CHAPTER-1
INTRODUCTION

1.1 Introduction

India’s majority of population lives in villages. Therefore, it is rightly said that success of rural development models is very important for the development of nation’s economy. In this context institutional credit for rural development has special role to play.

Historically, there have been four major problems with respect to the supply of credit to Indian countryside. First, the supply of formal sector credit to the countryside as a whole has been inadequate. Secondly, rural credit markets in India themselves have been very imperfect and fragmented. Thirdly, the distribution of formal sector credit has been unequal, particularly with respect to region and class, caste and gender in the countryside. Formal sector credit needs specially to reach backward area, income poor households, people of the oppressed castes and tribes, and women. Fourthly, the major source of credit to rural households, particularly income poor households, has been the informal sector. Informal sector loan typically are advanced at very high rates of interest. Further, the terms and conditions attached to these loans have given rise to an elaborate structure of coercion - economic and extra economic – in the countryside.

One of the policy instruments to achieve these objectives were to be the expansion of the institutional structure of formal sector lending institution; along with direct lending and concessional or subsidized credit. Public policy was thus aimed not only at meeting rural credit needs but also at pushing out the informal sector and the exploitation to which it subjected borrowers. Rural credit policy in India envisaged the provision of a range of credit services including long-term and short term credit and large scale and small scale loan to rural households. The RRBs were established as a part of expanding institutional credit to rural.

Several initiatives like nationalization of banks, priority sector lending, opening of branch network in rural areas, establishment of Regional Rural Banks and many others have been taken to develop the Indian rural economy by providing institutional credit to the rural people.
In order to focus institutional credit to the rural poor and make the financial inclusion an integral part of economic development the Regional rural banks (RRB) were established for the first time in India in the year 1975. The RRBs are meant for the development of rural economy by pooling credit gap especially to the rural poor by providing credit.

1.2 Earlier studies on RRBs

Regional Rural Banks were created in the 1975 exclusively to serve the credit needs of rural India, and specifically those individuals, social groups and regions most excluded by the formal system of credit.

The studies on RRBs since its inception are of two types, the first related to policy issues and second, related to performance of RRBs at Macro level as well as at Micro level. The macro level studies covered the performance of Regional Rural Banks in terms of impact of RRBs on rural development (Tiwari 1975, Ramchandran 1992, Gupta 1992), personnel problems (Narayappa 1991), etc.

There are also studies related to performance of RRBs for particular state e.g. for the state of Bihar (Himansu Shekhar, 1997), Andhra Pradesh (M.L. Narasaih, 2003), Karnataka (Kalaundrikar, 1990), Bijapur district in Karnataka (Hundekar S.G. 2003), Orissa (Mishra, 2009), etc.

These studies focused the performance of particular RRB in terms of fulfilling the role of RRB in terms of Branch network, Deposit mobilization, Credit management and Financial Profitability. Most of the studies pertain to the period prior to year 2005, the pre-merger period.

1.3 Research problem

Gujarat is one of the industrially advanced states. For the sustainable progress of the state the development of rural economy is very important. In this context this study intends to assess the performance of RRBs in Gujarat in post merger period of economic reforms. RRBs have been assigned the special role of development of rural economy by facilitating to the rural poor, the credit facilities for agriculture, trading, self-employment and so on of each region. This study makes an attempt to study the performance of three regional rural banks in Gujarat.

Accordingly, the study is embodied as “A Study of Regional Rural Banks in Gujarat in Post merger period”. The Regional Rural Banks to be studied are (1) Baroda Gujarat
Gramin Bank (2) Dena Gujarat Gramin Bank and (3) Saurashtra Gramin Bank. The various studies referred in literature review, most commonly access the performance of RRBs in terms of

1. Branch network, to cover the aspect of financial inclusion
2. Deposit mobilization
3. Credit facilities given, to know the C.D. Ratio, to assess the effectiveness of banking business as well as credit extended to rural poor.
4. Operational efficiency, and
5. Profitability, to know the financial viability of RRBs.

The researcher has used the framework used by Hundekar (1995) as a base for the present study. He termed the study of performance of RRBs as study of ‘Productivity’. The aspects covered in productivity include (1) Branch network with eight ratios (2) Deposit mobilization with seven ratios (3) Credit management with nine ratios (4) Operational efficiency with seven ratios, and (5) Profitability analysis with nine ratios. For this study, based on the data availability of data from annual reports of RRBs in Gujarat some ratios are excluded.

1.4 Objectives of the study:
The objectives of the study are:
1. To study of performance of individual Regional Rural Banks in Gujarat. These RRBs are Baroda Gujarat Gramin Bank, Dena Gujarat Gramin Bank, Saurashtra Gramin Bank.
2. To make the comparison of performance of three RRBs of Gujarat.

1.5 Chapter Scheme:
The research work is divided into following chapters.

Chapter-1: Introduction
This chapter gives brief about the context of the study, what is role of the RRBs, an outline of research studies carried on RRBs, research problems and objectives followed by chapter scheme.

Chapter-2: Regional Rural Banks- An overview
This chapter gives an outline of importance of rural development and role of institutional credit in the backdrop. It also gives how and why RRBs were established.

**Chapter-3: Performance of Regional Rural Banks in India-Highlight**
This chapter gives highlights of performance of Regional Rural Banks in India from inception.

**Chapter-4: Performance of Regional Rural Banks- Literature Review**
This chapter gives summary of various studies related to performance of RRBs done by the various researchers.

**Chapter-5: Research methodology and Profile of Regional Rural Banks in Gujarat**
This chapter describes the research methodology followed for this study. It also gives a brief profile of three RRBs in Gujarat.

**Chapter-6: Performance of Regional Rural Banks in Gujarat- Findings (Trend Analysis)**
This chapter gives the findings of performance of BGGB, DGGB, and SGB expressed in trend.

**Chapter-7: Comparison of Regional Rural Banks in Gujarat- Findings (ANOVA)**
This chapter gives the findings of comparison of performance of three Regional Rural Banks in Gujarat done by ANOVA analysis.

**Chapter-8: Discussion, Suggestions and Area for further Research**
This chapter makes discussion on the findings followed by suggestions and areas for further research.

**1.6 Chapter concluding Note**
This chapter gave an outline of thesis. The next chapter gives an outline of role of institutional credit for rural development and how Regional Rural Banks’ can serve this purpose.

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2 Ibid