CHAPTER II

CONCEPTS AND REVIEW

As the conceptual clarity is a sine qua non of any study, the understanding and appreciation of the concepts imperative, the literature connected with the topic were reviewed. Since the RRBs are located in rural areas to serve the rural population by providing credit support to the weaker sections of the society and to bring about rapid economic transformation of the rural areas, a review of literature on rural development, rural poor, rural poverty, rural credit and the role of rural banking has been made.

RURAL DEVELOPMENT:

A working definition of rural development was conceptualised by Ankar referring to the strategies and programmes for developing the rural areas and the promotion of activities such as agriculture, fishery, forestry, rural handicrafts, and the development of social and economic infrastructure in the rural areas.¹

Rao referred rural development as a comprehensive coverage of social, economic, and cultural aspects of rural life.²

A World Bank Sector Paper on Rural Development has defined rural development as a strategy designed to improve the economic and social life of a specific group of people—the rural poor.³

Sulabha Brahme stressed the scientific management of resources and linking it both to agriculture and non-agriculture sectors in the region as twin important aspects of rural development.⁴

The World Bank Report defined rural development as a strategy designed to improve the economic and social life of the rural poor.⁵

---


⁴ Sulabha Brahme and P. Kumund, "Regional Planning--A Case Study of Marathwada Region", ARTHA VIJNANA Vol.XXI, No.275, p.171.

Parida, however, viewed rural development as a process of structural changes leading to increased employment and output in the rural sector.\(^6\)

Parthasarathy classified the aspects of rural development into four elements, namely,

(i) Basic Needs;
(ii) Full Employment;
(iii) Local Participation; and
(iv) Micro level planning.\(^7\)

According to Johnston and Blanke, the objective of the new approach to rural development is to reduce, and eventually to eliminate acute poverty.\(^8\)

Lele viewed that rural development as a means to improve the living standards and conditions of the rural mass belonging to low income groups and enable them to sustain the development.\(^9\)

---


Rajagopalan described rural development as a process by which the life of the rural people was sought to be improved through higher income, higher employment, and better health, sanitation, education, and recreation. 10

According to Blair the essential elements of rural development are the administrative leadership from the Government, co-operative structure, enough investment of monetary resources through credit and subsidy, besides the development of local managerial skill. 11

In the context of rural development Mahatma Gandhi opined that economic revival of the villages is possible only when the rural folks are no more exploited. Self-sufficiency of the villages should be the main aim, and with this end in view, industrialisation and modernisation of them are not objectionable. 12

10 V. Rajagopalan, **RESOURCES USE PLANNING FOR INTEGRATED RURAL DEVELOPMENT IN DHARMAPURI DISTRICT**, (Coimbatore, Tamil Nadu Agricultural University, 1976), p.192.


Rao observed that the Indian approach to rural development has only a short-term view with low cost strategies. In planning and growth this is evident in sectors other than agriculture and allied activities, and in planning for needs, it is reflected in the primary emphasis on relief and support, rather than on complementary growth and participation.\textsuperscript{13}

While stressing the need for programmes suited to local needs, the Fifth 5 Year Plan pointed out that from the point of view of both sufficiency as well as equity, it was not desirable to mechanically impose the hierarchy of programme priorities determined at the national level and state level without taking into consideration the peculiarities of the different areas in terms of the level of development of physio-geographical conditions, resources potential, and the coverage of quality of economic and social life.\textsuperscript{14}


\textsuperscript{14} Fifth Five Year Plan (1969-74) Government of India, Planning Commission, New Delhi, 1969, p.3.
While emphasising the Minimum Needs Approach Planning for Rural Development, Grover stressed the aim of providing a basic infra structure for a certain minimum benefit to the poorer sections, and to the backward areas.\textsuperscript{15}

The review of the above definitions of rural development leads to the conclusion that no real rural development is feasible unless all aspects of rural economy with special emphasis on the upliftment of the rural poor is tackled such that their purchasing power and standard of living are increased so as to provide a saving, and the consequent capital formation.

\textbf{RURAL POOR AND POVERTY:}

The main role of the RRBs is to serve the target groups of poor villagers through an adequate provision of credit facilities. Therefore, the literature connected with rural poor and poverty has been reviewed below.

Misra identified the poor under three categories viz., social status as indicated by caste or community, educational status and income as indicated by literacy

standards and level of per capita income, and property status based on the ownership of movable and immovable assets.\textsuperscript{16}

According to Dandekar and Rath rural poor consisted predominantly of agricultural labour households and small land owners with cultivable areas of two-and-a half to five acres. These groups also include the village artisans thrown out of their traditional employment due to changes in village atmosphere.\textsuperscript{17}

Joshi also expressed similar views.\textsuperscript{18}

The World Bank Study noted that the farm workers and landless were among the poorest members of the community.\textsuperscript{19}

The Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development


\textsuperscript{17} V.M. Dandekar and Nilakanta Rath, "Poverty in India, Dimensions and Trends". \textit{ECONOMIC AND POLITICAL WEEKLY}, 6(1): 25, 71.


(CRAFRICARD) identified the poor with assetless group of households consisting of small farmers, marginal farmers, agricultural labourers, and rural artisans. Overlapping with these economic categories were the socially disadvantaged, and backward classes namely the scheduled castes and scheduled tribes.\textsuperscript{20}

Yadav considered a person as poor if he was living in conditions of insufficiency of basic needs namely food, shelter, and clothing.\textsuperscript{21}

Desai observed that the word poverty, in the absolute sense, referred to a condition of acute physical want, starvation, malnutrition, disease, want of clothing, shelter, education, and almost total lack of medical care.\textsuperscript{22}

The Planning Commission has adopted the following definition of poverty: In the Sixth Plan (1980-85) a daily intake of 2,400 calories per capita in rural areas, and

\textsuperscript{20} Reserve Bank of India, "REPORT OF CRAFRICARD" Bombay, 1981, p.16.

\textsuperscript{21} R. Yadav, "ERADICATION OF RURAL POVERTY IN CHINA--A LESSON TO INDIA", (Bangalore: Indian Institute of Management, 1980), p.3.

2,100 calories in urban areas, corresponding to a consumption expenditure of Rs.65 per capita per month in rural areas, and Rs.75 per capita per month in urban areas has been adopted to define the poverty line. This per capita consumption expenditure is based on 1977-78 prices. Between 1977-78 and 1984-85 the average cost of living index of agricultural labourers had gone up from 323 to 515. Accordingly the corresponding consumption expenditure is Rs.104 per capita per month in rural areas. In terms of the total value of assets of less than Rs.6,400 in 1983-84 compared to Rs.3,500 in 1977-78, Rs.2,500 in 1971 and Rs.1,000 in 1961 for defining the poor households will have to adopted.\textsuperscript{23}

However, the criteria adopted in the Seventh Plan for the poverty line stressed that a family having an income of Rs.6,400 or less should be considered as below the poverty line and under the Integrated Rural Development Programme (IRDP), the target group would be assisted to reach this amount of annual income level. It was also emphasised that first priority for assistance should be given to those with an annual income level upto to Rs.3500\textsuperscript{24}

\textsuperscript{23} Ibid., p.375.

While Appu,25 and Ahluwalia26 focussed their definition of poverty towards subsistence level of food, clothing and shelter, Das Gupta,27 and Subramanian28 stressed the nutrition levels and consumption levels of the rural poor.

Varadarajan, however, observed that poverty could be estimated in terms of degree of inequality.29

According to Murdock the condition of poverty was created because the poor were denied access to productive


resources resulting in unemployment, underemployment, low wages, and low income to those who work.\footnote{30}

Pant concluded that the concept of poverty was somewhat wider and included not only those who were unemployed, but earned very little because of low productivity and low wages.\footnote{31}

For the present study poverty was defined as a condition where a person was deprived of any one or combination of the factors like income, employment, productive assets, and social factors like education, health care, and sanitation necessary for a minimum standard of living in a particular locality and the poverty line as the annual income level of Rs.6,400 per household at 1984-85 prices as fixed under the Seventh Five Year Plan and IRDP guidelines.

**ROLE OF BANKING IN DEVELOPMENT AND PROVISION OF RURAL CREDIT:**

The basic aim of setting up of Regional Rural Banks was developing the rural economy by providing credit for the development of agriculture, trade, commerce, industry and other productive activities in rural areas and to build and maintain an image of small man's bank. They are to confine their credit facilities to the target groups,


viz., small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs for productive activities. They are intended to eliminate money lenders altogether, and become the primary agency to provide institutional credit in rural areas. In this context a review of banking institution's role in the provision of rural credit for rural development and the role of Regional Rural Banks in bringing about the targetted goal had been made.

It is no gain saying the fact that there had been many and divergent views prevailing with regard to the role of banks as an engine for economic development. According to Abdi the direct contribution of financial institutions to economic growth is insignificant. It has been estimated that financial structure contributes only 0.5 to 1.0 per cent of the GNP in the mature market economies. In the case of developing economies, where the services offered by financial institutions are often fewer and far less sophisticated, the contribution of financial institutions is estimated to be less than 0.1 per cent. Hence the meaningful role of financial institutions in economic development is intrinsically indirect.32

Tannan observed that banks as financial institutions have a crucial role to play in economic development. Even if they are not directly concerned with the initiation, implementation, and evaluation of development programmes, banking institutions constitute a powerful tool in implementing the development programmes.\(^{33}\)

Literature on banking bristles with ample evidences of controversial views over the role of banks in economic development and covers a wide range from postulating that of financial development as a prerequisite of economic development, to that of holding the view that it is neither necessary nor a sufficient condition of economic growth as well.

According to Schumpeter it is entrepreneurship that initiates the process of economic development, while the banks provide the innovative finance for the new credit creation. Economic development, therefore, is a spontaneous, discontinuous, and internally generated change.

arising automatically out of the permutations and combinations of various factors of production which include finance with equal force.\(^{34}\)

Simha observed that in a developing country particularly the central bank must play its part not only in maintaining stability but also in facilitating high economic growth, full employment, regional and rural economic development, through the creation of an adequate institutional machinery for channelising credit, with a modest refinancing by the central bank.\(^{35}\)

Gurley postulated the inherent weakness of finance as a vehicle of economic development and doubted the necessity of development of financial institutions for growth. He observed that recent experiences strongly suggest that banking system as intermediaries is not highly essential for the growth process.\(^{36}\)


Saraiya observed that the banks, by themselves, will not solve all the problems of the country, but can play a significant role in the country's development, if properly supported by the other sectors of economy.37

Narayanaswamy observed that it is easy to go on enlarging on abstract concepts of classical and modern banking, on the lines that divide credit offering and money lending, on differential interest rates, on deposit-advance ratios, on credit-starved sectors of the economy....and plough the arid sands of pointless polemics in blissful oblivion of human shortfalls and man power utilisation difficulties. The major problems of Indian banking are fast assuming Frankensteinian magnitudes and have to be dealt with in their appropriate priority............Structural changes and reorganisation may not yet solve such problems. By failing to look at a problem, we have found in the past, the problem did not fade away, but only assumed menacing proportions.38


Desai viewed that banks played a key role in rural development. Wealth is created as a result of the application of human effort, which includes the passive and active efforts. The bankers who conceive rural development, plan it in all its details, mobilise the material and human resources for the projects, and benefit by the integrated development of the command area of their operations. The characteristics of banking are knowledge, vision, meticulous micro level planning, drive, dynamism, and translation of the plan into a reality.\textsuperscript{39}

Thingalaya felt that commercial banking in India as an urban based industry which grew in insolation with rural economy.\textsuperscript{40}

The Expert Committee of the Finance Ministry had expressed that the field of rural credit is so varied and complete, the area of unsatisfied demand so large, there

\textsuperscript{39} Vasant Desai, "\textsc{RURAL DEVELOPMENT VOL.\textsc{i}}", (Bombay, Himalaya Publishing House, 1988), p.19.

is always scope for experimentation and innovation for evolving new schemes for effective dispensation of credit. 41

According to Raman the credit policy was primarily concerned with current economic situation and was aimed at rectifying distortions in credit flow in the short run. On the other hand credit planning has wider time horizon, larger connotations, and proper distribution of sectoral and regional flow of credit but has to be related to the contemplated investment planning, and to the projected product mix over a plan period. Thus a meaningful resource mobilisation programme and a plan for purposeful and equitable distribution of credit among different sectors/regions of the economy in accordance with the priorities laid down in the Five Year Plans, is the essence of credit planning. 42

Hardikar observed that banks were not following liberal credit policy in the matter of advances to agriculture and rural sector industries. The Chairman, and

---


directors of banks were mostly industrialists and many of them were interested in sanctioning large advances to the industries with which they were connected.\textsuperscript{43}

Iengar expressed that he was not particularly excited by bank nationalisation, but apprehended the extent to which these sensitive financial institutions might be influenced by political factors. He was particularly apprehensive about the large advances in rural areas. He recalled the euphoria in government circles after nationalisation. The targets set for agricultural credit was achieved but in the process several banks burnt their fingers.\textsuperscript{44}

Srinivasan and Saravanavel concluded that the National Bank for Agriculture and Rural Development (NABARD) had initiated several steps to accelerate the flow of institutional credit to the rural and village industries sectors. However, the process of organisation and development of non-farm activities in rural areas are gigantic and complex in nature. The flow of credit to rural areas and their viability are constrained by:

\textsuperscript{43} V.K. Hardikar, and H.L. Bedi, "PRACTICAL BANKING ADVANCES", (New Delhi, Institute of Banking Studies, 1975) p.5.

\textsuperscript{44} H.V.R. Iengar, Seminar Paper on Reform of Indian Banking System, Madras, 1972.
i. Proper integration of promotional programmes with other areas, especially IRDP areas;

ii. restructuring of organisational base at the district level to make it more effective and result-oriented;

iii. strengthening and expansion of co-operative form of organisation; and

iv. the overdues, both natural and unnatural, caused by socio-economic and political considerations. 45

Sridhar observed that the provision of banking facilities in all parts of the country, both urban and rural, and all segments of the community—industry, agriculture, and the rural poor—became the major objective, and therefore, the 'Profit goal' was tempered with 'social gain'. Performances of commercial banks, particularly the public sector banks, came to be judged on the basis of the twin objectives of profitability and social gain, and the latter objective often engulfing the former objective in the rural sector. 46


VIABILITY:

Raman expressed the view that with the present statistical base, and the varying nature of the various ratios and their relationship not remaining constant with time horizon, it is difficult to have sophisticated formulae to determine the cost benefit analysis, but it would suffice to go on broad considerations of adequacy and see how the existing credit can be fairly apportioned on grounds of equity, economy, need and efficiency. However, the assistance that is provided, whether to the priority sector or to the organised sector, should be need based consistent with the relevant economic viability of the respective proposition being financed.47

Vijapurkar, quoting from the Report of the Economic Research Department of the State Bank of India, pointed out that none of the aspects like knowledge of work, interest, and availability of infra structure were given due importance in the scheme for providing Self Employment to Educated Unemployed Youth (SEEUYP). It was also observed that although some ineligible applications are returned to the District Industries Centres (DIC), the bank's branches

cannot send back many applications even if they are not found to be viable as often outside pressures are used to sanction loans.\textsuperscript{48}

Radhasamy asserted that banking has to emerge as a viable and not 'a subsidised means' of achieving the national policy objective. In recent years the operational cost of banks have increased considerably. On account of mass recruitment there is considerable deterioration in the quality of service and productivity of the staff. A time has come for the banks to take steps to improve their efficiency and profitability. Only then can they undertake more and more promotional responsibilities. It is only by giving attention to these two factors the banks can turn social investments into economic investments.\textsuperscript{49}

Saraiya emphasised that the system of primary agricultural co-operative societies (PACs), subsidised by the Central Co-operative Banks, which in turn are subsidised by the State Co-operative Banks, have to play a leading role


in the development of the rural economy. The commercial banks with highly paid staff and heavy overheads cannot be viable, nor are they suited for the role.\textsuperscript{50}

While analysing the cause for overdues of bank advances at the rural branches Rajeswari viewed that the continuous raising of prices not adequately supported by the timely increase in income level is a severe blow to the already depleted economy of the rural poor. The effect is more keenly felt by the poor in rural areas since the consumer price index of the basic items are the same both at the rural and the urban areas, while income levels at the rural areas are disproportionately low compared to urban areas.\textsuperscript{51}

On account of their limited scale of operation and the concessional rate of interest charged by the Regional Rural Banks to their borrowers who are essentially from the lower strata of the society, observed Thingalaya\textsuperscript{52}, the viability of the RRBs is a difficult proposition. However, the overall performance of the RRBs are found to be somewhat better than that of the Commercial banks.


According to Sankaranarayanan the RRBs are not viable in their very nature on account of the fact that they can come up mostly in areas which are unbanked or underbanked, and that their lending is confined to the target group consisting of small borrowers engaged in various economic activities in semi-urban and rural areas, and the lower interest rate charged by them.\(^53\)

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFRICARD) was of the opinion that unlike their sponsor banks the RRBs do not enjoy the advantage of cross subsidisation. So their poor performance, and the Committee suggested that financial viability cannot be the sole criterion for evaluating the performance of the RRBs.\(^54\)

Sankaranarayanan stressed the point that RRBs set up in areas which are fairly developed with good business potential have done well notwithstanding inherent disadvantages that have not been highlighted.\(^55\)


\(^55\) V. Sankaranarayanan, Loc. cit.
According to a study conducted by the Reserve Bank of India, it was found that 99 per cent of the branches of the RRBs were located at unbanked centres with 'Lone Offices'. The business potential of these single offices of commercial banks located in well banked states was higher than those of backward states. So RRBs are doubly handicapped in that many of their offices are 'lone', located in regions with no business potential.  

The branches of RRBs have shown a tendency to improve over a period of time. This can be gauged when a comparison is made between the banks established before 1980 and those that were established after 1981. RRBs that were established before 1980 have been able to consolidate their position as the deposits per branch was uniformly higher. Given time the RRBs, said Wadhwa, would be quite successful in identifying the target groups and in taking care of their requirements.  

Sekar was of the view that to make rural banks viable, they should not have any ceiling on the borrowing

---


power, their financial resources should be augmented by getting a larger share from the National Agricultural Credit (Long term operations) Fund. RRBs should be allowed to offer a somewhat higher rate of interest than those offered by their sponsor-banks and to have Deposit Insurance and Credit Guarantee Cover be extended to them. He also suggested that Regional Rural Banks should be given concession by way of cost-free remittance facilities and training facilities for personnel or even services of men on a loan basis at a subsidised cost in the initial years.58

According to Vasudevan the RRBs have not shown the progress that was expected of them. They have deviated from their orginally conceived scheme and approach to problems of rural credit needs. They are supplementing the functions of the public sector banks. They are not very much different from the co-operative banks already existing in rural areas.59

REVIEW OF PAST STUDIES:

Past studies which have a direct relevance or indirect bearing on the performance of Regional Rural Banks


59 V.S. Vasudevan "THEORETICAL ASPECTS OF RURAL BANKING", (New Delhi, S. Chand & Co., Ltd., 1933) p.124.
were reviewed to get a comprehensive picture of the problems and prospects. As one of the objectives of this study is to analyse the performance and prospects of RRBs towards Integrated Rural Development Programmes and other schemes for serving the rural poor a few past studies on such schemes and their impact on the beneficiaries were reviewed so as to have the necessary impact on the issue. While many evaluation studies had been conducted by individual researchers and institutions with varied coverage of areas and the number and type of beneficiaries with reference to rural development programmes, only a few studies are done in the field of RRBs by individual researchers and they are covered at the end of this chapter. The relevant observations in some of the past studies relating to rural development programmes and their impacts on beneficiaries, rural credit and rural banking are given below:

According the Reserve Bank of India the percentage of beneficiaries who received the incremental income on the implementation of IRDP was 51, the percentage of beneficiaries who could be lifted up the poverty line was only 17, and the percentage of ineligible beneficiaries who received assistance was sixteen.60

---

The NABARD, the apex body of the RRBs, noted that the percentage of beneficiaries who received incremental income was 82, the percentage of beneficiaries who crossed the poverty line with assistance was 47, and the percentage of ineligible beneficiaries who received assistance was fifteen.  

The Study organised and conducted by the Department of Rural Development in 1986 with reference to Integrated Rural Development Programmes in 22 States and 9 Union Territories indicated the following results:

Beneficiaries who have received incremental income : 76 per cent

Beneficiaries who crossed the poverty line (Poverty line Rs.3,500) : 52 per cent

Beneficiaries who crossed the poverty line (Poverty line Rs.6,400) : 12 per cent

Ineligible beneficiaries who received assistance : 9 per cent

Beneficiaries who repaid loan ;fully : 45 per cent

According to a study conducted by the State Bank of India on the impact of IRDP 37.5 per cent of the sample beneficiaries were financed for allied agricultural

---


activities, followed by 34.5 per cent for agriculture, 23.5 per cent and tertiary sector, and 4.5 per cent only for village and cottage industries. The average investment was Rs.4,197, the average subsidy provided was the lowest at Rs.539 at Goa, the highest was Rs.1,377 at Chamoli. In 85 per cent of the cases the assets created with IRDP assistance through the Bank were found to be really in the possession of the beneficiaries. On an average the number of mandays created increased by 78 per family, and the average annual incremental income per beneficiary was Rs.637 in agriculture, Rs.1,267 in allied agricultural activities, Rs.2,255 in village and cottage industries. The average monthly expenditure increased by 33 per cent. However, only 31 per cent of the families belonging to the target group could cross the poverty line.63

According to Rao the distribution of gain through the programmes of Regional Rural Banks was positively associated with the assets either owned by them or created by the loan to the beneficiaries such as milch cattle to agricultural labour in unirrigated areas. When the same

agricultural labourers were provided with cash loan for small business purposes the rate of return was too low.64

Dinagar and Singh, on a study of income viability due to SFDA Project found that a viable farmer, capable of repayment of loan, is one whose net farm income received by subsidiary occupation was sufficient to maintain himself and his family. Thus the viability had been judged on the basis of average agricultural income on the one hand and the consumption expenditure per household on the other. Further the composition of income and expenditure was more on small farmer in comparison to marginal farmers and the composition of farm expenditure was 51 per cent of the total income for small farmers and 31 per cent on the marginal farms leading to poor repaying capacity of the small farmers.65

George while analysing the strength and weaknesses of the scheme of loans sanctioned by the RRBs in granting loans in areas where there are no irrigational facilities observed that the maximum number of defaulters was from sheep rearing scheme. Lack of veterinary


facilities, high mortality rate of sheep, and inadequate marketing facilities were some of the major reasons identified for poor recovery of loans.  

Paul held the view that the poverty alleviation programmes of the Sixth Plan, on the whole, had performed poorly resulting in heavy overdues in RRBs. According to him only intermediary organisations like Dairy and Poultry Co-operatives, Handloom co-operatives with a capacity to create and sustain the necessary market and technical linkages were only likely to succeed in the long run. It was no surprise that the District Rural Development Agencies (DRDA), which did not act as intermediary organisations in the above sense were unequal to the task.  

Reviewing the progress of target groups under development programmes Mishra maintained that economic viability is the earning capacity equivalent to the prevailing per capita income and indicated that each


household should be given a package of activities that would enable it to become economically viable. 68

On a study of motivational patterns of the beneficiaries of RRBs's assistance, Muthayya et.al., found that the basic obstacles for the progress were lack of resources in terms of money, assets or services. Some of them indicated problems like official corruption and delay in getting loans. 69

The working of the Regional Rural Banks was reviewed in 1977 by the Dantwala Committee which concluded that the RRBs have a potential and capability to attain financial viability at a level of business of about Rs.3 crores which be reached in less than three to four years. The Committee also felt that a RRB will have to do a slightly higher than a business of Rs.3 crores if it is to earn profit to build up efficient credit delivery and supervision system and required bad debt and other reserves. 70

68 B.P. Mishra, Target Groups and Regional Development" (Ed.) in P.R. Brahmananda, INDIAN ECONOMIC DEVELOPMENT AND POLICY, (New Delhi, Vikas Publishing House, 1987) p. 287

69 B.C. Muthayya, et.al., "Motivational patterns of Beneficiaries of RRBs in Gujerat, Karnataka & Rajasthan", JOURNAL OF RURAL DEVELOPMENT, VII (5): 472.

70 Reserve Bank of India, REPORT OF THE REVIEW COMMITTEE ON RRBs, (DANTWALA COMMITTEE), p. 68.
The Steering Committee on RRBs suggested in 1979 a quick study as to why a few branches alone could reach the loan target of Rs.3 crores despite many being in operation for more than three years. The study could not lead to any definite conclusions since the period of 3 years from launching this kind of rural banking system was considered insufficient to make any meaningful contribution. However, the Committee was emphatic that the RRBs cannot be viable as a rural credit institution, operating with some serious economic, social, cultural and geographical constraints especially when the viability criteria had to be reconciled with social objectives. The Committee wanted a periodical review by the Chairmen of the RRBs in the periodical conferences.\footnote{Reserve Bank of India, "Study on Viability of RRBs", RBI, RURAL PLANNING AND CREDIT CELL, April 1980, p.279.}

The Committee constituted by the RBI under the convenorship of Sundaravaradan for the purpose of suggesting appropriate guidelines for uniform systems and procedures for ensuring effective control over RRBs, suggested in its report the general background and issues closely linked with control measures, the returns to be submitted by the branches, discretionary powers of the branch manager,
instructions regarding cash management, internal audit and inspection system, control measures relating to frauds etc., and the organisational structure/staffing pattern for RRBs. 72

Abdul Noor Basha and Joshi while analysing the viability of Chaitanya Grameen Bank, Tenali, in 1988, observed that the Grameen Bank is one of those macro majority of RRBs facing the problem of viability. He, however, pointed out that the Bank was in the path to recovery since there is evidence that the bank's operating losses are increasing at a decreasing rate and the gross yield on total assets and interest spread are increasing. 73

In a study of Regional Rural Banks and Rural Development, Krishnan observed that the RRBs have succeeded in mobilising rural savings, and increased the flow of money to rural areas. Though there has been tremendous progress in the field of branch expansion, he observed that the problem of overdues was very serious. 74

---

73 Abdul Noor Basha, and M. Joshi, "Viability of RRBs a Case Study" YOJANA, Vol.33, No.9, May 16-31, 1989, p.18.
Hebbar has enumerated and analysed in detail the various social, cultural and geographical constraints faced by RRBs in the rural set up and had expressed that these banks can bring about a remarkable development in rural sector if the constraints were to be removed and has acknowledged that the removal of these constrains is easily said than done.  

According to Acharya the Service Area Approach of banks has been welcomed by many as a distinct improvement over the approaches hitherto adopted for rural development. Analysing the expectation and apprehensions which the scheme has raised, he said that it was another experiment to lift up the rural masses. How far the approach succeeds will depend on how we face the different constraining forces such as encroachment on the freedom of customer, fear of monopoly, difficulty in allotment and transfers of the area, and greater strain on the branch managers.


Savaraih and Nirmala Mani observed that the lead bank scheme approach earmarked specific responsibilities and allowed a comprehensive approach for development. Under the lead bank scheme the amount of financial assistance provided marked an increasing trend in Guntur District, a predominantly agricultural area, and is well comparable to All India position.\textsuperscript{77}

Jithendra Kumar Hajela was critical about the role of banks in rural development. He observed that "although the banks were trying to metamorphose the rural scene involving in all aspects of rural development, quantitative achievements of the banks seem to be noteworthy, but mere quantitative performance, neglecting the quality aspect of it of the banks in particular and other term-financing institutions in the field of agriculture in general would simply fancy the statisticians and would interest only the arm-chair economic planners to claim pseudo success. In other words the commercial banks have miserably failed to meet adequately the needs of economically weaker sections of the rural population. These

banks suffered from three basic handicaps viz., their high cost operation, lack of rural-oriented and committed staff, and the presence of overdues". According to him the co-operative structure revitalised by RRBs is the only solution to meet rural credit effectively.78

Patel and Shete (1980) had analysed the performance and prospects of Regional Rural Banks and pointed out the deficiencies to be field area oriented.79

Charan Wadhwa (1980) had evaluated the working of the Haryana Kshetriya Gramina Bank, Bhiwani and Jaipur, Nagaur, Aanchal Gramin Bank, Jaipur. He had pointed out how some of the weaknesses in the working of RRBs had impeded their growth. His main observation was that the RRBs did not have the full support from District Officials. Further he pointed out that the State Governments have ceded weaker primary credit societies to the RRBs which in turn have affected their growth. Then again the rate of interest charged on the loans by commercial banks, Co-operative banks


and RRBs are different and this had also come in the way of their business. He had suggested (i) change in the structure of share capital of RRBs; (ii) allowing RRBs to be sponsored or co-sponsored by co-operatives; (iii) strengthening linkages with primary co-operatives, and Farmers Service Societies; (iv) strengthening linkages with Reserve Bank of India and the sponsoring banks; (v) effective credit administration; and (vi) increasing the grant of consumption loans to borrowers and so on.80

D'Melloe (1980), after tracing the problems in financing priority sectors, had arrived at the conclusion that indirect financing of rural sector can be through two types of institutions: (a) purely financial institutions like primary co-operative societies and Regional Rural Banks and (b) other developmental organisations like the Farmers Service Society organisations; while the former type would by merely channels for credit flow, the latter type would also provide a package of services. He agreed with the Dantwala Committee on RRBs that at the base level, rural credit institutions should not be loaded with numerous

80 Charan D Wadhwa, "RURAL BANKS FOR RURAL DEVELOPMENT" (Delhi, Macmillan Ltd., 1980), p.214.
functions. But he added that the Committee had also recognised that credit becomes infructuous without a package of services.\footnote{81}

Desai in his books had devoted some pages to RRBs. But he had only brought out the salient features of the Dantwala Committee Report. There was the absence of an independant and clear thinking from the author by way of constructive criticism or suggestions on the working of RRBs.\footnote{82}

Reddy (1984) had evaluated the working of RRBs in detail and established their important role in rural development.\footnote{83}

Singh (1983) had examined the profitability of RRBs in Bihar. This study was undertaken with the following objectives:


\footnote{82 S.S.M. Desai, "RURAL BANKING IN INDIA", (Bombay, Himalaya Publishing Company, 1979), p.387.}

\footnote{83 B.D. Reddy, "Regional Rural Banks--Their Role in Rural Development", \textit{INDIAN JOURNAL OF COMMERCE}, April, June, July, September, 1984, p.185.}
(i) to study the extent of earning assets in the total assets of RRBs;
(ii) to examine the cost of borrowing and refinance against the cost of deposits mobilised; and
(iii) to find out the net earnings from investments of funds raised through these sources.

This study included four of the seven RRBs in Bihar which had completed three years of working as on 31st December, 1980. From the analysis of available data it was inferred that the RRBs should make an earnest effort for utilising a maximum possible refinancing and borrowing facilities for raising its earning assets.\(^{84}\) He had also pointed out that the deposits are also an important source of funds for RRBs because the size of deposits is a base for raising funds through borrowing and refinancing. However it was argued that the size of deposits should not be a constraint in creating assets, as borrowings and refinance arrangements can help creation of assets with greater profitability and should be used as supporting sources of funds.

Srivatsava and Subramanian (1982) had carried out an objective evaluation of the operation of Regional Rural Banks and found it fulfilling its social objectives.  

Singh and Thakur (1984) had enquired into the assets structure of RRBs in Bihar. This study had included all the seven RRBs in Bihar. It had analysed the asset structure of RRBs focussing on their liquidity and profitability. They conclude that high ranked RRBs tend to maintain larger amount of liquid assets. But the low ranked RRBs though registered a higher proportion of liquid assets to total assets, showed a declining trend, indicating their conscious efforts in reducing liquid assets in total assets. It was also pointed out that the per branch earnings in high ranked branches were higher as compared to low ranked RRBs. However, both categories of RRBs showed steady improvement in per branch earnings. It was also observed that low ranked RRBs showed a steady decline in their ratio of operating expenses to gross earnings, whereas similar ratio in case of high ranked RRBs fluctuated both ways.

---
