CHAPTER – I

INTRODUCTION, NEED AND ESTABLISHMENT OF REGIONAL RURAL BANKS AND DESIGN OF THE STUDY

INTRODUCTION

Development of the rural areas has been receiving constant attention of the Government with considerable emphasis laid on the improvement of the condition of the rural poor. This country has made honest and determined efforts may be with limited success, by introducing Regional Rural Banks.

In India farm incomes did not even meet the most basic requirements of food cloth and shelter due to the non-availability of appropriate and suitable rural banking. The peasants in India had, therefore, to resort to borrowings both for their consumption as well as production needs from village moneylenders.

Whenever rural economy forms the core sector of the Indian economy, rural finance is the economic study of the acquisition and use of capital in agriculture and subsidiary sectors. It deals mainly with the supply of and demand for funds in the rural sector of the economy.
Economic development of villages is a vital part of rural development. Its importance was felt even in historic days by many scholars. Since independence many schemes have been launched for achieving this aim. Investment analysis helps to determine how much capital it will pay to allocate to alternative uses. Financial analysis relating to income, repayment capacity and risk management indicates the total amount of capital. The farm business can be profitably and safely used.

An old scheme which operates with partial success even today, is the village Co-operatives. It aims to provide cheap and quick short term credit for agricultural purposes. Till recently Co-operative banks have played a very insignificant role in providing rural credit. The All India Rural Credit Survey Committee Report well pointed out “Co-operation has failed in India, but it must succeed”. The failure of Co-operative banks is mainly due to the heavy burdens at different levels.

The Co-operative banks are one of the important wings of financial structure in India. It is linked at the top mainly with the RBI and particularly for rural financing with NABARD.

The Co-operative movement in India started towards the beginning of the present century. The Co-operative Societies Act of 1904 provided separate Co-operative Banks for Urban and Rural areas.
The Co-operative movement in India has made rapid strides since independence. Especially the progress during the last three decades has been striking. Started as an agricultural credit movement and it continued to concern itself primarily with agricultural credit activities for many years till the dawn of independence when it received a new fillip and great impetus. The Co-operatives have been, accepted as an instrument to reach the poor and the down trodden in order to improve their financial conditions in all the developing and under developed countries.

A federal three-tier Co-operative banking structure exists in India. State Co-operative banks operating as an apex Co-operative Bank at the State level, Central Co-operative banks at the District level and primary agricultural Co-operative Banks at village levels. The Co-operative Banks provide credit to rural sector for short-term, medium-term and long-term needs of the rural people.

There has been substantial progress in Co-operative agricultural credit, marketing and processing and consumer movement as well. There has been diversification of Co-operative sector during the last 38 years. Even after the lapse of 82 years of its establishment its performance is not considered satisfactory. Mounting over dues is one of the important reasons for the unsatisfactory growth of Co-operative.
The conference of Co-operative ministers of different States in India was of the opinion that stern action should be taken against willful defaulters. To minimize, attention from primary level Co-operative set up and suggested rehabilitation program, to make the village level Co-operative multipurpose service organization. Election of Co-operative Boards, should be held timely in all States.

Lastly, we can say that Co-operative Banks which was introduced in the country at the beginning of century as an institutional agency to provide credit to agriculturists at a cheaper rates of interest and easier terms than what the village moneylenders or the traders charged continued to play very important role to play up to 1969, but it was realized that the demand for credit for modern agriculture cottage industries and small scale industries was of such higher order that it was beyond their capacity to meet.

Hence in order to ameliorate the sufferings of the rural people the planning Commission and many other working groups envisaged the following schemes and programmes.

a) District Rural Development Agency (DRDA)
b) Integrated Rural Development (IRDP)
c) Village Adaption Scheme
d) Differential Rates of Interest Scheme
e) 20- Point Economic Programme

f) Primeministers Rozgar Yozana (PMRY)

g) Self – Help Group (SHG)

h) Training Rural Youth for self Employment (TRYSEM)

i) Differential Rate of Interest Scheme (DRI)

j) Self-Employment for Educated Unemployed Youth (SEEY)

**Government Assistance through Taccavi Loans**

Provision of credit to the rural agriculture people by the Government is called Taccavi loans. These loans are given under land improvement loans act of 1883 and Agriculture loan Act of 1884. These loans are given only at the time of distress such as famine and drought. Due to Governmental redtapism, bureaucracy etc, these loans were not at all popular with the rural people.

Commercial Bank's assistance to agriculturists did not play any significant role in rural credit till 1967. The percentage of Rural Credit in relation to their total credit was quite meagre. In Britain about 4% of national income comes from agriculture and yet commercial banks provide 9.8% of rural credit. In India it is only 9.4% of rural credit. Further most of the bank officers are not willing to work in rural areas. They don't evince keen interest in ameliorating the poverty of rural people. Commercial Banks do not want to take risk in lending money to
agriculturists as the farming operation in India is subject to vagaries of monsoon. Many of the commercial banks in India were considered as a privileged institutions belong to few families.

Hence the central Government decided to nationalise 14 major Commercial Banks in India in 1969. In 1970 Reserve Bank of India circulated the guidelines for financing of agriculture by commercial banks in which the banks were asked to extend "credit not only to already viable cultivators for further increasing their supplies but more importantly to marginal and potentially viable cultivators. Only after this, the nationalised commercial banks started involving themselves with rural credit seriously.

As per the recommendation of the planning commission and other committees the Government has formulated many schemes for rural development to be implemented by Commercial Banks, Regional Rural Banks and the Rural Co-operatives.

Credit is a key element in modernising Rural Economy. The post independence era witnessed a number of epoch making events in the sphere of rural credit. One of these events was the introduction of RRBs in the sphere of Rural Finance on 2nd October 1975 (the birth anniversary of Mahatma Gandhi) the idea of setting up of RRBs was strongly mooted by
the Narashimhan Group. The Group had been for better banking services to the poorest of the poor in rural India through the RRBs, which were conceived to combine the good features of both Co-operatives and Commercial Banks, which had saved the Indian rural community for several decades in the past. Because even after more than six years of their nationalisation Commercial Banks continued to have urban bias and Co-operatives could not provide a changed outlook and dynamic approach in their dealings.

The thought of and approach to RRBs was fascinating in as much as not only the rural semi-urban community will be served by the local banks with rural bias having intimate knowledge of local problems who will be more sympathetic in finding out solutions by providing Co-operatively cheaper funds and simpler terms but also the largest segment of weaker sections will get more personalized services which had unfortunately not penetrated into the nerves of rural banking in the country. RRBs, were also favored as low cost profile banks for reducing the cost of rural credit.

The idea of new rural banks was inspired by considerations of lowering the costs of rural bankings operating such banks with local staff in an environment which the poor people in the villages would find most homely infilicit 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 by this deficiency and work for furthering the development of the rural poor.

The proposal for setting up some sort of rural banks was first mooted by the Banking Commission in its report in 1972. The Banking Commission was appointed by the Government of India in February, 1969 with a view to have a comprehensive review of the structure and operations of Commercial Banks in the totality of the working of the existing credit institutions in India to suggest various measures for reorganising the commercial banking structure for improvement in its functioning.

After examining the record of the expansion of the Commercial Banks activities in the rural areas and their limitations, the Commission expressed serious doubts on the capabilities of commercial banks for giving adequate coverage to the rural sector in the foreseeable future.

In large and complex situation in the field of rural credit in India, there will remain a large gap even after the maximum possible branch expansion has been tried by the commercial banks. This gap was interpreted by the Commission not only in quantitative terms for meeting needs of rural credit but also for spreading banking in all rural areas for developing banking habits in the countryside.
REASONS FOR THE ESTABLISHMENT OF RRBS

Further, the officials of Commercial banks were not willing to work in rural areas. They were totally disinterested in the provision of rural credit as their funds was meagre. They did not want to take risk by providing finance to the rural people whose agricultural operations were subject to vagaries of monsson. Poor collection and low rate of interest rural finance was another reason for neglecting rural people. Besides, the existing Co-operatives institutions are also generally weak due to meagre funds at their disposal, their limited area of operation, much dependence on District Co-operative central Banks for their finance, low amount of share capital etc.,

In this context, it proposed the establishment of a new class of 'Rural Banks' in rural areas. Such rural banks could be created in one of the three possible ways, (i) Converting selected viable agricultural credit society into Rural Co-operative Banks referring a full range of banking facilities as well as certain closely allied non-banking services or (ii) by structuring a good primary agricultural credit society as a subsidiary of commercial bank or (iii) a Commercial Bank setting up its own subsidiary.
A rural bank created in the second and third ways listed here was to be called rural subsidiary bank. In-early seventies, Government of India appointed the Working Group an Rural Banks to review the functioning of the then existing rural credit agencies. This Committee recommended a new type of institution to provide rural credit, namely Regional Rural Banks and these banks came into existence in February, 1976.

**MAIN FEATURES OF RRBS**

The RRBs were started at district levels and were sponsored by public sector banks. From a mere six in 1977, the number of RRBs, has grown to 196 by 1987 functioning in 427 districts with 14461 Branches. These institutions were an innovation in providing banking services to the rural in general and rural poor in particular.

a) The area of operation is limited to particular region consisting of one of more districts.

b) They grant loans and advances mostly to small and marginal farmers, agricultural labourers, rural artisans etc, They also grant loans through Co-operative Societies to their members. They grant loans to non-agricultural purposes to a borrower if his pre-investment annual income does not exceed as 6500 p.a.
c) The salary structure and the employees of the RRBs has been presented by the Central Government, having regard to the salary structure of the employees of the State Government, and local authorities of comparable level and status in the areas of operation of these banks.

d) The share capital of the RRB is made up of 50% from the Central Government, and 35% from the sponsoring bank and 15% from the State Government.

Though these banks have succeeded in extending the outreach of institutional credit to remote areas of the country, since beginning their viability has been a matter of concern for the policy makers viz., the Government of India, RBI, NABARD and sponsor banks. But of the loans provided by the RRB 91% went to small farmers, agricultural labourers and rural artisans. Hence the RRBS have made a significant and commendable progress in two decades. However, most of the RRBs are potentially viable. They may become self-sustainable if support from policy making authorities is continued for some time more.

Lead bank scheme, is the genesis of the Gramodaya Banks in Dharmapuri District. In order to co-ordinate the various schemes that are in force and to effectively implement them in each district, the concept of lead bank scheme was formulated in 1976. The main aim of lead banks is to prepare the district credit plan and annual action plan in
consultation with RBI apex bodies such as NABARD, other participating banks in the District and revenue development officials of the District. A senior official of the lead bank is to oversee the preparation and implementation of a District Credit plan.

As per the lead bank scheme a particular nationalised bank is playing the role of lead Bank in a district. For the purpose of lending to priority sectors, each nationalised bank is having its own arrangement. Indian Bank has created certain cells for the purpose of providing rural credit under priority sector. These cells are called Gramodaya Kendras.

This work is an attempt to study the working and progress of Adhiyaman Grama Bank in Dharmapuri District. There is no special reason to select Dharmapuri District except that it is the neighbouring district for the researcher and the most economically backward district. Adhiyaman Grama Bank has confined its operation in Dharmapuri District only. Having completed its 15th year of successful functioning, the Bank continues to be committed to the noble cause of serving rural poor besides reorienting itself to be commercially viable.

Adhiyaman Grama Bank is having 25 branches, with satellite office attached with Kakadasam Branch and extension counters attached with Dharmapuri Branch spread all over the district of which 21 in rural areas and 4 in semi-urban areas, the bank is becoming a “House – Hold Name” in the district through its missionary approach in all the functions. The
bank has proposed and submitted to sponsor Bank, detailed restructure plan for sustainable viability, which envisages, among other things, not only opening of few more branches in potential centres in the district but also extending its operations to the nearby district viz., Salem, Namakkal and Erode. The Bank awaits clearance from the RBI NABARD for the above restructuring plan in order to go for further branch expansion as the present network of 25 branches is not sufficient to provide commercial viability for the Bank in the long run.

METHODOLOGY:

Thus the Dissertation is both theoretical and statistical. Theoretical analysis is both contributed by statistical evidences wherever possible. The data used in this dissertation are mostly secondary in nature and are collected from the publications of Annual reports of AGB and other related magazines such as SBI monthly review, and journal of Banking and Finance.

PERIOD OF STUDY

This study covers a period of five years from 1995-96 to 1999-2000. As regards the performances of AGB in implementing the various programmes for the welfare of the rural people in Dharmapuri District.
OBJECTIVES OF THE STUDY

1) To study the need for Regional Rural Banks,
2) To study the performances of AGB in respect of Economic Development in Dharmapuri District.
3) To analyse the Deposit mobilisation of AGB.
4) To analyse the Credit policy of AGB
5) To analyse the financial performance of AGB in Dharmapuri District.

CONCEPTS

SMALL FARMERS

According to NABARD guidelines, small farmers is one whose predevelopment net income as per 1979-80 prices is not more than Rs.3400, per annum. A small farmer may be having 2.5 to 5 acres of dryland and 1 to 2.5 acres wetland. A marginal farmer may be having 2.5 acres dryland and below 2.5 acres of wet land. An agricultural labour should have an annual income of below Rs.3500.
RURAL ARTISANS

These artisans are those who want to develop and improve their skill, get raw materials and are able to market their products. The rural artisans are those skilled workers who carry on their activities as cottage industries in rural areas. They include carpenters, blacksmiths, potters, leather workers, hand-loom weavers etc.,

RETAIL TRADERS

Those persons who are engaged in the marketing of goods of daily necessities and those persons who serve the rural community by supplying articles and goods of daily use are called as Retail Traders. They include retail cloth merchants, general merchandise retailers, chemists and druggists etc.

SELF-EMPLOYED PERSONS

All those persons who have technical background and other persons like barbers, tailors, shoe-makers, cycle stores etc.
WEAKER SECTIONS

Weaker sections consists of those persons who strikingly fall below the poverty the prescribed standard or are placed at the lowest level of the society. They include SC, ST and small and marginal farmers.

OVER-DUES

The amount which was due on a particular date, but has not been repaid by that date is called overdues. A part of the outstanding becomes overdues, if not recovered within a specified time.

DIRECT AND INDIRECT CREDIT

In agricultural direct financing, credit is provided directly to the farmers for productive purposes, but in indirect financing, credit is not given directly to the farmers, but to the institutions engaged in the supply of production inputs and other services to agriculturists. Direct credit includes crop credit, land improvement, irrigation, purchase of implements, machinery and equipment, development of plantations like tea, coffee, rubber, coconut, cashewnut etc., Indirect credit includes financing for distribution of farm inputs, PAS, FSS, Co-operatives marketing societies, financing for RRBs etc.,
SHORT-TERM CREDIT

It is granted for periods ranging from 6 to 18 months and are primarily meant to meet seasonal requirements such as seeds, fertilizers insecticides, hiring of labours etc. It is expected to be repaid at the time of harvest.

MEDIUM-TERM CREDIT

It generally ranges from 2 to 5 years and they are for purposes such as, land improvements, purchase of implements, machinery, livestock etc.,

LONG-TERM CREDIT

Long term credits are generally granted for periods longer than 5 years and extending up to 10 years and in some cases 20 years. Such credit is granted for making permanent improvements on land like reclamation and bunding, sinking of wells, construction of farm house, cattleshed, purchase of land etc.,

TARGET GROUP

It includes small and original farmers, artisans, agricultural labourers living in rural and semi-urban areas.
NON-TARGET

People of SC, ST and landless agricultural labourers, petty traders and artisans are included in this group.

SCHEME OF CHAPTERS

The first chapter consisting of introduction, need and establishment of Regional Rural Banks and Design of the study. Under the Design of the study, methodology of study, period of study, objectives of study, Concepts and scheme of chapters are given.

The second chapter envisages the constitution, working and progress of Adhiyaman Grama Bank.

The third chapter emphasizes the role and problems of AGB in the economic development of Dharmapuri District.

The fourth chapter deals with analysis of deposits and financial performances of AGB in Dharmapuri District.

The fifth chapter contains the summary of findings and recommendations for improving the performance of Adhiyaman Grama Bank Dharmapuri.