has to be provided to the rural poor. The village industries are the only dependable medium for creating employment in the capital scarce and labour surplus economy of India. This does not mean that large scale industries do not have any role to play in our country. Large scale industries are useful for bringing about structural changes necessary for a self reliant economy. But we cannot look to large scale industries to solve the problem of rural unemployment. The large scale industries are capital intensive. The amount of capital per head required to generate employment in large scale industry is considerably higher when compared to small-scale industry. Therefore, we can provide more employment per unit of capital in small scale industries and village industries.

The development of village industries would not only solve the problem of rural unemployment but also enables us to tap certain local resources which are unutilised.
The traditional industries have made some progress in recent years. The total value of production in this sector has increased from ₹2,183 crores in 1973-74 to ₹7,725.63 crores in 1984-'85. This forms about 12 per cent of the total production in small scale and village industries sector. Traditional industries also account for 48 per cent of the exports from the small scale and village industries sector and in terms of employment provided these industries account for 52 per cent of the total employment in the small scale sector.

One of the paradoxes of the Indian economic situation is that the economically weaker and unorganised artisans of village industries have to compete with organised industries for procurement of raw materials and finance.

Traditional types of enterprises and services at the village level, with higher labour-capital-ratio, provide better prospects of creating more opportunities for employment. Rural Artisans engaged in village and cottage industries, producing for and serving the needs of lower income groups, increase the potential of the rural economy. It is emphasised in Takkar Committee's recommendations that village crafts and services, should be encouraged since they have a large employment potential.

The twenty-point economic programme emphasises that credit facilities extended to large number of weaker sections, particularly to rural artisans, increase their capacity to invest and thus help to derive the benefits of economic development. Further, assistance to rural artisans, craftsmen, small businessmen etc., enable them to earn adequate income to improve their living standards.

In this context, it is hoped that banks have a greater role to play in contributing to the economic welfare of a wider section of the society. It is nearly a decade and a half now during which involvement of commercial banks in financing the weaker sections of the society has been growing at the faster rate.

Anantapur district is one of the most backward areas of the Rayalaseema region of Andhra Pradesh. It is not only in the field of agricultural but also allied activities and manufacturing sector. To improve the economic status of the weaker sections, there is need to develop all sectors of the economy simultaneously by making available the required credit to the people.

It is observed more and more credit is made available to the agricultural sector and the development of non-agricultural activities in rural areas has been neglected by not
providing adequate credit to these borrowers. It is only non-agricultural activities in general and traditional crafts and rural industries in particular with their high labour capital ratio have better prospects of creating more employment opportunities to increase their income.

One of the major requirements for any developmental activity is credit and it is extremely difficult and expensive for the weaker sections to procure. While agricultural lending by the banks is one way of bringing about rural development, the other way is to assist the rural artisans, craftsmen, cottage and village industries, small businessmen etc., so that gainful employment will ensure these needy people to earn adequate income to live above the poverty line. This neglect of non-agricultural activities would hamper the growth of the needed non-agricultural sector to achieve integrated rural development particularly in backward district like Anantapur.

There is a widely shared view that a determined effort is needed to speed up the flow of institutional credit especially to meet the needs of the weaker sections of the rural community. This is viewed inspite of an impressive step-up in the availability of institutional credit to the rural population in recent years. The various weaknesses of the co-operative credit agencies and the nationalised banks have
generated fear that the existing institutions as they are presently structured would not be able to fill the regional and functional gap in the rural credit institutional system within a reasonable period of time. The Government of India also felt that it was necessary to establish new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the nationalised banks.

The Banking Commission in its Report in the year 1972 mooted for the first time the proposal for setting up of rural banks after examining the record of the expansion of the Commercial Banks - activities. In pursuance of this view the Government of India appointed on July 1, 1975, a Working Group under the chairmanship of Sri M.Narasimham to examine in detail the need for setting up of new rural banks as subsidiaries of public sector banks to catch to the credit needs of the rural people. The Working Group submitted its report within one month and the Government of India accepted the recommendations. The Regional Rural Banks came into existence was replaced by the Regional Rural Banks Act of 1976.


3. M.Narasimham was the additional Secretary in the Department of Economic Affairs, Government of India.
The establishment of these new financial institutions has created a great deal of interest among the planners, policy makers and observers of the Indian economy. This innovation in the field of rural credit has added a new dimension to the banking in India. It is considered as a potentially powerful policy instruments for achieving the objective of rural development mainly through the development of rural poor.

The Reserve Bank of India in its Report has described the setting up of the Regional Rural Banks as a "development which will have for reaching effects on the extension of banking facilities to the rural areas". 4

Since the Commercial Banks in India have been lending a negligible proportions of credit to the rural poor and considering the need to fill the gap between the available credit facilities and credit needs of the weaker sections in rural sector, the establishment of the Regional Rural Banks has become an urgent necessity. Inspite of tremendous growth of rural credit in the country overtime, it is estimated that even now the non-institutional credit accounts for two thirds of the total agricultural credit in the country. 5 The poor

villagers are ultimately caught up in the vicious circles of poverty as they borrow funds from money lenders who charge abnormal rate of interest.\(^6\) Even the introduction of multi-purpose - co-operatives on the recommendations of the All India debt and rural credit survey and Farmers Service Societies advocated by the National Commission on Agriculture,\(^7\) did not provide viable alternative to the credit problems of the rural population. There are still many unbanked areas in the country though demand for rural credit has grown over the years after the introduction of mechanisation in agriculture.

These new institutions are combining the local feel and familiarity with rural problems which co-operatives possess and the abilities of commercial banks to mobilise the deposits.\(^8\) The major objective of the Regional Rural Banks should not only to mobilise resources from the region and use them within the same region but also to spread banking in all rural areas for developing banking habits in the countryside.

It is, however, clearly stressed that the trust of the lending activities of these banks should be towards providing

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credit for small and marginal farmers, landless labourers, the small businessmen, rural artisans and the persons belonging to the weaker sections of the rural society. It was also implicit in the thinking of the Government of India that the weaker sections of the rural society had in general not benefitted much from the existing credit institutions. Hence, it is decided that the new institutions of rural banks must rectify this deficiency and work for furthering the development of the rural poor. However, the idea of new rural banking and the operation of such banks with local staff in rural environment is making the poor people in the villages to find most homely.

Statement of the Problem:

Since the rural sector continues to play a dominant role in Indian economy there is need for improving the living conditions of the rural population with greater emphasis on weaker sections. It is a well-known fact that the incomes of small and marginal farmers, rural artisans, small businessmen etc., can be increased by raising their capacity to invest in their economic activities. To help specifically these sections of population, Regional Rural Banks came into existence to supplement credit which is already made available by the co-operatives and commercial banks. The small and marginal farmers and rural artisans find it difficult to make
investment on modern inputs like high yielding varieties of seeds, chemical fertilizers, purchase of raw materials and improved machinery etc., as they do not have sufficient own funds for investment purpose. Hence, Grameena Banks have to extend credit to take the shape of investment.

As the evils of non-agricultural credit are well-known, there is need for adequate and timely credit from Regional Rural Banks to the weaker sections in rural India. Though commercial banks intensified their role after nationalisation, their role is found significant in agricultural finance only. The non-agricultural activities in rural areas have not been receiving adequate credit. As Regional Rural Banks are helping greatly the non-farm sector, it is therefore, necessary to examine the role of Grameena Bank in financing non-agricultural activities in the district.

Review of Literature:

The literature is diverse in the field of bank credit in India. But it is inadequate in the area of credit structure of Regional Rural Banks and problems of credit shortage to non-agricultural sector in rural areas. Therefore, an attempt is made here to provide a comprehensive view so that some light can be thrown on the problems of credit made available to non-agricultural activities by the rural banks. In this context it is necessary to mention the contribution
made by a few people with reference to the working of Regional Rural Banks. C.D. Wadha made a noteworthy study entitled "Rural Banks for Rural Development" (1980). This study covered the analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for the restructuring of the Regional Rural Banks. Since the study was concentrated on the operational performance of the banks with the help of secondary data, it did not touch the impact of the bank credit on non-agricultural economy. Besides this, the study was conducted in 1977 when the Regional Rural Banks were in the initial stages and any assessment of their performance was not fruitful.

It is also necessary to refer here the Review Committee constituted by the Reserve Bank of India in 1977 to evaluate the working of Regional Rural Banks. The Committee evaluated the performance of Regional Rural Banks in the light of the objectives for which they were setup and also to indicate their precise role in the rural credit structure. The committee recommended for the enlargement of its scope and liberal procedures to be adopted for their functioning without enforcing any rigid posture as far as lendings to the weaker sections are concerned. But this study also could not give a concrete idea of their operations as only two years time has elapsed ever since Grameena Banks were started.
A few important aspects of the rural banking have recently been highlighted by the Reserve Bank of India. An expert Committee headed by B.Sivaraman submitted its report in May 1981. The Committee observed that the main criterion for the assessment of rural banks should not only be in terms of growth of deposits and branch expansion but also the progress achieved in the field of disbursement of credit to weaker sections in all its aspects including recovery. The Committee also criticised the tendency on the part of branch managers to demand security for their advances from weaker sections and lending procedures are not being in conformity with the needed credit.

Miss T.Sujana Kumari in her study entitled "The role of Sree Anantha Grameena Bank in a Drought Prone District, with special reference to non-agricultural loans" concluded that the borrowers for obvious reasons felt inadequacy of credit and diverted a part of their loan amount for other than the specified purposes and mostly for consumption. The rural artisans and small businessmen utilised a significant part of the credit for productive purposes. The mere increase of the loan amount to the borrowers of jewel loans and loans on deposits for non-agricultural purposes will not possibly bring about very significant reduction in poverty or inequality.
B. Sreeramulu in his study entitled "Regional Rural Banks with special reference to Sree Anantha Grameena Bank and its functioning at Kothacheruvu mandal in Anantapur district", concluded that the significant performance attained by the bank in recent years can be retained in future also provided the Grameena Bank is not constrained by the powerful employees union, lack of positive cooperation from the administrative agencies and the absence of involvement of weaker sections in the implementation of the development programmes. Unless these constraints are overcome the Grameena Bank in the district may not be useful to the target group in the desired direction and extent.

Several reports and papers have also covered various aspects of Regional Rural Banks in recent years without making an in depth study on weaker sections borrowers and how far this Grameena Banks meeting the credit needs of these weaker sections and how they are really helpful to these weaker sections.

Importance of the Study:

Though different aspects of agricultural credit by co-operatives and commercial banks have been studied and highlighted, the significance of credit made available by the Regional Rural Banks to the non-agricultural sectors is an
area yet to be fully analysed which pronounces the need for this study. As it is indisputable that the weaker sections in rural areas are having a miserable existence on the financial front, the subject of rural credit has come in for a critical review by different expert committees from time to time. However, much of it was confined to strengthen the credit prospects of large scale and medium scale agriculture rather than the agriculture of small and medium farmers, the activities of rural artisans etc. This is true more in the case of non-agricultural activities in rural areas.

Hence an attempt is made in this study to examine the extent of credit given to non-agricultural activities by the Regional Rural Banks. The present study is confined to the role of Sree Anantha Grameena Bank in Anantapur district of Andhra Pradesh, in extending the credit facilities to the weaker sections particularly for non-agricultural activities and how far these weaker sections are utilising the credit facilities in this region.

All the above studies were conducted covering the general aspects of the Regional Rural Banks. But the present study is taken up at micro level, covering the socio-economic conditions of the weaker sections and whether the borrowers have utilised the loans for the purpose for which they were provided, quantum of diversification and the impact of the
non-agricultural loans on the income and employment of weaker sections in a drought prone district like Anantapur with the following objectives.

**Objectives:**

The main objectives of the study are:

1. To understand the role of Regional Rural Banks in mobilising deposits and extending credit to the weaker sections in the district.
2. To study the socio-economic conditions of the sample borrowers.
3. To know the quantum of diversification of these loans and to find out the reasons for diversification.
4. To assess the utilisation of credit by the borrowers of non-agricultural loans and recovery performance of the bank; and
5. To estimate the impact of non-agricultural loans on employment and income received by the weaker sections.

**Methodology:**

The present study is confined to Anantapur District of Andhra Pradesh. Three Revenue Mandals viz., Garladinna, Bathalapalli and Bukkapatnam each from three different
divisions of the district were selected, to get an objective assessment of the borrowers of weaker sections who were provided non-agricultural loans during 1985-90 by Sree Anantha Grameena Bank. The present study covers the operations of three branches in three selected mandals of viz., Garladinna, Bathajapalli and Bukkapatnam in the district, where loans to non-agricultural activities particularly rural artisans, petty traders, small business were provided. In order to know whether the income and employment of these borrowers has increased significantly or not, after the utilisation of loan amount the income and employment before the credit facility and after the credit facility have been collected and compared to arrive at conclusions.

Sample Size:

The sample size of the borrowers is presented in the Table 1.1.
Table - 1.1

Sample size of the Borrowers

<table>
<thead>
<tr>
<th>S1. No.</th>
<th>Name of the Division</th>
<th>Name of the Mandal</th>
<th>Name of the Branch</th>
<th>Name of the Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Anantapur</td>
<td>Garladinna</td>
<td>Garladinna</td>
<td>33</td>
</tr>
<tr>
<td>2.</td>
<td>Dharmavaram</td>
<td>Bathalapalli</td>
<td>Bathalapalli</td>
<td>35</td>
</tr>
<tr>
<td>3.</td>
<td>Penukonda</td>
<td>Bukkapatnam</td>
<td>Marala</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Total 102</strong></td>
</tr>
</tbody>
</table>

The Table 1.1 shows the total sample size of the borrowers.

Survey:

The necessary data for the study has been collected from primary and secondary sources. The primary data is collected with the help of a schedule prepared especially for this purpose. A random sample of 102 borrowers were interviewed covering 27 borrowers from Scheduled Castes, 24 from Scheduled Tribes, 38 from Backward Classes and remaining 13 borrowers from Other Castes. The secondary data is collected from the Head Office of Anantha Grameena Bank, books, journals, magazines and from other published and unpublished records.
The collected data has been processed and analysed manually. Both primary and secondary data were tabulated item wise to bring out the role of Sree Anantha Grameena Bank in terms of sanction of non-agricultural loans, utilisation of credit and the impact of credit on the income and employment of the borrowers.

**Statistical Tools:**

To analyse the data, percentages ratios and averages were calculated besides using simple method of paired 't' test.

**PAIRED 't' TEST**

In order to evaluate the impact of non-agricultural loans on income and employment the paired 't' test was employed with the following formula.

\[
t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{Sd_1^2 + Sd_2^2}{n_1 + n_2}}} \times \sqrt{\frac{n_1 \times n_2}{n_1 + n_2}}
\]
Limitations:

The study is time specific, area specific and target oriented. The secondary data is collected for a period of ten years and of which the borrowers who were provided non-agricultural loans during 1985-90 were selected. In order to get an objective picture, only three branches (one each from three revenue mandals) were selected. However, the study could not permit the advanced statistical tools. The primary data collected is thoroughly checked to get the correct information. The conclusions derived from this study were confined to get the specific purpose only and cannot be generalised.

Chapter Scheme:

The work has been divided into six Chapters.

Chapter - I
This Chapter deals with introduction, objectives, Methodology, Survey, limitations etc.

Chapter - II
This Chapter deals with the emergence of RRBs in India and in Andhra Pradesh.

Chapter - III
This Chapter deals with the performance of Sree Anantha Grameena Bank in Anantapur District.
Chapter - IV

This Chapter explains the socio-economic conditions of the selected borrowers.

Chapter - V

This Chapter analysis the impact of non-agricultural loans on Income and Employment of the Weaker Sections in Anantapur District.

Chapter - VI

This Chapter discusses the summary and conclusions.