CHAPTER - 1

INTRODUCTION

1.1 The Problem

The biggest challenge now facing the country in terms of its both short and long term policy is eradication of poverty especially in the rural areas\(^1\). "Rural India is real India and Rural Development is the real development of India" said Gandhiji\(^2\) about half a century back, but this is true of today too. According to 1981 census nearly 77 per cent of total population lives in 5.76 lakh villages\(^3\). The dominant occupation of the rural population is agriculture and allied activities. In 1981, agricultural sector engaged 66.5 per cent of the country's workers comprising 41.6 per cent of cultivators and 24.9 per cent of agricultural labourers. Agriculture and allied activities contributed about 37 per cent to net domestic product. Besides, farm sector contributes one-fourths to the total exports and provides raw materials to various agro-based industries.

The rural sector in India has witnessed the formulation and implementation of a plethora of programmes in the pre-independence as well as in the post-independence periods. In the pre-independence era the rural development programmes were taken up mostly by the individuals interested in social services. As such the impact of those programmes was short lived and confined to certain areas. In the post-independence era planned development process was started in India with the introduction of Five Year Plans. The First Five Year Plan was launched in 1951 with the objectives to rebuild the rural economy, to
lay solid foundations for agricultural, industrial and scientific progress, to induce dynamism and progressivity in the stagnant economic framework and above all to create an egalitarian and new society free from starvation, coercion, discrimination and stagnation. These objectives were sought to be achieved with the help of appropriate planning strategies, socio-economic policy and suitable development programmes. Successive Five Year Plans endeavoured to accelerate the tempo of economic development through specific programmes.


The main achievements of Five Year Plans and specific programmes are: (i) three fold increase in India's foodgrains output from 50 million tonnes in 1950-51 to over 150 million tonnes in mid 1980s, (ii) five fold increase in aggregate industrial production showing a compound growth rate of six per cent per annum, (iii) increase in growth rate of the Indian economy from about three per cent till early
1960s to a little over four per cent during 1970s and five per cent during 1980s, (iv) development of huge public sector (v) substantial increase in savings and investment rates from less than 10 per cent of national income in 1950s to over 30 per cent in mid 1980s.\(^6\)

In spite of progress made in diverse fields, the Indian economy still displays the features of backwardness with a low per capita income, mounting unemployment, widening inequalities in income and wealth, glaring regional imbalances, existence of illiteracy and ignorance. The hard core of India's economic problem is growing poverty with a large section of the people living below poverty line,\(^7\) without access to minimum basic needs of life such as food, clothing and shelter.

On the eve the of establishment of Regional Rural Banks (1975), 51.49 percent of people was living below poverty line\(^8\) in India and the corresponding percentages for rural and urban India were 54.09 and 41.22. Extreme inequalities in the distribution of operational holdings and productive assets, growing number of rural households, increasing indebtedness and abysmally low and unequal consumption levels are some of the dimensions of poverty in India.

The total number of operational holdings in India was 81.5 million in 1976-77 covering over an area of 163.3 million hectares. The small and marginal farmers with less than two hectares of land accounted for 72.60 per cent of total holdings but possessed only 23.50 per cent of total operational area. Semi-medium and medium holdings with less than ten hectares accounted for 24.40 per cent of the total holdings accounting for 50.2 per cent of the total operated area. Large
holdings with more than ten hectares of land constituted only 3 per cent, but operated over an area of 26.3 per cent of the total operational area. Thus (1) extreme inequalities exist in the distribution of operational holdings and operational area and (2) Indian agriculture is characterised by the preponderance of small and medium size holdings.

The number of households owning income earning assets valued at less than Rs.2500/- constituted 35.10 per cent of the total rural households. On the other hand, 4.00 per cent of households with assets value of Rs.50,000/- or more own 31.20 per cent of the total. These figures reveal the existence of glaring inequalities in the ownership of land and other income yielding assets such as livestock, tools and implements.

The number of rural households rose from 70.4 million in 1964-65 to 82.1 million in 1974-75 an increase of 11.7 million. Out of 11.7 million rural households, rural labour households alone rose by 7 million. Among them, the number of labour households with land rose by 4.3 million and those without land rose by 2.7 million during the same period. This indicates that more and more marginal farmers had been losing their lands and had been reduced to the status of farm labourers.

Average debt per rural indebted labour household rose from Rs.251/- to Rs.605/- during 1964-65 and 1974-75. Out of the total debt incurred by the rural households in 1974-75, the debt for consumption purposes accounted for 48.2 per cent, the share of total debt taken for ceremonial expenses was 18.8 per cent, that for productive purposes accounted for only 12.7 per cent and the remaining was inherited debt.
The pattern of indebtedness shows that production loans form a small fraction and consumption loans form a large part of the debt of the rural poor.

Out of the total amount borrowed by the rural households during 1974-75 co-operative societies and commercial banks accounted for only 5.3 per cent and 4.0 per cent respectively. Shop keepers, employees and others provided 42.8 per cent. As high as 47.9 per cent was borrowed from money lenders. The non-institutional agencies were charging interest rate at over 18 per cent which was relatively high. Owing to such high interest rates, debt accumulated overtime and ultimately land and other assets were appropriated by money lenders.

According to the National Sample Survey (28th Round) in 1973-74, the consumption of the two lowest deciles was 9.5 percent of the total consumption in rural areas and 9.2 per cent in urban areas while that of the two highest deciles accounted for 38 per cent and 40 per cent respectively.

These facts clearly indicate the crux of the problem of poverty which is intrinsically linked with the development of small and marginal farmers, agricultural labourers, rural artisans and other sections of the society. These sections have not benefited much from the fruits of development generated by the Five Year Plans and the various Rural Development Programmes.

The strategy of development in the initial years of planning was based on the 'Percolation Theory' of economic development. But it was painfully realised that the benefits had not percolated down to the masses. On the contrary, the benefits of development were gobbled by
the already affluent sections controlling the means of production and possessing political clout. Besides, the developmental programmes were inadequate, sectoral, area specific, piece meal in nature and lacked concreteness in implementation.¹⁶

In order to tackle the problems of poverty and unemployment, the Government of India revised its developmental strategy in mid 1970s. It was thought that provision of financial assistance exclusively to the weaker sections at the right time, on the right terms and in the right quantum through a separate and specialised agency would enable the poor people to participate in the developmental process and would relieve them from the clutches of the money lenders. This was essential because the traditional source of credit, viz., the private money lender with the type of credit policies he pursued had, instead of being a help to the rural people, become invariably an incubus upon them. As Sir Daniel Hamilton put it, 'the power which stands in the way of India's economic development is the power of 'evil finance'.... the want of a banking system for the rural people'.¹⁷

Realising the gravity of the rural credit problem, the Government of India appointed a 'Working Group' in 1975 under the chairmanship of M.Narasimham¹⁸ to review the situation and to suggest measures in this regard. The Working Group identified certain functional and regional gaps¹⁹ in the existing financial institutions viz., co-operatives and commercial banks in the provision of credit to the weaker sections. It was realised that even after reorganisation and restructuring of these institutions, the gaps in rural credit would not be met satisfactorily. The working group, therefore, recommended the
setting up of Regional Rural Banks (RRBs). The Government of India accepted the recommendations of the 'Working Group' and established the first five Regional Rural Banks on 2nd October 1975. Since 1975, the RRBs have been playing a significant role in rural development through credit. Hence, it is against this background the present study has been taken up to evaluate the influence of RRBs on development and living conditions of the weaker sections.

According to Allen, an analysis requires theory and evaluation requires criteria.²⁰ In order to analyse the impact of Regional Rural Banks on the development of weaker sections, there is a need to state general theoretical background with regard to banking and development

1.2 Banking and Economic Development—A Theoretical Perspective

Before analysing the role of bank finance in economic development, it is of paramount importance to understand the concept and meaning of economic development.

1.2.1 ECONOMIC DEVELOPMENT - MEANING

The term 'economic development' has been defined in a variety of ways. "Economic development is a process whereby an economy's real national income increases over a long period of time."²¹ And, if the rate of development is greater than the rate of population growth, the per capita income will increase. "Economic development is generally defined to include improvements in material welfare, especially for persons with the lowest incomes; the eradication of mass poverty with its correlates of illiteracy, disease and early death; changes in the
composition of inputs and outputs that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organisation of the economy in such a way that productive employment is greater among the working-age population rather than the situation of a privileged minority; and the correspondingly greater participation of broadly based groups in making decisions about the directions, economic and otherwise, in which they should move to improve their welfare."

Dudley Seers raised some basic questions while conceptualising economic development. He asserted that "The questions to ask about a country's development are therefore: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income doubled." This line of argument is based on the practical experience of a number of Third World Countries. According to Michal P. Todaro "Development must, therefore, be conceived as a multi-dimensional process involving major changes in social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of absolute poverty. Development in its essence must present the entire gamut of change by which an entire social system, turned to the diverse basic needs and desires of individuals and social groups within that system, moves away
from a condition of life widely perceived as unsatisfactory and toward a situation or condition of life regarded as materially and spiritually better.\textsuperscript{24}

'Economic Development' is not an end but a means, an instrument for overcoming persistent poverty and offering a hope for the possible improvement of society.\textsuperscript{25} Economic development is a continuous process which in the long run, breaks down the vicious circle of poverty and unemployment and, thereby, leads a country to a stage of self-sustaining growth. It is a process contributing to increasing per capita levels of living and general wellbeing.\textsuperscript{26} Economic development is a dynamic one involving constant change in the structure of the economy.\textsuperscript{27}

From the economic point of view, "development would mean moving away from low income to high income, from low consumption to high consumption; from subsistence living to higher standard of living, from dominance of primary sector to secondary and tertiary sectors; from high unemployment or under-employment to full employment; from low saving and low capital stock to high saving and high capital stock."\textsuperscript{28}

Development, therefore, refers to the process of (a) an increase of real national and per capita income, (b) eradication of poverty and increase in material welfare, (c) declining of poverty, unemployment and inequalities, (d) general improvements in the levels of living of society and moving away from low to high income, consumption, higher standard of living, high saving on capital stock and moving away from primary to secondary and tertiary sectors. Thus, the development in the present context refers to an activity or a series of activities which increase
income, employment, consumption, saving and general improvement in the levels of living. The process of development is a highly complex phenomenon and is influenced by numerous factors, such as natural resources, rate of capital formation, growth of scientific and technological knowledge, social and cultural attitudes and political conditions.

1.2.2 ROLE OF CAPITAL FORMATION

Most analysts of the problem agree that a major requirement for development is the accumulation of real capital. Capital formation involves three interdependent activities: 1. An increase in the volume of real savings by the individuals, business houses or public authorities, so that the resources that would have been kept idle or used for consumption purpose, can be released for productive purposes. 2. Mobilisation and canalisation of savings, conversion of savings into finance or credit, which are available for investment in agriculture, industry, trade and other economic activities and finally, 3. the act of investment itself should be such that resources are used for productive activities. Capital formation may also mean the diversion of a part of society's currently available resources for the purpose of increasing the stock of capital goods so as to make possible an expansion of consumable output in future.

1.2.3 ROLE OF BANKING

In the process of capital formation the banking system plays a vital role. The banks come in as mobilisers and suppliers of savings for investment and thereby facilitate in breaking the vicious circle of poverty. Provision of finance enables the economic units to increase
their production, asset holding or their consumption beyond their present level of accumulated savings.31

Economists have expressed a wide variety of opinions on the effectiveness of banking system in promoting or facilitating economic development. Schumpeter has assigned a unique role to finance in the process of development. In his opinion, as a rule, an entrepreneur does need finance in order to carry out innovations, whereby, development takes place. According to him, banks, financial institutions or new credit creation per se is considered to be one of the two primary and essential factors for development. The other factor is the availability of entrepreneurs who carry out new combinations. Financing as a special act is, therefore, fundamentally necessary in practice as in theory.32

While Schumpeter provided the basic theoretical frame-work, the studies of Gerschenkron, Adelman and Morris focussed attention on the vital role of banking system in economic development. Gerschenkron study33 revealed that banking system has played an important role in European Economic Development at certain stages of development.

Adelman and Morris34 in their quantitative model for seventy four developing countries have observed that the degree of sustained economic development is closely associated with the effectiveness of financial institutions. This is also valid in the context of agricultural development.

Shaw35 Mc.Kinnon36 and Cameron37 contended that financial institutions/banking system, is invariably growth-inducing and that, only when it is repressed would it fail to make a positive contribution or act as an obstacle to real growth. Shaw emphasised that "the financial
sector of the economy does matter in the economic development - if it is repressed and distorted, it can intercept and destroy impulses to development. Cameron concludes that if the banking system is tilted by the unwise legislation and policy, it can distort and even thwart the growth of the economy. According to him without these distortions and deviations from the free market system, banks will have the largest impact on developing economies. The direction of the causal relationship between financial and real development is not conclusively established although they are interrelated. Porter asserted that "the visible correlations in the world [between financial and real development] is indeed commanding. Whether one relates the development of nation's financial system (however measured) to its per capita income across countries at a moment of time or across time for a particular country, the relationship between real and monetary variables is undeniable".

More recently, the monumental study of Goldsmith has demonstrated this relationship without, however, resolving the causality controversy. In a study of financial structure and development for 35 countries, developed as well as developing, he quantified the association between the financial superstructure and real infrastructure. In his study, Goldsmith concludes that, with the exception of centrally planned economies, there is one path of financial development associated with economic growth and from which only a few countries have deviated to a minor extent.

As compared to the effective positive role of banks in economic development, Gurley postulates inherent weakness of finance as a vehicle of economic development, with some references to the experiences of
developing countries and concludes that the development of financial institutions is not necessary for growth. While he does not question the efficiency of the financial institutions per se, he insists on the existence of alternative techniques such as central planning, fiscal or tax subsidy and transfer of foreign savings that may be utilised in a country's comprehensive planning.

Thus from this analysis, it is clear that banks play a crucial role in the rapid economic development in their capacity as creators and regulators of credit. In India, perhaps, more than anywhere else in the world, the banking sector has been called upon to play a vital role by providing credit for the modernisation of backward agricultural sector, to carry on agricultural activities on a rational and efficient manner, to start subsidiary occupations and, thereby, to ease the problems of under employment and unemployment to eradicate poverty and to achieve socio-economic justice.

As already noted, the existing structure of banking, namely, Commercial banks and Co-operatives have suffered from certain basic shortcommings. The Commercial banks, in particular, emphasised on 'Credit-worthiness of borrowers' instead of 'Credit- Worthiness of purposes' for which loans are required. These banks are urban oriented and also motivated by profits. The Co-operatives, on the other hand, were catering to the needs of rural elite and were considerd to be the 'closed shops' for weaker sections. Hence, Regional Rural Banks came into existence as specialised financial institutions to provide credit for the weaker sections. As the present study pertains to the role of RRBs in the development of the weaker sections, it is relevant and also
necessary to review the studies relating to the working of Regional Rural Banks

1.3 Overview of Literature

The literature on the subject is vast and varied. Broadly, it can be divided into three groups. The first group (mainly the Committees) of studies focussed their attention on the analysis of structure, share capital, jurisdiction, control and regulation, working and viability of Regional Rural Banks. The second group of studies were the performance appraisal studies of RRBs at macro level. The third group of studies dealt with the impact of bank funding on the weaker sections at micro level. A few of the prominent studies are reviewed in the present section in order to understand the areas of study covered and also to identify the research gaps for the present study.

1.3.1 STUDIES BY THE COMMITTEES

The studies under the first group are by various committees appointed by the Reserve Bank of India and the Ministry of Finance, Government of India, to review the working of RRBs from time to time.

1.3.1.1 Dantwala Committee. The Review Committee under the Chairmanship of M.L.Dantwala\(^43\) (1978) observed that the performance of RRBs within the limited time was good and that they satisfied both qualitative and quantitative tests in terms of indicators such as branch expansion, lending operations and deposit mobilisation. The Committee felt that the superiority of the RRBs, as an agency of rural credit over rural branches of the commercial banks, is derived from its relatively low cost of operations, simplicity, local participation in management,
feel and familiarity of local staff and close association of the district level agricultural and rural development agencies and personnel. The Committee was of the view that the RRBs should predominantly cater to the needs of the weaker sections of the rural clientele. The Committee, however, felt that total exclusion of other borrowers would not be advisable for a variety of reasons and recommended a lending ratio of 60:40 between the weaker sections and others respectively.

The Committee also observed that "within a short period of two years, the RRBs have demonstrated their capacity and capability to serve the purpose for which they were established. They have established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was, hitherto, not available. The Committee is, therefore, definitely against the idea of scrapping the RRBs structure."\(^44\) The Committee suggested that "the Government of India and the Reserve Bank of India may take steps to initiate the process of making the RRBs an integral part of the rural credit structure."\(^45\)

1.3.1.2 Sivaraman Committee. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) (1981)\(^46\) under the Chairmanship of B. Sivaraman felt that RRBs had a large part to play in the effective coverage of the credit needs of the weaker sections and they should continue to confine their operations to the weaker sections, so that the image of the RRB as a small man's bank should be kept up.\(^47\) The Committee recommended that preference should be given to RRBs in the opening of branches in the rural areas. The Committee also favoured the continuance of various facilities
provided by the Reserve Bank of India as well as the sponsored banks to RRBs as they are the institutions devoting exclusive attention to the weaker sections and thereby deserving a special and differential treatment. It also recommended the establishment of National Bank for Agricultural and Rural Development (NABARD) which also could look after the promotional and refinancing work besides inspection of RRBs.

1.3.1.3 Kelkar Committee. The Working Group under the Chairmanship of S.M.Kelkar (1986) has observed that, in view of its large branch network, comparatively lower cost of operation, local involvement through appropriate staffing pattern and operations more in tune with national objective of serving the weaker sections, RRBs as a part of multi-agency approach to rural credit are eminently suitable to do the job envisaged for them.

The Working Group recommended that more attention be paid to the consolidation of existing RRBs. Keeping in view the importance of RRBs as an effective institution for purveying credit to weaker sections, they have to be opened wherever necessary and priority should be given, while establishing new RRBs, to the areas with preponderance of SC/ST population, taking into account the existing banking facilities and credit gap both in qualitative and quantitative terms. Further, the Group has come to the conclusion that RRBs should retain their present image of small man's banks.

The Groups, apart from above observations and recommendations, focussed their attention mainly on the structure, share capital, jurisdiction, control and regulations and viability of RRBs. All the Committees and Groups have invariably emphasised the need for the
RRBs to retain their character as "small man's bank". However, none of the above Committees/Study Groups has made any study on the effectiveness of the RRBs in the development of the weaker sections.

1.3.2 PERFORMANCE APPRAISAL STUDIES

Besides these Committees and Study Groups, a good number of scholars have made attempts to enquire into the performance and progress of RRBs in the light of branch expansion, deposit mobilisation, dispensing of credit, sector-wise distribution of credit, geographical coverage and so on.

1.3.2.1 Wadhwa. The earlist study of this kind was made by Wadhva (1980)\(^5\) who examined the operational performance of RRBs set up till the end of 1977 and made an indepth study of two RRBs viz., (i) Haryana Kshetriya Gramin Bank (HKGB), Bhirwani and (ii) Jaipur, Nagpur Aanchalik Gramin Bank (JNAG), Jaipur. He observed that the RRBs made notable progress towards inculcating saving habits with the banking system in their operating area, particularly at locations which were unbanked or underbanked. Further, he observed that almost all the loans issued by the RRBs went to the weaker sections of the society. He also felt that the majority of the small borrowers still continued to depend heavily on the non-institutional sources of credit. He also pointed out the short-comings in the working of RRBs along with the analysis of the factors causing such weaknesses and attempted to indicate a way out. The serious limitation of the study was that it came too soon when the RRBs were in the initial stages of establishment facing teething problems. Naturally the study is highly inadequate for a just appraisal of their performance.
13.2.2 Basanna. Basanna (1980)\textsuperscript{52} in his study on the role of Tungabhadra Gramin Bank observed that the Gramin Bank has filled the void in the rural credit structure in its operating area and offered suggestions for the effective operation of the Gramin Bank.

13.2.3 Srivastava and Subrahmanian. Srivastava and Subrahmanian (1982)\textsuperscript{53} and Sunil Kumar (1982)\textsuperscript{54} evaluated the performance of RRBs during 1975-79. They have concluded that (a) the number of RRBs have grown steadily over the period (but they have not covered all the States and Union Territories) (b) the bulk of the assistance has gone to the weaker sections in conformity with the objectives of RRBs and offered various suggestions for efficient functioning of RRBs.

13.2.4 Singh and Upadhyay. Singh and Upadhyay (1983)\textsuperscript{55} in their empirical study examined the extension of loans by Co-operative Societies, Farmers Service Societies and RRBs. They have concluded that the majority of bank officials and borrowers did not favour the obtaining of loans through Co-operative Societies and Farmer Service Societies. However, the respondents felt that RRBs should try to incorporate attributes of Co-operative Societies in their operational procedures and attitudes.

13.2.5 Varshneya. Varshneya (1983)\textsuperscript{56} studied the performance, problems, control and monitoring of RRBs till the end of March, 1983. According to him, the performance of RRBs in the field of branch expansion had been quite satisfactory. Further, he also cautioned about mounting overdues and warned that if the same trend continued, the position would deteriorate, unless suitable measures were taken up to recover the dues. Besides, he also recommended the establishment of a
Central Agency to look after all issues relating to RRBs.\textsuperscript{57}  

1.3.2.6 **Hande.** Hande(1984)\textsuperscript{58} in his macro-study relating to performance and problems of RRBs during 1975-83, observed that the performance is commendable and found that ninetytwo per cent\textsuperscript{59} of the financial assistance has gone to benefit the weaker sections of the society, thereby, fulfilling the very objective of the establishment of RRBs. He also identified the problems encountered by RRBs like absence of proper infrastructure, mounting overdues and continuous losses.  

1.3.2.7 **Misra.** Misra. S.N.(1985)\textsuperscript{60} evaluated the performance of RRBs in the Orissa State during 1980-84. He observed that in relation to the total requirement of credit in the rural sector, the amount of credit deployed by the Regional Rural Bank is insignificant. He further observed that RRBs have also faced the problem of poor recovery and suggested that in order to strengthen the RRBs there is a need for motivating them to rely more upon tapping the savings of the rural people to build up their own reserve base. Moreover, there is greater need for monitoring the end use of credit and for restructuring rural banks with a view to confining them in a single district only.  

1.3.2.8 **Patel and Shete.** Patel and Shete (1985)\textsuperscript{61} in their study on performance and prospects of RRBs, observed that RRBs have the needed flexibility to grow and cater to the needs of the weaker sections. If systematic efforts are made to increase their numbers and adequate resources are placed at their disposal, the RRBs would make a very useful contribution in meeting the needs of the poor and help them to improve their lot.
1.3.2.9 Yeshwant. Indra Yeshwant (1985) evaluated the comparative performance of the two RRBs, one in Assam and the other in Tripura relating to deposits, loans and advances and repayment performance. He observed that the two RRBs (Pragiyotish Gaonlia Bank and Tripura Gramin Bank) have made a successful beginning for the purpose for which they were set up and also demonstrated their image as a new type of credit agency catering to the needs of vulnerable groups to whom institutional credit was hitherto neglected.

1.3.2.10 Balishter et al. Balishter et al. (1986) evaluated the performance of the Jamuna Gramin Bank (JGB) of Uttar Pradesh State. They had observed that the Bank has exclusively financed the weaker sections and they have concluded that the performance of the Bank is quite satisfactory in respect of deposit mobilisation and the recovery of loans and JGB has given the image of a 'Small Man's Bank' in the area of its operation.

1.3.2.11 Balaji and Rai. Balaji and Lajapathi Rai (1986), Sahaya and Muninath Sharma (1986), Savaraiah and Thirupalu (1985) have evaluated the performance of RRBs during 1975-1984 and have concluded that the progress made by RRBs was significant in terms of branch expansion, number of districts covered and outstanding advances. They have advocated the strengthening of RRBs in order to cover the entire rural households, to perform better and to take up greater responsibilities. They have also observed that accumulated losses of RRBs if unchecked by timely action, would be detrimental to the objectives for which they were established.
1.3.2.12 Mohsin and Jha. Nadeem Mohsin and Raghunath Jha (1987) have evaluated the credit repayment performance of beneficiaries financed by Kshetriya Gramin Bank. They have found that 40 per cent of the beneficiaries have not repaid the loans, due to lack of follow up measures, inadequate returns and lack of adequate knowledge. They have suggested that the people should be motivated and made to understand the development schemes and they should be properly trained for the credit repayment.

1.3.3 IMPACT STUDIES OF REGIONAL RURAL BANKS

1.3.3.1 Nair and Nair. Purushothaman Nair and Govindan Kutty Nair (1981) in their study on the impact of South Malabar Gramin Bank, Kerala, dealt with aspects such as productivity, savings, elimination of private money lenders, the rate of interest charged and the preference of Gramin Banks compared to Co-operative Societies. The study revealed that the Bank's assistance aimed at the target group had a significant impact on their incomes and employment. Further, the study inferred that the private money lenders' influence on the population served by the bank has been substantially reduced during the years but it has to be conceded that they still continue to be a major source of rural credit.

1.3.3.2 Kodli. Kodli (1983) makes an analysis of the impact of Tungabhadra Gramin Bank on agricultural, non-agricultural sectors and on money lenders in Karnataka. He observed that due to financial assistance by the Bank, the agricultural output of different crops that are grown in this area has increased and it has resulted in increase in income of the people, whereas, in the non-agricultural sector, people are able to
stabilize in their respective occupations. Further, the proportion of people borrowing from money lenders is reduced to one-third of what it was before the establishment of Tungabhadra Gramin Bank.

1.3.3.3 Prasad and Kumar. Jagadish Prasad and Sunil Kumar (1985)\textsuperscript{70} analysed the role of RRBs with a special reference to Karza branch of Vaishali Gramina Bank, Muzaffapur in Bihar State. In this study, the authors dealt with the impact of loans on the rural poor in terms of improvement in income, employment conditions and the role of bank in covering the weaker sections of borrowers. The study found that the monetary assistance of the bank had resulted in the generation of more employment in terms of man-days and increase in average earnings of all house-holds in 1981-82 as compared to the pre-loan period (1977-78).\textsuperscript{71} Besides, it observed that the bulk of the loanee households belong to the weaker sections of the rural community and not to the rich sections.

1.3.3.4 Misra. Contrary to the findings of Purushothaman Nair, Jagadish Prasad and others, Misra (1986)\textsuperscript{72} observed that the beneficiaries of RRBs are mostly the rich farmers, not the small and marginal farmers. He has also brought to the fore that while raising finance, the borrowers are facing the problem of producing No-Due Certificates, and the borrowers are the victims of corrupt bank officials and village level workers. They were not granted credit unless they parted with 5 to 10 per cent of the amount of credit, to grease the palms of bank officials and village level workers. However, he affirmed that the establishment of RRBs have uprooted the village money lenders, thereby supporting the conclusions reached by earlier scholars.
1.4. Research Gaps

The review of available literature relating to Regional Rural Banks enabled to deduce the following research gaps.

1. The Studies undertaken by the Committees appointed by the Government of India and Reserve Bank of India focussed on aspects such as structure, coverage, working, viability, operational strategies for proper recruitment and responsibilities of the sponsor banks towards their sponsored RRBs. These studies have not touched the impact of bank credit on the development of the weaker sections for whom the banks were established.

2. Some of the appraisal studies by various scholars at macro-level dealt with aspects such as branch expansion, deposit mobilisation, credit deposit ratio and credit deployment. Similarly, these studies have also not covered the impact of RRBs credit on the weaker sections. The studies on the impact of RRBs, on the development of the weaker sections have focussed only one or two aspects and hence they are not comprehensive.

3. The impact studies are mostly area and time specific and most of them have not analysed the impact of bank loan by occupation wise, region wise scheme wise and caste wise. Further, these studies have not analysed the differential progress made by borrowers and non-borrowers.

4. Moreover, no comprehensive study covering many vital aspects of development such as asset creation, employment generation, expenditure pattern and volume of indebtedness of borrowers was
undertaken in the study area. In the light of the research gaps identified in the various studies reviewed, there emerges a case for a comprehensive study dealing with impact of bank loan on the development of weaker sections. The present study is a modest attempt in this regard.

1.5 Focus of the Study

Tungabhadra Gramin Bank was the first Regional Rural Bank established in South India on 25th January 1976. The Bank has made significant progress in terms of branch expansion, deposit mobilisation and disbursement of credit to weaker sections of the society. The present work is undertaken to study the impact of credit provided by Tungabhadra Gramin Bank (TGB) on the development of weaker sections in irrigated and unirrigated regions of Bellary and Raichur districts of Karnataka. The following are the specific objectives of the study.

1.5.1 OBJECTIVES

1. To analyse the impact of TGB's finance on generation of income in different regions and for different castes and occupational groups of the borrowers in the post-loan period,

2. To examine the impact of bank credit on generation of additional employment,

3. To study the impact of the Bank assistance on asset creation for different borrowers,

4. To assess the effect of bank loans on the pattern of consumption expenditure of the borrowers;

5. To identify the problems confronted in borrowing and repayment of credit by the weaker sections; and

6. To suggest policies for the rapid development of the weaker sections.
1.5.2 HYPOTHESES

Based on the objectives, the following hypotheses are formulated and tested.

1. There is no significant impact of bank finance on the generation of income of the weaker sections in the post-loan period,

2. The impact of bank loans on different occupational groups is not uniform,

3. The impact of bank credit on different schemes is not uniform,

4. The impact of bank assistance on different caste groups is not uniform,

5. The impact of bank finance is not uniform in different regions,

6. There is no significant difference in incomes of borrowers and non-borrowers in the post-loan period,

7. There is no significant impact of bank loans on employment generation of borrowers,

8. There is no substantial increase in asset creation of borrowers;

9. There is no significant increase in the consumption expenditure of borrowers, and

10. The borrowers are not facing any problem while borrowing and repaying loans.

1.6. Methodology of the Study

1.6.1 DATA BASE

To fulfill the objectives of study and to test the hypotheses both primary and secondary data were collected. The relevant primary data relating to socio-economic background, income, employment, assets, expenditure and problems in securing and repayment of loans were collected from the sample borrowers and non-borrowers through personal interview method. The relevant secondary data were collected from the
publications of Reserve Bank of India, National Bank for Agriculture and Rural Development (NABARD) and Tungabhadra Gramin Bank. Besides, data were collected from Annual Action Plan Reports Published by the Lead Bank, Reference Books and a host of Journals and Magazines.

1.6.2 THE CHOICE OF THE STUDY AREA

The Tungabhadra Gramin Bank in Karnataka was selected for the study for the following reasons. Tungabhadra Gramin Bank was the first Regional Rural Bank started in South India. It is one of the few Regional Rural Banks in India which earned profits since its inception. In addition, the accessibility, proximity and familiarity of the region influenced the choice of the selection of Tungabhadra Gramin Bank.

1.6.3 SAMPLING DESIGN

A multi-stage stratified random sampling technique was adopted for collecting the primary data from the sample respondents. At the first stage, the operating area was classified into two regions, viz., irrigated and un-irrigated with the help of information available in bank records. At the second stage, four bank branches in each region were selected using simple random sampling technique without replacement (SRSWOR). Thus, a sample of eight branches were selected forming around seven per cent of the total number of branches of the bank during the study period. At the third stage, the borrowers in each region were selected in proportion to the number of borrowers in each of the eight branches using SRSWOR. It was also seen that the sample in each region contained adequate number of borrower households in each
of the four occupational groups, viz., Cultivators (Small and Marginal Farmers), Agricultural Labourers, Rural Artisans and Small Business Operators. Thus, a total of three hundred and fifty sample borrowers were selected. Further, for the purpose of comparative analysis, a random sample of one hundred non-borrowers, were selected in two regions. While selecting non-borrowers care was taken to see that their socio-economic conditions were similar to those of the borrowers in the sample. The relevant primary data from the sample borrowers and non-borrowers were collected through personal interview by canvassing specially designed, pre-tested schedules. The year 1983-84 was chosen as the pre-loan reference year and 1985-86 as the post-loan reference year. Though the schedule was in English, the questions were asked in the local language i.e., Kannada, to elicit correct information.

1.6.4 ANALYSIS OF DATA

The collected data were analysed with the help of simple averages, percentages besides the following statistical tools.

1.6.4.1 Growth Rate. To study the growth of Regional Rural Banks and Tungabhadra Gramin Bank in terms of indicators like branch expansion, deposit mobilisation and deployment of credit, the compound growth rate was computed using the formula

\[ Y = ab^t \]

or \[ \log Y = \log a + t \log b \]

Where \( Y \) = Dependent variable,

\( t \) = Number of years,

\( a \) = regression constant,

\( b \) = Regression Co-efficient.
The compound growth rate (C.G.R.)
is given by \( = (\text{anti log } b - 1) \times 100.\)

To test the significance of the growth rate 't' test statistic is used.

1.6.4.2 **Paired 't' Test.** To test the significance of the variations in
income, employment, assets, and expenditure, between pre and post loan
periods, the paired 't' test statistic was employed.

\[
t = \frac{|\bar{d}|}{\sqrt{(n-1)}}
\]

Where,

- \( \bar{d} \) = the Mean of the differences,
- \( S \) = the Standard deviation of the differences and
- \( n \) = sample size.

The distribution follows 't' with \( n-1 \) degrees of freedom.

1.6.4.3 **Student 't' Test.** In order to test the significance of the
variation in income, employment, assets and expenditure between
borrowers and non-borrowers and between irrigated and unirrigated
regions, Student 't' test was used.

\[
t = \frac{|\bar{x}_1 - \bar{x}_2|}{S\sqrt{\frac{1}{n_1} + \frac{1}{n_2}}}
\]

\[
S = \sqrt{\frac{n_1 s_1^2 + n_2 s_2^2}{n_1 + n_2 - 2}}
\]

Where,

- \( \bar{x}_1 \) = Mean value of the variables for the first group,
- \( \bar{x}_2 \) = Mean value of the variables for the second group,
- \( S \) = Combined standard deviation,
- \( n_1 \) = Sample size of the first group,
- \( n_2 \) = Sample size of the second group.
1.6.4.4. **Analysis of variance.** To test the significance of variations, in the mean values of income and employment among various groups (involving more than two sample means) the Analysis of Variance (ANOVA) technique was employed. F-test statistic was computed to test the significance of the variations.

1.7. **Limitations of the Study**

Owing to time and resource constrains, the scope of the study was limited only to eight branches of the operating area of the bank accounting for nearly seven per cent of the total bank branches. Recall method was used to collect information from the sample borrowers and non-borrowers as they did not maintain records of the employment, income, assets, expenditure and volume of debt. Sufficient care was taken to obviate recall lapses, if any, and to collect the reliable information from the respondents, not only by visiting them at repeated intervals but also through checks and counter checks while canvassing the schedules. In spite of these limitations, the results of the study may be generalised for the entire operating area as the selected samples fairly represent the population. The results of the study may also be relevant to other Gramin Banks in India with similar agro-climatic and socio-economic conditions.

1.8 **Conceptual Frame Work**

1.8.1 **WEAKER SECTIONS**

Weaker sections refer to small and marginal farmers, agricultural labourers, rural artisans, retail traders and other people who are living below the poverty line.
1.8.2 POVERTY LINE

Poverty line refers to consumption expenditure which is just adequate to meet the minimum nutritional standard per family consisting of five persons per annum. On the basis of price index for the year 1979-80, the income ceiling of Rs.3500/- was fixed to determine the poverty line. According to revised price index in 1981-82, the income ceiling of Rs.4300/- was fixed at all India level and Rs.4700/- was fixed at Karnataka state level, to determine the poverty line (TGB circular no.97/84 dated 10th August 1984). Therefore, in the present study the households with income less than Rs.4700/- were considered to be the households living below the poverty line.

1.8.3 SMALL FARMERS

According to Tungabhadra Gramin Bank circular No. 97/84, small farmers are those cultivators with land holdings of less than 7.25 acres of irrigated land and 18.50 acres of rain-fed or unirrigated land, or net return to the family not exceeding Rs.4700/- at 1981-82 prices. Irrigated land includes Canal, Tank and Well irrigated lands.

1.8.4 MARGINAL FARMERS

Marginal farmers are those cultivators with land holdings less than 3.65 acres of irrigated land and 9.25 acres of unirrigated land.

1.8.5 AGRICULTURAL LABOURERS

Agricultural labourer is a person deriving more than fifty per cent of his total income from agricultural wages.

1.8.6 RURAL ARTISANS

A rural artisan is a skilled person engaged in manufacturing, processing, or servicing activity by utilising locally available
resources. People engaged in any of the following occupations are considered as artisans. (a) Weavers, knitters, carpet makers, (b) Dress makers, (c) shoes makers and other leather workers, (d) pot makers (e) black smiths, gold smiths and copper smiths, (f) carpenters and painters, (g) stone carvers, masons and plasters, (h) basket and mat weavers and related workers and makers of musical instruments, toys and sports goods.

1.8.7 SMALL BUSINESS OPERATORS

Small Business operators are the people who carry on business with a capital of less than Rs.7500/-

1.8.8 HOUSEHOLD

Household refers to a group of persons normally living together under the same roof and taking food from a common kitchen.

1.8.9 ASSETS

Assets owned by the household are defined to include all items which have money value such as land, building, live-stock, agricultural implements, non-farm business equipments, all transport equipments and durable household assets.

1.8.10 CONSUMPTION EXPENDITURE

Consumption expenditure includes expenditure incurred on all items comprising food, clothing, housing, fuel, lighting, education, health and recreation.

1.8.11 CASTE-GROUP

In the Indian constitution certain depressed castes known as Scheduled Castes and Tribes (SC/STs) were identified for the purpose of extending reservations. The Government of Karnataka also identified
certain castes as Backward Castes (BCs) for the purpose of extending reservations in education and employment. The respective castes were considered as SC/STs and BCs borrowers in the present study. Households other than SC/STs and BCs were treated as Other Castes (OCs).

1.8.12 WORKING LABOUR FORCE

The total number of working persons in a family are converted into standard adult units based on 2:3:4 ratio of male, female and children. Other relevent concepts were defined at appropriate places.

1.9. Chapter Scheme

The present study is divided into ten chapters.

The introductory chapter briefly outlines the statement of the problem, banking and economic development - a theoretical perspective, overview of literature, research gaps, objectives and hypotheses, data base, sample design, tools of analysis, limitations of the study, conceptual frame work and chapter scheme.

Chapter 2 deals with the genesis, growth and performance of Regional Rural Banks in India.

Chapter 3 deals with growth and performance of Tungabhadra Gramin Bank.

Chapter 4 gives a brief description of agro-economic profile of the study area and socio-economic profile of the sample respondents.

Chapter 5 seeks to focus attention on the impact of bank finance on the generation of income in different schemes, occupations and regions in the post-loan period.
Chapter 6 deals with the impact of bank finance on the generation of employment among various groups, schemes and regions of borrowers and non-borrowers.

Chapter 7 examines the effect of bank finance on asset creation of the weaker sections covered in the present study.

Chapter 8 presents the impact of the Bank finance, on consumption pattern of the borrower and non-borrower households in the study area.

Chapter 9 analyses the recovery performance of the bank loans and problems confronting the borrowers in obtaining and repaying bank loans.

In Chapter 10 summary, conclusions and suggestions are furnished.

NOTES AND REFERENCES


11. Ibid. P.11

12. Ibid. P.12

13. Ibid. P.14


18. M.Narasimham was the Additional Secretary in the Department of Economic Affairs, Government of India.


44. Ibid P.74.

45. Ibid p.75.


47. Ibid p.362.

48. Ibid p. 262


50. Ibid. p.6.


57. Ibid. p.469.


59. Ibid. P. 49.


71. Ibid. p.33.