The two terms ‘Banking’ and ‘Economic Development’, must be defined before the analysis of their inter-relationship is attempted.

The Indian Companies Act of 1913, as amended in 1936, attempted a detailed definition of a Banking Company as follows:

A company which carries on its principal business, the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheque, draft or order, notwithstanding that it engages in any one or more of the following forms of business...

The Banking Regulation Act, 1949, defined a banking company as “a company which transacts the business of banking in any state of India”.

The word ‘banking’ has been defined as:

Accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise or with draw able by cheque, draft, order or otherwise.

This definition enumerates all the essential and principal activities, which a banking company engages in and hence, is a satisfactory definition.

Economic development is generally understood as a process in which as the per capital real income of the people increases over a period of time. During this period of transformation, there are several changes that take place in the economy simultaneously. Modernization of agriculture, expansion of industrial base, extension of transport and communication facilities to the most interior parts of the country, spread of banks and other financial institutions are the important change that characterize the process of economic development.

Economists have used two terms, ‘Economic Growth’ and ‘Economic Development’ interchangeably, through these terms differ in their meaning. The definition of the term ‘economic development’, as given by meter and Baldwin, is generally accepted as a comprehensive one. In their opinion, “economic development is a process whereby an economy’s real national income increase over a long period of time.”

INDIAN BANKING:
The development function mentioned above was assigned to the Indian commercial banks after the nationalization of banks in 1969. Social control over commercial banks in India was in operation since the beginning of 1968. However, for some years prior to nationalization, the demand for nationalizing the banks was being made by the Left Congressmen and the Communists. This demand was based on the grounds that the commercial banks-

1. had been owned controlled by a few persons,
2. had led to concentration of economic power and wealth in the hands of a few,
3. had failed to mobilize the savings of the public effectively.
4. had discriminated against small business units and had ignored agriculture completely.

REGIONAL RURAL BANKS:

According to J.K. Galbraith, credit system can be an instrument of progress and of Stagnation and repression. India’s Endeavour through a series of experiments over the years has been to convert her Stagnated rural credit system into a progressive with a new tool to provide some relief to agriculturists in matters of agriculture finance through thrift and mutual help. The cooperative Societies Act of 1904 gave an impetus to the formation of agricultural cooperative credit societies and the Act of 1912 made an attempt to extend the co-operative organization to non-agricultural credit as well In India the three – tier system of co-operative agriculture ; credit institutions was prevalent. After five decades, a Committee reviewed the working of these cooperative and paradoxically came to the conclusion that “Cooperation has failed, but cooperatives must succeed”.

In the year 1976, the National Commission on Agriculture reviewed the rural credit Scene and noted, “The successive reviews of the working of the institutional credit system revealed lacunas in the procedure and organization of the system in the country”.

Large part of the country’s small farmers have been handicapped for want of access to co-operative credit. Wolf Ladejinsky has observed “ Events that have proved the high hopes reposed in the cooperatives as the mainstay of institutionalized credit and as an answer to private money lending have been exaggerated” He had quoted the then Vice-Chairman of the Indian Planning Commission, “ The more and more we have expanded the cooperative movement since Independence less and less confidence it commands in the community”

By the end of 1975, it was estimated that the nationalized banks have provided loans to the agricultural sector to the extent of Rs. 650 crores as direct finance and Rs. 300 crores as indirect finance.

The purpose of branch expansion in rural areas is defeated by the dangerous trend of diverting rural funds to urban areas. As we have 5,75,721 villages in the country, more than 90 percent of these villages, i.e. (5.35 lakhs), the average population is less than 1,000.
All the growth models and Strategies have almost failed in the ultimate of the poorest of the poor. The All India Dept and Investment Survey, 1971-72, uneducated that the very poor, namely, marginal and small farmers, agricultural laborers and rural artisans are more dependent on non-institutional agency for their credit needs., The Government of India also felt that it was necessary to establish new institutions on the basis of attitudinal and operational ethos entirely different from the present one. With this background, i.e. due to various shortcomings in the existing credit structure and a dire need for rural credit, the Government of India appointed on July 1, 1975 a Working Group on Rural Banks, under the chairmanship of Shri. M. Narasimhan,a senior civil servant of India. The Group submitted its report in a record period of one month.

The Group was asked to “examine, in depth, the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people”.

The Group observed that “in a country of the size and regional diversity as ours, no single pattern, be it commercial banks or cooperative credit, can be expected to meet all the emerging requirements in all the areas. A degree of adopting and improvisation is called for and the range of institutional alternatives widened. It is in this context, the Group has come to the conclusion that a new type of institution is necessary”.

Accepting the recommendations of the working Group, the Government of India promulgated the RRBs Ordinance on September 26, 1975, and the first five RRBs were established on October 2, 1975, the Gandhi Jayanti Day. The ordinance was later replaced by the Regional Rural Banks Act of 1976.

According to the RRBs Act, the RRBs were set up mainly, “with a view to developing rural economy by providing for the purpose of development of agriculture, trade commerce, including other productive activities in the rural areas, credit and other facilities, particularly to the small entrepreneurs and for matters connected therewith and incidental thereto”.

(1) **Jurisdiction**: The jurisdiction of each RRBs is to be within the specified districts in a state and that of its branches within the district.

(2) **Sponsorship**: Each RRBs is to be sponsored by a scheduled commercial bank (mainly by public sector and lead bank of the district). It has to be started at the initiative taken by the sponsor bank, in consultation with the State Government and the Central Government.

(3) **Capital Structure**: The authorized capital of each RRBs will be placed at Rs. One crore and the issued capital at Rs. 25.0 lakhs. The issued capital would be in the proportion of 50:35:15, respectively.
(4) **Management**: The management of each RRBs will be through a nine member board of directors, headed by chairman.

The RRBs are entitled to get concessional refinance from the National Bank for Agriculture and Rural Development (NABARD). Such refinance is higher during the earlier years of their operation. Overall, with this mandatory provisions, coupled with several concessions, RRBs have emerged as a strong third plank in the Indian multi-agency system of rural credit.

The discussion on the theoretical strands on the relationship between the banks and the economic development and then a brief description of the Indian banking and the regional rural banks suggests that it may only be after the introduction of the RRBs that the banks in India seem to have begun to participate in the rural development of the nation in a more effective, positive and immediate manner. This leads us to take up the study of assessing the working and impact of the regional rural banks.

**REVIEW OF STUDIES RELATING TO BANKING AND ECONOMIC DEVELOPMENT**:

We present below an overview of the literature related to banking, in general, followed by a review of the literature on rural banking.

Bhatia (1978) attempted to analyzed the economic performance of Indian Banking system as reflected in its output, price and profitability over the period 1950-68. The main findings of this study are: i) the profit performance of Indian Banking System during the period 1950-68 has been satisfactory; (ii) the structure of banking system (represented by the number of bank offices and the deposit concentration ratio) during the period has an insignificant effect on its performance.

Evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. The reserve bank of India has policy of institutionalization of rural credit in India. All India rural credit survey report recommended the three tier cooperative credit system, viz. state cooperative bank, district central cooperative bank, and primary cooperative societies, at state, district, and village level respectively.

The adoption of financial liberalization reforms has been a very laudable initiative given the extent of financial repression that was prevalent prior to these reforms and the stifling effects of repression on both the financial sector itself and on the economy as a whole. The rural
The rapid growth of cities in the developing world has led to the struggle for improved living standards and protection of the environment. Since 1950's the Urban Population throughout the world has more than tripled, from just over 750 million to about 3 billion, and by 2030 some 5 billion people will live in cities. In the developing world the urban population is projected to double from 1.9 billion in 2000 to be just under 4 billion by 2030 (M.L. Narasaiah - 2003:1)

From the above analysis it was concluded that total factor productivity change (TFPCH) in performance of nationalized banks Total factor productivity change (TFPCH) in performance of Regional Rural Banks averaged at 1.3 percent during 1991-92 to 2006-07 The decomposition of TFPCH showed that the mean technical progress increased at .9 percent whereas mean technical efficiency has shown a marginal increase 0.1 percent during that period.

The rural finance is a matter of credit concern in a developing economy like India where 70 percent of the total population depends upon agriculture for its livelihood. Over 40 percent of the GDP in India is contributed by the rural sector. The economic development of our country can be achieved only through the up-liftment of the village folk that mainly consists of farmers, agricultural labourers, artisans etc.

Risk management and income recognition is the basic principle to restore and enhance the financial strength of the banking industry. At International level this principle has constituted in 1974 by the Basel Committee to strengthen the supervisory standard and risk management strategies and suggested the assets classification and recognition norms. Reforms in the financial sector went through two distinct phases.

Banks perform many economically beneficial functions. These functions can be classified into primary and secondary functions. Among the primary functions of banks are:

1) acceptance of deposit; and
2) granting of loans and advances (www.nios.ac.in/rec).

Deposit mobilization as noted by Ekezie (1997) is one of the most important functions of a bank.

Although the relationship between financial development and economic growth has been extensively studied in the literature (see, e.g., King and Levine, 1993; Demetriades and Hussein, 1996;
Arestis and Demetriades, 1997; Levine et al., 2000; Bell and Rousseau, 2001; Luintel et al., 2008), little is known about how finance impacts on income inequality.

Literature review is a study involving a collection of literatures in the selected area of research in which the scholar has limited experience. In the past, various studies relating to the financial performance of Regional Rural banks have been conducted by researchers Gunjan M Sanjeev (2009) conducted a study on Efficiency of Indian public sector banks and found that the efficiency of public sector banks not increased during the period 2003-07.

Rural banks are primarily created to play a special role in regional economic development in the Philippines. They generally serve small country-side borrowers and act as conduits of subsidized loans from the government and international donors. In 1952, the government enacted the Rural Banking Act and embarked on a program to enable rural banks to effectively compete with the larger universal and commercial banks and to increase investments in the regions.

Microfinance is the provision of financial service to the economically active poor who are hitherto unserved by the mainstream financial service provider. Microcredit is commonly defined in terms of loan amount as a percentage of average per capita income. In the context of Nigeria, with a per capita GDP of N112,800 (about $752) in 2008, loans up to N112,000 (around $750) will be regarded as micro loans.

RRBs though operate with a rural focus are primarily scheduled commercial banks with a commercial orientation. Beginning with the seminal contribution of Haslem (1968), the literature probing into factors influencing performance of banks recognises two broad sets of factors, i.e., internal factors and factors external to the bank.

The equation system is fitted using the 3SLS procedure. The results of the estimation process are contained in Table 5. As observed from the Table, the first hypothesis is borne out by evidence since the coefficient on the expense ratio is negative and statistically significant in the RoA equation

Government of India has taken various steps for alleviating poverty since Independence. However, in spite of the various efforts, almost 27 percent1 of total population in India still continues to be below the poverty line. It is identified that most of the poor are in the rural areas. Further, along with this poverty scenario, no adequate employment has been generated in the labour market in India.

Financial sector reform has been a major component of the structural adjustments being implemented in India since 1991. A key focus of these efforts has been on reforming the Regional Rural Banks (RRBs)-India’s state-owned development finance vehicles charged with serving the rural poor, especially microentrepreneurs, in the agricultural and nonfarm sectors.

The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. 4Although the cooperative banks and the commercial banks had
reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich.

**STATEMENT OF THE PROBLEM:**

The regional Rural Banks were thus set up with a view to helping the weaker sections of the rural society and are now being regarded as one of the most important agencies for the rural development. Individually, a regional Rural Bank is expected to attain the objectives, thereby contributing significantly to the eradication of poverty and improvement in the economic standards of the rural poor.

The problem being studied, therefore, is of the assessment of the working of a selected Regional Rural Bank, viz. the Vainganga Krishna Gramin Bank, and its impact on the income generation of its borrowers.

**OBJECTIVES OF THE STUDY:**

The objectives of the present study, obviously stemming from the foregoing, are:

1) To review the progress of the Regional Rural Bank Scheme at the national as well as at the district level;

2) To find out the causes of the establishment and slow or rapid progress of the RRBs in the district under study;

3) To evaluate the working of the scheme in the district under study;

4) To assess the impact of the scheme at the district level;

5) To make specific recommendations which may contribute to a more efficient functioning of the scheme, in general and of the concerned bank, in particular.

**SCOPE AND LIMITATIONS OF THE STUDY:**

The present study is entitled “Economic analysis of Working and Impact of Regional Rural Banks with special Reference to Wainganga Krishna Gramin Bank”. The term ‘Economic Analysis’ has been used to cannot that the analysis is made by making use of some specifically devised indicators, which reflect such changes as are purely economic in nature. The study is confined to the working and impact of
the Rural Banking only and as such, it excludes all other schemes introduced by the Government or the Reserve Bank of India, in connection with banking and economic growth.

The study is conducted with special reference to Ratnagiri- Sindhudurg district and hence, its emphasis is on the working and impact of the rural banking in the Ratnagiri – Sindhudurg district. However, the same have been compared, wherever necessary and possible, to the conditions at the national level.

Finally, the reference period for the study is 2009-2010. The years 2009-2010 are selected so as to understand and/or judge the real impact of the RRBs working on the Ratnagiri – Sindhudurg district.

SIGNIFICANCE OF THE STUDY:

The present study is an empirical type of study and it is based on ex-post data. The significance of any such study lies in the conclusions which may help in the further analysis of the interaction between the functioning of the rural banking and the target areas and the relevant aspects of the economy. It is also significant, particularly when certain policy decisions are to be taken. The conclusions drawn at the end of the study may resemble in one respect or the other with the conclusion of the similar studies made elsewhere in the country with reference to the Regional Rural Banking. The importance of such a study, therefore, lies in its potential applicability for policy formulation.

METHODOLOGY OF THE STUDY:

The methodology adopted with reference to the objectives of the study is described below:

In the first place, it is based on a case study approach obviously because only one Regional Rural Bank, Namely Vainganga Krishna Gramin Bank has been selected for the study, the researcher resides in Ratnagiri district and works in Sindhudurg district. As a result he was in a position to conduct an intensive study of all the aspects of Regional Rural Bank with reference to the Bank Selected.

Secondly, survey method has been followed for assessing the impact of the Bank.

For evaluating the working and Implementation of the scheme, ‘secondary data’ has been collected from various source, such as annual Reports of the Vainganga Krishna Gramin Bank, Reserve Bank of India Reports Statistical Tables relating to the Bank of India, etc.

A review of literature had carefully been taken with a view to understanding the work done elsewhere on the subject,
The Government of India and the Reserve Bank of India have appointed an Expert Committee for reviewing the progress of the RRBs, from time to time. A critical review of such reports has been taken for finding out the deficiencies and strengths already identified.

The impact of the scheme has been brought out at the national level with the help of the secondary data relating to the same.

At the district level, the impact has been measured with the help of both, secondary and Primary, data;

Primary data is collected from the sample borrowers with the help of a structured scheduled personally administered;

Detailed discussion and interviews were conducted with the officials of the Bank as also with the representatives of other organization concerned with the implementation of the scheme.

OVERALL PROGRESS OF THE WKGB:

Accepting the recommendations of the working Group, the Government of India promulgated the WKGB’s ordinance on September 26, 1975 and the first five WKGBs were established on October 2, 1975, the birth – anniversary of Mahatma Gandhi. The ordinance was subsequently replaced by the WKGB’s Act, 1976. Thus the WKGBs came in to form the third component of the multiagency credit system for agriculture and rural development. From the very beginning, these banks were to adopt their modes of operation to the requirements of their rural clients. The WKGBs are more suitable for adopting individual approach than the rural branch of a commercial bank, in view of its low cost profile, wide network of its branches in remote rural areas, the local feel of its staff and its image as a small man’s institution.

With this intention, Bank of India, the lead bank of the Ratnagiri and Sindhudurg districts, became the sponsoring bank of the Vainganga Krishna Gramin Bank accordingly, the head office and the first branch of the WKGB started functioning on 15 Dec 2008.

Since then, the WKGB has come a long way in fulfilling its avowed objectives of meeting the credit needs of the rural populace. In the subsequent pages, it is attempted to present a balanced picture of the WKGB’s performance with respect to its rural Banking activities.

BRANCH NETWORK:

The WKGBs has a network of 39 branches in the twin districts (24 branches in Ratnagiri district and 15 branches in Sindhudurg Districts).
VAINGANGA KRISHNA GRAMIN BANK:

Vainganga Krishna Gramin Bank, Established on 15/12/2008 by amalgamation of erstwhile Vainganga Kshetriya Gramin Bank, Chandrapur, Solapur Gramin Bank, Solapur and Ratnagiri – Sindhudurg Gramin Bank, Ratnagiri, all Sponsored by Bank of India.


Vainganga Krishna Gramin Bank has network in four region with twelve district. WKGB working network is 180 branches.

PROBLEMS IN WORKING OF THE RRBS:

The national –level statistics of the RRBs show that majority of them are incurring losses year after year. As at the end of 2005, out of the 173 RRBs in the country, as many as 130 showed losses.

These RRBs are heading for a massive deficit in their operations. In the first seven years, the total amount they lost was Rs. 5.61 crores. At the same time, the number of banks showing deficit has progressively increased from 28 in 2000 to 92 in 2007.

The financial institutions with a weak financial base cannot continue for long and fulfill social banking objectives assigned to them. Hence, the financial viability of institutions is one of the pre-requisites for their sustained growth and shouldering social responsibility. At present, the RRBs have been placed in heavy losses. It has been further worsened on account of increase in overhead expenses consequent upon the revision of staff salary and other allowances.

Reduction in margin available to the RRBs on account of upward revision in interest rates on deposits with effect from 21st October 2005 and reduction in the lending rates from 1st April 2006.

Another major problem faced by the RRBs in about 12 years of their existence is that of late, the commercial banks have become competitors to the rural banks which they themselves have sponsored. In fact, the original idea was that the RRBs should serve as supplement to the cooperative banks and not supplant them. Evidently, however, it was not anticipated that the public sector banks would complete with the RRBs by charging lower rate of interest.

PROBLEMS IN WORKING OF WKGB
The specific problems in the working of the WKGB could be cited as follows:

1. The Reserve Bank of India had issued comparatively less number of branch licences to the WKGB initially. Hence, for the rapid expansion of the WKGB’s branch network, more licences are required to be issued by the Reserve Bank of India.

2. Deposits held by the WKGB are less due to various reasons, for example, more attractive deposit schemes of other banks and postal saving schemes, less number of branches in the district, etc. Also, the people being poor, their capacity to generate savings is almost nil. Added to it is the lack of publicity about the various deposit schemes of the WKGB.

3. Advances are comparatively less as people are traditional in their thinking, illiterate and are not ready to take on any kind of risks.

4. A large number of young generation migrates to Bombay and the remainder is content to continue their traditional lifestyle on whatever meager income they can get from their fragmented land holdings.

5. People are conditioned to think negatively about the new economic endeavours.

6. Illiteracy and poverty both make the farmers afraid to visit a bank, seeking credit.

7. All the policy matters are decided upon the NABARD and the WKGB acts merely as an executive agency, leaving a very little scope for innovation.

**SUGGESTIONS FOR IMPROVEMENTS:**

Attempts should be made to enable the RRBs to provide adequate and timely credit with the maximum possibility of simplicity in procedure. At the same time, consumption loans, on reasonable terms, should be made available to check the diversion of a large part of credit from the productive purposes.

Credit provided by the RRBs and other financial agencies must be adequate to enable rural masses to be free from the clutches of the ruthless moneylenders. A proper credit plan and concerted efforts by different agencies are required.

Deposits are the main source of the RRBs income from the long term point of view. The RRBs should introduce special deposit schemes for the poorer sections of the village community. Through newspapers, radio, television, as also through dramas, puppet-shows, etc., appeals should be made to the villagers for deposit collection.

The RRBs should also plan to allocate funds for the development of the villages in their operational area.

The other steps that are to be taken by the RRBs include -
1. Gram – Sabhas should be conducted in every village at least twice a month, for the purpose of selecting rightly type of borrowers as well as to follow up with the existing borrowers for prompt loan repayment.

2. In order to avoid the employment turnover in the RRBs, the employees must be motivated by announcing suitable incentives like rural working allowance, promotions and by providing loans at subsidized interest rates for meeting their personal needs.

The RRBs should necessarily continue their activity of financing only the weaker sections in the rural areas and this consideration should never be diluted or compromised for the sake of making the RRBs viable in their operations. The RRBs can achieve the viability through other methods and means. It must also be remembered that the size of the weaker sections in the society is increasing at an alarming rate and there is a need to provide credit to these sections both for production and consumption and at the same time, to protect the borrowers from the moneylenders and exploitative traders. In the case of the RRBs, the term ‘viability’ is to be appreciated from the point of increased level of social gains accrued to those customers whose socio-economic upliftment and better standard of living should become the indices for judging the State’s efforts towards the commitment of growth with social justice.

The success of the RRBs will depend on the dedicated personnel appointed to run them and the organizational acumen and innovation which they bring to bear upon the operational problems, so as to tackle them more effectively than the other agencies have done.

In the final analysis, the role of the RRBs will have to be that of moneylender sans exploitation and the role of the bank-staff will have to be that of village teacher sans politics.

RRBs, as they exist and are administered today are neither a model of perfection nor a system of best virtues. Yet, they have demonstrated their utility, if not inevitability, already. The RRBs will have to prove as one of the most useful instruments of the rural credit. The RRBs also have a bright future if the union and State Governments, Reserve Bank of India, commercial and cooperative banks and NABARD all ensure for them a proper operational environment. The RRBs may perhaps be the best answer to many of our present-day problems in the area of rural credit and rural development.