CHAPTER - 1

INTRODUCTION

1.1 STATEMENT OF THE PROBLEM

The main feature of Indian poverty profile is that about 77 per cent of the total 850 million population lives in rural areas spread over 6,30,000 villages. Out of these population, 78.33 per cent represents weaker sections, namely small farmers, marginal farmers, agricultural labourers and landless labourers, who are socially and economically handicapped. These rural people are deprived of getting the basic human needs even after more than four decades of planned development of the country, and the basic fabric of Indian rural economy still remains at its original stage. Thus, the rural India is poverty-stricken and the number of poor people living in rural areas has increased from 237 million in 1976 to around 252 million in 1988.

It is worthmentioning that the rural population occupy a very important place in the socio-economic structure of our country. The labour force for industries and manpower for the armed forces are generally supplied from rural areas. The agricultural community of rural India has also preserved our cultural identity and social heritage to a marked extent. This section of rural community, again, promotes social as well as political security. Economic upheavals, strikes and lock outs etc, are not in a position to influence the farm population in rural areas, and under such political disorders, they constitute a reservoir of patriotism.

The agricultural sector of rural India also contributes considerably to our exports which earn foreign exchange. Besides, this sector produces raw-materials for industries, and for having two necessities of life, namely food and cloth, we have to depend ultimately on cultivation. The agricultural sector, again, absorbs the bulk of the work force rendered seasonably unemployed in the case of some industries and resembles a public service in the sense that though an individual agriculturist is always guided by private interests, he produces the basic necessities of life and his interest is really a public interest. That is why, the development of rural agricultural community has always attracted the attention of Government, Policy Framers and

Social Reformers. The Government of India has also accorded highest priority to agriculture and rural development under the successive five year plans.

The concept of rural development is not a new one and it had received the attention of people like Gandhiji, Tagore, and many others much before Independence. Gandhiji said that the soul of India lived in villages and India's salvation lay in rural reconstruction.\textsuperscript{5} The World Bank also emphasised that "Rural development" was a strategy designed to improve the economic and social life of a specific group of people known as rural poor, where the term group includes "Small scale farmers, tenants and the landless".\textsuperscript{6}

Prof. Joseph Schumpeter was the first person who established an unreserved linkage between financial institutions like banks and economic development. He regarded the banking system as a key agent accompanied with entrepreneurship for the process of economic development.\textsuperscript{7} The banks generally provide the basic financial infra-structure

\begin{itemize}
\end{itemize}
which facilitates the uninterrupted functioning of economic system and have come to play an important role in breaking the chain of the vicious circle of poverty. In some developing countries of the world, banks were established by the Government to exploit mineral resources, to build power plants on behalf of the Government, to draw up and carry out a general plan, to promote production in all sectors of the economy, to obtain credit from abroad, to provide long term finance to private industry and to supply capital and enterprise in order to give a fillip to the process of development. Thus, now-a-days, banking institutions are to bear the responsibility of supplying initiative, enterprise and finance for accelerating the tempo of economic growth. The principles of liquidity, profitability and shiftability of traditional commercial banks are now-a-days treated as something outdated.

The Government of India has also taken the eradication of poverty as a prime objective since Independence and particularly from mid sixties. The emergence of the State Bank of India on July, 1955, followed by "Social control over banks" on 14 December, 1967 and thereafter nationalisation of


14 commercial banks on 19 July, 1969, has been regarded as a highly significant milestone in the journey of elimination of poverty. The Government has made all-out efforts to meet the objectives of nationalisation of banks and accordingly, the Lead Bank Scheme was introduced in December, 1969. But after six years of bank nationalisation, it was realised that these institutions were also biased in favour of the rich just like co-operatives and as such failed to fill up the vast credit gap that existed in rural India. The gross injustice and negligence of co-operatives and commercial banks to the rural poor threatened the Government and other Policy Framers and led them to thrive for a novel institution that may cater to the credit needs of the rural poor and accordingly, the first five RRBs were established in India on 2nd October, 1975, on the basis of the recommendation of Narasimham Working Group (1975).

Admittedly, RRBs provide loan assistance to small and marginal farmers, agricultural and landless labourers, village artisans, street hockers and self-employed persons etc. for the purpose of increasing productivity. The supply of required finance may enable them to improve their productive capacity and also to undertake new activities leading to increase their employment, production and income. The effectiveness of such a strategy, however, needs to be studied indepth so that its contribution towards the removal of rural poverty of the country as a whole and Assam in particular can be understood.
It need not to mention here that for accelerating the rate of growth of rural areas, all possible attempts have been made by the Government of India from time to time and accordingly, the "Single-agency approach" has been replaced by the "Multi-agency approach" in the sphere of rural credit and consolidation of the latter has been started with the establishment of NABARD in July, 1982. But till today, there has been the vast credit gap in the rural agricultural sector causing low productivity, lower propensity to save, mass unemployment and acute poverty among the rural masses. The actual lending business of rural banks has not yet developed significantly, and as such, most of the banking branches in rural areas still become deposit centres in the absence of technical support for undertaking lending operations. The lack of link between rural branches and Government Department and the absence of co-ordination between commercial banks and the RRBs have posed a problem of serious dimension. In view of the various problems which have cropped up in the wake of "Multi-agency approach" to rural credit, the present study has been made to examine and evaluate the workings of RRBs in Assam.

The study has been made also to investigate into the growth and dimension of RRBs in Assam with a special reference to India, their system of financing to the priority sectors, the system of monitoring the end use of credit, the impact of loan more particularly on the target groups, the system of loan recovery and recycling of funds etc. The problem of co-ordination among the three financial institutions, viz.
To examine the organisational, institutional, managerial and operational problems of RRBs and thereby to suggest appropriate measures for making them efficient to eradicate the rural poverty of the state.

1.3 HYPOTHESIS

The following are the main hypotheses that have been tested with the help of statistical techniques -

(1) That the major portion of credit granted by RRBs goes to the rural elite, the rich and the big farmers.

(2) That the RRBs have failed to generate adequate income and employment for the rural poor.

(3) That the RRBs have failed to mobilise adequate resources from the rural sector.

(4) That there is a significant misutilisation of loans obtained by poorer sections of the rural society.

(5) That the RRBs in Assam have not given topmost priority for the agricultural finance.

1.4 SCOPE OF THE STUDY

The present study covers the RRBs and their various aspects with special reference to Assam characterised by inaccessible rural population in a large number of villages where majority of people live below the poverty line. This study is an attempt to bring into focus the role and
contribution of RRBs in mobilising deposits and providing credit facilities for raising the level of income and employment to the people, particularly the rural poor. As RRBs were mainly established for providing services to the rural poor so as to accelerate the rate of growth of rural areas, the success of these banks depends ultimately on the cooperation of the public. As such, an attempt has also been made to explore the reactions of the customers to the bank regarding the public relation and services provided by these banks to the various categories of rural people. The study also covers both the beneficiaries and officials of RRBs for providing necessary suggestions which the RRBs could take as remedial measures.

However, the RRBs in Assam and the country as a whole, have been incurring heavy losses year after year since their inception. One can well imagine that "inspite of lofty objects of social banking of RRBs, they should not be allowed to remain in red forever and thus be instrumental to self-effacement". It is worth mentioning that there are some loopholes, organisational or functional, which may be treated as responsible for the heavy losses incurred by these institutions. As such, the study has also made an attempt to identify the major loopholes and tried to make suggestions to plug them.

1.5 METHODOLOGY

The study is based on both primary and secondary data. The secondary data were collected from a large number of sources, namely the various publications of the Reserve Bank of India, the Government of India, NABARD and also the Government of Assam. It also includes the various reports of the study Groups and experts appointed by the Reserve Bank of India, NABARD and the Government of India. Some essential data were also collected from the Annual reports of the existing five RRBs of the State. Again, the various issues of district credit plans of both the districts of Barpeta and Nalbari were used for getting some necessary data. Moreover, various Journals/Periodicals and news papers were also used to collect required materials and a detail information about these Journals and News Papers is incorporated in chapter Six(6).

Apart from the secondary data, we have also used primary data collected through field survey from the sample beneficiaries of the selected RRB's in Assam. The field survey was conducted during the first quarter of 1993. It is worth mentioning that Pragjyotish Gaonlia Bank (I.G.BC) established on 6th July, 1976, is the first RRB in the strategi
North-Eastern India and it occupies the 20th position among the RRBs of the country in terms of its date of establishment. The operational network of the bank consists of 172 branches spread over 9 districts of Assam by the end of March, 1993.  

Besides, over the last 18 accounting years, the bank has been striving best to spread the banking habit to the people living at the remotest corner of the area of operation as well as to extend credit facilities to the weaker sections belonging to small and marginal farmers, rural artisans, agricultural labourers, small and retail traders and physically handicapped persons etc.  

Therefore, the field survey was conducted by selecting as many as 400 beneficiaries of P.G.B in the districts of Barpeta and Nalbari. In order to obtain representative informations from the beneficiaries, both purposive and stratified random sampling technique were adopted at various stages of selection of the sample. All the sample beneficiaries spread over different parts of the villages of the selected two districts were interviewed personally to elicit the necessary informations.

Apart from collecting data from the beneficiaries, some other informations relating to managerial, operational and technical difficulties in the management of RRBs were also collected from all 47 branch managers of P.G.B. belonging to the selected two districts. A detail discussion on the

---


13. Ibid. p-1
methodology adopted for the field investigation is presented in chapter six.

1.6 FORMAT OF THE STUDY

The entire study has been divided into eight chapters and the brief resume of each chapter is stated as follows -

Chapter - 1 : In chapter one, the significance of this study has been analysed. It also introduces the objectives, hypothesis, scope, methodology, format and limitations of the study.

Chapter - 2 : In the second chapter, a critical evaluation of the overall workings of the co-operatives and commercial banks as institutional sources has been made. It also deals with the role of Government and other National Level Institutions, namely ARDC and NABARD etc. in the process of strengthening the rural credit system and puts forward some strong arguments in favour of RRBs for fulfilling the financial needs of the rural poor of India.

Chapter - 3 : In this chapter, an attempt has been made to examine the performance of RRBs in India in terms of some quantitative indicators like branch expansion, coverage of districts, mobilisation of deposits, disbursement of credit, trend of credit-deposit ratio, recovery of loans and the problem of mounting overdues etc. with their inherent problems that render them less effective to achieve their major objectives.
Besides, this chapter deals with the analysis of the comparative position of workings of RRBs in various states of the country to determine a frame-work for analysing the growth and performance of RRBs in Assam with special reference to the Pragjyotish Gaonlia Bank. This chapter again reviews most of the important literature in connection with the RRBs and in this context, it examines the relevance of the present study.

Chapter - 4 : Chapter four deals with a brief profile of the economy of Assam so as to gain knowledge of economic conditions as well as natural wealth of the area under study.

It also examines the existing structure of institutional sources of credit, namely co-operatives and commercial banks in Assam with their respective coverage, deposits, advances, credit-deposit ratio etc. and pinpoint their demerits and ineffectiveness as institutional sources of rural credit.

Further, this chapter deals with the role played by NABARD in refinancing the financial institutions of Assam and throws light on the extent to which RRBs have been able to raise the income and employment of the rural poor of the state.

Chapter - 5 : This chapter makes an attempt to go into the details of origin, branch expansion and coverage of districts, management, staff position, salary structure, deposit mobilisation, purpose-wise and programme-wise
distribution of credit, district-wise mobilisation of deposits and disbursement of credit, district-wise advances under Annual Action Plans, sector-wise advances under Annual Action Plans, trend of credit-deposit ratio, recovery of loans and overdues, and also the profitability of RRBs in Assam with a special reference to India.

It also strives to pinpoint the constraints and problems faced by RRBs in Assam.

Chapter - 6 : This chapter deals with a detail explanation of sample design adopted for field survey of the study. It also explains the methods of field investigation and the various concepts used in the collection and analysis of data.

Further, this chapter highlights the major limitations of the data on which statistical analysis of this study is based.

Chapter - 7 : In chapter seven, an attempt has been made to analyse systematically the entire data collected from the various categories of sample beneficiaries. It also deals with a separate analysis of data collected from the branch managers of Pragjyotish Gaonlia Bank of the districts of Barpeta and Nalbari.

Further, it contains the summary of the main findings of the study.
Chapter 1.7: This chapter sets forth the main findings of the field survey conducted for the study.

It also examines the policy measures on the basis of which the RRBs may improve their economic viability and be able to meet the credit needs of the rural masses with justice, adequacy and appropriateness and in turn, to bring this section of the poor nearer to the mainstream of the richer sections of the community.

1.7 LIMITATIONS OF THE STUDY

The study though based on scientific, schematic and analytical approach and also on an in-depth field study, it may have some infirmities and also some handicaps which may arise due to errors or omissions in human efforts. Besides, there are some other limitations of the study which may arise due to negligence of some bank officials to give proper answers with true spirit, lack of uniformity of the contents of Annual Reports of RRBs, hesitating and incomplete answers given by most of the illiterate rural people at the customer level and also some proxy answers given in case of some individuals due to non-presence of the head of the family at the time of our field investigation.

However, utmost care has been taken while eliciting informations from the respondents. All the relevant data and informations derived from both secondary and primary sources have been duly scrutinised, processed and finally, results
have been deduced out of it. Therefore, it is hoped that the conclusions derived from the study will be useful for the bankers and policy makers.