India is the oldest example of a developing country that set out, as a matter of policy, to employ the institutional credit system for the purpose of development. This policy has been adopted in the 50's and expanded further in the 60's and the 70's, culminating, in the establishment of the apex institution at the national level in 1982 under the name of National Bank for Agriculture and Rural Development (NABARD).

The last four decades, of the post-independence era witnessed rural credit system to undergo a sea-change as the changing and pressing needs of the time and circumstances called for a revolutionary change-evolution of a multi-institutional approach to ease the problem of effective demand for credit by the rural clientele. The upshot of this dynamic change in the system has been evident from the data on the relative position of various agencies involved in the cultivator's borrowings at four crucial stages 1951, 1961, 1971 and 1981. The share of the institutional agencies in the total credit disbursement has increased from a mere 7.30 percent in 1951 to 18.70 percent in 1961, 31.50

Ramakrishnaya N., The Role of Institutional Credit Agencies in the Planned Development of the Rural Poor and Women, Background paper for the SACRED Consultation, 1985, p.1
percent in 1971 and 62.50 percent in 1981. It is against this background, an attempt is being made here to discuss the evolutionary process of rural credit system with special reference to the role played by the Co-operative banks and Commercial banks in the development of lower strata of the rural sector. It is also necessary to examine the strong and weak points of both the Co-operative and Commercial banking system in financing the target groups. The factors responsible for the emergence of Regional Rural Banks (RRBs) are analysed in the light of the review by Working Group on Rural Banks and other related studies.

Credit has come to stay and occupy a permanent place and constitutes one of the key factors in the sphere of almost every economic activity. This is especially true in agriculture where a good number of new techniques have been introduced through technological revolution during the later part of the sixties. The new technology calls for the combined and optimal application of several inputs, but the one input that can help the farmer to apply other inputs is the financial one, namely credit. Thus, the new technology and the consequent increase in demand for credit have not

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i. Reserve Bank of India, *Report of the All-India Rural Credit Review Committee*, Bombay 1969


only changed the style of functioning of credit agencies but also the very policy of credit. In traditional agriculture, credit was considered only as a "ways and means" advances in order to meet the temporary gap between the future or anticipated income and present expenditure, primarily on the maintenance of the family. As the Food and Agricultural Organisation 5 has rightly stated, "the traditional system is a static or subsistence system, it has no or little impact on the improvement of living conditions of the people". But the present credit policy aims at converting the static credit into a dynamic one which means that at the end of the period, the farmer has increased assets, productive power and income.

As such, agriculture credit should be "development credit" which would lead to a gradual change in the internal economic structure of the farm and would enhance the efficiency of the labour and change the traditional and primitive farming practices. This would also aim at improving the flow of credit to the special categories of borrowers like the small farmers who constitute a substantial propor-

5 Food and Agricultural Organisation, Report of the mission on Centre for International Co-operation and Training in Agricultural Banking (CICTAB), Rome, 7th March 1980, pp.2-4

tion of the farming community. Thus "the rationale of credit planning in the context of rural credit lies in ensuring, consistent with resource availability, adequacy of productive credit to the rural sector and its distribution in such a manner that even the small farmer, artisan or trader has access to institutional credit for his production requirements. This is in turn "depends on the organizational abilities and skilled human resources required to create and nurture an appropriate institutional infrastructure.

The changes in agrarian policy coupled with the technological revolution in agriculture have increased the demand for credit. The National Commission on Agriculture (1976) has estimated that the gross credit requirements of agriculture to be met by institutional sources by 1985 would be Rs.16,549 crores and this estimate is likely to go up further in view of Government's programme to earmark over 40 percent of the total plan outlay for agriculture and rural development.


Thus, the magnitude of the task and the area to be covered make it clear that no single agency can satisfy all the credit needs of the agricultural sector and the design and efficiency of the delivery system are of crucial importance in reaching the rural areas and the targeted groups. Therefore, the main function of the institutional credit system in India should be to provide vast sums of money required for carrying out improvements in land through investment credit and adopt scientific methods of cultivation through short term credit with equal attention being paid to the adequacy of the primary infrastructure.

Rural Credit Policy and Evolution of the Institutional Frame Work:

The objective of the rural credit policy in India, since 1951, has been to institutionalise the rural credit structure and expand its coverage in an attempt of freeing the farmer and especially the small farmer from the clutches of the money lender. Indian policy for many decades concentrated on the development of the co-operative credit system as the only appropriate agency for agricultural credit. It was also, felt that the urban bias and mercantile character of Commercial banks made them inappropriate channels for rural credit.
This policy frame continued until the early fifties when the nation embarked on national economic planning. The All-India Rural Credit Survey Committee, reviewed comprehensively the whole question of rural credit in 1954. It revealed that the share of institutional agencies, comprising of the government, the Co-operative and the Commercial banks in financing the borrowings of the rural households was only 7.30 percent in 1951-52 whereas the corresponding share of private money-lenders (excluding relatives, traders and commission agents, land lords and others) was as high as 68.60 percent.10

Thus, though the distribution of institutional finance was small in measure, it was generally heavily weighed in favour of the bigger cultivators. The table given below shows the financing of the two categories of farmers, big and small in 1951-52.

Table 1.1
Borrowings by different categories of Farmers from Different Sources

(Figures in Percentages)

<table>
<thead>
<tr>
<th>Categories of farmers</th>
<th>Average Borrowings from credit institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Government Agency</td>
</tr>
<tr>
<td>Big, Large and Medium farmers</td>
<td>11.50</td>
</tr>
<tr>
<td>Small farmers</td>
<td>2.00</td>
</tr>
<tr>
<td>All farmers</td>
<td>3.40</td>
</tr>
</tbody>
</table>


The table denotes the percentage of finance, to total borrowings obtained by the two classes of farmers (institution-wise). It is seen that the average finance obtained by all farmers from government, co-operatives and commercial banks was to the extent of 3.40 percent and 1.10 percent respectively. The combined share of big, large and medium farmers from these institutions was 11.50 percent from government agencies; 10.50 percent from Co-operatives; and 3.80 percent from commercial banks. While the share of small farmers from these institutions was 2.00 percent, 1.70 percent and 0.40 percent respectively. Thus, it is observed that the rural credit policy in 1951 was heavily weighed in
favour of the big, large and medium farmers rather than the small farmers. " The government also could not make a dent in disbursing sufficient amount to poor and needy farmers.

The rural credit policy throughout the fifties was based on the integrated scheme of institutionalised rural credit, but with the Co-operative system as its centrepiece. The integrated scheme of rural credit laid special emphasis on short term and medium term credit. The frame-work for long-term credit policy sought to provide for a minimal structure of land mortgage institutions at the state and primary levels. During this period, schemes for revitalising small societies and establishing new societies have been initiated. Creation of special funds for supporting the Co-operatives, introducing liberal credit lines on concessional terms, organisation of the Central Committee for Co-operative Training by the Reserve Bank of India were the important measures for the promotion and development of Co-operative credit structure under the policy of Integrated scheme of rural credit.

Report of the All India Rural Credit Survey, op.cit., p.180

12. Ghosh D.N., Banking Policy in India, Allied Publishers (P) Ltd., New Delhi, 1979, p. 185

13. Report of the National Commission on Agriculture, op -cit., p.3
As a complement to the co-operative banking network, the Government helped organise co-operative marketing societies at different levels for forging links between credit and marketing.

In due course, the Reserve Bank of India also set up a Credit Guarantee Corporation and a Deposit Insurance Corporation to provide guarantees for small loans and insurance for small deposits.

The Imperial Bank of India (the Premier Commercial Bank at that time) was nationalised in 1955 with the main objective of creating supportive facilities to the co-operative network in regard to deposits, remittances and to some extent, marketing advances. All these measures were together described as, "The Integrated Scheme of Rural Credit".  

In accordance with the above measures, rural India came to be covered by a network of co-operative credit institutions, the Primary Agricultural Credit Societies (PACS) at the village level, the District Central Co-operative Banks (DCCB) at the district level and the State Co-operative Banks (SCB) at the state level.

Within this co-operative structure for rural credit, a clear distinction was made between two types of Co-operative

14. Ramakrishnayya N., op.cit., p.2
agencies, namely, Co-operative Credit agencies which would provide short and medium term loans and land development bank's (LDBs) which would specialise in providing only medium and long-term loans for agricultural development. Primary agricultural Co-operative Credit Societies could be further classified into 'small-sized agricultural credit societies' and 'large-sized' agricultural credit societies.

The National Commission on Agriculture had strongly advocated the concept of the formation of "farmer's service societies" (FSSs) at the base level as a new co-operative society or formed out of a group of Co-operative societies which would provide an integrated package of services to the farmers including the supply of inputs and facilities for marketing of the produce. Thus, a number of FSS are also operating on the rural credit scene.

However, it was found that despite nearly four decades of their existence, co-operatives covered barely 3 percent of the estimated total agricultural credit in the mid-fifties. The programmes, in terms of coverage of co-operative membership in different areas, was uneven across re-

15.

Report of the National commission on Agriculture, op.cit., p. 571
NarasimhanM., Banks and Agricultural Credit : The Indian Experience, fourth Anniversary Lecture of the Rural banking and staff Training College of 'the Central Bank of Ceylon. Financing Agriculture- Vol. XVII, No.3, July-September 1985, p. 4
gions. In the primary Co-operative societies, the interests of the small producers have been neglected in favour of his more powerful colleagues. The proportion of borrowings from the Co-operatives was also biased in favour of the big and large cultivators. (See Table 1.2)

Though this observation was made during the British period (1931)\textsuperscript{17} it holds good even after the introduction and implementation of integrated rural credit scheme in 1954. The integrated credit scheme has not been effectively implemented and wherever it is implemented it is done in a piece-meal fashion.

Table 1.2

<table>
<thead>
<tr>
<th>Year</th>
<th>Big</th>
<th>Large</th>
<th>Medium</th>
<th>Small</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>16.23</td>
<td>18.68</td>
<td>16.66</td>
<td>12.71</td>
<td>17.11</td>
</tr>
<tr>
<td>1957-58</td>
<td>11.50</td>
<td>10.20</td>
<td>5.50</td>
<td>5.50</td>
<td>8.80</td>
</tr>
<tr>
<td>1958-59</td>
<td>13.20</td>
<td>11.00</td>
<td>11.20</td>
<td>7.40</td>
<td>10.30</td>
</tr>
<tr>
<td>1959-60</td>
<td>20.20</td>
<td>21.10</td>
<td>15.60</td>
<td>18.80</td>
<td>17.80</td>
</tr>
</tbody>
</table>

\textsuperscript{17} Government of India, The Report of the Indian Central Banking Enquiry committee, Delhi, 1931, p.139

\textsuperscript{18} Thirupathi Naidu V., Farm Credit and Co-operatives in India, Vora and company Publishers Private Limited Bombay, 1968, p.118
The next important stage in the evolution of policy about Co-operative Credit came in 1960. This revised policy in the Third-Five Year Plan (1961-66) and subsequent years has generally emphasised the rationalisation of the Co-operative Credit structure with emphasis on viable institutions, particularly at the village level, so as to ensure sufficient credit to all sections of agriculturists. Hence, the non-viable/dormant societies were liquidated or amalgamated into viable units; as a result, the number of societies are decreasing year by year. Another important feature of the 1960 policy was the emphasis on the multi-purpose role of the village primary co-operative society. These multi-purpose organisations would provide loans to its members, promotes savings among them, supply them with agricultural requisites and domestic requirements and arrange for marketing of their agricultural product. But, the multi-purpose Co-operative societies never became a reality on a national scale due to a variety of reasons mostly related to "will" and "capacity".  

Too much emphasis was laid only on Credit aspect, oftento the neglect of other service functions, further, in organising multi-purpose societies their viability was not always taken into account. Sometimes it was assumed that the multi-purpose societies would be viable even at the village level. Moreover, these societies are not backed by adequate skills as well as technical, extension and other supporting services. ..., Report of the National Commission on Agriculture, op.cit., p.6
Four important features are noticeable in the co-operative credit sector during the period 1951-52 to 1966-67. The first point to be noted is the relatively small percentage of cultivating families which borrowed from the Co-operatives. The second and important feature of the Co-operative Credit has been its tendency to flow, mainly to larger cultivators. The third disquieting feature of the co-operative system has been the rise in the overdues from year to year which affected its credit worthiness and also ability to extend further credit to the farmers. Fourthly no serious attempt has been made by the Co-operatives to understand and develop the ability to attend the special credit needs of the small and marginal farmers and agricultural labourers. As such, even from the late fifties, it was becoming evident that integrated scheme of rural credit had not succeeded in arresting the lopsided development in the Co-operative Credit structure. There were also reasons to believe that the Co-operative Credit System was reflecting the rural power structure and there were many institutional, structural and management weaknesses that surfaced in the operations of the Co-operative Credit institutions, not the least of which was the extent of politicalisation of the system.

Changes in Credit Policy:

The policy of single agency approach to solve the problem of rural credit was followed till the year 1968-69 when an epoch-making event of "multi-agency approach" was ushered in, which almost sounded the end of an era which was marked by the virtual monopoly of co-operatives in the field of rural finance. By the middle of the "Sixties", it was recognised that the increased application of new agricultural technology (Green Revolution) centered around greater availability of water, the use of high yielding varieties of seeds, the wider application of fertilisers and the adoption of new agronomic practices could only be made possible through widening the coverage and extending the reach of agricultural credit.

Accordingly, the All-India Rural Credit Review Committee was appointed which submitted its report in 1969. The Committee acknowledged the inadequacy of the Co-operative Credit System alone to meet the credit requirements of agriculture which were estimated to be of the order of Rs.200 crores short-term, Rs.1500 crores long-term and Rs.500 crores medium-term credit which may be required by the cultivators during the 4th Five Year Plan. Against these requirements, the co-operatives provided Rs.760 crores 

Narasimham M., op.cit., p.5
short-term credit and Rs.783 crores long-term credit. Thus Co-operatives could not achieve success to the extent necessary for meeting the larger credit needs of new farm technology in our country and the necessity, therefore, of bringing in Commercial banks to help fill up this need. Hence the multi-agency approach in the field of agriculture credit was adopted, partly on account of the official recognition that the progress of agriculture can not be tied to the progress of Co-operative Credit and largely the profound changes which have taken place in our country's agricultural situation, which rendered many of the past credit policy promises outdated.

The review Committee also called upon the Co-operatives to place more emphasis on meeting the credit requirements of the small farmers. This was generally the approach of the Fourth Five Year Plan (1969-74). The Fifth Five Year Plan also set out as a principal objective, the increasing orientation of the loan policies of Co-operative and Commercial banks to the credit needs of small and marginal farmers.

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25 Hemchand Jain, J./-'U.' •., p.279
The foregoing account of the evolution of credit policy and institutions indicates that a definite policy of integrated co-operative credit emerged by the end of the First Plan. The policy generally held ground for about a decade in the Second and Third Plans. Although the same general approach to co-operative credit has been pursued, in the last decade there has been a shift in policy towards a multi-agency approach to agricultural financing, with the active involvement of the Commercial banks (1969) including Regional Rural Banks in this business later in 1975.

Overall Progress in Co-operative Credit:

The Co-operatives, until recently the main instrument in institutionalising the rural credit structure, have made substantial progress over the years in providing credit to the agricultural sector which has been classified as a, "priority sector" under the credit policy formulated by the Reserve Bank of India. Thus, on the eve of the establishment of the new institution i.e., the Regional Rural Banks (RRBs) in 1975, the number of major Co-operative institutions was as follows. Primary Agricultural Credit Societies: 1,52,527; Primary non-agricultural Credit Societies: 17,666; Farmers Service Societies: 69; Central Co-operative

Banks: 341; State/apex Co-operative Banks: 26; Central Industrial Co-operative Banks: 10; Primary Land Development Banks: 872 and Central (State) Land Development Banks: 19 at the end of June 1975. Nearly 97 percent of the Indian villages were covered by the Co-operatives in June 1976 at the gross root level. The share of Co-operatives in supplying credit to the rural households had gone from 3.10 percent in 1951 to 15.50 percent in 1961-62 to over 25.00 percent in 1974.

Limitations of Co-operatives:

Eventhough the progress of Co-operatives, both quantitative and qualitative, has been remarkable over the years, there were certain functional, structural and administrative weaknesses in the movement. Although Co-operatives have expanded their operations, their performance suffered from some inadequacies. Co-operative Credit fell short of standards of timeliness, adequacy and dependability. The Co-operative system had remained relatively stagnant that in respect of coverage of credit needs as well as borrowing.

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27. Reserve Bank of India, Statistical Statement Relating to the Co-operative Movement in India, op.cit., Part I

28. Estimated on the basis of data provided in the Report of the Expert Committee on Consumption Credit, New Delhi, April 1976, Chapter 2. This share is likely to have increased slightly in the latest year.
members as a proportion to the total number of members, but of the 1,34,838 primary agricultural credit societies (excluding those in Assam, Jammu & Kashmir and Andaman Nichobar Islands for which data are not available) as on June 30, 1976, 1,23,204 societies were active and covered 97 percent of the villages in the Country. The membership was confined to about 65 percent of the rural households and percentage of borrowing members to total members continued to be low. Of the 40 million members of the agricultural credit societies, 15 million were borrowers (or 38 percent of the total during the year 1975-76).  

Further, a large number of primary agricultural co-operative credit societies were neither viable nor potentially viable and must be regarded as inadequate and unsatisfactory agencies for dispensing production credit. Of the 1,16,125 (1977-78) primary agricultural credit societies, 1,07,131 societies were active while the remaining 8,994 societies were dormant. The All India average figure of dormant primary agricultural credit societies out of all societies being 8.63 percent at the end of June 1976.

30 Report of the All-India Rural Credit Review Committee, op.cit., pp.201 and 202
Moreover, inspite of the impressive quantitative growth at the All India level, the co-operative credit system had made slower progress in several parts of the country. During 1972 five states namely Punjab, Kerala, Gujarat, Maharashtra and Tamilnadu had the share of 57.50 percent of the total co-operative credit. These states were classified as co-operatively developed states providing Rs.45 or more of short-term Co-operative credit per hectare to the farming community. There were 7 states viz., Andhra Pradesh, Haryana, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Karnataka and Uttar Pradesh where per hectare Co-operative short term advances ranged from Rs.20 to Rs.45 and the percentage share of the total advances of co-operative credit was 33.70. There were ten states, namely, Assam, Bihar, Megalaya, Nagaland, Manipur, Tripura, Orissa, Rajasthan, West Bengal and Nagaland where per hecacre short-term co-operative advances was Rs.20 or less and the share in the advances of Co-operative credit was 8.60 percent. Thus the performance of Co-operative agricultural credit was uneven among the various states/union territories with respect to the amount of credit advanced. This has created regional imbalances.

Hemchand Jain, op.cit., p.281
Further, there are evidences to show that the benefits of the co-operative credit have not been adequately passed on to the weaker sections of the society. Loans advanced to landless persons by primary agricultural credit societies in 1975-76 accounted for only 3.94 percent of the total amount of loans advanced. The corresponding proportion of loans advanced to landless persons and small farmers owning less than two hectares of land amounted to 33.59 percent. There were a number of benami transactions under which bigger land owners borrow in the name of small farmers.

This kind of negligence of numerically larger but economically weaker section of the community may result in economic and social tensions. This "may not only upset the

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31 Report of the All-India Rural Credit Review Committee op.cit., p.172 The Committee pointed out, "It does appear from these figures that the proportion of small cultivators who had access to co-operative credit was relatively low in all the states and that of the bigger cultivators received a much large share of co-operative credit than would appear to the justified if allowances were made for the extent to which their own resources could have helped to finance their outlays on the farm.

32 Computed from the data provided in the Statistical statement Relating to the Co-operative Movement in India, 1975-76, op.cit., Part I.

33 National Counsil for Applied Economic Research, Credit Requirements for Agriculture, 1974, p.10
process of orderly and peaceful change in the rural economy but also frustrate the national effort to step up agricultural production.

Among the main constrains of the co-operative system, has been the problem of overdues. Of the advances made by the State Co-operative Banks, 5 percent of the loans outstanding (Rs.58 crores) on 30th June 1977, represented overdues: Of Central Co-operative Banks 33 per cent (Rs.596 crores): Of the Primary Societies 43 per cent of outstanding loans were overdues and 50 per cent of the borrowers were defaulters to these societies: the overdues of Central Land Development Banks increased to Rs.94 crores, forming as high as 43 per cent of the total demand, Prominent among the commonly attributed causes for the deterioration in the recovery of Co-operative dues are crop failures due to natural calamities, inadequate supervision, unsatisfactory management, unsound lending policies, default by the comparatively affluent group of borrowers and economic and agricultural backwardness of the area served by the institutions.

34 Report of the All-India Rural Credit Review committee., op.cit., p.579
' Southern Economist, Vol. 17, April 1, 1979, p.12
Reserve Bank of India, Report of the Study Team on over dues of Co-operative Institutions, Bombay, 1974, p.2
The poor management of loaning activities is evident from the fact that the overdues as a proportion of loan outstandings of the Primary Agricultural Credit Societies at the end of June 1976 was as high as 43 percent.\textsuperscript{37}

Co-operatives have a large dependence on external resources. The heavy dependence of the Co-operatives on the government or the government co-operative funding agencies even after several years of the operations of Co-operatives also needs to be pointed out. This may be illustrated with reference to the working of Primary Agricultural Credit Societies in 1975-76. Thus, at the end of June 1976, the owned funds were less than 20 percent of the working capital of the Primary Agricultural Credit Societies.

The progress of the farmers service societies has been dismal. A number of studies of the farmer's service societies have confirmed the structural weaknesses of this scheme because of which it has not become popular with the existing

\textsuperscript{37} It would be much more as a percentage of loans issued during the year. This figure is computed from the Statistical Statements Relating to the Co-operative Movement in India, 1975-76, \textit{op.cit.},

\textsuperscript{38} The following observations are based on the data provided in the Statistical Statements Relating to Co-operative Movement in India, 1975-76 \textit{op.cit.},
Co-operatives and the other concerned persons. With the above reasons the co-operative credit sector, which had the virtual monopoly in catering to credit requirements of the agricultural sector was not in a position to meet alone the entire credit demand that may arise for modernising the Indian Agriculture. In other words the Co-operatives have not been able to institutionalise the rural credit structure. It is precisely from this standpoint the Commercial banks were practically forced into the field of rural finance.

Commercial Banks and Agricultural Credit;

The concept of utilising the Commercial banks in India for development purpose has a history. The first planned move to take the commercial banking system closer to the country-side was made in July 1955 when the Imperial Bank was converted into the State Bank of India in pursuance of the recommendations of the All-India Rural Credit Survey Committee Report (1954). This marked the beginning of the role of Commercial banks in the sphere of agricultural and

rural credit. This was also one of the components of the integrated scheme of rural credit. The State Bank of India was asked to open not less than 400 branches between 1955 and 1960 in rural and semi-urban areas. During the next five year period, the State Bank of India actually opened 416 branches, thereby exceeding the target set for it. With the progress made by the State Bank in implementing this programme, the physical distance between the villages and the bank office started getting reduced. The State Bank of India had begun in 1956 in the direction of provision of finance for agriculture in an indirect way. It started providing financial resources to agriculture through Co-operative banks, land mortgage banks and co-operative processing and marketing societies.

Until late sixties, the commercial banks with the exception of the State Bank of India were largely confined to urban areas. The commercial banks contribution was very insignificant during 1950-51, 1960-61 and restricted to plantation industry.

The Commercial banks in India had usually been lending a negligible proportion of their funds to the rural areas. While the Co-operative Credit structure prior to Green Revolution had not been of great help to small cultivators,

even the Commercial banks were not keen in extending their activities to rural areas, especially in providing finance to small cultivators. The Table 1.3 shows the flow of credit of commercial banks upto 1968. (before nationalisation and on the eve of introducing Regional Rural Banks in 1975).

Table 1.3

Commercial Bank's Credit to Agriculture Sector

<table>
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<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>12.4</td>
<td>15.6</td>
<td>40.05</td>
<td>56.5</td>
<td>67.1</td>
</tr>
<tr>
<td></td>
<td>(2.1)</td>
<td>(2.0)</td>
<td>(3.1)</td>
<td>(2.4)</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Others</td>
<td>572.2</td>
<td>754.6</td>
<td>1265.7</td>
<td>2290.3</td>
<td>2997.3</td>
</tr>
<tr>
<td></td>
<td>(97.9)</td>
<td>(98.0)</td>
<td>(96.9)</td>
<td>(97.6)</td>
<td>(97.8)</td>
</tr>
</tbody>
</table>

Source: RBI, Trends and Progress of Banking in India, RBI, Bulletin (M), June 30, 1969, p.481.

Note: a. Figures in paranthesis indicate the percentage to total.
   b. Direct Advances only

The ratio of advances to agriculture has been fluctuating between two to three percent during the 17 years period (i.e., 1951-68), though, the contribution of agricultural sector to the national income was around fifty per cent. The sectoral distribution of Credit by Commercial Banks is weighted in favour of large-scale industries, wholesale
trade and commerce rather than agriculture, small scale industry, retail trade and small borrowers. Agriculture excluding plantations accounted for less than 1 percent of the total and advances to retail trade accounted for less than 2 percent. Apart from the uneven distribution of credit to the major sectors of the economy, it was also noticed that there were credit gaps particularly in the case of small borrowers.

It was felt that the Commercial banking system had been neglecting agriculture, small scale industry sector and borrowers of small categories. Thus the banking system was still outside the periphery of social banking.

Towards the end of 1965, there was also a strong feeling that banking policies should be reoriented more in keeping with objectives of planned economic growth with social justice. In addition, agrarian unrest became a significant feature during the above period and continued to

42 Ibxd., p.317
43 Thingalaya N.K., Banking Development in India Since Independence, Pigmy Economic Review, Vol.33, No.1, August 1987, p.5
44 Narasimham M., op.cit., p.4
dominate rural scenario. Further, the country was facing a serious economic crisis and there was a serious risk of the breakdown of the sociopolitical order in the face of alarming food situation due to severe droughts in mid-sixties.

Pressed by the circumstances, among others, the Government of India instituted a set of banking policy measures under the concept of social control of banks. In order to make the spread of bank credit more broad-based and to put an end to misuse of credit, facilitate increased flow of credit to hitherto neglected sectors of the economy and to mould the banking industry as an effective tool of economic development, "Social Control" on banks was introduced in 1968. The primary objective of the social control scheme was to reorient the lending policies of the commercial banks more in favour of primary sectors. However, the experiments with social control itself was short-lived. It was alleged that social control of banks for about a year had brought to light a number of loop holes in its functioning as it did not operate as an effective instrument to prevent misuse of bank resources. The social control was essentially an


experiment to find out whether Commercial Bank's credit could be effectively used for national development without touching the Question of ownership of banks. But, it was soon recognised that for the type of massive quantitative expansion of banking activity and the required Qualitative diversification of such activity there was a need for greater degree of active and positive State intervention in banking. This was the background to the nationalisation in July 1969, of the 14 large Indian Banks which together with State Bank of India and its subsidiaries which were already in the public sector gave state owned banks well over 80 percent of the total banking business. Nationalisation was meant to ensure that no viable productive endeavour faltered for lack of credit support. It was designed to make the credit system reach out to the small man and to the remote rural areas where grant of credit was an act of patronage and receiving it an aspect of privilege. Nationalisation of banking was, in short, a measure towards the socialisation of credit. 49

47. Choubey B.N., Agricultural Banking in India, National Publishing House, New Delhi, 1983, p.73

48 Narasimham M., op.cit., p.5

49 Narasimham M., Some Reflections on The Indian Banking Scene, Financing Agriculture, Vol. XVI, No. 2, April-June 1984, p.6
An attempt was made for the first time in 1970 by the Government of India to link the Co-operatives at the gross-root level and the commercial banks mainly with the objective of supplementing the loanable resources for the former through this additional channel of supply of funds. This was necessary in view of the fact that most of the primary agricultural credit societies and District Central Co-operative Banks had heavy overdues and had become ineligible for a further grant of refinancing under the guidelines for credit to co-operative institutions enforced by the Reserve Bank of India. Another way in which the link between Commercial Banks and potentially viable primary agricultural credit societies was sought to be fostered was by encouraging the Commercial banks to take an initiative in the establishment of the farmer's service societies.

Yet another, interesting innovation in banking was the institution of the lead bank scheme in December 1969 by giving a concrete shape to the area development approach. The lead bank scheme was initiated in 1970 assigning the responsibility of developing the banking activities in the district allotted to each of the nationalised banks. Under the scheme, banks were asked to prepare District Credit Plans to fill-up the credit gaps estimated in all the districts in the country. This was a major departure from conventional banking. Rounds of District Credit Plans were
formulated and implemented by the nationalised banks with the co-operation of the non-nationalised banks and the support given by the State Government authorities.

Again, the involvement of Commercial Banks in financing the needs of rural credit was sought to be increased through the scheme of "adoption of villages" by the scheduled Commercial Banks. Through this scheme, the banks were expected to be highly selective and to concentrate on compact areas through intensive programme of area development. The objective of the village adoption scheme by Commercial banks is, "to develop the village economy in all its aspects in a phased manner."

The Differential Interest Rate Scheme (later differential rate of interest scheme) has also been introduced in 1970 with to C'Ator the credit requirements of "weakest" among the weak. Under this scheme each nationalised bank was asked to lend 1/2 percent of the previous year's

50 Reserve Bank of India... Report of the Expert Group., Agricultural Credit Schemes of Commercial Banks, p.67

51" Under this scheme, the families with annual family income not exceeding Rs.2,000 per annum in rural areas and Rs.3,000 per annum urban or semi-urban areas are in eligible for the loan. See Ojha P.D., Agricultural credit Institutions : India, Reserve Bank of India Bulletin, Reserve Bank of India, Feb 1986, p. 157

Thxs was raised to one percent in the year 1977
lending (in terms of total outstanding) at 4 percent rate of interest to the borrowers belonging to the weakest of the weaker section.

Progress of Commercial Banks:

The commercial banks have been making concerted efforts towards opening more branches in rural areas in the post-nationalised period. They have been experienced with a number of alternatives and combination of methods and approaches in different parts of the country with varying degree of success. These includes building up of a base of technically qualified field officers, developing experts at head offices, group financing, adoption of villages, organizing agricultural development branches and financing through primary cooperative credit societies etc.,

During the past one and half decades and over (from 1955 to 1975), commercial banks have been emerging not only a significant source of rural credit but also as an agency for rural development. Over the past two decades, commercial banks have responded to the modernisation of agriculture through a phenomenal expansion of branch network in the rural areas. Thus, the number of "rural" branches of all scheduled commercial banks (in centres with a population of 10,000 or less) rose from 1832 at the end of June 1969 (or 22.40 percent of total number of branches in the coun-
try) to 9146 branches at the end of April 1977 (or 37.70 percent of the total branches) representing an increase of nearly 400 percent in a period of eight years, whereas the credit outstanding of all the scheduled commercial banks to agriculture (excluding plantations) accounted for 5.37 percent of the total credit outstanding of these banks at the end of December 1969, this proportion had risen to 10.44 percent at the end of December 1976. The percentage share of commercial banks in the total direct institutional finance outstanding has increased from 14 in 1971-72 to 25 in 1975-76.

Major Weaknesses of the Commercial Banks:

Inspite of the accelerated growth in the expansion of the rural branches and their lending activities, the commercial banks have their own weaknesses in the field of rural credit.

First, the commercial banks seemed to suffer from their uneven spread of branches as between different states and population groups. So far as inter-regional spread of agricultural financing by commercial bank is concerned in under-

53. These computations are based on the data provided in the various issues of the Reserve Bank of India Bulletin 54.

Compiled from Report on Currency and Finance., Reserve Bank of India
developed regions like northern, north-eastern and eastern regions, the commercial banks have not made any noticeable dent and their finance was mostly concentrated in central, western and southern regions. The state-wise percent distribution of population of branch offices and of total advances indicate the existing uneven distribution and its consequent impact on growing inequality between one region and the other. For instance, Gujarat with 4.87 percent of India's population has 7.40 percent of branch offices and received 7.00% of total advances; the share of Maharashtra is 9.20, 10.70 and 28.40 percentages respectively; Tamilnadu shared 7.52, 9.30 and 12.00 percentages respectively; whereas, Bihar with 10.28 percent of population has 4.70 percent of branch offices and received only 3.20 percent of the advances; Madhya pradesh shared 7.60, 5.00 and 2.30 percentages respectively; Orissa shared 4.01, 2.10 and 0.70 percentages; Rajasthan shared 4.70, 4.10 and 1.80 percentages and Uttar pradesh with 16.13 percent population has 10.90 percent of branches and received only 6.4 percent of advances. It is to be noted that a majority of these branches were located near the sub-divisional or district, towns and not

in the interior rural areas. Thus commercial banks did not possess the broad and wide spread rural base from which they can conveniently and effectively carry out their operations of serving more than 60 million rural households far and wide in six lakhs villages.

Second, these banks still continued to use the deposits mopped-up by their rural branches for meeting the credit needs in urban areas. This phenomenon has become less sharp in recent years. Nevertheless, it still holds. Thus, at the end of June 1974, deposits mobilised from the "rural" branches accounted for 7.70 percent of the total deposits mobilised but corresponding advances through the "rural" branches accounted for 5.30 percent of the total advances.

Third, Commercial banks have gone wherever cooperatives were well established, and extended credit to segments

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57 Report of the Estimates Committees (Fifth Lok Sabha 1973-74) "Extension of credit facilities to weaker sections of society and for Development of Backward Areas", New Delhi, April 1974, p.54


59 This observation is based on the data provided in the Reserve Bank of India., Banking Statistics, Basic Statistical Returns, Vol.4, June 1974, Bombay, December, 1975
enjoying cooperative credit. The review committee on Regional Rural Banks also observed that the commercial banks' agricultural credit has been additive and has not helped to fill the geographical gap in the availability of credit not covered by the cooperatives. There has also been needless competition between the commercial banks inter se, and also between Commercial banks and cooperatives. As for instance, at the end of June 1975, only 36.30 percent of the branches of the commercial banks were in the rural centres, on the other hand 29.90 percent in semi-urban centres, 18.60 percent in urban centres and 15.10 percent in metropolitan centres.

Fourth, the commercial banks also appear to be relatively neglecting smaller borrowers while providing agricultural credit. Thus, even at a broad level of classification of loans to 'agriculture and allied activities', the aggregate

61. Report of the Review Committee., op.cit., p.31
loans outstanding in the lower I category of "Rupees ten thousand and less" at the end of June 1974 account for 36.53 percent of the total loans outstanding in this category.

Fifth, the linkage between the commercial banks and the cooperative societies, though growing over time, is still very weak. Thus, commercial banks financed only 1.75 percent of the primary agricultural credit societies in the country at the end of June 1976. The scheme was not in operation in all the states of the Indian Union at that time.

Sixth, even under the differential rate of interest scheme, the commercial banks did not sanction the 1/2 percent of their total advances (preceding year) to the "weakest" of the weaker sections. The percentage of differential rate of interest advances to total advances given by the commercial banks ranged between 0.02 in 1972 to 0.31 in 1975.


64 Based on the data in the Statistical Statement Relating to Co-operative Movement in India", 1976, op.cit., p.16

Seventh, the village adoption scheme by the commercial banks, by and large has not been able to accomplish its objectives. This could be attributed to (I) Lack of understanding among different commercial, banks and (ii) overlapping of geographical areas served by different banks.

Eighth, the cost structure of the commercial bank started to escalate, the expansion of commercial bank has been marked by high cost of operations, the salary structure, staffing pattern; hierarchical structures, cumbersome procedures, other establishment costs had contributed in varying degrees to increasing costs. These are, unfortunately, common to banking services in the country but when these aspects of organisation, procedures and staffing are translated to the rural branch setting, they naturally tend to increase the expense-to-income ratio of the rural branches even further. The higher expense ratio is perhaps one of the reasons for the slow-down in the pace of branch expansion in the last three years.

Nineth, the attitudinal character of the commercial banks affected their effective participation in rural financing, commercial banks have had their origin in Urban

Dhingra I.C, Rural Banking in India, Sultan Chand and Sons, New Delhi, 1987, p.291

areas of the country and are managed by staff mostly from cities with urban orientation to whom rural banking constituted a difficult and comparatively unfamiliar activity. The unfamiliarity with rural operations is particularly marked in respect of lending operations. The high emoluments of the bank staff had socio-psychological implications in the village set the in part from the rest of the village community. 68

The policy and practice of advances by the commercial banks and co-operatives right, from the beginning of 1.95.1 when analysed, comes out that, by and Large, both the institutional sources mainly served the non-target, and non-priority groups in the rural sector did not cover the target group to the extent envisaged and required. In the case of co-operatives, it has been argued earlier that the benefits of the cooperative lending system flowed mostly to bigger farmers, contrary to what was intended and stressed in various reviews 69 bringing in the factors responsible as under:

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68. op.cit., p.4
70. Ibid., p.15
1. Cooperative leadership and management, were in the hands of bigger farmers who were both unwilling to appreciate the needs of the small and marginal farmers;

2. The principle of lending being geared to the possible increase in income generation could not be applied for a large coverage of small farmers;

3. Whatever credit that reached the small farmers was also mostly used unproductively;

4. Credit limit fixation and the recommendations for crop loans by bank supervisors continued to be largely guided by vested interests and had little relevance to actual field conditions \(^{71}\) and

5. By and large, cooperatives did not treat the agricultural tenants in terms of social justice. \(^{72}\)

Whereas the above factors operating in the cooperatives resisting them from providing the needed credit support to the weaker sections, there are factors like credit-worthiness of the poor and the high risk involved in financ-

\(^{71}\) Choudhari T.P.S. and Sharma J.N., Crop Loan System : A Study in Andhra Pradesh and Panjab, National Institute of Community Development, Hyderabad, 1970, p.89

\(^{72}\) Ghosh D.N., Banking Policy in India.- Allied Publishers (P) Ltd., New Delhi, 1979. p. 170
ing the poor, that might have inhibited the commercial banks in financing the poor. " Therefore, the flow from institutional credit to the weaker sections was very limited by structural factors.

Time and again it had been observed that, both the co-operative and commercial banks lacked the understanding and ability to tackle the special needs of small farmers, let alone those of marginal farmers and agricultural labourers. A combination of difficulties in the co-operative system proved as detrimental to extension of its benefits to small farmers. The constraints under which the commercial banks have had to work inhibited their efforts to cover small and marginal farmers more extensively. Thus, the diversified activities of our banks have not yet emerged as viable economic propositions for the weaker sections.

The policies pursued by the Government from time to time in creating the rural credit structure and enlarging its scope of operation have produced adverse effects on the functioning of both the co-operatives and commercial banking system. The growing regional imbalance in the disbursal of

73 Ibid., p.291
74 Report of the national Commission on Agriculture, op.cit., p.18
credit, neglect of the weaker sections, the rising over-dues, ineffectiveness of existing institutional agencies to meet the growing credit needs of the farmers, various other structural, functional and administrative problems are inherent in the functioning of cooperatives and commercial banks.

Besides these inherent defects in the institutional credit it is significant to note that by and large the cooperative and commercial banks have not succeeded in "absolute institutionalisation" of rural credit nor succeeded in meeting the credit requirements of weaker sections. In other words, the co-operatives and the commercial banks are not able to meet all the planned credit requirements of the rural areas and there would be "still a large unfilled gap". Despite the tremendous growth of the co-operatives

Report of the National Commission on Agriculture., op.cit-, p.1. The National Commission on Agriculture appointed by the Government of India for examining the demand and supply of rural credit in 1985 also came to a similar conclusion. See, Government of India, Report of the national Commission on Agriculture, New Delhi, 1976,- Part XII, Para 55.7.11. These estimates are based on 1974-75 prices. Even if one looks at only the graduated requirements of credit (Which are roughly 50 percent of the estimated full requirements) and compares them with the actual volume of agricultural credit provided by all institutions, the "gap" in the anticipated demand and supply from institutional sources of credit would become clearly visible. This estimate of "Credit gap" is likely to go up further in view of the Government of India's emphasis on programmes of rural development in the Sixth Five Year Plan 1979-84
and the commercial banks for the supply of rural credit in the country over-time outlined in the earlier paragraph, it is estimated that even now, the non-institutional credit accounts for two-thirds of the total agricultural credit in the country. (See Table 1.4)

Table 1.4
Debt owed to Different Credit Agencies by Rural Households
(Figures in percentages)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Credit Agency</th>
<th>Proportion of Borrowings from each agency to the total borrowings of cultivators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1951-52</td>
</tr>
<tr>
<td></td>
<td>NON-INSTITUTIONAL AGENCIES:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Professional Moneylenders</td>
<td>44.8</td>
</tr>
<tr>
<td></td>
<td>Agricultural Moneylenders</td>
<td>24.9</td>
</tr>
<tr>
<td></td>
<td>Traders &amp; Commission Agents</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>17.5</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>92.7</td>
</tr>
<tr>
<td></td>
<td>II INSTITUTIONAL AGENCIES</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>Commercial Banks</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>Co-operatives</td>
<td>3.1</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>7.3</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Fig. 1

Institutional Agencies
Non-Institutional Agencies

1971-72 1961-62 1951-52

Debt Owed to Different Credit Agencies

By Rural Households

100
After realising the gravity of the situation, the Government had mooted the idea of starting a new agency which would correct the aberrations in the working of the commercial banks and cooperatives with the explicit purpose of financing the target group. The recommendations of the working group on Rural Banks had an important bearing in shaping the new institution.

REGIONAL RURAL BANKS

The post-independence era witnessed a number of epoch making events in the sphere of rural credit. One of these events was the introduction of Regional Rural Banks (RRBs) in the sphere of agricultural finance in the year 1975. The rural banks represent a major institutional innovation in rural lending. This innovation in the field of rural credit has been seen to be a potentially powerful policy instrument for achieving the objective of rural development mainly through the development of the rural poor. The Reserve Bank of India in its report has described the setting up of the regional rural banks as a "development which will have a far reaching effect on the extension of banking facilities to the rural areas".77

The proposal for setting up "rural banks" was first mooted by the Banking commission in its report of 1972. It was proposed to establish a new class of rural banks which could combine strong features of both the cooperatives and the commercial banks for satisfying the credit group especially from medium and small cultivators. However, no action was taken by the Government of India on the Banking Commission's proposal for establishing a chain of rural banks till 1975.

The announcement of the "Twenty-one Programme" or the "New Economic Programme of the Government of India" on 1st July 1975 provided the opportunity for rethinking on the need for setting up some kind of a new institution of "rural banks" for providing rural credit. One of the most important points under this programme having a direct bearing on the rural credit scene is a plan for liquidation of rural indebtedness; legislation for moratorium on recovery of debts from landless labourers, small


For details of the twenty points of this, "New Economic Programme", See,- Singh V.B., *Economics of 20-Point Programme*, New Delhi, Government of India, Ministry of Information and Broadcasting, Publications Division, October 1976. It may be recalled that this programme was announced soon after the declaration of the state of Emergency by the then Government of India on 25th June 1975.
farmers and rural artisans. In July 1975, the Government of India issued guidances to the state governments for appropriate legislative action for moratorium, discharge of debts and scaling down of debts of the small and marginal farmers, landless labourers, rural artisans and other weaker sections of the society from the non-institutional sources. In pursuance of these guidelines, several state governments enacted legislation. Such legislation was clearly expected to create a vacuum for meeting both the production and consumption credit of the weaker sections of the society as the traditional, sources of credit were either going to dry up or would demand extraordinarily high rates of interest on loans to cover risk of non-payment within the purview of the loan.

In this context, a necessity for a separate credit institution on the rural scene basically emerged out of limitations of Commercial and Co-operative Banks in fully and effectively meeting the credit gap particularly in

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81 Government of India., Department of Revenue and Banking, Report of the Expert Committee on consumption Credit (Chairman : B. Sivaraman), New Delhi, April 1976, Chapter 10

82 For a review of the action taken by the several state Governments on this front. See, Report of the Expert Committee on Consumption Credit,- op.cit., Appendix

83 Wadhva Charan D., op.cit., p.13
respect of economically weaker sections and disproportionately high cost incurred by Commercial banks in carrying out their activities on rural front.

The Government of India constituted a Working Group on 1st July 1975, to examine the setting up of rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. The Group submitted its report on 30th July 1975.

The Group identified the various weaknesses of the Co-operative credit agencies and the Commercial banks and felt that the then existing structure 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 adoption, re-organisations and restructuring as may be considered. In addition; the Group also opined that in a country of the size and regional diversity as that of India, no single pattern, be it Commercial banking or Co-operative Credit can be expected to meet all the emerging credit requirements in all areas. A degree of adoption and improvisation is called for and the range of Institutional alter-

83. Report of the Working group on Regional Rural Banks., op.cit., p.3
84. Ibid., p.4
natives widened. It is in this context, the Group had come to the conclusion that a new type of institution was necessary.

The Group also noticed the major strength of the Co-operative credit institutions and Commercial Banks. It, therefore recommended the necessity of creating new institution which combines the local feel and familiarity with rural problems which the Co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial banks have.

The Group further felt the necessity of a certain amount of state initiative to speed up the progress of institutional lending especially with an eye to meet the credit needs of the smaller farmers. . . . . It is that forms the background of to the evolution of the idea of 'State sponsored, regionally based and rural oriented commercial banks'. At the same time, the Group clearly envisaged that "the role of new institution would be to supplement and not supplant the other institutional agencies in the field i.e., the co-operative and 'commercial banks'. The Group clearly specified the role of these proposed regional banks. Again,

86. Ibid., p.4
in the words of the group: 'the role envisaged for the regional banks would be that they would, like the existing commercial banks would plan their branch locations up to a certain economic point beyond which they would operate through the intermediacy of the Farmers Service Societies and reorganised multi-purpose societies."

As regards the jurisdiction of the proposed rural banks, the group suggested that it should have 'homogeneity of agro-economic and agro climatic conditions' which suggest that the area of operation could be co-existent with a compact agricultural region. It is the compactness in an economic sense and social characteristics rather than administrative district that would be relevant for demarcating the area of functioning of a regional branch. Compactness and continuity of area are also necessary to enable better head office supervision and control.

Against this background, the group suggested that a few regional banks might be instituted in the immediately to

87. Especially the linkage with the Farmers' Service Societies should be such that the proposed rural banks would use the Farmers' Service Societies as the media of disbursing credit in the field alongside their own direct lending where the Farmers' Service are not yet organised..... Report of the Working Group on Rural Banks., op.cit. pp.13-14

88. Report of the working group on Rural Banks., op.cit., p.33
serve as pilot institutions in their respective areas. Hence, they recommended that, in the first instance, about 5 banks to be set up to operate in selected areas which were then under-provided for in the matter of credit facilities. Depending upon their performance and the experience gained on the basis of their working, an expansion in the number of banks and their extension to other areas could be considered. With the above suggestions, observations and findings, the Working Group submitted its Report on 30th July 1975. Majority of the recommendations made by the Group were accepted by the Government of India. Accordingly, the Regional Rural Banks ordinance was promulgated on 26th September 1975 and five Regional Rural Banks (RRBs) were established on the birth anniversary of Gandhiji (i.e., on 2nd October, 1975). The ordinance was subsequently replaced by the Regional Rural Banks Act 1976 (No.21 of 1976) on 9th February, 1976.

Thus, the Institutional Credit System, which began in the 50's as an exclusively Co-operative net work, has evolved over the years into a multi-agency system. As of now, the co-operative banks, with their primary agricultural credit societies and the commercial banks with their rural

branches, are keeping their counters open to the rural producers in general, the RRBs with their village branches concentrate on the poorer and priority segments of the rural population supplementing the Co-operative Commercial bank Credit efforts with a professional touch.
A review of earlier research and their outflow on rural finance in general and Regional Rural Bank in particular in India seems to be essential to identify the areas already investigated so as to pinpoint hitherto untouched or unexplored areas, for further study. In this section therefore, a brief review of some relevant and important pieces of recent literature directly connected with the present study on Regional Rural Banks have been made out.

Wadhva\textsuperscript{90} has made a preliminary study on Regional Rural Bank and the objectives of his study were to assess the working of Regional Rural Bank in India with special reference to two selected Regional Rural Banks each in Haryana and Rajasthan states respectively 	extit{only for two years} (1976 and 1977).

The important findings of his study revealed that the Regional Rural Banks have operated as a "small man's" bank and they have been deploying more resources within the local areas of their jurisdiction than raised from within their areas. The study has also pointed out that the selected two Regional Rural Banks seemed to be suffering from the combi-

\textsuperscript{90} Wadhva 	extit{op.cit.}, ppl-213
nation of worse features of the commercial banks without being given the benefits of some of the good features of both the cooperatives and the commercial banks.

Based on the findings, Wadhva suggested a framework for reorganising the working of Regional Rural Banks for preserving the unique role of Regional Rural Banks.

Eventhough the study concluded that Regional Rural Banks were doing a good job in a relatively short period and suggested for their reorganization, it is to be recorded that it was too early to pass judgments warranting reorganisation. However,, Wadhva's work may be regarded as the first of its kind on Regional Rural Banks in India.

The observations of the Review Committee on Regional Rural Banks when examined in the contest of the terms of reference to it by the Reserve Bank of India in 1978, viz.,

i) Evaluation of the performance of Regional Rural Banks in the light of the objectives for which they were set up;

ii) indication of their precise role in the rural credit structure and;

iii) making recommendations with regard to the scope,- methods and procedures of their functioning and other matters

91 Report of the committee to Review the working of Regional Rural Banks., op.cit..
germane to their enquiry are comprehensive in the sense that it touched the practical aspects of the working of the Regional Rural Banks based on results of several detailed sub-studies on the working of the twelve selected Regional Rural Banks.

The Review Committee made the following important observations:

i) The performance of most of the surveyed Regional Rural Banks was generally 'good' both in terms of qualitative and quantitative tests such as location, branch expansion, deposit mobilisation; loan operations, deployment of local resources in local areas, taking banking services to unbanked and underbanked centres, recruitment of local staff and recovery performance.

ii) The surveyed Regional Rural Banks have been working in the right direction for fulfilling the social objectives set out for them.

iii) Based on the financial performance of some of Regional Rural Banks, the committee opined that a typical Regional Rural Bank with fifty branches is expected to become financially viable at a loan business of about Rs.3 Crores within a period of about three to four years.
The Review Committee on Regional Rural Banks, based on its findings such as right location, better financial performance, better recovery performance, reaching the targeted weaker sections of the rural areas along with positive local response elicited by people made the following recommendations:

i) Regional Rural Banks should form an integral part of the rural credit structure;

ii) While establishing new Regional Rural Banks, priority must be given to areas served by weak central cooperative banks;

iii) Local participation should be provided for in share capital as well as in management;

iv) Transfer of rural business of commercial bank branches to Regional Rural Banks in a phased manner;

v) The financing of large farraers too by Regional Rural Banks up to 40 percent of the total advances for promoting rural savings and achieving viability.

Though the Review Committee on Regional Rural Banks has comprehensively dealt with all the terms of reference assigned to it, the report does suffer from some weaknesses. Prominent among them are:
i) It was too **early** to **judge** the performance of the Regional Rural Banks in the country in a relatively short period of two and half years of their existence.

ii) Further, detailed studies are however **limited to 12 selected Regional Rural Banks**.

i.ii) The Review Committee viewed that a typical Regional Rural Bank (with 50 branches) would be able to become financially viable and generate profits beyond the Rs.3 Crore level of annual loan business and that this could well be achieved within a period of **three to four years appears unrealistic** under changing cost conditions and the time period within which this can reasonably to expected to be achieved. The committee also failed to provide **adequate reasoning** for justifying its estimation on the level of annual loan business which will make a typical Regional Rural Bank financially viable.

iv) The Review Committee has succumbed to the temptation of making some recommendations for which the solutions offered are simplistic and the desired results are unlikely to be achieved in practice by the proposed measures. The recommendation that while allowing the local participation in the proposed capital structure of the Regional Rural Banks, due to safeguards against domination by vested interest's should be ensured and in allowing the Regional Rural Banks to lend
up to 40 percent of their total loan amount to the larger farmers and other borrowers with ceilings on individual loans, misuse of this liberalisation could not be ruled out.

Later, the Working Group on Multi-agency approach in Agricultural finance\(^9\) (1978) has made observations on the specific role of Regional Rural Banks. The group opined that while the existence of the Regional Rural Banks (sponsored by the commercial banks) as part of the multi-agency approach in financing agriculture has become an accepted fact, the other major components of the institutional agricultural credit system being the cooperatives and the commercial banks.

The group has also called upon the Government to create a network of Regional Rural Banks. The role of the Regional Rural Banks according to the group was to supplement and not to supplant the other institutional agencies in their field and the Regional Rural Banks should not enter into competition with the cooperatives. The group clearly preferred the Regional Rural Banks to the commercial Banks for the future expansion of banking in rural areas and also favoured the idea of allowing the Regional Rural Banks to allocate a part of their total loans to the larger and medium sized families.

While assessing the functioning of public sector banks, a committee on functioning of public sector Banks found that the Regional Rural Banks were to be useful institutions. The committee even went to the extent of suggesting that the Regional Rural Banks in future expand in rural areas but also take over gradually the existing network of branches of commercial banks and leaving the public sector commercial banks to open branches only in district headquarters.

Thingalayas while examining the need for sponsoring more rural banks, opined that the low cost of operation in the case of Regional Rural Banks as compared to commercial banks may not last long. He also suggested creation of a second tier of rural bank at the state level in addition to the present Regional Rural Banks at district level and amalgamation of the rural branches of public sector banks into a new rural bank with branches throughout the state.

93- The Economic Times., Bombay; 13 Sep. 1978, p. 4
Saudamini Nagar While analysing the performance of the Jaipur Nagaur Anchalik Gramin Dank in Rajasthan in 1979, has observed that

i) the bank has made creditable progress in deposit mobilization in the rural areas and cultivating saving habits among the rural masses within three years (1975-1978) of its operation;

ii) The performance of the bank in regard to total disbursement of loans and coverage of population has been remarkable;

iii) The bank has also been participating wholeheartedly in the successful implementation of "Antyodaya Yojana";

iv) But it was found by the study that the financial working results of bank was very poor as the bank has incurred heavy losses which have weakened its position.

Patel and Shete of the National Institute of Bank Management have made a useful analysis of the performance and prospects of Regional Rural Banks in India between 1975 and 1979. The authors have made not only regional compari-

son in performance and prospects of Regional Rural Banks in different parts of the country, but have also given a comparative picture of the performance of the cooperative and commercial banks operating within the jurisdiction of the Regional Rural Banks.

As such, within a short period of five years since their inception in 1975, Regional Rural Banks have shown a tendency to grow and cater to the needs of the weaker sections. On the basis of their finding, they have also suggested that if systematic efforts are made to increase their numbers and to provide the necessary resources, which will enable them to conduct their business in a manner consistent with their basic objectives, there is little doubt that they will make a very useful contribution in meeting the needs of the poor and help them to improve their lot.

Regional Rural Bank Chairmen's Conference discussed the specific themes relating to Regional Rural Banks in terms of their role and purpose, viability and profitability, appraisal and follow up, business policy and development of human resources etc.

The conference has brought out the following points to focus:

i) Regional Rural Ranks involvement;, in rural development, in future, is going to be much more than carrying out routine banking business;

ii) There are weak links in serving the clients by the Regional Rural Banks;, and

iii) Many Regional Rural Ranks; have initiated location specific and local wisdom - originated innovative banking activities which clearly showed their concern with the betterment of the weaker sections.

On the basis of these findings, the conference went to the extent of recommending the following:

i) The Regional Rural Banks have to be identified in the context of their role to play in future and the Reserve Bank of India should take care to make Regional Rural Banks successful in their business.

ii) Urgent efforts are necessary to formulate realistic strategies and to evolve suitable techniques for the successful operations of the Regional Rural Banks, particularly such efforts are called for in reviewing the techniques in profitability analysis taking into account the social benefits arising from the activities of Regional Rural Banks.
iii) Developing suitable strategies for business planning and human resources development in Regional Rural Banks.

iv) The need to identify different steps in building up of the conducive supporting system for Regional Rural Banks and

v) An appraisal of the working of the Regional Rural Banks and their branches by undertaken by the Reserve Bank of India through properly selected ratios for deriving a simple system of profitability analysis.

The conference has also made useful recommendations for improving the performance of Regional Rural Banks. However, it is doubtful whether the Reserve Bank of India carried out or implemented the recommendations of this conference in full.

Mohana Rao assessed the impact of financing by the Sri Visakha Grmmeena Bank, a Regional Rural Bank in Andhra Pradesh in terms of (a) distribution of gains, (b) cropping pattern and (c) assets of different categories of beneficiaries. Seventy seven beneficiary households served by two branches of the bank were selected as a data base.

Mohana Rao L.K., "Impact of Programs on Target Groups Case Study of a Regional Rural Bank", Indian Journal of Agricultural Economics, Vol.35, No.4, 1980, pp.73-77
The findings of this study revealed that the bank functioned well in meeting the credit needs of the target groups. The rates of return to capital were high in all the business activities of the households. The average borrowing per member was Rs.996 in the dry region and Rs.703 in the wet region. The supply of credit by the bank significantly increased the cropping intensity on the farms and the value of assets of beneficiaries also increased considerably.

The study in confined to only one Regional Rural Bank and that too in Andhra Pradesh covering only two branches with a limited sample of borrowers. The study analysed the gains of credit in terms of returns on credit, crop intensity and assets and not in terms of employment creation to the borrowers after availing credit.

A study on viability of Regional Rural Banks was undertaken in 1979 with the main objectives of examining the viability of Regional Rural Banks which have completed three years or reached a loan business of Rs.3 crores by December 1978. An attempt was also made to study the

99 Reserve Bank of India, Rural Planning and Credit Cell, Viability of Regional Rural Banks, A Study, March 1981, Bombay, pp. 1-43
factors affecting the viability of Regional Rural Banks. The study was confined to only 15 Regional Rural Banks and covered a period between 1976 and 1978.

The findings of the study revealed that:

i) The Regional Rural Banks had so far been able to achieve the main objective of purveying credit to the weaker sections in the rural areas, namely small and marginal farmers, landless agricultural labourers and rural artisans, despite the constraint of a limited area of operation.

ii) Eventhough there was an increase in expenditure of the selected Regional Rural Banks, they have controlled their operating expenses quite efficiently.

iii) The overall rate of growth in income was quite impressive and the gap between the income and expenditure was quite small indicating that the Regional Rural Banks were nearing the break even point.

iv) On an average, a Regional Rural Bank would require about six years time and a not: work of 70 branch to become viable with an outstanding loan business of Rs.8 crores and a margin of about 5 percent.

v) A loan business level of Rs.12 lakhs per branch would ensure, by and large, viability of a brand) also. It is not possible for all the branches to become viable because some
branches are located in centres where the potential is limited and could not expand business because of keen competition from branches of commercial/cooperative banks.

vi) The performance of Regional Rural Banks were encouraging, while four of the 15 selected Regional Rural Banks had already become viable, others might reach viability in the next 2-3 years.

The study concluded that a three-year period is generally not a sufficient period for a credit institution to achieve viability, particularly for a rural credit institution, and more so for Regional Rural Bank's which have been operating with some serious constraints.

Committee to Review arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in its comprehensive review of the institutional credit set up, found that the institution, Regional Rural Banks were especially suitable for rural development. The committee recommended the Regional Rural Banks should continue to confine their operations, to the weaker sections and that preference should be given to Regional Rural Banks in regard to licensing of branches in the rural areas. The committee

100. Reserve Bank of India., Report of the Committee to Review arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD), op.cit.,
also confirmed the views of the earlier committees that the Reserve Bank of India should take necessary steps to facilitate the transfer of eligible business of commercial bank's rural branches to Regional Rural Banks as and when proposed.

The important recommendations made by the committee to improve the performance of the Regional Rural Banks were:

i) Losses made by Regional Rural Banks should be made good by their shareholders and equity of Regional Rural Banks should also be raised.

ii) Emoluments of the Regional Rural Banks' staff should continue to be determined with due regard to State Government's pay scales.

iii) Facilities from sponsor banks to Regional Rural Banks should continue for a period of 10 years in each case.

iv) The experts connected with agricultural development may be nominated on the Board of Regional Rural Banks and

v) Since Regional Rural Banks serve the weaker sections exclusively, facilities of concessional refinance from Reserve Bank of India should continue.

Eventhough the committee recommended some measures as mentioned above, however, it was not made fully clear whether the Government of India/Reserve Bank of India
accepted and carried out the recommendations of the committee in total or in parts for improving the performance of the bank.

Later, the Agricultural Finance Corporation took up more in-depth and objective study of two Regional Rural Banks along with their selected oldest branches covering a brief period of less than four years in the states of Andhra Pradesh and Karnataka.

The main objective of the study was to assess the performance of Regional Rural Banks in terms of the indicators like (i) weaker sections of the rural population in the area, (ii) branch expansion, (iii) deposit mobilisation, (iv) loan operations, (v) credit-deposit ratio, (vi) recovery performance, (vii) business and break-even, (viii) organisation, (ix) the role of sponsor banks and (x) the cost of operations of Regional Rural Banks.

The findings of the study indicated that the role played by the selected Regional Rural Banks, in a brief period of less than four years, could be considered remarkable in terms of the performance indicators. It also found

101. Agricultural Finance Corporation Ltd., Regional Rural Banks, "A Study of Two Regional Rural Banks" sponsored by Syndicate Bank, op.cit.,
that the Regional Rural Banks have demonstrated their abilities and hold promise in catering to the credit needs of weaker sections on an increasing scale in future.

Eventhough, the study was carried out in-depth by covering the different aspects of the functioning of Regional Rural Banks, it was confined to two states only and that too covering two Regional Rural Banks sponsored by Syndicate Bank. The Period covered by the study is also too short. Since the focus of the study was to analyse the performance of the Regional Rural Banks, the study did not make an attempt to study the benefits derived by the borrowers of Regional Rural Banks.

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But, Varde and Singh attempted on the overall profitability performance of Regional Rural Banks over three years from 1978 to 1980, selecting a sample of 40 Regional Rural Banks with at least two years of performance.

For analytical comparison of profitability performance of the average Regional Rural Bank, key indicators were developed and used.

The general conclusion of the study indicated improved profitability performance of all Regional Rural Banks over the years viz., 1978 to 1980. As the main focus of the study was analysing the profitability performance of Regional Rural Banks over the years from 1978 to 1980 and comparing the performance between these two points, such other aspects of Regional Rural Banks like productivity, cost efficiency and viability performance have received no treatment in this study. Moreover, the study covered only 40 Regional Rural Banks and that too for a short period of three years only. However, the study's utility as a research report is significant that authors have developed selected ratios for analysing the profitability analysis of Regional Rural Banks.

Sivaprasad\textsuperscript{103} while doing a critical analysis of some of the important provisions of the Regional Rural Banks Act, incidentally analysed the performance of five Regional Rural Banks in Andhra Pradesh in 1983 and suggested that

i) The Government may, in right earnest, take necessary steps BO that private sector banks could sponsor Regional Rural Banks.

ii) In the capital structure of Regional Rural Banks the share of the central Government could be reduced from 50 to 25 percent, that of the State Government be increased from 15 to 25 percent and Panchayat Raj institutions be given a share of 15 percent.

iii) The staff of the Regional Rural Banks should be shifted annually to the sponsor bank in some agreed proportions with a view to maintain the efficiency of the staff of Regional Rural Banks at the desired level and to inject new blood in the Regional Rural Banks which would be good for their health. But the study has been confined to the provision of Regional Rural Bank's Act and critical aspects of some of its provisions and throw some light on the performance of Regional Rural Banks in the state of Andhra Pradesh only.

Reviewing the provisions and overall progress of Regional Rural Banks in India from 1975 to 1983, Joshi attempted to trace overall progress of the Regional Rural Banks since their inception with restricted performance indicators like, branch expansion, deposit mobilisation, deployment of credit, credit-deposit ratio and profit and loss.

The main findings of the study revealed that the progress in opening of new Regional Rural Banks in the country slowed between 1976 and 1978 was brisk establishment during 1981 and 1982 but with uneven spread across the states; The business of the Regional Rural Banks it was found has grown faster than the number of branches.

The interesting feature however was pointed out that Regional Rural Banks have not been utilising the borrowing facilities from the Reserve Bank of India and sponsoring banks and they tended to depend more on their deposits rather than on the borrowed funds.

It was also recorded by the study that till 1981, about 60 percent of the Regional Rural Banks in the country were able to earn profit but slipped down to 36 percent later probably because of the bank branch expansion and escalation in establishment costs.

The study made an attempt to analyse the performance of Regional Rural Banks at Macro Level only with limited objectives.
The study by Sudhakara et al. aimed at an evaluation of the performance of Regional Rural Banks in Mysore district in Karnataka State and assessed the performance of the Cauvery Grameena Bank of Mysore with five sample bank branches. The study concluded that the Regional Rural Bank was relatively efficient in coverage of population, lending, recovery of loans and earning profit over the similar type of credit agencies in rural environment; while examining the reactions of the sample borrower farmers of the Grameena Bank it was found that the bank satisfied them through adequate and timely supply of credit with suitable repayment schedule.

The study was based on only with a limited sample of branches and borrowers and covered only a short period of five years and the study did not make an attempt of assessing the impact of bank loan on borrowers.

A Comparative Study undertaken by the Research and development cell with the objective of comparing and evaluating the effectiveness of policies and procedures of advancing term loans in Regional Rural Banks and Land Develop-


ment Banks revealed that (i) the Regional Rural Banks had an edge over Land Development Banks both in regard to loan disbursement and recovery, and (ii) Lending policies and procedures of Regional Rural Banks were found to be more flexible and simple that those of Land Development banks. This study was confined to a Regional Rural Bank and Land Development Bank in two states only.

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Case Studies examining the performance of the Cooperatives and compare with that of the commercial banks and the Regional Rural Banks in the field of agricultural financing in the states of Maharashtra and Uttar Pradesh revealed that the Regional Rural Banks had an edge over commercial banks and cooperative banks both in regard to loan disbursement and recovery. Regional Rural Banks and cooperative banking sectors performed better than the commercial banking sector both in regard to credit disbursement and recovery of loans. Loaning policies and procedures of Regional Rural Banks were found to be more flexible and simpler than cooperatives and commercial banks. Commercial banks were ill-equipped in regard to technical staff and field staff. Insistence of landed security for loans and delay in sanctioning loans were the two major factors hampering the operations of Land

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Development Bank besides restricted eligibility for lending due to over dues in accordance with discipline imposed by Reserve Bank of India and NABRAD.

A study on loan recoveries in the Regional Rural Banks in Bihar was brought out by Singh and Upadhyay with the reasons for low recovery of loans with suggested measures for improvement. A sample of four Regional Rural Banks operating in the State of Bihar has been selected for the study. Members of the Board of Directors (15), Managers of the bank branches (30) and borrowers (160) of the selected Regional Rural Banks were interviewed to elicit relevant information.

The authors of the study concluded that (i) The recovery performance of the Regional Rural Banks declined continuously during the period 1978-80; (ii) In the opinion of the managers, inadequate arrangements for recovery was the most important reason for low recovery; (iii) Most important reason for overdues indicated by borrowers was the shortage of funds to repay the loans either due to crop failure or due to expenditure on marriage ceremonies or other social functions or illness of family members; (iv) Borrowers also supported the views of the managers regarding loan recovery.

In the opinion of the borrowers, inadequate follow-up by the banks for repayment and willful default were more or less equally important reasons and (v) cluster lending, timely reminders to borrowers, tie-up arrangements, support from Government authorities and legal action against willful defaulters, were the suggested measures by the managers for improving the recovery performance.

Though the study examined the recovery performance of Regional Rural Banks, it was based on a small sample only. The results from Bihar state cannot be stretched too far and the period of the study was only 5 years.

Kamath in his study has confined to analysing the working and viability of a Regional Rural Bank in Kerala in 1982. It was recorded that the working of the Regional Rural Bank in the state has been better than most of the other financial institutions and suggested further expansion of the benefits of Regional Rural Banks at least to the backward districts of the state.

A case study on Regional Rural Bank in West Bengal by Lakshminarayana, on branch expansion, deposit mobilisation, outstandings and profits brought to light the impressive performance of the bank and highlighted the problems confronting the bank. They were (i) An increasing number of willful defaulters, (ii) preoccupation of the bank officials in recovery work in respect of over-due loans, (iii) practically non-existence of linkage between credit and marketing, (iv) large increase in the amount of outstandings, and (v) Mounting losses from the year 1977. The study also suggested establishing effective link between credit and marketing functions and stressed the need for borrower educational programmes for end usage and timely repayment of loan.

A comparative study of a commercial bank and a Regional Rural Bank branch by Bank of India in terms of deposit mobilisation and advances by two rural branches in Uttar Pradesh revealed that in both the branches, time deposits constituted as high as 40 percent of their total deposit amount wise and saving deposits dominated the number of

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accounts. However, an interesting observation made in the study is that among time deposits, recurring deposits have not found favour with the rural depositors and not many current accounts are operated in both the branches under study. Another striking factor emerging from the study is that distance from the branch is a vital element affecting deposit mobilisation.

Coming to advances, it has been found by the bank study that crop financing was high in the bank's rural branch as compared to term financing. In the Regional Rural Bank branch, however term financing of agricultural operations had an edge. Retail traders/small business men dominated in the advances granted under priority sector accounts.

As regards recovery of loans, it was found by the study that in both the branches, there was an overall improvement in the rate of recovery.

This study has also been confined to only one state and covered only two branches of the banks.

Jagadish Prasad and Sunil Kumar have made an attempt to evaluate the role of Regional Rural Banks in financing rural poor in the Muzaffarpur district of Bihar in terms of

Jagadish Prasad and Sunil Kumar., "Role of Regional Rural Banks: A Study., Kurushetra, Vol.XXIII, No.8, May, 1985, pp.31-33
assessing the impact of loans on the poor in terms of improvement in income and employment condition. The study has been confined to a particular branch of Vaishali Ksheteriya Grama Bank in the district of Muzaffarpur District. A total number of 48 households only have been selected for eliciting necessary information.

The findings of the study revealed the fact that the bank has covered larger number of marginal and small farmers while lending money to farming communities than business man and rural artisans.

It was found by the study that employment in terms of mandays and average earnings increased in all households as compared to the pre-loan period. The average increase in income of the poor households of the rural community was estimated to be 18.74 percent.

Singh R.K.P., et al. have done a comparative study of financial performance of a rural branch of a commercial bank with a regional rural bank branch operating in the state of Bihar. The selected two rural bank branches were established almost at the same time and were situated in the same

block (Kalyanpur block of Samastipur District). The study was based on secondary data only drawn from the identified branches.

The study has highlighted the following facts. (i) The financial viability of Regional Rural Bank branch is greater as compared to the commercial bank branch, (ii) The financial performance of the regional rural bank branch is superior as compared to the commercial bank branch, (iii) The commercial bank branch could enhance its economic viability by increasing the volume of loan business with a better control of expenses, (iv) The financial performance of the regional rural bank branch could still have been better if the branch had avoided the utilisation of high salaried personnel of the sponsoring bank as manager of the branch.

Satyanarayana's case study on credit performance of Sri Veasakha Grammena Bank found no significant change in cropping pattern by availing the bank credit but there was evidence to show that more adoption of modern agricultural practices including more usage of chemical fertilisers and

pesticides by the borrowers. It was also found that the cost of credit component was relatively related to the size of holdings.

Bapana has made a detailed study of four Regional Rural Banks in Rajasthan with the objectives of studying the organisation and working of Regional Rural Banks and assessing their financial resources, credit deployment and financial viability, covering a period of ten years.

The study revealed that the selected four Regional Rural Banks were suffering from many structural drawbacks which call for effective measures to fill the gap between the bank's objectives and their implementations.

Regarding the financial structure of the Regional Rural Bank also, the study revealed significant weakness due to low capital base and the contribution of owned funds are insignificant as a financial resource to the banks.

However, the performance of the banks in terms of deposit mobilisation, credit deployment, credit deposit ratio and recovery has been quite impressive.

Bapana M.S., Regional Rural Banks in Rajasthan - A Study of their working and growth, Published Ph.D. Dissertation, Himalaya publishing House, Nagpur, 1989, pp. 1-36
But, the working results of the four Regional Rural Banks for the period of 1975 to 1984 revealed that except meagre profits in some years, all the banks were running in losses.

Profitability analysis of the Regional Rural Banks indicated that these Regional Rural Banks were economically not viable during the period of study.

Though, it is a detailed study on four Regional Rural Banks, it is confined to the State of Rajasthan and that too covered a period of one decade only. The study of branches of the banks and the impact of loan on the borrowers who availed loan from these branches are not dealt by this study. The study analysed the working of four Regional Rural Banks only and did not consider the efficiency of the banks in their working for a period of ten years.

Ananda Kumar has made a micro-level study of a Regional Rural Bank and Money lender in Andhra Pradesh. The main objectives of his study were to assess the performance of the bank in terms of the parameters approved by the Reserve Bank of India.

Bank of India and to ascertain the additional income generation by the beneficiaries. The study covered 300 borrowers from the selected branches of a regional rural bank.

The findings of the study indicated that the performance of the Regional Rural Bank was much better than the other Regional Rural Banks in terms of branch expansion or in the purpose-wise disbursement credit, or in recovery of loans or in getting refinance (from NABARD, Reserve Bank of India and sponsor Bank) or in Credit deposit ratio and earning profit.

The performance of the Regional Rural Banks from the point of view the borrowers assumes a great significance in this type of study. The important findings of the field study are: (i) The lending policies of the bank are biased in favour of 'other farmers' category of farmers; (ii) Even though, a majority of the borrowers could generate additional income, they are relatively high under the allied and agricultural term loan category and there are variations between the districts; (iii) There is close association between the annual income of the respondents and the scheme under which they have availed the loan irrespective of category and community to which they may belong; (iv) Additional income generation did not lead to asset creation in all the cases of borrowers; (v) The volume of rural indebtedness has not declined much due to financing by the
bank; (vi) The qualitative aspects of the loan utilisation is not being fully investigated by the bank management; and (vii) There are problems that beset the borrowers at every stage of the whole gamut of the operations involved in the availment of loan.

As this study was based on only a limited sample of bank and branches in the state of Andhra Pradesh, and covered a period of five years only, its findings need to be reviewed in the light of the wider sample of banks and branches covering the different aspects of operational efficiency of the bank and branches.

The present study is proposed to assess the performance of Regional Rural Banks in general and Regional Rural Bank of Tamil Nadu in particular for the first time on several aspects of its working with reference to a period of more than one and half decades. Moreover, the operational efficiency of Regional Rural Bank and their branches in terms of productivity, cost efficiency and profitability is analysed for the first time in Tamil Nadu. Further, micro level studies are also attempted to ascertain the impact of bank loans on the borrowers in the operational districts of the bank. Thus a comprehensive study on the performance of the banks, branches and borrowers in terms of the special objectives of Regional Rural Bank forms the core of the present study.
This study with its long period of coverage and indepth analysis of performance and operational efficiency of Regional Rural Bank with its branches and borrowers in Tamilnadu throws much needed light on the various issues connected with Regional Rural Bank and their borrowers. Keeping in the mainframe of analysis the developmental goals of the Regional Rural Banks.

Chapter Scheme:

The present study comprises of seven chapters.

The analysis of rural credit policy since 1951, the role played by the commercial banks and cooperative banks in the field of rural credit and the factors responsible for the emergence of Regional Rural Banks (RRBs) are discussed in the first chapter.

The design and methodology of the study are presented in the second chapter.

The third chapter deals with the salient features of the Regional Rural Bank's scheme and the performance and progress of Regional Rural Banks in India.

The performance of the Pandyan Grama Bank and its operational efficiency is analysed in the fourth chapter.
The fifth chapter deals with the profile of the branches of Pandyan Grama Bank and their operational efficiency.

The profile of the borrowers (selected) of Pandyan Grama Bank and the impact of loan in terms of income generation and employment creation, their repayment performance examined in the sixth chapter.

In the seventh chapter, a summary of the findings, and suggestions and policy frame are presented.
CHAPTER II