CHAPTER
INTRODUCTION AND METHODOLOGY

India, it is aptly said, lives in villages. Most of its burgeoning population is found in 575936 villages which span throughout the length and breadth of the country. The 1991 Census revealed that 72 per cent of India’s population inhabited the rural areas. According to the All India Rural Credit Survey, "India is essentially rural India and rural India is virtually the cultivator." India exhibits most of the characteristics of a developing economy, the striking feature of this economy being the predominance of Agricultural Sector. Majority of Indian rural populace has come to depend on Agriculture which has been characterised as the backbone of the economy, particularly in view of tardy development of secondary and tertiary sectors as compared to the rate of growth of working population. Till mid Sixties, Agriculture was traditional with 81 per cent of the cultivated land being dependent on monsoons, making farming
a risky but unavoidable venture to farmers. The seasonal nature of Agriculture, its traditional character, low land and labour productivity, the hand-to-mouth existence of farming community steeped in abysmal poverty, the social and religious needs - all combined together to put the farmer in the shackles of unscrupulous money-lenders and at the mercy of other non-institutional sources like indigenous bankers, traders, relatives, friends and others. The iron-like grip of non-institutional or private sources of credit over the farming community's credit needs can be understood from the fact that in the year 1951-52 these sources put together provided 92.7 per cent of total credit as against a paltry 7.3 per cent by the institutional sources.

The increasing indebtedness of the villagers and the unscrupulous practices of money-lenders made the Government to start cooperative movement by enacting the Cooperative Societies Act in 1904. Despite efforts to reorganise and strengthen the cooperatives, their share in total agricultural credit was barely 3.1 per cent in 1951-52 and 15.5 per cent in 1961-62.2

The mid Sixties witnessed a breakthrough in Agriculture which came to be regarded as Green Revolution. The introduction of wonder seeds, chemical fertilisers and pesticides, the use of irrigation and improved machinery increased the credit needs of the farmers. Credit had come to be regarded as one of the most essential inputs and need was felt for increasingly institutionalising the source. Cooperatives were found wanting in many respects and so the Imperial Bank of India was taken over by the Government in July, 1955 and re-named as State Bank of India with the objective of extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas. As a powerful stimulus to this and in view of the recognition of the potential of the banking system to promote economic objectives such as growth and distributive justice, the Government nationalised fourteen major commercial banks in 1969 and again another six in 1980.
The Indian Agricultural condition was bogged down by the vicious cycle of low earning, poverty and indebtedness. The crucial problem, therefore, was to break the vicious cycle by increasing capital investment in this sector. An initial push has been characterised as 'Big Push' by Rodenstein-Rodan, 'critical minimum effort' by Leibenstein and 'Bottleneck breaking' by Ragnar Nurkse. Schumpeter spoke of credit as a phenomenon of development and regarded the banking system, along with entrepreneurship as being the key agent in the process of development. Driver stated that the main causes behind rural indebtedness were unscientific and wrong policies in respect of lending, repayment and unproductive loans. Panikar revealed that the major constraint in agricultural growth was lack of finance. Gerschenkron's seminal work had shown the important role the banking system played in European Economic Development. Thus there can be little question that the role of banking in rural and thereby in economic development is not a passive or a permissive one. Whether it makes a positive contribution in igniting the process of growth depends upon how banking policies are pursued and the pattern of evolution of the banking structure.

The nationalisation of 14 major commercial banks is a watershed in banking history. Between 1969 and 1993, of the total number of 52973 branches opened by banks, as many as 33468 were in rural areas and a further 8075 in the semi-urban areas - thus 76 out of every 100 branches were in the hinterland. As a result, the share of rural branches rose from 22.2 per cent to 57.64 per cent. As a result of rapid expansion of branch network which has few, if any, parallels in the history of banking development anywhere, the number of people served by each branch came down from 65000 in 1969 to 11000 in 1993.

In consonance with the Government Policy calling upon banks to play an effective role particularly in the area of agriculture and rural development, banks in India have contributed significantly to these areas and a process of SILENT
REVOLUTION has set-in in this area which may not have been seen as a conspicuous phenomenon.\textsuperscript{12}

Despite the tremendous progress of commercial banking in rural areas, the flow of credit to weaker sections was found wanting. The All India Debt and Investment Survey 1971-72\textsuperscript{13} revealed that the very poor viz., the marginal and small farmers, agricultural labourers and rural artisans were more dependent on non-institutional credit agencies for their credit needs. The institutional credit agencies could contribute only 18.7 per cent and 31.7 per cent of the total credit in 1961-62 and 1970-71 respectively, against 81.3 per cent and 68.3 per cent contribution by the non-institutional agencies during the same period. The evils of private sources of credit are too well known. The legislative efforts to restrict the activities of money-lenders had little effect over the rural credit system. It had further put the money lenders or non-institutional financing agencies to the necessity of devising a variety of legal camouflage for a whole range of illegality.\textsuperscript{14} The institutional credit agencies comprising credit cooperatives and commercial banks, on the other hand, mainly met the credit requirements of persons with certain assets. The weaker sections of rural community were overlooked in the matter of provision of timely and adequate credit. The credit gap in rural areas particularly with reference to weaker sections continues to be large.

Commercial Banking in India, which is the key instrument of economic development, has no doubt undergone a continuous process of significant structural changes and shifts in policy matters over the past three decades. Notwithstanding all the tall claims made by the Government at the time of each policy change, Indian banks continue to be essentially lenders rather than developmental agencies.\textsuperscript{15} Similarly, the cooperative finance is also often considered inelastic, dilatory and inadequate, largely owing to the inefficiency, highhandedness and selfishness of the managing committees\textsuperscript{16} and hence turned the 'closed shops' of the affluent sections.\textsuperscript{17} The rigidity of commercial banks and the domination of the affluent in cooperatives
have made the institutional credit mere sour grapes for the rural poor. Notwithstanding these shortcomings and an impressive step up in the availability of institutional credit to the rural population in recent years, there is a widely shared view that a determined effort is needed to speed up the flow of institutional credit especially to cater to the credit needs of the weaker sections of the rural community. The various weaknesses of the cooperative credit agencies and the nationalised banks have generated a fear that the existing institutions, structured as they are at present, would not be able to fill the regional and functional gap in the rural credit institutional system within a reasonable period of time. An altogether new set up with attitudinal and operational ethos which are entirely different from those obtaining in the nationalised banks was felt necessary by Government of India.

The Banking Commission in its Report in the year 1972 mooted for the first time the proposal for setting up of rural banks after examining the record of expansion of Commercial Banks' activities. The imposition of Emergency in 1975 and consequent declaration of new economic programme (presently the old 20 Point Programme) led to the establishment of a new set up in organised rural credit structure. The then called new economic programme aimed at, inter alia, "devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers", in accordance with the objective of liquidating rural indebtedness of these classes of rural population. In pursuance of this view, the Government of India appointed on July 1, 1975, a Working Group under the Chairmanship of Sri M. Narasimham to examine in detail the need for setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. The Working Group submitted its report within one month and the Government of India accepted the recommendations, with certain deviations. The deviations were:

1) in respect of the number of RRBs that would be established (Government decided to have ten times the number suggested by the Group) and
2) in approach (while the Group's approach was area development, the Government considered the banks as agencies for giving special assistance to small and marginal farmers, rural artisans and such other economically weaker sections of the community in rural areas).

The advent of these new financial institutions on the banking horizon generated a great deal of interest among the planners, policy makers and observers of the Indian Economy. This innovation in the field of rural credit added a new dimension to the banking in India. It was considered as a potentially powerful policy instrument for achieving the objective of rural development mainly through the development of the rural poor.

The Reserve Bank of India in its report described the setting up of the Regional Rural Banks as a "development which will have far reaching effects on the extension of banking facilities to the rural areas". Since the commercial banks in India have been lending a negligible proportion of credit to the rural poor and considering the need to fill the gap between the available credit facilities and credit needs of the weaker sections in rural sector, the establishment of the Regional Rural Banks has become an urgent necessity. Though there has been tremendous growth of rural credit over time in the country, the non-institutional sources still accounted for two-thirds of the total agricultural credit in the country. Money-lenders - both professional and non-professional - who constituted major source of non-institutional credit charged usurious rates of interest and indulged in unscrupulous practices and the poor villagers who are forced by their need are caught up in the vicious grip of money-lenders. Sometimes, they are forced to forfeit their rights over their meagre lands in settlement of debts thus depriving themselves of the only source of subsistence. The findings of a number of studies have revealed that the institutional credit - both cooperative and bank - is concentrated in a few economically prosperous states and a large proportion of the institutional credit has gone to the big and medium farmers and the per acre availability of credit has been very low.
duction of Multipurpose Cooperatives on the recommendations of the All India Rural Credit Review Committee, and Farmer's Service Societies advocated by the National Commission on Agriculture did not provide viable alternative to the credit problems of the rural population. There were still many unbanked areas in the country though demand for rural credit had grown over the years particularly after the introduction of mechanisation in Agriculture.

These banks are expected to supplement and not to supplant the existing institutions operating in rural areas. They are expected to combine the local feel and familiarity with rural problems which cooperatives possess and the abilities of commercial banks to mobilise the deposits. The major objectives of the Regional Rural Banks should not only be to mobilise resources from the region and use them within the same region, but also to spread banking in all rural areas for developing banking habits in the country side.

The Regional Rural Banks basically are the Government owned, regionally based and rurally oriented institutions which cannot enter the urban or metropolitan centres. The preamble of the Regional Rural Banks Act 1976 clearly put forth that the banks are set up with a view to developing the rural economy by providing credit and other facilities for various productive activities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs -- persons belonging to the weaker and the hitherto neglected sections of the rural society. Due to inherent drawbacks in the functioning of cooperatives and commercial banks, it is intended that the new institutions of rural banking must rectify these drawbacks and work for furthering the development of the rural poor. Within a very short period of their existence, the Regional Rural Banks have become "weak man's banks". Those persons within the operational jurisdiction of the respective Regional Rural Banks and with rural knowledge and orientation who are selected as staff are giving the much desired 'local touch' and the poor people feel 'most homely' while dealing with Regional Rural Bank branches.
STATEMENT OF THE PROBLEM:

In India, a vast majority of agriculturists are either owners of small and marginal land holdings or landless agricultural labourers. In 1985-86, there were 57 million marginal holdings with an average size of less than 1 hectare and 31 million small holdings of a little more than 2 hectares as against 8 million medium holdings with an average size of about 6 hectares and 2 million large holdings with an average size of 17.2 hectares. These sections as also rural artisans have what may be called subsistence economy with its precarious balance. They have hardly any savings to fall back upon. With the failure of monsoon or due to any family accident or mishap, these people are forced to go into debt. They are required to borrow not only for carrying out their occupations but also for consumption purposes. In other words, they require credit for both productive and non-productive purposes. It so happens that once these people are compelled to have recourse to money-lenders, they find it difficult to get out of their clutches just like a worm caught in a cobweb.

The problem of rural indebtedness assumed alarming proportions and the Government had to intervene and take steps - both to relieve the borrowers from the burden of past debts and also to provide credit for their agricultural operations and to meet their consumption needs.

Since the cooperatives have become the domain of the affluent and the nationalised banks with their security oriented approach had not served the neglected sections who have hardly any security acceptable to banks to be offered, the Government has come out with a special institution to cater only to the credit needs of the weaker sections.

The Regional Rural Banks which came into being in 1975, are expected to play a vital role in bringing about rural development which is so essential for economic development of the country. In this connection, rural development can be defined as a strategy designed to improve the economic conditions of the specific groups of
people i.e., rural poor. Political independence without economic emancipation will be meaningless to the masses. Similarly, social changes cannot be brought about without improvement in the financial position of the weaker sections.

**NEED FOR THE STUDY:**

Though different aspects of agricultural credit by cooperatives and commercial banks have been studied, analysed and highlighted, the significance of credit made available by the Regional Rural Banks to both agriculture and non-agricultural sectors is an area yet to be fully analysed which pronounces the need for this study.

Most of the studies relating to the Regional Rural Banks conducted so far were concentrated on their operational performance, based mainly on secondary data. Besides, most of these studies pertain to their initial stages and hence any assessment of their performance is not of much significance.

It is therefore felt necessary to study how far the Regional Rural Banks have spread their branch network in hitherto neglected areas and remote villages and how far they could penetrate into even hamlets which have some potential for development. It is desired to see how far they could mobilise rural savings and employ their resources available through deposits, borrowings from Sponsor Bank and refinance from NABARD for the benefit of the targeted sections. An understanding of these is essential to provide solutions where needed for the fulfilment of their objectives. The Regional Rural Banks aim at poverty alleviation through generation of employment and income to weaker sections. It is important to examine whether this objective is fulfilled.

Hence, comprehensive, area-specific, micro-level studies are necessary to understand the extent to which the Regional Rural Banks are successful in fulfilling their manifold functions. Such studies would be helpful not only in identifying the factors responsible for the success or otherwise of the Regional Rural
Banks, but also in formulating new policy initiatives necessary for the effective functioning of these institutions in the countryside.

Besides the study assumes significance in view of the fact that nearly two decades have elapsed since the establishment of Regional Rural Banks and time is ripe now to make a detailed analysis of their working at field level. This is particularly so in the context of

i) a widespread discussion in certain quarters about the need for amalgamation of the Regional Rural Banks with their Sponsor Banks;

ii) the various measures recently initiated by National Bank for Agriculture and Rural Development for toning up the operational efficiency of the Regional Rural Banks and

iii) the measures proposed to be taken by the Government of India during the financial year 1994-95 as announced by the Finance Minister in his Budget Speech before the Lok Sabha on 28th February, 1994.

REVIEW OF LITERATURE

The literature is diverse in the field of bank credit in India. But it is not so in the field of credit from the Regional Rural Banks. The role of Regional Rural Banks in meeting the credit requirements of the weaker sections of the rural populace and in generating income and employment to targetted sections are aspects which are yet to be studied in depth covering different regions. However, a review of available literature on Regional Rural Banks is done in this section with a view to identify research gaps and issues for further study.

At the outset, mention has to be made of the Review Committee constituted by the Reserve Bank of India in 1977 under the Chairmanship of Prof. M.L. Dantwala to evaluate the working of Regional Rural Banks vis-a-vis the objectives for which they were set up and also to indicate their precise role in the rural credit
structure. The Committee recommended some modifications in the organisation and function of Regional Rural Banks to make them better suited for the purpose of progressively filling up the credit gap in the rural sector. However, even this study could not give a concrete idea of their operations as only two years had elapsed since their establishment.

The Committee on 'Functioning of Public Sector Banks' called James Raj Committee (1978) felt that "Regional Rural Banks can play a significant role in the financing of rural sector. Regional Rural Banks should not only open more branches in the rural areas but also take over gradually the existing rural branches of commercial banks. Consequently, all public sector banks and large private sector banks should be allowed to open branches upto district headquarters or block levels only".

A study on agricultural financing by the Regional Rural Bank in Moradabad District of Uttar Pradesh was conducted by Garg, J.S., Singh, G.N., and Tripathi, R.N. (1978). It felt that the small and marginal farmers were major beneficiaries, while the benefits to agricultural labourers were relatively low. Besides, it felt that there was an increasing demand for term loans particularly for the development of irrigation, dairy development and poultry farming.

It is relevant to mention the contribution made by a few persons with reference to the working of Regional Rural Banks. Prominent among them is Charan D. Wadhva who made a note-worthy study titled "Rural Banks for Rural Development" (1980). He observed that the Regional Rural Banks are beginning to show tangible results in making credit available to the weaker sections of the rural society.

The study covered the analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for restructuring these banks. But the study on the operational performance of Regional Rural Banks was made with the help of secondary data and as such it did not touch the impact of bank credit on rural economy. Besides, the study was conducted in 1977 when the Regional Rural Banks were in
infancy and any assessment of their performance at that stage may not be highly useful especially after nearly two decades of their existence.

A reference has to be made here to the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) set up in 1979 by the Reserve Bank of India under the Chairmanship of Sri B. Sivaraman, which submitted its report in May, 1981. The Committee felt that the main criterion for the assessment of rural banks should not only be in terms of growth of deposits and branch expansion but also the progress achieved in the field of disbursement of credit to weaker sections in all its aspects including recovery. The Committee criticised the tendency on the part of Branch Managers to demand security for bank advances from weaker sections which makes the latter the "plaything of the rich intermediaries" and defeats the efforts to uplift the economically poor and lending procedures which are not in conformity with the needed credit. The Committee also recognised the importance of increasing consumption credit to weaker sections and the role which the Regional Rural Banks ought to have played.

While evaluating Champaran Kshetriya Grameena Bank in Bihar State, Srivastava, R.N., Singh, D.K., and Singh, R.P., (1981) expressed that easy and timely availability of crop loans at normal rate of interest resulted in increased use of inputs like seeds, fertilisers, labour and increased intensity of cropping and thereby significantly increased the incomes of crop loan borrowers.

Satya Sundaram (1982) opined from the study on the problems faced by Regional Rural Banks that the Regional Rural Banks would prove to be more helpful to the rural poor than the commercial banks, if they pay adequate attention to identify the economically viable projects and supervise the end-use of credit by taking support of services of other local agencies engaged in serving the poor.

Jagdish Prasad and Sunil Kumar (1981-82) intending to throw light on the various aspects of loans and to assess the impact of loans on the rural poor in terms
of improvement in income and employment conditions made a case study of Vaishali Kshetriya Gramin Bank in Muzaffarpur district of Bihar. From their study, they concluded that the large bulk of loanee households belong to the poorer sections of the rural community and not the rich sections. They observed that the loans had resulted in creating a positive impact on generating employment and increasing earnings of the loanee households.

Navin Chandra Joshi (1982) in his analytical study of Regional Rural Banks observed that postponement of recovery of the dues of farmers or write off of overdues tended to have an adverse impact on the recovery performance of the Regional Rural Banks. He felt that such measures failed to distinguish the wilful default from default on account of genuine difficulties and were unfair to borrowers who repaid their loans promptly. If the recovery climate is vitiated, he observes that many an honest borrower may turn potential defaulter in anticipation of similar concessions being extended by the State Government and this would, in the long run, impair credit discipline and weaken the very fabric of institutional credit structure, notwithstanding the fact that the burden of repayment is borne by the State Governments without financial loss to the banks.

The State Bank of India (1983) while evaluating the performance of Regional Rural Banks noted that the capital appraisal in many branches was not satisfactory, while in certain cases, there was nothing on the record to suggest that the pre-sanction inspection was conducted by bank officials. Further, disbursements were made in stages without verifying the progress of work and the documents executed by the borrowers were incomplete.

Singh, R.K.P. (1983) from his study on the profitability of Regional Rural Banks in Bihar, opined that the Regional Rural Banks should make an earnest effort to utilise to the maximum possible extent the refinancing and borrowing facilities for raising their income - earning assets. While the importance of deposits cannot be
belittled, borrowings and refinancing arrangements will help to create assets with
greater profitability and so should be used as supporting sources of funds.

Dr. I. Satya Sundaram (1984)\(^{37}\) felt that the Regional Rural Banks, which by
their proximity to the local conditions were expected to be in a better position than
commercial banks in identifying the genuine borrowers, had, in actual practice, not
been quite successful in this regard. There were many cases where the big landlords
who were having land in two villages furnished documents concerning a small piece
of land in one village only and availed the benefits meant for the small farmers. In
fact, Noorbasha Abdul and Prof. D. Dakshinamurthy (1983)\(^{38}\) had earlier opined that
"the village Patwari had no hesitation to issue a false declaration under political
pressure and gratification".

P.V. Sarma and K. Srirama Murthy (1984)\(^{39}\) from their case study of Sri
Visakha Grameena Bank, noted that a major part of the credit had gone to agriculture,
especially in the form of term loans. They noted that non-agricultural activities like
development of cottage and small scale industries and building up of the traditional
skills of village artisans received scant attention. Moreover, while the number of
borrowers belonging to scheduled castes and scheduled tribes was high, the credit
supplied to these sections continued to be low. This meant that the bank was yet to
formulate some more viable schemes for the upliftment of scheduled castes and
scheduled tribes. The earlier studies of S.K. Mandal and Sunil Kumar\(^{40}\) revealed that
"the credit provided by the Regional Rural Banks was not well supported by the
consumption loans on the one hand and was not adequate on the other".

Singh and Upadhyay (1984)\(^{41}\) in their study of loan recovery of Regional
Rural Banks in Bihar concluded that recovery performance of Regional Rural Banks
decayed continuously due to inadequate arrangements made for recovery. The extent
of decline indicated poor management of selected Regional Rural Banks as low recovery
reduced the turnover of assets and thereby the returns on investments.
Lakshminarayana, V. (1984)\textsuperscript{42} from his analysis of the problems and prospects of Mayurakshi Grameena Bank in West Bengal felt that an increase in number of defaulters and the preoccupation of the bank officials in recovery of overdues did not allow the processing of fresh applications. Further, he felt that the bank officials were not able to attend in guiding the loanees in adopting improved farming techniques and making better use of credit. Further, linkage between credit, marketing and other services was practically non-existent.

The Government of India set up a Working Group to assess the working of Regional Rural Banks, in view of a large number of Regional Rural Banks being established in the country and of certain weaknesses discernible in their working results particularly relating to their profitability aspect. The Group under the Chairmanship of S.M. Kelkar (1985)\textsuperscript{43} reviewed the working of 188 Regional Rural Banks covering 333 districts out of 436 districts in the country and found that the authorised and paid-up share capital of Regional Rural Banks were inadequate. It recommended that the share capital of Regional Rural Banks be raised and that the same be subscribed by NABARD instead of by the State Government.

Dr. R.S. Tiwari (1985)\textsuperscript{44} in his study titled "Urbanising Regional Rural Banks" examined the desirability of implementation of the recommendation of allowing Regional Rural Banks to open branches in urban areas. He felt that the very step is not only a major departure but just opposite to the original concept of Regional Rural Banks which wanted them to confine their operations to rural areas and to weaker sections of the society. The rapidly increasing number of weaker sections and their needs for production as well as consumption purpose made them vulnerable to exploitation by money-lenders and traders. If Regional Rural Banks were allowed to go into urban areas, Dr. Tiwari asserts, their attention would be diverted and the routine banking principle would direct them to act similarly to that of commercial banks which have failed to reach the rural poor. It is observed that "the role of Regional Rural Banks has to be appreciated in the context of providing need-based
credit and non-credit assistance to most vulnerable sections of the people in rural areas and not on the basis of viability or profitability".

R. Sahaya and Muninath Sharma (1986)\textsuperscript{45} in their study titled "Functioning of the Regional Rural Banks of India" examined the viability aspect of Regional Rural Banks. They observed that Regional Rural Banks could control their losses only by increasing their income and reducing their expenditure. The income of a Regional Rural Bank was mainly the margin between the average borrowing and the average lending rates. They further observed that unless the banks earned an adequate margin between borrowing and lending rates by expanding their loan portfolio and recovering the loans disbursed by them in time, it would be difficult for them to come out of the red. Augmenting the loan portfolios and effecting timely recoveries of the loans advanced hold the key for earning profits. Further, they observed that "the State Government agencies will have to show the same keen interest in recovering the loans which they exhibit at the time of making advances".

R.R. Phadtare (1986)\textsuperscript{46} in his study titled "Profitability of Regional Rural Banks - Suggestions" recommended that the Government of India and State Government should provide subsidy of Rs.10 lakhs in each district per annum out of the provision of subsidy under IRDP to the Regional Rural Bank. This suggestion, he feels, can very well be justified by the fact that the Regional Rural Banks are playing a vital role in implementing the IRDP which is not a remunerative business and thereby making them sustain losses. The subsidy can be continued for 10 years and thereafter it may be discontinued.

K.R. Rama Krishnan (1988)\textsuperscript{47} in his study titled "Problems and Prospects of Regional Rural Banks" felt that the Regional Rural Banks had to concentrate over the end use of credit so that the repaying capacity of borrowers was not affected. It is stated that in the rural sector the recovery percentage was reported to be only 50 per cent and as on June, 1986, Regional Rural Banks had Rs.392 crores as overdues
which constituted 25 per cent of their total outstanding credit. Since Regional Rural Banks are provided with field staff, it is felt that the staff should be imparted proper training at the entry point itself. If Regional Rural Banks have failed in toning up the recovery ethics amongst the rural poor with the existing work force, no other banking sector in India will succeed in this field as Regional Rural Bank staff are having comparatively lesser age group who can have the advantage of taking message of VVV (Vikas Volunteer Vahini) to the doorsteps of beneficiaries.

Evaluating the performance of Regional Rural Banks, Dr. I. Satya Sundaram (1988)\(^48\), in his study titled "Regional Rural Banks: An Evaluation", observed that the Regional Rural Banks had done a good job in generating self employment and providing local employment. About 30 per cent of the IRDP loans were routed through Regional Rural Banks. However, a disturbing trend in the functioning of Regional Rural Banks was the secular decline in the credit deposit ratios which reached a peak of 121 per cent in 1981 but declined to 117 per cent in December, 1982, to 113 per cent in December, 1985 and to 107 per cent in June, 1986. It is also pointed out that the amount the poor man gets from the Regional Rural Bank is not sufficient for him to cross the poverty line. The performance of Regional Rural Banks in extending other facilities, keeping in view the specific conditions of the areas they are serving, besides credit facilities, continues to be disappointing. It is also observed that the supportive measures offered by the State Government at the field level appear to be meagre.

Dr. D.B. Kuchhadiya and R.L. Shiyani (1989)\(^49\) examined the performance of Regional Rural Banks in general and the Regional Rural Banks in Gujarat state in particular, with reference to lending to IRDP beneficiaries, in their study titled "Role of Regional Rural Banks in Upliftment of Weaker Sections". Their analysis of Regional Rural Banks 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 national average.

C. Balaji Choudhry (1990)\(^{50}\) in his study titled "Regional Rural Banks in India - An Evaluation of their Performance", observed that "the Regional Rural Banks had given massive support to self employment generation in the rural areas, particularly among the rural poor." It is also observed that the performance of Regional Rural Banks under the IRDP has been impressive with 30 per cent of IRDP loans being routed through Regional Rural Banks" (1986)\(^{51}\).

V.S. Subramanyam (1990)\(^{52}\) in his study titled "Future of Regional Rural Banks" felt that the funds at the disposal of Regional Rural Banks for creation of more credit were meagre because of low equity base of Regional Rural Banks and because of already locked-up funds in priority sector advances. However, he felt that the amendment to Regional Rural Banks Act in 1987 to increase the issued capital from Rs.25 lakhs to Rs.1 crore and authorised capital from Rs.1 crore to Rs.5 crores would help increase the resource base of Regional Rural Banks, thereby providing them additional funds for credit deployment.

Introducing the concept of 'Bare Foot Managers' for bringing about rural development, Dr. P.C. Shejwalkar (1990)\(^{53}\) in his article titled "Bare Foot Managers for Rural Development - Perspective for 2001 A.D", felt that the country could not afford to have Westernised managers, used to sitting in Air Conditioned rooms and with posh facilities. Such managers would not be able to develop rapport with the masses and would even get alienated from their own subordinates. The concept of 'Bare Foot Managers' highlights the need for very active and highly skilled young men, willing to understand the rural culture as well as the overall development culture and willing to work in rural areas so that their style of working will be relevant to the rural areas.
The recommendation of merging Regional Rural Banks with Sponsor Banks made by the Agricultural Credit Review Committee did not find favour with many. The Editor of the Banker (1990)\textsuperscript{54} in his column under the caption "Regional Rural Banks to retain Independent Entity" felt that the mere merger would not solve or mitigate the main problem of viability of Regional Rural Banks, as commercial banks too are incurring losses in their rural business. Despite their poor financial performance, it is opined that Regional Rural Banks, with their wide branch network predominantly in rural areas and with an excellent record of catering exclusively to the credit needs of rural masses where the average size of the advance per account worked out to around Rs.2000, fulfilled their assigned roles and mandated functions magnificently, superbly and splendidly.

Rural Banking, suffice to say, belongs to a special category, being entirely different from the traditional routine banking in urban areas. Besides good background of agriculture and rural living, it needs new work ethics and an improved corporate philosophy. It demands considerable patience, perseverance and personalised services in its very true sense.

Analysing the recovery performance of South Malabar Grameena Bank - the first Regional Rural Bank in Kerala, C. Krishnan (1990)\textsuperscript{55} in his article "Regional Rural Banks and Recovery of Agricultural Credit : A Study" (1990) observed that the recovery percentage of the Bank ranged between 67 per cent and 83 per cent during the period 1980 to 1987 and that when compared to other financial institutions, this high recovery performance was commendable. He observed that South Malabar Grameena Bank could act as a model Regional Rural Bank to all other Regional Rural Banks in India by adopting scientific methods to raise recovery to cent per cent.

Making a study to assess the growth of Tungabhadra Grameena Bank in terms of both physical and financial indicators, D.M. Jagadeesha et al (1990)\textsuperscript{56} in their article titled "Performance of Tungabhadra Grameen Bank (RRB) in Karnataka - An
Economic Analysis", observed that the Bank's current ratio indicated systematic utilisation of deposit funds meant for current operation showing better margin and technical solvency of the bank. They also observed that the bank's profit margin since inception was around 2 to 3 per cent only, while the viability consideration of a financial institution demand this to be around 4 to 4.5 per cent. They suggested that the bank should manage its available resources more systematically, observe maximum austerity, exercise control over avoidable expenditure and manage properly its cash and investment portfolios.

Analysing the causes for the sickness of majority of Regional Rural Banks, A.K. Nanda (1991) in his article titled "Regional Rural Banks in Grip of Sickness" observed that Regional Rural Banks had to face both organisational and operational problems. He observed that the capital base of Regional Rural Banks was exceedingly low particularly in view of their enormous credit obligations and thereby capital erosion took place at a faster rate as a result of increasing number of loss making branches. The multi agency control over Regional Rural Banks resulted in lack of uniformity in their functioning. The restricted area of operation, the narrower clientele, the need to operate on low spreads or margins, the limited scope for cross subsidization, lack of control on costs and expenses outstripping the rate of growth of earnings - all had contributed for non-viability of many Regional Rural Banks.

Assessing the performance of Regional Rural Banks vis-à-vis the Cooperatives and Commercial Banks, S.S. Sinha (1991) in his article titled "Origin and Objectives of Regional Rural Banks" observed that the Regional Rural Banks' operations typically aim to correct the income inequalities in rural societies as their resources for lending (in the form of deposits) are being mobilised largely from relatively better off people of the rural areas and these givers of resources are usually not eligible to draw resources from Regional Rural Banks by way of credit. Thus the Regional Rural Banks have played their distinct assigned role well and have
developed from a "marginal system" to "a main stream system" within the mammoth banking structure of the country.

Stressing the need for proper funds management in Regional Rural Banks, S.S. Sinha (1991) felt that the enhancement of authorised share capital of Regional Rural Banks from Rs.1 crore to Rs.5 crores and of issued capital from Rs.25 lakhs to Rs.1 crore by the Government through the Regional Rural Bank Amendment Act 1988 would activate the health of the Regional Rural Banks' body. But the body can be kept fit only by regular exercise of mobilising deposits from public by marketing the extra percentage of interest which they can offer. Besides, they should avail themselves of refinance from NABARD/Sponsor Bank to the maximum and attempt cost benefit analysis of cash position so that cash balances do not exceed 1.5 per cent of deposits. They should also observe overall austerity in expenditure and least investment in non-productive assets.

P. Punna Rao and Dr. Ch. Satyanarayana (1992) in their article titled "Profitability of Crop Loans under Regional Rural Banks" analysed the profitability of crop loans advanced by two branches of Chaitanya Grameena Bank in Guntur District. They found that a large majority of small farmers (93.75 per cent) and marginal farmers (92.50 per cent) got profitability of crop loans and that majority of these farmers expressed that 'increase in yield and income', 'timely sanction of loan', 'proper utilisation of loan' and 'low rate of interest' were the major reasons for their profitability of crop loans.

K. Shankar (1992) in his article titled "Can Regional Rural Banks Survive?" observed that Regional Rural Banks as commercial ventures had not come up to the expected expectations but in the area of task fulfilment they had achieved remarkable success. He observed that Regional Rural Banks are the 'real' small man's banks and an effective rural transformation cannot be thought of, without the presence of
Regional Rural Banks. To bring uniformity to all Regional Rural Banks' operations, to facilitate introduction of new services, to cut administrative costs and to pool resources, amalgamation of Regional Rural Banks or unification of Regional Rural Banks into one or four or five regional bodies could be a process in right direction. As an alternative, he suggested the formation of a corporation to bring all Regional Rural Banks under one roof.

Making a study of the Manipur Rural Bank in Manipur State, P. Kallu Rao and Shaji Thomas (1992) in their article titled "Performance of the Manipur Rural Bank - An Analytical Study" observed that the deposits of the bank have increased from 9.50 (1985) to 34.38 per cent (1990) registering a compound growth rate of 29.34 per cent. Similar growth is witnessed in number of deposit accounts, advances to agriculture and related activities and to rural industries. They found that the rate of recovery of the bank is at an increasing trend but it has not exceeded more than 50 per cent on an average.

The findings of the study of Donepadu and Vallabhapuram branches of Chaitanya Grameena Bank in Guntur District conducted by P. Punna Rao and Dr. Ch. Satyanarayana (1992) as mentioned in their article titled "Information Sources and Borrowers' opinion about Regional Rural Bank Credit" revealed that 90 per cent of small farmers and 90 per cent of marginal farmers were of the opinion that the loan sanctioning procedure was simple.

Making a comparative study of commercial banks, Regional Rural Bank, Land Development Bank and Primary Agriculture Credit Societies with regard to their performance in deposits, advances and recovery performance in Chikmagalur district in Karnataka, K. Gayathri (1993) in her article titled "Credit Delivery in Rural Karnataka: A Case of Chikmagalur District" observed that the Regional Rural Banks faced greater problems as their recovery drive period and the loan waiver promise coincided and that there was a great protest from farmers as they feared that
the banks were trying to get back the loan amount at the earliest. It was found in the study that the recovery position of Commercial Banks and Regional Rural Banks was affected to a very large extent after the loan waiver promise made by certain political parties.

The performance and also the contribution of Regional Rural Banks to rural credit system have, throughout the last more than one decade and a half, attracted constant attention of policy makers and practising bankers. It was widely felt that Regional Rural Banks have not served the desired purpose and nearly 80 per cent of 196 Regional Rural Banks are in red and dwindling financial health has placed the viability of Regional Rural Banks in grave jeopardy. To impart viability to their operations, the Narasimham Committee proposed that they be allowed to conduct all types of banking business without reducing the concentration on target groups and their interest rate structure be brought in line with commercial banks. Accordingly, NABARD (1993)\(^6\) in its circular titled "Measures to strengthen the RRBs" addressed to the Chairmen of all Regional Rural Banks permitted the Regional Rural Banks to enhance their proportion of non-target group lendings upto 60 per cent of their fresh lending with effect from January, 1994; finance for various non-priority sector purposes upto 10 per cent of their total fresh lendings to be accounted for within the overall ceilings of 60 per cent of fresh loans fixed for non-target group lending, issue travellers cheques as agents of their Sponsor Banks, issue guarantees on behalf of their customers, purchase or discount cheques and demand drafts upto Rs.25000 per customer subject to a maximum of Rs.1 lakh per branch at any point of time, issue demand drafts, mail and telegraphic transfers, allow Regional Rural Banks to provide locker facility and examine the need for installation of personal computers or personal computer based systems at Head Office.

It can be observed from the above discussion that most of the studies and papers on various aspects of Regional Rural Banks were based on secondary data at macro level. The problems faced by the borrowers in securing credit, recovery
performance, overdues etc., are not studied in depth in most of the earlier works. The Regional Rural Banks came into existence in 1975 and the time is ripe now to make a detailed study of their functioning particularly in the context of opinions aired in many quarters suggesting amalgamation of these banks with their Sponsor Banks.

In view of the widespread diversities in geographical, economic and social conditions in different parts of the country, there is a need for comprehensive, micro level and region-specific studies to draw definite conclusions on the effectiveness as well as the utility of the Regional Rural Banks. The present study is a modest attempt in this direction.

SCOPE OF THE PRESENT STUDY:

In the present study, an attempt is made to examine the functioning of Sree Anantha Grameena Bank, a Regional Rural Bank operating in the drought prone Anantapur District of Andhra Pradesh. The Bank has been specifically chosen because of its increasing relevance in bringing about rural development in one of the most backward districts in the country through the financing of the rural poor and also on account of the paucity of research studies in the district, particularly in the field of rural finance. Besides analysing the performance of the Bank in terms of branch expansion, mobilisation of deposits, disbursement of finances, recovery performance and profitability in the district as a whole, the study seeks to critically examine the problems faced by the borrowers in securing credit as well as the extent of proper utilisation of loans. Also an attempt is made to study the impact of bank finance on asset creation as well as on the generation of additional income and employment among the borrowers. Further, the study seeks to assess the repayment behaviour of the borrowers and identify the factors affecting overdues among the defaulters. Finally the study attempts to highlight the operational problems coming in the way of effective functioning of the Bank and offer suggestions for accelerating its role in bringing about socio-economic development in the district.
SPECIFIC OBJECTIVES:

The specific objectives of the study are:

1) to examine the structure and organisational set up of Regional Rural Banks and to examine the growth trend and progress achieved by the Regional Rural Banks at all India level and in Andhra Pradesh at macro-level;

2) to analyse the performance of Sree Anantha Grameena Bank operating in Anantapur district with particular reference to its branch expansion, mobilisation of deposits, loans advanced, recovery of loans, overdues and financial profitability;

3) to critically examine the working of the selected branches of Sree Anantha Grameena Bank at micro-level in terms of lending procedures, adequacy and timeliness of credit, utilisation of credit and problems and opinions of the sample borrowers in this respect;

4) to assess the impact of Sree Anantha Grameena Bank finance on the generation of additional income and employment among the sample borrowers;

5) to study the repayment performance of the sample borrowers and to identify the factors affecting overdues among the defaulters and

6) to suggest measures, in the light of the empirical study, for the effective functioning of Regional Rural Banks in general and Sree Anantha Grameena Bank in particular.

IMPORTANCE OF THE STUDY:

The study assumes significance in the context of diverse opinions prevailing in different quarters regarding the effectiveness, utility and continuance of the Regional Rural Banks which have been serving as separate financial institutions for
meeting mostly the credit needs of the weaker sections in rural areas. Further, since the study is undertaken in one of the most backward districts in the country, the findings may throw light on the role of Regional Rural Banks in bringing about overall rural development in similar districts elsewhere. Besides, in view of the paucity of comprehensive micro-level, region-specific studies in the field of rural finance, it is hoped that the study would fill the research gap to some extent.

METHODOLOGY:

The methodological aspects of the study such as the area of the study, the universe and the sample, sources of data and tools of data collection, analysis of data, limitations of the study and the chapter scheme have been detailed hereunder:

AREA OF THE STUDY:

As mentioned earlier, Sree Anantha Grameena Bank (SAGB) - a Regional Rural Bank operating in Anantapur District - was taken up for studying the role of a Regional Rural Bank in bringing about rural development in its operational area. The Bank had 70 branches spread throughout the district. Since it is not an easy task for an individual researcher to study the working of all the branches of the Bank and all types of loans, a combination of Purposive Sampling and Simple Random Sampling methods was used for the selection of the branches and borrowers for an in-depth study.

While selecting the branches, it was thought useful to give equal and adequate representation for both the relatively developed and relatively underdeveloped areas within the district as it would enable comparison of the working of the branches falling under these areas. Hence, all the 63 mandals falling under the three revenue divisions in the district viz., Anantapur, Dharmavaram and Penukonda were classified into the above two categories on the basis of a composite index of development which was arrived at by measuring the degree of development in respect of fifteen important indicators like percentage of literacy, percentage of workers to total population in the mandal, density of population, percentage of electrification of hamlets, percentage of
urban population to total population in the mandal etc. Those mandals with scores higher than the district average were classified as 'relatively developed', while those with scores less than the district average were classified as 'relatively underdeveloped'. It was decided to select three branches each from relatively developed mandals and relatively underdeveloped mandals for the purpose of the present study on the basis of Simple Random Sampling method. Thus the branches of Sree Anantha Grameena Bank at Dharmavaram, Garladinna and Puttaparthi from relatively developed areas and those at Bathalapalli, Kudair and Gummagatta from relatively underdeveloped areas were selected. Hence, it may be said that the chosen branches are fairly representative of the district in terms of geographical spread and degree of development.

THE UNIVERSE AND THE SAMPLE:

Sree Anantha Grameena Bank (SAGB) has been lending for different productive purposes to a greater extent and for consumption purpose to a very limited extent. Since the main objective of the study is to examine the role of Sree Anantha Grameena Bank in asset creation as well as in generating additional income and employment among the poorer households and to assess the repayment performance of the borrowers, it was decided to confine the study to investment loans (to the exclusion of crop loans) in Agriculture and Allied Activities and other productive loans in Industrial and Business/Service sectors. Further, since it is not possible to cover all the loans given since the inception of the selected branches, it was decided to confine the study to the loans given by the selected branches for the above purposes during the period from April, 1989 to March, 1992. Thus, the universe of the study comprises the borrowers who were given loans for the purposes mentioned above during the period 1989-92.

While selecting the borrowers for the purpose of the study, it was thought useful to classify all the borrowers constituting the universe into five categories on the
basis of 'purpose of loan', viz., (1) Agricultural Investment Credit (Minor Irrigation, Pumpsets, Agricultural Machinery like tractors, Bullocks and Cart, Land Development etc.,) (2) Allied Activities (Dairy, Poultry, Sheep rearing, Piggery, Sericulture etc.,) (3) Rural Artisans (including Cottage and Village Industries) (4) Petty Trade or Small Business and (5) Professional and Self employed. Ten borrowers falling under each of these five categories were selected at each of the six selected branches on the basis of Simple Random Sampling method as sample for the study. This was done with a view to ensure that at least 30 borrowers each are covered under each of the above five categories in both the relatively developed and the relatively underdeveloped areas of the district. Thus, 150 borrowers from the relatively developed areas and another 150 borrowers from the relatively underdeveloped areas in Anantapur district, making a total of 300 borrowers, constitute the sample for the present study. As such, the sample borrowers chosen are fairly representative of the universe of the study.

**SOURCES OF DATA AND TOOLS OF DATA COLLECTION:**

To examine the objectives of this study, relevant data were collected from both primary and secondary sources. Field Survey was undertaken for collection of primary data. For this purpose, a pre-tested interview schedule was employed. Further, observation technique was followed to understand certain aspects of the problem. Separate questions were framed for borrowers of different categories of advances. The Field Survey was conducted in 1993. The data collected from the sample borrowers relating to the particulars of loans such as dates of application, sanction and disbursement as well as the amount outstanding, amount repaid and overdues were cross-checked with the bank records/ledgers and the latter were considered for analysis in the event of any discrepancy or variation.

Besides, secondary data regarding the growth of Regional Rural Banks in India and in Andhra Pradesh and data regarding Sree Anantha Grameena Bank were

**ANALYSIS OF DATA AND USE OF STATISTICAL TOOLS:**

The collected data have been processed and analysed both manually and with the help of a computer. Both primary and secondary data were tabulated to bring out systematic analysis of the role of Sree Anantha Grameena Bank in terms of sanction of loans, utilisation of credit, impact of bank finance on the incomes, assets and employment of the borrowers, repayment performance etc. The analysis of primary data has been done in such a way that it enables the comparison between the sample borrowers belonging to the five categories on the basis of purpose of loan and falling under the relatively developed and the relatively underdeveloped areas of Anantapur district.

The data drawn from the various sources were analysed and inferences drawn by applying certain statistical tools like Location Quotient, 't' test, Discriminant Function Analysis, Multiple Regression, Yule's Coefficient of Association etc.

To examine the degree of distribution of bank branches of the Commercial Banks and Sree Anantha Grameena Bank operating in the district in different blocks/taluks, the Location Quotient method as suggested by Walter Isard in his "Methods of Regional Analysis" was applied.

The responses of the sample borrowers to the list of opinion statements about the working of Sree Anantha Grameena Bank were interpreted by using the Yule's Coefficient of Association.
Similarly, to identify the factors that differentiate the sample non-defaulters from the sample defaulters, the Discriminant Function Analysis was used. Multiple Regression Analysis was employed to study the factors affecting overdues among the defaulters.

LIMITATIONS OF THE STUDY:

The study, it may be admitted, has certain limitations. In fact, the scope of the study is restricted to know the benefits in terms of income, employment and assets that have accrued to the beneficiaries from the advances of the selected branches. It is here that the study is confined to the period from 1989-90 to 1991-92 when borrowers were sanctioned productive loans. Naturally, this is too short a period for drawing any general and accurate conclusions. Besides, the primary data collected from the respondents with the help of a Schedule through Survey Method may not be accurate as none of the borrowers is in the habit of maintaining proper accounts/records with regard to income generated, number of mandays of employment generated and the extent of utilisation of credit for sanctioned purpose, repayment of loans, dues for the banks etc. Some of the borrowers were hesitant in furnishing the required data and information when it relates to their income and assets. In many cases, the borrowers could not remember their past operations and even if they do so, they were unable to give correct figures of income. So the data cannot be immune to built-in biases in the responses obtained from the borrowers. Though much care is taken in obtaining correct information, there is bound to be some degree of error in the data furnished and hence, in its analysis. Besides, the data were collected from a limited sample of 6 to 10 villages in Anantapur district. The conclusions drawn are restricted to the survey findings and any generalisations need to be cautiously applied.

The secondary data collected from the published Annual Reports and documents of the Bank provide an exact information on various aspects. The secondary data pertaining to all Regional Rural Banks is obtained from consolidated state-
ments/year books of NABARD. Due to time lag in the publication of official data, it was not possible to furnish latest data. Since this study is confined to sample Regional Rural Bank branches, the conclusions drawn may not have unquestionable validity for the purpose of policy-making.

Chapter Scheme: The study is presented in seven chapters. The first chapter Introduction and Methodology, deals with a brief outline of the problem of study, objectives of the study, review of literature, importance of the study, scope, methodology and sample design, data base and limitations of the study.

In the second chapter Genesis and Progress of Regional Rural Banks in India with special reference to Andhra Pradesh, an attempt is made to present the rural banking scenario prior to the setting up of Regional Rural Banks and to trace the genesis and progress of Regional Rural Banks and their structure. The progress and performance of Regional Rural Banks at all-India level and in Andhra Pradesh is analysed in this chapter.

The third chapter Agro-Economic Profile of Anantapur District presents a profile of Anantapur district with a focus on its banking sector.

The fourth chapter Growth and Performance of Sree Anantha Grameena Bank - An Appraisal deals with the growth and expansion of Sree Anantha Grameena Bank and its performance in respect of mobilisation of deposits, sector-wise advances, recovery performance, profitability etc., in Anantapur district.

In the fifth chapter Lending Procedures and Utilisation of Loans with Reference to the Sample Borrowers an attempt is made to study the socio-economic profile of sample borrowers, their source of knowledge of loan schemes of the bank, expenses incurred by them for obtaining credit, utilisation of loans, diversion of loans, possession of the assets financed by the Bank and problems faced by them in marketing their products. The opinions of sample borrowers about various aspects of the Bank are also analysed in this chapter.
The sixth chapter *Impact of Sree Anantha Grameena Bank Finance on the Sample Borrowers - An Empirical Analysis* analyses the impact of bank credit on the incomes, assets and employment of sample borrowers and their deposits with the selected bank branches. The repayment performance of sample borrowers, the causes for default etc., are also analysed in this chapter as repayment performance depends on the incomes generated.

The last chapter *Summary and Conclusions* presents the major findings and conclusions of the study. Based on empirical data and its analysis, an attempt is made to suggest certain measures for effective functioning of Sree Anantha Grameena Bank in particular and Regional Rural Banks in general.
NOTES AND REFERENCES


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


43. Government of India, Committee on Regional Rural Banks, New Delhi, 1985

44. Dr. Tiwari, R.S., "Urbanising Regional Rural Banks", Agricultural Banker, Vol. 8, November 1, 1985, pp 3-8.


66. In Statistics, a sample of 30 is considered a 'large' sample and the inferences based on a large sample may be termed valid.