CHAPTER-1

INTRODUCTION
1.1. SIGNIFICANCE OF THE STUDY

The problem of poverty is the most urgent problem among the problems of 21st century. The largest number of the poor live in the rural areas of the Developing world. The challenge to world poverty mainly lies in the development of agriculture and allied activities. Farm development pre-supposes technological transformation. Farm credit, though of itself does not transform technology, aids this transformation process by providing a tool to acquire modern inputs. Credit is the external source of capital for investment which is necessary for this transformation.

Rural poverty is reflected in poor nutrition, inadequate shelter and low health standards. They affect the productivity of the rural poor and their quality of life. Farm credit is a key element in helping the poor become more productive. But traditionally the flow of credit to marginal and small farmers has been inadequate.

Strategy for the upliftment of the rural poor in the society has become a global phenomenon. It is a part and parcel of the wider strategy to combat world poverty. In our country also concerted efforts are being made in this perspective. The approach of our country is to ensure growth with social justice.

The policy makers have realized the dynamic role of credit in the development of the farm sector in India. The introduction of one agency
after another to the farm credit overtime is a clear indication of this recognition. There is considerable flow of finance from the institutions to the rural poor. A new era in the country's banking system began on the eve of Gandhiji's birthday in 1975 with the inauguration of the 5 Regional Rural Banks. The basic assumption underlying the new concept of Regional Rural Banks was that it would combine the local knowledge, rural bias, spirit of service and would be dedicated to the rural poor which are characterized by co-operative banks and with the adequate resources, expertise, management and operational efficiency of the commercial banks.

Regional Rural Banks as a financial institutional system for rural development in India has 15 years of age by the year 1990. This age can be considered as very small in the life of an institution. Even in this short span of time many official and non-official studies have been conducted on various aspects of the functioning of Regional Rural Banks. Some of the important studies are reviewed here.

A. REVIEW OF LITERATURE

(a) Report of Review Committee on Regional Rural Banks.³

The Reserve Bank of India had appointed in June 1977 a committee to review the working of Regional Rural Banks under the chairmanship of Professor M.L. Dantwala with the following terms of reference:
(i) Evaluation of the performance of the Regional Rural Banks in the light of objectives for which they were set up;

(ii) Indication of their precise role in the rural credit structure; and

(iii) Making recommendations with regard to the scope, methods and procedures of their functioning.

The main findings of this review committee based on the results of the detailed studies of the working of the 12 selected RRBs are as follows:

1. The location of most of the RRBs could be justified considering the degree of the existing credit gap, the weak state of the co-operative structure and the agricultural potential of the area;

2. The performance of the business of the RRBs within the short period of their existence was judged as good by using both quantitative and qualitative tests such as the record of branch expansion, deposit mobilization and loaning operations;

3. A typical RRB with 50 operative branches was expected to become financially viable at a level of loaning business of about Rs.3 crores and it was expected that most RRBs could become financially viable in a period of about 3 to 4 years;

4. With reference to the test of deployment of local resources in local areas as judged by the credit deposit ratio, the performance of the RRBs was distinctly superior compared to that of the rural branches of commercial branches;
5. Most of the RRBs had succeeded to a great extent in the extension of their banking services to relatively unbanked or underbanked centres in the interior rural areas;

6. The RRBs had succeeded in recruiting local staff which could be taken as an indicator of rural orientation and local touch to their business operations;

7. It was observed that the RRBs were much more efficient in the dispersal of loans to the rural borrowers compared to the rural branches of commercial banks;

8. The overall recovery performance on different kinds of loans made by the RRBs was good;

9. RRBs could not succeed in covering a substantial proportion of weaker sections of the population in providing loans; and

10. The response of local residence belonging to the weaker sections was very favourable to RRBs compared to co-operatives and commercial banks. Thus, on the whole, public response to this new institution of RRBs was found to be generally favourable.

The major recommendations of this committee are as follows:

1. RRBs with modifications in their organization and functions can become a very useful component in the totality of the rural credit structure;
2. For the future programme of extension of RRBs to other districts, the committee considered two options. The first option was restriction of further expansion of RRBs selectively only to such areas where both the co-operatives and commercial banks are weak or provide inadequate coverage. And the second option considered was making the RRBs an integral part of the rural credit structure in India;

3. Ideally the jurisdiction of an RRB should be confined to one district. Each RRB should have 50 to 60 branches. A branch of an RRB should cover a population of about 20 thousand;

4. The overseeing authority for regulating the growth and determining the policies of RRBs should be vested solely in the Reserve Bank of India;

5. The composition of the share capital of an RRB should be as follows:

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<th>Percentage</th>
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<tr>
<td>Reserve Bank of India</td>
<td>25 per cent</td>
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<tr>
<td>Sponsoring Bank</td>
<td>40 per cent</td>
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<tr>
<td>State Government</td>
<td>15 per cent</td>
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<td>Local participation</td>
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6. The Board of Directors of the RRB should consist of 9 members including the Chairman, three members nominated by the sponsoring bank, 5 other members chosen as follows: one member by the RBI, two members by the State Government and
two other members from amongst the local shareholders. As for the chairman, the first chairman should be nominated by the sponsoring bank for an initial period of 3 to 5 years. Subsequently appointments should be made by the Board of Directors of the RRB;

7. The RRBs should be permitted to lend up to 40 per cent of their loans to large farmers and other borrowers not covered by them at present.

8. RRBs should be allowed to offer full banking facilities;

9. RRBs should make available adequate and timely credit to the class of borrowers who are presently at the mercy of private moneylenders;

10. It is desirable to adopt the agricultural pass book system for all cultivators to facilitate speedy loaning activities by the RRBs;

11. It is advisable to adopt a graded scale of finance to different categories of borrowers;

12. There is a need for further simplification of norms and procedures used by the RRBs; and

13. The internal management structure of the RRB needs to be strengthened, the management costs of the operations of the RRBs though at a low level should not be done at the cost of the efficiency of the operations.
The report submitted by the Review Committee on Regional Rural Banks in 1978 presents an excellent background survey and an expert assessment of the state of the functioning of the RRBs. Though there are some weaknesses in the report, it is an extremely valuable document both for the department of the analysis of the problems and for many useful recommendations.


The Working Group on multi-agency approach in agricultural finance under the chairmanship of C.E. Kamath has made some relevant observations on the role of the Regional Rural Banks. According to it, the role of the RRBs is to supplement and not to supplant the other institutional agencies in the field of rural credit. It further recommended that the RRBs in their direct loaning should not enter into competition with the co-operatives.

The Kamath group clearly preferred the RRBs to the commercial banks for the future expansion of banking in rural areas. It also favoured the idea of allowing the RRBs to allocate a part of their total loans to the large and medium farmers.
(c) Report of the Committee on the functioning of the Public Sector Banks

The committee on the functioning of the public sector banks under the chairmanship of James Raj found RRBs to be useful and preferred its expansion in the rural areas to the expansion of the rural branches of commercial banks. Some relevant segment of the report is given below:

"Regional Rural Banks can play a significant role in the financing of the rural sector. RRBs should not only open more branches in the rural areas but also gradually take over the existing rural branches of commercial banks. Consequently all public sector banks and large private sector banks should be allowed to open branches only up to the district headquarters/mandal/block level".

(d) Report of the CRAFICARD

At the instance of the Government of India, the Reserve Bank of India appointed on 30th March 1979, a committee under the chairmanship of Shri B.Sivaraman to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD). The following are some important comments of this committee on the RRBs:

"As between commercial bank branches and the RRBs, experience as well as evidence before us show that RRBs are more suitable for the tasks in hand. Apart from the fact that the RRBs devote special attention to the weaker sections, the target groups which should be enabled to
participate in and share the benefits of rural development, they have the advantage of lower cost of operation as compared to the commercial banks. The RRBs are managed by men of the area who are in a better position to know and appreciate the problems of the area. Being district level organizations, they can be trusted to take banking closer to the rural households and ensure more effective supervision over the end use of credit. For these reasons, preference should be given to RRBs in regard to licencing of branches in the rural areas. The advantage would seem to lie in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs sponsored by them wherever possible. Viability cannot be the sole criterion for assessing the performance of RRBs in the earlier years. Any credit institution, if it is to survive for long, cannot be offered to incur losses continuously. It has to become viable sooner or later. This is an essential aspect of any long-term arrangement to institutionalize credit. Certain minor relaxations may be made allowing RRBs to finance big farmers. The holders of fixed deposits in RRBs are also eligible for loans against these deposits. The emoluments of the staff should be continued to be determined with due regard to the State Government scales as now being done by the Government of India. In so far as the banking aspects of the linkage are concerned it is obvious that these have to be continued since the sponsor banks are financing banks as well. We recommend that facilities for recruitment and training and
technical assistance should continue to be provided by the sponsor banks, on the same terms for a period of 10 years for each RRB. Thereafter any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB. We recommend that nomination of at least two non-officials who are either progressive small farmers, social workers or persons connected with the rural welfare, agricultural development, village industry etc., may be made. It is not advisable to consider persons who are active politicians or office bearers of political parties for such nominations. Some of the State Governments have also expressed their preference for keeping RRB managements free from politics. It is urged that the necessary amendments to RRBs Act may be made at the earliest so that there will be a single overseeing authority to look after RRBs essentially NABARD. Being institutions devoting exclusive attention to the weaker sections, it should be appreciated that the RRBs have to be treated on a special and different footing in facilitating their operations. We have no doubt that given the necessary aid, support and guidance in the initial years, RRBs will come to have an increasingly important role as an integral element of the multi-agency system at the ground level. The RRBs will be well on their way to becoming district level commercial banks, ready to diversify their activities".
Recently the Government of India appointed a Working Group on Regional Rural Banks under the chairmanship of Sri Kelkar to study the working of the RRBs in a very comprehensive manner. The committee has shown full awareness of the basic problem of the RRBs and has stated that "credit institutions, which start showing strains of non-viability cannot be allowed to continue in the present form and call for a serious review of their structure". After detailed review of the working of the RRBs the Kelkar Committee came to the fundamental conclusion that "..... in view of its large branch network, comparatively lower cost of operation, local involvement through appropriate staffing pattern, and their operations more in tune with the national objective of serving the weaker sections comprising small and marginal farmers, artisans, village and cottage industries, the RRBs as a part of the multi-agency approach to rural credit are eminently suitable to do the job envisaged for them. Further, as district level organizations, they can be trusted to take banking closer to the rural households and ensure effective supervision over the end-use of credit. The RRBs can exist side by side with the co-operatives and commercial banks playing a supplementary role to each other".

To improve the viability, operational efficiency and managerial effectiveness of the RRBs, the Kelkar Committee has made a number of
recommendations, the more important amongst them are summarized below:

Viability:

(a) The RRBs should not finance bigger borrowers and should retain their present image of a small man’s bank. RRBs should however be allowed to lend to public bodies such as scheduled caste/scheduled tribe corporations. The sense of local feel in the operations should not be allowed to be diluted. (b) The return on the advances confined to the weaker sections being limited financial non-viability is built-in in the present arrangement and as the other costs go up the viability will get strained further. The committee’s specific suggestions to improve the viability of RRBs are: (i) provision of additional cost free funds by way of increased paid-up capital of each RRB from Rs.25 lakhs to Rs.100 lakhs, (ii) lowering of involvement of sponsor banks in RRBs loans, by reducing their refinancing of short-term loans from 30 per cent to 20 per cent, accompanied by a reduction in the rate of interest from 8.5 per cent to 7 per cent per annum, (iii) investment of statutory liquidity reserve deposits kept by RRBs with sponsor banks in Government securities to enable them to earn a higher rate of return, (iv) a judicious re-adjustment of loan portfolio by the RRBs to correct the mismatch between investment credit and working capital loans.
Coverage

(a) From the point of view of manageability and better control over branches by their head offices the unwieldy RRBs should be bifurcated, after a case-by-case study by the NABARD. There is also a case for amalgamating two or more small and uneconomic RRBs into a single viable unit, after a similar detailed study by the NABARD. (b) Keeping in view the importance of RRBs as an effective institution for purveying credit to weaker sections, new RRBs may have to be opened in areas with preponderance of SC/ST population, taking into account the existing banking facilities and the credit gaps – both in qualitative and quantitative terms. (c) When one RRB is established in an area, viability considerations demand that sufficient number of branches should be allowed to be opened by it and the RBI may have to relax its policy norms, taking into account the need and viability aspects.

Assistance to RRBs in recovery of dues

(a) Concerted action needs to be taken by all concerned to reduce the overdues of the RRBs and get the locked funds released for recycling. The State Government can play a major role in helping the RRBs in the recovery of their dues, (b) proper systems and procedures should also be followed right from the beginning so that overdues can be avoided.
Responsibility of Sponsor Banks

(a) The Chairman should be appointed by the sponsored banks in consultation with the NABARD from among senior officers with adequate organizational experience in the management of funds, human resources, industrial relations, etc. Preferably a suitable orientation training should be imparted to such officers, before they assume charge (b) The sponsor banks should monitor the progress of the RRBs by keeping a watch on important indicators relating to viability and the advise RRBs suitable corrective action wherever necessary.

Responsibility of the NABARD

(a) The NABARD should oversee the functioning of the RRBs and lay down broad policies and guidelines. (b) Guidance to RRBs in operational and other matters should be provided by their sponsor banks.

Responsibility of State Governments

(a) As shareholders, the State Governments have an important role to play in facilitating the smooth working and development of the RRBs in their State. They should assist the RRBs in their State. They should assist the RRBs in the recovery of their dues, in providing adequate infrastructural support, in making adequate security arrangements for vulnerable branches and in preparation of area specific and bankable schemes to be financed by the RRBs.
Responsibility of the Government of India

(a) The Government of India’s role vis-à-vis the RRBs should be confined to overall policy and direction, keeping in view the national policy and the objective of serving the weaker sections.

Training, Recruitment and Other Matters

(a) The entire recruitment process in the RRBs needs to be streamlined. The quality and adequacy of training for the RRB staff needs to be reviewed keeping in view the need to impart training to the RRB staff. (b) Reasonable promotional opportunities will have to be provided to the staff of the RRBs. Some posts in the officer cadre of the sponsored banks may be made available to the RRB officers with requisite experience and qualifications.

(f) Report of the Agricultural Credit Review Committee

The Reserve Bank of India in consultation with the Government of India and the World Bank constituted on 1st August 1986 a senior expert group to review the agricultural credit system in India with the following specific objectives:

(a) to review the rural financial system in the country and to assess the credit requirements of the agricultural sector during the next decade;
(b) in this context, to determine the role of the credit system to support the national plans for agricultural development;
(c) to evaluate the major problems and issues currently effecting the agricultural credit system; and
(d) to make recommendations for improving the quality of credit and strengthening its efficiency and effectiveness.

After a critical examination of the Regional Rural Banks this expert group has recommended the merger of the Regional Rural Banks with their sponsor banks. According to this group the rationale for merger of RRBs with commercial banks is that, it will offer a solution to the problem of the insolvency and the in-built non-viability of the majority of RRBs. Secondly, the merger would be a solution to the innate weakness of the RRBs, by providing a structural arrangement which will have a built in self-strengthening and internal cross subsidization capability. Above all, the merger will in due course take us closer to achieving the goal of creating a strong, viable credit system, in which the interests of the small man would be better served.

B. REVIEW OF RESEARCH STUDIES

(a) Agricultural Finance Commission's Study on Regional Rural Banks

In the context of its positive role in the implementation of the RRB scheme, the Syndicate Bank desired to have an independent and objective
study on the working of the RRBs sponsored by it and entrusted this task to the Agricultural Finance Corporation (AFC). The AFC had conducted a detailed study of (i) Malaprabha Grameena Bank in Dharwar in Karnataka State and (ii) Rayalaseema Grameena Bank in Kadapa in Andhra Pradesh covering a period of 1976-1980 and submitted its report in 1981. The following are the important observations and suggestions evolved from this study: At present this bank is renamed as Andhra Pragathi Grameena Bank.

The RRBs are giving due consideration to the list of centres identified by the State Governments while opening their branches. If possible, State Governments may construct suitable premises for housing the branches at low rent when the Government desires opening branches at a particular location. Loan proposals can also be considered by the RRBs for this purpose. The State Government departments should treat RRBs as their own institutions and provide all possible help. The State Government is among the share-holders and should not treat the RRBs like other commercial banks. As far as possible no new branches of commercial banks may be allowed to be opened in the areas of operation of the RRB branches.

As the RRBs have assumed an important role in rural development, the State Government, State Government Agencies, Autonomous bodies,
Zilla Parishads etc., may be moved to keep their deposits with the RRBs also. The RRBs should not only be in a position to earn profits but also start building substantial reserves. It is therefore, advisable that they should prepare their plans for a longer period of 5 years for achieving their goals. Performance budgeting is in operation. Branch-wise and village-wise and scheme-wise plans are to be prepared. It would be advisable to allot a full-fledged officer for carrying out the functions of performance budgeting and other correlated activities.

To maintain uniformity among all the RRBs, suitable modifications are necessary in the formats to indicate villages as classified in the latest available census records. It is expected that while the RRBs are required to finance weaker sections in the selected villages, the credit needs of the better-off section can be met by commercial banks. The experience of the RRBs show that commercial banks do not come-forth to finance big farmers in such villages. Specific instructions from the RBI may prove useful to solve this problem.

The RRBs are favourable to lend to the better-off section also for this purpose the maximum limit on such loans to an individual for each purpose can be fixed. This would also help in attracting local resources of the non-weaker sections and ensure support of the rural rich to the
activities of the RRBs. To the extent possible, consumption loans should be combined with production loans.

Refinance facilities to the RRBs should be enhanced, especially from NABARD and IDBI. The RRBs can step-up their lending under programmes sponsored by the Central and State Governments with a view to reduce the scattered lending. Loan applications under special programmes should be promptly routed to the RRBs.

It would be worthwhile to examine as to how far it is possible to bring uniformity in the discretionary powers delegated to the branches in respect of all RRBs sponsored by commercial banks. Eligibility criteria for weaker sections is to be reviewed periodically. Subsidies to be received by the RRBs are quite often delayed. It is necessary that the funds under subsidies are promptly transferred to the RRBs. Control measures and returns should be standardized.

The recoveries of the RRBs are satisfactory in comparison with the DCCBs. Wilful defaulters have to be dealt with firmly and effectively. The RRBs can associate with voluntary organizations and Government agencies in educating and motivating the rural poor to come forward and avail financial assistance. Reduction in lending rate of sponsoring banks, provision of all types of banking services by the RRBs, reorganization of Head Offices of RRBs, establishment of independent training centres, and
inducing employees to remain with RRBs are the important measures to be taken up for better performance of the RRBs. A systematic study on the benefits derived by the borrowers belonging to different target groups is to be taken up by the RRBs on a continuous basis.

(b) Charan D. Wadhva's Study on Rural Banks for Rural Development¹⁰:

Professor Charan D. Wadhva has undertaken a detailed research study on the working of the Regional Rural Banks and published a book with the title "Rural Banks for Rural Development" in 1980. In his book, he reviewed the rural credit scene in India and progress of the Regional Rural Banks and also appraised the working of Haryana Kshetriya Grameena Bank, Bhiwani (Haryana) sponsored by the Punjab National Bank and the Jaipur Nagaur Aanchalik Grameena Bank, Jaipur (Rajasthan) sponsored by the United Commercial Bank. Based on his study Wadhva suggested reorganization of the RRBs structure for achieving the objective of promoting rural development with retributive justice. The major elements of the suggested framework for reorganizing the working of the RRBs are:

(a) The uniqueness of the RRBs lies in their specialization in the task of rural development by providing direct credit facilities to the weaker sections of rural society which have been relatively neglected in the past both by the co-operative agencies and the commercial banks. This
distinctive function of the RRBs must be largely preserved. The RRBs must be identified as the "rural banks of the rural poor. (b) The creation of more hospitable environment ensuring co-operation from all concerned parties, especially the State Governments is a pre-requisite for ensuring the rate of growth of business of RRBs as partners in progress towards the noble objectives of development of the rural poor. (c) It needs to be reasserted firmly that the RRBs have a complementary role to the cooperatives at the grass root level. There is scope for increasing loaning activities of both the co-operatives and the Regional Rural Banks without much fear of diversion of business from one institutional agency to another. The RRBs should generally be preferred for further expansion of banking in rural areas. (d) In order to strengthen the working of the RRBs, participation by the public, especially the local people, both in the equity structure and the board of management may be allowed. (e) The RRBs Act 1976 may be amended to provide for sponsorship of RRBs by the interested District Central Co-operative Banks in the areas where the co-operatives are strong and the RRBs are not operating. (f) The State Governments must help in the formation of the Farmers Service Societies and Small Business Service Societies and attach them to the RRBs in their areas of operation. (g) The linkage of the RRBs with the sponsoring banks also needs to be strengthened. (h) There is a need to establish a very close link between the RRBs and the special programme initiated by the Central
Government in the National Five Year Plans. (i) All loans granted by the commercial banks under the Differential Interest Rate (DIR) scheme to the weaker sections of rural society must be made through the RRBs in their areas of operation. (j) Through the effective credit administration and drive towards deposit mobilization the RRBs must be made financially viable within a time bound programme of five to ten years. (k) Much greater attention needs to be paid to financing group activities by RRBs. (l) The RRBs must pay greater attention in future to the credit needs of non-cultivators. (m) It would be important for the RRBs to increase their loans for consumption purposes initially to such needy borrowers who are being provided with loans by the RRBs for productive purposes. (n) The RRBs should be allowed to undertake the full range of banking services. (o) The RRBs have to change their staff and training policies according to the changing environment.

(c) A Study by Shete and Karkal

In their research study, Dr. N.B. Shete and Dr. G.L. Karkal who belong to the National Institute of Bank Management (NIBM), Pune, Maharashtra critically analysed the genesis of RRBs, their geographical dispersion, the role of sponsoring banks, business performance and financial performance of the RRBs in the country. Their study clearly shows that there are inter-regional and inter-bank variations in the progress and performance of the RRBs. But the RRBs have not neglected the backward states and regions in
spreading the banking services and in serving the rural and tribal population. They suggested preventive and curative measures to deal with the problem of overdues of the RRBs and they warned that if these measures are not taken then the time will not be too far away to think again of creating another new financial institution to supply credit to the rural activities. They have been successful in proving that the performance of the RRBs in terms of profit or loss is not related significantly to the business variables.

(d) A Study by Kuchhadiya and Shiyani\(^2\):

Dr. D.B. Kuchhadiya and R.L. Shiyani attempted to examine the “Role of Regional Rural Banks in upliftment of weaker sections”. Their main findings are as under:

(a) 38 RRBs have good network with 100 or more branches constituting 39.23 per cent of the total branches.

(b) 89 RRBs (45.51 per cent) covering 3163 branches (23.69 per cent) were below 6 years of their existence.

(c) The average percentage share of IRDP beneficiaries in the total loan borrowers of the RRBs in India was 84.80 per cent while their share in terms of total loan amount issued during the year was 85.49 per cent.

(d) On an average 3.62 per cent of the total borrowers were financed under the scheme of DRI, covering 3.14 per cent of the
total loan issued by all the RRBs functioning in India during 1987.

(e) The Eastern region ranked first both in financing under IRDP as well as DIR scheme.

(f) The analysis of the RRBs in Gujarat showed that the average percentage share of IRDP beneficiaries in the total loan borrowers and the amount of loan issued for the purpose was higher than those of the national average.

(e) A Study by K. Narasimhulu\textsuperscript{13}:

Dr. K. Narasimhulu in his paper on “Regional Rural Banks in Rural Development” has discussed the failures of commercial and co-operative banks and the progress and the performance of the Regional Rural Banks. He concluded his study with the following suggestions:

“Since the RRBs are satisfying all the conditions of a sound rural credit system, it is desirable that necessary steps be taken by the Government of India for their expansion on a large scale. As the rural development process gathers momentum, the rural community will also expect more of other banking services – other than credit. In the long-run, the interest of the weaker sections can be served effectively only by institutions which are financially and structurally strong and can respond to the changing needs of the community”.

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(f) A Study by Singh and Upadhyay¹⁴:

Mr.R.K.Singh and Mr.K.M.Upadhyay have conducted "A study of loan recovery of Regional Rural Banks in Bihar". They analysed the extent of recovery of loans, reasons for overdues and measures for improvement in recovery of loans. Their study reveals that the recovery performance of the RRBs in Bihar declined continuously during the period 1978-80. In the opinion of managers, inadequate arrangements for recovery was the most important reason for the low recovery. The most important reason for overdues indicated by borrowers was the shortage of funds to repay the loans either due to crop failure or due to expenditure on marriage ceremonies or other social functions or illness of family members. Borrowers also supported the view of managers regarding low recovery. In the opinion of borrowers inadequate follow-up by banks for repayment and willful default were more or less equally important reasons. The most important measures for improving the recovery performance as suggested by managers are lending in clusters, timely reminders to borrowers, tie-up arrangements with marketing agencies, support from Government authorities and legal action against willful defaulters.

(g) A Study by Kishore C.Padhy¹⁵:

Mr.Kishore C.Padhy has conducted a survey of 20 branches of the Regional Rural Banks in Orissa to analyse some aspects of management of the Regional Rural Banks. He focused his attention on the work ability,
motivation, leadership and employee satisfaction. Based on his study the following suggestions are made:

Organizational variables such as formal structure (rules, reward, hierarchy, span of control, job design), leadership style (task orientation or human relations orientation), etc have to be consciously changed to minimize the employees dissatisfaction. Participative management is the first step in this direction. Employees holding a share of RRBs and sharing power with the top management in key business and personnel areas may be experimented to reduce the conflict between goals of individuals and organization. Work design, job enlargement and enrichment provide lasting growth and competence. But work design is more a management-control than employee satisfying activity. Similarly, job enrichment mostly dictated from above wrongly assumes that each and every employee has exactly the same motivation profile. Organizational Development (OD) approach should recognize the problem and create the awareness of the need for change initiate a change in strategy, develop structural/technical/behavioural changes and may provide a lasting solution to the problems of employee satisfaction. Mr.Kishore suggested OD approach to the management of Regional Rural Banks.
(h) A Study by Kanvinde\textsuperscript{16}:

Mr.D.J.Kanvinde in his paper on the Regional Rural Banks discussed certain basic issues. They are the expected role of RRBs, achievements of the RRBs, implications for branch expansion and viability of the RRBs. He concluded his study by saying that if the RRBs are to remain 'small-man-oriented' credit institutions and still retain long term viability and strength, a closer look at the policy of administered rates of interest would probably be inevitable. Subsidies at best can be a temporary phenomenon.

(i) A Study by Uma Mahesh Patnaik and Sundara Rao\textsuperscript{17}:

Mr.K.Uma Mahesh Patnaik and Dr.M.Sundara Rao conducted a research study on the “Impact of Shri Visakha Grameena Bank on beneficiary households”. Their study reveals that the impact of Shri Visakha Grameena Bank on the selected beneficiary-households is significant in terms of increase in their investment, income levels, consumption position and promotion of family employment. A horizontal shift in the distinction of beneficiaries from the low income groups is noticed and relatively higher income groups are experiencing lower growth rates of income compared to lower income groups.
(j) A Study by Ram Iqubal Singh Yadav and Chakrapal Singh\textsuperscript{18}:

The major constraints in getting loans from the RRBs and its utilization are analysed by Prof. Ram Iqubal Singh et.al. They classified constraints into four classes. They are: (i) Economical constraints (expensive) procedure, high cost of credit, difficulties in purchasing inputs and existence of credit gap, (ii) Social political constraints, (iii) Educational and technical constraints and (iv) Managerial constraints. Finally they suggested that the viability of the RRBs could be ensured in four ways by making sincere efforts to increase their deposits in a planned manner within a given time frame. Secondly, field functionaries should maintain constant contact with the beneficiaries. The main focus should be on the quality of lending. The third measure is the review of each case, individually and sanction credit based on the viability of the project. Fourthly, drastic reduction of staff and establishment cost by better management should also be undertaken.

(k) A Study by Dinabhandu Mahal\textsuperscript{19}:

Mr. Dinabhandu Mahal studied the cost of rural credit in 'Badrak' block of Orissa in 1984-85. According to his study the total cost of credit of a loan of Rs.100 from the RRB was Rs.19.06. The acquisition cost is Rs.44.91 per cent of the total cost. The cost of RRBs credit is greater than the cost of co-operatives. The RRB charges Rs.4 from each borrowers for
hypothecation which is included in the application fee of Rs.10. This cost can be avoided since it appears to be unnecessary.

Mr. M. Lakshmi Narasaiah\textsuperscript{20} has studied the structure, growth and performance of rural banks in India from 1975 to 1990. According to this study Regional Rural Banks are poor man’s banks which identify the problems of neglected sections of the community and endeavours to mitigate their difficulties by extending financial assistance.

There are some more studies on Regional Rural Banks published in the form of books, reports and articles in journals, unpublished literature is also available in the form of M.Phil and Ph.D dissertations. But bank-specific and area-specific studies relating to farm finance by the Regional Rural Banks are very much limited. Secondly, studies on the impact of Regional Rural Banks on the economic conditions of the rural poor like agricultural labourers, marginal farmers and small farmers are also limited. “Such studies are to be undertaken in order to find out the real contribution of Regional Rural Banks to the upliftment of weaker sections and removal of rural poverty in India. To bridge these gaps I have made a modest attempt to study the role of the Rayalseema Grameena Bank (Andhra Pradesh Grameena Bank) in farm finance in its operational area and the impact of its finance on the economic conditions of the poor farmers”.

\textsuperscript{29}
1.2 OBJECTIVES OF THE STUDY

The following are the specific objectives of the research effort:

(a) to critically examine the theoretical framework of rural financial markets in developing countries;
(b) to review the rural credit system in India;
(c) to study the progress of the Regional Rural Banks and their performance in India on the basis of branch expansion, deposit mobilization, advances and profitability;
(d) to evaluate the overall performance of the Rayalaseema Grameena Bank since its establishment;
(e) to assess the role of the Rayalaseema Grameena Bank in farm finance; and
(f) to measure the impact of the Rayalaseema Grameena Bank on the economic conditions of the agricultural labourers, marginal farmers and small farmers.

1.3 HYPOTHESIS TESTED

The following hypotheses are tested in this study:

(a) the share of farm sector in total advances of the Rayalaseema Grameena Bank is greater than the share of non-farm sector;
(b) the share of crop loans in the total farm finance by the Rayalaseema Grameena Bank is greater than the share of term loans for agriculture and allied activities;
(c) Repayment rate of farm loans is less than the repayment rate of non-farm loans;
(d) Repayment rate of short-term farm loans is greater than the repayment rate of term loans to farm sector; and
(e) There is no improvement in the economic conditions of agricultural labourers, marginal farmers and small farmers because of financing by the Rayalaseema Grameena Bank.

1.4 SCOPE OF THE STUDY

The study covers the performance appraisal of the Regional Rural Banks both at macro and micro level in a vast country like India with peculiarities in different regions; it is difficult to derive any worthwhile lesson from macro analysis alone. The estimates committee of Parliament in its report on Nationalised Banks (1973-74) has laid stress on the need for field reports to make an objective assessment on the benefits derived by bank credit. In the present study, at the macro level, the investigation is confined to the origin growth and overall progress and performance of the Regional Rural Banks in India. At the micro level the study covers Rayalaseema Grameena Bank in the Rayalaseema region of Andhra Pradesh with special emphasis on farm finance and its impact on the economic conditions of the poor farmers. For a detailed study of farm finance by the Rayalaseema Grameena Bank its 10 oldest branches are covered to maintain uniformity and viability of the study. To analyse the
impact of farm finance by the Rayalaseema Grameena Bank both beneficiaries of loans and non-beneficiaries are covered.

1.5. THE PERIOD OF STUDY

The study covers 10 years of working of the Regional Rural Banks from 1993 to March 2003. A period of 10 years in the case of coverage of Rayalaseema Grameena Bank is taken up. A period of 10 years (from 1993 to March 2003) is taken for a detailed study of 10 of the oldest branches of Rayalaseema Grameena Bank with special emphasis on farm finance. The period taken for the study of the impact of farm finance is two years i.e., agricultural years 2001-02 and 2002-03.

1.6 DATA BASE

This study is based on both secondary and primary data. For the macro study, reliance was largely placed on various publications of the Reserve Bank of India; Government of India and the NABARD. Periodicals such as Financing Agriculture, Reserve Bank of India Bulletin, Indian Journal of Agricultural Economics, Indian Journal of Commerce, National Bank New Review, Economic and Political Weekly, State Bank of India Monthly Review, The Economic Times, Khadi Gramodyog are made use of. For the micro study, the Annual Reports of the Rayalaseema Grameena Bank and data collected with the help of structured schedules of questions (Appendix 1.1, 1.2 and 1.3) from 10 old branches of the
Rayalaseema Grameena Bank (Andhra Pragathi Grameena Bank) and sample households of beneficiaries and non-beneficiaries of loans from the Rayalaseema Grameena Bank are the sources. The literature on the subject available in the libraries of Sri Venkateswara University, Tirupati, Sri Venkateswara University Post Graduate Centre, Kavali and University of Madras, Madras is relied on.

1.7 TOOLS OF ANALYSIS

The data collected from various sources were tabulated and subjected to statistical treatment. The statistical tools such as ratios, percentages, correlation and averages, etc., were used in analyzing the data. Diagrams and maps were also employed in the study at appropriate places. All the items of assets income and the expenditure are valued at 2003 prices for appropriate comparison between the pre-loan period and loan period.

1.8 SAMPLE DESIGN

Out of the 10 old branches of the Rayalaseema Grameena Bank, the Kodumur branch is chosen for the study of impact of farm finance. This branch is chosen because of the wider coverage of different purposes and different categories of borrowers. There are four revenue villages under the operational area of the Kodumur branch. In these four villages there are 2533 farm households altogether. Out of this total 850 households
borrowed loans during the agricultural year 2002-03. The distribution of beneficiary and non-beneficiary farm households in the operational area of the Kodumur branch is presented in Table 1.1.

TABLE 1.1

DISTRIBUTION OF FARM HOUSEHOLDS IN THE OPERATIONAL AREA OF KODUMURU BRANCH

<table>
<thead>
<tr>
<th>Category</th>
<th>Beneficiary households</th>
<th>Non-beneficiary households</th>
<th>Total households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Farmers</td>
<td>356</td>
<td>103</td>
<td>459</td>
</tr>
<tr>
<td>Marginal Farmers</td>
<td>442</td>
<td>772</td>
<td>1214</td>
</tr>
<tr>
<td>Agricultural Labourers</td>
<td>52</td>
<td>808</td>
<td>860</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>850</strong></td>
<td><strong>1683</strong></td>
<td><strong>2533</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data.

The 850 beneficiary households are classified into 8 categories based on the purpose of the loan. From each category, 10 per cent of the households are chosen for the study using simple random sampling technique. Ultimately the study is confined to 92 beneficiary households.

The distribution of sample beneficiary households is as follows:

Out of 1683 non-beneficiary farm households, 5 per cent of the households are randomly chosen for the study to act as the control segment. Therefore, the study is further extended to 84 non-beneficiary households also. The distribution of sample non-beneficiary farm households is as follows:
### TABLE 1.2

**DISTRIBUTION OF SAMPLE BENEFICIARY HOUSEHOLDS 2002-03**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Category</th>
<th>Total</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small Farmers</td>
<td>Marginal Farmers</td>
<td>Agricultural Labourers</td>
</tr>
<tr>
<td>1</td>
<td>Crop loans</td>
<td>267</td>
<td>335</td>
</tr>
<tr>
<td>2</td>
<td>Sprinklers</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Pumpsets &amp; Motors</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>4</td>
<td>Wells</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>5</td>
<td>Bullocks &amp; Carts</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>6</td>
<td>Dairy</td>
<td>52</td>
<td>71</td>
</tr>
<tr>
<td>7</td>
<td>Sheep</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>Sericulture</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>356</td>
<td>442</td>
</tr>
</tbody>
</table>

Source: Primary Data.


**TABLE 1.3**

**DISTRIBUTION OF SAMPLE NON-BENEFICIARY FARM HOUSEHOLDS - 2002-03**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Farmers</td>
<td>103</td>
<td>5</td>
</tr>
<tr>
<td>Marginal Farmers</td>
<td>772</td>
<td>39</td>
</tr>
<tr>
<td>Agricultural Labourers</td>
<td>808</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1683</strong></td>
<td><strong>84</strong></td>
</tr>
</tbody>
</table>

Source: Primary Data.

Ultimately, the primary investigation is confined to 10 oldest branches, 92 beneficiary farm households and 84 non-beneficiary farm households of the Rayalaseema Grameena Bank (Andhra Pragathi Grameena Bank).

**1.9 CONCEPTS USED**

a) **Farm Credit:**

Farm credit is the credit made available to the marginal and small farmers and agricultural labourers for agricultural and allied activities. The terms – 'farm credit' and 'farm finance' are inter-changeably used in this study.
b) **Small Farmer:**

A farmer possessing an operational holding in the size class of 2.5 to 6.75 acre of irrigated land or 5 to 12.75 acre of dry land (both limits are inclusive) is considered a small farmer.

c) **Marginal Farmer:**

A farmer possessing an operational holding up to 2.5 acre of irrigated land or up to 5 acre of dry land is considered a marginal farmer.

d) **Agricultural Labourer:**

A person without any land but possessing home-stead and deriving more than 50 per cent of his income from farm wages is an agricultural labourer.

e) **Beneficiary Household:**

A farm household that has borrowed loans from the Rayalaseema Grameena Bank during the agricultural year 2002-03 is considered as a beneficiary household. The terms beneficiary and borrower are interchangeably used in this study.

f) **Non-beneficiary Household**

A farm household that has not borrowed loan from the Rayalaseema Grameena Bank during the agricultural year 2002-03 is considered as a non-beneficiary household. The terms non-beneficiary and non-borrower are interchangeably used in this study.
1.10 CHAPTER SCHEME

The thesis is divided into nine chapters. The first chapter indicates the significance of the study, objectives and methodology adopted. A theoretical framework of rural financial markets in developing countries is presented in the second chapter. Chapter three reviews the developments in the rural credit system in India. The fourth chapter presents the profile of the Kurnool district. The fifth chapter appraises the working of Rayalaseema Grameena Bank. A brief profile of sample branches of the Rayalaseema Grameena Bank, beneficiary and non-beneficiary households is presented in the sixth chapter. The seventh chapter is devoted to critically examine the role of the Rayalaseema Grameena Bank in farm finance. The Eighth chapter presents the analysis relating to the measurement of the impact of the Rayalaseema Grameena Bank finance on the economic conditions of agricultural labourers, marginal farmers and small farmers. The last chapter sums up the main findings and provides suggestions. A brief bibliography of books, reports, articles and journals related to the study is given at the end.

1.11 LIMITATION OF THE STUDY

The change in the economic conditions of the rural poor may be due to several factors. The entire change may not be due to the institutional credit alone. But in the study area there are no major changes in the other factors except credit. Therefore, the entire change in the economic conditions of the poor farm households is attributed to the bank credit alone.
References


