CHAPTER – I

INTRODUCTION

The chapter deals with introduction of the study, history of rural banking in World and evolution of regional rural banks in India. This chapter serves as the foundation on the basis of which the other chapters of the study are developed.

Grameen Banks are in existence for around three decades in the Indian financial system. Beginning of regional rural banks can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery system. Grameen banks have started with joint share holding by Central Government, the concerned State Government and the sponsoring bank in the proportion of 50:15:35. An attempt is made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local system only. The origion of the Grameen Banks can be traced to the need for a stronger institutional arrangement for providing rural credit system onll. The Narasimham committee conceptualized the creation of Grameen Banks in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks also. Subsequently, the Grameen Banks were set up through the promulgation of RRB Act of 1976. The grameen banks are evolved as specialized rural financial institutions for developing the rural economy by providing credit to small farmers also.

Over the years, the grameen banks, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. Banks have played a key role in rural credit in terms of geographical coverage, clientele outreach and business system. It also contributes to the development of the rural areas in particular.

The history of the features of grameen banks performance over the past three decades has been the massive expansion of their retail network in rural background. With a modest starting of six grameen banks with 17 branches covering 12 districts in December 1975, the numbers have grown into 196 Grameen Banks with 14,446 branches working in 518 districts across India by the year 2005. Grameen Banks have a large branch network in the rural area forming around 43 per cent of the total rural branches of CBs. The rural orientation of Grameen Banks is formidable with rural and semi- urban branches constituting over 97 per cent of their branch networking in India. The progress in the branch network has enabled the Grameen Banks to expand banking activities in the unbanked areas and mobilize rural saving motivation.

1.1 Genesis and History of Grameen Banks in the Globe

Generally during 1970's there was a growing realization that the benefits of the co-operative credit system have not reached all the sections of rural demography, and the public sector banks like CBs. Grameen Banks were first established in Ghana in 1976 to provide banking services to the rural population, providing finance to small-scale farmers and businesses and supporting *development* schemes only. Particularly, before the establishment of the first Grameen Banks in 1976, the availability of formal credit in rural communities predominantly made up of small farmers was extremely good. The prime sources of finance were moneylenders and traders charging exorbitant interest rates also. The Government of India had taken some policy measures to improve access to finance in rural communities. The initiatives included a requirement that CBs lend at least 20 per cent of their portfolio for agricultural uses and the establishment of the ADB in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana economy. Although, commercial banks and the ADB opened branches in rural areas, with an emphasis on cocoa-growing rural areas only. Particularly, lending to the rural areas remained low; the commercial banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for

lending in urban areas respectively. And other banking services, like credit, were not provided as initially envisioned. The CBs demanded higher deposit accounts and stronger collateral requirements to provide loans to rural sector. Number of small farmers and fishermen did not have deposit accounts in commercial banks, and the collateral they had available was not satisfactory for commercial lending (Andah and Steel 2003). Mensah (1993) and Ranade (1994) found that the ADB's credit provision and coverage were limited. And 27 % of the branches were in rural areas, and lending to smallholder farmers made up only about 15 percent of its total accounts onlyh.[1]

Farmers wanted finance that is, loans – in order to establish and exist in the agricultural economy like India. During the year 1940s, a complex system of credit institutions fueled good times on the farming system. Farmers wanted two types of finance. Firstly, they need long-term loans to buy land and machines also. Secondly, farmers need short-term loans to buy the "inputs" they need to farm every year also. Farmers need credit to buy seed, fertilizer, herbicides, and pesticides for the cultivation.

1.2 The Genesis of Grameen Banks in India

Grameen Banks are the banking organizations being operated in different states of the country. Grameen Banks have been created to serve the rural areas with banking and financial services. However, Grameen Banks may have branches set up for urban operations and there area of operation may include urban areas also.

The important objective of Grameen Banks is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans also. The area of operation of Grameen Banks is limited to the area as notified by Government of India covering one or more districts in the State. Grameen Banks also perform a variety of different functions. Grameen Banks perform various functions in following heads, providing banking opportunities to rural

and semi-urban areas in India. Government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc., Providing Para-Banking facilities like locker facilities, debit and credit cards. [2]

Rural communities in India such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically poorer sections, have been exploited in the name of loans by informal sectors in India. The rural banking consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural community in India. The another sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in the rural masses. The providing of formal credit is inadequate and rural banks are imperfect. Hence, the supply of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in India.

The origin and genesis of Grameen Banks in India dates back to the year 1975. So the Narasimham committee that conceptualized the foundation of Grameen Banks in India. This committee felt the need of regionally oriented rural banks' that would address the problems and requirements of the rural coomunity. Grameen Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and rural development also. The Grameen Banks mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, only. To the objective of classification of bank branches, the RBI defines rural area as a place with a population of less than 10,000 populations. Grameen Banks are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a Grameen Banks is shared by the owners in the proportion of 50, 15 and 35 per cent respectively. The first five Grameen Banks were set up in five States in

Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different CBs in India [3]

The Grameen Banks covered 11 districts of these five states. The first five Grameen Banks are as follows;

1. Prathama Bank in Uttar Pradesh
2. Gorakhpur Kshetriya Gramin Bank in Uttar Pradesh,
3. Haryana Krishi Gramin Bank in Haryana,
4. Gour Gramin Bank in West Bengal,
5. Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan.

The history of the narrative pays close attention in each case to the perspectives that informed changes in policy and also documents the impact of important changes only. To start with a description of rural credit in the late-colonial period only. The obstacles by India's villages display a remarkable continuity from this situation throughout the period being studied particularly. Depending up on usurious moneylenders and the operation of a deeply exploitative grid of interlocked, imperfect markets afflicts the rural community also. Then a review of the weak performance of cooperative banks in India, Then the theoretical case for nationalisation of banks in 1969 and document its positive impact on rural banking system. So, to suggest that certain excesses in the two decades following nationalisation created a basis for the reforms unleashed in the nineties. Then the reforms have undoubtedly increased bank profitability, their impact on availability of affordable rural finance to the poor and India's backward regions only. The rural moneylenders have made a definite comeback. To suggest that while the Microfinance Institution model is unsustainable and might actually end up worsening the situation for the poor, the Self-Help Group-Bank Linkage approach has the potential to make a decisive impact on security and empowerment of the most disadvantaged in the current context of farmers' commitments. This is critical in positively influencing profitability of banks in remote rural areas. Finally, we argue that

much more than microfinance is needed to overcome the problems that have persisted during the decade also.

1.3 Position in Colonial Period of Grameen Banks

The moneylenders practices are very well documented in many official reports from the colonial period. Perhaps the most important is the Central Banking Enquiry Committee report (1929) and it is also associated Provincial reports, of which the Madras Provincial Banking Enquiry Committee report is regarded as a classical system.

The debt is not repaid in full and a part of the loan persists and becomes a pro-note debt. During the course of time, it may with a lucky year be paid off or it may become a mortgage debit system. And the existence of this heavy persisting debt, the creditor takes the bulk of the produce and leaves the loans. Hence, equally, the short-term loan has produced long-term debt and there is a vicious circle of poverty. The system cannot clear his short-term debt because of the mortgage creditor and he cannot cultivate without borrowing because his crop goes largely to the long-term credit system also. The long-term creditor his current debts swell and overwhelm him" (MPBEC Report, 1930, Vol. I, p.77).

Hence, repayment of loans was a major compulsion for farmers to sell their crop and the creditor usually insisted on repayment in the immediate post-harvest period. To do this the debtors were forced to borrow once again. The MPBEC found that repayment of 'prior debts' was by far the single most significant motivation for borrowing in 1929. And one of the most important sources of credit were rich landowners, for whom the mortgage mechanism was an ideal means to get control over larger tracts of land through the vicious circle of poverty. They necessitate actual dispossession, especially in periods when the mortgage value of land was lower than its price also (ibid, Vol. I., pp.64-65, 78). [4]

The power of the money lenders was reinforced through the grain loans they made to poor proprietors, tenants and labourers.[1] Interest rates were

generally higher for the poorer cultivators, partly because they made greater resort to grain loans but also reflecting their generally more system(ibid, Vol. II, p.403). So the creditors sought to exploit this vulnerability by cheating in various ways for it was they who kept the accounts, if any, did the grain measurements and had a more accurate knowledge of pricing system. During 1935 Report on Agricultural Indebtedness provides instances of moneylenders who kept accounts but never revealed them to debtors, to whom they never provided receipts also. And they recorded higher rates of interest on the pro-notes than they actually paid. The money repaid was generally not deducted while calculating future interest balances, nor were the principal and interest separately accounted particularly .

The nexus involved the purchaser of crops, who in several cases was also a moneylender in India. In these cases, the debtor had to sell his produce at a pre-arranged time, usually the immediately post-harvest period, and at a price which was lowered to take account of the loan.[2] Those producers, who lacked the requisite storage and transport facilities to take advantage of price variations, both inter-spatial and inter-temporal, were forced to sell off the ground, as it were, immediately after the harvesting period. Ultimately, the fact that they had to buy back grain in the peak price period made o the farmers.

The important significant proportion of the working population in the colonial period, were the worst affected because for them an extra source of exploitation was added. The payments were generally fixed for the immediately post-harvest period. This was particularly tough on tenants who paid rents in cash. Tenants were not allowed to lift the crop off the ground until the rent had been paid. Since leases were usually renewed every year, pressure on tenants to pay rent was intense. In case rent was not paid in time, high rates of interest were charged on the unpaid amount. When land was leased following a mortgage, the rent charged was equivalent to the interest (MPBEC Report, 1930, Vol. I, p.47).

The administration of colonial was aware of this problem and made several, if somewhat feeble, attempts to grapple with it. The first was the enactment of the Deccan Agricultural Debtors' Relief Act (1879) that authorized courts to stop charging of usurious interest and sales of land as a result. Similar Land Alienation Acts were passed in Punjab, United Provinces and Central Provinces and Berar (Chandavarkar, 1984, p.799). The late nineteenth century also saw Land Mortgage Banks being set up. Low interest loans were provided after the Land Improvement Loans Act of 1883 and the Agriculturists Loan Act of 1884 . Then these loans remained extremely sparse and ineffective. The progress of the co-operative movement in Europe prompted the passage of the Cooperative Credit Societies Act in India in 1904. Real government encouragement of cooperatives started with the more comprehensive Cooperative Societies Act of 1912. After the 1915 Maclagan Committee on Cooperation, provincial cooperative banks were established in almost all major provinces by 1930 only.[4] Hence unlike Europe, cooperatives in India found it very hard to get going ahead. The main socio-economic divisions in rural India appeared to overwhelm the very idea of "cooperation". The cooperative banks were "run in most cases by rich landlords and moneylenders" (Baker, 1984, p.229).

The credit Loans Act, passed in 1918, sought to apply the *damdupat* principle (interest never exceeding principal) to debts. The CBEC estimated in 1929 that the accumulated burden of inherited rural indebtedness in India was Rs.900 crores. The steep fall in agricultural prices during the Great Depression opened the floodgates of legal suits for attachment of lands of borrowers. The official response was a spate of Debt Conciliation Acts between 1933 and 1936 by the governments of CP and Berar, Punjab, Assam, Bengal and Madras. But in his classic enquiry into rural indebtedness in 1941, BV Narayanswami Naidu concluded, "after existing for about seven years, the Debt Conciliation Boards were abolished as not having been of any considerable practical utility" (Naidu, 1946, p.52). The complicated administrative machinery involved in these Boards and the fact that they had no coercive powers explains their poor

performance. The Punjab Regulation of Accounts Act (1930) and the Debtors Protection Acts of 1935 provided for compulsory licensing and registration of moneylenders and proper recording of transactions and accounts. However, these Acts proved "by and large, a dead letter . . . not least because of the understandable reluctance of debtors to bring moneylenders, often their sole source of credit to court" (Chandavarkar, 1984, p.800). Ironically, the Madras Agriculturist Debt Relief Act (1938) suffered for the opposite reason when several powerful creditors petitioned the courts questioning it (Naidu, 1946, pp.52-53).

We may say that the strength of the debt-mechanisms remained largely unimpaired by the activities of the colonial state. This is why the statement by one of colonial Punjab's legendary administrator-scholars Malcolm Darling (1925) that "the Indian peasant is born in debt, lives in debt and dies in debt" has become a classic of Indian economic history. This condition resulted from an interlocking of a number of imperfect markets (land, input, output, labour and land-lease markets) with the credit market, which itself was characterized by deep imperfections. The moneylender was not merely a source of credit; he often combined the roles of crop buyer, labor employer and land lesser. "Real" rates of interest were then not just the "rate" charged. They were hidden also in the lower price paid for produce sold, exploitative wage rates and rents charged for land leased. This interlocked grid worked in tandem with the oppressive caste system as a powerful nexus of exploitation, which became the basis for the pauperisation of the peasantry in the colonial period. The balance of power was terribly skewed against the poorer, "lower" caste farmers, who faced a cumulative and cascading spiral of expropriation. In such a situation, productive investments were virtually impossible to visualize for the vast majority of India's peasants. Worse, even basic consumption needs were hard to meet, with an external ecological crisis such as a drought, being enough to tilt the balance and endanger survival itself, especially when the state provided little or no social security. [5]

1.4 Focus on Cooperatives during 1945

All India Rural Credit Survey carried out in 1954 confirmed that formal credit institutions provided less than 9% of rural credit needs in the country. The traders and rich landlords accounted for more than 75% of rural credit. Cooperative credit societies had already been in existence for 50 years but their share in rural credit was still less than 5 percent. The 1945 Cooperative Planning Committee had discerned early signs of sickness in India's cooperative movement, finding that a large number of cooperatives were "saddled with the problem of frozen assets, because of heavy over dues in repayment" (GOI, 2005, p.8). Even so, in the 1950s and 1960s, the way forward was seen to lie in cooperative credit societies. These cooperatives were to take the lead in the Integrated Scheme of Rural Credit suggested by the AIRCS. The share of cooperatives in rural credit did rise to cross 20% in 1971. Today, India's cooperative credit structure (CCS), with over 13 crores members (including 6 crores borrowers), constitutes one of the largest rural financial systems in the world. The over 1 lakh Primary Agriculture Credit Societies (PACS) can, in many ways, be regarded as the veritable bedrock of India's rural economy. The CCS has 50 per cent more clients than commercial banks and Regional Rural Banks (Grameen Banks) put together. Directly or indirectly, it covers nearly half of India's total population (GOI, 2005, p.15). [6]

Hence, the cooperatives has never realized the enormous potential opened up by its vast outreach. According to the Task Force on Revival of Rural Cooperative Credit Institutions, this owes mainly to a "deep impairment of governance" (GOI, 2005, p.18). While they were originally visualized as member-driven, democratic, self-governing, self-reliant institutions, cooperatives have over the years, constantly looked up to the state for several basic functions. The Task Force describes in detail how state governments have become the dominant shareholders, managers, regulators, supervisors and auditors of the CCS. The concept of mutuality (with savings and credit functions going together) that provided strength to cooperatives all over the world has been missing in India. This "borrower-driven" system is beset with

conflict of interest and has led to regulatory arbitrage, recurrent losses, deposit erosion, poor portfolio quality and a loss of competitive edge for the cooperatives (GOI, 2005, Ch.III). Domination by richer elements in the rural elite that characterized cooperatives in the colonial period continues to be an abiding feature of these institutions even after independence in the country.[7]

1.5 Nationalization of Banks during 1969

During the year 1951, the AIRCS found that the share of banks in rural credit was less than 1 percent. Even through the 1 950s and 1 960s, the role of private commercial banks in rural credit remained minimal and indirect. The AIRCS itself had wanted involvement of these banks in agricultural marketing and processing but not directly in farm output. Rural branches of commercial banks were few and far between despite a 1954 RBI directive for them to open at least one branch in unbanked rural and semi-rural areas for every branch opened in previously banked areas (Meyer and Nagarajan, 2000, p.172).

Then the Imperial Bank of India was nationalised in 1955 and the new State Bank of India[9] was asked to open 400 branches in semi-urban areas and start agricultural lending, even if at a loss. Even so right up to 1971, the share of banks in rural credit was no more than 2.4 percent and most of these loans were made to plantations. Their main activity was to finance agro-processing firms and purchase of bonds floated by land development banks. Until the end of the 1960s, the overwhelming share in commercial bank credit was that of industry (62 per cent) and trade and commerce (26 per cent) respectively. Within industry, the distribution of credit was skewed in favour of large borrowers (Sen and Vaidya, 1997). It is alleged that "advances by private banks were diverted to sister companies of the banks or to companies in which their directors had an interest" particularly (Chandrashekhar and Ray, 2005, p.12). Thus, cooperatives remained dominated by the rural elite and banks continued to have an urban bias throughout the twenty years after independence in the country.[7]

To understand the case for nationalization, it is useful to remember that government control over banking was the norm in most low-income countries in the four decades after the First World War (Burgess and Pande, 2002, p.3). Particularly state-led rural finance programmes spread across the developing world in the post-colonial period. State control over banking to act as an engine of structural change and the attack on poverty was part of the orthodoxy of development economics at that time (Besley, 1995). Then they lament it, La Porta et al (2002), assemble data on government ownership of banks around the world, which show that such ownership is large and pervasive. In the average country, more than 40 per cent of the equity of 10 largest banks remained in government hands even as recently as 1995 year. [8]

1.6 Development of Economics: Theoretical Issues

The first intellectual case for nationalization of commercial banks in India was made in a public lecture delivered by Raj in 1965 (Raj, 1974). Sri.Raj felt "there are important reasons why banking enterprises seeking to maximize their profits would not venture out into areas and sectors of activity to which high priority needs to be attached from a larger social and economic point of view" (Raj, 1974, p.308). Hence, rural finance was not merely a commodity that needed to reach the poor to free them from usurious money lenders, it could also be seen as a *public good* critical to the development of a backward agrarian economy like India. Particularly as Indian agriculture moved decisively into the Green Revolution phase, where private investments by richer farmers needed massive credit support sytem.

Private sector Banks operating in an imperfect credit market would only aggravate already existing imperfections in India. Keynes and Kalecki had already provided the theoretical foundations of this view in the 1930s. As Kalecki put it, "the most important prerequisite for becoming an entrepreneur is the ownership of capital firms below a certain size have no access whatever to the capital market a state of business democracy where anybody endowed with entrepreneurial ability can obtain capital for starting a business venture is, to

put it mildly, unrealistic" (Kalecki, 1954, pp. 91-95). In the *General Theory,* Keynes expresses the problem a little differently.

The insights of Keynes and Kalecki to a deeply unequal agrarian economy like India, Raj argues "the very basis of profit-making in banking activity sets limits in underdeveloped economies to the enterprise it can display" (ibid, p.309). Hence, there are high information and transaction costs of dealing with many small borrowers. So profitability of banks is greater, the higher "the proportion of their earning assets to the idle cash reserves they have to hold" (ibid, p.309), servicing illiterate customers, who insist on payments in cash on the spot, means higher idle cash reserves of banks and lower profitability system. Raj observed that mere legislation and control had not led to an "optimal allocation of investible resources" (ibid, p.307). Nationalisation of the banks was the only forward. Raj was aware that "the bureaucratic element in decision-making may introduce considerable rigidity" but he hastened to add that in "large private banks the element of impersonality, with all the rigidity it introduces, is almost as great as in the case of State-owned banks, except in case of favoured customers known to the bank. The larger private banks are no less impervious to the needs of small customers who have no security to offer system" (ibid, p.311). [9]

1.7 Reaching to Unbanked Areas in the country

The central bank created a comprehensive list of unbanked locations in India that it circulated every few years to all the banks. During 1970, the RBI formulated its first "socially coercive" licensing criterion based on this data. For every new branch in an already banked area (with one or more branches), each bank would have to open at least three branches in unbanked rural or semi-urban areas. The RBI directed that all semi-urban locations would have to be covered by the end of the year 1970. During the year 1977, the RBI further upped banked-unbanked license ratio was raised to 1:4. In 1976 of the Regional Rural Banks (RRB s) were created. The RRB Act states that Grameen Banks were set up to develop the rural economy by providing "credit and other facilities, particularly to

small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in Idnia" (Misra, 2006, p.111).

The development of rural areas remains an uphill task due to the complexity of problems existing in the rural economy. The rural economy requires a multi-dimensional approach to reach cost-effective solutions to these problems. The rural system suffer from poor infrastructural facilities. The productivity is to produce goods in urban areas, even to meet the basic needs of rural consumers. The rural population requires not one but a few inputs and services. They have to be provided at the right time and in the right sequence. This demands the right kind of co-ordination amongst agencies extending help to the rural development.

The rural development is weaker sector of the national economy and even in the rural economy, a major segment is not only weak but in a miserable state. Grameen Banks seem to be the only hope in injects strength and accelerate the growth of rural economy and ensure the development of rural sector. Rural areas in India is recognized as a sine qua non for faster economic development and welfare of common people. Rural sector is not merely development of rural areas but also the development of the rural peoples into self-reliant and self-sustaining in modern with small communities. Rural sector is therefore the development of rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with the other components also.[10]

The rural sector plays a significant role. This shows directly or indirectly almost all the economic activities in the economy. This employs the maximum number of people. This shows the most important source of national income in India. This also supplies food for the survival of the entire population of India. It also supplies materials necessary for the major industries. And the part of the revenue of the Government is also obtained from rural development. In particular rural sector can be rightly considered as the backbone of the country. So the significant role of the rural sector, it continues to be neglected. The

magnitude of poverty, illiteracy, and ill health is of higher order in the rural areas as compared to the urban areas also in India.

The rural areas requires institutional credit to take up economically viable projects. Hence this needed to be noted that credit alone cannot deliver the goods. So what is called the credit absorption capacity of the region. This depends on the implementation of economically viable schemes. Hence, the formulation of economic plans should precede the preparation of credit plans. The certain agencies like the co-operatives, Grameen Banks and farmers service societies which are most appropriate to serve the rural population, but their performance needs to be toned up.

The rural farmers are not able to meet their day-to-day requirements from their own sources of income not to speak of investigating in other productive enterprises for improving their economic conditions. Hence, they have to depend on various financial agencies for getting funds for making investments also. The overall development in the rural areas, financial assistance to the rural poor, particularly institutional assistance for the development of agriculture needs. Credit is an essential requirement for almost every activity. The finance is not available out of one's own income then one needs credit. In credit requirements are more pressing. Finance in India is a part and parcel of its economic development. Rural population is composed of agricultural producers, tenant cultivators, village artisans and landless labor. All these categories are in need of the finance. [11].

The regimeof economic liberalization has broadly circumvented the Grameen Banks to a large extent. Though, some initiatives were taken for Grameen Banks in terms of freedom in interest rate structure, relaxation in target group concept, parity of emoluments to staff with sponsor bank, etc., albeit these interventions have been inadequate, delayed and tentative. As cardinal changes are contemplated in the rural credit delivery system in near future, it is indispensable to synchronize the operations of Grameen Banks with the challenges. The agenda, threats to be perceived in context of rapid

refinements taking place on financial horizons and there is fundamental necessity for carrying out reforms in Grameen Banks to overcome their limitations. Grameen Banks today face number of impediments in their holistic growth. The foremost being the pro poor (rural/poor man's bank) image of Grameen Banks. Public still perceives these banks as 'only for poor or rural community.

1.8 The essence of Agricultural Credit in India

Generally the credit is a basic input for any development programme. It is true for agricultural development, which has its goal to improve the standards of living of realties as well as to increase agricultural productivity also. So the sufficient credit is provided to the development programme for the depressed classes of the society the goal of development programmes cannot be achieved also.

The credit needs of the Indian farmers can be classified into two types depending upon the period and the purpose for which they are required also.

1. RBI classified credit needs of the agriculturist into following purposes.

    a) Loan is useful for the purchase of seed, manure and fodder; irrigation of crops, hire charges pumps and purchase of water purchase of livestock and effecting other land improvements and construction of irrigation wells and tanks and other capital expenditure on agriculture.

    b) Loan is needed for production and transport equipment.

    c) Loan is needed for paying for medical, educational expenses, purchase or construction and repair of residential houses.

2. Credit contracted by farmers can also be classified on the basis of time into three groups.

a) Farmers needs credit for short periods a less than 15 months for the purpose of cultivation or for meeting domestic expenses for example they want to buy seeds, fertilizers fodder for cattle etc. Such short – period loans are normally repaid after the harvest period.

b) Agriculturist require finance for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land buying cattle, agricultural machines.

c) Agriculturists need finances for the purpose of buying additional land to make permanent improvements on land and purchase costly agricultural strategy.

1.9 Credit Needs for the Farmers

Generally the credit requirements of farmers can be classified into two categories – productive and unproductive loans. The farmer includes loans to buy seeds, fertilizers, implements etc.,The Government and to make permanent improvements on land such as digging, deepening of wells, and fencing of land also. The forms of credit help the farmers in their agricultural operations or improving their land besides these, the Indian farmer borrows for unproductive purposes.

In India the problem of agricultural credit is unique, in the sense that, the prospective borrowers are to be reckoned in millions, their creditworthiness is practically nil, their needs of great urgency, their knowledge of accounting matter is small and their economic status is low. The policy maker should aim at securing the economic and political health of the people through agricultural credit needs also. [12]

The importance of agricultural credit, which is essentially rural in nature hardly, needs elaboration. The development of the countryside hinges upon availability of credit to rural economy development. The dependence of indebtedness in rural India is great, and falls mainly on the households of rural working people. The exploitation of this group in the credit market is one of the

most pervasive and persistent features of rural life in India. Despite major structural changes in credit institutions and forms of agricultural credit in the post-independence period, Darwin's statement (1925), that "the Indian peasant is born in debt, lives in debt and bequeaths debt", still remains true for the great majority of agricultural households in the economy. The Rural households need credit for a variety of problems.

Rural community in our country such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically backward castes and classes they have been exploited in the name of credit facility by informal sector. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural community in India. The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented. Hence, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the economy (Dr. M.Syed Ibrahim)[13]

The Grameen Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The Grameen Banks mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the RBI defines rural area as a place with a population of less than ten thousand. Grameen Banks are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50, 15 and 35 per cent, respectively.

1.10 CONCEPTUAL FRAMEWORK

1.10.1 Definition of Rural Banking

The concept of rural banking is banking that is done in an area that is not close to towns or cities, making it difficult for those who need to conduct banking business. Many times a bank's agent will come to the rural area to offer basic banking services. Rural banking is not as prevalent in the U.S.A as it is in rural areas of India, Africa and some other countries also.

The bank is a financial institution that helps the developing regions or countries to finance their needs specifically projects regarding agricultural development in the country.

1.10.2 Regional Rural Banks

Generally Grameen Banks are the banking organizations being operated in different states of India. And they created to serve the rural areas with banking and financial services. Hence, RRB's may have branches set up for urban operations and there area of operation may include urban areas too. Regional Grameen Banks were established under the provisions of an Ordinance passed on 26th September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural areas in the country.

1.11 Organizational Structure of Grameen Banks

Generally the Organizational Structure for Grameen Banks varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments. The following is the list of officers in decreasing order of their rank in the organization.

- Chairman & Managing Director
- Executive Director
- General Manager
- Deputy General Manager

- Assistant General Manager
- Chief Manager
- Senior Manager
- Manager
- Officer
- Assistants

Grameen Banks are recognized by the law and they have legal importance. The Grameen Banks Act, 1976 Act No. 21 of 1976 (9th February 1976) reads "For the incorporation, regulation and winding up of Grameen Banks with a view to developing the rural economy by providing, for the objective of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, Women and for matters connected therewith and incidental thereto also ". Grameen Banks are therefore created with a view to develop rural areas.

1.12 Cauvery Grameena Bank (CGB) in Mysore District

Grameen Banks in the state have already acquired a considered space in the rural banking segment. Bank gives a dependable financial infrastructure spread over the entire state. They have built up expertise in rural banking over the last 30 years. Cauvery Grameena Bank (CGB) was established on the 2nd October 1976 under the RRB Act. To start the bank confined its operations to Hassan district from December 1980. By the bifurcation of Mysore district into Mysore and Chamarajanagara districts during 1997-98 the bank is now operating in following districts viz., Mysore, Chamarajanagara and Hassan.

State Bank of Mysore, the sponsored bank has been merged both the Cauvery Grameena Bank and the Kalpatharu Grameena Bank and renamed as

Cauvery Kalpatharu Grameena Bank in 29th June, 2006. Presently it is operating in six districts - Mysore, Hassan, Chamarajanagara, Tumkur, Bangalore - rural and Bangalore - urban. It has 202 branches in six districts. CGB plays an important role in meeting the financial requirements in rural areas and policies of Grameen Banks. It is important to note that the financial support to the marginal farmers, landless-labourers and rural artisans. This study is an attempt at evaluating the performance of Cauvery Grameena Bank (CGB) in terms of branch expansion, deposit mobilization, recovery performance and utilization of credit provided to the agriculture sector in Mysore district economy.

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