CHAPTER 1
GENESIS OF REGIONAL RURAL BANKS
AND
REVIEW OF LITERATURE

1.1 Introduction
1.2 Predominance of Rural Sector in Indian Economy
1.3 Pre-1975 Scene of Rural Banks
1.4 Emergence of Regional Rural Banks
1.5 Features of Regional Rural Banks
1.6 Objectives of Regional Rural Banks
1.7 Business of Regional Rural Banks
1.8 Constitution of Regional Rural Banks
1.9 Progress of Regional Rural Banks in India
1.10 Review of Literature
1.11 Conclusions
1.1 INTRODUCTION

Ordinarily, it has been observed that the developed countries comprise of or command a larger urban sector than the rural, whereas, the proportionate magnitude of these two sectors is just the opposite in a developing economy. In a developing economy, the rural sector dominates and sets the pace of development in the rest of the economy. In the recent years, however, there has been a rise in the rate of migration of the rural masses from villages to the cities. This can be attributed mainly to lack of adequate facilities in the rural areas. The rural areas lag behind their counterparts in the cities even in facilities like schools, hospitals, sanitation, roads and electricity. No doctor or teacher likes to stay in the rural areas and does not contribute anything to enrich the life of village community. These are some factors which keep the rural economy backward, primitive and far from satisfactory. For every requirement the villagers rush to the cities and there is hardly any significant change in the lifestyle of the villagers. The affluent villagers however, are migrating to cities and only the poor, who cannot leave the villages, stay back. The distinctive features of the rural and urban sector as set out in Table 1.1, are quite a contrast to each other. Nevertheless, the two sectors coexist and contribute to the overall development of the economy.
TABLE 1.1
FEATURES OF RURAL AND URBAN SECTORS

<table>
<thead>
<tr>
<th>ATTRIBUTE</th>
<th>RURAL</th>
<th>URBAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION DENSITY</td>
<td>LOW</td>
<td>HIGH</td>
</tr>
<tr>
<td>ENVIRONMENT</td>
<td>NATURAL</td>
<td>MAN-MADE</td>
</tr>
<tr>
<td>MAIN OCCUPATION</td>
<td>AGRICULTURE</td>
<td>TRADE, INDUSTRY &amp; SERVICE</td>
</tr>
<tr>
<td>ECONOMY</td>
<td>CLOSED AND NON-MONETISED</td>
<td>OPEN AND MONETISED</td>
</tr>
<tr>
<td>INFRASTRUCTURE</td>
<td>POOR &amp; WEAK</td>
<td>STRONG</td>
</tr>
<tr>
<td>SPATIAL STRUCTURE</td>
<td>DIFFUSED AND DISJUNCTED</td>
<td>COMPACT AND COHESIVE</td>
</tr>
</tbody>
</table>

The primitive rural economy is generally identified with a closed system. A closed system is one which is self-sufficient or at any rate, the system does not have any interaction with the rest of the world. Conversely, an open system interacts with the rest of the world. As the closed system progresses, it comes to have more interaction with the outside world. Progress of the rural economy, in turn, is caused very much by development in the outside world, technology being foremost among them. Expansion of transport and communication network releases the forces that make closer interdependence between rural and urban sectors desirable and feasible.
1.2. PREDOMINANCE OF RURAL SECTOR IN INDIAN ECONOMY

More than 75 per cent of the total population lives in 5.76 lakh villages. Out of these around 78.5 per cent villages are having a population of less than 1000. These villages are extremely small and widely scattered.2

According to recent estimates (provisional), as many as 271 million (32 per cent of total population) people in the country were poverty-striken and 221 million of these, that is, 97 per cent, lived in rural areas.3 The proportion of population living below the poverty line4 has not gone down. The poor in India are now numbered in terms of many hundreds of millions, majority of them living in rural areas.5

The extent of rural poverty can be witnessed from the following tables:

<table>
<thead>
<tr>
<th>TABLE 1.2</th>
<th>POPULATION BELOW POVERTY LINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>RURAL</td>
<td>253.1</td>
</tr>
<tr>
<td>URBAN</td>
<td>53.7</td>
</tr>
<tr>
<td>TOTAL</td>
<td>306.8</td>
</tr>
</tbody>
</table>

NOTE: Break up for 1987-88 not available.

### TABLE 1.3.
#### POVERTY RATIO

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural Poor to Rural Population</th>
<th>Urban Poor to Urban Population</th>
<th>Total Poor to Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1977-78</td>
<td>51.2</td>
<td>38.2</td>
<td>48.3</td>
</tr>
<tr>
<td>1984-85</td>
<td>39.9</td>
<td>27.2</td>
<td>36.9</td>
</tr>
<tr>
<td>1987-88</td>
<td>32.7</td>
<td>-</td>
<td>29.9</td>
</tr>
<tr>
<td>1989-90</td>
<td>28.2</td>
<td>19.3</td>
<td>25.8</td>
</tr>
</tbody>
</table>

**Source:** Basic statistics relating to Indian Economy (Vol.I) All India Economic Intelligence Services, Aug. 1990. Centre for monitoring Indian Economy, Bombay.

Whatever be the estimates one thing is very clear that majority of the people in rural India are poor. The predominance of the rural sector in the Indian Economy can be seen easily from the following table:

### TABLE 1.4
#### PRE-DOMINANCE OF RURAL SECTOR IN INDIAN ECONOMY (in crores)

<table>
<thead>
<tr>
<th>Indicator (1990)</th>
<th>Total (2)</th>
<th>Rural (3)</th>
<th>Percentage of (3) to (2) (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>POPULATION</td>
<td>83.00</td>
<td>62.00</td>
<td>75.00</td>
</tr>
<tr>
<td>WORKERS</td>
<td>36.99</td>
<td>28.55</td>
<td>78.00</td>
</tr>
<tr>
<td>GROSS DOMESTIC PRODUCT(1989-90)</td>
<td>Rs.4,30,274-00</td>
<td>1,40,700-00</td>
<td>32.70**</td>
</tr>
<tr>
<td>EXPORTS (1989-90)</td>
<td>Rs.27,710-00</td>
<td>6,650-00</td>
<td>24.00</td>
</tr>
</tbody>
</table>
EXPENDITURE IN PLANS
(I TO VII) Rs. 3,55,824-00 81,837.00 23.00
GOVT.REVENUE FROM Rs.86,036.00 35,777.000 46.00
INDIRECT TAXES (1989-90)

NOTE: * At 1980-81 Prices
** This share is projected to fall to 25.5% in 1999-2000 as viewed in the seventh plan. The seventh plan views India as shifting from a predominantly agricultural society to modern industrialised nation.

From the above we can draw the following conclusions:

(i) Approximately, more than three-fourth of the total population of India lives in the rural areas, despite the fact that there has been a slight urbanization and therefore, shift of population from rural to urban areas.

(ii) The proportion of workers in the rural sector is substantially large and has shown a rise from 69.7 per cent in 1951 to 78 per cent in 1990. The rise in the rural working population, when the total rural population is decreasing, reveals the expansion of working class and its immobility.

(iii) The rural sector contributes about one-third to the net national product which is substantially high by any standards.
(iv) The share of this sector in the total exports is about 24 per cent.

(v) The share of rural sector in total indirect taxes collected in India comes to about 46 per cent.

(vi) Finally, about 25 per cent of the total expenditure outlay during the plans has been incurred on development programs in the agricultural sector. Thus, we can see that the rural sector plays a predominant role in the Indian Economy. Notwithstanding the development of the other sectors which may be regarded as more productive or profitable, responsive or reactive, propulsive or impulsive, the rural sector, however subsistent and marginal it may be, continues to play a major and effective role in the economy. The pace and development of Indian Economy lies in the speedy development of the rural areas. In India, the main obstacle in rural development has been the lack of adequate credit facilities. The main problem of rural credit is not the lack of sufficient supply of, or demand for funds but of the lack of necessary adjustment between supply and demand. Since a long time, the Cooperatives have been playing a significant role in catering to needs of the rural masses. But the success of these societies is very much limited due to the weak structure emanating from the managerial deficiencies, lack of effective post-credit supervision and loan recovery. The commercial banks have, no doubt, shared the responsibility of
Cooperative banks by opening more and more rural branches and extending credit to agricultural and other priority sectors. But even the contribution of Cooperatives and Commercial Banks together could not meet even half of the estimated rural credit requirements. The non-institutional agencies in the past provided the bulk of the loans provided to the peasantry. Though there has been a decline in their relative shares, nevertheless, they continue to play a significant role in the rural economy. Institutional credit and finance is an important pre-requisite for rural development. However, the problem of rural credit has always remained intractable despite measures taken in the past to tackle it.

1.3 **PRE-1975 SCENE OF RURAL CREDIT IN INDIA**

The Cooperatives are the oldest and numerically, the largest institutional agency providing agricultural credit. According to the report of the ALL INDIA RURAL CREDIT SURVEY COMMITTEE, after five decades of existence, Cooperatives were catering to barely 3.1 per cent of the rural credit needs in 1951. Prior to independence, rural credit was available from non-institutional agencies like money lenders, Sahukars, landlords, merchants and other similar individual lenders. Even in 1951-52, these agencies catered to as much as 93.6 per cent of the rural credit requirements. These informal sources exploited the illiterate rural folk by charging very high rates of interest. Besides, the credit provided by the
agencies was usually for unproductive purpose and led to bring rural people in the grip of perpetual indebtedness. Nevertheless, in the post independence period, there was a perceptible decline in their relative shares. The Credit Survey Committee made certain recommendations to improve the performance of the Co-operatives. As a result of various measures, the Cooperatives improved their share in rural credit from 3.1 per cent in 1951-52 to 15.5 per cent in 1961-62. In 1971-72, their share was estimated at about 25 per cent. Quantum-wise, credit provided by the PRIMARY AGRICULTURAL COOPERATIVE CREDIT SOCIETIES (PACCS) increased from Rs. 24 Crores in 1951-52 to Rs. 761 crores in 1973-74. But this impressive record, however, conceals considerable imbalance in rural finance. Only three States, namely, Maharastra, Gujarat and Tamil Nadu, accounted for 45 per cent of the total loan disbursed during 1973-74. The borrowing members formed barely 37 per cent of the total membership and their deposits formed hardly 6 per cent of their Capital. The benefits of the Co-operative movement did not reach all strata of cultivators, particularly the small and marginal farmers, despite the condition of Reserve Bank for the Central Cooperative Banks that a minimum of 20 per cent of their advances should be provided to the small and marginal farmers. These institutions failed to penetrate the rural areas as the benefits of the institutional credit continued to be cornered by the influential and economically and
politically powerful section of the society.

Another institutional agency catering to the rural credit requirement is the Commercial Banks. Commercial Banks were introduced into the field of agricultural credit under the policy of SOCIAL CONTROL over the banks, in 1968, and the subsequent nationalization of 14 major commercial banks in 1969 carried the process further. Direct & indirect finance provided by commercial banks, to agriculture increased from Rs. 188 Crores in June 1969 to Rs. 1042 Crores in April, 1976. But here again, it was the well-to-do farmers who appropriated the lion’s share in the credit. The large number of agricultural labourers and small farmers received an insignificant proportion of less than 15 per cent of the farm credit disbursed by commercial banks because the procedure followed by commercial banks to grant loans was very complicated. The cost of establishing and running a commercial bank branch is high and, more importantly, their orientation is urban because of which many branches in rural areas were unable to reach the break-even point. Though Rural Branches of Commercial Banks expanded very sharply in the period following nationalization\(^8\), nevertheless, these branches rarely went beyond district or sub-divisional towns\(^9\). The failure of modern banking to penetrate rural India remained a persistent problem. There were many initial uncertainties about the right lines of development\(^10\).

1.4 **EMERGENCE OF REGIONAL RURAL BANKS**

The existing banking set up, for providing credit to the rural sector, suffered from certain limitations for catering to credit requirements of the small and marginal farmers, rural artisans and weaker sections. The Cooperatives lacked strength and managerial competence which the commercial banks possessed in abundant measure. Again, Cooperatives faced the problem of mounting overdues which further reduced their effectiveness. The Commercial banks, on the other hand, suffered from limited coverage, inadequate appreciation of the rural problems, high cost of operations and urban orientation. It was in such conditions that the Banking Commission (1972) recommended the establishment of a chain of Rural Banks, in addition to rural branches of Commercial banks. According to the Commission such rural banks could be created in one of the three possible ways:

(a) by converting selected viable Primary Agricultural Credit Societies into rural Cooperative Banks offering a full range of banking facilities, as well as, certain closely allied non-banking services.

(b) by structuring good Primary Agricultural Credit Societies as subsidiaries of Commercial Banks, and

(c) Commercial banks setting up their own subsidiaries.

In a large country with complex regional differences, no single type would offer a complete solution and the Commission, therefore, recommended a multi-pronged programme
of banking development for rural areas, comprising of Cooperative Credit Societies, rural branches of commercial banks and sponsored rural banks.\(^{11}\)

In pursuance of this, a working group on rural banks under the Chairmanship of Sh. M.Narasimhan was appointed on July 1, 1975 to examine the possibility of setting up the rural banks to bridge the credit gap in the rural areas. As per the group, the idea in setting up the new institution was two fold:

(a) To provide employment to the rural educated youth who were properly oriented to look after the needs of the rural borrowers; and

(b) To bring down the cost of the rural banking by recruiting staff on the same scale of pay and allowances as for State Govt. local bodies staff.

The group identified the various weaknesses of the Cooperative Credit Societies and the Commercial Banks and felt that the existing institutions were unable to fill the regional and functional gap in the rural credit institutional systems.

Hence, it concluded that a new type of institution, namely, Regional Rural Banks (R.R.B.s) was necessary. The group emphasized that the role of the new institutions would be to supplement and not supplant the other institutional agencies in the field. The group recommended the
establishment of R.R.Bs in a phased manner. Accordingly the Government of India promulgated the R.R.B. Ordinance on September 26, 1975, which was subsequently replaced by R.R.B. Act of 1976 on February 9, 1976 with a view to develop the rural economy i.e. develop trade, agricultural, industrial and other facilities. Initially the task of formulation and implementation of policies of Regional Rural banks was carried out by Reserve Bank of India but of late, the power has been handed over to NABARD.

The Banking Division in consultation with the Reserve Bank of India, worked out a blue print for reorganization of RRBs at the end of Dec. 1992. The blue-print proposed reorganisation of RRBs as State-level Banks for rural operations. The RRBs would thus have local head offices in the State Capitals for controlling the operations of all RRB branches in a State. However, as far as their ownership is concerned, the reconstituted RRB's would not have anything to do with the State Governments. The local head offices of the RRBs would come under an apex NATIONAL RURAL BANK. The reconstituted apex rural bank would supervise the broad parameters of operation of State level banks, while the detailed functioning would be the responsibility of local head offices in the State Capital12.

The first five Regional Rural Banks were established on October 2, 1975. The banks were new institutions for providing rural credit. These five banks were established at
Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal. These were sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India respectively. These Rural Banks covered 12 Districts and had 17 branches. By March 1990 the number of R.R.Bs increased to 196, covering 370 districts, that is, nearly 92 per cent of the total districts in the country, with 14651 branches.

Regional Rural Banks are State sponsored, regionally based and rural oriented commercial banking institutions. They are tiny versions of Public Sector commercial banks and, for all practical purposes, are scheduled banks catering to the credit needs of the weaker sections of the rural community, particularly, small and marginal farmers, agricultural labourers, rural artisans and village and cottage industrial units. The norms articulated in the R.R.Bs Act for the establishment of R.R.Bs are:

1. The area wherein they are to be located should be relatively a backward or a tribal area.
2. The new banks should be set up where the Cooperative Banks are inactive.
3. It should be assured that the area has a real potential for development break through with flow of credit.
1.5 FEATURES OF REGIONAL RURAL BANKS

The salient features of regional rural banks are:

1. The regional rural banks combine the local feel and familiarity with rural problems which the Cooperatives possess and the degree of organizational ability to mobilize deposits, access to money market and modernized outlook which the Commercial Banks have.

2. Every rural bank operates within a limited area or region which comprises of one or more districts in a State. Each branch serves a compact group of villages having a population of 5000 to 20,000. The area catered to is comparatively backward or a tribal area.

3. They grant loans and advances, particularly to small farmers, agricultural labourers, rural artisans, small entrepreneurs and persons of small means engaged in trade and commerce and other productive activities, in the area of operation of the R.R.Bs.

4. The authorized capital of each R.R.B is Rs. 5 Crores and the issued capital is fixed by Central Government and is in no case less than twenty five lacs of rupees or exceed one Crores of rupees. Of the issued capital, 50 per cent is subscribed by Government of India, 15 per cent by the concerned State Govt. and the
5. The R.R.Bs charge interest on loans advanced at a rate less than that of Cooperative Societies in the area and also pay interest of half per cent more on deposits except those for 3 years and above.  

6. R.R.Bs get assistance from Reserve Bank of India and now also from NABARD. R.R.Bs are included in the Second Schedule to the R.B.I. Act 1976, immediately on their establishment, thereby giving them direct access to the R.B.I.'s refinance assistance. They have been allowed to maintain a lower level of Statutory Liquidity Ratio than the Scheduled Commercial Banks. More importantly RBI extends refinance facilities to these bank at a concessional rate of 3 per cent below the bank rate.  

7. The IRDP and others special programmes for weaker sections are integrated with the District Credit Plans (DCPs), as provided in the new guidelines of Reserve Bank of India. The R.R.Bs in the Districts, therefore, are expected to play as important role both in the formulation and implementation of DCPs and AAPs.  

1.6 OBJECTIVES OF REGIONAL RURAL BANKS  
The main objective of R.R.Bs is to provide credit facility and services to the rural areas so that the economy can be accelerated on the path of development. Its object is
to provide at one place the special type of credit and banking facilities and other relative services needed by agriculturists and other rural people. The R.R.Bs have been conceived as institutions which act as catalytic agents for ensuring the development of rural economy by providing not only credit but also other required facilities as an answer to meet the diverse and heterogeneous needs of the rural folks with different socio-economic and agro-geographical conditions. Following are the main objectives of R.R.Bs in India.19

1. Integrated Rural Development; R.R.Bs endeavour to
   (i) Integrate inputs viz: Infra-structure, extension services and credit which constitute the scheme, as well as, to
   (ii) Integrate package activities towards the goal of achieving integrated rural development.

2. Full coverage of potential target population.

3. To inculcate banking habits in the rural masses and to tap idle money by way of deposits and lend the same for productive purposes.

4. To exercise internal control on their operations so as to ensure their healthy growth.

Other objectives of R.R.Bs are:

1. To free the rural poor, small and marginal farmers from the clutches of the exploitative money lenders.
To provide credit to small and marginal farmers, most of whom do not fulfill the criteria of credit worthiness, as per banking rules.

To reduce income disparities in the rural population.

In order to achieve the above objective, R.R Bs are required to perform the following functions:

a) Mobilize local savings;
b) Provide short and medium-term credit as agent of the land development banks;
c) Implement programs of supervised credit, tailored to meet the needs of individual farmers;
d) Provide ancillary banking services to local people;
e) Set up and maintain godowns;
f) Undertake supply of inputs for agricultural and other products through marketing organizations; and
g) Help, in general, the overall development of the villages under their area of operation.

BUSINESS OF A REGIONAL RURAL BANK

Every Regional Rural Bank carries on and transacts the business of Banking as defined in Clause (b) of Section 5 of Banking State Regulation Act, 1949 and may engage in one or more forms of business specified in sub-section (I) of Section 6 of that Act. Every Regional Rural Bank undertakes the following types of business, namely:
The granting of loans and advances, particularly to small and marginal farmers and agricultural labourers, whether individually or in groups, and to Co-operative Societies, including Agricultural Marketing Societies, Agricultural Processing Societies, Co-operative Farming Societies, Primary Agricultural Credit Societies or Farmer’s Service Societies, for agricultural purposes or agricultural operations or for other purpose connected therewith;

The granting of loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within the notified area in relation to the Regional Rural Bank.

1.8 CONSTITUTION OF REGIONAL RURAL BANKS

R.R.Bs have been set up under the Regional Rural Banks Act, 1976 and have been assigned a special role in context of IRDP. To follow this policy and to spread branches in rural areas, the RBI gives preference for opening branches in the rural parts covered by R.R.Bs. Commercial banks have been empowered to sponsor R.R.Bs by participating in their capital and also organizing and staffing them in the initial stages.

Each R.R.B is managed by a Board of nine members consisting of a Chairman appointed by the Central Government and the following other members, namely;
Two Directors, who are not Officers of Central Govt., State Govt., Reserve Bank, National Bank, Sponsor Bank or any other Bank, nominated by Central Govt.

One Director, who is an officer of Reserve Bank, nominated by that Bank.

One Director, who is an officer of National Bank, nominated by that Bank.

Two Directors, who are officers of Sponsored bank, nominated by that Bank;

Two Directors who are officers of concerned State Government nominated by that Government.

1.8.1. MEETING OF BOARD

The Board of Directors of a Regional Rural Bank meets at such time and place and observe such Rules of Procedure in regard to transaction of business at its meetings, as may be prescribed. The Chairman of Regional Rural Bank presides over every meeting of the Board.

1.9. PROGRESS OF REGIONAL RURAL BANKS IN INDIA

The R.R.Bs were inaugurated on 2nd October, 1975. Since their inception they have made tremendous progress, as revealed in Table 1.5. As on March 31, 1990, 196 banks were operating through 14651 branches. Their deposits and advances totaled Rs. 4150 crores and Rs. 3554 crores respectively, at the end of March, 1990. The Credit-Deposit ratio was about 86 per cent which is much beyond the capacity of Commercial banks. More than 90 per cent of the outstanding advances have
<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. OF RRBs OPENED</th>
<th>NO. OF BRANCHES OPENED</th>
<th>NO. OF BRANCHES TOTAL AT THE END OF THE YEAR</th>
<th>AVERAGE NO. OF BRANCHES PER RRB</th>
<th>DISTRICTS COVERED</th>
</tr>
</thead>
<tbody>
<tr>
<td>JUNE 1983</td>
<td>21</td>
<td>142</td>
<td>1419</td>
<td>48</td>
<td>269</td>
</tr>
<tr>
<td>JUNE 1984</td>
<td>20</td>
<td>162</td>
<td>1915</td>
<td>54</td>
<td>286</td>
</tr>
<tr>
<td>JUNE 1985</td>
<td>21</td>
<td>183</td>
<td>3412</td>
<td>66</td>
<td>322</td>
</tr>
<tr>
<td>JUNE 1986</td>
<td>11</td>
<td>194</td>
<td>616</td>
<td>66</td>
<td>343</td>
</tr>
<tr>
<td>JUNE 1987</td>
<td>2</td>
<td>196</td>
<td>321</td>
<td>67</td>
<td>362</td>
</tr>
<tr>
<td>JUNE 1988</td>
<td>-</td>
<td>196</td>
<td>510</td>
<td>69</td>
<td>365</td>
</tr>
<tr>
<td>JUNE 1989</td>
<td>-</td>
<td>196</td>
<td>569</td>
<td>72</td>
<td>370</td>
</tr>
<tr>
<td>MARCH 1990</td>
<td>-</td>
<td>196</td>
<td>496</td>
<td>75</td>
<td>372</td>
</tr>
</tbody>
</table>

SOURCE: STATISTICS ON RRBs NABARD PUBLICATION MARCH 1989-90 ANNUAL REPORTS
gone to the weaker sections like small and marginal farmers and landless labourers. The higher Credit-Deposits ratio, coupled with the fact of almost exclusive financing of the weaker sections, is being viewed as the most important achievement of the R.R.Bs during the last decade and a half of their existences. The average number of branches per R.R.B increased from 2.83 to 74.7 during 1975 to 1980.

Statewise progress of Regional Rural Banks in the country can be gauged from Table 1.6. It can be seen from the table that, as at the end of 1990, the highest number of R.R.Bs were in Uttar Pradesh, that is, 40 (20.4 per cent of the total), followed by Madhya Pradesh 24 (12.4 per cent) and Bihar 22 (11.22 per cent) while States like Goa and Sikkim did not even have a single R.R.B. Besides, there were a number of States, for instance, Nagaland, with just a single Regional Rural Bank. Out of 14443 branches, maximum 3050 (21.11 per cent) were in Uttar Pradesh, followed by Bihar (1865) and Madhya Pradesh (1600).

1.10. REVIEW OF LITERATURE ON REGIONAL RURAL BANKS

Regional Rural Banks being a new species in the multi-agency credit delivery system of India, particularly at the grass root level, render it worthwhile to study their performance and contribution to the economic development. Though these banks have attracted the attention of many researchers, nevertheless, much remains to be done. The
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R.R.Bs</td>
<td>BRANCHES</td>
<td>R.R.Bs</td>
<td>BRANCHES</td>
<td>R.R.Bs</td>
<td>BRANCHES</td>
<td>R.R.Bs</td>
<td>BRANCHES</td>
</tr>
<tr>
<td>ANDHRA PRADESH</td>
<td>12</td>
<td>578</td>
<td>12</td>
<td>816</td>
<td>14</td>
<td>985</td>
<td>15</td>
<td>1010</td>
</tr>
<tr>
<td>ASSAM</td>
<td>5</td>
<td>158</td>
<td>5</td>
<td>223</td>
<td>5</td>
<td>320</td>
<td>5</td>
<td>322</td>
</tr>
<tr>
<td>ARUNACHAL PRADESH</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>12</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>BIRAR</td>
<td>17</td>
<td>1298</td>
<td>20</td>
<td>1480</td>
<td>22</td>
<td>1773</td>
<td>22</td>
<td>1775</td>
</tr>
<tr>
<td>GOA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>GUJARAT</td>
<td>5</td>
<td>114</td>
<td>9</td>
<td>175</td>
<td>9</td>
<td>288</td>
<td>9</td>
<td>307</td>
</tr>
<tr>
<td>HARYANA</td>
<td>2</td>
<td>168</td>
<td>3</td>
<td>181</td>
<td>4</td>
<td>214</td>
<td>4</td>
<td>220</td>
</tr>
<tr>
<td>HIMACHAL PRADESH</td>
<td>1</td>
<td>79</td>
<td>1</td>
<td>87</td>
<td>2</td>
<td>90</td>
<td>2</td>
<td>92</td>
</tr>
<tr>
<td>JAMMU AND KASHMIR</td>
<td>3</td>
<td>197</td>
<td>3</td>
<td>238</td>
<td>3</td>
<td>259</td>
<td>3</td>
<td>261</td>
</tr>
<tr>
<td>KARNATAKA</td>
<td>8</td>
<td>604</td>
<td>12</td>
<td>818</td>
<td>13</td>
<td>966</td>
<td>13</td>
<td>980</td>
</tr>
<tr>
<td>KERALA</td>
<td>2</td>
<td>230</td>
<td>2</td>
<td>247</td>
<td>2</td>
<td>262</td>
<td>2</td>
<td>262</td>
</tr>
<tr>
<td>MADHYA PRADESH</td>
<td>19</td>
<td>813</td>
<td>22</td>
<td>1132</td>
<td>23</td>
<td>1400</td>
<td>24</td>
<td>1440</td>
</tr>
<tr>
<td>MAHARASHTRA</td>
<td>5</td>
<td>150</td>
<td>7</td>
<td>354</td>
<td>9</td>
<td>445</td>
<td>10</td>
<td>456</td>
</tr>
<tr>
<td>MANIPUR</td>
<td>1</td>
<td>9</td>
<td>1</td>
<td>16</td>
<td>1</td>
<td>22</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>MEGHALAYA</td>
<td>1</td>
<td>11</td>
<td>1</td>
<td>30</td>
<td>1</td>
<td>39</td>
<td>1</td>
<td>41</td>
</tr>
<tr>
<td>MIZORAM</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>20</td>
<td>1</td>
<td>33</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>NAGALAND</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>ORISSA</td>
<td>9</td>
<td>568</td>
<td>9</td>
<td>689</td>
<td>9</td>
<td>769</td>
<td>9</td>
<td>778</td>
</tr>
<tr>
<td>PUNJAB</td>
<td>3</td>
<td>12</td>
<td>3</td>
<td>79</td>
<td>3</td>
<td>107</td>
<td>5</td>
<td>114</td>
</tr>
<tr>
<td>RAJASTHAN</td>
<td>9</td>
<td>475</td>
<td>13</td>
<td>683</td>
<td>14</td>
<td>954</td>
<td>14</td>
<td>962</td>
</tr>
<tr>
<td>SIKKIM</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>TAMIL NADU</td>
<td>1</td>
<td>114</td>
<td>1</td>
<td>130</td>
<td>2</td>
<td>150</td>
<td>3</td>
<td>156</td>
</tr>
<tr>
<td>TRIPURA</td>
<td>1</td>
<td>61</td>
<td>1</td>
<td>64</td>
<td>1</td>
<td>77</td>
<td>1</td>
<td>77</td>
</tr>
<tr>
<td>UTTAR PRADESH</td>
<td>35</td>
<td>1697</td>
<td>36</td>
<td>2247</td>
<td>39</td>
<td>2745</td>
<td>39</td>
<td>2787</td>
</tr>
<tr>
<td>WEST BENGAL</td>
<td>8</td>
<td>460</td>
<td>9</td>
<td>528</td>
<td>9</td>
<td>693</td>
<td>9</td>
<td>718</td>
</tr>
</tbody>
</table>

| TOTAL              | 150  | 7795 | 173  | 10245 | 188  | 12606 | 194  | 12838 | 196  | 13353 | 196  | 13742 | 196  | 14257 | 196  | 14257 |

**SOURCE:**


(2) Report on Currency & Finance, 1983-84, RBI p. 63
studies undertaken, both at macro and micro levels, have concentrated on a few aspects of Regional Rural Banks, for instance, viability, problems and issues involved and in some cases, appraisal of performance of these banks in certain States, for example, Bihar, Karnataka, Rajasthan etc. These States have a very different socio-economic profile than that of Punjab. Therefore, the findings of these studies are not very relevant to the operations of R.R.Bs in the State of Punjab. Assuming that they can still have a distant bearing on the outcome of present study, these have been included in the following pages.

The studies have been categorized into two broad sections:

Section A: quotes the reports of various Committees appointed by Central Government, Reserve Bank of India and other bodies to review the performance of R.R.Bs.

Section B: Contains a review of related studies by independent researchers.

SECTION A

1.10.1 REPORTS OF VARIOUS COMMITTEES

The recommendations in Reports of various Committees have been discussed in a chronological order in the following pages:

1. REPORT OF BANKING COMMISSION (1972)\textsuperscript{22}

The Government of India appointed the Banking Commission on January 29, 1969 with Sh. R.G. Saraiya as the Chairman. The Commission submitted its reports in 1972. In its reports, the
commission mooted the idea of setting up rural banks in rural areas. The commission was of the opinion that rural banks can be created in any one of the three ways: (a) Conversion of Primary Cooperative Societies providing all Banking services; or (b) Establishing subsidiaries of commercial banks, or (c) Establishing special types of rural banks sponsored by commercial banks, but supported by the local participation.

The Commission favoured the third option; that is, setting up of rural banks sponsored by the Commercial banks. This proposal was approved by the Working group headed by M. Narsimhan in 1975 and Regional Rural Banks Ordinance was promulgated on 26 Sept. 1975 which provided for constitution of 'Regional Rural Banks'.

2. **DANTWALA COMMITTEE REPORT (1977)**

In June 1979, the Reserve Bank of India appointed a Committee headed by a noted economist, Prof. M.L. Dantwala. The Commission was to (a) Evaluate performance of Regional Rural Banks in the light of objectives for which they were set up; (b) Indicate their precise role in the rural credit structure; and (c) Recommend on the scope, methods and procedures for their functioning and other related matters.

In its report submitted in 1978, the Committee opined that the R.R.Bs could become a very useful component in the totality of the rural credit structure and, thus, supported continuance of R.R.Bs. The main findings of Committee are:
(i) Within a short period of two years, R.R.Bs have demonstrated their capability to serve the purpose for which they were established; and (ii) The R.R.Bs are able to cater to the credit needs of hitherto neglected sections of the society.

The Committee opined that: (a) establishment of R.R.Bs would not disturb the Cooperative Credit structure at the base level and assured that the reorganised Primary Agricultural Cooperative Credit Societies and Farmers Service Societies would constitute the base of rural credit structure; and (b) Regional Rural Banks will fill up the gap wherever Cooperative Credit Structure is weak and inadequate.

For increasing the effectiveness of R.R.Bs, the Committee made the following suggestions: (i) Commercial Banks operating in the 'Command Area' of an R.R.B. should be persuaded to progressively entrust their rural credit business which their rural branches are currently doing, to R.R.B. and its branches, keeping in view R.R.B's capacity to shoulder the responsibility; (ii) Reserve Bank can discuss with the Commercial banks the policy of extension of their rural branches during the first phase of selective establishment of R.R.Bs; (iii) Ideally, the jurisdiction of a rural bank should be confined to one district; (iv) There should be a change in the share capital composition. The Committee recommended that the share of sponsoring banks should be raised to 40 per cent and there should be local
participation to the extent of 20 per cent, keeping the share of the State Government at 15 per cent and holdings of Central Government should be 25 per cent; (v) R.R.Bs should function like any other commercial bank under the direct control of Reserve Bank of India; and (vi) Specialised training facilities should be imparted by the sponsoring banks to the personnel of R.R.Bs.

3. AGRICULTURAL FINANCE CORPORATION STUDY (1981)

NABARD called upon Agricultural Finance Corporation to undertake a study on varied aspects of the working of the Regional Rural Banks, particularly, viability. The report of the study claims, that, inspite of the several handicaps, the Regional Rural Banks are catering to the credit needs of the weaker sections in rural areas and they have largely succeeded in that. After 1976, the progress in opening of new Regional Rural Banks in the country slowed down, but picked up in 1978. However, the geographical spread remains uneven and the business of Regional Rural Banks has grown faster than the number of branches. The critical factors relating to viability, indicating in the study by Agricultural Finance Corporation are: (i) The margin between mobilization of resources and deployment of funds; (ii) Adequate building up of advances to take care of all current and future costs; (iii) The proportion of establishment cost to total cost; and (iv) Branch expansion.
The report recommends, principally, that Regional Rural Banks may be allowed to open urban branches with all banking facilities such as Cash Credit, overdrafts, dealing in bills etc. on the lines of Commercial banks to make them financially viable. It has recommended that for every 25 rural branches, one urban branch should be allowed.

4. REPORT OF STEERING COMMITTEE ON REGIONAL RURAL BANKS (1981)

The Steering Committee on Regional Rural Banks constituted by Reserve Bank of India, undertook a study to examine the viability of Regional Rural Banks. The main objects of the study were: (i) Whether the R.R.Bs which had completed 3 years or which had reached a loan business of Rs. 3 crores by December 31, 1978 had become viable as envisaged by the Dantwala Committee which had indicated loan business of Rs. 3-5 crores; (ii) If not, the main reasons for not becoming viable and factors, both on income and expenditure sides which needed re-examination to ensure viability of R.R.Bs; (iii) Whether the branches of R.R.Bs had become viable after reaching a loan business of Rs. 6 lakhs as envisaged by the Dantwala Committee and, if not, the reasons thereof; (iv) Level of loan business at which an R.R.B. can become viable not only from the point of meeting all its expenses but also to build up minimum reserves over a reasonable period of time; (v) Margin which an R.R.B would require for achieving purpose of (iv) above as compared to
the present margin available on its total leadings; and (vi) Overall aspects in the operation of R.R.Bs which would ensure the progress of R.R.Bs towards viability, period that an average R.R.B. may need to become viable and the steps to be taken to build up R.R.B. loan business from these considerations. For this purpose, 15 R.R.Bs which had been in existence for 3 years or more or had crossed the Rs. 3 crores mark of loan business by the end of December 1978, were selected. The main findings of the study were: (i) Location of branches, especially those located at centres with limited potential, hindered the attainment of viability. (ii) Keen competition from rural branches of Commercial banks and Cooperative Banks prevented some branches from expanding their business; and (iii) Despite the constraints, for instance, limited area of operation, unenterprising clientele etc., R.R.Bs had been able to achieve the main objectives of helping the weaker sections in the rural areas, in meeting their credit requirements.

The Study also observed the following: (i) Out of 15 R.R.Bs, as many as 11 had not reached the stage of viability and it was argued that this was because R.R.Bs lend only to weaker sections and at a low rate of interest. (ii) Despite the fact that several R.R.Bs, included in the study had been in existence for over 3 years and had achieved the business of well over 3 crores (as suggested by Dantwala Committee),
they had failed to reach the break-even point; and (iii) R.R.Bs do not have adequate staff for project preparation to avail the Agricultural Rural Development Corporation’s (ARDC) finance. None of the R.R.Bs had received ARDC finance and were solely dependent upon the borrowings from sponsoring commercial banks or the refinance facility.

5. COMMITTEE TO REVIEW THE ARRANGEMENTS FOR INSTITUTIONAL CREDIT FOR AGRICULTURAL AND RURAL DEVELOPMENT: (CRAFICARD) 1981

In its comprehensive review of the institutional credit set up, the Committee to review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), which submitted its final report in March, 1981 to Reserve Bank of India, has found the institution of R.R.Bs especially suitable for rural development work. The Committee has, therefore, recommended that R.R.Bs should continue to confine their operations to the weaker sections and that preference should be given to R.R.Bs with regard to licensing of branches in the rural areas. Important recommendations of the committee are: (i) Reserve Bank of India should take necessary steps to facilitate the transfer of eligible business of commercial banks’ rural branches to R.R.Bs as and when proposed; (ii) Losses made by R.R.Bs should be made good by their Share holders, equity of R.R.Bs should also be raised; (iii) R.R.Bs should continue to confine their operations to the weaker sections; (iv) Emoluments of the
R.R.Bs’ staff should continue to be determined with due regard to the State Government’s pay scales; (v) Facilities from Sponsor Banks to R.R.Bs should continue for a period of 10 years in each case; (vi) The experts connected with agricultural development may be nominated on the Board of Regional Rural Banks; and (vii) Since R.R.Bs serve the weaker sections exclusively, facilities of concessional refinance from Reserve Bank of India should continue.

6. **KELKAR COMMITTEE REPORT (1986)**

A working group was set up by the Government of India, under the Chairmanship of Shri V.K. Dar, Additional Secretary, Ministry of Finance, to review the functioning of Regional Rural Banks. From August 1985, this group was headed by Shri Kelkar, Additional Secretary (Banking). The group examined the viability problems of R.R.Bs and appraised their performance in order to make recommendations on: (i) The suitability of the present structure, coverage and operational strategies of R.R.Bs, keeping in view the role assigned to them; (ii) The size, area, coverage and clientele of the R.R.Bs with a view to ensuring their viability and the mechanism of meeting the operational losses of such R.R.Bs, where necessary; (iii) Strategies of proper recruitment, development and deployment of manpower resources; (iv) The responsibilities of the sponsoring banks towards their sponsored R.R.Bs, both short term and long term; and (v)
Other aspects connected with the main area of enquiry.

The report submitted in 1986 observed that 90 per cent of the branches of R.R.Bs were opened in hitherto unbanked centers and 92 per cent were in the rural areas. The bulk of the advances, almost 90 per cent, were granted to the weaker sections and average advances per account amounted to nearly Rs. 2000. With regard to recovery performance, the Committee observed that overall default in 1984-85 was as follows:

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>54 per cent</td>
</tr>
<tr>
<td>Land Development Banks</td>
<td>60 per cent</td>
</tr>
<tr>
<td>Central Cooperative Banks</td>
<td>57 per cent</td>
</tr>
<tr>
<td>Primary Agricultural Credit Societies</td>
<td>57 per cent</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>48 per cent</td>
</tr>
</tbody>
</table>

Hence, the default of R.R.Bs was lowest.

The Committee made the following suggestions:

(i) Raise the issued capital to Rs. 100 lakhs.

(ii) Bifurcate the unwielding R.R.Bs and amalgamate small R.R.Bs.

(iii) The accumulated losses of the loss making R.R.Bs should be shared with their shareholders.

The Committee recommended that Regional Rural Banks should be continued as a small man’s banks for fulfilling the objectives for which they were established.
7. REPORT OF AGRICULTURAL CREDIT REVIEW COMMITTEE (1989) 28

Reserve Bank of India appointed an Agricultural Credit Review Committee under the chairmanship of Prof. A.M. Khusro to review the Agricultural credit system. The Committee beseeched for looking into the question of growing politicisation of the agricultural credit system so as to better the quality of lending and recovery performance. The Committee regretted that time constraints forced the bank staff to avoid visiting a number of beneficiaries. Even where inspection was carried out, it was largely perfunctory and poor in quality. The main recommendations of the Committee are: (i) There is a need for professional approach to scrutinize and sanction individual loan applications; (ii) Commercial banks should be enabled to deal with the cases strictly in accordance with banking norms and they should take concerted measures to recover their advances both in agricultural and non-agricultural sectors; (iii) There should be a proper rapport and coordination between sponsoring and disbursing institutions; and (iv) The scheme for agricultural financing should be ‘result oriented’ and not ‘target oriented’.

8. NARASIMHAN COMMITTEE REPORT (1991) 29

Government of India appointed a Committee under the chairmanship of M. Narasimhan to examine, amongst other things, the functioning and structure of banking system, with regard
to its efficiency, productivity and profitability. The report of the Committee was tabled in the Parliament on December 17, 1991. The Committee classified the banking structure into tiers and placed Regional Rural Banks as one of the tiers. The report pinpointed the following reasons for the sorry state of affairs of Banking system (including Rural Banks).

(i) Directed investment
(ii) Directed credit

The main recommendations of the Committee with regard to Rural Banks are: (i) Statutory Liquidity ratio and cash reserve ratios of all banks should be reduced and Incremental cash Reserve Ratio, imposed from May, 1991, should be scrapped immediately; (ii) There should be a gradual phasing out of lending to priority sectors. The report sought to include in priority sectors only small and marginal farmers, tiny sectors, small business and rural artisans, and exclude large agriculturists, small scale industries, professional and self employed, retail traders and education; (iii) Each public sector bank should set up rural banking subsidiaries; and (iv) The Committee considered banking system in India over-regulated and over-administered. The committee suggested that authority should vest with Reserve Bank of India for evolving prudential norms and regulations and Banking Department in Ministry of Finance should be wound up. The control of Reserve Bank of India should be general and
should allow the banks the freedom of operational flexibility.

SECTION B

1.10.2 STUDIES BY INDEPENDENT RESEARCHERS

After having examined the findings of studies conducted by Groups/Committees appointed by Reserve Bank of India/Government, we now turn to review the findings of studies conducted by independent researchers.

Frey, Thomas Lee (1970), 30 in his Ph.D. thesis, pointed out that the confines of loans of a rural bank are controlled and directed by the feedback relationships. It was observed that the model bank often met less than half of its loan demand. The study also revealed that removal of policy constraints, in general, led to a decline in the proportion of loans and an increase in interest rates generated a modest increase in loan activity. Further, the study pointed out that decreasing capital and liquidity constraints increased the profits of the bank.

Varade, S.D. (1973) 31 in an empirical study on efficiency of Rural Branches, maintains that success of a rural branch has to be studied in relation to the objectives of rural banking which are: (a) To act as active catalyst in the integrated socio-economic development of the area served by the branch; and (b) To become a commercially profitable unit of banking. The main findings of the study are: (i) A
A group of 4-5 proximate branches would function more effectively than single individual branches; (ii) The manpower requirements should be determined on the basis of the specific needs of a particular branch and a standard mix of staff for all the branches should be avoided; (iii) There is a need to draw out the rural branches from the middle of a low level of operation and large amount of overdues; and (iv) Some rural branches may be opened in a way that a group of 4-5 rural branches gets formed around an existing rural branch.

PODWAL AND BANDYOPADHYA (1973) 32 tried to present a scientific framework for analyzing environmental data to arrive at a meaningful location and branch expansion plan in the rural areas of a district. The study concludes: (a) From the long term interest of the banks business, it is profitable for the bank to open maximum number of branches in the earlier years of the planning horizon; (b) Micro level decision making is not possible without having the data at micro-level; and (c) The high cost of starting the operations of new branches needs sound decision making based on an objective rather than a subjective criteria.

PATEL, A.R. (1974) 33 carried out a study to examine the problems and challenges of rural credit. It was concluded in the study that there was no need of nationalised commercial banks to be afraid of accepting the challenges of rural development despite the controversy involved in the concept of institutional finance. There was a need to adopt an
integrated agricultural credit-cum-service concept which would result into: (a) The element of risk reduced to the minimum; (b) Increase in production efficiency; (c) Increase in the borrowing power of the farmers to secure credit; (d) Increase in the bargaining power of farmers to sell their produce; and (e) Repayment of loan instalment more ensured.

In a case study, PATIL, SRIDHAR AND BANDYOPADHYA (1975) have examined the importance of proper branch expansion and location planning in the development of banking system. Further, various constraints; organizational, manpower and profit, affecting programme of branch expansion, have been prescribed. A branch expansion programme, as per the study, consists of two components: (i) Determination of total number of branches to be opened in a State, District or Block; and (ii) Given the total number of branches to be opened, determine the approximate location of such branches. The study commented that: (a) The action plan evolved in this manner would clearly indicate the implementation, agencies and their responsibilities; (b) Experience of District Coordination Committees and State Level Consultative Committee was not very helpful in development and banking in the State; and (c) Whole process was multidimensional, involving actions and interactions among the different agencies. Because these dimensions were highly correlated the financial plan would have to be arrived at in
an interactive manner and changed time and again, as need be.

**SAPP. R.W. (1978)** in his doctorate thesis examined the connection between the performance of a bank and long range planning. The main findings, of the study are: (a) Bank’s profitability is not significantly related to levels of long range planning; (b) The measure of deposits growth is significantly explained by long range planning efforts; (c) Loan yield is also significantly dependent on long range planning; and (d) As the planning level increases, the required capital necessary to support the given risk asset base decreases.

Research Paper authored by **SHAH. S.G., (1979)** manifests itself in highlighting some aspects of profitability in banks. The article emphasizes the fact that it is difficult to improve profitability by widening the gap between lending and borrowing rates or by having low service charges. In fact, latent efficiencies in cost structure lead to an increase in income. The spread between interest earned and paid is dwindling due to: (a) Inefficient staffing; (b) Poor Management of funds and investments; (c) Lacking in proper supervision of credit; and (d) Complex procedures involved.

**MAKARAND (1979)**, in his study, appraised the performance of public sector banks in the light of six indicators viz. branch expansion, priority sector credit, deposit mobilization, export credit, net profit to working
fund, cost of Business development and derived out performance index, called Integrated Performance Index (I.P.I.) for each public sector. Apart from inter-bank comparisons based on their performance indices, the study prescribes that: (a) Branch Managers should have requisite loaning powers; (b) Priority sector credit should actively involve not only the top level management but also the staff at lower level; (c) Counselling and expert advice to the priority sectors on diversified activities is essential; and (d) The Banks which were performing below the national average should re-examine their liabilities management so as to control the factors influencing cost of operation.

Aggarwal H.N. (1979) in his research study, pointed the role played by Nationalized Banks in fulfilling their social obligations. The main suggestions put forth by the study that would enable Banks to successfully discharge their social obligations are: (i) Providing more branch offices to the public in general, and in the semi-urban and rural areas in particular, as well as, at unbanked rural centers; (ii) Mobilizing more fixed deposits and deposits from the rural areas; (iii) Providing greater credit facilities to the public, the priority and the neglected sectors. (iv) Financing of Primary Agricultural Cooperative Societies, Farmer Service Societies and sponsoring Regional Rural Banks; (v) Helping in generation and maintenance of employment.
opportunities in the economy; (vi) financing the Government securities; (vii) Popularizing the bill form of credit; and (viii) resorting as little as possible to the refinancing and borrowing facilities.

SHARDA, H.M. (1980) attempted to review the progress made by Regional Rural Banks. The indicators of performance used were: branch expansion, deposit mobilization, advances and recovery position. The findings of the study emphasized upon the indispensability of Regional Rural Banks in the rural credit structure and suggested that these banks should be duly assisted by the State Governments so as to enable them to progress at a greater speed.

RAO AND KRISHNA MURTHY (1980) examined the sway which RRBs exercised on the rural development activities. The sample of the study included five villages namely, Siddipeta, Gudem, Vadulla Valid, Thotada and Hanumantapuram in Sri Kabulam Districts served by Sri Visakha Gramin Bank. The main suggestions put after an in-depth study of loans and advances and recovery performance are: (a) Beneficiaries should choose the development activity on the basis of resource potentialities, manpower, climate and topography, transport facilities and market & storage facilities; and (b) In order to avoid wrong identification of beneficiaries, guidance should be sought from a permanent agency comprising of extension officers in diversified fields. If need be, the job may be carried by specialized agencies like SFDA, MFALDA
RAO L.K.M. (1981), in a case study of RRB, analyses the performance of Sri Visakha Gramin Bank in the State of Karnataka. The study is based on the year 1978-79 and was carried out to examine the impact of rural banks finance on: (a) distribution of grain; (b) cropping pattern; and (c) assets of different beneficiaries. The main conclusions of the study are: (a) The bank was functioning effectively in meeting the credit demand of the target groups and the rate of return in all activities was quite high except that in case of small business activities; (b) The rate of return on agriculture in irrigated regions was higher than in the non-irrigated regions which, in itself, emphasizes upon the sway of irrigation on incomes. However, in the allied activities, rate of return was higher in un-irrigated regions; (c) Though RRB loans did not significantly effect the cropping pattern, nevertheless, there was an increase in the intensity of cropping in both regions; and (d) There was an insignificant impact of RRB loans on assets of different beneficiaries except for in some individual cases. The main suggestions made by the study are: (a) Top priority should be accorded to dairying and allied activities as the prospects therein are bright; (b) RRBs should concentrate on long run development and, as such, credit to medium term irrigation development projects should be given; (c) As against DRI
policy, the RRBs should discriminate between different categories of users but not different purposes of loans and economic position of the beneficiaries should be the deciding factor.

CHIPRA AND SAGAR (1981), in their research paper, have taken up the question of existence of variation in the level of development of banking in India. For this purpose, they have carried out a cross-section analysis of banking institutions in 18 major Indian States. The study concluded that there is a wide range of variation in the level of development of banking among the different States in the country, and emphasized upon the role played by literacy rate and infrastructural development of the State in the banking development in the State.

VARSHA, S. VARDE and SAMPAT, P. (1982), in their study, have attempted to appraise the profitability performance of all RRBs over the three years from 1978 to 1980. The conclusions of the study are based on the findings of 40 RRBs which, as on Dec.1978, had at least 2 years of functioning to their credit. Ten key indicators were derived by relating various components of profit and loss account statement to a common denomination to analyze the inter-regional variations in the performance of RRBs. Four model average RRBs, namely, average Eastern, Northern, Southern and Central RRB were constructed. The analysis of data indicated that, in general, profitability performance of all RRBs, improved over the 3
years from 1978 to 1980—Eastern and Central RRBs which were showing losses in 1978 were moving towards profits.

NAYAN KAMAL (1982)\textsuperscript{44}, in his doctoral thesis, has provided an evaluation model to carry out performance evaluation of Commercial Banks. The results of the study are: (i) At the micro level, much has to be done about existing system of performance budgeting so as to use it for evaluating branch level performance; (ii) The present system of ranking the banks on the basis of aggregate deposits fails to show overall achievements; and (iii) The techniques of inter-firm comparisons used in the study also fails to give an integrated picture of the total performance. He has suggested the development and use of a performance evaluation model which facilitates the computation of Integrated Performance Index based on all the important parameters of performance.

REDDY AND HUSSAIN (1983)\textsuperscript{45}, in their study, appraised the functioning of Regional Rural Banks using the following indicators; (a) Bank and Branch expansion; (b) Deposits; (c) Advances; and (d) Credit-deposit ratio. The study examined the inter-regional variations for the period 1975-81 and concluded that: (a) The branch expansion rate was almost 3 times the rate of bank expansion; (b) RRBs had a weak deposit base; and (c) There were inter-regional variations in the performance of RRBs and these variations were favourable to
SINGH, R.K.P., (1983)\textsuperscript{46}, in his work, attempted to examine the asset structure and source of financing RRBs. The main objectives of the study were: (i) Examine the extent of earning assets in the total assets of R.R.Bs; (ii) Study the ratio between the cost of borrowings and re-financing and the cost of deposits mobilized; and (iii) Find the net earning from investment of funds raised through these sources. The study was conducted in the State of Bihar and was based on four out of the seven banks which had completed more than 3 years of working on 31st December, 1980. The main findings of the study were: (i) The deposits are the main source of financing investments in earning assets in the form of loans and advances, term deposits with commercial banks including sponsoring banks, current deposits with sponsoring banks, share of ARDC and IDBI and the like; and (ii) Investment of funds retained under refinancing and borrowings arrangement earned a higher rate of return than on investment of funds raised through deposit mobilization. The study suggested that there was a need for the RRBs to make an earnest effort to utilize maximum possible refinancing and borrowing facilities of raising its earning assets.

In another study of SINGH, R.K.P. (1983)\textsuperscript{47}, an attempt was made to analyze the loan delivery system. The study covered the following aspects: (i) Reasons for delay in sanction and disbursement of loans; (ii) Variables considered by bank
officials while granting loans; and (iii) Difficulties faced by bank officials while granting and by borrowers while borrowing money. For the purpose of study, 4 RRBs which has completed 3 years of working on 31st December 1981, were selected. Besides, to elicit official opinion regarding different aspects of sanction and disbursements of loans, 16 branch managers and 14 managers working at Headquarters of selected RRBs were interviewed. Also, 160 borrowers form 16 villages were questioned to take their viewpoints. The main conclusions of the study were: (i) Delay in recommendations on the loan applications by the Government officers was the most important reason for delay in sanction of the loans; (ii) Delay in availability of materials for which loans were sought was the chief cause of delay in disbursement of loans; and (iii) There was a disagreement between the borrowers and the bank officials with regard to the relative importance attached to different variables examined when loans were sought. Managers considered small and fragmented holdings and defective land records maintained by Govt. officers as important difficulties while granting loans, whereas, the beneficiaries identified some other factors adding to the difficulties.

KUMAR, NARESH (1983) in a case study, examined the need and performance of RRBs in Eastern Utter Pradesh. The analysis was carried in terms of: Capital formation,
creation of deposits, branch expansions and finance for rural areas. Following points emerged from the appraisal: (i) Regional Rural Banks had covered 14 districts of Eastern Uttar Pradesh; and (ii) There was an ample scope for progress of RRBs in that part of Uttar Pradesh because the percentage of population below the poverty line in the rural areas was 50.82. They belonged to the categories of landless labourers, small and marginal farmers and rural artisans.

NAIDU, K.M., SUVARCHALA, G.A. AND OBULU, D.N.(1984)\textsuperscript{49}, in their review, have attempted to study the performance of Regional Rural Banks in the country with special reference to State of Andhra Pradesh within the time constraint judged both by qualitative and quantitative tests such as branch expansions, lending operations, mobilization of deposits and coverage of weaker sections. The study concluded that the performance of RRBs in Andhra Pradesh was encouraging as they aided the weaker sections in the rural areas to participate in and share the benefits of rural development. However, the RRBs in the States, like those in other parts of the country, faced problems of viability, high costs of small loans, and the consequent initial losses.

KONDLE (1984)\textsuperscript{50}, in his Ph.D. Thesis, examined the role of Lead Bank Scheme in reduction of inter-district disparities in banking facilities in Himachal Pradesh. He puts forth the following suggestions for improvement in implementation of Lead Bank Scheme: (a) Banks under Lead Bank Scheme should not
only assist in formulation of District Credit Plans but also in their fulfillment; (b) The branches should be as near as possible to rural clientele for developing banking habits and providing credit and technical services; (c) There is a need for identifying programs suited to resource potential of various districts; (d) Role of Lead Banks should be changed from one of competition with other lending agencies; and (e) The banks should have adequate technical expertise of its own in its lead districts.

LAKHSHMINARAYANA, V. (1984) undertook a case study of Mayurakshi Gramin Bank, in the district of Birbhum, West Bengal. The main objectives of the study were: (a) To examine the progress of the bank in respect of deposits, loans disbursed, amount outstanding and profits earned; and (b) List the problems, if any, in the working of the bank. It was found that the performance of the bank was good in respect of branch expansion, deposit mobilization and loans advanced to the weaker sections. Following recommendations were made: (i) These banks should organize educational programs emphasizing upon the need to make timely repayment of loans; (ii) An effective link between credit, marketing and other services should be established so that the beneficiaries belonging to weaker sections are able to obtain a package of economic services from the bank which could be of direct benefit to the borrowers and members in respect of marketing, processing
helping the bank in recovery of loans advanced; and (iii) Bank should help in dissemination of knowledges of improved technology in agriculture and allied fields.

SINGH AND UPADHYAY (1984) looked into the question of low recovery of loans by RRBs and attempted to find out the means to improve the rate of recovery. For this purpose, a sample of four RRBs operating in the State of Bihar was selected and members of Board of Directors, Managers and borrowers were interviewed. It was concluded that there was a continuous decline in the rate of recovery during 1978 to 1980. The Managers attributed this to inadequate arrangements for recovery while the borrowers held shortage of funds to repay loans responsible for the same.

JOSHI, M.K. (1984) reviewed the progress of Regional Rural Banks in India in the areas of Branch Expansion, deposit mobilization, credit deployment and extent of profits/losses. The main conclusions of the study were: (a) After 1976, the progress in opening of new RRBs in the country slowed down but accelerated again after 1978, particularly because of the favourable recommendations of review committee on RRBs and also because of RBIs subsequent branch expansion policy. Establishment of RRBs was particularly brisk during 1981 and 1982; (b) Expansion of branches of RRBs was steady and continuous in the initial years but was faster during 1981 and 1982. The geographical spread of these branches in different States during the
various years, however, was uneven; (c) The business of RRBs had grown faster than the number of deposit accounts, however, the growth in both number of deposits and advances accounts had been slower; (d) The existing RRBs were still expanding their branches while new RRBs were being set up year after year. This led to a lower average growth in deposits and advances per RRB and per branch; (e) C.D. ratios revealed that borrowing facilities available from RBI and sponsoring bank were not used to the fullest extent and RRBs tended to depend more on their deposits than borrowed funds; and (f) Till 1981, about 60 percent of RRBs in the country were able to earn profits. However, this came down to 36 percent due to brisk expansion policy of RRBs and rise in establishment costs.

SATYA SUNDARAM (1984) in his article has attempted to examine the problems faced by the RRBs and provide ways and means of strengthening them. Measures in the direction of strengthening the RRBs, as suggested by the study, include: (i) A crash programme of training and appointment of adequate staff with rural background should be undertaken in collaboration with agricultural universities and the sponsoring banks; (ii) Loaning policies and procedures should be organised to suit the needs of weaker sections; (iii) To ensure flow of credit to really deserving beneficiaries, the credit card system should be introduced.
In formulating schemes to finance rural craftsmen, as well as, those engaged in village and agro-industries, RRBs should seek the advice of Khadi and Village Industries Commission, and (v) There should be greater cooperation between the RRBs and the Rural Electrification Corporation in order to coordinate rural electricity scheme with the financing activities of RRBs with regard to irrigation and rural industries.

BALISHTER (1985) attempted to examine the role played by RRBs in financing rural poor in community development in the blocks of Arawan of Manipuri Districts of Uttar Pradesh. The results of the study were based on one of the 6 RRBs operating in that block. For this purpose both primary data, collected from 52 families and secondary data, based on records of bank were used. The main findings of the study are: (i) The role of the bank in covering the weaker categories has been found satisfactory in both qualitative, as well as, quantitative terms; (ii) Yearwise analysis lays emphasis upon the increasing role of the bank in advancing loans and covering the families; (iii) Banks loans to rural families for animal husbandry dominated among all purposes. The loans for industries are confined to landless labourers households for providing self-employment; (iv) The recovery of loans was not satisfactory and was higher in case of landless labourers than small and medium farmers. (v) There was a positive impact on income and employment of borrowing households. The
impact was more on poorer amongst the poor.

SESHAIAH (1985)\textsuperscript{56}, in his published Ph.D. work, examined the performance under Lead Bank Scheme in the State of Andhra-Pradesh. The main findings of the study were: (a) Commendable progress has been made in branch expansion, especially, in backward and rural areas and credit deployment to various sectors under credit plans in the States; and (b) There has been a significant variation in the target and performance between sectors and districts. The districts which maintained highest production in agriculture, in respect of target and performance, have also maintained a lead in total target and performance of all the sectors taken together.

BOHRA (1986)\textsuperscript{57}, in his doctoral thesis, assessed the performance of the Lead Bank Scheme, agencywise and sectorwise, in 5 districts of Rajasthan over a period of 5 years, that is, 1980-84. The study clearly indicated that the overall targets were achieved accidentally and were not the result of planning and conscious implementation.

BALAJI, N. AND RAI, H.L. (1986)\textsuperscript{58} attempted to evaluate the performance of 73 RRBs functioning in 130 districts in the entire country. The main findings of the study are: (a) Advances made by RRBs are greater than the deposits mobilized. RRBs have been able to lend more than the deposits mobilized by them due to non-applicability of general rules
of RBI to them. For instance, RRBs have been exempted from maintaining the liquid assets at the enhanced rate of 33 per cent u/s 24 of Banking Regulation Act 1949 and the liquid assets to be maintained are 25 per cent as specified by the Act; (b) There has been consistency in growth of deposits and outstanding advances per branch of RRBs; and (c) The main problems faced by RRBs are: (i) Continuous losses; and (ii) Growing overdues and increasing defaults by beneficiaries.

The main suggestions in this regard are: (a) RRBs should recognize the need for development of a sound deposit base so that they can serve better the weaker sections. Financial dependence attitude of RRBs may be discouraged by the sponsored commercial banks and Government; (b) RRBs should strive for progressive improvement in C/D ratio; (c) Supervision of credit has to be effective. Field functionaries should have more frequent contact with the beneficiaries; (d) Each bank needs to draw a line and make a case by case review of their overdue accounts, quality of lending and constant contact with beneficiaries; and (e) Instead of commercial banks opening branches in rural areas, RRBs should be given the opportunity of establishing their branches in rural areas.

SINGH, R.K.P., SINGH, R.P.N. AND SINGH, B.B. (1987) attempted to study and compare the financial performance of a Regional Rural Bank branch vis-a-vis a rural branch of commercial bank. The study was conducted in the rural settings
of Bihar and particular emphasis was laid on income and expenditure pattern, profit or loss pattern, per employee and performance and break even levels for deposits, as well as, advances. The analysis clearly indicated that RRBs’ branches were financially more viable as compared to a commercial bank rural branches. However, commercial banks had a better control on expenses. The researchers suggested that RRBs should be given priority in the rural branch expansion programme.

**GOYAL (1987)** in his research study, reviewed the performance of Lead Bank Scheme in Rajasthan, with particular reference to District of Ajmer. The study indicated that the scheme could not make its headway in the district because of interference of local politicians, defective implementation at the grassroot level, wrong identification of beneficiaries, delay in recoveries, overdues, improper utilization of funds by beneficiaries etc. Again, the study pointed out the prevalence of foul practices amongst the bank employees.

**SAVARAJAH, G. AND NARMALAMANI, N. (1988)** made an attempt to evaluate the performance of Chaitanya Gramin Bank of Gaunter Districts in Andhra-Pradesh. Performance has been appraised on several grounds: Branch expansion, internal capital resources, credit deployment, loans outstanding, Schematic Lending by the Bank, Recovery Performance. The study concludes that Chaitanya gramin Bank has given adequate
credit to the rural masses specially weaker sections. In the case of recovery performance, the Chaitanya Gramin Bank has a comfortable position. This is due to the banks vigorous efforts through constant monitoring of advances and special recovery drive aimed at maximum recovery.

SANGWAN S.S. (1989) attempted to identify the factors which have affected the viability of lending activity in rural areas. Then with the concept of viability, a break-even model for rural lending activity is evolved at branch level in order to suggest remedies for improving its viability. The analysis revealed that, in view of sound banking principles, the profit making RRBs preferred to invest more of their funds at call and short notice rather than loans and advances to weaker sections. This implied lack of profit incentive for banks in undertaking the rural lending activity. Overdues were not affecting the book profits as the same were higher for the profit making RRBs. The study worked out break even model for a branch of RRB and indicated, inter alia, a minimum of 11.5 percent average lending interest rate to make a branch viable. It suggested that RRBs should bring down their balances in current accounts with sponsor banks to a level of 9 percent of deposits.

BAPNA, M.S. (1989), in his published doctoral thesis, analyzed the working and growth of Regional Rural Banks in Rural Credit System with special reference to Regional Rural Banks in Rajasthan. The study is based on an evaluation of
performance of the four Regional Rural banks which were operating in Rajasthan in the year 1980. The aspects emphasized upon by the study include organization, management, financial resources, loans and advances, recovery performance and viability of RRBs. The main conclusions of the study are: (a) Regional Rural Banks suffer from many structural drawbacks which call for effective measures to fill the gap between the bank's objectives and their implementation; (b) Regional Rural Banks are economically not viable; (c) During the past few years, the Regional Rural Banks have had a satisfactory performance with regard to branch expansion, deposit mobilization, building up of sizeable trained human resources and meeting all commitments under the AAP of the Lead Banks, as well as, Government Sponsored Programmes; and (d) The inherent weaknesses of RRBs are: (i) Meagre share capital; (ii) Very high C.D. Ratio; (iii) Lending only to weaker sections; (iv) Mounting overdues; (v) Very low spread ratio; and (vi) High burden ratio.

ABDUL NOORBASHA AND JYOTI M. (1989) attempted to analyze the financial management pattern of the Chaitanya Gramin Bank, Tenali, Andara Pradesh, with an object of assessing its impact on the viability of the banks. The analysis was primarily based on the data pertaining to income and expenditure of the bank. The scope of the study was
years between 1983 to 1988. The study concluded that the bank in question has been on the path of recovery towards attaining a stage of viability. It revealed that the bank’s losses were increasing at a decreasing rate and the spread was becoming larger.

BADNE, G.C., (1990) studied the changing profile of banking in India with emphasis on RRBs. The study revealed that RRBs had made impressive progress in terms of branches, amount of deposits, advances and number of districts covered. RRBs had succeeded in projecting the image of "Small Man’s Bank". The study, however, revealed that the orientation of the staff of the RRBs, educated in the colleges and cities, was essentially urban and, thus, could not adapt themselves in the socio-economic milieu in which they functioned.

VASHISHT, A.K. (1990), in his Ph.D. Thesis, evaluated the relative performance of public sector banks in the light of banking policy in the post nationalization period. The scope of the study was limited to 22 banks and the performance was appraised for the period from 1971 to 1983. The selected banks were evaluated in the light of emerging trends in profits and profitability and progress made by each bank was appraised in respect of branch expansion, deposit mobilisation, credit deployment, priority sector branches and DRI advances. The study emphasized upon the resource deployment, lending rates etc. so as to help the commercial banks in maintaining their commercial character and
KALKUNDRIKAR, A.B. (1990), in his abridged version of doctoral thesis, carried out case studies of two RRBs in Karnataka so as to throw light on the role of RRBs in economic development. The study revealed that RRBs were playing a dynamic role in inculcating the habit of the thrift among rural masses and were, thereby, contributing to the process of Capital formation. It emphasized upon the need to change the style of functioning of the RRBs and adopt more dynamic schemes and policies.

PASRICHA, JASMEET SINGH. (1991), in his doctoral study, examined the role played by Lead Banks Scheme in development of rural areas, especially, in the improvement of the lot of rural poor and in reduction of Regional disparities in an agrarian state like Punjab. The study covers the period from 1977 to 1988-89. The important variables analyzed are: Branch expansion, deposit mobilization, credit disbursement and achievements under important programs/schemes. The main findings of the study are: (i) Branch expansion programme had resulted in a favorable population-branch ratio in ten districts of Punjab; (ii) The growth rate of deposits in Punjab was highest during the period 1969 to 1977; (iii) There were glaring disparities in credit deployment among districts of the State and growth rate in credit deployment was highest in rural areas followed by urban and semi-urban
areas; and (iv) Recovery percentage was poorest in case of Small Scale Industrial Sector followed by Tertiary sector and Agricultural sectors.

1.11 CONCLUSIONS

The scale of Indian Rural Economy, as a predominant segment of Indian Economy, has been reviewed above. Notwithstanding some major changes that have taken place in the rural sector, it continues, by and large, to be a closed economy. Rural economy is dominated by Agricultural sector. Out of the total poor population in our country, about 97 per cent lives in the rural areas. The rural sector continues to play a major role in the economy and the pace of development of Indian economy is dependent on the speedy development of the rural areas. Credit plays a significant role in development. Prior to 1975, especially in the pre-independence period, non-institutional agencies were the main suppliers of credit to the rural areas. This led to channelising of all efforts in non-productive areas and exploitation of rural illiterate masses by the money lenders, sahukars etc. Though cooperative and commercial banks were also there, they had their own limitations. This led to emergence of Regional Rural Banks in 1975, which were evolved as a 'small bank' and were meant to cater exclusively to the needs of the weaker sections of the society. By the end of March 1990, these banks had made a remarkable progress in Branch Expansion, deposit mobilization and credit deployment.
and were reaching forth to weaker sections like small and marginal farmers and landless labourer. The achievements of RRBs have led to their being seen as a powerful instrument of income redistribution in rural India.

A Review of studies conducted on RRBs (as reported) leave home the fact that either these studies make an attempt towards analysing a few aspects of Regional Rural Banks in States other than Punjab or fail to analyse the performance of Regional Rural Banks in all spheres. For example, none of the studies conducted so far have analyzed the customer and employees perception about the working and results of Regional Rural Banks. Punjab being one of the important States, both strategically and economically, the need for development of Regional Rural banks on healthy lines, can hardly be over emphasized. Taking these factors into consideration, the present study attempts to make a humble effort towards systematic performance appraisal of Regional Rural Banks in the State of Punjab.
NOTES AND REFERENCES

1. Dhingra, I.C., Rural Economics, Sultan Chand and Sons, New Delhi, 1991, p. 3


4. The poverty line has been placed at an annual income of less than Rs. 6400 p.a. per family of 5 in rural areas and Rs. 7200/ p.a. in urban areas. (Revised to Rs. 7,980/- in rural areas and Rs. 9,120/- in urban areas at 1987-88 prices)


6. Dhingra, I.C., op.cit. p. 3-4


11. Dutta, Bhabatosh, op.cit. p. 1554


15. Initially authorized capital was fixed at Rs. 1 Crores and paid up capital at Rs. 25 lakhs. This was subsequently raised in 1987.

16. By a notification issued, the Finance Ministry has altered the formula for subscription to the RRBs as follows: NABARD 60 percent, State Govt.20 percent and sponsoring bank 20 percent. *The Economic Times* December 2,1988.

17. This facility is now available only on Savings Deposits.


Following writs filed by the All India Regional Rural Bank Employees Association and others in the Supreme Court in 1982 and 1984 seeking equal parity in salary etc. with those of the commercial banks the Union Govt. constituted the National Tribunal in September, 1987 following a Supreme Court directive. The National Industrial Tribunal in its award has granted parity in salary and other allowances and benefits to all RRB employes with those of their comparable posts in the sponsoring commercial banks. The award has been pronounced to be effective from Sept. 1, 1989—cf. *Financial Express*, May 6, 1990.