Chapter 1

INTRODUCTION
The need for organized rural credit stems out of the fact that agriculture emerged as an important industry and all our agriculturists, by a large, are poor. In the absence of orderly flow of credit, our farmers who constitute the backbone of rural economy remain in continuous rural indebtedness and will be exposed to the nefarious activities of money-lenders. Indian agriculture suffers from uncertainties carried by monsoon hazards low rates of productivity and increasing dependence with low returns. As a result, even in the absence of modernization, the agriculturists cannot cope with financial needs without resource to borrowing. In the context of modernization, needs for credit is very much emphasized to meet the timely needs of our farmers. Agricultural credit is an essential prerequisite for the rehabilitation and progress of Indian agriculture.

National Policy and Objectives

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. For a long time, the major source of agricultural credit was the private money-lenders. This source of credit was inadequate and highly expensive and exploitative. Since independence, a multi-agency approach consisting of co-operatives, commercial banks and regional rural banks-known as institutional credit has been adopted to provide cheaper and adequate credit to farmers. The major policy in the sphere of agricultural credit has been its progressive institutionalization for supplying agriculture and rural
development programmes with adequate and timely flow to credit to assist weaker sections and less developed regions.

The basic objectives of this policy are: 1

a) to ensure timely and increased flow of credit to the farming sector;
b) to reduce and gradually eliminate the money-lender from the rural scene;
c) to make available credit facilities to all the regions of the country, i.e., reduce regional imbalances; and
d) to provide larger credit support to areas covered by special programmes like Pulses Development Programmes. Special Rice Production Programme and the National Oil-seeds Development Project.

The need for and sources of credit for farmers

The financial requirements of the Indian farmers can be classified into three types depending upon the period and the purpose for which they are required;

a) Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. For example, they want to buy seeds, fertilizers, fodder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose. Such short-period loans are normally repaid after the harvest.
b) The farmers require finances for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, etc. These loans are larger than short-terms loans and can be repaid over longer periods of time.

c) The farmers need finances for the purpose of buying additional land, to make permanent improvements on land, to pay off old debt and to purchase costly agricultural machinery. These loans are for long periods of more than 5 years.

The credit requirements of farmers can be classified into two types-productive and unproductive loans. The former include loans to buy seeds, fertilizers, implements, etc. to pay taxes to the Government and to make permanent improvements on land, such as digging and deepening of wells, fencing of land, etc. All these forms of credit help the farmers in their agricultural operations or in improving their land. Besides these, the Indian farmers often borrow for unproductive purposes, such as for celebration of marriages, births and deaths, for litigation etc. Unproductive loans raised at exorbitant rates of interest are highly improper and unjustified.²

Sources of Rural Credit

The rural sector (including agriculture) is being increasingly seen as a potential source of domestic demand; a recognition, that is shaping
the marketing strategies of entrepreneurs wishing to widen the demand for goods and services. In India 70 per cent of the people are engaged in agriculture for their livelihood. Small and marginal farmers constitute majority of farming community. Given the requirement of finance in the agriculture sector, very few farmers have capital of their own to invest in Agriculture. Therefore the need arises to provide credit to rural people. Even if you look into the expenditure pattern of the farm families, they have hardly any savings to fall back on. Therefore credit, enables the farmers to advantageously use seeds, fertilizers, irrigation and machinery.

The farmer has to invariably search for a source, which supplies adequate credit. Rural credit assumes vital importance in the agro-socioeconomic development of the country both at the individual micro and at the aggregate/macro level. Its catalytic role strengthens the farming business and augments the productively of scarce resources. Rural credit entails increased farm income levels and overall improvement in the living standards of rural masses.

The short-term and medium-term financial requirements of Indian farmers are met through loans borrowed from money-lenders, co-operative credit societies and from the Government. For long-term requirements, the farmers depend upon the money-lenders, land development banks and the Government. Broadly, there are two
source of credit available to the farmers- non-institutional or private sources include money-lenders; trader and commission agents, relatives and landlords; institutional source consist of the Government and co-operatives, commercial banks including the Regional Rural Banks (RRBs). The chart 1.1 gives a clear view of major sources of rural credit.
CHART-1.1

Sources of rural credit

Institutional RBI

SCB's

NABARD

Non-Institutional

Money Lender

Trader & Commission Agents

Friends and

Others

Co-operative Banks

SCB's

DCCB's

PACS

Public Sector

Private Sector

RRB's

NATIONALISED BANK

SBI GROUP

SCB's – Scheduled Commercial Banks, NABARD – National Bank For Agricultural and Rural Development, RRB’s – Regional Rural Banks, RRB’s – Regional Rural Banks, SCB’s – State Agricultural Co-operative Banks, DCCB’s – District Central Co-operative Banks, PACS – Primary Agricultural Co-operative Societies
Non-Institutional Sources

A. Money Lenders

There are two types of money-lenders in rural areas. There are agriculturist money-lenders who combine farming with money-lending. Primarily they may be interested in farming but they carry on money-lending as a side business. The village shopkeeper also acts as a money lender. Besides there are professional money-lenders whose only occupation or profession is money-lending.

The cultivators depend upon the money-lender for their requirements of cash. Over the last few years, the importance of the money-lenders as supplies of cash to the farmers is declining rapidly. For instance, according to the All-India Rural Credit Survey undertaken in 1951, the money-lenders accounted for nearly 70 per cent of all rural credit. In 1991 they accounted for 16 per cent of rural credit. This fact shows clearly that the money lenders are losing ground to institutional agencies. However, there are many reasons for the preponderance of the village money-lenders in rural areas even now.³

a) The money-lenders freely supplies credit for productive and non-productive purposes, and also for short-term and long-term requirements of the farmers.
b) The money-lender is easily accessible and maintains a close and personal contact with the borrower, often having relations with family extending over generations.

c) Money-lender's methods of business are simple and elastic.

d) Money-lender has local knowledge and experience and, therefore, can lend against land as well as against promissory notes. He knows how to protect himself against default.

**Malpractice of the Money-Lenders**

There are various malpractice which are associated with the village money-lenders. They obtain bonds and promissory notes from their debtors on false pretence, and enter in them sums larger than actually lent. They deduct exorbitant premiums. They give no receipts for repayments and often they deny such repayments. They charge high rates of interest—often 24 percent and over. They commit many other rogueries which are so well known. The money-lenders have been responsible for many of the ills of Indian agriculture because their main interest has been to exploit the farmers for their benefit and grab their lands. Unless their activities are controlled and alternative sources of credit provided to the farmers, it would be difficult to improve the condition of the peasants.
Traders and Commission Agents

Traders and Commission agents supply funds to farmers for productive purposes much before the crops mature. They force the farmers to sell their produce at low prices and they charge a heavy commission for themselves. This source of finance is particularly important in the case of cash crops like cotton, groundnut, tobacco etc., in the case of fruit orchards like mangoes. Traders and commission agents may be bracketed with money-lenders, as their lending to farmers is also at exorbitant rates and has other undesirable effects too.

Relatives

Farmers generally borrow from their own relatives in cash or kind in order to tide over temporary difficulties. These loans are generally contracted in an informal manner; they carry low or no interest and they are returned soon after the harvest. But this source of finance is uncertain and with increasing needs of modern agriculture, the farmers cannot depend upon this source to any large extent. Actually the importance of this source of rural credit is declining. In 1951-52, borrowing from relatives accounted for 14.2 percent, but in 1981 it accounted for 8.7 percent only.

Landlords and Others

Farmers, particularly small farmers and tenants, depend upon landlords and others to meet their financial requirements. This source
of finance has all the defects associated with money-lenders, traders and commission agents. Interest rates are exorbitant. Often the small farmers are cheated and their lands are appropriated. The landless labourers are forced to become bonded slaves. What is worse, this source of finance is becoming more important—from 3.3 percent in 1951-52 to 14.5 percent in 1961-62 but declined to 8.8 percent in 1991.4

Serious defects of private sources of agricultural finance are, use of credit for unproductive consumption purposes, high rates of interest charges, difficulty of small farmers to raise credit, etc. As the Report of the All-India Rural Credit Survey admirably summed up: “Private credit, generally unsuitable, is wholly unsuitable in the context of planning for large production.”5

Institutional Sources of Credit

Institutional credit as mentioned earlier, refers to the funds made available by co-operative societies, commercial banks, and Regional Rural Banks (RRBs). State Governments also provide “Taccavi loans” to farmers besides extending financial support to State Co-operative Banks (SCBs) and Land Development Banks (LDBs). In the field of co-operation, the Primary Agricultural Credit Societies (PACs) provide mainly short and medium term loans and Land Development Banks (LDBs) provide long term loans to the agricultural sector. The commercial banks including regional Rural Banks (RRBs) provide both
short and long term loans for agricultural and allied activities. The National Bank for Agriculture and Rural Development (NABARD or simply “National Bank”) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above. The Reserve Bank of India, as the central bank of the country, plays a crucial role by giving overall direction to rural credit and financial support to the National Bank for its operations.

The need for institutional credit arises because of the weakness or inadequacy of private agencies to supply credit to farmers. Private credit is defective because:\(^6\)

i) It is based on profit motive and, therefore, it is always exploitative;
ii) It is very expensive and is not related to the productivity of land;
iii) It does not flow into most desirable channels and to most needy persons;
iv) It is not available for making agricultural improvements and much of the necessary improvements are not undertaken as funds are not available for long periods at low rates of interest; and
v) It is not properly integrated with the agriculturists other needs.

Institutional credit is not exploitative and the basic motive is always to help the farmers to raise his productivity and maximise his income. The rate of interest is not only relatively low but can be different for different groups of farmers and for different purposes.
Institutions also make a clear distinction between short term credit and long term credit requirements and give loan accordingly. Finally, institutional credit is fully integrated with other needs of farmers are not met by the co-operative. Besides, the small farmers find it difficult to meet all their credit requirements from the co-operatives. Again, there are vast areas and regions in West Bengal, Bihar, Orissa and Rajasthan where the movement has neither spread adequately nor has taken deep roots; so much so that the farmers are deprived of the benefits of co-operative societies. In many places, the working of the co-operatives had been hopelessly wrecked by unscrupulous and dishonest farmers, thus denying the benefits of co-operation to the really needy farmers.

**Land Development Banks**

The need for long-term loans is being satisfied by land development banks (formerly they were called land mortgage banks). The objectives of such banks are to provide long-term credit to the cultivators against the mortgage of their lands. The loans from the development banks are quite cheap and are spread over a long period of 15 to 20 years. It is, therefore, convenient to borrow from these banks if previous debts have to be cancelled or if additional land is to be cancelled or if additional land is to be purchased or if improvements (like the digging of wells) have to be made.
Though Land Development Banks have been making considerable progress in recent years in this country, they have not really contributed much to the financial needs of the farmers. The amount they lend every year is like a small drop in the ocean and does not touch the problem of rural credit in a serious way. In most areas small farmers are not even aware of the existence as well as the usefulness of Land Development Banks. Further, it is really difficult to organize them. The Land Development Banks lend against the security of land, and big landlords have taken advantage of them and, by and large, small peasants have not benefited from them.

Commercial Banks and Rural Finance

The commercial banks in India have long confined their operations to urban acres, receiving deposits from the urban public and financing trade and industry in urban area. One of the long standing complaints against them was their failure to help the agricultural sector with funds. Before their nationalization in 1969, they were not concerned with provision of short-term and medium term credit for agricultural purposes as these were met by the Cooperative Credit Societies and Land Development Banks. Moreover, the uncertain character of Indian agriculture, lack of proper accounting of agricultural transactions, small amount of individual loans, inadequate security for loans, difficulty of collection from farmers-these were some of the factors which prevented the Commercial Banks from taking interest in
agricultural finance. All these changed with the nationalization of banks in 1969.7

Commercial banks are extending financial support to agriculture both directly and indirectly. Direct finance is extended for agriculture operations for short and medium periods. Indirect finance to farmers is made through providing advances for the purchase of fertilizers, other inputs, etc., and also though financing Primary Agricultural Credit Societies (PACS). Financing of investment in agriculture is a major aspect of the farm credit activities of banks. Credit needs of service units providing services for warehousing, processing, marketing, transport, and repairing of tractors etc. form part of the bank’s credit for infrastructure. The banks finance the operations of Food Corporation of India, the State Governments and their agencies for food procurement. Stocking and distribution of agricultural inputs is another sector whose needs are increasingly met by the banks. Along with SBI group they are implementing the “village adoption scheme” under which the credit and other needs of farmers are fully met by banks. They have now adopted a new strategy for rural lending, known as service area approach. They have sponsored Regional Rural Banks to extend credit to small and marginal farmers and rural; artisans to save them from the clutches of the money lenders.
Regional Rural Banks

These banks were first set up in 1975 specifically to give direct loans and advances to small and marginal farmers, agricultural labourers, rural artisans and others of small means. The loans are given for productive purposes. There were 86 RRBs which have been lending around Rs.34079.21 crores annually by way of loans to rural people. Over 90 percent of the loans of RRBs are given to the weaker sections in rural areas.

The Government and Rural Credit

The Government has also been a source of rural finance, for short as well as for long periods. Government loans to farmers are known as taccavi loans. These loans are generally given in time of emergency or distress, such as famine, flood, etc. The rate of interest is low-about 6 percent and the mode of repayment is very convenient; the debt is repaid in convenient installments paid along with the land tax. But these loans though popular (especially because of the low rate of interest) have not assumed any significance. The data shows that in 1951-52 only 3.3 percent of rural finance was from the Government and in 1981 this had slightly risen to 3.9 percent. During 1990-91 State Governments had advances Rs.350 crores in the form of short-term loans to agriculture. There are a number of reasons for this unsatisfactory position. The farmers find it difficult to get the "taccavi loans" because of time wasted, the delay involved etc. Besides, 20 to
25 percent of the loan amount will have to be paid to the Government officials by way of bribes to get the loans sanctioned. Hence, the “taccavi loans” did not become as popular as they should have been.

National Bank for Agriculture and Rural Development

The need for strengthening the institutional arrangements for the supply of credit to the rural areas was being felt for quite a long time in the past. And with the implementation of the Integrated Rural Development Programmes for the all round progress of the rural areas, the credit requirements of the rural sector became still larger. The necessity of augmenting the flow of rural credit and giving it a proper direction became all the more imperative to achieve significant success in rural development. The Reserve Bank of India, appointed in March 1979 a committee known as Committee for Reviewing Arrangements for Financing Institutional Credit for Agriculture and Rural Development (CRAFICARD) to go into the whole gamut of rural credit and make recommendations for reorganizing and strengthening it. The committee, among other things recommended for the up of National Bank of Agriculture and Rural Development. In pursuance to the commendations of the committee, NABARD was established in July, 1982.

The NABARD has an authorized share capital of Rs.500 crores and a paid up capital of Rs.100 crores. The Reserve Bank of India has
contributed half of the share capital of NABARD while the other half has been contributed by the Government of India. Deputy Governor of the Reserve Bank of India is the Chairman of NABARD.\textsuperscript{8}

The National Agricultural Credit (Long Term Operations) Fund with the Reserve Bank, has been transferred to NABARD to form a part of its National Rural Credit (Long Term Operations) Fund which is to be used for providing long term loans. The NABARD is also permitted to raise resources from government and the market. It can also draw assistance from Reserve Bank of India for short term credit and Working Capital Loans.

The main functions of NABARD are as follows,\textsuperscript{9}

i) It is to provide short term, medium term and long term credits to State Co-operative Banks, Regional Rural Banks, Land Development Banks, Land Development Banks and other financial institutions approved by the RBI.

ii) It grants long term loans to the State Governments for subscribing to the share capital of co-operative societies.

iii) It gives loans to the approved institutions to invest in securities or to contribute to share capital of institutions engaged in agricultural and rural development.

iv) It co-ordinates the activities of the Central and the State Governments, other all India and state level institutions entrusted
in the development of small scale industries, village industries and rural crafts.

v) It has the responsibility of inspecting Co-operative Banks, Regional Rural Banks and Primary Co-operative Societies.

vi) It promotes research in agriculture and rural development.

vii) It serves as a refinancing agency for the institutions providing finance to rural and agricultural development.

The NABARD has taken over the entire undertaking of the Agricultural Refinance and Development Corporation (ARDC) and also the refinancing functions of the State Co-operative Banks as well as those of the Regional Rural Banks.

The National Bank of Agriculture and Rural Development (NABARD) sanctions credit limits and refinance to co-operative banks and regional rural banks for supplementing their resources for short term and medium term loans of various agricultural and non-agricultural purposes, including the investment credit provided by them under various schemes. In case of commercial banks, NABARD provides only refinance against the term loans issued by them under schematic lending for agricultural and certain non-agricultural purposes as the commercial banks are excepted to meet the short-term requirements out of their own resources.
Multi Agency Approach to Rural Credit

The present system of agricultural credit in India consists of two sectors viz. the non-institutional sector and the institutional sector. The non-institutional sector encompasses the professional and agricultural money-lenders, landlords, traders, commission agents and of the friends and relatives of the borrowers. The institutional sector of the co-operative credit societies, the regional rural banks and the commercial banks. As is evident from the reports of various enquiry committees that have studied the various facts of rural credit, the non-institutional agencies still continue to play a dominant role in the sphere of rural finance, even though their share in the total borrowings by the rural people has continued to decline over the years. In view of the malpractice indulged in by the non-institutional agencies. Particularly the money lenders, efforts have been made to diversify the structure of rural credit through the expansion of institutional agencies.

Efforts at institutionalizing agricultural credit commenced with the enactment of Co-operative Societies Act in 1904. However, the progress of co-operation particularly of the co-operative credit societies had been extremely slow and tardy in the earlier years. After independence, co-operatives were recognized as an important instrument for economic development and rural transformation. The All India Rural Credit Survey Committee (1951-52) after thoroughly examining the problems of agricultural credit came to the conclusion
that the only long-term solution to the problem could be found in expanding and strengthening the co-operative credit institutions. The committee recommended the adoption of an 'Integrated Scheme of Rural Credit'. The essential components of this scheme were (i) strengthening and expansion of co-operative credit structure based on the principle of state participation (including financial participation) through the State Co-operative Banks at the state level, district co-operative banks at district level and large sized agricultural credit co-operative Banks at the state level, district co-operative societies at the level of a compact group of villages; (ii) co-ordinated development of agricultural processing, storage, warehousing an marketing etc and (iii) managing and administration of co-operative movement by qualified, component and well trained staff. The committee also recommended that the Reserve Bank of India Act should be suitably amended so as to enable the banks to play positive role in development and financing of agricultural sector through co-operatives. It also recommended for the nationalization of the Imperial Bank of India and transform it into State Bank of India and entrust it with the job of expanding rural banking facilities in order to supplement the efforts of the co-operative movement, more particularly in the field of co-operative processing an marketing and in the extension of rural banking facilities. It was also recommended by the All India Rural Credit Survey Committee that a national level co-operative development corporation be established and
a suitable agency created for organizing planning and implementing comprehensive programme for co-operative training.\textsuperscript{10}

All the recommendations of the AIRCs committee were accepted and suitable measures adopted by the Central and the State Governments to implement them. But the policy of single agency approach to solve the problems of agricultural credit continued till the late 1960s. During 1968-69, the multi-agency approach was adopted as it was felt that no single agency can meet the growing requirements of agricultural credit. The multi-agency approach means that instead of one agency (viz. co-operative societies), there should be many agencies simultaneously functioning and catering to the credit requirements of the farmers. To start with, it were the commercial banks which started taking keen interest in rural finance after their nationalization in 1969. The Rural Credit Review Committee appointed by the Reserve Bank of India to assess the performance of the co-operative credit structure in its report submitted in July 1969, endorsed the multi-agency approach and welcomed the entry of commercial banks into the field of agricultural finance. The Farmers Service Societies (FSS) established on the recommendations of the National Commission on Agriculture, were given the responsibility of making available to the agriculturists, particularly the small and marginal farmers, credit and all other inputs as well as the technical services in the areas of their operation. Later, the Regional Rural Banks with a
wide network of their branches, have assumed a significant role in the
helm of providing credit to the farmers. Thus, the single agency
approach to the problem of rural credit, has been replaced by the multi-
age agency approach where a number of agencies are simultaneously
working to meet the credit requirements of the villagers, although the
RRBs co-operatives still remain the most dominant among the
institutions in this field.

The multi-agency approach, which is now practiced on an
expanded scale, is beset with many problems, some of which are:11

i) The existence of a number of agencies giving credit to the
farmers in common area of operation leads to uncoordinated
disbursable of credit causing over financing in some areas and
under financing in others. This results not only in financial
undisciplined but also leads to diversion of scarce resources to
unproductive purposes.

ii) The multiplicity of agencies hampers the formulation of
meaningful agricultural credit programmes on the basis of area
approach.

iii) It leads to unhealthy competition among the various credit
agencies as each one of them tries to excel the others in grant of
loans and advances. This results in overlapping and duplication
of credit facilities.
iv) Since, more than one agency has a claim on the same security or income of the borrowers, there is a problem in the recovery of loans; and

v) The multi-agency approach creates problems that arise from the different procedures and policies, security norms, service and supervisory charges and varying rates of interest.

Therefore, it is necessary that all these various agencies engaged in rural credit should be effectively co-ordinated in respect of their lending activities. The respective roles of these institutions, viz., the co-operatives, the commercial banks, the regional rural banks etc. should be clearly defined and effectively co-ordinate in their area of operation.

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 targeted 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 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\textsuperscript{12} 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 organization 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.

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". 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.\textsuperscript{13} 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.
While evaluating Champaran Kshetriya Grameena Bank in Bihar State, R.N. Srivastava, D.K Singh, and R.P. Singh, expressed that easy and timely availability of crop loans at normal rate of interest resulted in increased use of inputs like seeds, fertilizers, labour and increased intensity of cropping and thereby significantly increased the incomes of crop loan borrowers.  

Satya Sundaram 15 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.

The State Bank of India 16 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.

DR. I. Satya Sundaram17 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.

Singh and Upadhyay\textsuperscript{18} in their study of loan recovery of Regional Rural Banks in Bihar concluded that recovery performance of Regional Rural Banks declined continuously due to inadequate arrangements made for recovery. The extent of decline indicated poor management of selected Regional Rural Banks declined 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.

Dr. R.S. Tiwari\textsuperscript{19} 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.R. Phadtare in his study entitled “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.

Evaluating the performance of Regional Rural Banks, Dr. I. Satya Sundaram in his study entitled “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, continues to be disappointing. It is also observed that the supportive measures offered by the State Government at the field level appear to be meager.  

Dr. D.B. Kuchhadiya and R.L. Shiyani 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 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 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".

Analysing the recovery performance of South Malabar Grameena Bank-the first Regional Rural Bank in Kerala, C. Krishnam 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.

Analysing the causes for the sickness of majority of Regional Rural Banks, A.K. Nanda in his article titled "Regional Rural Banks in Grip of Sickness" observed that Regional Rural Banks had to face both organizational 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.

P. Punna Rao and Dr. Ch. Satyanarayana in their article entitled "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 (9.375 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 utilization of loan' and 'low rate of interest' were the major reasons for their profitability of crop loans.

Making a study of the Manipur Rural Bank in Manipur State, P. Kallu Rao and Shaji Thomas 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 rate and but it has exceeded more than 50 per cent on an average.
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 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.

Y.V. Reddy (2004) in his speech on “Rural Credit: status an agenda” opines that there are several concerns in relation to rural credit which are generally expressed in terms of inadequacy, constraints on timely availability, high cost, neglect of small and marginal farmers, low credit-deposit ratios in several states and continued presence of informal markets. He holds that the commercial banks are more focused in improving efficiency and profitability, they have tended to give comparatively less priority to rural credit.
Biswa Swarup Misra (2006) in his paper entitled “the performance of Regional Rural Banks (RRBs) in India. Has past anything to suggest for future?” makes an attempt to enquire into the factors that influence the performance of the RRBs and the role played by sponsor bank in a broader scenario. The study indicated that the umbilical cord hypothesis is operational in case of sponsor bank and profit/loss making RRBs. The sponsor bank contributes positively to the financial health of the profit making RRBs. For the loss making RRBs, the sponsor bank act as a drag on their performance.

Etali Sarmah and Bedanga Bordolo (2009) in their article entitled “Rural Credit in India”. Policy Insights says that there is every need for financial inclusion of the poor and in particular the rural poor. They consider that the Regional Rural Banks are powerful instruments for financial inclusion. Their out reach is extensive accounting for 37 per cent of total rural offices of all Scheduled Commercial Banks and 91 per cent of their workforce posted in rural and semi-urban areas. They also elaborately discussed the main provisions of the committee of Financial Inclusion headed by Dr. C.Rangarajan.

Gurmeet Singh (2009) in his essay on “Need and Nature of Rural Credit in India” considered that the agrarian crisis in India has both long term structural, and institutional as well as short term manifestations. The long term structural features show a sharp decline in the share of
agriculture in the GDP accompanied by a very low rate of urban force diversification away from agriculture. He further says that this phenomenon has resulted in declining relative productivity of agriculture. He further says that this phenomenon has resulted in declining relative productivity of agriculture vis-à-vis that of the non-agriculture sector. On the credit flow to agriculture be calculated that as against the target of Rs.2,80,000 crore of credit flow of agriculture for 2008-09, the banking system has disbursed Rs.2,87,149 crore as on 31st March 2009 achieving nearly three per cent more than the target.

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 their 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 to expand more and more rural credit.

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.
Statement of the Problem

The regional rural banks came into operation as rural credit institutions to channel credit and other services to the viable programmes of the rural sector. As such, they should equip their means and mechanism for gearing up the economy of the region in which they operate. In other words, the development of rural economy is the main motto of regional rural banks with low cost transactions. A sense of local feel coupled with efficient management on professional line is their specific characteristic feature. A rapid progress has been achieved by regional rural banks. This progress is quantifiable but not coupled with quality. The achieved performance of an institution in terms of quantifiable and quality would certainly reflect a sound financial management with higher productivity. 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 and also to provide credit for their agricultural operations and to meet their consumption needs. Hence, the present study on "Impact of Institutional Loans on the Selected Beneficiaries: With Special Reference to Andhra Pragathi Grameena Bank in Anantapur District" is a humble attempt to investigate the impact of loans extended by Andhra Pragathi Grameena Bank.
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 mobilize 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 fulfillment 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.

Scope of the Present Study

In the present study, an attempt is made to examine the functioning of Andhra Pragathi 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 its operational area 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. The study is also an attempt 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.

Objectives of the Study

The specific objectives of the study are:

1) to discuss various sources of rural finance in India with particular reference to institutional sources;

2) 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;

3) to analyse the performance of Andhra Pragathi Grameena Bank operating in Anantapur district with particular reference to it’s branch expansion, mobilisation of deposits, loans advanced, recovery of loans, overdues and financial profitability;

4) to assess the impact of Andhra Pragathi 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 Andhra Pragathi 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

Andhra Pragathi Grameena Bank - 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 86 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 to developed and underdeveloped mandals. Hence, in the first stage, three mandals in each developed and underdeveloped area were selected. Secondly, one APGB branch from each Mandal was selected for collection of primary data.

The Universe and the Sample

Andhra Pragathi Grameena Bank 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 Andhra Pragathi 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.

All the Mandals in the district are broadly classified into two groups, (a) developed and (b) underdeveloped or less developed, taking Economic Indicators such as, per capita income, percentage of gross irrigated land, etc Human Development Indicators such as female literacy, proportion of Scheduled Castes, Scheduled Tribes population, infant mortality rates etc and Infrastructure development Indicators such as total road length per 100kms, number of Hospitals Beds Rs.10,000 populations etc as basis. From the developed category three Mandals, and from the underdeveloped category other three Mandals were selected. From each selected mandal systematically one Andhra Pragathi Grameena Bank Branch was selected.

The universe of the study comprises the borrowers who were given loans for the purposes mentioned above during the period 2008-2009. 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 60 borrowers each are covered under each of the above five categories in both 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. The table 1.1 clearly gives the picture sampling.

<table>
<thead>
<tr>
<th>Category</th>
<th>Name of the Mandal</th>
<th>Name of the Branch</th>
<th>Number of Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td>1. Tadimarri</td>
<td>1. Dadithota</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>2. Narpala</td>
<td>2. Gugudu</td>
<td>50</td>
</tr>
<tr>
<td>Underdeveloped</td>
<td>1. Amarapuram</td>
<td>1. Hemavathi</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>2. Bukkapatnam</td>
<td>2. Marala</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>3. Urvakonda</td>
<td>3. Raketa</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>6</strong></td>
<td><strong>300</strong></td>
</tr>
</tbody>
</table>

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 March 2009. 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 Andhra Pragathi Grameena Bank were collected from different published records which include Reports of the Government of India, Reports of the Reserve Bank of India, Reports of NABARD, Annual Reports and records of Sree Anantha Grameena Bank, Statistical Abstracts of Government of Andhra Pradesh and District Credit Plans prepared by the Lead Bank of the District viz., Syndicate Bank.

**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 Andhra Pragathi 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 growth percent, averages, percentages etc.

Plan of the study

The study is presented in six chapters. The first chapter Introduction, 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 Origin and Growth of Regional Rural Banks in India and 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 Profile of Andhra Pragathi Grameena Bank presents a profile of Andhra Pragathi Grameena Bank, its net work of branches in five districts of Andhra Pradesh.

The fourth chapter Performance of Andhra Pragathi Grameena Bank in Anantapur District deals with the growth and expansion of Andhra Pragathi 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 Impact of Institutional Loans on 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 Andhra Pragathi Grameena Bank in particular and Regional Rural Banks in general.

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 2008-2009, as the Andhra Pragathi Grameena Bank was established in 2006 after the amalgamation of three regional banks. On the other hand the data related to all India level RRBs is confined 2001-02 to 2008-09. 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 man days 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 generalizations need to be cautiously applied.
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