CHAPTER-1

INTRODUCTION
1.1 PERSPECTIVES

India, needless to say, is basically a nation of villages. More than seventyfive per cent of her population live in around 5.76 lakh villages. A vast majority of these people depend, directly or indirectly, on agriculture for their livelihood. But it is an irony of fate that despite centuries of attachment of men with land, for reasons partly historical and partly man-made, land has failed to generate income adequate enough to sustain most of these farming families round the year. Since a majority of rural mass belong to the category of small and marginal farmers, landless labourers, artisans, small traders and small businessmen, they understandably struggle for existence with a slender resource base. The improvisation and modernisation of different activities in which they are engaged in, has never been found feasible through their own resources. Steps taken in the pre-independent days to rescue the rural mass from the clutches of poverty and destitution were sporadic and half-hearted in nature, and as such did not lead to any improvement in their living standards. Even after the attainment of independence, although hopes were raised for some spectacular achievements on this front, the rural India failed to receive care and attention it deserved from the planners and
policy makers of the country. This may be due to a lack of understanding on the part of the planners and policy-makers about the basic problems and issues confronting the rural sector. Further, the application of inappropriate strategy to combat the socio-economic problems prevailing in rural India also contributed to the slow and sluggish rural development in the country. It was mostly after the era of planning began in the country and more precisely with the new thrust given to agriculture in the Second Five Year Plan, and thereafter, that rural India became the focal point of attention in all developmental endeavours and exercises. It has now been realised that the problems confronting the rural sector is so much complex and complicated in nature that it needs a totality of approach, or what may be called an integrated approach rather than piece meal and adhoc approaches. And the planners and policy makers of the country are now heading in this direction.

The anxiety to bring about a radical transformation in the rural sector has prompted the Government to introduce varieties of schemes and programmes at different points of time. Each of such schemes and programmes aims at delivering certain desired benefits to specified targeted groups or category of people. With a view to expediting the transformation of rural mass through such programmes and schemes, a network of new agencies and institutions were created, suitable and radical changes and innovations were introduced in the scope, objectives and modus operandi of many
of the existing institutions. Since finance constitutes the basic critical input for any developmental programme, the Government provided not only direct financial assistance in the form of grants and subsidies for the implementation of various developmental schemes in the rural areas, but also made elaborate arrangements for the smooth flow of institutional credit to the rural sector.

1.2 PROVISION OF INSTITUTIONAL CREDIT IN INDIA

The history of experiments with the provision of institutional credit for the rural sector can be traced back to 1884, when the Taccavi loan scheme was first introduced in India for the benefit of the farmers.\(^2\) The scheme failed because of rigidity in its implementation of rules and procedure on the one hand and indifferent attitude of the bureaucracy on the other.\(^3\) The conditions of the farmers in the absence of any institutional credit support deteriorated further because of the ravages due to crop failure and famine. The farmers were forced to knock at the doors of the private moneylenders, who exploited them. It was under these circumstances that the then Government of India turned to the co-operatives for rural credit.

The co-operatives continued to provide the much needed institutional credit to the rural sector. In 1951-52, the All-India Rural Credit Survey observed that the co-operatives met only 3.1 per cent of the total borrowings of the farmers from all credit agencies and there was overwhelming dependance on the private moneylenders in the rural areas.\(^4\) The committee made various
recommendations for the improvement in the working of the co-operatives. However, the co-operatives had their own built-in limitations, and as such they failed to deliver the desired result. Further, the introduction of the High Yielding Variety (HYV) programme in the sixties necessitated the use of costly inputs like chemical fertilizers, pesticides etc. and the development of irrigation facilities by way of dependable source of water for the agricultural sector. These, in turn, increased the demand for rural credit which the co-operatives failed to provide. In a situation like this, the National Commission on Agriculture emphasised the urgent need for strengthening the rural credit structure. The All India Rural Credit Review Committee also came to the firm conclusion that "as the demand for credit is going up and supply thereof markedly lagging behind, the HYV programme should not be tied to the programme of co-operative credit. While reorganisation of co-operative credit may, no doubt, be pursued and the integrated scheme implemented vigorously, efforts should be made to induct other agencies like Commercial banks to provide agricultural credit. Realising the limitations of the co-operatives in meeting the mounting credit requirements of the rural sector, the Government inducted the commercial banks in the field to supplement the role of the co-operatives.

This move did not make much headway. The commercial banks were reluctant to supply credit to the rural sector as rural credit was considered risky by them. Besides, they were not
favourably inclined to open up branches in the rural areas as it was not profitable for them to do so. The Reserve Bank of India (RBI) could not force them to open branches in the rural areas as the commercial banking was in the private sector. These banks confined their activities to a particular class of people at those places which offered them greater scope for profitable business. In fact, they offered shelter to those who were already well protected. This discrimination obviously kept the rural sector outside the banking fold.

With a view to ensuring uninterrupted flow of adequate credit into the rural sector, the Government of India introduced a Credit Guarantee Scheme in July 1960. This scheme was intended to provide a higher degree of protection to lending institutions against possible losses arising out of credit facilities granted to the rural sector. The scheme provided a guarantee upto 75 per cent of the amount in default or the amount guaranted whichever is less. This was followed by another measure in the form of 'Social Control' over the banks by the Government of India in 1967. Under this measure, the banks were called upon to set aside a predetermined proportion of their net accretion of deposits for granting loans to agriculture and other priority sectors. However, these measures also did not yield desired results. Therefore, with a view to accelerating the tempo of economic development, achieving better redistribution of wealth and income, reducing the regional
imbalance in the economic development among different regions and increasing the level of employment, 14 major commercial banks were nationalised in July 1969 and another 6 in 1980.

After nationalisation, a radical change was introduced in the rural financing scenario assigning challenging roles to the commercial banking sector as active partners in the rural reconstruction and development. The banks were required not merely to bring under their coverage remote areas through programmes of massive branch expansion, but also to intensify credit deployment and deposit mobilisation. With this end in view, varieties of innovations were introduced in the banking operations, such as Lead Bank Scheme, Service Area Approach, Differential Interest Rates etc., at different points of time. The sole purpose behind all these steps was to help the commercial banking sector to play a crucial role in the reconstruction and development of rural India. As a result of these steps, the commercial banks made an impressive progress in rural areas in matters of branch expansion, deposit mobilisation, and credit deployment. But despite the impressive performance, the commercial banks failed to come to the rescue of the poorest of the rural poor. In fact, their main disadvantage in extending rural credit, particularly to the small and marginal farmers, were their urban orientation, absence of local feel and high organisational cost. Their well-paid staff wedded to urban comforts were unwilling for the sacrifice rural banking entailed.
Further, initial efforts of commercial banks to move to rural areas had, in fact, resulted in syphoning of rural savings to urban centres, a reverse situation to that of co-operatives.\textsuperscript{11}

It was against this background that the idea of a new type of village banks got mooted to synthesise the advantages of both the systems, co-operatives and commercial banks, without inheriting their short-comings. Accordingly, the Government set up a committee under the Chairmanship of M. Narasimham to suggest an operational framework for such banks. The committee in its report mentioned that "the field of rural credit is so vast and its problems so varied and complex and the area of unsatisfied demand so great that there is always scope for experimentation and innovation, to try out new ideas, to fashion new instruments of policy and evolve new institutions for efficient and effective dispersion of credit. In a country of the size and regional diversity as ours, no single pattern, be it commercial banking or co-operative credit can be expected to meet all emerging requirements in all areas. A degree of adoption and improvisation is called for and the range of institutional alternatives widened. It is in this context that we have come to the conclusion that a new type of institution is necessary".\textsuperscript{12} On the basis of the suggestions of the Narasimham Committee, the Government set up Regional Rural Banks (RRBs) in 1975 to exclusively cater to the credit requirements of the targeted poorest of the rural poor.
Each RRB is sponsored by a public sector commercial bank called as sponsor Bank in consultation with the State and Central Government. The sponsor bank acts as a friend, philosopher and guide and the financier to RRBs as well. The RRBs, however, have a status of a scheduled commercial bank. Such scheduling by the Central Bank of the country enjoins certain prestige and also responsibilities regarding maintenance of cash reserves, liquidity and interest rates. Recognising their specific role, RRBs are accorded some concessions in these requirements vis-a-vis other scheduled banks. They pay higher rates of interest on their deposits and charge lower rates of interest on their advances. These banks are also entitled to get concessional refinance from the sponsor bank and National bank for Agriculture and Rural Development (NABARD). With these mandatory provisions coupled with several concessions, RRBs have emerged as a strong 'Third Plank' in Indian multi-agency system of rural credit.

1.3 RELEVANCE OF THE STUDY

Rural development has all along been a matter of concern for the planners and policy makers of the country since the onset of planning in India. In fact, the anxiety to bring about the desired transformation in the rural sector prompted the Government to introduce varieties of schemes and programmes at different points of time aiming at delivering certain specific benefits to specified targeted groups/regions or categories of people. Since the
implementation of such developmental programmes and schemes necessitated huge financial support and backing, efforts concurrently initiated to restructure and revamp the erstwhile rural credit mechanism. The experiment in fact, began with the encouragement of the co-operatives. But having realised that the co-operative sector alone could not shoulder the responsibility, the commercial banking sector was inducted to the rural financing scenario and thus, began the multi-agency approach to rural financing.

Ever since, the commercial banking sector has been inducted into the rural financing system, a challenging role has been assigned to this sector to play the role of a change agent in the reshaping of the rural economy and the economic lot of the rural poor. Following bank nationalisation, a series of innovative measures have been introduced to make the banking sector an effective instrument of growth and development of the rural sector. Under such innovative measures, the banking sector has been assigned a crucial role in matters of identifying growth potentials of targeted areas and groups, making a realistic approach of the credit needs, arranging for the required finance, ensuring their timely availability in adequate amount, monitoring their end use through proper supervision and follow-up measures and creating conditions under which recycling of resources are ensured with no bottle-necks created anywhere.

All these developments have obviously raised high hopes. It is generally believed that if the banking sector can play the
role expected of them many of the issues and problems confronting the rural sector can be solved and a new era of prosperity and growth can be ushered in the rural India. On the contrary, if the commercial banking sector fails in discharging the responsibilities the nation bestowed on it, much of the hopes raised will be shattered, leading to mounting socio-economic tensions in the rural sector.

More than two decades of time have elapsed since the banking sector pressed into the rural service. A number of independent and research oriented studies have been undertaken to assess and evaluate the role of commercial banking sector in the context of rural development. A majority of the studies as seen from the review of the literature have pointed out that even though the commercial banking sector has made remarkable progress in matters of rural financing it has not played the role in the lines expected of it. Anomalies and deficiencies, shortcomings and defects have been noticed in their operations. In the light of the deficiencies and defects noticed, many useful suggestions have also been offered under these studies for guiding the planners and policy makers for correcting and strengthening the commercial banking system in the country.

As far as Orissa is concerned, the commercial banking sector has also made remarkable inroads into the rural sector. But compared to the studies made in other parts of the country,
to evaluate the role of the commercial banking sector, the efforts in this direction in Orissa have remained almost negligible. This has in turn created a vacuum in literature with no authentic and up-to-date information available anywhere on a systematised manner on the real state of affair of the commercial banking sector in the state. Whatever literature is available, is mostly official and as such not analytical in nature. It is this limitation that prompted the researcher to take up the present study to bring into focus the real state of affairs in relation to the operation of commercial banking in the rural areas of the state. Since macro-level study would not have enabled the researcher to make an intensive approach to the operational details, he opted for a micro-level study, selecting a single district of the state, namely, Dhenkanal district which happens to be a specially declared backward district of Orissa.

1.4 OBJECTIVES OF THE STUDY

The study seeks to examine the role played by the commercial banks in the rural credit scene of Dhenkanal district in Orissa. More specifically, it aims at critically assessing and evaluating the role of the commercial banks in the district in matters of branch expansion, deposit mobilisation and credit deployment and in the process in enhancing the income and employment opportunities of the people they serve. Keeping this in view, the study sets the following objectives.
1. To assess the progress in relation to branch expansion, deposit mobilisation and credit deployment of the commercial banks and the extent to which they have been able to serve the rural people of the district;

2. To evaluate the District Credit Plans of the district prepared under the Lead Bank scheme and the extent to which the credit targets of the district have been achieved;

3. To examine the supply of credit to the rural loanees by the commercial banks and the extent to which the credit supply has remained adequate and timely;

4. To track down the utilisation pattern of the borrowed funds by the rural loanees and the extent to which the credit has been properly utilised;

5. To find out the extent to which the bank credit has been able to raise the income and employment opportunities of the rural people in general, and the targeted group in particular;

6. To appraise the recovery position of the bank loans in the rural areas and the extent of credit overdues;

7. To make suitable recommendations on the basis of the findings of the study.
1.5 SCOPE OF THE STUDY

The study has been undertaken to assess the role played by the commercial banks in meeting the credit requirements of the rural people of Dhenkanal district. Since it is a micro-level study of Dhenkanal district, it only makes a general mention of the banking scenario of the state of Orissa and concentrates on the commercial banking operations of the district. To be more specific, the study is confined to the analysis of the financial assistance provided by the commercial banks including Regional Rural Banks, for the rural development of Dhenkanal district. Besides, the study also analyses the utilisation pattern of the bank credit by the loanees, the causes of the misutilisation of the loan, impact of the bank loan on the income and employment of the loanees, factors responsible for overdues and the problems of both the loanees and the bankers in the rural loan operation.

1.6 METHODOLOGY

The study has been made at two levels, one at the macro level and the other at the micro level. At the macro level, the concept of rural development, different schemes introduced by the state and the Central Government for boosting rural development and the various facets of rural finance and their relative importance, the socio-economic profile of the district, the commercial banking scenario in the district and an evaluative assessment of the District Credit Plan (D.C.P.) of the district are studied. For testing the findings of macro level study a micro level study was
undertaken to critically evaluate the role of commercial banking sector in the rural development through a field survey covering two hundred forty rural households of the district, selected by adopting purposive random sampling procedure.

The data and the information for the macro level study, has been collected from Secondary sources, mostly from the publications of the Departments of Rural Development, Government of Orissa and India, the Reserve Bank of India and the Lead Bank of the district. Data for micro level study has been collected from two hundred forty rural households of the district through a tailor made questionnaire. The detailed procedure of selection of the sample households and the procedure of data collection have been explained in Chapter VI of the study.

These 240 rural households of the district were divided into 6 broad categories of 40 households each, on the basis of their land holding, profession and work. The detailed classification is given below.

1. The big farmers
   The farmers who have 5 acres or more than 5 acres of land.

2. The small farmers
   The farmers who have 2.5 acres or more but less than 5 acres of land.

3. The marginal farmer
   The farmer who have less than 2.5 acres of land.
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. The landless labourer</td>
<td>These people do not hold any land. They work mostly as hired agricultural labourers or take up activities allied to agriculture. Some of them also hire cycle rickshaws and bullock carts in the rural areas.</td>
</tr>
<tr>
<td>5. The small businessmen and rural artisans</td>
<td>The small businessmen include persons engaged in activities like vegetable, stationary etc., vending, tailoring, cycle repairing, hair cutting, laundry business, etc. The rural artisans include persons engaged in household and cottage industries mostly on hereditary basis.</td>
</tr>
<tr>
<td>6. The traders &amp; others</td>
<td>The traders are the persons engaged in various types of trading in a bigger scale compared to the small businessmen and the others include persons engaged in manufacturing activities in the small scale sector in rural areas.</td>
</tr>
</tbody>
</table>

The economic activities of the rural households of the district were grouped under three broad heads like 'Agricultural', 'Animal husbandry' and 'Non-agricultural other activities'. All the economic activities of the rural households of the district other than agriculture and animal husbandry were included under the non-agricultural other activities.
Along with the data collected from the sources referred above a perusal into the unpublished records, circulars available at different places like Lead Bank office, Office of the State Directorate of Institutional Finance and the Department of Rural Development, Government of Orissa also reinforces the statistical and informative base of the study. Further, wherever necessary discussions have been made with the officials of the agencies involved in the rural development including bankers and the rural households of the district. These discussions not only proved to be helpful in interpreting the statistical findings but also provided an insight into various problems and issues.

The study broadly covers the period 1968-69 to 1991-92 and depending upon the availability of comparable data and information the period of study of almost all aspects falls within this range. The rationale behind adopting 1968-69 as the base year for the study is grounded on the consideration that the first phase of bank nationalisation in India took place in that year. The availability of latest data reflecting recent trends have guided the decision regarding the selection of the terminal year of the study. Further, the field study was undertaken in the year 1991-92.

The study has made use of the following statistical tools in its data analysis.
1.6.1 COMPOUND GROWTH RATE

The compound growth rate of branch expansion, deposit mobilisation and credit deployment of rural commercial banks have been worked out. It is considered to be a better estimate to compare the performance of rural commercial banks operating in the district with that of the state and at national level. For the calculation of compound growth rate, the following formula has been used.

\[ Y_t = Y_0 (1+r)^t \]

where,  
\( Y_t \) = Figures at the end of the period,
\( Y_0 \) = Figures at the beginning of the period,
\( r \) = Compound growth rate and
\( t \) = Total number of years.

1.6.2 LOCATIONAL QUOTIENTS

The locational quotients have been calculated to relate the population with the commercial bank branches, deposits, and credits.

(a) The locational quotient, for relating the rural population with rural bank branches, has been worked out by using the following formula.

\[
\text{L.Q.} = \frac{\text{NBr}}{\text{Pr}} - \frac{\text{NB}}{\text{P}}
\]

WHERE, L.Q. = Locational Quotient of rural branches.
NBr = Number of rural commercial bank branches in the district or state.

Pr = Rural population of the district or state.

NB = Number of rural commercial bank branches at the national level.

P = Total rural population of the country.

When L.Q. of the district or state is greater than 1 it reveals that branch expansion has been at a faster speed than that of the national level.

When L.Q. of the district or state is equal to 1, it reveals that branch expansion has been at the same rate as has been at the national level.

When L.Q. of the district or state is less than 1, it reveals that branch expansion has been slower than the national level.

(b) The locational quotient to relate the population with rural commercial bank deposits has been worked out by adopting the following formula.

\[
L.Q. = \frac{TDr}{Pr} \frac{Pr}{TD} \frac{TD}{P}
\]

where L.Q. = Locational quotient of rural deposits.

TDr = Total rural commercial bank deposits of the district or state.

Pr = Total rural Population of the district or State.

TD = Total rural commercial bank deposits of the country.

P = Total rural population of the country.
When L.Q. of the district or state is greater than 1 it indicates better position of the district or state than the all India level in the field of deposit mobilisation.

When L.Q. of the district or state is equal to 1 it indicates that the performance of the district or the state has been at par with the national level performance.

When L.Q. of the district or state is less than 1, it indicates that the district or the state has lagged behind the national level performance.

(c) The locational quotient to relate the rural population with rural commercial bank credits has been worked out by adopting the following formula.

\[ L.Q. = \frac{\frac{TCr}{Pr}}{\frac{TC}{P}} \]

Where

- L.Q. - Locational quotient of rural credit deployment.
- TCr - Total rural credit deployed in the district or state.
- Pr - Total rural population of the district or state.
- TC - Total rural credit deployed in the country.
- P - Total rural population of the country.

When L.Q. of the district or state is greater than 1, it states that credit deployed per person is more than the credit deployed per person at the all India level.

When L.Q. of the district or state is equal to 1, it states that credit deployed per person is at par with the all India credit deployment.
When L.Q. of the district or state is less than 1 it indicates that the credit deployed per person is less than the all India credit deployment.

1.6.3 FORMULA OF INTERPOLATION

The calculation of locational quotients at each five years interval requires population figures. But the Indian census provides population figures at 10 years interval. Thus, we have population figures of 1971, 1981 and 1991. The census figures of 1971 were adopted for 1968-69 without any further calculation. For other years, the census figures were interpolated. For example, to know the population of 1974 and 1979, the census figures of 1971 and 1981 were interpolated, and, for the population of 1984 and 1989, the census figures of 1981 and 1991 were interpolated.

The interpolation formula used for the calculation of population is given below.

\[ Y_0 + X \Delta \]

Where \( X \) = \dfrac{\text{Year to be interpolated - Year of origin}}{\text{Difference between two adjoining year}}

\( Y_0 \) = Value of the year of origin.

\( \Delta \) = Difference between the value of two adjoining year.

1.6.4 ELASTICITY CO-EFFICIENTS

Elasticity co-efficients have been calculated to relate the rural branch expansion with the rural deposit mobilisation and credit deployment.
(a) In order to determine whether rural deposits mobilised by the commercial banks in the district has increased at the same pace as of rural branches, the elasticity co-efficient of rural deposit has been worked out by using the following formula.

\[ E = \frac{\Delta D}{\Delta B} \frac{TD}{TB} \]

Where
- \( E \) = Rural deposit elasticity co-efficient.
- \( \Delta D \) = Change in rural deposits.
- \( TD \) = Total rural deposits.
- \( \Delta B \) = Change in number of rural branches.
- \( TB \) = Total number of rural branches.

When \( E \) is greater than 1, it states that the percentage increase in rural commercial bank deposits has been more than that of the rural bank branches i.e. the deposits per rural branch has increased favourably.

When \( E \) is equal to 1, it states that the percentage of increase of rural deposits has been at same rate as of rural branches.

When \( E \) is less than 1, it states that the percentage of increase of rural branches has been more than the percentage increase in rural deposits signifying inadequate deposit mobilisation by the rural banks.

(b) In order to determine whether increase in rural bank branches has been in conformity with the increase in rural credit deployment, the elasticity co-efficient of rural credit has been worked out with the help of the following formula.
Where \( E = \) Elasticity co-efficient of rural credit.
\( \Delta C = \) Change in the rural credit deployment.
\( TC = \) Total rural credit deployed.
\( \Delta B = \) Change in number of rural branches.
\( TB = \) Total number of rural branches.

When \( E \) is greater than 1, it indicates that the rate of increase in credit deployment has been more than the rate of growth of bank branches.

When \( E \) is equal to 1, it indicates that the rate of increase in credit deployment has been at par with the rate of growth in the bank branches.

When \( E \) is less than 1, it indicates that the rate of increase in credit deployment has been lower than the rate of growth of bank branches.

### 1.6.5 CALCULATION OF INCOME AND EMPLOYMENT

The data relating to income and employment of the rural loanees both for the pre and post-loan period were collected. The year immediately preceding the loan disbursement year was taken as pre-loan year and the year 1991-92 was taken as the post-loan year. It may be pointed out here that the post-loan data of all the loanees relate to the year 1991-92 as we conducted our field survey during that year. But the pre-loan data of all the loanees do not relate to one particular year as all of them did not avail loan in the same year. Thus, while the pre-loan
data of the borrowers relate to different years the post-loan data relate to 1991-92 only.

1.6.5.1 CALCULATION OF INCOME

We have ascertained the annual income of the loanees from different activities both in the pre and post-loan year by adopting the following method.

For calculating the net agricultural income of the borrowers, data relating to their output and expenses incurred by them to generate the output were collected from them both for the pre and post-loan year through a tailor made questionnaire. The value of the output were estimated at farm harvest prices. The expenses incurred by the loanees to produce the output were subtracted from the value of the output to arrive at the net agricultural income. No calculation was made with regard to the income from other activities of the respondents as it was not possible to do so. Instead, the income figures in terms of money income as reported by the respondents were adopted.

Between the pre and post-loan period there was a rise in the price index. This would have made the comparison of pre and post-loan income irrelevant. Therefore, in order to marginalise the effect of the price rise, the post-loan income data of the borrowers were deflated by using the consumer Price Index for Agricultural Labourers in Orissa. This index was considered suitable as all of our sample households belonged to rural areas. The
consumer Price Index for Agricultural Labourers in Orissa and the converted price indices of pre-loan years are presented below.

**Consumer Price Index for Agricultural Labourers of Orissa**

(Base Year : 1960-61 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer price index for agricultural labourers in Orissa</th>
<th>Converted price indices of pre-loan years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>610</td>
<td>169.84</td>
</tr>
<tr>
<td>1983-84</td>
<td>601</td>
<td>172.38</td>
</tr>
<tr>
<td>1984-85</td>
<td>579</td>
<td>178.93</td>
</tr>
<tr>
<td>1985-86</td>
<td>596</td>
<td>173.83</td>
</tr>
<tr>
<td>1986-87</td>
<td>616</td>
<td>168.18</td>
</tr>
<tr>
<td>1987-88</td>
<td>718</td>
<td>144.29</td>
</tr>
<tr>
<td>1988-89</td>
<td>756</td>
<td>137.03</td>
</tr>
<tr>
<td>1989-90</td>
<td>770</td>
<td>134.54</td>
</tr>
<tr>
<td>1990-91</td>
<td>830</td>
<td>124.82</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,036</td>
<td>--</td>
</tr>
</tbody>
</table>

Source: 1. For column 2 from 1982-83 to 1987-88, RBI, Report on currency and finance 1987-88 vol.II p.36 and

The converted price indices of pre-loan years which are stated in the column 3 of the above table have been worked out with the help of the following formula.

\[
\text{Converted price index of the pre-loan year} = \frac{\text{Consumer price index for agricultural labourers in Orissa in the post-loan Year}}{\text{Consumer price index for agricultural labourers in Orissa in the pre-loan year}} \times 100
\]
The deflated incomes of the borrowers have been calculated by using the following formula.

\[
\text{Deflated post-loan income} = \frac{\text{Income of the post loan year}}{\text{Converted price index of the pre-loan year}} \times 100
\]

The computation of deflated post-loan income of borrowers has been explained through following example.

Suppose a borrower took a loan in July 1990. His pre and post-loan annual income were Rs.15000/- and Rs.25000/- respectively. His deflated post loan income = \( \frac{\text{Rs.25000}}{134.54} \times 100 = \text{Rs.18,581.83} \)

1.6.5.2 CALCULATION OF EMPLOYMENT

In order to examine the impact of the bank loan on the employment of the loanees, the data relating to the number of men, women and child labourers employed and the number of days they worked in each activity per annum were collected from the respondents both for the pre and post-loan periods. The collected data was then converted into mandays on the basis of the daily wage rates for hired labourers which were prevailing at the time of field survey. The prevailing daily wage rates were Rs.20/-, Rs.15/- and Rs.10/- for men, women and child labourers respectively.

The conversion has been explained through the following example.
Example:

Suppose a loanee employs 4 men for 30 days, 5 women for 40 days and 3 child labourers for 50 days a year in his venture, his annual employment in mandays is worked out to be:

\[
4 \times 30 + \frac{5 \times 40 \times 3}{4} + \frac{3 \times 50 \times 2}{4} = 345 \text{ mandays}
\]

1.7 LIMITATION OF THE STUDY

The first limitation of the study relates to the data collected from the respondents through field survey. A vast majority of respondents were illiterate and as such they do not maintain any record of their assets, liabilities, incomes, expenses, loans obtained, credit repaid etc. Obviously, bulk of information furnished by the respondents emerged out of their capacity to memorise. However, doubts, if any, were clarified by cross questioning and using personal judgment and experience of the respondents and the researcher. Every possible step has been taken to minimise the error in collection of data from the respondents by attempting to gain their confidence and co-operation.

The second limitation relates to the non-inclusion of the impact of the bank loan on the non-economic aspects like literacy, values, quality of life etc. As these aspects do not form a part of the objectives of the study, they have been left out.

The third limitation relates to the calculation of employment. While calculating employment data from the respondents, we collected
the information regarding the number of men, women and child labourers engaged in a venture in the pre and post-loan periods. The data included the members of the family of the loanee where applicable. When converting the employment generation into mandays, we have taken the wage rates of the hired labourers which were prevailing at the time of the field survey. But the wage rates of family members of the big farmers and the traders and others are expected to be much more than the rates specified for the hired labourers. But since there was not standard wage rates for these people, their employment was converted at the prevailing wage rates for the hired labourers.

1.8 THESIS PRESENTATION FORMAT

Keeping in view the objectives, the study has been divided into eight chapters including Introduction and Summary of Findings and Conclusions.

Chapter I, II and III are introductory in nature. Chapter I contains objectives and methodology of the study alongwith a survey of available literature. Chapter II titled "Rural Development and Rural Finance - An Overview", contains the programmes and schemes introduced for Rural Development, the financial needs of the rural people and the sources of finance available to them for carrying out various rural activities. Chapter III is a study of the socio-economic background of the district.
Chapter IV of the study titled "Rural Commercial Banking Scenario in Dhenkanal District" deals with various facets of the banking operations such as the branch expansion, deposit mobilisation and credit deployment by the commercial banks in the rural areas of the district. More specifically, this chapter is devoted to study the growth of rural bank branches, rural deposits and rural credits. It also compares the rural branch expansion, deposit mobilisation and credit deployment with the rural population of the district and the corresponding trends at the state and national level.

Chapter V is a study of the District Credit Plan which contains the credit targets set in the District Credit Plan and credit targets achieved and the contribution of different financing agencies to the credit plan.

Chapter VI discusses the procedure of sampling and the socio-economic characteristics of the 240 sample households of the district. More specifically, this chapter studies the educational background, asset holding pattern, land holding pattern, family size and average income of the sample rural households along with the procedure adopted to select the sample.

Chapter VII titled "Efficacy of Bank Finances - A Field Survey" is devoted to study among others:

(i) the flow pattern of credit to the rural sector through different agencies.
(ii) the timely availability of bank credit to the rural loanees;
(iii) the adequacy of bank credit;
(iv) the utilisation pattern of bank credit;
(v) the impact of bank credit on the income and employment of the borrowers; and
(vi) the recovery phenomenon of bank credit.

This chapter also highlights the problems confronted by both the bankers and the loanees in the rural loan operation.

The important findings and conclusions, emerging out of the present investigation and also suggestions are given in Chapter VIII, titled as "Summary of Major Findings, Conclusions and Suggestions."

1.9 SURVEY OF LITERATURE

The introduction of multi-agency approach has not only increased the number of institutions to provide rural credit, but also widened the scope of studies on rural financing and rural development in the country. In course of the past few decades, several kinds of indepth and analytical studies have been undertaken on the rural credit problems in India. These studies present divergent views on the rural credit problem in the country. However, a general survey of literature produced in the post-independent period either evaluating the role of commercial banks in the rural credit scenario or making a general study on the rural sector with peripheral treatment to the role of commercial banks unfolds one
basic truth that the commercial banks have not played the role expected of them in the restructuring of the rural economy. A review of the available literature lends adequate support to this contention.

The Reserve Bank of India (RBI) conducted a survey in 1951-52. The survey reported that the private moneylenders supplied 92.7 per cent of the credit requirements of the rural people as against 3 per cent by the co-operatives, 3.3 per cent by the Government and a meagre 0.9 per cent by the commercial banks. S.K. Basu's study in the mid fifties also revealed the overwhelming presence of the private moneylenders in the credit scene. He observed that the rural people do not have access to the institutional sources of finance because they are not considered credit worthy.

The RBI Report of 1960-61 found 66.7 per cent of the rural households under debt. The report revealed that these people availed 81.6 per cent of the total credit from the private moneylenders. The study of K.T. Ramkrishna in the early sixties and of Devenport in the late sixties also unfolded the same trend. They observed that the modest loan required by the rural industries are too small for the commercial banks to entertain. Since doing business on a higher scale with large industries is more profitable dealing with smaller clients obviously proves uneconomical and hence, small borrowers do not find favour with them.
The study of A.C. Shah (1961)\(^2\) and the report of the All-India Debt and Investment Survey of 1961-62\(^2\) disclosed the misutilisation of the meagre institutional credit availed by the rural borrowers. Lack of supervision on the part of the institutional credit agencies on the utilisation of the loan has been the main reason for the misutilisation, they observed.

The study of Choudhury and Sharma\(^2\) and Desai and Desai\(^2\) revealed inadequate availability of bank credit to agriculturists. They also observed misutilisation of the bank credit by the agriculturists as there was no supervision of the loan utilisation. Agrawal\(^2\) (1970) and Bhatta\(^2\) (1971) also found in their study the misutilisation of the loan. However, apart from lack of supervision on the utilisation of the loan, the reason cited by them for misutilisation has been the inordinate delay in the sanction and disbursement of the loan.

The study of Singh and Mishra\(^2\) (1971) and Pandey\(^2\) (1972) highlighted inadequate availability of bank credit to the agriculturists. These studies also revealed that the large and medium farmers get preferential treatment from the commercial banks in matters of sanction and disbursement of loan compared to the small and marginal farmers. The survey Report of the National Council of Applied Economic Research\(^2\) (1970-71) and the RBI\(^2\) (1971-72) also found availability of bank loan to the rural people quite insufficient and inadequate.
The study of Rao\textsuperscript{30} (1975), Ganwar and Singh\textsuperscript{31} (1975) and Guruswamy\textsuperscript{32} revealed that the commercial banks apart from providing inadequate credit to the agriculturists, favoured the big and medium farmers in matters of sanction and disbursement. They also found wilful default on the part of the large and medium farmers. The study of Agarwal\textsuperscript{33} (1976) also corroborated the same trend.

K.V.G.Nair\textsuperscript{34} (1978) observed procedural complicacies in the matters of sanction and disbursement of loan. S.K.Basu\textsuperscript{35}, K. Subba Rao\textsuperscript{36} and Singh\textsuperscript{37} (1979) observed that while the commercial banks successfully increased the share of agricultural loan in the total credit disbursed by them, the banks have concentrated more on the big farmers and developed areas in the matters of sanction and disbursement of credit. Singh and Dhawan's\textsuperscript{38} (1974) observation also confirms this trend.

Muralidharan and Pandey\textsuperscript{39} (1979) observed that the number of defaulters was higher among the marginal and small farmers as compared to big and medium farmers. However, their share in the total amount of overdues was very much less compared to the big and medium farmers. Besides, the big and medium farmers were the wilful defaulters. The report of the committee to Review Arrangement For Institutional Credit for Agriculture and Rural Development\textsuperscript{40} (1981) revealed regional variation in the disbursement of bank credit.
The study of Rao and Acharyulu\textsuperscript{41} and Krishna Swami and Kandaswami\textsuperscript{42} (1982) revealed inadequate availability of institutional credit, particularly the bank credit to the rural people. Besides, the meagre credit was found to have been channelled to a few medium and large farmers. The study also found misutilisation of the loan leading to mounting overdues.

Rao's\textsuperscript{43} study on Institutional credit for Rural Development (1983) and study of Pany\textsuperscript{44} (1985) pointed out the availability of bank credit in developed regions was easier compared to the under developed regions and big farmers have better access to the bank credit compared to the small and marginal farmers. Gunasekaran\textsuperscript{45} (1985) also found the same trend in his study. Besides, they found misutilisation and default was more among the big farmers.

M.V.Subramaniam\textsuperscript{46} and M.V.Gadgil\textsuperscript{47}(1986) expressed satisfaction at the role played by commercial banks in rural development. However, they suggested close supervision of the use of bank credit and legislative support to the banks for recovery purposes from wilful defaulters. V.M.Rao\textsuperscript{48} and S.Vasudeva Shetty\textsuperscript{49} also were satisfied at the performance of the commercial banks. But they felt that the banks are showing preferential attitude towards the large and medium farmers. Besides, the banks were found not to have been able to effectively encounter the moneylenders in the rural credit scene. They suggested provision of consumption
credit by the commercial banks. Pandian\textsuperscript{50} B.S.R. Rao\textsuperscript{51} and Sreekantaradhya and Murulasiddappa\textsuperscript{52} also observed the same trend.

K.D. Rao\textsuperscript{53} observed that the bankers are on the verge of falling prey to enticements of easy money to which many functionaries have already succumbed. T.K. Meti and P.S. Mundinamani\textsuperscript{54} observed the presence of the rural moneylenders in the rural credit science for rural development.

Munirathna Naidu,\textsuperscript{55} K. Ravi, Arya Kumar and Deenadayalu\textsuperscript{56}, Hanumappa and Ninan,\textsuperscript{57} Venkata Ramana\textsuperscript{58} I.Satya Sundaram\textsuperscript{59} G. Saibaba\textsuperscript{60}, S.C. Patnaik\textsuperscript{61}, E.Sathyanarayan\textsuperscript{62} and J.P. Singh\textsuperscript{63} have all observed that commercial bank credit has gone in favour of the privileged section of the rural people. The unprivileged poor rely more on the private moneylenders for meeting their credit requirements.

Abdul Aziz\textsuperscript{64} who studied the methodology adopted by commercial banks for District Credit Plan (DCP) found fault in its preparation. He observed that despite clear guidelines from the RBI in this regard, the DCP in most of the cases are prepared on guess work. He found some D.C. Ps. do not reveal the credit requirements of small, medium and large farmers separately. Similarly, the credit needs of the Scheduled Castes and Scheduled Tribes were not shown separately. The credit planners absolved themselves of this responsibility by merely declaring that all the agencies concerned have been requested to see that maximum
priority is accorded to the people belonging to the lower economic strata of the society.

S. Neelakanthan observed that banks lend to the farmers not because it is a sound business practice but because they obey orders. The legislature in their wisdom has directed them to do so and they have no possible alternative than to follow the directions. Banks lend to farmers not on the basis of their needs or repaying capacity but on the basis of the strength of the political patronage of the applicant.

D.K. John and Sunder Singh observed that the bank credit have benefited the medium and large farmers. With regard to recovery the study revealed that the multi-agency approach has brought about a situation where more than one credit agency has claims on the same assets as security. They observed lack of co-ordination among different agencies working in the rural areas. K. Narasimhulu also observed the same trend.

The study of Narasingham revealed a sharp deterioration in the quality of bank credit. The qualitative weakness is reflected in the mounting overdues. He observed that this is partly because banks appear to have abdicated their responsibility in undertaking need based credit appraisal in terms of the potential viability of the activity and the beneficiary to be financed. Secondly the idea of distributing mass loan in loan melas also have adverse consequences on loan recovery.
NOTES AND REFERENCES


11 ibid.


14 ibid.


M.V. Subramaniam. op. cit., p.18.


Dr. S. Vasudeva Shetty. op. cit., p.39.


