
CHAPTER - II

*Review of Literature,
Research Methodology and Design*

2.1 Introduction

The literature is diverse on the field of bank credit in India. But as yet there are not many studies of Regional Rural Banks and their credit operations. The role of Regional Rural Banks in meeting the credit requirements of the weaker sections of the rural people and in generating income, employment and assets to targeted sections is yet to be studied in depth covering different regions that is not surprising. Regional Rural Banks are recent entrants into banking operation in our country. A review of the available literature on Regional Rural Banks is under taken here with a view to identifying possible areas of enquiry. A few studies on banking in general are also included in the present review for providing the necessary background.

2.2 Studies at the National Level

a) RBI Studies

The Reserve bank of India "Report of the Agricultural finance sub-committee" indicated that the rural credit system to be really useful and effective must take into account and pay attention to the entire gamut of agriculturist credit requirements of consumption, production and other social purposes.

The All India Rural Credit Survey¹ examined the record of various credit agencies – institutional and non-institutional in order to assess past performance and draw a suitable programme for the future. The survey

revealed that the non-institutional agencies (with a share of 93 per cent in the total borrowings) occupied the dominant position in the rural credit market. It also found that the share of commercial banks was hardly one per cent of the total credit requirements of agriculture in 1951-52. The Committee also came to the conclusion that "cooperatives have failed but they must succeed". To rejuvenate the working of the cooperatives, the committee suggested the idea of integrated credit scheme, which involved a) State partnership with cooperatives to strengthen their financial position; b) creation of viable primary societies; c) integration of credit, marketing and processing activities; d) establishment of a nationalized commercial bank (State Bank of India), so as to increase the role of commercial banks in agricultural credit; and e) introduction of the crop loan system by the cooperatives to make credit production-oriented.

All India Rural Credit Review Committee² reviewed the progress made by formal agencies in respect of short-term, medium-term, and long-term credit, after the implementation of the integrated credit scheme as recommended by the All India Rural Credit Survey Committee, 1954. In respect of commercial banks the committee proceeded keeping in view the agricultural break-through on the one hand and the measure of social control on the other. It was felt that the progress of the banks in reorienting their policies and operations in the directions envisaged, would be accelerated in the wake of nationalization. The Committee, after studying the dimensions of the demand for agricultural credit, felt that a single agency like cooperative alone could not meet the challenges of agriculture. There had to be a substantial and sustained contribution

from the commercial banking sector for both current production and long-term development. The possible areas of financing open to the commercial banks in the sphere of rural credit as indicated by the committee included a) production credit, b) investment credit, c) credit for the infrastructure, d) distribution credit, e) credit for activities jointly undertaken with agriculture, and f) credit to cooperatives engaged in agricultural activities. The committee pointed out that when a loan was advanced to a cultivator it should be accompanied by coordinated arrangements to ensure that he also received the other packages and extension services like input supplies and marketing facilities. It also felt that it was necessary to have a scientific method to assess and to meet the credit needs of the farmers.

The Study Group headed by Gadgil³ examined the credit gaps that existed in the various sectors of the economy and suggested suitable recommendations. The group made an assessment of the credit requirements of the major sectors of the economy viz., agriculture, industry and training during 1967-68. It also made suggestions regarding the integration of short-term, medium-term and long-term credit requirements of agriculturists and establishing a single institutional organisation to provide all the three types of credit.

In 1972, the All India Debt and Investment Survey⁴ made a study of the progress and performance of the commercial banks in financing agriculture through Primary Agricultural Credit Societies (PACS) during 1970-71. The Report highlighted certain shortcomings in the working of the scheme, such as incidence of overdues, low volume of medium-term loans.

Subratha Ghatak in his study⁵ "Rural Money Market in India" made an attempt to examine the composition and working of the organised

and unorganized money markets in the rural economy of India. The factors affecting the demand side and supply side of agricultural credit were analyzed. The existing links between the rural money markets were examined. He considered the working of Primary Agricultural credit societies (PACS) on the supply side of institutional credit and concluded that they generally failed to satisfy the different criteria of financial viability and loan operations. According to him the major problems of these institutions were increasing dependence on borrowing and failure to mobilise deposits and mounting overdues. It was found that there existed a positive correlation between income and employment and negative correlation between rate of interest and income.

The committee on "Functioning of Public Sector Banks" called James Raj committee (1978)⁶ felt that "Regional Rural Banks can play a significant role in the financing of rural sector. Regional Rural Banks (RRBs) should not only open more branches in the rural areas but also take over gradually the existing rural branches of commercial banks. Consequently, all public sector banks and large private sector banks should be allowed to open branches upto district headquarters or block levels only".

The Report of the Agricultural Credit Review Committee was yet another attempt by the RBI under the chairmanship of Khusro⁷ to go into the entire gamut of rural credit in India. The coverage of the review committee included agricultural credit system, the effectiveness of lending institutions, and functions of the apex level agricultural credit institutions, lending costs and margins and organisation and management of the NABARD. The report throws light on the agricultural scenario in the country during the last decade of the last century. The present position of

the various streams of credit delivery system viz., commercial banks, regional rural banks, cooperative credit structure and the need to have National Cooperative Bank at the national level apex for the cooperatives credit delivery system, particularly the programme of institutional strengthening to enable the system to meet effectively the demand for credit which would arise in future where dealt with. Various aspects of development of institutions such as credit planning and coordination staff training and manpower development, accounting system computerisation and management system along with measure for correcting regional imbalances were also given due emphasis. The committee felt that the recovery of agricultural credit over the years had become an intractable problem affecting adversely all the streams of agricultural credit system. The committee viewed that measures for strengthening the system would become infructuous unless the recovery problem was tackled satisfactorily. Issues relating to risk in agricultural lending, such as natural calamities and insurances and guarantee cover in respect of risk-prone advances by the credit agencies under government directions were also discussed. The crucial issues of interest rates, lending costs and margins for the various types of credit institutions and autonomy of the credit institutions were also given serious attention by the Review Committee. Another interesting feature reviewed was poverty alleviation programmes and their linkage with government and credit agencies on which considerable emphasis was being laid by the government of India during the previous two five year plans and the impact of these programmes on the credit delivery system. Projections in respect of the credit requirements and supply of resources upto the end of the century were given in the report.

b) Studies of Government of India

A study executed by the National Council of Applied Economic Research on "Credit Requirements for agriculture" (1974)⁸ is an in-depth study based on a sample survey. According to the study, there existed a major gap in the sphere of investment credit and a considerable progress had to be made in respect of long-term credit to agriculture through institutional agencies and cooperative land development banks. It observed that with greater institutionalization, the rate of interest on loans from all sources showed a declining trend. However, small borrowers as they banked more on non-institutional sources were paying a higher rate of interest than that of large borrowers. In respect of long-term developmental finance, the cooperatives still were not playing a vital role and they accounted for only about one-fifth of the total disbursement of credit.

The National Commission on Agriculture, (1976)⁹ which examined the requirement of institutional credit for covering the new agricultural strategy of agricultural development and all aspects of rural development including production, marketing, transport and processing, stressed greater involvement of commercial banks in financing agricultural development. It was suggested that the share of commercial banks in agricultural advances should increase from 8.8 per cent in 1974 to 15 per cent in 1988 and greater weightage must be given to the needs of small and marginal farmers and provision of credit to them on preferential terms in respect of both interest charges and quantum of advances to enable them to modernise agriculture. The commission also made suggestions for improvements in Farmer's Service Societies (FSS) in the light of their record of performance.

The committee under the convenership of R. Sundravardan (1981)¹⁰ suggested measures for uniform system and procedures in order to ensure effective control over the branches of Regional Rural Banks. The observations were in a way largely related to internal management of rural banks comprising various aspects of functioning of the RRBs, namely, issues linked with control, measures in general statements and returns to be submitted by the branch offices; discretionary powers of the branch managers; cash management and organizational etc. The committee felt that the staff of different cadres should be trained properly before being placed in regular charge of business. It also suggested that there should be an internal audit and inspection cell at the RRBs head office whose main function and responsibility would be the periodical inspection of branches. The following are among the suggestions made by the committee. First the state government shall improve the infrastructure of the Rural Banks. Police protection and civic amenities must be provided where the branches are located. The RRBs should be allowed to open branches as represented by them. There should be a ban on commercial banks opening their branches within the areas falling within the operational areas of the RRBs. The RRBs may be allowed to lend the richer sections in select villages in certain proportion. To the extent possible, consumption loans should be combined with production loans. The RRBs can step up their lending under government sponsored programmes with an intention to reduce scattered lending. Uniformity may be brought about in the discretionary powers delegated to branch managers. Periodically the eligibility criteria

may be reviewed with regard to the weaker sections in terms of their annual income. Repayment may be linked with marketing for the avowed purpose of ensuring prompt recovery. The RRBs should take suitable steps to make people aware of the banking services provided by them, to enable them to develop the banking habit in rural areas. Regarding the staff, it is suggested that, apart from insisting on cash security / bond agreements, minimum qualifications of graduation need not be insisted upon and candidates with lower qualifications, if other-wise suitable, can be recruited and given intensive training.

2.3 Studies on Commercial Banking and Farm Finance

S.L. Shetty¹¹ in his article seeks to juxtapose the amount of institutional credit used by individual sectors and industries against their output and the price trends relevant to them. The commercial bank credit and other institutional credit have some relationship with real output in any sector. Further, he emphasizes that there is a scope for enhancing credit to allow farmers to achieve further commercialization and modernisation of their operations. He opines that there is a great scope and need for the redistribution of existing institutional credit in favour of small and marginal farmers and agricultural labourers.

Subhas Basu's work¹² "Commercial Banks and Agricultural Credit - A Study in regional disparity in India", deals with the political economy of banking. It brings out how the banking system of the country acts as a siphon for transferring economic surplus from one sector to another and one region to another. His regression models explain inter-district variations in bank credit and bank deposits. The study also distinguishes land concentration and rural asset concentration and the patterns of

influence they exert on bank-lending to agriculture. The study observes that agricultural credit of commercial banks brings together all possible factors influencing agriculture. These include factors affecting growth of commercial banking in general, socio-economic factors and also those reflecting variations in agricultural productivity.

K.C. Pandhy¹³ in his book, "Commercial Banks and Rural Development" attempts a critical study of the rural development experiment of Indian commercial banks. The study examines the theory of their association with most important yet underdeveloped sector of our economy in all its ramifications. It analyses threadbare the problems of developing their presence in rural areas and their possible solutions from different angles for the much needed development and modernisation of rural India.

Rajkishore Pany¹⁴ in his book on "Institutional credit for agriculture in India" discusses inter and intra-regional variations in the flow of credit in the State of Orissa. His study reveals that the credit gaps are found to be higher in the least developed regions than in the developed regions. However, within each region the credit gap is higher in irrigated areas than unirrigated areas. The study also reveals that large overdues make the institutional agencies weak and unviable. Among the operational weaknesses of the institutional agencies, the loan procedures of investment credit are found to be cumbersome and dear.

Assessing the performance of Regional Rural Banks vis-à-vis the cooperatives and commercial banks, S.S. Sinha (1991)¹⁵ in his article titled "Origin and Objectives of Regional Rural Banks", observes that the Regional Rural Banks operations typically aim to correct the income inequalities in rural societies as their resources for lending (in the form of

deposits) are being mobilised largely from the relatively better off people of rural areas and these gives of resources are usually not eligible to draw resources from Regional Rural Banks by way of credit. Thus the Regional Rural Banks by and large have played their distinct assigned role well and have developed from a "marginal system" to a "mainstream system," within the mammoth banking structure of the country.

2.4 Studies on the working of the RRBs in Different Regions

Making a comparative study of commercial banks, Regional Rural Banks, Land Development Banks and Primary Agricultural Credit Societies with regard to their performance in deposits, advances and recovery performance in Chikmagalore district in Karnataka, K Gayathri (1993)¹⁶ in her article titled "Credit Delivery in Rural Karnataka: A case of Chikamagalore district", observed that the Regional Rural Banks faced greater problems as their recovery drive period and the loan waiver promise coincided and that there was a great protest from farmers as they feared that the banks were trying to get back the loan amount at the earliest. It was found in the study that the recovery position of Commercial Banks and Regional Rural Banks was affected to a very large extent after the loan waiver promise was made by most political parties.

The earliest study of this kind was made by Wadhva (1980)¹⁷ who examined the operational performance of the RRBs set up till the end of 1977 and made an in-depth study of two RRBs viz., i) Haryana Kshetriya Grameena Bank (HKGB), Bhirwani and ii) Jaipur, Nagpur Anchalik Grammena Bank (JNAG), Jaipur. He observed that the RRBs made notable progress towards inculcating among people saving habits with the banking system in their operating area, particularly at locations which were unbanked or underbanked. Further, he observed that almost all the

loans issued by the RRBs went to the weaker sections of the society. He also felt that even then the majority of small borrowers still continued to depend heavily on non-institutional sources of credit. He also pointed out the short-comings in the working of the RRBs along with the analysis of the factors causing such weaknesses and attempted to indicate a way out. A serious limitation of the study is that it came out too soon when the RRBs were in the initial stages of establishment facing teething problems. Naturally the study is highly inadequate for a just appraisal of their performance.

Agricultural Financial Corporations (AFCs)¹⁸ conducted in 1981 a detailed study of the performance of two RRBs (one in Karnataka state and another in Andhra Pradesh) sponsored by the Syndicate bank. The area of the subject covered in the study included banks' participation in the identification of possible areas for opening their branches, its efforts in deposit mobilization, analysis of loaning operations, recovery performance, role of sponsoring banks, cost operations of the RRBs and Commercial Banks, income-expenditure structure, organisation structure, training programmes for the staff of the RRBs etc. The study touches upon all important aspects of the working of the RRBs in the study area.

Indra Yashwant (1985)¹⁹ in her article evaluated the comparative performance of two RRBs, one in Assam and the other in Tripura, relating to deposits, loans and advances and repayment performance. She observed that the two RRBs (Pragijotish Grameena Bank and Tripura Grameena Bank) had made a successful beginning for the purpose for which they were set up and also demonstrated their image as a new type of credit agency catering to the needs of vulnerable groups to whom institutional credit had been hitherto neglected.

2.5 Studies on RRBs

a) Progress and performance

Varshneya (1983)²⁰ in his article studied the performance, problems, control and monitoring of Regional Rural Banks till the end of March, 1983. According to him, the performance of Regional Rural Banks in the field of branch expansion had been quite satisfactory. He also cautioned about mounting overdues and warned that if the same trend continued, the position would deteriorate, further if suitable measures were not taken to recover the dues. Besides, he also recommended the establishment of a central agency to look after all issues relating to the RRBs.

Singh and Upadhyoy (1984)²¹ in their study of loan recovery of Regional Rural Banks in Bihar concluded that the recovery performance of the Regional Rural Banks declined continuously due to inadequate arrangements made for recovery. The extent of decline indicated the poor management of the selected Regional Rural Banks, as low recovery reduced the turnover of assets and thereby the returns on investment.

S.N. Misra, (1985),²² R. Sahaya and Muninath Sharma (1986),²³ and Balaji and Rai (1986)²⁴ evaluated the performance of the RRBs during 1975-1984 and concluded that the progress made by the RRBs was significant in terms of branch expansion, number of districts covered and outstanding advances. They advocated strengthening the RRBs in order to cover the entire rural households, to perform better and to take up greater responsibilities. They also cautioned that the accumulating losses of the RRBs if unchecked by timely action, would be detrimental to the objectives for which they were established.

D.J. Kanvinde (1987)²⁵ in his paper on Regional Rural Banks discussed certain basic issues, such as the expected role of the RRBs, and

their achievements, implications for branch expansion and viability of the RRBs. He concluded his study by saying that if the RRBs were to remain small-man-oriented credit institutions and still retain long-term viability and strength, a closer look at the policy of administered rates of interest would probably be inevitable. Subsidies at best could be a temporary phenomenon.

D.V. Kuchhadiya and R.L. Shiyani (1989)²⁶ examined in their study "Role of Regional Banks in upliftment of weaker sections", the performance of Regional Rural Banks in general and the Regional Rural Banks in Gujarat in particular, with reference to lending to the (IRDP) beneficiaries. Their analysis of Regional Rural Banks in Gujarat showed that the percentage share of the IRDP beneficiaries in the total loan borrowers and the amount of loan issued for the purpose was higher than those of the national average.

In his study "Regional Rural Banks in West Bengal" (1994)²⁷ Sinha Roy, attempted an evaluation of the working and progress of the RRBs of West Bengal on the basis of case studies of eight grameena banks namely, Mayurakshi Grameena Bank, Gaur Grameena Bank, Uttar Bunge Kshatriya Grameena Bank, Mallabhum Grameena Bank, Nadia Grameena Bank, Sagar Grameena Bank, Bardhaman Grameena Bank and Howrah Grameena Bank.

The study highlights the functioning of eight RRBs in West Bengal. The findings of his study are:

1. The Loaning policy of all the RRBs were in favour of the weaker sections of the rural community. Agriculture comprising small and marginal farmers and share croppers received the largest share of the loans disbursed by the banks at the beginning. But

the later the share of non-farm sector increased at the cost of the farm sector.

2. The rate of the recovery of loans (during 1988-89) ranged from 30 per cent of the total demand of Sagar Grameena Bank to 49.29 per cent of the total demand of Mallabhum Grameena Bank.
3. Most of the RRBs suffered losses during most of the years. It was no exaggeration to state that the RRBs were running at a loss. The losses during 1979-82 were mainly due to the high proportion of establishment cost, but during 1986-89 the losses were mainly due to high interest cost accompanied by low return.

b) Operational and Recovery Problems

Navin Chandra Joshi (1982)²⁸ in his analytical study of Regional Rural Banks observed that the postponement of recovery of the dues of farmers or the writing off of overdues tended to have an adverse impact on the recovery performance of the Regional Rural Banks. He felt that such measures failed to distinguish the wilful default from default on account of genuine difficulties and were unfair to borrowers who repaid their loans promptly. If the recovery climate vitiated further many, an honest borrower might turn a potential defaulter in anticipation of similar concessions being extended to him by the state government and this would in the long-run impair the credit discipline and weaken the very fabric of institutional credit structure, notwithstanding the fact that the burden repayment was borne by the state government without financial loss to the banks.

Nadeem Mohsin and Raghunath Jha (1987)²⁹ K.R. Ramakrishna (1988)³⁰ in their separate studies have evaluated the credit repayment performance of the beneficiaries of Regional Rural Banks. They found that 40 per cent of the beneficiaries had not repaid the loans due to lack of follow-up measures by banks, inadequate returns and lack of adequate knowledge. In the rural sector the recovery percentage was reported to be only 50 per cent and as on June 1986, Regional Rural Banks had Rs. 392 crore as overdues which constituted 25 per cent of their total outstanding credit. The authors suggested that people should be motivated and made to understand the development schemes and they should be properly trained for credit repayment.

T.K. Velayudham and V. Sankarnarayana³¹ in their paper "Some Issues, Problems of the RRBs", have examined the reports of the Narasimham Committee, Kelkar Committee and the Khusro Committee. The purpose of this paper is to review the role and problems of the RRBs in proper perspective and to draw some inferences for purposes of policy. One important approach to the problem emerged from the controversial view the RRBs should merged with their sponsor banks. The view was openly expressed by some responsible officials of the RBI and seemed to have received the support of the Khusro Committee which had made out a case for the merger of the RRBs. In their brief survey of the origins, growth and performance of the RRBs and also the problems faced by them, the authors throw up several policy issues which call for a positive and dispassionate consideration. They also examine problems of the RRBs, in particular problems of recovery, mounting losses etc.

c) Allied Problems

R.K.P. Singh, (1983)³² in his article "Profitability of Regional Rural Banks in Bihar", expressed the view that the Regional Rural Banks should make an earnest effort to utilise to the maximum possible extent the refinancing and borrowing facilities for raising their income-earning assets. While the importance of deposits could not be belittled, borrowings and refinancing arrangements would help assets with greater profitability and so should be used as supporting sources of funds.

Evaluating the performance of Regional Rural Banks, Satya Sundaram (1988)³³ in his article titled "Regional Rural Banks - An Evaluation", observed that the Regional Rural Banks had done a good job in generating self-employment and providing local employment. About 30 per cent of the IRDP loans were routed through them. However, a disturbing trend in their functioning was the regular decline in the credit deposit ratios which reached a peak of 121 per cent in 1981 but declined to 117 per cent in December, 1982, to 113 per cent in December, 1985 and to 107 per cent in June, 1986. It was also pointed out that the amount poor men got from a Regional Rural Bank was not sufficient for him to cross the poverty line. The performance of Regional Rural Banks in extending other facilities, keeping in view the specific conditions of the areas they were serving, besides credit facilities, continued to be disappointing. It was also observed that the supportive measures offered by the state government at the field level appeared to be meagre.

M.K. Jain in his study "Rural Banks and Rural Poor Problems and Prospects" (1989)³⁴ attempted to analyse the flow of RRBs credit to the rural poor and to appraise the role of the RRBs in Rajasthan in raising the

income, employment, and overdues. The major findings of the study are as follows:

- 1 The average amount of loan obtained by a sample borrower came to Rs. 2911 in July 1983. This clearly pointed to the fact that the RRBs were normally accommodating the small man. This was evident from the fact that the amount of loan per beneficiary advanced to agriculturists, artisans and small business men including retail traders came to Rs. 3057, Rs 2751, and Rs. 2774 respectively per head.
- 2 The average amount of overdues for agriculturists, artisans and businessmen retail traders came to Rs. 1166, Rs. 1356, and Rs. 1314 respectively which constituted 57 per cent, 75 per cent and 68 per cent of the amount outstanding per borrower. The study reveals that the repayment performance of the agriculturists was somewhat satisfactory when compared with that of the other beneficiaries.
- 3 The net income of all the sections of the borrowers increased during the period under study. A notable finding of the study was that a relatively higher percentage rise was noticed in the case of agriculturists. It is evident from the fact that the net income of an average beneficiary engaged in agriculture increased by 72 per cent, while that of artisans and businessmen or traders rose by 24 per cent and 37 per cent only respectively.
- 4 The average annual employment potential per unit / farm during the post-investment period increased by 680 mandays in the case of all the 130 sample borrowers. The average annual employment in mandays per beneficiary was highest for

agriculturists, followed by artisans and businessmen and traders.

- 5 The study recommended that the present strategy of supplying finance through the RRBs in rural areas could be executed on a large scale.

V.S. Subramanyam (1990)³⁵ in his article titled "Future of Regional Rural Banks" felt that the funds at the disposal of Regional Rural Banks for creation of more credit were meagre because of the low equality base of Regional Rural Banks and because of the already lockedup funds in priority sector advances. However, he felt that the amendment of RRBs Act in 1987 to increase the issued capital from Rs. 25 lakhs to Rs. 1 crore and authorised capital from Rs. 1 crore to Rs; 5 crore would help increase the resource base of the RRBs, thereby providing them additional funds for credit deployment.

The recommendation of merging the Regional Rural Banks with their sponsor banks made by the Agricultural Credit Review Committee did not find favour with many. The Editor of the Banker (1990)³⁶ in his column under the caption "Regional Rural Banks to retain independent entity" felt that the mere merger would not solve or mitigate the main problem of viability of the RRBs, as commercial banks too were incurring losses in their rural business. Despite their poor financial performance, it was opined, that the RRBs with their wide branch network predominantly in rural areas and with an excellent record of catering exclusively to the credit needs of rural masses where the average size of the advance per account worked out to around Rs. 2000, fulfilled their assigned roles and mandated functions very satisfactorily.

Rural banking, suffice to say, belongs to a special category, being entirely different from the traditional routine banking in urban areas. Besides good background of agriculture and rural living, it needs new ethics and an improved corporate philosophy. It demands considerable patience, perseverance and personalized services in its very true sense.

K Sankar (1992)³⁷ in his article titled "Can Regional Rural Banks Survive?" observed that Regional Rural Banks as commercial ventures had not come up to the expectations but in the area of task fulfilment they had achieved a remarkable success. He observed that Regional Rural Banks were the 'real' smallman's banks and an effective rural transformation could not be thought of without the presence of Regional Rural Banks. To bring uniformity to all RRBs operations, to facilitate introduction of new services, to cut administrative costs and to pool resources, the amalgamation of Regional Rural Banks into one or four or five regional bodies could be a process in the right direction. As an alternative, it is suggested by the author that a corporation could be formed to bring all Regional Rural Banks under one roof.

2.6 Bank-Specific Studies

While evaluating Champaram Kshetriya Grameena Bank in Bihar State, Srivastava, R.N, Singh D.K. and Singh R.P, (1981)³⁸ pointed out that easy and timely availability of crop loan at normal rate of interest resulted in increased use of inputs like seeds, fertilizers, labour and increased intensity of cropping and thereby significantly increased the income of crop loan borrowers.

Jagadish Prasad and Sunil Kumar (1981-82)³⁹ in their case study of Vyshali Kshetriya Grameena Bank in Mujaffarpur district of Bihar, throw light on the various aspects of loans and try to asses the impact of loans on

the rural poor in terms of improvement in income and employment conditions. From their study, they concluded that the large bulk of loanee households belonged to the poorer sections of the rural community and that the loans had resulted in creating a positive earning trend in the loanee households.

V. Lakshminarayana, (1984)⁴⁰ from his analysis of the problems and prospects of Mayurakshi Grameena Bank in West Bengal, concluded that an increase in the number of defaulters and the preoccupation of the bank officials in the recovery of overdues did not allow the processing of fresh applications. Further, he felt that the bank officials were not able to guide the loanees to adopt improved farming techniques and making better use of credit. Further, linkage between credit, marketing and other services were practically non-existent.

Sunil Kumar's study entitled "Regional Rural Banks and Rural Development"⁴¹ (1990) is designed to make an indepth enquiry into the nature, working and performance of institutional credit in general and the RRBs in particular in respect of developing rural areas and meeting the credit needs of the weaker sections. The study is confined to the Vyshali Kshatriya Grameena Bank, (VKGB) Muzaffarpur in Bihar State, Sunil Kumar investigated that the finance of VKGB and its impact on the socio-economic status of the rural poor in the three branches of VKGB, one branch in Muzaffarpur district, another branch in Vyshali and a third Seetamarhi district of the VKGB area. The author pinpoints the major problems, economic, social, political and administrative, faced by the RRBs in general and the VKGB Muzaffarpur in particular.

R.K. Agarwal (1991)⁴² in his work entitled "Evaluation of the Working of Regional Rural Banks". (A Study of Prathama Bank of Rampur

and Moradabad districts of Uttar Pradesh) concentrates on the branch expansion, deposit mobilisation advances made by the Prathma Grameena Bank and analyses the impact of the Bank on rural economy. Finally he suggests some measures to overcome the problems of Prathama Grameena Bank. The main findings of the study are:

1. The thrust of Prathama bank's branch network can be known from the fact that within about a decade from October 1975 to December 1985 it opened 126 branches in Moradabad and 36 Branches at Rampur district.
2. The size of the deposit accounts increased regularly. The quantum of per branch deposits also increased as it went up from Rs. 14.50 thousand in 1975 to Rs. 1912.44 thousand in 1985.
3. The advances for both agricultural and non-agricultural purposes increased tremendously. By the end of 1985 the bank extended loans to the tune of Rs. 4423.34 lakh of which Rs.1778.18 lakh were for agricultural and the remaining Rs.2645.16 lakh for non-agricultural purposes. The ratio between the two being 40.20 and 59.80 respectively.
4. The average size of borrowed accounts also went up from Rs. 643.68 in 1975 to Rs. 3104.47 in 1985. The study further revealed that all categories of borrowers in rural areas were taking loans from this bank.
5. The advances deposit ratio went up from 84.97 in 1980 to 140.77 in 1985, which clearly proved that the bank was vigilant enough to provide credit facilities to the needy and weaker sections of the rural community.

6. The profitability of the Prathama Bank showed an increasing trend since 1980 as it went up from Rs. 194 thousand in 1980 to Rs. 3724 thousand in 1984. The profitability per Rs. 100 of advances went up very high in 1981 (Rs. 1.36) and 1982 (Rs.1.37) but it came down in 1983 (RS.0.93) and was followed by a rise in 1984 (Rs.1.16).

J.S. Garg, G.N. Singh and R.N. Tripathi (1978)⁴³

The authors study "Agricultural financing by Regional Rural Banks in Morodabad district in Uttar Pradesh". They find that the small and marginal farmers are the major beneficiaries in comparison with agricultural labourers. Besides, it is felt that there is an increasing demand for term loans particularly for the development of poultry farming, irrigation and dairying.

N. Mohsin and R. Jha (1987)⁴⁴

In this study the authors have evaluated the credit repayment performance of beneficiaries financed by Kshetriya Grameena Bank. They find that 40 percent of the beneficiaries have not repaid loans due to a lack of follow up measures, inadequate returns from the crops and lack of adequate knowledge. They suggest that people should be motivated and made to understand the development schemes and they should be properly trained for credit repayment.

Need for the Study

Several studies have been undertaken to evaluate the role of institutional finance for agriculture at the national level by individual researchers, financial institutions and Government. But area specific studies are comparatively limited in number. Such studies are of great

importance on account of the vast, inter-regional variations of bank credit in developing countries like India. Even bank specific studies do not seem to have gone into the different operations of the branches located in remote areas. The present study of Pinakini Grameena Bank in Nellore District of Andhra Pradesh is intended to fill this gap. A detailed analysis is made of the impact of Pinakini Grameena Bank finance on farm income, employment, asset creation and repayment performance.

Objectives of the Study

1. To study the progress of Pinakini Grameena Bank,
2. To analyse the Pinakini Grameena Bank finance among different size groups,
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 and causes for overdues.

Methodology and Sampling

The 63 branches of Pinakini Grameena Bank, Nellore, are divided into two groups, those serving the farmers in the delta area and those serving in the non-delta area. There are 30 branches in the delta area and 33 branches in the non-delta area. A random sampling of 10 per cent of the total branches namely 6 branches in all was taken, representing 3 branches from each group.

200 farmers who borrowed loans from the bank during 2003-04 are selected randomly with probability proportional to the size sampling method (PPS sampling method) from the 6 sample branches and pre-tested schedules were canvassed among them and the relevant data was collected.

Table 2.1
Sample Beneficiaries from Delta and Non-delta Areas

Area	Name of the Mandal	Name of the Branch	Number of Samples
Delta area	Manubolu	Baddevolu	32
	Kavali	Kavali	34
	Sangam	Duvuru	34
		Total	100
Non-delta area	Venkatagiri	Venkatagiri	32
	Rapur	Rapur	19
	Marripadu	Marripadu	49
		Total	100

The farmer beneficiaries of the study have been classified into four, as the following:

1. Marginal Farmers: Farmers who have 2-5 acres of wet land or 5 acres of dry land.
2. Small Farmers: Farmers who have 2-5 to 5 acres of wet land or 5 to 10 acres of dry land.
3. Medium Farmers: Farmers who have 5 to 10 acres of wet land or 10 to 20 acres of dry land.
4. Large Farmers: Farmers who have 10 acres of wet land or 20 acres and above of dry land.

Period of study

The main purpose of the study is to make an analysis of the impact of Pinakini Grameena Bank finance on income, employment asset creation and repayment of loans of the sample beneficiaries. The study covers in general a period of ten years from 1995-96 to 2004-05. However, the

impact of the bank finance is studied with the focus on two financial years, 2002-2003 and 2003-04, which correspond to pre-loan and post-loan periods respectively.

Collection of Data

The study is based on both primary and secondary data. The primary data is collected from the sample beneficiaries through a structured questionnaire. The secondary data is 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, Handbook of Statistical Abstract, Chief Planning Officer, Nellore. Annual Reports of Pinakini Grameena Bank, Nellore, text books, journals and newspapers.

Tools of Analysis

The data collected has been analysed using appropriate statistical tools such as ratios, percentages, linear and compound growth rates, analysis of variance (ANOVA) and t-values.

Scope and limitations of the study

This study is confined to six branches and 200 borrowers of Pinakini Grameena Bank in Nellore District. The operational area of this Bank in Prakasam 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 Pinakini Grameena Bank finance for Agriculture. The primary data is collected directly from the farmers, who were asked a series of questions for which answers were elicited orally from them and recorded immediately. The list of questions

asked – that is the questionnaire is appended at the end of this 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.

Chapter Scheme

The thesis is divided into seven chapters.

- Chapter-I** This chapter is Introductory. It gives a brief account of the following: nature of Indian agriculture and its place in economic development, agriculture development under the five-year plans and agricultural credit in India. It also includes classification of agricultural credit, institutional and non-institutional.
- Chapter-II** **Research Methodology and design**
This chapter presents a review of relevant literature, explain the need for the present study, its objectives, period of study, methodology and sampling, collection of data, and the tools of analysis employed.
- Chapter-III** Gives a profile of Nellore District which includes relevant facts concerning the administration, location and topography, literacy, rainfall, forests, operational landholding, cropping pattern, irrigation, livestock and poultry population, the district.
- Chapter-IV** Gives a profile of Pinakini Grameena Bank and the Sample Beneficiaries. It covers the following details:

Origin, growth, deposit mobilisation, advances of loans, repayment of loans and profit and loss position of Pinakini Grameena Bank, Nellore.

It also provides details of with age group of the sample beneficiaries, their caste, levels of literacy, occupational distribution, landholding, sex and the cropping pattern adopted by them.

Chapter-V Discusses the impact of Pinakini Grameena Bank finance on income, employment and asset creation of the sample beneficiaries.

Chapter-VI Repayment performance of the sample beneficiaries and causes for overdues are examined.

Chapter-VII Summary and Suggestions

This chapter brings together the main features of the discussion of the chosen theme presented in the previous chapters. The main conclusions reached are summarized and workable suggestions are offered for the effective financing of agriculture by Pinakini Grameena Bank.

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