CHAPTER 1
INTRODUCTION
CHAPTER - I

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1.1 SIGNIFICANCE OF THE STUDY

The problem of poverty is the most urgent problem among the problems of 20th century. By far the largest number of the poor live in the rural areas of the developing world. The challenge to world poverty mainly lies in the development of agriculture and allied activities. Farm development pre-supposes technological transformation. Farm credit, though of itself does not transform technology, aids this transformation process by providing a tool to acquire modern inputs. Credit is the external source of capital for investment necessary for this transformation.

Rural poverty is reflected in poor nutrition, inadequate shelter and low health standards. They affect the productivity of the rural poor and their quality of life. Farm credit is a key element in helping the poor become more productive. But traditionally the flow of credit to marginal and small farmers has been inadequate, both because they lack sufficient collateral and because of the high administrative costs of small loans.
age by 1990. This age can be considered as very small in the life of an institution. Even in this short span of age many official and non-official studies are conducted on various aspects of functioning of Regional Rural Banks. Some of the important studies are reviewed here.

A. Review of Reports:

(a) Report of Review Committee on Regional Rural Banks. The Reserve Bank of India had appointed in June 1977 a committee to review the working of Regional Rural Banks under the chairmanship of Professor M.L. Dantwala with the following terms of reference:

i) Evaluation of the performance of the Regional Rural Banks in the light of objectives for which they were set up;

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

iii) making recommendations with regard to the scope, methods and procedures of their functioning and other matters germane to the enquiry.
The main findings of this review committee based on the results of the detail studies of the working of the 12 selected RRBs are as follows:

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

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

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

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

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

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

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

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

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

1. RRBs with modifications in their organisation and functions can become a very useful component in the totality of the rural credit structure. Such an institution is needed to make good some of the inadequacies in the existing rural credit system;

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

3. RRBs should not only be prepared to commercial banks for the future expansion of banking in rural areas but also that the existing rural branches of the commercial banks be turned over to the RRBs in a phased manner;

4. Ideally the jurisdiction of a RRB should be confined to a one district. Each RRB should have 50 to 60 branches. A branch of a RRB should cover a population of about 20 thousands;
5. The overseeing authority for regulating the growth and determining the policies of RRBs should be vested solely in the Reserve Bank of India;

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

   Reserve Bank of India : 25 per cent
   Sponsoring Bank       : 40 per cent
   State Government      : 15 per cent
   Local Participation   : 20 per cent

7. The Board of Directors of RRB should consist of 9 members including the chairman, three members should be nominated by the sponsoring bank, 5 other members may be chosen as follows: one member by the RBI, two members by the State Government and two members from amongst the local shareholders. As for the chairman, the first chairman should be nominated by the sponsoring bank for an initial period of 3 to 5 years. Subsequently appointments should be made by the Board of Directors of the RRB;

8. The RRBs should be permitted to lend upto 40 per cent of their loans to large farmers and other borrowers not covered by them at present;
9. RRBs should be allowed to offer full banking facilities;

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

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

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

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

14. The internal management structure of the RRB needs to be strengthened, the management costs of the operations of the RRBs though at a low level should not be done at the cost of the efficiency of the operations.

The report submitted by the Review committee on Regional Rural Banks in 1978 presents an excellent background survey and an expert assessment of the state of the functioning of the RRBs. Though there are some weaknesses in the report, it is an extremely valuable
document both for the department of the analysis of the problems and for many useful recommendations.

(b) Report of the working group on multi-agency approach in agricultural finance.\(^4\)

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

Kamath group clearly preferred the RRBs to the commercial banks for the future expansion of banking in rural areas. It also favoured the idea of allowing the RRBs to allocate a part of their total loans to the large and medium farmers.

(c) Report of the Committee on the functioning of the public sector banks.\(^5\)

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

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

(d) Report of the CRAFTICARD:

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

"As between commercial bank branches and RRBs, experience as well as evidence before us show that RRBs are more suitable for the tasks in hand. Apart from the fact that RRBs devote special attention to the weaker sections, the target groups which should be enabled to
participate in and share the benefits of rural development, they have the advantage of lower cost of operation as compared to the commercial banks. RRBs are managed by men of the area who are in a better position to know and appreciate the problems of the area. Being district level organisations, they can be trusted to take banking closer to the rural households and ensure more effective supervision over the end use of credit. For these reasons, preference should be given to RRBs in regard to licencing of branches in the rural areas. The advantage would seem to lie in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs sponsored by them wherever possible. Viability cannot be sole criterion for assessing the performance of RRBs in the earlier years. Any credit institution, if it is to survive for long, cannot be offered to incur losses continuously. It has to become viable sooner or later. This is an essential aspect of any long-term arrangement to institutionalise credit. Certain minor relaxations may be made allowing RRBs to finance big farmers. The holders of fixed deposits in RRBs are also eligible for loans against these deposits. The emoluments of the staff should be continued to be determined with due regard to the state Government scales as now
being done by the Government of India. In so far as the banking aspects of the linkage are concerned it is obvious that these have to be continued since the sponsor banks are financing banks as well. We recommend that facilities for recruitment and training and technical assistance should continue to be provided by the sponsor banks, on the same terms for a period of 10 years for each RRB. Thereafter any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB. We recommend that nomination of at least two non-officials who are either progressive small farmers, social workers or persons connected with the rural welfare, agricultural development, village industry etc., may be made. It is not advisable to consider persons who are active politicians or office bearers of political parties for such nominations. Some of the State Governments have also expressed their preference for keeping RRB managements free from politics. It is urged that the necessary amendments to RRBs Act may be made at the earliest so that there will be a single over seeing authority to look after RRBs essentially NABARD. Being institutions devoting exclusive attention to the weaker sections, it should be appreciated that RRBs have to be treated on
a special and different footing in facilitating their operations. We have no doubt that given the necessary aid, support and guidance in the initial years, RRBs will come to have an increasingly important role as an integral element of the multi-agency system at the ground level. RRBs will be well on their way to becoming district level commercial banks, ready to diversify their activities".

(e) Report of the working group of Regional Rural Banks:

Recently Government of India appointed a working group on Regional Rural Banks under the chairmanship of Sri Kelkar to study the working of the RRBs in a very comprehensive manner. The committee has shown full awareness of the basic problem of the RRBs and has stated that "credit institutions, which start showing strains of non-viability cannot be allowed to continue in the present form and call for a serious review of their structure". After detailed review of the working of the RRBs the Kelkar committee came to the fundamental conclusion that "......in view of its large branch network, comparatively lower cost of operation, local involvement through appropriate staffing pattern, and their operations more in tune with the national objective of serving the weaker sections comprising of small
and marginal farmers, artisans, village and cottage industries. RRBs as a part of the multi-agency approach to rural credit are eminently suitable to do the job envisaged for them. Further, as district level organisations they can be trusted to take banking closer to the rural households and ensure effective supervision over the end-use of credit. RRBs can exist side by side with the co-operatives and commercial banks playing a supplementary role to each other.

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

Viability:

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

Coverage:

(a) From the point of view of managebility and better control over branches by their head offices the unwieldy RRBs should be bifurcated, after a case-by-case study by the NABARD. There is also a case for amalgamating two or more small and uneconomic RRBs into a single viable unit, after a similar detailed study by the NABARD.

(b) Keeping in view the importance of RRBs as an effective institution for purveying credit to weaker sections, new RRBs may have to be opened in areas with preponderance of SC/ST population, taking into account the exis-
ting banking facilities and the credit gaps - both in qualitative and quantitative terms. (c) One RRB is established in an area, viability considerations demand that sufficient number of branches should be allowed to be opened by it and the RBI may have to relax its policy norms, taking into account the need and viability aspects.

**Assistance to RRBs in recovery of dues:**

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

**Responsibility of sponsor banks:**

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

**Responsibility of the NABARD:**

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

**Responsibility of State Governments:**

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

**Responsibility of the Government of India:**

(a) The Government of India's role vis-a-vis the RRBs should be confined to overall policy and direction, keeping in view the national policy and objective of serving the weaker sections.
Training, Recruitment and other matters:

(a) The entire recruitment process in the RRBs needs to be streamlined. The quality and adequacy of training for the RRB staff needs to be reviewed keeping in view the need to impart training to the RRB staff.

(b) Reasonable promotional opportunities will have to be provided to the staff of the RRBs. Some posts in the officer cadre of the sponsored banks may be made available to the RRB officers with requisite experience and qualifications.

(f) Report of the Agricultural Credit Review Committee:

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

(a) to review the rural financial system in the country and to assess the credit requirements of the agricultural sector during the next decade;

(b) in this context, to determine the role of the credit system to support the national plans for agricultural development;
(c) to evaluate the major problems and issues currently affecting the agricultural credit system; and

(d) to make recommendations for improving the quality of credit and strengthening its efficiency and effectiveness.

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

(a) AFC's Study on Regional Rural Banks:

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

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

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

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

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

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

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

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

(b) Charan D.Wadhva's study on Rural Banks for Rural Development:

Professor Charan D.Wadhva has undertaken a detailed research study on the working of the Regional Rural Banks and published a book with the title "Rural Banks for Rural Development" in 1980. In his book he reviewed the
rural credit scene in India and progress of Regional Rural Banks and also appraised the working of Haryana Kshetriya Grameena Bank, Bhiwani (Haryana) sponsored by the Punjab National Bank and the Jaipur Nagaur Aanchalik Grameena Bank, Jaipur (Rajasthan) sponsored by the United Commercial Bank. Based on his study Wadhva suggested reorganisation of RRBs structure for achieving the objective of promoting rural development with retributive justice. The major elements of the suggested framework for reorganising the working of the RRBs are: (a) The uniqueness of RRBs lies in their specialisation in the task of rural development by direct by providing credit facilities to the weaker sections of rural society which have been relatively neglected in the past both by the co-operative agencies and the commercial banks. This distinctive function of the RRBs must be largely preserved. The RRBs must be identified as the "rural banks of the rural poor, (b) The creation of more hospitable environment ensuring co-operation from all concerned parties, especially the State Governments is a pre-requisite for ensuring the rate of growth of business of RRBs as partners in progress towards the noble objective of development of the rural poor. (c) It needs to be reasserted firmly
that the RRBs have a complementary role to the co-operatives at the gross root level. There is scope for increasing loaning activities of both the co-operatives and the Regional Rural Banks without much fear of diversion of business from one institutional agency to another. RRBs should generally be preferred for further expansion of banking in rural areas.

(d) In order to strengthen the working of the RRBs, participation by the public, especially the local people, both in the equity structure and the board of management may be allowed. (e) RRBs Act 1976 may be amended to provide for sponsorship of RRBs by the interested District Central Co-operative Banks in the areas where the co-operatives are strong and the RRBs are not operating.

(f) The State Governments must help in the formation of the Farmers Service Societies and Small Business Service Societies and attach them to the RRBs in their areas of operation. (g) The linkage of the RRBs with the sponsoring banks also needs to be strengthened. (h) There is a need to establish a very close link between the RRBs and the special programmes initiated by the Central Government in the National Five Year Plans. (i) All loans granted by the commercial banks under the differential Interest Rate (DIR) scheme to the weaker sections
of rural society must be made through the RRBs in their areas of operation. (j) Through effective credit administration and drive towards deposit mobilization the RRBs must be made financially viable with in a time bound programme of five to ten years. (k) Much greater attention needs to be paid to financing group activities by RRBs. (l) RRBs must pay greater attention in future to the credit needs of non-cultivators. (m) It would be important for the RRBs to increase their loans for consumption purposes initially to such needy borrowers who are being provided with loans by the RRBs for productive purposes. (n) The RRBs should be allowed to undertake the full range of banking services. (o) The RRBs have to change their staff and training policies according to the changing environment.

(c) A Study by Shete and Karkal:

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

(d) A Study by Kuchhadiya and Shiyani:

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

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

(b) 89 RRBs (45.51 per cent) covering 3163 branches (23.69 per cent) were below 6 years of their existence.
(c) The average percentage share of IRDP beneficiaries in the total loan borrowers of RRBs in India was 84.80 per cent while their share in terms of total loan amount issued during the year was 85.49 per cent.

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

(e) Eastern region ranked first both in financing under IRDP as well as DRI schemes.

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

(e) A Study by K. Narasimhulu:

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

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

(f) A Study by Singh and Upadhyay:

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

(g) A Study by Kishore C. Padhy

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

"Organisational variables such as formal structure (rules, reward, hierarchy, span of control, job design), leadership style (task orientation or human relations orientation), etc have to be consciously changed to minimise the employees dissatisfaction. Participative management is the first step in this direction. Employees holding share of RRBs and sharing power with top management in key business and personnel areas may be experimented to reduce the conflict between goals of individuals"
and organisation work design, job enlargement and enrichment provide lasting growth and competence. But work design is more management control than employee satisfying activity. Similarly job enrichment mostly dictated from alone wrongly assumes that each and every employee has exactly the same motivation profile. Organisation development (OD) approach recognises the problem, creates the awareness of the need for change, initiates a change in strategy, develops structural/technical/behavioural changes and may provide a lasting solution to the problems of employee satisfaction. Mr. Kishore suggested OD approach to the management of Regional Rural Banks.

(h) A Study by Kanvinde:

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

Mr. K. Uma Mahesh Patnaik and Dr. M. Sundara Rao conducted a research study on "Impact of Shri Visakha Grameena Bank on beneficiary households. Their study reveals that the impact of Shri Visakha Grameena Bank on the selected beneficiary households is significant in terms of increase in their investment, income levels, consumption position and promotion of family employment. A horizontal shift in the distinction of beneficiaries from the low income groups is noticed and relatively higher income groups are experiencing lower growth rates of income compared to lower income groups.

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

(k) A Study by Dinabhandu Mahal:

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

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

1.2 OBJECTIVES OF THE STUDY

The following are the specific objectives of the research effort:

(a) to critically examine the theoretical framework of rural financial markets in developing countries;

(b) to review rural credit system in India;

(c) to study the progress of Regional Rural Banks and their performance in India on the basis of branch expansion, deposit mobilization, advances and profitability;
(d) to evaluate the overall performance of Rayalaseema Grameena Bank since its establishment;

(e) to assess the role of Rayalaseema Grameena Bank in farm finance; and

(f) to measure the impact of Rayalaseema Grameena Bank on the economic conditions of the agricultural labourers, marginal farmers and small farmers.

1.3 HYPOTHESES TESTED

The following hypotheses are tested in this study:

(a) the share of farm sector in total advances of Rayalaseema Grameena Bank is greater than the share of non-farm sector;

(b) the share of crop loans in the total farm finance by the Rayalaseema Grameena Bank is greater than the share of term loans for agriculture and allied activities;

(c) Repayment rate of farm loans is less than the repayment rate of non-farm loans;

(d) Repayment rate of short-term farm loans is greater than the repayment rate of term loans to farm sector; and
There is no improvement in the economic conditions of agricultural labourers, marginal farmers and small farmers because of financing by Rayalaseema Grameena Bank.

1.4 SCOPE OF THE STUDY

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

1.5 THE PERIOD OF STUDY

The study covers a 14 years of working of Regional Rural Banks from 1975 to March 1989. A period of 14 years (from 1976 to March 1990) in the case of coverage of Rayalaseema Grameena Bank is taken up. A period of 9 years (from 1980-March 1989) is taken for a detailed study of 10 oldest branches of Rayalaseema Grameena Bank with special emphasis on farm finance. The period taken for the study of the impact of farm finance is two years i.e., agricultural years 1987-88 and 1988-89.

1.6 DATA BASE

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

1.7 TOOLS OF ANALYSIS

The data collected from various sources were tabulated and subjected to statistical treatment. The statistical tools such as ratios, percentages, correlation and averages etc., were used in analysing data. Diagrams and maps were also employed in the study at appropriate places. All the items of assets income and the expenditure are valued at 1989 prices for appropriate
comparison between pre-loan period and loan period.

1.8 SAMPLE DESIGN

Out of the 10 old branches of Rayalaseema Grameena Bank, Veeraballe branch is chosen for the study of impact of farm finance. This branch is chosen because of wider coverage of different purposes and different categories of borrowers. There are four revenue villages under the operational area of Veeraballe branch. In these four villages there are 2533 farm households in total. Out of this total households 850 households borrowed loans during the agricultural year 1988-89. The distribution of beneficiary and non-beneficiary farm households in the operational area of Veeraballe branch is as follows:

TABLE 1.1

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

SOURCE: Primary data.
The 850 beneficiary households are classified into 8 categories based on the purpose of the loan. From each category 10 per cent of the households are chosen for the study using simple random sampling technique. Ultimately the study is confined to 92 beneficiary households. The distribution of sample beneficiary households is as follows:
### TABLE 1.2
DISTRIBUTION OF SAMPLE BENEFICIARY HOUSEHOLDS, 1988-89

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

**SOURCE:** Primary data.
Out of 1683 non-beneficiary farm households 5 per cent of the households are randomly chosen for the study to act as the control segment. Therefore, the study is further confined to 84 non-beneficiary households also. The distribution of sample non-beneficiary farm households is as follows:

**TABLE 1.3**

**DISTRIBUTION OF SAMPLE NON-BENEFICIARY FARM HOUSEHOLDS, 1988-89**

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

**SOURCE:** Primary data.

Ultimately, the primary investigation is confined to 10 oldest branches, 92 beneficiary farm households and 84 non-beneficiary farm households of Rayalaseema Grameena Bank.
1.9 CONCEPTS USED

a) **Farm credit**:  
Farm credit is the credit made available to the marginal and small farmers and agricultural labourers for agricultural and allied activities. The terms farm credit and farm finance are interchangeably used in this study.

b) **Small farmer**:  
Farmer having an operational holding in the size class of 2.5 to 6.75 acres of irrigated land or 5 to 12.75 acres of dry land (both limits are inclusive) is considered as a small farmer.

c) **Marginal farmer**:  
Farmer having an operational holding upto 2.5 acres of irrigated land or upto 5 acres of dry land is considered as a marginal farmer.

d) **Agricultural labourer**:  
A person without any land but having home-stead and deriving more than 50 per cent of his income from farm wages is an agricultural labourer.
e) **Beneficiary household:**

Farm household who has borrowed loans from Rayalaseema Grameena Bank during the agricultural year 1988-89 is considered as a beneficiary household. The terms beneficiary and borrower are interchangeably used in this study.

f) **Non-beneficiary household:**

Farm household who has not borrowed loan from Rayalaseema Grameena Bank during the agricultural year 1988-89 is considered as a non-beneficiary household. The terms non-beneficiary and non-borrower are interchangeably used in this study.

1.10 **CHAPTER SCHEME**

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

1.11 LIMITATION OF THE STUDY

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


