CHAPTER I

INTRODUCTION

India is a land of villages. About 525 million people live in some 575,936 villages and according to the 1981 Census, the rural Indian population constitute 76.69 per cent of the total population. This figure, when extrapolated based on the past trend and adjusted to the average population growth rate at the rural side, during the decade 1981-91 would work out to 61 crores.

More than 50 per cent of this rural population still—even after four decades of Independence—suffer from abject poverty and the total number of poor people has been increasing at least 5 million a year due to population growth, not proportionately matched by economic growth.\(^1\) They lead a life of perpetual misery, with heavy indebtedness, and restricted mobility.\(^2\)

These weaker sections of the rural Indian Society which are economically handicapped, socially suppressed, and financially deprived, comprise mainly of small and marginal


farmers, landless agricultural labourers, traditional artisans, of the backward community besides the Scheduled Castes, Scheduled Tribes and Hill Tribes.³

These poor villagers are beaten up constantly and consistently by the vicious circle of poverty. They are constrained by the socio-cultural expenditure, so peculiar, yet forceful to the Indian society ridden with traditional beliefs. As a result they always lay buried under the burden of indebtedness caused by the greedy but tempting local money lenders.

Indian history bristles with ample evidences about the nefarious role of the usurious money lenders in the absence of a rurally oriented banking system. It is well known that the 'Indian farmers are born in debt, brought up in debt, live in debt, die in debt, and bequeath debt'. The Royal Commission on Agriculture in India noting the grim fact observed that "the most powerful obstacle in the path of rural development and the most crushing burden on the people is indebtedness."⁴


The planners, economists, and the central monetary authorities could, therefore, never lose sight of the strategic role of agriculture and the agro-based activities in the rural areas and the need to provide for a rapid, balanced and self-reliant pattern of rural development, besides relieving the villagers from the burden of indebtedness. Hence, the case for developing a well organised banking system, and to evolve a suitable credit structure to meet the needs of the villagers was strongly felt. The market forces themselves could not facilitate the evolution of a suitable rural banking system and a rural credit structure in a situation of vicious circle of poverty and subsistence agriculture with low productivity prevailing in the backward areas.

The three-tier co-operative structure, viz., the State Co-operative Banks (SCBs), the District Co-operative Banks (DCBs), and the Primary Agricultural Credit Societies (PACs), as a largest comprehensive single agency with an exclusive motive of serving the rural credit needs were introduced. They made some contribution towards this end by spreading their operations throughout the length and breadth of the country.\textsuperscript{5}

The commercial banks were also asked to move away from the security-oriented lending to purposive, productive, and income-generating lending and to play a catalytic role in the development of rural areas and the rural poor.

Despite their (the co-operative societies, and the commercial banks) physical growth and geographical coverage, the commercial banks suffered from organisational gap, personal difficulties, urban-oriented and urban-biased high cost of operations, and lack of knowledge of the rural field. The co-operative societies, on the contrary, were problem-ridden with political gymnics, local power politics, casteism, self-centred attitudes, ills of bureaucracy, and lack of committed leadership to motivate the target group.6

The central monetary authorities and the Planning Commission were giving constant attention to rectify the structural, organisational and operative deficiencies and weaknesses of these institutions, so as to ensure that the system of rural credit provides for accelerated growth of the rural economy and greater equity in the distribution of credit. They were, therefore, on the lookout for an institution with a rural bias, having men with the knowledge

of the rural people, their needs, aspirations, avocations, and constraints and who could fit in well in the rural banking system, economically, operationally and emotionally. The result was the birth of the Regional Rural Banks (RRBs) in 1975.

The Regional Rural Banks were set up in India in 1975 under the Regional Rural Bank Ordinance, following the recommendations of a Working Group, headed by Narasimhan. They are scheduled commercial banks governed by the Regional Rural Banks Act, 1976. They are state-owned, regionally based, and rurally oriented organisations with the main objective of serving and developing rural economy by providing the finance for agriculture, trade and commerce, and other productive activities in the villages, credit and other facilities to small and marginal farmers, agricultural labourers, artisans, small entrepreneurs, and other labourers in the rural area. Their main task is to implement the Integrated Rural Development Programme (IRDP), develop the productive activities of the villagers, create capital assets, and generate a perpetual income such that the targeted groups below the poverty line are lifted up with a sustained growth rate so that the vicious cycle of
poverty is broken, and a cycle of recovery started. The RRBs are expected to combine the best features of both the commercial banks and the co-operative banks.

The RRBs have since completed one and a half decade of existence and have spread to the length and breadth of the country, covering 21 States and 2 Union Territories with 196 branches. Only three of them are functioning in Tamil Nadu viz., the PANDYAN GRAMA BANK, sponsored by I.O.B., the ADHIYAMAN GRAMA BANK, and the VALLALAR BANK, both sponsored by the INDIAN BANK.

THE PROBLEM FOCUS:

Despite the physical progress shown by the RRBs, their performance remained a subject matter of controversy. Many committees were appointed, the latest being that of the Working Group headed by Kelkar in 1986, to study their working. The viability of the RRBs has become a point of concern in view of the continued losses incurred by them. While some of the RRBs have eroded their entire share capital, a few have more than 50 per cent of share capital. Over 92 per cent of the branches of the RRBs have gone red cumulatively over the years and even the few well run branches have started to register a rapidly declining trend.7

The mounting overdues, the pressure of operating cost on revenue, and the recommendations of the National Industrial Tribunal (NIT) for the implementation of pay scales of RRB employees on par with those of commercial banks will further erode into their profitability and make the problem of viability under the present norms highly critical. The trend has to be arrested, and a solution found for the problem.

The Adhiyaman Grama Bank is the one located in the remote, backward, hilly district of Dharmapuri in Tamil Nadu. As such it is exposed to all the infrastructural difficulties. It has a lion's share in the Integrated Rural Development Programme of the District. Hence this has formed a suitable ground for analysing the performance of RRBs, their problems and prospects in a backward district. As the area comprises of a chronically drought zone, hills, forests, and fertile lands capable of clear branch-wise demarcation it could form a good sample and the results of the analysis are capable of being applied elsewhere in the country at the appropriate areas. It is in this context an attempt was made to study in detail the performance of the Adhiyaman Grama Bank, its problems, prospects and viability
in serving the rural areas, especially the rural poor, the hill tribes, S.Cs. and S.Ts., and to suggest a structural model for serving rural development.

THE PERSPECTIVE:

The specific objectives of the study are:

(i) To study the profile and performance of the Regional Rural Banks in India with reference to selected parameters:

(ii) To evaluate the operational efficiency and viability of the Adhiyaman Grama Bank as a rural banking institution with reference to specific variables like branch expansion, deposit mobilisation, advances made, Overdues, C.D. Ratio, and profitability.

(iii) To analyse the impact of the credit support of the Adhiyaman Grama Bank to the weaker sections on increase in income and employment generation through Integrated Rural Development Programme assistance.

(iv) To suggest measures of improvement, and to develop a structural model to enhance its operational efficiency.
THE PROCESS:

The study is based mainly on the secondary data culled out from the various reports and records of the Regional Rural Banks, the National Bank for Agriculture and Rural Development, the Reserve Bank of India, the District Statistical Office, and Journal of Social and Management Sciences. However, the impact of their performance on the target group is analysed through primary data. For this purpose a carefully prepared and pre-tested schedules were used and replies obtained from among the randomly selected sample respondents—who are beneficiaries, employees, and those directly or indirectly connected with the rural banking system—on a systematic basis. Both the primary and secondary data were then analysed conventionally and functionally, using statistical tools such as Ratio Analysis, Correlation, Percentages, Trend Analysis, Gini Ratio and Variance Analysis. Diagrams and Charts are also used to highlight the points. A structural model in the light of the 'Kundrakudi Experiment' for rural development attempted by Thavathiru Kundrakudi Adigalar at Kundrakudi in Pasumpon Thevar Thirumagan District (the then Ramanathapuram District) in Tamil Nadu—wherein the overdues are nil, near full employment is attained, an allround economic progress achieved—has been developed.
The Scope and Limitations:

The study covers the performances based on selected parameters. Only major performances are covered. However, specific attention is given on viability aspect of RRBs. The impact on social gain is assessed in terms of credit support on selected Integrated Rural Development Programmes. Limitations of secondary data which are processed by two different organisations viz., NABARD for RRBs and Reserve Bank of India for sponsor banks and recall bias in primary data were the real problems that were solved with extreme care to check the possible deficiencies.

THE PRESENTATION:

The study will be presented in the following five chapters.

The First Chapter--INTRODUCTION--deals with the need for the study, the problem focus, the objectives, the scope and limitations.

The Second Chapter--CONCEPTS AND REVIEW--reviews the various concepts used, related literature and past studies, besides throwing light on the role and importance of rural finance in promoting rural development.
The Third Chapter—MATERIALS AND METHODS—deals with the rationale and the profile of Regional Rural Banks in India, and Adhiyaman Grama Bank, Dharmapuri to provide a broad base to the study together with a profile of the region. It also covers the methodology adopted and the various tools used for analysis.

The Fourth Chapter—ANALYSIS AND DISCUSSION—covers the detailed analytical study about the performance of RRBs in India in general and Adhiyaman Grama Bank in particular with reference to selected parameters and results presented. A structural model developed for increasing the efficiency of RRBs, based on the analysis, is also presented in this chapter.

The Fifth and Final Chapter—SUMMARY, CONCLUSIONS—provides a resume of the results of the study besides outlining the policy options.