Chapter 1

INTRODUCTION AND METHODOLOGY
1.1 INTRODUCTION

In India, it is generally agreed that the rural poor have not been aptly and amply benefited in proportion to their number or to their dire basic needs from myriad programmes of rural development. The main feature of Indian poverty profile is that over 56.7 per cent of the poor live in rural areas and the majorities of them depend upon agriculture and allied activities for their livelihood. The rural poor include small and marginal farmers, landless labourers and rural artisans. These households would be able to cross the poverty line provided an employment throughout the year at reasonable wages or have an access to adequate productive assets and credit or can eke out enough income to sustain themselves.

It needs no emphasis that today eradication of rural poverty prominently depends on the availability of optimum credit. The landless and agricultural labourers, rural artisans, self-employed persons and retail traders who generate income from agriculture and other activities in villages depend primarily on monetary resources. The basic problem faced by the rural poor is insufficiency of income to meet the minimum expenditure on production activities. Hence, credit plays a pivotal role in the life of the rural poor. The rural credit policy since 1951 was to widen the role of institutional credit agencies to replace non-institutional credit agencies, particularly the money lenders. Agricultural credit in India has gone up from Rs.86,981 crores in 2003-2004 to Rs.3,66,919 crores in 2009-2010. Agricultural Credit of Rs.89,687 crores has been disbursed to farmers across the country till June 2010. In the financial year 2010-2011 the Government has fixed the credit flow target of Rs.3,75,000 crores.

1. **Rural Credit:** Credit plays a dynamic role in the economic development of a country. It is an immensely important input to achieve the objectives of Five Year Plans. The All India Rural Credit Survey Committee (1951–52) reported that Government, cooperative credit societies, commercial banks, professional money lenders, relatives, traders and commission agents, agricultural money lenders, landlords etc. provide agricultural credit. These can be classified into two groups such as institutional as well as non-institutional sources. It may be inferred that the non-institutional credit has declined as against institutional credit. The usurers and money lenders charged high rate of interest and if the
borrowers were unable to repay the debt, the assets were availed for the repayment of debts. In such a case, they would become landless persons and bankruptcy or agricultural labourers. On the other hand, the rate of interest charged by institutional agencies was substantially low².

2. **Government:** The Government is a source of short-term as well as long-term rural finance. Government's assistance to farmers is known as taccavi loans. These loans are generally given in times of emergency or distress such as famines, floods etc. Long-term loans are disbursed under the Land Improvement Act, 1983 and short and medium term loans are disbursed under the Agricultural Loans Act, 1984. The rate of interest on these loans is 6 per cent and the mode of repayment is copiously convenient. The debt is repaid in convenient number of installments. The debt is generally realized along with the land-tax. It is quite obvious that government credit, albeit important, is not a major source of agricultural finance. The farmers find it herculean task to get taccavi loans because of many more procedural rigidities and delays. The repayment of these loans is rather strict. Hence, the taccavi loans did not become significant as they should have been.

3. **Co-operative Credit Societies:** Co-operative credit is available to the cultivators since the enactment of Co-operative Societies Act, 1904. Provision for short-term, medium-term and long-term credit is made under co-operatives. The short-term and medium-term credit is provided by the primary co-operative credit societies (PACS) and the long-term credit is provided by Land Development Banks (LDBs). The All India Rural Credit Survey Committee (1954) reported that the share of co-operatives in the total borrowings of cultivators was 3.1 per cent. The cooperatives have accounted merely for 15.5 per cent during 1981-82 and 36 per cent of total credit during 1990-91. It is, thus, obvious that the share of co-operatives has immensely increased in the last three decades. It is considered as the cheapest and best among the sources of rural credit. The rate of interest is quite low. The small and marginal farmers find it difficult to meet their credit requirements from co-operatives. There were vast and varied areas and regions in West Bengal, Bihar, Orissa and Rajasthan where co-operatives have not attained adequate progress. All credit needs required for agricultural labour are not met merely
by co-operatives. Despite many weaknesses, it has been regarded as the panacea to the problem of agricultural finance even today.

4. **Commercial Banks:** Commercial banks have confined their operations to urban areas, receiving deposits from the urban public and financing trade and industry in urban areas. One of the long standing complaints lodged against them was their abrupt failure to provide credit to agricultural sector. The banks did not undertake to lend against the security of land owing to complexities of land tenure and enormous escalations in the value of land. Moreover, dismal character of Indian agriculture, paucity of proper accounting of agricultural transactions, finite amounts of individual loans and difficulty of collection from farmers have prevented the commercial banks from taking interest in agricultural finance. Now, commercial banks extend credit to agriculture both directly and indirectly. Direct finance is extended for agricultural operations for short and medium terms. Indirect finance is provided for the distribution of fertilizers, pesticides etc.

5. **Regional Rural Banks:** Institutional finance is an increasingly important prerequisite for rural development. Institutional credit entered into the rural areas long ago in the form of co-operatives and later in the form of commercial banks after nationalization. But these institutions failed to a greater extent to penetrate into rural areas as the benefits of the institutional credit continued to be acquired by influential and economically and politically powerful sections of the society. The problem of inequality in terms of incomes kept worsening and withering day-by-day. Despite the popular slogan 'Garibi Hatao' and the good intention of the government to better the lot more of the masses, the rural poor remained neglected and striving hard for their subsistence and leading hand to mouth life. Hence, the need was fabulously felt for establishing a financial institution specialized to cater to the needs of the rural poor in order to dissipate the regional and functional gap in credit available to rural areas. As a result, RRBs came into existence in 1975.

RRBs were set up with the avowed object of financing the credit requirements exclusively to the poorest of the poor sections in the countryside. The RRBs represent a novel experiment of the Indian banking laboratory. The foundation for institutional
credit structure in rural India was laid with the organization of co-operatives. The
credit needs of the agricultural sector, however, increased by leaps and bounds over
the years and the co-operative credit structure, which was unevenly developed in
different parts of the country, could not keep pace with the simmering demand for
institutional credit. Commercial banks were, therefore, induced invariably into the
field of agricultural credit. The policy of 'Social control' over the banks in 1968, and
the subsequent nationalization of 14 major commercial banks in 1969, carried the
process still further. Rural branches of commercial banks expanded sharply in the
period following nationalisation. But these branches rarely went beyond district or
sub-divisional towns.

The cascade of failures of modern banking to penetrate into rural India
remained a conundrum. There were many initial ambiguities and uncertainties about
the right lines of development. It was in such conditions the Banking Commission
(1972) recommended for the establishment of a chain of 'Rural Banks' in addition to
rural branches of commercial banks. Such rural banks, in view of the commission,
could come into existence in three ways, viz. (a) conversion of primary co-operative
societies into institutions offering full banking facilities, (b) establishing subsidiaries
of commercial banks and (c) establishing a special type of rural banks sponsored by
commercial banks and supported by local participation. In 1975, Narasimham Study
Group had been asked to examine an in-depth setting up of new rural banks as
subsidiaries of public sector banks to cater to the credit needs of the rural people. The
group observed that in a country of the size and regional diversity as ours, no single
pattern, be it commercial banks or co-operative credit, can be expected to meet all the
emerging requirements in all areas. A degree of adaptation and improvisation is called
for and the range of institutional alternatives has been widened. It is in this context
that the Study Group arrived to the conclusion that a novel type of institution is dire
necessary. The group could not be quite sure about the optimum size of the
operations, coverage etc. and hence, it favoured a cautious approach by
recommending the setting up of five RRBs as pilot institutions in select areas.

The first 5 RRBs were established on October 2, 1975. By the end of 1976, 40
RRBs had been set up. In 1978, the government had set up a Review Committee on
RRBs headed by M.L.Dantwala. The committee considered that the performance of
the RRBs was good and that the financial results of the working of some of these
banks showed that RRBs had the potential and capability and capability to attain financial viability and become a profit-making institution in about 3 to 4 years. The committee recommended that steps should be taken to initiate the process of making the RRBs an integral part of the rural credit structure. The Reserve Bank of India also made a study on the viability of RRBs in 1980 and concluded that on an average a RRB would require about 6 years time and a network of 70 branches to become viable. These studies gave the necessary impetus to the process of establishing and expanding RRBs all over the country. By the end of March 2006, there were 196 RRBs covering 525 districts in the country. As a result of amalgamation, there are 82 RRBs in the country in 2010.

A rural bank may be defined as “a primary banking institution set up to serve a compact group of villages generally working as a co-operative or as a subsidiary bank of a commercial bank, functioning or setting up in a rural area for the purpose of providing banking and credit facilities in that area”. They are government owned, regionally based and rurally oriented banks to supplement the existing institutional credit agencies and not to supplant them in order to fill up the regional and functional gaps in the institutional rural credit system.

1.2 STRATEGIES OF RURAL DEVELOPMENT

Agricultural development in particular and rural development in general has an overwhelming weight in the economies of most of the developing countries and India is no exception to this. In India different strategies have been evolved and executed to achieve rural development aimed at increasing the output, particularly agricultural output and employment opportunities. In the wake of Bengal famine in 1942, crash programmes such as ‘Grow more food’ campaigns were launched with the main objective of increasing the food production. This programme emphasised the need to bring waste land under cultivation. However, it has failed to eliminate the weaknesses in Indian agriculture and benefited only the capitalist farmers resulting in the neglect of small farmers and other weaker sections. It was realised that prudent utilisation of resources in the farm sector primarily depends on the education of farmers in the proper utilization of resources. With this objective, community development programmes and national extension schemes were initiated in the 1950s with the emphasis on educating the farmers in the proper utilization of resources in
primary sector and thereby solving the problems of rural areas. However, the community development programme and the National Extension Schemes, based on the ‘diffusion model’ have failed to live up to the expectations mainly due to the failure of supplying and ineffective administration based on high pay-off inputs model

Rural development in India is one of the most important factors for the growth of the Indian economy. India is primarily an agrarian country and agriculture contributes mainly one-fifth of the gross domestic product. In order to increase the growth of agriculture, the government has planned several programmes pertaining to rural development in India through the uplifting of weaker sections.

1.3 DEVELOPMENT OF WEAKER SECTIONS

After independence the Constitution of India, keeping in view the desires and aspirations of the people, values strengthened during national freedom movement and the ideas prevailing in the world, envisaged for State not only a democratic political order but also the goals of Justice, Liberty, Equality and Fraternity. These goals are clearly reflected in the Preamble of the Constitution, in parts on Fundamental Rights and Directive Principles and other specific Articles in the Constitution. All these provisions suggest that India is a welfare state, committed to the welfare and development of its people in general and of vulnerable sections in particular. The vulnerable sections in India include Scheduled Castes, Scheduled Tribes and Other Backward Classes, Women, Minorities, Disabled and Children. For the welfare of these people mere guaranteeing of right to equality or universal adult franchise was not sufficient. The ideal of political democracy had to be backed by social and economic democracy. Therefore, what was required was a strong constitutional mechanism for protection of interests and rights of vulnerable or weaker sections of society and at the same time special schemes and programmes for their welfare, development and empowerment.

1.3.1 Scheduled Castes

Scheduled Castes are people belonging to those castes, races which have been or may in future be specified in a list in accordance with Article 341 of the Constitution. In traditional terms these are the people who were considered outcastes,
categorised as untouchables. This was a part of the rigid caste system dividing the Indian society into high and low on the basis of birth without any logic or rationale. The people of lower castes considered untouchable were assigned menial jobs and occupations. They were oppressed and exploited by those who belonged to the higher castes. Economically and socially they remained extremely poor and marginalized.

1.3.2 Scheduled Tribes

Another social category economically, socially and politically marginalised is that of Scheduled Tribes. Legally like Scheduled Castes, tribes are people belonging to tribes or tribal communities specified in the list of such tribes as per Article 342 of the Constitution. Scheduled Tribes are weaker sections not in terms of caste. They are the people who have been living in remote forest areas and hill tracks as tribes without any access to modern socio-economic inputs. It is difficult to define the tribal peoples of India in terms of any single set of formal criteria. They are popularly believed to constitute the aboriginal element in Indian society. But most tribals share certain common features like, nature of rurality, illiteracy, economic backwardness, and social deprivation. Historically, one of the principal features of the tribal population has been its ecological, economic and social isolation. For centuries, the tribal people have been confined to hills and forests. This isolation has left definite impression on their social systems. It has also given them, in spite of wide cultural variations, a common destiny in the Indian society.

1.3.3 Welfare of Scheduled Castes and Scheduled Tribes

From the above it becomes clear that the Scheduled Castes and Scheduled Tribes have been the most disadvantaged and neglected people in Indian society. As mentioned in the beginning, the situation and needs were acknowledged by the framers of the Constitution themselves. Thus, on the one hand Constitution of India itself prescribed certain protective measures, safeguards and welfare measures for these sections and on the other hand successive Five-Year Plans have also regarded the welfare of SCs and STs as a major objective of development policy. In addition, both the Union and State governments have taken up specific steps and launched various schemes and programmes for their improvement.
1.3.3.1 National Commission for SCs and STs

In 1990 by 65th Amendment of the Constitution the special officer's post under Article 338 has been substituted by the National Commission for Scheduled Castes and Scheduled Tribes. The SC and ST Commission shall consist of a Chairperson, a Vice-Chairperson and five other members to be appointed by the president. It shall be the duty of the commission: (i) to investigate and monitor all matters relating to the safeguards provided for the scheduled castes and scheduled tribes under the constitution or under the other laws; (ii) to enquire into specific complaints with respect to the deprivation of rights and safeguards of the SCs and STs; (iii) to participate and advice on the planning process of socio economic development of the SCs and STs; and to evaluate the progress of their development under the Union and any state; (iv) present to the president annually, and at such other times as the Commission may fix reports upon the working of these safeguards; (v) to make in such reports/recommendations as to the measures that should be taken by the Union or any State for the effective implementation of those safeguards and other measures for the protection, welfare and socioeconomic development of the SCs and STs; and (vi) to discharge such other functions in relation to the protection, welfare and development and advancement of the SCs and STs as the President may subject to the provisions of any law made by Parliament, by rule, specify. The Act also provides that the Commission, while investigating and monitoring any matter relating to safeguards provided for SCs and STs, shall have all powers of a civil court trying a suit. It is also provided that the Union and every State government shall consult the Commission on all major policy matters affecting SCs and STs.

1.3.3.2 Special Schemes and Programmes for SCs and STs

In accordance with the Constitutional provisions and directives the government of India and all States have been formulating and implementing various schemes and programmes for the upliftment of SCs and STs within the process of Planning and outside. These programmes relate to education, skill formation, creating job opportunities and development of the areas in which these people are concentrated.

In the field of education in most of the States, education up to higher level has been made free for SCs and STs. Seats have been reserved for them, generally, in
accordance with percentage of population, in various educational institutions. A Book Bank scheme has been launched to provide textbooks required for the students pursuing medical and engineering degrees, agricultural, veterinary and polytechnic courses. A Girls Hostel Scheme was started in Third Five-Year Plan with the purpose of providing residential facilities to tribal girls in pursuit of education. A similar scheme was started for boys in 1989-90. Various schemes of scholarships have also been started including pre-metric, post-metric, and higher education. In addition to these there are other schemes also for helping improve educational levels and standards of SCs and STs.

To help SCs and STs in employment, apart from making reservations in jobs, specific schemes have been started for training and skill formation. One of these is the coaching and allied scheme started in the Fourth Five-Year Plan for imparting training to SCs and STs in respect of various competitive examinations held by recruiting bodies such as Union Public Service Commission, State Public Service Commissions, Public Sector Undertakings, Banking service recruitment boards and similar agencies. There are State Scheduled Castes Development Corporations to uplift the SC/ST population living below poverty line. In 1992-93 vocational training centers were set up in tribal areas to develop the skills of the tribal youth for gaining employment or self employment opportunities. In the Ninth Plan period (1997-2002) a separate plan of action for the development of Primitive Tribal Groups has been formulated. In 1987, the Tribal Cooperative Marketing development federation of India was setup with the prime objective of providing marketing assistance and remunerative price to ST communities for their minor forest produce and surplus agricultural produce and to wean them away from exploitative private traders.

1.3.3.3 Status of Scheduled Castes and Scheduled Tribes

From the above discussion of some of the plans, programmes and schemes started for the welfare, development and empowerment of Scheduled Castes and Scheduled Tribes, it becomes clear that these people have not only been made equal citizens of India but have also been given special privileges, preferences and concessions to come out of their traditional lower and inhumane position.
At the same time if we look at the overall conditions of the Scheduled Castes and Scheduled Tribes, particularly in rural areas, we find that in spite of constitutional provisions and various plans, the poverty, illiteracy, destitution, oppression and bondage of these sections in large areas remain intact. Untouchability, though banned under the law continues to be widely practiced. India’s bonded labourers are almost exclusively drawn from SCs and STs. Only an elite class amongst SCs has benefited from the government’s policies and welfare measures.

The reasons for this apathetic status of SCs and STs are many. First of all the problem is that provisions and plans for the welfare of the SCs and STs are strong at the constitutional and planning levels, but weak in the implementation. In many reports of the Commissioner for Scheduled Castes and Scheduled Tribes, the Planning Commission and other bodies, it has been pointed out that the staff and administrative machinery provided by the States is not adequate to carry out the policy of welfare, even if necessary funds are voted by the parliament, hence the failure in implementation.

Another problem is of inadequate funds and corruption. To begin with neither adequate funds are allocated for the plans nor are programmes nor allocated funds made available. Many a times a significant proportion of funds do not reach the beneficiaries a glaring example of the failure of land reforms. This failure has kept SCs in particular deprived of land and dependent on landlords and big farmers. In case of tribal development the bureaucrats, trained in the colonial tradition to maintain law and order unaware of tribal social, cultural and linguistic traditions and values, and unconcerned with their expectations end up as exploiters of tribals rather than their protectors.

1.3.4 Other Backward Classes (OBCs)

In India apart from Scheduled Castes and Scheduled Tribes, there are other weaker sections, which are economically, socially and educationally backward. They are known as /Other Backward Classes. Article 340 of the Constitution empowers the government to appoint a Commission to investigate into the conditions of Other Backward Classes and make recommendations.
It is necessary to make it clear that the Constitution uses words "Backward Class". It means not just any backward person, but a group of people having general characteristics of backwardness. Constitution, however, does not specify which groups constitute backward classes. The Government had appointed two Backward Classes Commissions. These commissions have given the criteria to identify backward classes on the basis of communities or castes.

The first Backward Classes Commission was appointed in 1953 under the Chairmanship of Kaka Saheb Kalelkar. This Commission used four criteria for identifying the Backward classes: (i) low social position in the traditional caste hierarchy of Hindu society; (ii) lack of general educational advancement among the majority of a / caste/community; (iii) inadequate or lack of representation in government services; and (iv) inadequate representation in trade, commerce and industry. The Kalelkar Commission on this basis identified 2,399 castes and communities as Backward Classes. However, there were differences within the Commission. Therefore, government did not accept the recommendations of this Commission.

In August 1990, Government of India announced the acceptance of Mandal Commission's recommendations. Since then 27 per cent reservation has been made in jobs by Central government and various percentages by State governments. In addition, other schemes have also been formulated and launched for the welfare of Backward Classes.

1.3.5 Special programmes for the weaker sections

Special programmes for the 'weaker sections' of the population have found an important place in the Five-Year Plans since the Seventies. The increased plan allocations for these programmes were a response to the growing criticism that benefits of economic progress were not reaching the poor. The major promise of these programmes is that will flow to the weaker sections because of the specificity of the target groups and of the activities chosen. The performance of the different programmes for the weaker sections, however, seems to have varied a great deal though their intentions were similar. They are: (1) Small Farmers Development Agency (SFDA), (2) Marginal Farmers and Agricultural Labourers Programme (MFAL), (3) Antyodaya and (4) Drought Prone Areas Programme (DPAP).
1.3.5.1 Small Farmers Development Agency (SFDA)

The SFDA recommended the establishment of an agency to assist the small farmers who had not benefited from the gains of green revaluation. The objective is to ensure the viability of small farmers. It acts catalyst in identifying small farmers their problems and helping them to obtain inputs from various developmental organizations.

1.3.5.2 Marginal Farmers and Agricultural Labourers Programme (MFAL)

The MFAL Scheme was launched in 1970-71 with an objective of assisting marginal farmers and agricultural labourers to improve their productivity and income through a variety of activities like crop husbandry, including multiple cropping, increased use of new inputs, water harvesting techniques, minor irrigation, live stock, poultry and fishery.

1.3.5.3 Antyodaya Programme

Antyodaya movement short obtaining an egalitarian pattern of community life through self motivated actions of its members to day the concept of Antyodaya has been changed a little as state government has assumed the responsibility of discharging the roll of community's reach. The adoption of Antyodaya programme for improving the rural people on the basis of (a) a family having no economic assist like land, cattle or other visible property (b) a family who has no economic assist but include one or more person in the age group of 15-59 and their total income does not exceed Rs.1200 per annum with five member in the family (c) a family of landless workers having annual income ranges from Rs.1200 to Rs.1800 for five members in the family and the other families whose per capita income is Rs.55 or below.

1.3.5.4 Drought Prone Areas Programme (DPAP)

The DPAP was initiated in 1970-71 with the special focus on execution of rural works and employment generation in an attempt to mitigate the conditions of scarcity in drought-prone areas with objectives of reducing severity of the impact of drought, stabilizing the income of people particularly weaker section of the society and restoring the ecological balance.
1.4 PROGRAMMES FOR RURAL DEVELOPMENT

The rural economy is a part and parcel of the overall economy. As majority of
the poor are in the rural areas, the prime goal of rural development is to improve the
quality of life of the rural people by alleviating poverty through the instruments of
self-employment and wage employment programmes, by providing community
infrastructure facilities such as drinking water, electricity, road connectivity healthy
facilities, rural housing and education and promotion of decentralization of powers to
strengthen the Panchayati Raj institutions etc. The various strategies and programs of
the government for rural development are discussed below.

1.4.1 Integrated Rural Development Programme (IRDP)

Integrated Rural Development Programme (IRDP) was introduced in 1978-79,
to provide assistance to rural poor in the form of subsidy and bank credit form
productive employment opportunities through successive plans period. Subsequently,
training of rural youth for self employment (TRYSEM), development of women and
children in rural areas (DWCRA), supply of improved tool kits to rural artisans
(SITRA) and Ganga Kalyan Yojana (GKY) were introduced as sub-programmes of
IRDP to take care of the specific needs of the rural population.

1.4.2 Age Employment Programme (AEP)

Anti-poverty strategies like assistance to the rural poor families to bring them
above the poverty line by ensuring appreciable and sustained level of income through
the process of social mobilization, training and capacity building. Wage employment
programmes have sought to achieve multiple objectives. They not only provide
employment opportunities during lean agricultural seasons but also in times of floods,
droughts and other natural calamities. They create rural infrastructure which supports
further economic activity. It encompasses Swarna Jayanti Gram Swarozgar Yojana
(SGSY), Sampoorna Grameen Rozgar Yojana (SGRY) and National Rural
Employment Guarantee Act (NREGA) etc. The NREGA is an act of parliament. It is
not merely a scheme or policy. It aims at enhancing the livelihood security of the
people in rural areas by guaranteeing hundred days of wage employment in a financial
year to a rural household whose members volunteer to do unskilled manual work. The
objective of the act is to create durable assets and strengthen the livelihood resource
base of the rural poor.
1.4.3 Employment Assurance Scheme (EAS)

This was launched in October 1993 covering 1,778 drought-prone, desert and tribal area blocks. It was extended to all the blocks in 1997-98. The EAS was designed to provide employment in the form of manual work in the lean agricultural season. The works taken up under the programme were expected to lead the creation of durable economic and social infrastructure and the needs of the people.\(^{10}\)

1.4.4 Food for Work Programme (FFWP)

The food for work programme was started in 2000-01 as a component of the EAS in eight notified drought-affected states of Chhattisgarh, Gujarat, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan, Maharashtra and Uttarakhand. The programme aims at food provision through wage employment. Food grains are supplied to states on free of cost, lifting of food grains for the scheme from Food Corporation of India.\(^{11}\)

1.4.5 Rural Housing (RH)

Initiated in 1985-86, IAY is the core programme for providing free housing to families in rural areas. It targets scheduled castes / scheduled tribes, households and bonded labourers. The rural housing programme has certainly enabled many families to acquire pucca houses. The coverage of the beneficiaries is limited given the resource constraints. The Samagra Awas Yojana (SAY) was taken up in 25 blocks to ensure convergence of housing, provision of safe drinking water, sanitation and common drainage facilities. The housing urban development corporation has extended its activities to the rural areas, providing loans at concessional rate of interest to economically weaker sections and low income group house holds for construction of houses.\(^{12}\)

1.4.6 Social Security Programme (SSP)

Democratic decentralization and centrally supported social assistance programmes were the two major initiatives of the government in the 1990s. The National Social Assistance Programme (NSAP) launched in 1995 makes a significant step towards fulfillment of the directive principles of state policy. The Annapurna scheme was launched on 1\(^{st}\) April 2000 to provide food security to senior citizens who
were eligible for pension under NOAPS (National Old age Pension Scheme) but could not receive it due to budget constraints\textsuperscript{13}.

Rural development is the forte and main pillar of Nation's Development. In spite of rapid urbanization, a large section of population still lives in the villages. Secondly, rural India has lagged behind in development because of many historical factors. Though the 11\textsuperscript{th} plan began in very favourable circumstances with the economy having grown at the rate of 7.7 per cent per year in the 10\textsuperscript{th} plan period, there still exists a big challenge to rectify developmental imbalances and to accord due priority to development in rural areas. Ministry of rural development is implementing a number of programmes aimed at sustainable and holistic development in rural areas\textsuperscript{14}. The real realization reached during the 10\textsuperscript{th} five year plan and the proposed target and strategy of the 11\textsuperscript{th} five year plan have been highlighted and presented in table 1.1.

\textbf{Table 1.1}
\begin{center}
\begin{tabular}{|l|c|c|}
\hline
\textbf{Sl. No.} & \textbf{Scheme / Programme} & \multicolumn{1}{|c|}{\textbf{Proposed outlay of XI five year plan 2007-2012 (Rs. in Lakhs)}} \\
\hline
1. & SJGSY & 29656.12 \\
2. & GSRY & 18016.64 \\
3. & Rural Roads & 50000.00 \\
4. & Indira Awas Yojana & 27766.71 \\
5. & IWDP & 10598.56 \\
6. & DRDA & 6012.36 \\
7. & DPAP & 21294.84 \\
8. & Community Development & 29265.20 \\
9. & Mid-day Meal & 69462.00 \\
10. & State Rural Roads Connectivity & 8647.60 \\
11. & State SGSY & 1800.00 \\
\hline
\end{tabular}
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\textbf{Source:} Ministry of Rural Development.
1.4.7 Rural Development review of X five year plan

The approved outlay for X five year plan was Rs.1,41,32 lakhs and expenditure incurred during the plan period was Rs.30,58.31 lakhs in 2002-03, Rs.33,234 lakhs in 2003-04, Rs.69,610.07 lakhs in 2004-05 and Rs.70,299.70 lakhs in 2005-06. An approved outlay for Annual plan of 2006-07 for various schemes/programmes was Rs.92,070.39 lakhs against which an expenditure of Rs.1,01,168.63 lakhs was anticipated.

Target of constructing 2.83 lakh houses was fixed. Against this target, 3.10 lakh houses were constructed under Indira Awas Yojana. During 10th plan period, 2.11 lakh families have been benefited under Swarna Jayanthi Gram Swaraj Yojana. Out of this, 1.23 lakh beneficiaries (58%) are from SC / ST Category. Under integrated wasteland 89 development programmes and 82 projects were sanctioned for 3.93 lakh hectare of land. Out of this 1.50 lakh hectares of land was used.

Under PMGSY 13,500 kms roads were completed. In Rastriya Samvikas Yojana, 12,504 works were sanctioned. Out of this, 11,496 works were completed under UPIP. About 41,978 common interest groups of 2.84 lakh families were benefited during the plan period. Rural livelihood project is under implementation in 827 villages of 8 Districts. Under this scheme 4,000 families were benefited during X plan period.

1.5 CREDIT REQUIREMENTS FOR RURAL DEVELOPMENT

Rural development programmes primarily depend on the mobilization of resources and flow of finance. A vast majority of the population in India comes under the classification of weaker sections, which lack finance to undertake productive activities. Moreover, the amassing capacity of these people is finite. In an agricultural economy, chiefly oriented towards subsistence, these expenses can never be financed without credit facilities. Credit is potential and quite powerful instrument in bringing about development, especially rural development and agricultural growth. The process of mobilization of internal resources and accumulation is often hindered by a number of factors which ultimately results in "vicious circle of low savings and low investments". The vicious circle of poverty when exists in third world countries can be dealt by channelling the credit. Credit in such circumstances becomes a means to possess productive assets and functions as an income generating factor.
To facilitate the credit needs of the farmers, it would be fruitful to break up the total demand for credit of cultivator households for the major purposes. Cultivators frequently seek credit for their personal consumption and unforeseen expenses, such as children's marriages, illness, children's education, death ceremonies etc. In particular, the low income of a large number of small cultivators forces them to borrow for subsistence and such consumption credit forms an important integral part of the economy of farmers in India as found in majority of the developing countries. Thus, the share of small farmers in the credit market can not be improved without meeting at least a part of their requirements for pressing consumption and emergency outlays. In the estimates of credit requirements of agricultural production, maintenance and emergency expenses need to be covered barring conspicuous consumption of short-term credit for seasonal agricultural operations is required to meet the expenditures on the purchase of seeds, pesticides. Fertilizers, manures, fodder, insecticides, and fungicides; maintenance, repairs, running and hiring costs of machinery and equipment, payment of wages, rent, land revenue, irrigation and other changes with the break through in agricultural technology and greater commercialization of farming the working capital requirements of farmers have gone up substantially. Efforts should be made to develop a total system of credit support to all activities facilitating modernization of agricultural and rural development. The system should facilitate suitable linkages between finance and services for current inputs and capital investment in land development, major irrigation and farm equipment. The public resources used for capital investment and working capital of actually or potentially viable agricultural activities must generate, over a period, adequate income for repayment of loans, where necessary organizational support should be provided to generate financial viability.

The credit requirements of agricultural sector have been estimated from time to time. Agricultural credit in India has gone up from Rs.86,981 crores in 2003-04 to Rs.3,66,919 crores in 2009-10. Agricultural credit of Rs.89,687 crores has been disbursed to farmers across the country till June 2010. In the financial year 2010-11 the Government has fixed the credit flow target of Rs.3,75,000 crores.
1.5.1 Sources of Rural Finance

Rural finance comprises credit, savings, and insurance in rural areas, whether provided through formal or informal mechanisms. The word 'credit' tends to be associated with enterprise development, where rural finance also includes savings and insurance mechanisms used by the poor to protect and stabilize their families and livelihood. Rural finance helps the livelihood strategies and priorities of the rural poor. Rural finance is an immensely important to the poor. The poorest groups spend the highest proportion of their income on food, typically more than 60 per cent and some times as much as 90 per cent. Under these circumstances, any drop in earnings and additional expenditure (on health, children marriages, children education and unforeseen conditions) has immediate and dire consequences on family, unless savings or loans can be accessed. Financial transactions are therefore an integral part of the livelihood system of the poor.

Rural finance consists of formal and informal sources of credit including Banks and projects. The small loans are normally associated with the borrowing requirements of poor rural population, and micro credit schemes use specially developed pro-poor lending methodologies. Rural population however, is much more dependent on informal sources of finance including loans from family and friends, the local money lenders and accumulating savings and credit associations.

**Rural finance comes in three major forms**

1. Informal financial institutions which are not regulated by banking sector such as rotating savings groups or similar groups of people.

2. Semiformal institutions which are not regulated by banking sector but are usually licensed and supervised by another government agency such as self-help groups and NGOs involved in provision of financial services and microfinance organizations. Rural finance is dedicated to financing agriculture related activities, such as input, supply, production distribution and wholesaling.

Financial services are offered and used in rural areas by farm and non-farm population of all income levels through a variety of formal, informal and semi-formal institutional arrangements and diverse type of products and services, such as loans,
deposits, insurance and remittances: Rural finance includes agriculture finance and is a sub-sector of the larger financial sector.

1.6 IMPORTANCE OF BANKING

Banks play a prominent role in promoting economic development of a country. Banks provide the necessary funds for executing programmes in the process of economic development. They collect savings of large masses of people scattered throughout the country, which in the absence of banks would have remained idle and unproductive. These amounts are collected, pooled together and made available to commerce and industry for meeting their requirements. They provide finance for successfully carrying out various stages of production as well as distribution.

1.7 ORIGIN OF RRBs

The rural credit policy in India aims at institutionalizing the credit structure and enlarging its coverage. The All India Rural Credit Survey Committee perceived that only multi-purpose co-operative credit system can be a viable solution to the crux of rural finance. The State Bank of India as well as the nationalized banks (since 1969) made some consistent and fruitful efforts to improve their share in rural finance. However it was felt that to bridge the 'Credit gap' in the rural sector, it was essential for the government to adopt a multi-agency approach in developing rural credit institutions.

Amongst other things, the proposal for instituting a chain of 'Rural Banks' was first mooted by the 'Banking Commission' in its report published in 1972. The Banking Commission in its report seriously questioned the capabilities of commercial banks in adequately covering the rural credit sector within a short span of time after nationalization. It recommended for converting of related primary agricultural societies into rural banks and establishing rural banks as subsidiaries to commercial banks.

Until June 1975, the Govt. of India did not rapt attention to the proposal of instituting a chain of rural banks in country. The idea of rural banks once again cropped up when the prime minister announced the Twenty Point Economic Programme in July 1975. By this time the Government of India earnestly felt that it
was very essential to establish new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector.

The Government of India thought of instituting rural banks under the twenty point economic programme in 1975 inspired by the consideration of lowering the costs of rural banking and operating such banks with local staff in a homely atmosphere of villages. It appointed on 1st July 1975 a working Group on Rural Banks under the Chairmanship of M.Narasimham to examine the setting up of new rural banks as subsidiary of public sector banks to cater to the credit needs of the rural poor. The group submitted its report within a short period of one month on 30th July 1975.

The group observed that “In a country of the size and regional diversity as ones, no single pattern, be it commercial bank or co-operative credit, can be expected to meet all the enlarging requirements in all areas. A degree of adoption and improvisation is called for and a range of institutional alternatives widened and they have come to the conclusion that a new type of institution is necessary”.

The Group however conceived a different idea from the concept of ‘rural banks advocated by the banking commission. It recommended the establishment – of ‘State sponsored, regionally based and rural – oriented commercial banks called Regional Rural Banks. The group envisaged a new institution which combined to the local feel and familiarity with rural problems which the co-operatives possess and the degree of business organizational ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks.

It was suggested by the Group that initially 5 such banks, should be set up in selected areas as pilot institutions so as to provide guidelines in respect of size of operation, initial coverage viability etc. for future development. The Government of India accepted the recommendations of the Group. Accordingly the RRBs ordinance of 1975 was promulgated by the President of India on September 26, 1975 and was subsequently replaced by the RRBs Act of 1976 dated February 9th, 1976. The act has made provisions regarding the incorporation, regulation and working of RRBs.
1.7.1 Objectives of RRBs

The main objectives of RRBs are to develop rural economy, by providing credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs for the development of agriculture, trade, commerce, industry and other productive activities in rural areas.

The RRBs though basically scheduled commercial banks, differ from the latter in certain aspects.

1. Taking the banking services to the door step of rural masses, particularly in hither to embanked rural areas.

2. Making available institutional credit to the weaker sections of the society who had by far little or no access to cheaper loans and depending on the private money lenders.

3. Mobilise rural savings and channellise them for supporting productive activities in rural areas.

4. RRBs are oriented towards meeting the needs of the weaker sections of the rural population.

5. RRBs are expected to make credit available to rural house-holds besides inspiring carefulness, put it simple to ensure sufficient institutional credit for agriculture and other rural sectors.

6. Grant of credit at cheap and concessional rates.

7. Lending to individuals belonging to weaker sections without checking the viability of the activity proposed to be undertaken.

8. Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.

1.8 FEATURES OF RRBs

The main features of RRBs' Act are briefly indicated below.
1.8.1 Sponsorship

Each RRB has to be sponsored by the scheduled bank usually by a public sector bank. It has to be set up at the initiative taken by the sponsor bank in consultation with the State Government and Central Government under license from the Reserve Bank of India. RRB is jointly owned by the Government of India, the concerned State Government and sponsor Bank. The sponsor Bank provides assistance to the RRB in several ways such as subscription to its share capital, provision of managerial and other staff assistance, for the first five years and, thereafter, on the basis of mutually agreed terms.

1.8.2 Jurisdiction

The jurisdiction of each RRB has to be within the specified district in a state and that of its branches within the limits of specified district. Generally, the RRB for its area of operation will have a compact area of one to five districts with homogeneity in agro-climatic conditions and rural clientele. Its branch office will generally cover one to three blocks and in a position to finance five to ten Farmers Service Societies (FSS).

1.8.3 Capital Structure

The authorized capital of each Regional Rural Bank will be Rs. 1 crore and the issued capital at Rs. 25 lakhs. The issued capital would be subscribed by the Government of India, the sponsoring Bank and the concerned State Government in the proportion of 50 per cent, 35 per cent and 15 per cent respectively.

1.8.4 Management Structure

The management of each RRB is vested with the nine members Board of Directors headed by a Chairman who is usually an officer of the sponsor Bank, but appointed by the Government of India. In addition, the Government of India nominates three Directors, the State Government nominates two Directors and the sponsor Bank nominates the remaining three Directors. Two non-officials are nominated, one by the central Government and another by the Government of India, one Director is an officer from NABARD and an another officer from the Reserve Bank of India. The strength of the Board could be raised to 15 with the approval of the Central Government. The RRB is free to recruit its staff, but in the initial years,
the sponsor Bank provides key personnel. Remuneration of staff directly recruited by RRBs as determined by the Government of India broadly corresponds to the salary structure obtaining in the State Government for Comparable Cadres. It is this aspect of the costs of operation that gives the RRBs its low cost image as compared to the rural branches of the commercial banks.

1.8.5 Banking and Lending Operations

Every RRB has the status of a scheduled commercial bank, but its banking business and banking operations are some what limited because of the fact that their lending is confined to the weaker sections of the community. Nonetheless, they accept all types of deposits and also render all other banking services consistent with the needs of the area. Financing outside the target group is exceptional and incidental as in the case of indirect finance through co-operative societies like Farmers Service Societies (FSS), Primary Agricultural Credit Societies (PACS) and large sized Adivasi multi purpose societies which include other farmers as well, or as in the case of financing all farmers in an area. The Government has also prescribed that the rate of interest charged by the RRBs on its direct loans to the persons belonging to the weaker sections would be on par with the rate charged by the PACS to its clientele.

1.8.6 Steering Committee

At the national level the Government of India has set up a steering committee to work out details of the RRB scheme to monitor its progress and to provide suitable guidelines to RRBs.

1.8.7 Training Facilities

Recognizing the need for the trained staff for the RRBs, the Reserve Bank of India has arranged to provide training facilities for the senior staff of RRBs, at the Reserve Bank of India’s College of Agricultural Banking, at Pune. For the clerical and field staff of the RRBs the training will be provided imported through the zonal training centres of their sponsoring Banks, under the overall supervision of the College of Agricultural Banking.

1.9 FUNCTIONS OF RRBs

The Regional Rural Banks are entrusted with the followings functions to perform:
1. The RRBs are mainly required to open branches in the rural areas, while opening branches. The RRBs are expected to spread their branch network in remote rural areas and in rural inter-lands where there is larger concentration of economically weaker sections.

2. The RRBs are required to mobilize deposits as far as possible from the small men living is remote rural areas. The aim is to promote savings and investment habit of the rural people who were earlier lacking these habits. This will help the banks to acquire adequate deposits from the rural centres.

3. They are required to dispense credit in favour of the economically weaker sections of population in the remote rural areas. Earlier, the weaker sections failed to receive adequate credit from either co-operative banks or commercial banks. While granting credit, the RRBs are expected to serve the needs of small and marginal farmers, agricultural labourers and landless workers, rural artisans, small business men and retail traders and professionally self-employed persons.

4. To provide other banking facilities like remittance of funds and safe keeping of deposits and valuables etc, which are at present provided by commercial banks.

5. They are required to avoid competition as a possible with other financing agencies like co-operative banks and commercial banks operating in the rural areas. Their role will be mainly to supplement and support the efforts of other lending agencies in the rural areas.

1.10 PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA

The first five RRBs were set up in five states in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial Banks. The banks covered 11 districts of these five states. The first five Regional Rural banks are Prathama Bank and Gorakhpur Kshetriya Grameena Bank in UP, Haryana Krishi Grameena Bank in Haryana, Paschim Banga Grameen Bank in West Bengal and Anchalik Grameena Bank, Nagpur, Maharashtra.

1.11 GROWTH OF REGIONAL RURAL BANKS IN INDIA

Till the birth of RRBs in India, commercial Banks and co-operative Banks were rendered services to the rural public. But despite such large net work of bank
branches, the credit needs of the rural population in India were quite inadequate. Regional Rural Banks in India have achieved tremendous growth in terms of number of banks and their wide branches which is also shown in the table 1.2.

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of RRBs</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>196</td>
<td>14,390</td>
</tr>
<tr>
<td>2002-03</td>
<td>196</td>
<td>14,433</td>
</tr>
<tr>
<td>2003-04</td>
<td>196</td>
<td>14,446</td>
</tr>
<tr>
<td>2004-05</td>
<td>133</td>
<td>14,484</td>
</tr>
<tr>
<td>2005-06</td>
<td>94</td>
<td>14,494</td>
</tr>
<tr>
<td>2006-07</td>
<td>90</td>
<td>14,520</td>
</tr>
<tr>
<td>2007-08</td>
<td>90</td>
<td>14,761</td>
</tr>
<tr>
<td>2008-09</td>
<td>86</td>
<td>15,181</td>
</tr>
<tr>
<td>2009-10</td>
<td>82</td>
<td>15,475</td>
</tr>
</tbody>
</table>

Source: Central Statistical Information Department, NABARD – June 2010.

The table above shows that the number of RRBs decreased from 196 in the year 2001-02 to 86 in 2008-09. This was due to the amalgamation that took place in the year 2005-2006, covering 525 districts with the network of 14,494 branches. However the number of branches has been significantly increased from 14,390 in 2001-02 to 15,475 in 2009-10. The increase over the period was 1.05 times.

1.11.1 Coverage and Man Power Development

Regional Rural Banks (RRBs) were established in India essentially for taking banking to the door steps of rural masses, particularly in areas without banking facilities. RRB is a bank for rural people, its presence is all the states of country especially in underdeveloped states and union territories are strongly realized. RRBS covered 525 out of 605 districts as on 31st March, 2006. After amalgamation, RRBS have become quite large covering most parts of the state in India. Year wise coverage of districts and number of branches are shown in table 1.3. The table shows that the
number of districts covered has increased from 511 in 2001-02 to 654 in 2009-2010. The human resources employed by RRBs also decreased from 69,876 during 2001-2002 to 68,978 during 2009-2010.

Table 1.3

<table>
<thead>
<tr>
<th>Years</th>
<th>Number of Districts covered</th>
<th>Number of Staff Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>511</td>
<td>69,876</td>
</tr>
<tr>
<td>2002-03</td>
<td>516</td>
<td>69,547</td>
</tr>
<tr>
<td>2003-04</td>
<td>518</td>
<td>69,249</td>
</tr>
<tr>
<td>2004-05</td>
<td>523</td>
<td>68,912</td>
</tr>
<tr>
<td>2005-06</td>
<td>525</td>
<td>68,629</td>
</tr>
<tr>
<td>2006-07</td>
<td>534</td>
<td>68,289</td>
</tr>
<tr>
<td>2007-08</td>
<td>594</td>
<td>68,005</td>
</tr>
<tr>
<td>2008-09</td>
<td>616</td>
<td>68,526</td>
</tr>
<tr>
<td>2009-10</td>
<td>654</td>
<td>68,978</td>
</tr>
</tbody>
</table>

Source: Central Statistical Information Department, NABARD, June 2010.

1.11.2 Capital Composition

RRBs occupy an important position in the rural credit market of India. The establishment of the RRB was to mobilize deposits, access to central money market and modernized outlook, which the commercial banks have sound financial position is essential for any organization to survive to render the services to the society. The RRBs have both types of capital, i.e. owned and borrowed. The components of capital funds are shown in the table 1.4. The table above shows that the year-wise components of total capital comprises of owned funds and borrowed funds of RRBs in India. Both the owned funds and borrowed funds have constantly been increased over the period. The borrowed funds constitute more percentage than the owned funds during the post-merger period especially the year 2005-2006 onwards.
Table 1.4

Components of Total-Capital / Funds (Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Owned Funds</th>
<th>% to total funds</th>
<th>Borrowed Funds</th>
<th>% to Total funds</th>
<th>Total Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>4,059</td>
<td>47.30</td>
<td>4,524</td>
<td>52.70</td>
<td>8,583(100%)</td>
</tr>
<tr>
<td>2002-03</td>
<td>4,666</td>
<td>49.30</td>
<td>4,799</td>
<td>50.70</td>
<td>9,465(100%)</td>
</tr>
<tr>
<td>2003-04</td>
<td>5,438</td>
<td>54.20</td>
<td>4,595</td>
<td>45.80</td>
<td>10,033(100%)</td>
</tr>
<tr>
<td>2004-05</td>
<td>6,181</td>
<td>52.80</td>
<td>5,524</td>
<td>47.20</td>
<td>11,705(100%)</td>
</tr>
<tr>
<td>2005-06</td>
<td>6,647</td>
<td>47.65</td>
<td>7,303</td>
<td>52.35</td>
<td>13,950(100%)</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,286</td>
<td>42.70</td>
<td>9,776</td>
<td>57.30</td>
<td>17,062(100%)</td>
</tr>
<tr>
<td>2007-08</td>
<td>8,733</td>
<td>43.17</td>
<td>11,494</td>
<td>56.83</td>
<td>20,227(100%)</td>
</tr>
<tr>
<td>2008-09</td>
<td>10,910</td>
<td>46.14</td>
<td>12,736</td>
<td>53.86</td>
<td>23,646 (100%)</td>
</tr>
<tr>
<td>2009-10</td>
<td>11,875</td>
<td>48.36</td>
<td>13,524</td>
<td>54.32</td>
<td>24,892(100%)</td>
</tr>
</tbody>
</table>

Source: Central Statistical Information Department (NABARD), June 2011.

1.11.3 Deposits and Loans Outstanding of RRBs

RRBs are expected to mobilize resources from rural areas and play a significant role in developing agriculture and rural economy by deploying mobilized resources in rural sectors for the needy not covered by other formal credit institutions.

The performance of RRBs in terms of deposit mobilization and credit extension is presented in the table 1.5. The RRBs are showing considerable improvement in their credit and deposits performance. The deposits mobilized by the bank have been increased from Rs.44,539 crores in 2001-02 to Rs.1,20,189 crores in 2008-2009. The steep increase over the period was 2.7 times. Loans outstanding of the RRBs also highlighted the improvement as it has been rapidly increased from Rs.18,629 crores in 2001-02 to Rs.70,311 crores in 2009-10. The increase over the period of the study was 3.6 times.
Table 1.5
Deposits and Loans Outstanding of RRBs (2001-2010) (Rs. in crores)

<table>
<thead>
<tr>
<th>Years</th>
<th>Deposits</th>
<th>Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>44,539</td>
<td>18,629</td>
</tr>
<tr>
<td>2002-03</td>
<td>50,098</td>
<td>22,158</td>
</tr>
<tr>
<td>2003-04</td>
<td>56,350</td>
<td>26,114</td>
</tr>
<tr>
<td>2004-05</td>
<td>62,143</td>
<td>32,870</td>
</tr>
<tr>
<td>2005-06</td>
<td>71,329</td>
<td>39,713</td>
</tr>
<tr>
<td>2006-07</td>
<td>83,144</td>
<td>48,493</td>
</tr>
<tr>
<td>2007-08</td>
<td>99,093</td>
<td>58,984</td>
</tr>
<tr>
<td>2008-09</td>
<td>1,20,189</td>
<td>67,802</td>
</tr>
<tr>
<td>2009-10</td>
<td>1,36,526</td>
<td>70,311</td>
</tr>
</tbody>
</table>

1.11.4 Credit Deposit Ratio

The RRBs were conceived to develop rural economy by providing credit and other facilities for the purpose of development of agriculture, trade and other productive activities to the targeted poor people. The credit deposit ratio of the bank indicates the creation of credit out of the deposits mobilized by the banks. This is shown in the table 1.6. This table shows that CD ratio of RRBs increased from 41.8 per cent in the year 2001-02 to 59.5 per cent in 2007-08. In 2007-08 the credit ratio registered a high rate at 59.5 per cent. There has been continuous increase in the credit ratio but from 2007-08, the credit ratio shows a declining trend.

Table 1.6
Credit Deposit Ratio of RRBs in India (2001-2010)

<table>
<thead>
<tr>
<th>Years</th>
<th>CD Ratio (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>41.8</td>
</tr>
<tr>
<td>2002-03</td>
<td>44.2</td>
</tr>
<tr>
<td>2003-04</td>
<td>46.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>52.8</td>
</tr>
<tr>
<td>2005-06</td>
<td>55.6</td>
</tr>
<tr>
<td>2006-07</td>
<td>58.3</td>
</tr>
<tr>
<td>2007-08</td>
<td>59.5</td>
</tr>
<tr>
<td>2008-09</td>
<td>56.4</td>
</tr>
<tr>
<td>2009-10</td>
<td>59.7</td>
</tr>
</tbody>
</table>

Source: Statistical Information Department, NABARD, June 2011.
1.12. STATEMENT OF THE PROBLEM

Financial sector reform has been a major component of the structural adjustments being implemented in India since 1991. Regional Rural Banks in India are an integral part of the rural credit structure of the country. Since the very beginning, when the Regional Rural Banks in India (RRBs) were established in October 2, 1975, these banks played a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labours and even small entrepreneurs. The original objective of the RRBs was to bring progress with social justice to the rural poor, who were generally denied access to financial services from rural co-operatives as well as commercial banks. The rationale was that during the 60s and 70s rural co-operatives were dominated by wealthy farmers, and the commercial banks had an urban bias. Therefore, most poor people turned to informal sources for their financing needs. In an effort to provide credit to the poor from institutional sources, the RRBs were established in 1975. It was thought that these banks would combine the rural focus of the cooperatives with the business orientation of the commercial banks, to make credit widely available to rural India's disadvantaged communities. The present study is based on the working of Sapthagiri Grammena Bank (SGB) of Chittoor District for the upliftment of weaker sections of rural society.

1.13 NEED OF THE STUDY

Grameena banks are playing a pivotal role in disbursing loan to people in fulfilling their requirements for agriculture, education and marriage of children, hospital. Due to monsoons failure, lack of provision of ground water the people depend more on banks for meeting the expenditure for agriculture. Sapthagiri Grameena Bank is disbursing loan to farmers for agricultural and other allied purposes. Hence an attempt is made to ascertain what extent the Sapthagiri Grameena Bank is extending the disbursement of loan to the farmers exclusively from weaker sections and proposed to title the research work as "Impact of Regional Rural Banks on Income and Employment Generation of Weaker Sections: A Study of Sapthagiri Grameena Bank, Chittoor District A.P."

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1.14. OBJECTIVES OF THE STUDY

The study has proposed the following objectives.

1. To study the performance and progress of RRBs in India and Andhra Pradesh.
2. To examine the performance of Sapthagiri Grameena Bank in Chittoor district.
3. To analyse the impact of bank finance on income, employment and asset creation of the sample beneficiaries.
4. To study the repayment performance of the sample beneficiaries.

1.15. HYPOTHESES OF THE STUDY

The study has formulated the following hypotheses.

1. The progress and performance of SGB is good.
2. There is a positive impact of bank finance on income, employment and assets creation of the sample beneficiaries.
3. There is no significant improvement of socio-economic conditions of sample beneficiaries due to the Sapthagiri Grameena Bank lending.
4. The loan recovery performance of sample beneficiaries of Sapthagiri Grameena Bank is poor.

1.16. METHODOLOGY

1.16.1 Sample Design

This study covered 13 branches and 400 borrowers of Sapthagiri Grameena Bank in Chittoor district representing 3 revenue divisions, viz. Madanapalli, Chittoor and Tirupati. The villages comprising weaker sections have been considered for the present study. Moreover, the study covered randomly the SC(71), ST(100), BC(128) and OC(101) community borrowers who have taken loan from the Bank during 2009-2010.
<table>
<thead>
<tr>
<th>SL. No.</th>
<th>Name of the Division</th>
<th>Sample Size</th>
<th>Name of the Branch / Village</th>
<th>No. of Samples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Madanapalle</td>
<td>126</td>
<td>Madanapalli</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Chowdepalli</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
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<td><strong>Total</strong></td>
<td><strong>400</strong></td>
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1.16.2 Collection of Data

The study is based on both primary and secondary data. The primary data has been collected from the sample beneficiaries through a structured questionnaire. The secondary data has been collected from the publications of Regional Rural Bank, National Bank for Agricultural and Rural Development, Reserve Bank of India, Statistical Abstracts of India and Andhra Pradesh, Hand Book of Statistical Abstract, Chief Planning Officer, Annual Reports of Saphagiri Grameena Bank, Chittoor, Text Books, Journals, Newspapers and Websites.

1.16.3 Period of Study

The Study covers the progress and performance of Saphagiri Grameena Bank for a decade from 2001-2010. However, the field enquiry about the sample beneficiaries from weaker sections has made for the last two years (2009-2010).
1.16.4 Tools of Analysis

The data collected has been collated and analysed using appropriate statistical tools such as Ratios, Percentages, Chi-square Analysis, Analysis of Variance (ANOVA), Logistic Regression, Paired t-test and Dependent 't' test.

1.17. SCOPE AND LIMITATIONS OF THE STUDY

This study is confined to 13 branches and 400 borrowers of Sapthagiri Grameena Bank in Chittoor district. The operational area of the Bank in Chittoor district is not taken into consideration, as a measure of convenience. However the branches and beneficiaries chosen as sample are fairly representative of their counterparts. Therefore, the findings made and conclusions drawn at the end of the study would be reliable. The study is area specific and covers only Sapthagiri Grameena Bank and its income and employment generation of weaker sections. The primary data is collected directly from the borrowers who were asked a series of questions for which answers were elicited orally from them and recorded immediately. The list of questions asked through the questionnaire is appended at the end of the study. This procedure had to be adopted, though this could be regarded as a limitation as the majority of the beneficiaries are either illiterates or of low level of education. However the study does throw some light on certain broad features of Indian agriculture and institutional finance and therefore its findings and suggestions are very likely to be useful in policy formulation.

1.18. CHAPTER SCHEME

The present study has been divided into seven chapters. Chapter one presents the introduction and methodology of the study. Chapter two deals with the review of literature, chapter three focusses on RRBs performance in India in general. Chapter four highlights the profile of Chittoor district and socio economic conditions of sample beneficiaries. Chapter five analyses the impact of SGB finance on income and employment generation of weaker sections. Chapter six discusses the recovery performance of SGB finances. Chapter seven presents the summary of findings, suggestions and conclusions.
REFERENCES


