CHAPTER I

INTRODUCTION
There is a widely shared view that a determined effort is needed to speed up the flow of institutional credit especially to meet the needs of the weaker sections of the rural community. This is viewed in spite of an impressive step-up in the availability of institutional credit to the rural population in recent years. The various weaknesses of the co-operative credit agencies and the nationalised banks have generated fear that the existing institutions as they are presently structured would not be able to fill the regional and functional gap in the rural credit institutional system within a reasonable period of time. The Government of India also felt that it was necessary to establish new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the nationalised banks.

The Banking Commission in its Report\(^1\) in the year 1972 mooted for the first time the proposal for setting up of rural banks after examining the record of the expansion of the commercial banks' activities. 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. The Regional Rural Banks came into existence with an Ordinance in 1975 and subsequently the Ordinance was repealed by the Regional Rural Banks Act of 1976.

The establishment of these new financial institutions has created a great deal of interest among the planners, policy makers and observers of the Indian economy. This innovation in the field of rural credit has added a new dimension to the banking in India. It is considered as a potentially powerful policy instruments for achieving the objective of rural development mainly through the development of the rural poor.

The Reserve Bank of India in its report has 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".  

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

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. Despite of tremendous growth of rural credit in the country overtime, it is estimated that even now the non-institutional credit accounts for two thirds of the total agricultural credit in the country. The poor villagers are ultimately caught up in the vicious circles of poverty as they borrow funds from money lenders who charge abnormal rate of interest. Even the introduction of Multipurpose Co-operatives on the recommendations of the All-India Debt and Rural Credit Survey and Farmers Service Societies advocated by the National Commission on Agriculture, did not provide viable alternative to the credit problems of the rural population. There are still many unbanked areas in the country though


demand for rural credit has grown over the years after the introduction of mechanisation in agriculture.

These new institutions are combining the local feel and familiarity with rural problems which co-operatives possess and the abilities of commercial banks to mobilise the deposits. The major objective 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 countryside.

It is, however, clearly stressed that the trust of the lending activities of these banks should be towards providing credit for small and marginal farmers, landless labourers, the small businessmen, rural artisans and the like belonging to the weaker sections of the rural society. It was also implicit in the thinking of the Government of India that the weaker sections of the rural society had in general not benefited much from the existing credit institutions. Hence it is intended that the new institutions of rural banks must rectify this deficiency and work for furthering the development of the

rural poor. However, the idea of new rural banking and the operation of such banks with local staff in rural environment is making the poor people in the villages to find most homely.

STATEMENT OF THE PROBLEM

Since the rural sector continues to play a dominant role in Indian economy, there is need for improving the living conditions of the rural population with greater emphasis on weaker sections. It is a well-known fact that the incomes of small and marginal farmers, rural artisans, small businessmen etc., can be increased by raising their capacity to invest in their economic activities. To help specifically these sections of population, Regional Rural Banks came into existence to supplement credit which is already made available by the Co-operatives and commercial banks. The small and marginal farmers and rural artisans find it difficult to make investment on modern inputs like high yielding varieties of seeds, chemical fertilizers, purchase of raw materials and improved machinery etc., as they do not have sufficient own funds for investment purpose. Hence Grameena Banks have to extend credit to take the shape of investment.
As the evils of non-institutional credit are well-known, there is need for adequate and timely credit from Regional Rural Banks to the weaker sections in rural India. Though commercial banks intensified their role after nationalisation their role is found significant in agricultural finance only. The non-agricultural activities in rural areas have not been receiving adequate credit. As Regional Rural Banks are helping greatly the non-farm sector, it is therefore, necessary to examine the role of Grameena Bank in financing non-agricultural activities in the district.

**IMPORTANCE OF THE STUDY**

Though different aspects of agricultural credit by co-operatives and commercial banks have been studied 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. As it is indisputable that the weaker sections in rural areas are having a miserable existence on the financial front, the subject of rural credit has come in for a critical review by different expert committees from time to time.
However, much of it was confined to strengthen the credit prospects of large scale and medium scale agriculture rather than the agriculture of small and medium farmers, the activities of rural artisans etc. This is true more in the case of non-agricultural activities in rural areas.

(An attempt is made in this study to examine the extent of credit given to non-agricultural activities by the Regional Rural Banks. The present study is confined to the role of Sree-Anantha Grameena Bank in Anantapur district of Andhra Pradesh. Thus the role of the Grameena Bank with its specified salient features is critically analysed with due emphasis on the utilisation of credit by the borrowers of non-agricultural loans.)

REVIEW OF LITERATURE

The literature is diverse in the field of bank credit in India. But it is inadequate in the area of credit structure of Regional Rural Banks and problems of credit shortage to non-agricultural sector in rural areas. Therefore, an attempt is made here to provide a comprehensive view so that some light can be thrown on the problems of credit made available to non-agricultural
activities by the rural banks. In this context it is necessary to mention the contribution made by a few people with reference to the working of Regional Rural Banks. C.D. Wadhwa made a noteworthy study entitled "Rural Banks for Rural Development" (1980). This study covered the analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for the restructuring of the Regional Rural Banks. Since the study was concentrated on the operational performance of the banks with the help of secondary data, it did not touch the impact of the bank credit on rural non-agricultural economy. Besides this, the study was conducted in 1977 when the Regional Rural Banks were in the initial stages and any assessment of their performance was not fruitful.

It is also necessary to refer here the Review Committee constituted by the Reserve Bank of India in 1977 to evaluate the working of Regional Rural Banks. The Committee evaluated the performance of Regional Rural Banks in the light of the objectives for which they were set up and also to indicate their precise role in the rural credit structure. The committee recommended for the enlargement
of its scope and liberal procedures to be adopted for their functioning without enforcing any rigid posture as far as lendings to the weaker sections are concerned.) But this study also could not give a concrete idea of their operations as only two years time has elapsed ever since Grameena Banks were started.

A few important aspects of the rural banking have recently been highlighted by the Reserve Bank of India. An expert Committee headed by B. Sivaraman, submitted its report in May 1981. The Committee observed 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 also criticised the tendency on the part of branch managers to demand security for their advances from weaker sections and lending procedures are not being in conformity with the needed credit.

Several reports and papers on various general aspects of Regional Rural Banks have been published in recent years without making in-depth study on utilisation
and the impact of bank credit on borrower's income and standard of living.

OBJECTIVES

To clearly understand the role of Regional Rural Banks and to assess whether available credit is adequate and utilised properly, the objectives of the study are precisely defined in order to draw valid inferences. The specific objectives of the study are:

1. To understand the role of Regional Rural Banks in mobilising deposits and extending credit to the weaker sections in the district.

2. To assess the utilisation of credit by the borrowers of non-agricultural loans and recovery performance of the bank, and

3. To analyse the credit problems faced by the non-agricultural borrowers with specific reference to rural artisans and small businessmen.

METHODOLOGY

The study is confined to Anantapur district of Andhra Pradesh covering the entire area of operation of
the bank. Since it is a drought prone district, Sree Anantha Grameena Bank has to play a prominent role in developing both agriculture and non-agricultural sectors by extending credit to the weaker sections.

As agricultural sector is receiving priority in the bank's lendings, the present study concentrates on Grameena Bank's loans to the rural artisans, small businessmen, jewel loans and loans on deposits borrowed for non-agricultural purposes. Since consumption loans are discouraged they are excluded from the category of non-agricultural loans for the purpose of the study. Since it is an uneasy task to cover all branches of the Rural Bank, the present study covers the operations of the branch in Dharmavaram where loans to non-agricultural activities particularly to handloom weavers and small businessmen are significantly high.

The necessary data for the study are collected from both primary and secondary sources. The secondary data are collected from Head Office of Anantha Grameena Bank from its Annual Reports and relevant published literature of the bank. The primary data are collected with the help of a schedule from the sample borrowers of non-
agricultural loans from Dharraavaram branch. A random sample of 80 borrowers has been taken covering each category representing 20 borrowers drawn from among the rural artisans, small businessmen, borrowers of jewel loans, and loans on deposits.

The data collected has been processed and analysed manually. Both primary and secondary data were tabulated item-wise to bring out systematic analysis of the role of Sree Anantha Grameena Bank in terms of sanction of non-agricultural loans, utilisation of credit and the impact of credit on the incomes and employment of the borrowers.

LIMITATIONS

The study includes the general performance of Sree Anantha Grameena Bank in the mobilisation of deposits, its lendings and branch expansion during the period from December 1979 to December 1982. But the scope of the study is restricted to its role in financing to non-agricultural sector. The secondary data taken from published annual reports and documents of the bank provides an exact information in various aspects. The primary data collected from the rural masses is not so accurate because
most of the borrowers are not in the habit of maintaining proper accounts with regard to utilisation of loans and the impact of loans on incomes. 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 and expenditure. So the data cannot be immune built-in biases in the responses obtained from the borrower households. As far as possible proper care is taken in obtaining correct information.

CHAPTER SCHEME

This work relating to the study of the role of Sree Anantha Grameena Bank is divided into six chapters. Chapter II is devoted to the study of Regional Rural Banks in India and Andhra Pradesh. The various aspects of Regional Rural Banks such as genesis of Regional Rural Banks, growth and expansion of the banks are critically reviewed. In Chapter III, a profile of the economy of Anantapur district is presented. Anantapur is a drought prone district and as such agriculture in the district survives at the mercy of the monsoons. The socio-economic features of the district are briefly analysed with special emphasis on the size of priority sector. The
growth and expansion of Anantha Grameena Bank in Anantapur district is examined in Chapter IV. The growth of deposits, sector-wise advances and branch expansion in different taluks of Anantapur district are critically analysed. Chapter V is devoted to the analysis of the Grameena Bank and non-agricultural loans in general and Dharmavaram branch in particular. The pattern of non-agricultural loans sanctioned to the sample borrowers are examined. The utilisation of credit and the impact of credit on incomes of the sample non-agricultural borrowers is critically analysed. The reasons for overdues and mis-utilisation of loans by the borrowers are also assessed separately. The last chapter contains the summary and main findings of the study.