INTRODUCTION

1.1 Introduction

India is predominantly a rural country as 76 per cent of its population lives in villages. After independence, though India has made tremendous growth and development in various fields and it has brought about significant change in rural economy and society. In other words there has been significant transformation in rural works, style of living, consumption pattern and rural, social and economical infrastructure. But, despite all this still about half of the total rural population is living in conditions of poverty. Most of the rural poor comprise small and marginal farmers, agricultural labourers, rural artisans, landless labourers and other persons with small means which can be termed as the weaker sections of rural society. They are mainly deprived of basic capabilities and opportunities to lead a long, healthy, creative and decent living. In order to break the vicious circle of rural poverty, the Government of India, under the Five Year Plans since 1951 launched a very large number of programmes, such as Community Development Programme (CDP) - 1952, Natational Extensive Service (NES) - 1953, Intensive Agricultural District Programme (IADP)- 1960, Intensive Agriculture Area Programme (IAAP) - 1964, Package of Green Revolution - 1965-66, Specific Programme like Small Farmers Development Agency (SFDA), Marginal Farmers Agricultural Labourers Agencies (MFALA), Drought Prone Area Programme (DPAP), Desert Development Programme (DDP), Rural Works Programme (RWP) during seventies and Poverty Alleviation Target Oriented Programme like Integrated Rural Development Programme (IRDP),National Rural Employment Programme (NREP), Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rojgar Yojana etc. since 1980s. The sole aim of all these programmes was to improve the socio-economic plight of the rural people in general and weaker sections in particular by enhancing their production, increasing employment and income generating opportunities and eradicating poverty, by
providing the basic necessities of life. Rural development is regarded as crucial for bringing about the desired change in the life of the rural people in general and to improve the socio-economic status of a specific group - the rural poor, the weaker sections of rural society.

1.2 Weaker Sections in India

The term 'Weaker Sections' used here in a broad form comprising small and marginal farmers, agricultural labourers, landless labourers, rural artisans, persons with small means, scheduled castes and scheduled tribes who are socially as well as economically backward and handicapped. Malcolm S. Adiseshaiah has addressed this problem in 1974. He started his analysis with the assumption that the weaker sections are those who live below the nutritional poverty line. Later, he came out with a concrete analysis of the concept of weaker sections. He has explained that if we take not only the caloric intake but also the minimum of clothing, shelter, medical and educational facilities that a person needs, then the number of weaker sections will be more than fifty per cent of our population. He further emphasised that, "this section is also politically weak in the sense that they are excluded from the political processes of the country at all levels - village, block, State or federal.... They do not have the legal and organisational resources to fight for the rights conferred on them.... They are socially ostracized in the sense of not giving any property - agrarian or industrial... They are spawning the culture of poverty with its personality deterioration, high birth and infant mortality rates, disruption of family and perpetuation of outworn irrelevant values". The description of the weaker sections by Malcolm S. Adiseshaiah has now given us some ground to understand the concept in clear terms. It helps us to identify the groups of weaker sections for the purpose of our study. According to Malcolm S. Adiseshaiah, however, the following categories of the Indian society more particularly the rural segment constitute the weaker sections:

1. Families who have uneconomic land holdings.

2. Landless agricultural labourers and other labourers.
3. Village artisans and workers engaged in small crafts, fishermen, tanners, ‘telis’, potters, basket-makers etc.

4. Groups forced by historical and other reasons to live in backward and unproductive regions and not adjusted to modern economic life such as scheduled tribes.

5. Sections of the village community, such as scheduled castes, who on account of special circumstances are forced to engage themselves in hereditary occupations which are not very remunerative and entail risks in matters of health and sanitation and who are also subjected to low social status, the "lowliest and the last",

6. Sections who are weak economically though their social status may be higher.

7. Women

8 Nomadic tribes living on mendicancy, small trades, etc.

9. Destitutes (e.g. widows, orphans, old people, unemployed persons with no means of livelihood), physically handicapped, members of ex-criminal tribes, etc.

According to this categorisation made by Adisshaiah about three-fourth of the total rural population belong to the weaker sections in India.

1.3 Need of Rural Credit

The formulation and implementation of such a large number of programmes for the development of rural areas indicates that the Government of independent India recognised the importance of rural development for the overall socio-economic development of the
country. But due to several social, structural, economical, institutional and technological constraints, the desired results could not be achieved. The most important factor responsible for this failure in achieving the desired results was the paucity of capital and adequate and timely availability of financial resources. Infact, the overall development of a country or a region – urban or rural is not possible without the availability of financial resources. Finance is the core input for the development and growth of any area, region or economy. It is generally stated to be the life blood of any economic activity. In a country where 80 per cent of the identified poor live in villages, rural credit is very significant to help to eliminate rural poverty and generate employment opportunities in rural areas. An efficient system of rural credit is the main instrument of any viable strategy for rural development for the removal of rural poverty and for the modernisation of rural economy. Availability of capital and its use put labour and other resources into motion. The central problem of our economy has been the lack of capital resources with the rural people, particularly the rural poor. The absence of improved credit system is one significant cause as a result of which our rural economy remained revolving within the vicious circle of poverty and underdevelopment. To keep pace with the growth of national economy commercialisation and modernisation of agriculture and other traditional rural sectors is imperative. This requires the improved credit facilities. This is most necessary for development of rural India, where most of the people do not have the capability of savings and capital formation.

Since earlier times, the people of rural India remained dependent on the private moneylenders for their credit needs. The private moneylenders exploited the rural people in all ways and kept them under heavy debt. The conditions of continuous indebtedness kept the rural economy in the stage of stagnation and backwardness. This was all due to the absence of alternative sources of credit, particularly the absence of institutional credit system for the rural areas. The people of rural areas (particularly rural poor) always remained in need of finance both for productive purposes as well as consumption purposes. Village moneylenders, traders, petty shop keepers, commission agents, landlords, relatives and
friends have, since long, been the traditional sources of rural credit. Despite the growing volume as well as share of institutional credit and in spite of charging high rates of interest and following unethical practices, these non-institutional agencies continue to play a significant role in rural credit. The reasons given are that institutional credit continues to cater to the needs of better off whereas the poorer are forced to turn to the informal credit market. The moneylenders have been popular because of their simple lending procedure and readily available credit. The poor villagers have always been trapped in the net of the moneylenders due to the vicious circle of poverty in which their expenditure exceed their income every year.

To save the villagers from the clutches of informal credit agencies it was realised that timely and adequate availability of institutional credit at reasonable terms and condition should be ensured for rural development and ultimately to nations economic development. Improving the formal credit institutions has always been considered crucial for stepping up investment in agriculture and the regions lagging behind. In order to come over this evil and to provide financial credit to the needy villagers in general, the cooperative banking institutions were established in the country in the beginning of this century and vigorous efforts were made to strengthen them. But despite their network and wide coverage in the country, they did not keep pace with ever increasing demand for agriculture and industrial credit required for the introduction of improved and scientific cultivation and expansion of industry in rural sector. This paved the way for the emergence of Commercial Banks with vast resources at their disposal to come forward to render help in this task. Keeping in view the demand of credit for agriculture, the Government of India in 1969 nationalised fourteen major banks to provide credit facilities to the neglected rural sector. The government made changes in the credit schemes and policies of the banks so as to direct the flow of their credit to hitherto neglected sectors of rural economy. Because prior to nationalisation, they were inclined towards financing industries only in the urban areas and were hesitant to enter into the field of rural development. But after nationalisation the whole scenario has
changed and now the commercial banks are not only financing rural development programmes but also extending banking services to the rural people by opening branches in rural areas. To ensure adequate flow of credit, the Reserve Bank of India has asked these banks to lend 40 per cent of their advances to the priority sector comprising agriculture, small scales industries and small business finance. Despite all this, the banks could not satisfy the credit needs of the weaker sections in particular. In 1968, "Lead Bank Scheme" was introduced with an objective to extend institutional finance to neglected areas in a planned manner by adopting "Area Approach", i.e., taking district as a credit unit under control on the recommendations made by the Gadgil Study Group of National Credit Council. Since then, under this scheme Lead Banks with the help of other commercial banking institutions have been contributing substantially to the rural development. These banks have penetrated into the rural sector and have provided most needed infrastructural support through their rural branches to implement the development programmes aimed at ameliorating socio-economic lot of rural masses. But commercial banks also like co-operative banks did not come to the expectations of the government as well as people of the rural area, because of their biasedness and tiltness towards urban areas and having no reach in interiors of the rural areas.

So other institutions, specially based on regionality came into existence in 1975 in our country on the recommendations of the Banking Commission and the Working Group which are known as Regional Rural Banks (RRBs). These banks were exclusively set up for the betterment/or upliftment of target group. It can be said that the banking institutions have been playing a leading role in financing the rural development programmes for the betterment of weaker sections. In the absence of banking institutions the whole of the economic system will crumble down. Banking institutions, in fact are functioning creditably for the emancipation of weaker sections.

In the context of planned economic development, the multi-agencies in general and RRBs in particular with their wide network of branches and having huge funds at their end
have been putting in their contribution in bringing about socio-economic change in the rural sector. The government has pinned up high hopes on the banking institutions. Hence the role played by banking institutions is of great significance. Unless the credit facilities are not made available to the needy by the banks, various development programmes being launched by the Central and State Governments are of no use and validity. Credit is a basic input for any development programme which requires huge sum of money for their effective implementation. Bank credit is definitely regarded as an essential condition for the development of rural people without which development could not take place. Since banks are playing a phenomenal role in the upliftment of rural masses, this study has been undertaken to make indepth study of a regional rural bank. Although there are several banks but the present study is confined to Gurgaon Gramin Bank, a regional rural bank only because to study the role of all the banks is not easy as well as possible.

1.4 Institutional Credit Structure in India : A Review

As already stated that the professional moneylenders reigned supreme in the field of rural credit. They were supplemented by the co-operative credit since 1904 which constitute the first source of institutional credit. The All India Rural Credit Survey Committee (AIRSCC) report of 1954 made the first assessment of the rural credit advanced by different agencies. It estimated that non-institutional agencies supplied 92.7% of the total borrowings of the farmers in 1951-52 while the share of institutional agencies was merely 7.3%. Though the share of private agencies in rural credit has been declining continuously yet its significance has not been minimised. The reason being that they not only provide all types of loans for consumption or production or to meet social as well religious obligations but they are also readily available day and night without any official formalities whenever the exigency arises.

The credit institutions' involvement in rural credit came into being with the establishment of cooperative credit societies in 1904. Subsequently ranging from social control to 'Service Area Approach' and then to Regional Rural Banks, it has undergone
substantial changes of diverse dimensions. Throughout this changing scenario there has been more and more emphasis on assisting the weaker sections of the rural society. Various policy measures such as fixing quotas and offering easy conditions were adopted to provide financial assistance to such weaker sections.

It is also clear from the fact that the share of institutional credit has increased from 7.3% in 1951-52 to 18.7% in 1961-62 of total borrowings of the cultivators. It further increased to 30.2% in 1971-72. It underlines the significance of modern institutional credit agencies.

Institutional credit is cheaper and unexploitative. Its foremost objective is to help the needy rural poor of the society on lasting basis to generate income and employment. The rate of interest charged by these institutional agencies is not only low but also charged on differential basis. To elaborate, lower rates are fixed for lesser amounts and the rates go on increasing as the slabs go up. In the same way, the rates depend on purpose of loans or the category of loanee. The farmers require not only credit but also guidance in the planning of their agricultural operations like the use of high yielding varieties (seeds), pesticides, fertilizers etc. in raising the crops production and in general, help for maximising their income. The Institutional agencies provide them both - finance and guidance.

The problem of agriculture finance attracted the attention of the Government by the closing years of the last century. The reason for this was the great discontentment among the peasant community due to rising indebtedness and unscrupulous practices of money-lenders who had acquired almost monopolistic control over agricultural finance and had reduced agriculturist debtors to the status of virtual serfdom. The institutional credit is regarded as cheap and adequate. It is also available easily and timely.

The era of institutional credit for rural areas started with the passing of the first co-operative societies Act in 1904 under which a number of co-operative credit societies were established. The village level credit societies were set up on the basis of a spirit of thrift, self-help and mutual co-operation with a view to protect the heavily indebted rural peasantry.
from the moneylenders' usurious credit. Till independence the objective of co-operative credit institutions was to ameliorate the appalling conditions of peasantry by providing cheap credit. Co-operative credit institutions made good progress as the number of primary credit societies rose to more than one lakh by 1947. But these societies were meeting only short-term financial needs of the farmers, while agriculturists also need long-term loans. It was realised that there was need of special type of institutions to provide long-term credit to Indian farmers. Taking into consideration of the recommendations of the Royal Commission on Agriculture (1928) and the Central Banking Enquiry Committee (1931). Land Mortgage Banks on co-operative lines started to be established since 1929.

Various Committees such as the Agricultural Finance Committee (1945) with Prof. D.R. Gadgil as its chairman, the Co-operative Planning Committee (1946) with Sh. R.G. Saraiya as chairman analysed the problem of rural credit and recognised that co-operatives were "the best and most lasting solution for the problem of agricultural credit".

However, it was the All-India Rural Credit Survey (RCS) Committee set up in 1951 by the Reserve Bank of India that made the first assessment of pre-independent rural credit advanced by different agencies. The RCS Committee report submitted in 1954 can be said as the beginning of the post independence story of institutional credit for rural development. The RCS report showed that in 1951-52 private moneylenders reigned supreme in the field of rural credit. They supplied about 93 per cent of the total amount borrowed by cultivators, while the share of the institutional credit was nearly 7 per cent. In it co-operative credit accounted for only 3.1 per cent. It was also revealed that the larger portion of institutional credit went to big and large cultivators and most of the medium and small farmers were dependent on private agencies. Regarding the long-term credit, the Planning Commission (1953) had pointed out that "a major part of the advances made hitherto by the Land Mortgage Banks was for the repayment of old debts".

The RCS Committee revealed that co-operatives did not come up to expectations
both in quantitative as well as in qualitative form. It covered only 7 per cent families, and 93 per cent families remained outside the field of co-operation. There was no supervision over the proper utilisation of loans advanced by the co-operatives. Most of them were spent on unproductive and sometimes wasteful purposes. The weaker sections of rural community, which deserved the help most, were often denied credit on the plea of their being non-credit worthy. Though the Co-operative credit movement in India grew in numbers, yet its performance remained poor and it could not deliver the goods as desired. Because of administrative weaknesses, poor recovery, mounting overdues, mis-management, poor organisation, lack of coordination between the Central/State Co-operative Banks and Primary Agriculture Societies as also between credit and non-credit societies, a large number of credit societies became dormant. It was viewed that co-operative credit had proved inadequate, but at the same time, the RCS committee (1954) was convinced that in the Indian context, the co-operative was the most suitable agency for the dispensation of rural credit.

The committee came out with its famous phrase, "Co-operation has failed but co-operation must succeed". This reaffirmed the Royal Commission's conclusion, "If co-operation fails, there will fail the best hope for rural India". The First Five Year Plan also recognised co-operation as an important instrument of social and economic development of the rural society. The Survey Committee, considering the co-operative system of rural credit as most suited, recommended an Integrated Scheme of Rural Credit. Main features of which were:

i) Re-organisation of co-operative credit societies of large size at primary level for providing short and medium-term loans for productive purposes;

ii) Linking of crop loans with the marketing of agricultural produce;

iii) Construction of godowns and warehouses by co-operatives;
iv) Provision of marketing facilities at mandis and district headquarters;

v) State partnership in co-operatives at all levels to give financial help for credit and marketing societies. It was also considered necessary to create confidence of the public in co-operative institutions. The committee, however, warned that state partnership should not mean state control. It discouraged state interference in co-operatives’ day-to-day working and stressed on making co-operatives free from the stranglehold and develop its own identity;

vi) Establishment of the State Bank of India with a view to extend its services more and more in the rural areas and granting larger financial accommodation and remittance facilities to the co-operative institutions;

vii) Creation of Various Funds: The committee recommended the creation of the National Agricultural Credit (long-term operations) Fund and the National Agricultural Credit (Stabilisation) Fund by the Reserve Bank of India. The Long-term Operation Fund was to be used to issue loans to the state governments for subscribing to the share capital of co-operative institutions, to purchase debentures of Land Mortgage Banks, and to give loans to state co-operative banks. The Stabilisation Fund was meant for granting medium-term loans to state co-operative banks in circumstances in which the repayment of short-term loans due from them to the RBI became impossible owing to widespread natural calamities like famine, flood etc.

viii) The committee strongly recommended the importance of training of officials of both co-operative departments and co-operative institutions to enable them to successfully run the co-operative societies.

The report of the RCS (1954) provided the blueprint for the future development of credit co-operatives. Its proposals formed the basis for co-operative development in the Second Five Year Plan (1956-61). This report prescribed the structure of co-operative credit as:
(a) a state co-operative bank, a central land mortgage bank and state co-operative marketing society at the apex in each state;

(b) a central co-operative bank or a branch of a state co-operative bank, a primary land mortgage bank and a co-operative marketing society at the district level; and

(c) at the primary level there were to be large-sized primary agricultural credit societies (PACSs), and primary marketing societies.

The Government of India (GOI) and the Reserve Bank of India (RBI) accepted the recommendations of the RCS committee. The State Bank of India was established in 1955. State-partnership in the co-operative structure was made possible by the RBI by setting up of the two recommended funds in 1955. Another fund, known as the National Co-operative Development Fund was created by the GOI from which states were allowed to borrow for subscribing to the share capital of non-credit co-operative institutions. The GOI also created the National Agricultural Credit (Relief and Guarantee) Fund to give grant to co-operative credit institutions for writing off irrecoverable arrears where these had become so large which threaten the stability of the credit structure.

The state governments also created Relief and Guarantee Funds as well as Co-operative Development Funds for the purpose of strengthening the co-operative credit structure.

As a consequence of these efforts appreciable progress was observed in the co-operative credit structures. Co-operative credit, during the Second Five Year Plan, became the vital instrument of rural development. In 1962 the RBI undertook a resurvey, called the All-India Rural Debt and Investment Survey, to assess the changes since the RCS1951-52. It showed that, over 10 years, borrowings from the co-operatives had increased from 3.1 percent to 15.5 percent but the private moneylenders still predominated. The Third Five Year Plan (1961-66) admitted that the RBI had played a major role in building the co-
operative movement ..... and expected it to play even larger role in the Third Plan. In 1963
the Agricultural Refinance and Development Corporation (ARDC) was set up for providing
medium and long term finance to State Co-operative Banks and Scheduled Commercial
Banks for financing reclamation and preparation of land, soil conservation, and development
of animal husbandry, dairy farming, poultry farming etc.

While taking note of these favourable developments – the RBI appointed the all
India Rural Credit Committee in July, 1966. The committee submitted its report in 1969. The
Review Committee found that co-operatives’ performance was not satisfactory either in
mobilising deposits or retailing credit. It found a large number of primary credit societies as
non-viable because of lack of resources and inefficient management. The proportion of
borrowers of co-operative credit had remained stagnant at around 20 per cent of the total
cultivators. The share of various agencies in rural credit over the period 1951-71 is indicated
in Table 1.1

<table>
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<tr>
<th>Sl. No.</th>
<th>Credit Agency</th>
<th>Proportion of borrowings from each agency to the total borrowings of cultivators</th>
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<tr>
<td></td>
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<td>1951-52</td>
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<tr>
<td>1</td>
<td>Non-Institutional Agency</td>
<td>2</td>
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<tr>
<td></td>
<td>Professional Moneylenders</td>
<td>44.8</td>
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<tr>
<td></td>
<td>Agricultural Moneylenders</td>
<td>24.9</td>
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<tr>
<td></td>
<td>Traders and Commission Agents</td>
<td>5.5</td>
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<tr>
<td></td>
<td>Others</td>
<td>17.5</td>
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<td></td>
<td>Total</td>
<td>92.7</td>
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The committee acknowledged the inadequacy of the co-operative system to meet the greatly expanding demand for agricultural credit, so it recommended a larger role for the commercial banks. The committee, thus prepared the ground for a multi-agency approach to agricultural and rural credit instead of leaving the task only to co-operative societies. The table 1.1 shows that despite the expansion of co-operative credit and other institutions during sixties, the private moneylenders were still meeting more than two-third (69.8%) of the credit requirements of the cultivators.

Till the 'social control' over commercial banks in 1968 and then nationalisation of 14 major banks in July, 1969 the official policy was "to develop the co-operative system as the sole agency for meeting agricultural credit requirements". After nationalisation commercial banks were also involved to play a supporting and supplemental role to co-operatives in the field of rural credit. A Multi-agency Approach involving other financial institutions of the organised sector such as State Bank of India (SBI), its subsidiaries, nationalised and other commercial banks along with co-operative credit institutions was adopted for providing financial facilities to the rural sector's reconstructions.

Thus, the unsatisfactory progress of the co-operative credit institutions paved the way for the commercial banks to enter the rural sector in a big way. After nationalisation, commercial banks became a powerful instrument of agricultural and rural development.

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<tr>
<td>B</td>
<td>Institutional Agency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government</td>
<td>3.3</td>
<td>2.6</td>
<td>6.8</td>
</tr>
<tr>
<td></td>
<td>Commercial Banks</td>
<td>0.9</td>
<td>0.6</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>Co-operatives</td>
<td>3.1</td>
<td>15.5</td>
<td>21.1</td>
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<tr>
<td></td>
<td>Total</td>
<td>7.3</td>
<td>18.7</td>
<td>30.2</td>
</tr>
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</table>

Source: S.R. Maheshwari, "Rural Development in India" (1985), P.128.
and upliftment of the weaker sections of the rural community. One of their major achievements has been in the sphere of branch expansion in rural areas.

With a view to help the weaker sections and to raise the level of their living, the public sector banks adopted various schemes such as the target of 40 per cent of total advances to the priority sectors, Differential Rate of Interest (DRI) scheme to all the industrially backward districts, Village Adoption Scheme (VAS), the Lead Bank Scheme and Area Approach Scheme (AAS).

Co-operative and commercial banks – the two segments of the organised rural credit structure – were expected to work in a well coordinated manner as complementary to each other. This was considered essential as co-operative banks had extensive organisational structure and local knowledge and experience in the field of rural finance. On the other hand commercial banks have fairly substantial financial resources, trained staff etc. which the co-operative banks lacked. It is against this background that the coordination between the two was emphasised with a view to maximum mobilisation of local savings and provided adequate, timely and cheap credit to all the needy borrowers, especially to the weaker sections and establish direct contact between the creditors and borrowers. It was felt that rural credit operations would be much more effective, if coordination between the two was effected fully. The Kamath Working Group and later on the National Credit Council provided guidelines to bring about co-ordination between co-operatives and commercial banks with the view to solve the problems of overlapping and duplication of bank financing and the consequent wasteful expenditure and unhealthy competition.

The entry of commercial banks in financing the rural sector is a landmark of rural credit system. Commercial banks achieved a fair degree of success in expanding their areas of operation by opening bank branches in rural areas. But they had to face various problems like organisational, procedural and high cost of establishment in rural areas. In
spite of the efforts of expansion of institutional credit system, it could not contribute much to benefit the weaker section of rural society. The supply of credit, though, increased to a significant level, but it all bypassed the weaker section of the rural community.

1.5 Regional Rural Banks

It was against the background of the shortcomings of co-operative and failure of commercial banks in shifting their class banking to mass banking that it came to be realised that specialised credit institutions be established to deal effectively with the mounting problems of rural credit. The National Commission on Agriculture (1971) recommended the institution of an integrated agricultural credit service for covering not only the agricultural credit, but also allied occupations such as those of rural artisans and craftsmen which provide services to the farmers. To speed up the flow of institutional credit to the weaker sections, the government felt it necessary to establish new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks.

The Banking Commission (1972) under the chairmanship of Sh. R.G. Saraiya observed that the major difficulty in bridging the credit gap in the agriculture sector is that the co-operative banks which have a very wide organisation of the field level are unable to mobilise deposits, while the commercial banks, which are able to mobilise deposits to a substantial amount, are unable to provide credit to agriculture owing to their lower coverage of the rural area and their lack of knowledge of the problems of lending to this area. The Banking Commission recommended that a chain of 'Rural Banks' be established in addition to the regular branches of commercial banks already operating or to be opened in rural areas. The commission expressed its views that the 'Rural Banks' as suggested above could be set up in one of the three ways, namely:

Conversion of primary co-operative societies providing all the banking services;
Establishing subsidiaries of commercial banks;
Establishing special type of ‘Rural Banks’ sponsored by commercial banks but supported by local participation.

The Banking Commission after making a detailed study came to a conclusion that it would be quite insufficient and inappropriate to cure the chronic problem of rural financing by sticking to a single type of financial institution. In order to deal it more successfully and effectively a multipronged strategy must be adopted where all the three agencies should be involved namely cooperative societies, branches of nationalised banks in rural area and specially sponsored ‘Rural Banks’. Because every singular system had its own problems and limitations. Fortunately, the then Prime Minister was of the same opinion and the recommendations of the Banking Commission stimulated the process. In June 1975, a ‘20 Point Economic Programme’ was launched which also endorsed this idea and provided to put in the direction of liquidating long lived rural indebtedness.

The Government of India seriously considered the idea of setting up of rural banks as a new alternative source of credit to meet the requirements of weaker sections of the rural society. The Government of India, Ministry of Finance constituted a Working Group on July 1st, 1975 under the chairmanship of Shri M. Narasimham to examine in depth the question of setting up of rural banks as subsidiaries of public sector banks to cater to the needs of rural people. The group in its report submitted on July 30th, 1975, within a short span of one month, recommended setting up of ‘Regional Rural Banks’ (RRBs) oriented to the rural credit.

The Working Group observed that the existing institutions, as they are presently structured would not be able to fill the regional and functional gap in the rural credit institutional system, within a reasonable period of time, even with such adaptations, reorganisation and restructuring as may be considered. It further observed, In a country of the size and regional diversity as ours, no single pattern, be it commercial banking or cooperative credit, can be expected to meet all the emerging requirements, in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives
widened. It is in this context that we have come to the conclusion that a new type of institution is necessary.

The new institutions were expected to combine the strength of both the cooperative as well as the commercial banks. In order to fill the regional and functional gap in rural credit, the working group recommended to setting up of state sponsored regionally based and rural oriented banks to be known as Regional Rural Banks (RRBs). The group also recommended that initially about five banks should be set up to operate in selected areas. The expansion in the number of banks and their extension to other areas should be considered after evaluating the experience gained from the working of these banks. Accordingly, the Regional Rural Banks Ordinance was promulgated by the President on 26th September, 1975 which came into force with immediate effect. Later on the ordinance took the shape of Regional Rural Banks, Act 1976. Thus, the Regional Rural Banks came to be the third component of the Multi-Agency credit System for agriculture and rural development. The RRBs carry an advantageous position since it possesses a blend of rural experience of cooperative system and the commercial and professional touch of development of commercial banks in as far as deposit mobilisation, dealing with money market etc. is concerned.

The First Five Regional Rural Banks were set up in the country in the year 1975, viz., Prathma Bank – Moradabad and Gorakhpur Kshetriya Gramin Bank – Gorakhpur (in the state of Uttar Pradesh), Haryana Kshetriya Gramin Bank – Bhiwani (in the state of Haryana), Gaur Gramin Bank – Malda (in the state of West Bengal) and Jaipur Nagpur Anchalik Gramin Bank – Jaipur (in the state of Rajasthan) and sponsored by Syndicate Bank, State Bank of India, Punjab National Bank, United Bank of India and United Commercial Bank respectively with the following objectives:

(i) to develop rural economy.

(ii) to provide credit for agriculture and allied activities.
(iii) to encourage village industries, artisans, blacksmiths, carpenters etc.
(iv) to reduce dependence of rural people on moneylenders.
(v) to fill the gap created by moratorium on borrowing from moneylenders.
(vi) to help the poor financially for their consumption needs.
(vii) to reach those far areas, particularly backward and tribal areas and to make these areas economically better by opening branches or agencies at any place in the area.

Functions of RRBs

According to the RRBs Act, 1976 'Every Regional Rural Bank' may, in particular, undertake the following type of business viz:

(i) Granting of loans and advances to small and marginal farmers, agricultural labourers, whether individual or in groups and to cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers service societies, for agricultural purposes or agricultural operations or purposes connected there with.

(ii) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within its area of operations.

Features of Regional Rural Banks

The RRBs have regional character.
They have been established as an specialised agency for rural development.
These are small men's banks.
They cater to the credit requirements of agriculture and allied activities.
These banks help the poor for productive as well consumption needs.
The area of operation of these banks are rural, backward, interior and tribal areas.
These are to complement and not to compete the existing agencies of rural credit.
They are conceived as simple and low cost profile banks.
Capital Structure of RRBs

The authorised share capital of all the RRBs at present is Rs five crores comprising equity shares of Rs. one hundred each. The issued, subscribed and paid-up capital of every bank till December, 1986 was Rs. 25 Lakh which was raised to 75 lakh in 1990-91. With a view to make RRBs more viable, National Bank for Agriculture and Rural Development (NABARD) in 1994 further increased the above stated capital upto Rs. one crore of 49 selected RRBs of which Gurgaon Gramin Bank is one of them. The subscribed, issued and paid-up capital is shared by the Central Government, the State Government and the Sponsore Banks in the ratio of 50 : 15 : 35 respectively. The Central Government, in consultation with Reserve Bank of India (RBI) and the sponsoring bank may increase or decrease the authorise, subscribe, issued and paid-up capital to strengthen the RRBs and make them viable.

Concessions available to RRBs

To enable RRBs to mobilise local savings and also achieve viability within a reasonable time, certain concessions have been allowed to these banks by the Reserve Bank of India, Sponsoring Bank and Central Government.

From Reserve Bank of India

Regional Rural Banks can avail of general line of credit from National Bank for Agriculture and Rural Development (NABARD) in addition to scheme to refinance at a concessional rate of 3% below the bank rate.

Regional Rural Banks have been allowed to maintain a lower cash reserve ratio as compared to the other scheduled commercial banks. At present this ratio is fixed at 3% of their total demand and time liabilities (DTL) as compared to 9% of DTL and 10% of incremental DTL in the case of bigger banks.
A lower statutory liquidity ratio at 25% has been fixed for the Regional Rural Banks as against 28% required to be maintained by the commercial banks. These banks are also allowed to earn interest at a rate not exceeding 9% on the current account balances maintained by them with the sponsor and other banks. As compared to other commercial bank the Regional Rural Banks are allowed to offer 1/2% higher rate of interest on all deposits except those of 3 years and above. The RBI and NABARD also undertaken the task of providing training to the officers of the RRBs.

From Sponsor Bank

In the first five years of their functioning the Regional Rural Banks are aided and assisted by their sponsor banks by subscribing to the share capital, recruitment and training of personnel and by providing such managerial and financial assistance as may be agreed upon between the sponsor banks and the regional rural bank.

The sponsor bank bear the cost of pay and allowance of their staff on deputation with their sponsored Regional Rural Banks. The sponsor banks provide refinance to their Regional Rural Banks at concessional rate of 8.5%.

From Central Government

The Central Government contributes 50% of the issued capital of a Regional Rural Bank. Like co-operative credit societies, the Regional Rural Banks have been exempted from payment of income tax. No interest tax is payable by a Regional Rural Bank.

Management

Efficient management has a special significance in the field of banking. The real power of management of Regional Rural Banks is vested in a nine member team of Board of Directors headed by its chairman, who is appointed by the Government of India (Ministry of Finance), other members are nominated one each by RBI and NABARD (Assistant G.M.)
and Deputy G.M. respectively), two each by concerned state Government and lead Bank and remaining two belong to local participation, i.e., one each nominated by concerned state Government and Regional Rural Bank at least one non-official director having knowledge of agriculture, small industry or other related subject.

The following chart illustrate the managerial Hierarchy in Regional Rural Banks.

Board of Directors

Chairman

General Manager

Departmental Heads (Sr. Managers/Area Managers)

Inspectors

Branch Managers

Field Officers.

Regional Rural Banks in the State of Haryana

Haryana Kshetriya Gramin Bank was the first RRB set up in the district of Bhiwani in the state of Haryana and sponsored by Punjab National Bank. It was one of the five RRBs established in India on 2nd October, 1975. Subsequently, another RRB namely Gurgaon Gramin Bank came into existence on 28th March, 1976 with its Head Office at Gurgaon and sponsored by Syndicate Bank. After a gap of about eight years two more RRBs were set up in the state of Haryana namely Hisar-Sirsra Kshetriya Gramin Bank, with its Head Office at Hisar in 1984 and Ambala-Kurukshestra Gramin Bank, with its Head Office at Ambala in 1985 and sponsored by Punjab National Bank and New Bank of India (now merged with Punjab National Bank) respectively. At present four RRBs having a network of 291 branches are working in the state of Haryana. But Haryana Kshetriya Gramin Bank
and Gurgaon Gramin Bank (GGB) have a dominated position in the region with nearly three-fourth of the total branches and GGB alone has 118 branches spread over four districts of the state namely Gurgaon, Faridabad, Mahendergarh and Rewari.

Financial Resources of Gurgaon Gramin Bank

The financial source of Gurgaon Gramin Bank are as shown by table 1.2

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Capital</th>
<th>Deposits</th>
<th>Reserve</th>
<th>Borrowings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1976</td>
<td>25</td>
<td>25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>1987</td>
<td>50</td>
<td>4183</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3</td>
<td>1990-91</td>
<td>75</td>
<td>8880.68</td>
<td>82.82</td>
<td>3522.58</td>
</tr>
<tr>
<td>4</td>
<td>1991-92</td>
<td>75</td>
<td>11247.34</td>
<td>68.18</td>
<td>3471.42</td>
</tr>
<tr>
<td>5</td>
<td>1992-93</td>
<td>75</td>
<td>13814.49</td>
<td>254.93</td>
<td>3208.69</td>
</tr>
<tr>
<td>6</td>
<td>1993-94</td>
<td>75</td>
<td>17107.38</td>
<td>388.97</td>
<td>2937.83</td>
</tr>
<tr>
<td>7</td>
<td>1994-95</td>
<td>100</td>
<td>22050.19</td>
<td>591.25</td>
<td>3223.08</td>
</tr>
<tr>
<td>8</td>
<td>1995-96</td>
<td>100</td>
<td>28256.26</td>
<td>393.07</td>
<td>3588.19</td>
</tr>
<tr>
<td>9</td>
<td>1996-97</td>
<td>100</td>
<td>32864.72</td>
<td>967.48</td>
<td>4762.62</td>
</tr>
</tbody>
</table>


The contents of table 1.2 shows that paid up capital of Gurgaon Gramin Bank has increased four times in the last two decades to make it (GGB) viable. It was Rs. 25 lakh in 1976. It was further enhanced to Rs. 50 lakh and Rs. 75 lakh in 1987 and 1990-91 respectively. At present it is Rs. one crore. It further reveals that borrowings at GGB has marginally fallen in each year from 1990-91 to 1993-94. It also shows a marginal increase in the year 1994-95 and 1995-96 but in the year 1996-97 it increased remarkably.

Mobilisation of Deposits is the most important source of bank (GGB) for enlarging resources. In the year 1976 the total deposits were Rs 25 lakh. It was raised to Rs. 112
crores in 1990-91 and again it was raised to Rs. 329 crores in 1996-97 which shows remarkable increase in last 20 years. The paid-up capital of Gurgaon Gramin Bank has also increased from Rs. 25 lakh to Rs one crore in these years. The details of the same is given in the table 1.2

Borrowings and Refinance

Borrowings and refinance is the another source of procuring funds for the RRBs. It is required by the RRBs because of small capital base, inadequate reserve funds and deposits mobilisation. Borrowings and refinance of Gurgaon Gramin Bank is shown in the table 1.3:

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>NABARD</th>
<th>Sponsor Bank</th>
<th>SIDBI</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1990-91</td>
<td>31.61</td>
<td>3.62</td>
<td>-</td>
<td>35.23</td>
</tr>
<tr>
<td>2</td>
<td>91-92</td>
<td>29.63</td>
<td>4.33</td>
<td>0.75</td>
<td>34.71</td>
</tr>
<tr>
<td>3</td>
<td>92-93</td>
<td>25.36</td>
<td>6.72</td>
<td>-</td>
<td>32.08</td>
</tr>
<tr>
<td>4</td>
<td>93-94</td>
<td>24.69</td>
<td>4.69</td>
<td>-</td>
<td>29.38</td>
</tr>
<tr>
<td>5</td>
<td>94-95</td>
<td>23.89</td>
<td>8.34</td>
<td>-</td>
<td>32.23</td>
</tr>
<tr>
<td>6</td>
<td>95-96</td>
<td>26.67</td>
<td>9.21</td>
<td>-</td>
<td>35.88</td>
</tr>
<tr>
<td>7</td>
<td>96-97</td>
<td>34.60</td>
<td>13.03</td>
<td>-</td>
<td>47.63</td>
</tr>
</tbody>
</table>


The contents of table 1.3 shows that refinancing by NABARD has increased every year except 92-93. It is clear from the column 5 of the table 1.3 that GGB has borrowed only once in 1991-92 from Small Industries Development Bank (SIDBI). It is interesting to note that the increase in 94-95 was very high, the reason behind this increase was the adoption of 49 RRBs by NABARD to make them viable and GGB is one of them.
The Dantwala committee

The Reserve Bank of India appointed a committee under the chairmanship of Sh. M.L. Dantwala in June, 1977 to evaluate the performance of Regional Rural Banks. The committee submitted its report on 16th February, 1978. The committee was of the opinion that with some modifications in their organisations and functions, Regional Rural Banks could become very useful means for the purpose of rural credit. The committee was convinced that within a short period of two years, Regional Rural Banks had demonstrated their capability to serve the purpose for which they were established. They had established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was not available then. Hence, the question of scrapping the RRBs structure should not arise, rather the establishment of more RRBs should be undertaken at an accelerated rate. Prof. Dantwala has observed: We believe that this rationale viz., the local feel, low cost, low profile, highly relevant to rural banking in a poor country and especially for the poor man. The committee emphasised to set up more and more RRBs. The committee recommended that co-operative and regional rural banks should function in co-ordination to fill up the credit gap. The committee concluded that with some modifications in their organisations and functions, the regional rural banks could become very useful means for the purpose of rural credit.

At the instance of the Government of India, the RBI appointed a committee on March 30, 1979, under the chairmanship of Shri B. Sivaraman to review the arrangements for financing institutional credit for agriculture and rural development. The committee submitted its final report on January 30, 1981 and made following recommendations.

(a) The RBI should take necessary steps to facilitate the transfer of eligible business of commercial banks' rural branches to RRBs as and when proposed.

(b) Losses made by RRBs should be made good by their shareholders and equity of
RRBs should also be raised.

(c) RRBs should continue to confine their operations to the weaker sections.

(d) Emoluments of the RRBs staff should continue to be determined with due regard to state Governments' pay scales.

(e) Facilities from sponsor banks to RRBs should continue for a period of 10 years in each case.

(f) The experts connected with agricultural development may be on the Board of RRBs.

(g) Since RRBs serve the weaker sections exclusively, facilities of concessional refinance from RBI should continue.

Mujumdar, (1979) advocated that RRBs have a crucial role to play in financing the rural poor, particularly in those areas where a weak cooperative and commercial banking structure exists, in order to develop a closer linkage between apex.

Wadhwa, C.D., (1980), the study revealed that the RRBs inherited complicated procedural formalities from their sponsoring banks and then were not able to meet the targeted disbursement of credit, (Rs. 5 crores in a year in case of studied RRBs). The study also revealed that the reasons behind it were the absence of their effective links with Primary Co-operative Societies (PCS), and Farmers' Service Societies (FSS), limited scope for direct lending by RRBs in the areas of operation and inadequate support of Government for expanding business.

Kelkar Committee

The committee has observed, In view of its large branch network, comparatively low cost of operation, local involvement through appropriate staffing pattern, and their
operations more in tune with the national objective of serving the weaker sections comprising of small and marginal farmers, artisans, village and cottage industries, RRBs as a part of the multi-agency approach to the rural credit are eminently suitable to do the job envisaged for them. Further, as district level organisation they can be trusted to take banking closer to the rural households and ensure effective supervision over the end use of credit. The RRBs can exit side by side with the co-operatives and commercial banks playing a supplementary role to each other. The committee which studied the working of the RRBs has favoured the idea of improving the viability, operational efficiency and managerial efficiency of the RRBs.

The committee was of the opinion that these banks are doing ‘Yeoman service’ to the poor villagers. The RRBs represent hope, aspirations and expectations of small and marginal farmers, landless labourers, artisans, petty shopkeepers, tongawalas, camel-cart owners and other weaker sections of the population in the rural areas. The winding up/or merger of these banks with sponsor bank would mean bellying the hope, aspiration and expectation of weaker sections society.

The Kelkar Committee has rightly recommended their (RRBs) continuation as an integral part of the rural credit system despite their many deficiencies. Moreover the losses suffered by the RRBs are small and the socio-economic benefits to the rural poor and development of rural areas are significant. Besides this in our country where crores of rupees are spent on different kinds of subsidies the losses of RRBs are insignificant.

The committee recommended that RRBs must liberalise its policy for issuing new licences for opening branches in rural areas. The standard area of operation of the RRBs should not exceed the radius of 10 kms, to enable it to perform intensive work resulting in better control and efficiency over the end use of credit and recovery performance. RBI should, therefore, relax its policy of branch expansion (1985-90) (which envisages consolidation of existing branches) as a special case for RRBs. The working group on
RRBs has rightly suggested that “while issuing licences for rural sectors, priority may be continued to be given to RRBs.”

The Kelkar Committee recommended the enhancement of issued and share capital of the RRBs and Government accepted this recommendation. To give a local feel to RRBs, a clerical staff was so far recruited from within the area of operation of the RRB or at the most from adjoining districts and the officer-staff from the state. “Recently it has been decided to thoroughly open the posts at clerical cadre also to candidates from the concerned state.” The committee also suggested that at least 60% of the loan advanced by the RRBs should be earmarked for the benefit of small farmers, rural artisans and other rural poor.

A study of RRBs by Agricultural Finance Corporation

The report of Agricultural Finance Corporation’s study claims that in spite of several handicaps, the RRBs are striving hard to achieve their major object of 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 RRBs in the country slowed down, but picked up momentum in 1978 and establishment of RRBs was brisk during 1981-83. The expansion of branch offices was faster during this period. However, the geographical spread remains and the business of RRBs has grown faster than the number of branches. The growth in the number of accounts both deposits and loans, has been slightly lower than that in deposits and advances.

The report recommends, principally, the RRBs may be allowed to open urban branches with all banking facilities such as transfer, 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. These urban branches should be in a position to earn interest at the rate being charged by the commercial banks.

Dongre (1986) observed that the share of RRBs advances in agriculture and allied
activities were more than 70%. This was to be set right a close relationship with a term-lending. He further observed that because the requirements of rural industrial sector were unique and might be understood by RRBs, so their (RRBs) role became significant.

Mishra (1986) found that marginal farmers as well as landless labourers were too poor to save or to have adequate income to meet consumption requirements and to peruse production activities. They were in acute need of finance. In this direction only commercial banks and regional rural banks could help them because other financial institutions had failed to do so.

Khusro Committee

The committee points out that, in setting up the RRBs in 1975, the intension was to create an institution which combined the local feel and familiarity with the rural problems which the co-operatives possessed and the degree of business organisation and modernised outlook which the commercial banks had. These new banks were conceived as low cost district banks exclusively to meet the credit need of the target group, i.e., small and marginal farmers, agricultural labourers, rural artisans and other rural residents of small means (RBI-1989, PP 131-34, para 4.01 to 4.09). The committee was of the opinion that there has been a steep decline in their profitability, poor recoveries and problems relating to management and staff. The accumulated losses in respect of 157 RRBs at the end of December, 1986 amounted to labour Rs. 100 crore and these had wiped out the entire share capital of 117 RRBs as on that date (RBI 1989, pp 137 - 39, paras 4.15 to 4.17). It will be only fair to say that weaknesses of RRBs are endemic to the system and non-viability is built into it. In the circumstances, the RRBs would not be able to serve the interest of the target group in the manner expected of them.

Khusro committee found that poor recovery performance or high overdues in some regional rural banks had been due to one reason or the other such as irregular and benami
advances. The committee also observed that "wilful defaults, misuse of loans, lack of follow-up, wrong identification of borrowers, extension of benami loans, staff agitations, etc. contributed to the poor recovery in the RRBs."

The committee concludes, that there can be no place for the RRBs in the country's rural credit system for the future and that they should be merged with the sponsor banks (RBI 1989, pp 148 - 49, paras 4.34 to 4.37). As the committee elsewhere says, all that is needed is that the system consists of two segments, a larger segment responding to the market forces and operating side by side with a smaller, poorer, and hence protected segment and that the latter is within the absorbable capacity of the total system. In fact, if two segments are kept separate, it may help to avoid leakages and give greater transparency to concessions and subsidies so that one knows who is paying for him and how much.

The committee further recommended the establishment of a National Co-operative Bank of India (NCBI) (RBI 1989, pp 323 - 26, Paras 8.01 to 8.09) because only a national apex cooperative bank could fill the systematic gap and hopefully help the systematic strength and cohesiveness which stems from a union of state apexes. The committee points out, "The vitality of the rural financial institutions depends on the vitality of the economy and the activities pursued by the borrowers." The committee also pronounces the cardinal truth, viz., "In a poverty ridden economy, financial institutions do have a responsibility towards weaker sections, but it is essential to recognise the limitations of credit as the principal instrument of poverty alleviation.

RBI News Letter (1989) says that RRBs have made available a huge amount of credit to their target groups, i.e., weaker sections. However, the recovery performance and quality of service of RRBs have not up to the expectations.

Malik and Mittal (1991) advocated that regional rural banks as a part of multi-agency approach to rural credit was suitable for rural development due to some basic features such
as large branch network, low operation cost, local involvement through appropriate staffing pattern and to assist the target group, i.e., weaker sections comprising small and marginal farmers, rural artisans, persons with small means, landless labourers etc.

Narasimham Committee

The committee on the financial system has observed that the functioning of RRBs gives much cause of concern. As per the report, to a large extent, this has been the result of the restrictions placed on the business they can engage in. The wage and salary scales of the RRBs also have been rising and the recent award of tribunal would lead to these scales approximately to those of commercial banks. The low earning capacity and the rising expenditure have seriously affected their viability and basing a handful, almost all the banks are working at considerable loss with little relief in sight. With the increase in salary scales, an important rationale for setting up of the RRBs has ceased to exist. The management of RRBs continue to vest with the sponsoring banks who also have their own rural branches in the very area of operation of the RRBs which have been sponsored and are managed by them. This has been risen to certain anomalies and to avoidable expenditure on controls and administration. The problem of the RRBs is, therefore, one of improving their viability without sacrificing the basic objective for which they were set up’. In this context, the committee made following recommendations:

Evolving a rural banking structure which could combine effectively the advantage of the local character of the RRBs and the financial strength and organisational and managerial skills of the commercial banks. While competition should be a relevant factor in the business of banking, in the particular circumstances of the rural banking this proposition needs to be qualified. Given the credit gap which exists in the rural community and the distance still required to be covered before the rural banking needs are fully taken care of, the need is to establish a viable banking structure which could effectively meet rural credit needs.
It would be advantageous for the sponsor banks to segregate the operations of their rural branches, through the formation of one or more subsidiaries, depending on the size, administrative convenience and business assessment at each sponsor bank.

Such subsidiaries of the national banks should be treated at par with the RRBs in regard to cash reserve and statutory liquidity requirements and refinance facilities from NABARD with a view to improving the viability of rural operations.

To impart viability to their operations, the RRBs may be permitted to engage in all types of banking business. Though their focus should continue to be to lend to the target groups. They should not be forced to restrict their operations to the target groups.

The interest rate structure of the RRBs should be in line with those of the commercial banks. This should make the operations of the RRBs viable over time.

To improve the viability further, a mechanism be worked out under which the RRBs could place surplus funds with either NABARD or with a special federal type of agency that might be set up for this purpose. Similarly, instead of RRBs investing in Government and Government guaranteed securities for purposes of SLR compliance. They could keep cash balance with NABARD or the federal agency which could pay interest on such balances by investing or deploying these funds to the best advantage on their behalf and thus help to augment the income of RRBs.

The committee suggests that the system of directed credit programmes should be gradually phased out making it economically worthwhile for banks to expand their lending to these sectors, i.e., priority sector, without detriment of loan quality or banks income. The committee also suggested that the directed credit programmes should cover a redefined priority sector, consisting of small and marginal farmer to which are also added tiny sector of industry, village and cottage industries, rural artisans, small business and other weaker
sections and that the credit target for this redefined private sector should be fixed at 10% of the aggregate bank credit.

Hundekar, S.G. (1991) the study concluded that there was an urgent need for streamlining all the operational policies of the RRBs so as to make them operationally and financially viable. Because they were expected to be model bankers as RRB was a movement to bring about economic transformation of the rural masses.

1.6 Profile of the Gurgaon Gramin Bank

It has already stated that a Banking Commission on ‘Rural Banks’ appointed under the chairmanship of Sh. R.G. Saraiya has recommended to set up chain of ‘Rural Banks’. After that an ‘Working Group’ was appointed under the chairmanship of Sh. M.M. Narasimham to study the possibilities of setting up such ‘Rural Banks’.

The Working Group submitted its report to the Central Government within a month time and the Government of India accepted the same immediately. Consequently a new type of banks, i.e., Regional Rural Banks came into existence with the setting up five RRBs on 2nd October, 1975.

Gurgaon Gramin Bank is one of the four Regional Rural Banks established in the state of Haryana so far. It was set up on 28th march, 1975 with its headquarters at Gurgaon under the Regional Rural Banks Act, 1976. Previously it was operated in two districts viz., Gurgaon and Mahendragarh but after bifurcation of district Gurgaon and Mahendragarh into district Faridabad and Rewari respectively, its area of operation has widened, i.e., increased upto four districts.

Area of Operation

The area of operation of all the Regional Rural Banks including Gurgaon Gramin Bank is restricted to one or more districts in a state. As already stated GGB is operated in
four districts namely Gurgaon, Faridabad, Mahendergarh and Rewari.

Objectives

The main objectives of Gurgaon Gramin Bank (GGB) are same as of other RRBs, as envisaged in the RRBs Act, 1976 are:

- To develop rural economy,
- To provide credit for agriculture, trade, commerce industry and other productive activities in rural areas.
- To provide credit and other facilities, particularly to the small and marginal farmers, artisans and small entrepreneurs.
- To provide credit for matters connected with and incident all to rural economy.

The other objectives are:

- To reduce dependence of rural people on moneylenders.
- To fill the gap created by moratorium on borrowing from money-lenders.
- To help the poor financially for their consumption needs.
- To reach those far flung areas, particularly backward and tribal areas and to make such areas economically better.
- To provide the benefit of economic development to the weaker sections of the rural people.
- To include banking habits among the rural people and providing many types of banking facilities, all of which have a role to play in rural development.
- To provide infrastructure facilities at most of the unbanked centres in rural areas.

1.7 The Purpose of the Present Study

The purpose of the present study is to examine and analyse the role of the regional rural banks that they play in providing credit facilities and develop economic activities like agriculture, trade, commerce and industry and other productive activities in the rural areas with the specific objective to help the weaker sections of rural society consisting of small and marginal farmers, agricultural labourers, landless labourers, rural artisans and persons with small means in improving their economic conditions.
The study intends to bring fore the actual performance of GGB. Credit facilities having been made available to the clientele by the bank with regard to numerous schemes, such as crop loan, minor irrigation, tractor financing, land development, dairy, poultry, piggery, bullock, mule cart etc. are to be deeply probed into with the assistance of empirical explorations. Though agriculture is the dominant occupation of rural people, yet for those who don't have adequate land and are willing to enter in small business, the banks have been providing credit facilities for the establishment of the business in the rural areas like tailoring, karyana shop, cycle repair shop, carpentry, dary making, black smithy etc. Therefore, the present study contains an analysis of the role played by GGB in the upliftment of rural weaker sections. The present study also deals with the role performed by GGB in financing various schemes under Integrated Rural Development Programme (IRDP), Differential Rate of Interest (DRI), Haryana Harijan Kalyan Nigam (HHKN) etc.

Limited number of studies have been conducted to examine the performance, problems, and prospects of the RRBs in different areas and various suggestions have been put forth to improve the implementation and functioning of RRBs’. The present study is different from other studies in the sense that it is micro-cosmic in nature whereas most of the studies are macro-cosmic. The proposed study is based on the data collected from all available sources and the responding beneficiaries under various schemes in the block of Ballabgarh and Hathin of the district of Faridabad in the state of Haryana. The general observations of present study, are hoped to be helpful in proper planning, better implementation and much needed monitoring.

The present study of a RRB, i.e., GGB has been conducted with a view to examine the role of RRBs in the upliftment of the rural poor particularly the weaker sections. We have chosen GGB because it does not only provide finance to increase the production of crops, milk and other allied activities helpful in generating additional income to the beneficiaries but also help in generating self employment opprotunities for them by providing financial assistance for business and service activities.
Apart from this, the study is conducted keeping in view the problems faced by the beneficiaries at different stages of their participation.

Objectives of the study:

(i) To find out the physical & financial growth, i.e., branch expansion, growth of deposits and advances.

(ii) Procedure to grant credit: Source of information; procedure of applying; time consumed in sanctioning and obtaining of loans.

(iii) To find out the coverage of rural people viz., beneficiaries (poor & non-poor).

(iv) Utilisation of credit.

(v) Leakages of bank resources advanced to ineligible beneficiaries.

(vi) Benefits derived by the weaker sections

(vii) To find out the impact of RRBs on socio-economic conditions of weaker sections, i.e., on their production, productivity, income, employment, level of consumption, standard of living and poverty.

On the basis of above stated objectives, the following hypothesis have been tested in the present study

(i) Only the target groups identified as weaker sections have been covered by RRBs.

(ii) There is vast leakages of resources in the form of advances made to non-poor/ ineligible beneficiaries.

(iii) There has been misutilisation of bank credit advanced to eligible beneficiaries.
(iv) Weaker sections beneficiaries have not been benefited too much, they were not made capable to increase their income.

(v) The level of production and employment of weaker sections beneficiaries has not improved too much.

(vi) The level of consumption and the standard of living of weaker sections' beneficiaries has not improved too much.

1.8 Chapter Outlines

The present study has been divided into seven chapters. Chapter first contains the introduction, the weaker sections in India, institutional credit structure in India: a review, regional rural banks, profile of GGB, purpose of the present study with its objectives and hypothesis and chapter outlines. Chapter two deals with the research methodology adopted in conducting the present study. Chapter three presents the implementation process of rural credit provided by RRB. Chapter four highlights the performance and achievements of GGB. Chapter five presents the utilisation pattern of assistance. Chapter six is devoted to see the impact of banks' assistance on weaker sections. The last chapter deals with the conclusion and suggestions.