Sociology of Banking - A Study of Regional Rural Bank in Tamil Nadu

Introduction:

It has long been recognised that villages are the backbone of India. India is an agricultural country first and foremost. But after independence, when national reconstruction started in a big way, priority was given to industries and not to agriculture. When planning was started for rural areas, it was not done with the proper perspective. In the development of rural areas which are the bastions of orthodoxy and which are therefore slow to desire and slower to accept changes in methods, programmes have to be developed with special attention to resistance based on ignorance. Any change has to be accepted by the community, and external proposals for changes without proper groundwork stand no chance of acceptance. This realisation has come to us only with experience. That is why the Jacobys are right in noting this:

... a development policy directed towards the redistribution of income and opportunity and a more favourable social stratification is not only unpopular, but it is unacceptable to those who, through control of land and labour, wield the economic and political power which they fear to lose if institutional reforms were to be introduced. This does not alter the fact, however,
that institutional reforms combined with improved labour utilisation is the only possible means of officially establishing the vital balance between growing population numbers and increased productivity per man. ... any effort to improve the lot of the landless poor and of indigent peasants on undersized holdings by land distribution alone is bound to fail since the central issue is the organisation of production, the intensification of labour utilisation and the increase of income ... 1

Therefore, in spite of many plans and schemes of the Government at the centre and the Governments in the States internally the rural agricultural sector of the country has remained static, without any major structural changes. The semi-feudal order continues to prevail, and a great majority of the people remain extremely poor. The non-economic factors, like family, caste, kinship, power, etc., are still factors to be reckoned with for the success of any plan or scheme.

But to say that there has been no change whatsoever in the traditional shape of things would be rash. For almost a century, new ideas have been in the air, and they have certainly

gained strength since independence. And decades are a long time, and so changes have to some extent percolated to village level organisations also. Consequently there are perceptible changes in the economic structure of rural society: there has been, especially, some levelling of the economic disparities among the castes. The less-high castes have won some new advantages economically. They jockey for higher rural status and attempt to use their political pull to gain both economic and ritual prerogatives for their castes. Universal adult franchise has vested them with a high leverage in the political sphere. But the lowest castes, in spite of their big numbers, have had negligible share in this move upwards because of their ignorance reinforced by traditional suppression. They are mainly landless labourers and they have not to any appreciable extent benefited from development programmes and the redistribution of land. They have nothing to begin with, nothing which can be improved, no means of getting an economic start, and so they remain economically as well as socially disadvantaged. The gap between them and the other villagers frequently widens rather than diminishes on account of development projects.

The social and economic systems were both relatively stable over many centuries partly because they reinforced each other. These are now being modified. So changes have
begun to appear though they are still closely linked to each other. It may be hoped that changes in one sphere are likely to influence the other sphere also and accelerate its change, too. Modern concepts like democracy, socialism and secularism are now being superimposed on a traditional society which is based on caste, creed and religion. But in spite of these changes, we can see wide disparities between our declared aims of policy and actual achievement. This is nothing to scare us because modification of age-old systems at the basic levels cannot help being slow. We should be happy enough if the changes are steady though slow.

A sad fact to note in this regard is that development programmes have created new disparities and imbalances. This negative impact is probably due to the fact that the comparatively better-informed circles have cornered the benefits, and have reaped a rich harvest at the expense of the uninformed target-population. Between sections and sub-sections and sectors and sub-sectors there are now new disparities and new tensions. It can be seen that land continues to be concentrated in a few hands, in spite of all the publicity given to land reforms and various other measures. In her exhaustive study of agriculture and social structure in Tamil Nadu, Joan P. Mencher explains this at great length and explains even the loopholes in the Land Ceiling Acts.
She remarks, commenting on the position in one village:

It is clear that there is possible a considerable concentration of landholdings in Tamil villages, even if one is within the land ceiling. It would take only 12 to 14 households in Pacciyur (consisting of only two adults in each, less if we consider larger households), with holdings within the ceiling, to account for half of the village land. If one also includes with this group the land of absentee landowners, and the land of other farmers with actual holdings of over 15 acres, we would find that more than three-quarters of the village land is accounted for.²

The political-legal system is not as yet reassuring enough for the poor and the under-privileged or un-privileged. Legal reform does not keep pace with changes in social thinking and so it is not reassuring enough to the poor. The poor are left with no option but to acquiesce in the subservience imposed on them. Therefore, we have to look at the problem of rural development from the point of view of history.

². Ibid., p.116.
The traditional social structure of the Indian villages was simple. The general design of it was hierarchical. It was made up largely of systems of groups and categories whose boundaries were relatively clear and well defined. The Caste structure provided the fundamental division in the village. The entire population was divided first into Brahmins, Non-Brahmins, and Adi-Dravidas, and these divisions were further subdivided. The caste and sub-caste structure was indeed rigid but the village community included all the variety in its entirety. Traditional life involved all the people of the community in the social and cultural life. Thus it was an integrated society which was differentiated and graded by rigid conventions. Membership in one or another of these subdivisions was the basis of the individual's identity, not only in the ritual context, but also in the economic and political spheres.

The caste structure subsumed within itself, to a much greater extent than it does today, both the organisation of production and the distribution of power. Even today one might go to an Indian village and identify without too much trouble the different castes in it and the people who belong to each. The division of the village into landowners, tenants, and agricultural labourers corresponded to a much greater extent with its divisions into Brahmins, Non-Brahmins, and
Adi-Dravidas. Being a landowner was, to a larger extent, only one aspect of being a Brahmin. Similarly, being an Adi-Dravida fixed, by and large, one's position as an agricultural labourer. The occupation of an individual was also fixed by the caste.

There might be general agreement about the top and the bottom but there was always a measure of disagreement concerning the middle. Castes which were of roughly equivalent standing generally made competing claims to superiority. Today, there are many areas of life which are becoming progressively "caste-free". Thus landownership, occupation and even education are not to the same extent dependent upon caste. Yet the physical structure of the village continues to be consistent with the cleavages in its traditional social structure. In spite of this, there are powerful forces which tend to loosen the hold of caste in many areas of social life. So many 'yets' and 'buts' may appear to make the picture too vague but the complexity of the situation will be belied otherwise.

The conclusion is reinforced by the present study of the impact of the Regional Rural Banks on the rural sector. Caste affiliations influence their working. So long as other castes do not interfere, class considerations divide the people of a
 caste. But the moment another caste tries to enter the field, they close their ranks and do everything in their power to retain their hold over the institution.

As we have seen, the caste structure provided the fundamental divisions in the village community. The division of the village into landowners, tenants, and agricultural labourers corresponded to a great extent with its division into Brahmins, Non-Brahmins and Adi-Dravidas. The Brahmins and Non-Brahmins held land by virtue of their superior position in the caste hierarchy, and it was caste again that denied control over land to the Adi-Dravidas.

Land legislation since 1952 has progressively weakened the position of the big landowners. The Zamindari abolition procedures after independence and the Land Ceiling Act of 1961 have done quite something to curtail the power of the traditional landowners. But these procedures have their legal lacunae which are aggravated by the political needs and expediences of parties in power. So neither the abolition of large estates nor the legal ceiling on landholdings have really reduced the role of land as a basis of power. Those with large land holdings have found it easy enough to circumvent the law and to divide them among different members of the family. So in spite of certain legal changes, most of the land in any village continues to be held by the old landowning caste, the descendents and heirs of the people who were the
landowners in the traditional system. If anything, the role of land has become stronger with the increased pressure of population and with the small prospect of employment outside agriculture in the villages. The rural poor, made up of Harijans, the landless and the most under-privileged sections of society, are by definition at the bottom of the heap, weak and unorganised.

What changes there have been in the structure of landholdings have come about in a different way. It may be described as follows, noting in the process that this is marginal change. The seeds of change in the agrarian structure of the village were sown towards the end of the nineteenth century when members of the old landowning class started taking to Western education. During the early decades of the present century they were already moving out of the village in search of education and new avenues of employment thrown open by it. Investment in the education of children was usually an expensive affair, since providing college education for a son meant maintaining him in a town or city for between two and six years. Often part of the ancestral land had to be sold to meet the expenses of education. This process continues today. Many of them became lawyers, teachers, and clerks and left the village to settle in some town or city. But their ties with the village were not entirely severed; they continued
to own land in it, to visit it regularly, and perhaps to have a domestic establishment in the ancestral home for some time. As the younger generation of landowners moved out of the village, absentee landlordism became progressively preponderant. The character of landlord-tenant relationship underwent a gradual transformation. Gradually, Non-Brahmins began acquiring land as Brahmins began disposing of it. Today control over land has become detached in principle from the hierarchy of caste. Land can be bought and sold in the market, and anybody, no matter of what caste, is free to sell or buy it. And it is true that the law has brought about some change in the attitude of people towards land.

Economic relations today transcend more easily and more extensively the boundary of the village. Every year some amount of land is bought and sold in the village. Many of the buyers live in other villages or in adjacent towns. The cash nexus plays an increasingly important part in the village economy. Money comes into the village every year, every month, through the sale of land, through the sale of agricultural produce, and by way of cash incomes from white-collar jobs and remittances from relatives outside. A new economic order is emerging in the towns and cities which is not based upon caste in the way in which the traditional order was. The economy of the village is drawn increasingly into the orbit of this new economic order. The economic system of the village
is slowly becoming more closely integrated with the wider economy.

But we must remember that this emerging economic order is not so much a new order as a modification of the old order. In the past, it was the caste system that dominated the old system - or we may even say gave it its shape. Now the caste system is getting increasingly replaced by a class system. The middle classes are slowly getting into prominent positions. But even in this emerging system caste has not been shaken off. When it becomes a choice between a person of one's own caste belonging to a lower/higher class and a person of the same class but of a different caste, the preference still goes to the person of the same caste. Thus we can see that every branch of the Regional Rural Bank in Tamil Nadu has given more help to people belonging to the dominant community of the locality. Thus the emerging class system coexists with caste system.

In his study of Sripuram of Tanjore District in Tamil Nadu Andre Beteille confirms this. He points out that to-day class positions have acquired a certain measure of autonomy. "The class system has in part detached itself from the caste structure, although, as we have seen, class positions in the village are by no means entirely, or even largely, 'caste-free'"

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Western education not only brought social prestige in its own right, but also opened the way to new economic opportunities. In the traditional system, learning was mainly sanskritic and it was monopolised by the Brahmins. The superior position which they enjoyed in traditional society had been further strengthened during the earlier years of British rule, when they added Western education to the high economic position and ritual status which were already theirs. Till the outbreak of World War I, Western education in Tamil Nadu was almost a monopoly of the Brahmins. It had the consequence, at least initially, of further widening the gap between Brahmins on the one hand and Non-Brahmins and Adi-Dravidas on the other. The Brahmins turned towards urban life, and there was a corresponding loss of interest in agriculture. The Non-Brahmins on the other hand remained firmly rooted to the village and its agrarian economy.

The new urban jobs - clerical, executive, and professional - became a virtual monopoly of the Brahmins. Brahmins in important executive and managerial positions used the ties of caste and kinship to recruit more Brahmins to their ranks. The Non-Brahmins found themselves virtually excluded from these spheres because of their belated start.

Western education and employment in important managerial and administrative positions brought the Brahmins close to
the new rulers of India, the British. Brahmins entered the highly prestigious and powerful Indian Civil Service, and government bureaucracies of all kinds became their strongholds. They also dominated the professions of law, medicine and education. Even the leadership of the Congress Party came to be dominated by the Brahmins.

The Non-Brahmins, however, did not for long remain reconciled to their inferior position. Those among them who were able to acquire Western education soon set about organising themselves politically and appealing to the British for a more equitable distribution of opportunities. The newspaper named Justice, a vehicle of Non-Brahmin aspirations, was launched in 1917 at about the same time as the Justice Party. The stage was thus set for the struggle for power between Brahmins and Non-Brahmins.

In the twenties the Brahmins began to lose ground in education and administration. Posts in the government as well as seats in the institutions of higher learning came to be reserved for Non-Brahmins.

The leading figure in the attack against Brahmins over the last thirty-five years has been the one-time Congress leader, E.V.Ramaswami Naicker. In the thirties and early forties he spearheaded the Self-Resolve Movement and trained a band of educated young men with idealistic fervour as his
disciples. In the forties he formed the Dravida Kazhakam, a militant organisation devoted to anti-Brahmin and anti-North Indian activities. In 1949, some of the ablest young men left the Dravida Kazhakam and formed a separate party, the Dravida Munnetra Kazhakam, which is now one of the leading parties in the State. In 1972, the Dravida Munnetra Kazhakam further split into two, the new group calling itself initially Anna Dravida Munnetra Kazhakam and eventually All India Anna Dravida Munnetra Kazhakam. These have been, on the whole, less militant than the parent body and less aggressive in their attitude towards Brahmins. In spite of the relatively moderate policies of these parties, however, their anti-Brahmin background must not be lost sight of. In practice the leadership of these parties has been almost entirely Non-Brahmin.

The anti-Brahmin movement is not in its practice an attack against a particular economic class, but against Brahmins in general, whether they are landowners, school-teachers, clerks or temple priests. We have seen that discriminatory measures against the Brahmins have been built into the administration since the twenties. A Brahmin today finds the odds against him when applying for a job in the State Government or for a seat in some institution of learning.
In the past the hierarchy of power was much more consistent with the cleavages of caste than it is today. The traditional elite composed of Brahmin landowners has now lost its grip over the village. The new leaders of the village depend for their power on many factors in addition to caste. New organs and institutions have been created and, with them, new bases of power. Most of them are at least formally independent of caste. The process of modernisation is a complex one. It is activated by a variety of social, economic, and political forces. Among other things, it tends to loosen the rigidity of the traditional structure and to provide greater choice for the individual.

To-day political power, whether in the village or outside it, is not as closely tied to ownership of land as it was in the past. Perhaps most important among the other, more important factors is the strength of numerical support. Numerical support is an important basis of power among Non-Brahmins. Such support is derived in the first place from membership in a numerically preponderant caste, and in the second from the control of extensive patronage. In fact, the concept of dominant caste has been widely used to show how power in the village or the district has been controlled by one or more castes. The emerging leaders of the village
are not members of the old landowning group. They generally belong to the class of small owner-cultivators. Their power is, to a large extent, based upon numerical support within the village and political contacts outside it. These two factors tend to reinforce each other. However, numerical power can be only of limited use. The greater part of our population is still illiterate, and the intelligent exploitation of the aid benefits the government offers to the underprivileged section requires literacy. Illiteracy places the uneducated and half-educated masses at the mercy of the literate few. The convolutions of processes through which alone the bureaucracy can extend its helping hand are well known. These make it well nigh impossible for the needy villagers to take advantage of the government's programmes.

This is a serious consideration. Numerical strength is indeed of vital importance in the political field, and it has certainly given quite some political clout for the traditionally weaker sections of the society. But political power proportionate to numerical strength has not yet passed into the hands of the numerically stronger sections. Dominance is the attribute in our society of education and economic power. Even traditional occupations like agriculture are now getting increasingly complex - thanks to modernisation. This calls for training. Access to educational and training opportunities is thus of vital importance in the upliftment of the lower classes.
The lower classes, however, have not been very active in this regard. So mere numerical strength cannot give a community dominance in its area. It is often seen that those communities which already have economic and educational backing though not numerical preponderance, are liable to corner the major part of government aids for rural upliftment. The present study underlines the need for greater educational background and technical training for the rural masses. Under the country's present circumstances, rural educational programmes and rural upliftment programmes cannot afford to be separate programmes. Without the strong basic support of the first, the second can make no headway. That is why even in constituencies reserved for the Scheduled Castes and Tribes, these communities have not yet gained any phenomenal advantages.

And one should not emphasize too much the divergence between political and economic power. In order to acquire and retain political power it is necessary for a person to have economic standing. Although political power has shifted from the landowners, it has not gone into the hands of landless labourers. The latter are still largely in a state of subordination.

While a moderately secure economic position is an important condition for the acquisition of power, political power, in its turn, brings certain economic advantages. For
example, the village panchayat president receives funds from the party, or from leaders higher up, and part of this he can divert to his personal use. He has also certain discretionary powers in the use of panchayat funds, and it is widely believed at the village level that he is able to use these powers to his own advantage. He has authority to give contracts for jobs of various kinds, and the giving of contracts usually brings in its wake reciprocal benefits. Political connections often help to break through the rigid demands of a bureaucratic structure.

Although numerical strength has become an increasingly important basis of power, by itself it does not count for very much. In addition to it, what is required is organisation. In this regard people with some social and economic standing play an important part. Small tenants and landless labourers, and those who are on the border line between them, have as yet very little power. Far from being able to manoeuvre for benefits and privileges, they are generally not even able to get for themselves what they are entitled to by law.

One of the most important political phenomena of the past three decades in Tamil Nadu has been the shift of power from Brahmins to Non-Brahmins. The Brahmins have occupied a rather ambivalent position in the politics of Tamil Nadu since the end of the nineteenth century. Now they find themselves
in the position of a political minority. The forces of democracy
have turned the tables upon them.

Power tends to be divided between several dominant castes
which operate at the district level, or at the level of the
assembly constituency. The dominant castes today all belong
to the Non-Brahmin division. The point is that because power
has been partly disengaged from the matrix of caste and has
acquired loci, the relationship between the two is now much
more complex than before. Caste continues to be an important
basis of power. It is an important factor in taking political
decisions; But a caste is dominant now not because of numerical
strength alone, as the growth of democracy would lead us to
expect, but on account of other factors like educational and
allied opportunities.

Planning for rural development is different from planning
for improvement at other levels. Usually plans are made by
planners who are far away from the villages they plan for,
physically and mentally. Whereas in other spheres there is
no settled or traditional way of life to be reckoned with while
planning for them in as much as these other ways are themselves
still in the shaping, in rural areas there is a very settled
way of life which is subjected to outside interference by
outside planning. Most often our planning for rural areas
has been frustrated by this factor. There is always resistance to outside decisions and to externally induced changes. Local acceptance is an important factor to be reckoned with.

The rural development policies of our governments have not been alive to the complexities of rural culture, and to the dynamics of rural change. Their implementation has led to counter-results often enough. For example, the co-operative movement which is theoretically very effective has produced its own crop of problems, as has the Panchayati Raj. Commenting on these, V.R. Gaikwad says:

The co-operative credit variat was started to get the farmers out of the clutches of the money-lenders. Now the problem is how to get the co-operative movement out of the clutches of the vested interests. It seems nobody has a solution to this. Panchayati Raj was introduced with a view to increase people's participation in developmental efforts. The basic idea was to get the developmental activities out of the clutches of bureaucracy. Now the problem is how to keep the local bodies out of the clutches of the power-oriented political leaders.  

Rural development depends to a great extent on developing the agricultural sector in rural areas. This sector has an age-old organisation. Modern influences are slowly making inroads into this traditional organisation but still the pace of change is very slow. To improve the pace of change, vital institutional changes have to be brought about. The social, economic and political organisation of the villages has to change to prepare the way for qualitative and quantitative changes in the rural sector. Till such time as such changes are made to any appreciable degree, our planning is bound to be fruitless. Hence the relevance of the statement of Ashok Mitra that "unless the institutional issues afflicting the Indian agrarian scene are first resolved it is fairly pointless to expatriate on the arcadia that could be brought about through the development of agriculture." Pointing to one of the organisational difficulties awaiting urgent reform, Djurfeldt and Lindberg say that big farmers and big businessmen are aligned, and together they restrict the expansion of agriculture and industry both.

It is not as though people in position do not know of these difficulties and problems. They have been pointed out time and again by researchers in the field is unmistakeable terms. Joan P. Mencher puts things in a forthright manner:


The social, political, and bureaucratic structures all have the effect of prejudicing development policies in favour of the larger landholders. This bias is well-known; it was commented on by Daniel Thorner, among others, in the 1950's, but still remains essentially unchanged ... Since the higher-level administrators in the agriculture department (many of whom have sizable landholdings themselves) tend to identify with the middle-class, middle-to-large landowners, and tend to make the assumption that small holdings are not "economic"--an assumption reinforced by text-books and "experts" imported from western capitalist countries as well as some Indians--there is very little systematic attention given to the smaller landholders... 7

One more observation, this by B.Sivaraman, one-time Member of the Planning Commission and Chairman of the National Committee on the Development of Backward Areas, should make the point quite clear:

The rural elite, in a way, functions as an agent.
However, this elite is not neutral or impartial,
and has a deep vested interest in programmes in
two ways. If the programmes support its interests,
it takes the maximum advantage of such programmes.

If the programmes are meant for the benefit of the
general masses and not essentially for the elite's
own benefit, or if the programmes are likely to
influence the socio-economic structure, then it
reacts/negatively or subversively/ ... 8

Thus it is obvious that business like planning for changes
in rural society must be put into the hands of those who own
the means of production, have no vested interests, and are
part of the target population not of the planners and intellectu­
als.

It is no more a secret that caste plays crucial roles in
political, social and economic arenas in the country. Caste
and its undesirable aspect, particularly its disuniting influence
on the poor and its inhibiting role in the development process,
will not disappear on their own. They have to be consciously
changed. This cannot be achieved without rapid economic develop­
ment. For obvious reasons the programmes of development will not

8 Quoted in Sudhanshu Ranade in Rural Banking Adrift,
be of any interest to the rich people in rural society and therefore the government will have to accept the challenge, by providing the necessary capital and facilities to the needy, and removing the institutional barriers which come in the way of implementing the programmes for the development of the rural poor.

In Tamil Nadu, agricultural programmes are being introduced in a situation of conflict: conflict between landless labourers (who account for close to half the population in the major rice regions of the State) and the large landowners; conflict between the many small landowners and the few large landowners who control most of the village lands; conflicts about who should get loans and about the use of water; tensions in the bureaucracy that lead village level leaders to over-report use of seeds or yields; conflicts within the ranks of the poor about getting hired, or about getting land for temporary share-cropping; conflicts about the use of money for possible development projects. There are frequent conflicts among the different departments of government involved in implementing programmes (e.g. between those responsible for irrigation, the Electricity Board, and the Block Development Office about when to energize a tube-well). Such conflicts are clearly a manifestation of more fundamental conflicts in society - conflicts between the different castes and classes. All these conflicts sometimes take tragic shape, as they did in Kilavenmani in Thanjavur District in 1969.9

These clashes are thus indices of the raging conflicts. Attempts at changes are bound to serve as irritants to these elements, and planning should include the strategy to foresee and to preempt the conflict situations.

It is clear that real improvement of the basic structure of rural society requires considerable financing. It will also become clear in the following chapters that successful implementation of the scheme of credit facilities requires a kind of commitment which is simply not possible, within the existing socio-economic organisation.

Agriculture is an occupation that requires regular and expensive input, and in the best of scientific circumstances quite a bit of its success depends on factors beyond human control. Sometimes massive inputs may be brought to nothing by adverse factors. Thus finance becomes a necessity for most farmers, especially for the poor farmer. The agriculturist often finds himself in a position where he has to take loans for various purposes. His needs are particularly urgent when the agricultural season commences. He may often have to borrow money to keep himself going till the harvest. Ceremonies, such as on occasions of death or marriage, are an additional cause of indebtedness. The loans supplied by different departments of the Government directly or through various developmental programmes are small and are subject
to various terms and conditions as to their use. Therefore institutions that can provide finances to rural populations are an important part of planning for rural change.

The poor peasant is traditionally a prey to moneylenders. His needs left him with no option other than borrowing and his helpless reliance on the rains and the kindness of nature aggravated his unenviable lot. Finances were forthcoming from indigenous sources sometimes, and the more or less unfailing source was the non-institutional moneylender who battened mercilessly on the needs and on the ignorance of his clients.

This has been proved in the All-India Rural Credit Survey, 1951-52:

<table>
<thead>
<tr>
<th></th>
<th>Percentages</th>
<th>Total outstanding of all rural households (Rs. Crores)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Government</td>
<td>3.7</td>
<td>54.8</td>
</tr>
<tr>
<td>Co-operatives and Commercial Banks</td>
<td>3.5</td>
<td>51.8</td>
</tr>
<tr>
<td>(2.5 + 1.0)</td>
<td>(37 + 14.8)</td>
<td></td>
</tr>
<tr>
<td>Relatives</td>
<td>11.5</td>
<td>170.2</td>
</tr>
<tr>
<td>Landlords</td>
<td>3.5</td>
<td>51.8</td>
</tr>
<tr>
<td>Agricultural money-lenders</td>
<td>25.2</td>
<td>373.0</td>
</tr>
<tr>
<td>Professional money-lenders</td>
<td>46.4</td>
<td>686.7</td>
</tr>
<tr>
<td>Traders and commercial agents</td>
<td>5.1</td>
<td>75.5</td>
</tr>
<tr>
<td>Others</td>
<td>1.1</td>
<td>16.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
<td><strong>1480</strong></td>
</tr>
</tbody>
</table>

(Source as quoted in Ranade, op. cit., P.10)
It will be noticed that Non-institutional outstandings yet accounted for 92.8 per cent of the total. Some twenty years later, the All-India Debt and Investment Survey, 1971-72, reported outstandings of all rural households as on 30th June 1972 as follows:

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentages</th>
<th>Total outstandings (Rs. Crores)</th>
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</thead>
<tbody>
<tr>
<td>Government</td>
<td>5.3</td>
<td>228.2</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>16.3</td>
<td>695.3</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>1.8</td>
<td>75.9</td>
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<tr>
<td>Landlords</td>
<td>8.3</td>
<td>354.1</td>
</tr>
<tr>
<td>Agricultural money-lenders</td>
<td>24.4</td>
<td>1040.5</td>
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<tr>
<td>Professional money-lenders</td>
<td>15.6</td>
<td>666.7</td>
</tr>
<tr>
<td>Traders</td>
<td>9.5</td>
<td>403.7</td>
</tr>
<tr>
<td>Relatives/friends</td>
<td>8.2</td>
<td>350.3</td>
</tr>
<tr>
<td>Others</td>
<td>10.6</td>
<td>454.8</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>4269.5</td>
</tr>
</tbody>
</table>

(Source as quoted in Ranade, op. cit., p.11)

Even at this time, 76.6 per cent of total outstandings were owed to non-institutional sources.

The money-lender whose lending rates were controlled
only by the intensity of climatic hostility and the extent of the client’s ignorance and the unhelpfulness of indigenous sources like relations were, however, inadequate if the agricultural productivity of the country were to increase. Though in westernised eyes the smallness of Indian landholdings was one of the causes of low productivity, the elimination of the small farmer from the scene is an impossibility. So methods had to be found to provide the small farmer with finance without pushing him into the strangle-hold of a lender. This responsibility cannot be expected to be shouldered by private enterprise, and the wildest philanthropy cannot discharge this responsibility. In a welfare government, thus, the responsibility devolves on the government itself.

Industries and other business enterprises require finances, too. But they require a certain minimum of investment in cash and material. People who can find that much, earn credit with banks without much difficulty. But in agriculture the conditions are different. Indian agricultural implements are traditional and are of no great financial value; land is a commodity which a bank cannot readily exploit; risks involved are too great and the patient expertise that agriculture demands is not readily available to banks. Therefore for a long time commercial banks kept out of the rural sector.
Conventionally, commercial banks advanced loans against securities. Most small peasants of India are not land owners, but are lease holders. They are thus not in a position to offer securities. Till recently commercial banks were not easily accessible to villages whereas traditional money lenders were easily accessible. Because of proximity and traditional hold they could keep track of their clients and collect their dues. Such reasons made commercial banks rather poor competitors with the traditional sources of finance.

It was only in recent times that the social mission of banks was spelt out. Till recently they received deposits paying them a small interest and made them available on a higher rate of interest to people who needed them, against safe securities. Thus they made their profit. They understood their business as a purely commercial venture. But the advent of a new social theory in recent times has led to a radical conceptual shift in their raison d'être. So they are now expected to help poor people who can offer no security.

Commercial Banks fought shy of the rural sector because of the difficulties enumerated above. Without extensive modification of their conventional machinery they could not make headway in that sector when at last they did try it.
An effort made in the direction was the founding of co-operative institutions. But for a variety of reasons, co-operatives have not been able to do as well as they were expected to do. Panchayat Raj was introduced with a view to increase people's participation in development efforts. The basic idea was to get the developmental activities out of the clutches of bureaucracy. Now the problem is how to keep the local bodies out of the clutches of the local power-oriented political leaders. In his forthright summing up of these efforts, Sudhanshu Ranade says:

Too long have we relied on these democratic bodies for grassroot development we have continued ... being usually neither equitable nor efficient.\(^\text{10}\)

It was these factors which led to the idea of a bank devoted to rural areas.

Till 1967, it may be said that commercial banks were not involved in any significant extent in providing direct finance to agriculture. Since 1968 commercial banks have been actively participating in agricultural finance. Indian commercial banks had a strong urban bias. It came to be observed that the entry of commercial banks in the field of agriculture finance created more problems. Instead of supplementing co-operative credit, it

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10 Ranade, op. cit., p.22.
actually weakened co-operative credit societies by taking away from them business provided by big landholders. Instead of providing more credit to the agricultural sector for which commercial banks were brought in, they mobilised substantial savings and channelised those rural savings into urban and metropolitan areas, in the process making substantial profits. The commercial banks relatively neglected smaller borrowers while providing agricultural credit.

Considering the weakness of the various credit agencies and the difficulties involved in filling up the regional and functional gaps in rural credit, the Working Group on Rural Banks appointed by the Government of India on July 1st, 1975 recommended that a new type of institution be formed which would combine local feel and familiarity with rural problems which the co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to control money markets and a modernised outlook which the commercial banks have.\(^{11}\)

The idea of new rural banks was inspired by considerations of lowering the costs of rural banking and operating such banks with local staff in an environment which the poor people in the village would find most homely. This would make the bank appear an indigenous growth and not an

external intrusion. Implicit in the Government of India's thinking was an awareness that the weaker sections of the rural society had in general not benefited much from the existing credit institutions and that the new institutions of rural banks must rectify this deficiency and work for furthering the development of the rural poor.

The Government of India thus conceived the idea of setting up rural banks as part of the New Economic Programme. It accepted the recommendations of the Working Group on Rural Banks. Accordingly The Regional Rural Banks Ordinance of 1975 was promulgated by the President of India on September 26, 1975. It was subsequently replaced by The Regional Rural Banks Act of 1976, dated February 9, 1976. According to the Regional Rural Banks Act 1976, the Regional Rural Banks were to be set up mainly "with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto". The Regional Rural Banks were first set up by the Government of India in October 1975. The first and only one of this type of Bank was set up in Tamil Nadu on 3rd March, 1977.

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