CHAPTER - I
INTRODUCTION

Agricultural sector plays an important role in the Indian economy. Even in the 1990s, the agricultural sector continued to function as the backbone of the Indian economy as the highest contributor to the gross domestic product (GDP) and also as provider of large employment. It has been well recognized that due to population explosion and inelastic nature of land, higher productivity is the only answer to meet the future requirements of food and other farm products.

As a result of innovations in the agricultural production, revolutionary changes took place paving the way for green revolution which has shown a way-out for the country's food problem and also made the farmer think in terms of new crops and new technology to replace the traditional crops and primitive farming practices. The new farm technology includes the use of improved seeds, fertilizers, pesticides, insecticides, irrigation and intensive use of agricultural inputs. These inputs, though facilitate higher yields require heavy investment, which the majority of the farmers cannot afford because of their poor economic base. The farmers in under-developed countries cannot expect their capital needs to come from savings, because their income from farm operations is barely sufficient to provide minimum necessities of life. In spite of many developments in the field of agricultural production, it is not meeting the fast growing needs of our country. Hence, the farmers have to depend to a large extent on external finance. Under these circumstances, farm credit assumes
greater importance in the Indian agricultural development. The role of banks in the process of development is absolute, because of the fact that they provide one of the most essential inputs, namely credit. In the absence of external credit, majority of the farmers may not make use of High Yielding Variety (HYV) and other new farm technology. In fact, rapid economic development requires among other things, expansion of banking industry.

Evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the objectives of the credit policy in India. The Reserve Bank of India as the central bank of the country has been following a policy of encouraging the development of institutional credit structure in rural areas. With the adoption of the multi-agency approach for institutional rural credit, co-operatives, commercial banks and regional rural banks (RRBs) have been functioning simultaneously in rural credit dispensation. The co-operative system, with its countrywide network of agricultural credit societies is considered as the most important agency in terms of both the number and amount of loans advanced as also its territorial coverage.

In rural areas the indigenous money lenders continued to be the banker in need. Since these money-lenders had virtual monopoly in supplying the credit in rural areas, the poor were often subject to exploitation. The poor villagers could not escape from the clutches of these indigenous-bankers as they were the only source of credit for all types of requirements for production and consumption. The conditions of the poor peasants were perpetually so pathetic that on adage –
“they are born in debt, they live in debt and they die in debt” was the usual description of their plight.

To mitigate the sufferings of the poor farmers, co-operative credit was brought into being in the matter of agricultural finance. The All India Rural Credit Survey Report revealed that the share of institutional agencies (government, commercial banks and co-operative banks) in financing the borrowing of the rural household was 7.1 per cent in 1951-52 whereas the corresponding share of the village money lenders (excluding relatives, friends, traders, commission agents and landlords, etc) was as high as 68.6 per cent.

In this direction, a modest beginning was made with the conversion of the Imperial Bank of India into the State Bank of India in accordance with the recommendation of the Rural Credit Survey Committee Report (1954). This, however, could not fulfil the objectives. It was only after adopting the policy of social control in 1967 and subsequent nationalization of banks in 1969 and 1980, that rural banking could make a substantial break-through. Since then, the number of branches of rural banks, and rural credit as well as rural deposits have considerably been increased. Apart from these, the government has also introduced other institutional agencies like Co-operatives and regional rural banks (RRBs). Thus, the RRBs have become the third component of the multi-agency credit system for agriculture and rural development.
The RRBs grew rapidly in structure and outreached in a very short time extended their branch network in hitherto unbanked areas. The banks played a significant role in mobilizing rural savings and in meeting the rural credit needs.

As a part of the New Economic Programmes announced in 1975, the Government of India decided to setup RRBs throughout the country. The main objective of these is to strengthen the rural economy by providing credit for the development of agriculture, trade, commerce, industry and other productive activities in the rural areas. Credit is essential for small and marginal farmers, agricultural labourers, artisans, small entrepreneurs and other weaker sections at their door-steps. There is also need for providing cheaper credit to reduce the role of non-institutional credit agencies, especially the money-lenders.

1.1 Need for study

The role played by agriculture in the overall economic development of the country has been well recognized. Utmost importance has been accorded to the agricultural development since the inception of planning. There has however, been a shift in emphasis from mere agricultural development to rural development comprising not only agriculture but also agro-allied activities, small cottage industries, etc. It is realized that the overall development of the rural sector cannot be accelerated unless adequate and timely credit is made available for this purpose.
Several studies have been conducted so far on the performance of RRBs and rural development. A few have not been comprehensive and many of them have failed to provide adequate insight into the working of RRBs and rural development.

Majority of the studies indicate a positive impact of loans. But they do not explain clearly the low income, crops failure and reasons for the overdues. Such a study is also likely to help in assessing the role of the Kolar Grameena Bank (KGB) in the field of agriculture.

Hence, there is a need for a study which not only analyses the role of institutional credit in rural development in order to understand its performance but also, at the same time, evaluates the performance of KGB from the viewpoint of its lending policy and its constraints in reaching the rural areas effectively. Until now, no studies have been conducted in respect of the performance of KGB.

In view of the above reasons, the present study is an attempt to fill these research gaps. It is hoped that the study would help in formulating appropriate guidelines for policies which would enable KGB to function as a more effective agent of rural development.
1.2 Scope of the study

The present study attempts to assess the impact of regional rural banks on rural development and also on the socio-economic conditions of rural people. A detailed study of KGB is attempted. The scope of the study is confined to three taluks from Kolar District, namely Malur, Bangarpet and Bagepalli. From each taluk, two branches were selected for the study. The selected branches were:

<table>
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<tr>
<th>Particulars</th>
<th>Branches covered</th>
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<tr>
<td>Malur taluk</td>
<td>1. Shivarapattana</td>
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<td>2. Kudianuru</td>
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<tr>
<td>Bangarapet taluk</td>
<td>1. Hudukula</td>
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<td>2. Kyasambally</td>
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<tr>
<td>Bagepally taluk</td>
<td>1. Mittemary</td>
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<td>2. Bellur</td>
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The branchwise beneficiaries were classified into four groups viz., 1. Those availing Crop loan, 2. Agricultural labourers, 3. Artisans and small scale industries and 4. Trade and business.

An attempt is made here to identify the share of different socio-economic groups in loans, purposewise and schemewise distribution of loans, repayment of loans and socio-economic factors influencing repayment of loans. The study analyses the present crop loans, adoption of modern technology and cropping pattern. It includes the effects of KGB credit on input use, cost of production,
yields and net returns. The study also covers the socio-economic conditions, cropping pattern and rural banking scenario in Kolar district.

There are innumerable factors responsible for the upliftment of rural masses in the present status of beneficiaries and socio-economic changes. The present study is confined to the assessment of progress and performance of Kolar Grameena Bank in rural development. The study is exploratory cum-descriptive in nature. It is based on both primary and secondary data. The primary data were collected with the help of a pre-tested interview schedule, specially designed for collecting comprehensive information. Similarly, the secondary data were collected through the annual reports and other records of KGB, RBI bulletins and NABARD reports, etc.

It is generally observed that with the introduction of RRBs the village economy has undergone considerable transformation. Subsidiary occupations like dairy development, sheep rearing, cottage industries have come up in the rural areas and employment has increased, as a result of the financial assistance extended by the RRBs. The findings of the present study would help the planners, policy makers and administrators to formulate and implement appropriate policies for making RRBs more effective agents of rural development.
1.3 Objectives of the study

Keeping in view the objectives for which the RRBs have been established, the present study mainly attempts to examine their role as instruments of institutional reform for providing different loans to rural development in rural areas. The following are the specific objectives of the present study.

1. To analyze the structure, progress and performance of regional rural banks.

2. To evaluate KGB as an institutional arrangement for providing credit for rural development.

3. To review the credit facilities of KGB and their impact on income, consumption, employment and asset position of the beneficiaries

4. To analyze the perspective flow of credit from KGB.

5. To examine the repayment of loans and overdues in KGB.

1.4 Plan of presentation

The thesis is presented in eight chapters. The first chapter is concerned with the introduction, need for study, scope of research, objectives of the study and plan of presentation. The second chapter deals with the review of literature
on institutional credit flow, performance of financial institutions, impact on rural economy and overdues analysis.

The third chapter presents the methodology adopted for the study, salient features of Kolar district, socio-economic indicators of the selected taluks, sources of data, sampling design, selection of taluks, selection of branches, selection of beneficiaries, techniques of data analysis, definitions and concepts and limitations. The fourth chapter deals with the genesis, objectives, structure, branch expansion, deposit mobilization, distribution of outstanding loans and recovery and overdues, profits and losses of RRB's. The fifth chapter analyses the progress and performance of KGB, establishment, branch expansion, growth of deposits and loans, repayment and overdues, total expenditure and profit and losses.

The sixth chapter is concerned with the share of different socio-economic groups in loans, purposewise and schemewise distribution of loans, repayment of loans and socio-economic factors influencing repayment of loans. The seventh chapter deals with crop loans, adoption of modern technology, cropping pattern, effects of KGB credit on input use, cost of production, yields and net returns.

The eighth chapter contains summary, policy implications and conclusions as well as suggestions for effective functioning of Kolar Grameena Bank in agriculture and rural development in Kolar district.