CHAPTER - I

INTRODUCTORY
1.1 **Introduction**

An important feature of an underdeveloped economy like that of India is the predominance of the primary sector and the rural people engaged therein. The saying of Mahatma Gandhi "India dwells in villages" is valid even now. Therefore salvation of our masses lies in the rural prosperity.

At the dawn of Independence there was widespread poverty, backwardness as well as economic stagnation in India. To overcome the age old poverty and economic stagnation, the country began the path of planned economic development in 1951. In fact, the growth strategy of third world countries during 1950s and 1960s was based on Harrod Domar and Rostovian growth models. These growth models focussed attention on policies to raise the level of GNP through accelerating capital formation. The Mahalanobis model, which was the founding stone of the 2nd five year plan, was a variant of Harrod-Domar growth models. Indian planners were convinced of the fact that rapid growth of real national income could build up a social base for India's long term multi dimensional development. But the benefit of planned development did not trickle down to the lower income strata. Therefore, the academicians like Gunar Myrdal, Harry Oshima and Mehabub Haque etc., called for a new development strategy for developing economies with a stress on rural development and target groups.
The redemption of villages from abject poverty and unemployment could be possible only through generation of gainful employment, which in turn depends on credit available for the rural population. In the context of rural development in India, therefore, what is required most is credit facilities to small and marginal farmers, landless labourers, artisans, petty shop-keepers, craftsmen and people engaged in cottage industries.

In the pursuit of avowed objective of national policy to alleviate poverty, (Garibi Hatao or Poverty Removal) the country has taken long strides in the economic sphere. The emergence of State Bank of India in 1955 followed by social control and nationalisation of banks has been a highly significant milestone in our journey to elimination of poverty.

The co-operative movement has also made a significant progress during post-independence period. However, the benefits of the movement have not reached the lower strata of cultivators, particularly the small and the marginal farmers and other weaker sections of the society. Consequently, the gap between the economic condition and standard of living of rural masses and urban citizens has not only continued persistently but also widened with the passage of time. In the circumstances, the Government Policy makers and economists felt a great need of filling in the vacuum of rural credit by creation of a specialised agency.
The establishment of Regional Rural Bank is therefore, a result of national aspiration and reflects the urgency of providing credit facility to the poverty stricken rural masses, who have been shy of banks.

The rural banks have been established as subsidiaries of the public sector banks to cater to the needs of rural people. These banks operate in rural areas and are established in regions which are comparatively backward or located in a tribal area or where the coverage of commercial banks or the co-operative society has been relatively poor. The rural banks are a new source of credit to those sectors of the society which have all along been neglected by the security oriented banking system which used to operate mainly from metropolitan and urban centres. They extend credit to small scale agriculturists, artisans, industrialists, landless labourers, petty shop-keepers and self employed people in villages. The success of RRBs depends on the quantum of financial assistance provided by them by way of loans, the type of beneficiaries, proper utilisation of credit sanctioned, the effects of credit on income generation, improvement in the standard of living of the loanees and above all timely recovery of loans for recycling.

The present study presents an in-depth study of the functioning of Bolangir Anchalik Gramya Bank which is one of the oldest Regional Rural Banks in India. It also attempts to
analyse empirically the development and promotional role played by this Regional Rural Bank in the process of economic development of a backward region like Western Orissa.

1.2 Objectives of the Study:

The objectives of the present study are as follows:

(1) To review the working of the Bolangir Anchalik Gramya Bank since its inception from banking point of view.

(2) To study the impact of the BAGB in terms of credit deployment and deposit mobilisation in the Western Orissa.

(3) To compare the role of the BAGB with other banking institutions of the region.

(4) To analyse the intra-regional variations in the level and pattern of deposit mobilisation and credit advancement of the BAGB.

(5) To examine the variations in the level of deposit and credit among different size classes of land holdings.

(6) To suggest measures for the improvement in the working of the bank in future.
1.3 Methodology:

This study is primarily based on secondary data. For a macro study of the impact of Bolangir Anchalik Gramya Bank (BAGB) on Western Orissa, relevant data have been collected from the headquarters of the bank at Bolangir. In order to have a comparative analysis of the performance of BAGB and other financial institutions of the region, data have been collected from the concerned Lead Banks. Besides materials as available from annual reports of various banks, published and unpublished research works and standard literature have also been used.

Again, a sample study has been carried out to analyse the intra-regional variation in the performance of the BAGB. For this purpose, stratified Multi-stage Sampling method has been used to select six villages from the region under study i.e., Western Orissa. Data and information regarding the entire depositors and borrowers of BAGB in each village has been obtained from the office records of the concerned branch of the bank.

Useful discussion with the officials of the BAGB at its headquarters and branch managers of six branch offices of the bank corresponding to six sample villages have been made and their opinions on various issues relevant to the study elicited.
As for statistical analysis, simple and compound growth rates have been used to study the trends in the growth of various banking variables pertaining to BAGB. Besides chi-square test of independence, technique of analysis of variance, Student's t-test, ratios, percentages, geometric mean, simple and weighted averages have been employed to gauge the impact of the bank on the region under study.

1.4 Hypotheses:

This study proposes to test the following hypotheses:

(1) The BAGB discriminates among its borrowers by their castes.

(2) It does not discriminate among different types of loans.

(3) There is no significant difference in the advances of the bank to different categories of borrowers.

(4) There is no significant difference in the advances to different activities/purposes.

(5) Repayment pattern of loans is independent of categories of borrowers.

(6) Type of deposit and category of depositors are independent.
1.5 **Review of Literature:**

A number of government sponsored surveys have gone deep into the problem of rural credit, and the role of commercial banks in meeting the credit needs of the rural sector. The All India Rural Debt and Investment Survey, 1961-62\(^1\) estimated asset-groupwise loans per rural household (also per cultivating and non-cultivating household) taken from commercial banks among other credit agencies. The finding was that in relation to the total borrowings of the cultivators from all sources, the part attributable to commercial banks showed a small decline from 0.9 per cent in 1951-52 to 0.6 per cent in 1961-62. It was only in Madras and Kerala that the contribution of commercial banks was found relatively more significant, though, even in these states, it was negligible in absolute terms. The report of a study group of National Credit Council for building up an organisational framework for the implementation of social objectives\(^2\) is a comprehensive study on the estimation of credit

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1. All India Rural Debt and Investment Survey, 1961-62 RBI (Bombay).

gaps in agriculture as also in other sectors of the economy and the extent of fulfilment of these gaps by institutional sources of finance. The study also measures the extent of inter-state variation in the development of commercial banking and co-operative Banks.

C.H. Shah and Tara Shukla\(^3\) have analysed the need for increasing and stabilising the value of farmer's margin of production over subsistence requirements of his family so that he may invest still more in the production and thus add to the value of the assets which he can present against a loan from the institutional source and employ it for productive purposes. Srinivasan\(^4\) deals with the problem of lack of knowledge about, and ability to contact, an existing institutional source of credit on the part of the farmer leading to difficulties for institutional sources of credit to reach him. Subhas K. Basu\(^5\), made a multiple regression analysis of per capita credit on the basis of observations in 275 districts (data base : 1967) with as many as six explanatory variables which together explained 64 per cent of inter-district variation in per capita credit. Some highlights of the findings were:

(1) Per capita deposit, number of workers in manufacturing per 1000 population, and intensity of cultivation together explained 63 per cent variation in per capita credit whereas the regression coefficients of all three were significant.

(2) Per capita deposit alone explained 57 per cent of the variation in per capita credit.

(3) Intensity of cultivation varied inversely with per capita overall credit.

(4) An indicator of small farm predominance showed negative regression coefficient on per capita credit but it was not significant.

The model developed by Khusro and Sidharthan\textsuperscript{6} was based on ten simultaneous equations relating to demand for and supply of both aggregate credit and aggregate deposit and ten variables. It had also more plausible hypotheses to offer in interconnecting aggregate credit with variables such as aggregate bank reserves, index of share prices, and the ratio of market rate of interest and the loan rate of commercial banks themselves. S.N.Raghavan and Khusi Ram\textsuperscript{7} have applied a measure.


\textsuperscript{7} S.N.Raghavan and Khusi Ram, "Relative Efficiency of Commercial Banks in India", Seminar Paper, (Institute of Economic Growth, University of Delhi, 1970).
developed by Khusro and Sidharthan, of banking efficiency in terms of the elasticity of bank deposits with respect to advances, to 11 commercial banks of India. Both studies actually demonstrate the linkage between banking efficiency and banking growth.

A.K. Mukhopathyay and V.B.R.S. Somasekhara Rao of N.I.R.D. have studied the flow of investment through institutional credit and public investment and its impact on various activities in Atmakur block of Andhra Pradesh. They have found that 90 per cent of the total credit advanced in the block is spent for the purpose of developing crop-production. The study also reveals that 50 per cent of farm households of the block got benefitted by the schemes financed by both credit and public investment agencies. The authors conclude that development activities are not reaching villages where transport and communication facilities are meagre. Road development thus assumes importance in channelising both credit and public funds to the villages.

P.T. George, D. Namasivayam and G. Ramachandraiah (N.I.R.D.) have analysed the repayment performances of farmers in Chingleput district of Tamil Nadu. The study uses the


generalised linear model to analyse the prompt repayment in the case of non-defaulters and control groups and non-repayment in the case of defaulters. The authors found that non-viability of the schemes, absence of input and infrastructural facilities and mischievous propaganda by interested political parties are major reasons for default by the farmers.

Jyoti Prakash Patnaik\(^\text{10}\) has adopted stratified random sampling methodology and has critically analysed the district credit plans as well as achievement of plan targets for each bankable scheme in order to evaluate the role of commercial banks in rural development. He has noted that the commercial banks have given a good account of themselves in the field of extension of banking facilities in the rural areas and increasing the volume of credit to agriculture. They have contributed substantially to the development of irrigation, mechanization, and development programmes as also to allied agricultural activities such as horticulture, dairying etc. Moreover, they have increased their involvement also in the over-all rural development as they are involving themselves very deeply in the formulation of credit plans for rural development. The author concludes that the available credit is inadequate, is unevenly distributed in different regions, is mainly biased in favour of rich and affluent class of farmers.

Benudhar Nayak has worked on the role of co-operative finance in generating rural development in Sambalpur district. Mahesh Patnaik concentrated on commercial banks lending for transformation of rural economy of Bolangir district. The author concludes that the provision of credit alone is not enough and the monitoring services also are very important.

All these studies concern themselves with regional variation in the pattern of credit operations of the institutional sources particularly of the commercial banks. There is scanty research material pertaining to Regional Rural Banks which are latest addition to the credit delivery system of India in rural sector. We find one important study on RRBs by C.D. Wadhva. He conducted the case study of two selected RRBs - Haryana Kshetriya Grameena Bank, Bhiwani (Haryana) and Jaipur Nagar Anchalik Grameena Bank, Jaipur (Rajasthan) in 1977 wherein he makes about 24 recommendations which provide a broad framework for reorganising and improving the working of the RRBs in future. The limitations of Wadhva's study is that he conducted this study immediately within about two years of inception of the RRBs and two years in the life of any institution is too short a period to derive any conclusions.

Since the RRBs are established to help the small and marginal farmers and agricultural labourers, the various research studies conducted pertaining to policies and programmes undertaken for their development are of great help in investigating further into the role of RRBs in this particular aspect. A monograph on the development of small and marginal farmers and agricultural labourers brought out by the National Institute of Rural Development, Hyderabad (NIRD) drew the attention of this researcher. The limitation of the study is that it looks at the problem from the point of view of the development of small and marginal farmers and mainly the role of agencies created by the Government for the purpose. It does not throw light on the role of RRBs in the upliftment of small and marginal farmers and agricultural labourers. The present study is therefore, a maiden attempt to overcome this lacunae through its focus on impact of Bolangir Anchalik Gramya Bank on economic development of a backward region like Western Orissa.

1.6 Importance of the Study

Western Orissa is a backward region of an underdeveloped state like Orissa. The basic problem of the region is that it shows all the features of backwardness against

the background of abundant supply of natural and human resources. Paradoxically, there is widespread poverty in the midst of plenty of resources. The prime task of economic development is therefore to eliminate poverty, unemployment and underemployment from the region. To achieve this, heavy investment of capital in the economy is necessary. The Government is not able to meet all the required investment on account of limited budgetary resources.

The private sector is also unable to undertake large-scale investment in the region due to paucity of funds. Accordingly more reliance is placed upon institutional sources for assisting the investment efforts of the private sector. However, the high cost of operation and urban outlook of the commercial banks act as a major hurdle to accomplish the social objective of rural financing. Co-operative banks also fail to contribute effectively to rural financing due to political influence, financial weakness and lack of professional management. Thus the vast gap between demand and supply of credit in rural areas of the region can be abridged only by a specialised rural credit agency like Regional Rural Bank. The establishment of Bolangir Anchalik Gramya Bank in Western Orissa is a significant step in this regard. It can undertake the task of mobilising more savings from the rural areas and channelising these savings for purposes of productive investment by small scale agriculturists, artisans, industrialists, landless labourers, petty shop-keepers and self-employed people in the
villages. It has been assigned a prominent socio-economic responsibility of poverty eradication, employment generation, agricultural and industrial development and balanced regional development through banking operations. In view of the activities assigned to Bolangir Anchalik Gramya Bank, it could play an important role in the economic development of Western Orissa. It is in the light of this background, an attempt is made to study the impact of Bolangir Anchalik Gramya Bank on Western Orissa. The study would also deal with intra-regional analysis of variation in the level and pattern of credit deployed by Bolangir Anchalik Gramya Bank.

1.7 Limitations of the Study:

(a) Since the study is based on secondary data, the impact of BAGB on production, productivity and employment could not be analysed.

(b) BAGB did not agree to make available data for branch-wise analysis, on the ground that they are considered confidential in nature. Hence, branch-wise study of the performance was not possible.

(c) A comparative analysis of the performance of BAGB and other financial institutions of the region with regard to participation in credit plan has been made for one year i.e., 1990-91 only; because Lead Banks of the region declined to provide data for more than one year.
1.8 Chapter Design:

The study contains seven chapters. Chapter I, deals with a brief discussion on research design, methodology and importance of the study. Chapter II, discusses the socio-economic profile of Western Orissa. Chapter III, narrates the genesis and rationale of Regional Rural Banks. Chapter IV, analyses the economic impact of BAGB on the region. Chapter V, studies the participation of BAGB in the district credit plan of the study region. Chapter VI, attempts to analyse the performance of BAGB in terms of sample data. Chapter VII, contains summary and conclusions of the study and policy recommendations.

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