CHAPTER I

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India, it is aptly said, lives in villages. Most of its building population is found in 575936 villages which span throughout the length and breadth of the country. Majority of Indian rural population have to depend on Agriculture which has been characterised as the backbone of the economy. It is specially so, in view of tardy development of secondary and tertiary sectors as compared to the rate of growth of working population. Till mid sixties agriculture was traditional with 81% of cultivated land being dependent on monsoons, making farming a risky but unavoidable venture to farmers. The seasonal nature of agriculture, its traditional character, low land and labour productivity, the hand to mouth existence of farming community steeped in abysmal poverty. The social and religious needs all combined together to put the farmer in the shackle of unscrupulous money lenders and at the mercy of other non-institutional sources like Indigenous bankers, relatives, friends, widows and traders.

The increasing indebtedness of the villagers and the unscrupulous practices of money lenders made the Government to start Co-operative movement with the passing of
Co-operative Societies Act in 1904. Despite efforts to reorganise and strengthen the Co-operatives, their share in total agricultural credit was barely 3.1% in 1951-52 and 15.5% in 1961-62.¹

The mid-sixties witnessed a breakthrough in agriculture which came to be regarded as green revolution. The introduction of wonder seeds, chemical fertilisers and pesticides, the use of Irrigation and Improved Machinery increased the credit needs of the farmers. Credit had come to be regarded as one of the most essential inputs and need was felt for increasingly institutionalising the source. Co-operatives were found wanting in many respects and so the 14 Major Commercial banks were 'nationalised', with definite objective of taking banking to rural areas as a powerful stimulus to the conversion of Imperial Bank of India in to the State Bank of India in 1955. The recognition of the potential of the Banking System to promote economic objectives such as growth and distributive justice had its manifestation in the decision to nationalise 14 major banks in 1969 and again another 6 in 1980.

¹ Report of the all India Rural Credit Review Committee, 1969, p.100.
Schumpeter spoke of credit as a phenomenon of development and regarded the banking system along with entrepreneurship as being the key agent in the process of development. Gerschenkron's seminar work has shown the important role the banking system played in European Economic Development. Thus there can be little question that the role of banking in rural and thereby in economic development is not a passive or a permissive one.

Whether it makes a positive contribution in igniting the process of growth depends upon how banking policies are pursued and the pattern of evolution of the banking structure.

The nationalisation of 14 major Commercial Banks is a watershed in banking history. Between 1969 and 1982, of the total number of 32715 offices opened by banks, as many as 20196 were in the rural areas and a further 5673 in the semi-urban areas—thus 3 out of every 4 offices were in the hinterland. As a result of rapid expansion of branch network which has few if any parallels in the history of banking development anywhere, the number of people served by each office came down from 65,000 in 1969 to 15,000 now.

Despite the tremendous progress of Commercial banking in rural areas, the flow of credit to weaker sections was found wanting. There is a widely shared view that a determined effort is needed to speed up the flow of institutional credit, especially to cater to the credit needs of the weaker sections of the rural community. Such a view is held in spite of an impressive step up in the availability of institutional credit to the rural population in recent years. The various weaknesses of the co-operative credit agencies and the nationalised banks have generated fear that the existing institutions, structured as they are at present, would not be able to fill the regional and functional gap in the rural credit institutional system within a reasonable period of time. An altogether new set up with attitudinal and operational ethos which are entirely different from those obtaining in the nationalised banks was felt necessary by Government of India.

The Banking Commission in its report in the year 1972 mooted for the first time the proposal for setting up of rural banks after examining the record of expansion of

Commercial Banks' activities. The Imposition of Emergency in 1975 and consequent declaration of new economic programme (presently the old 20 point programme) led to the establishment of new set up in organised rural credit structure. The then called new economic programme aimed at, inter alia, "devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers", in accordance with the objective of liquidating rural indebtedness of those classes of rural population. In pursuance of this view, the Government of India appointed on July 1, 1975 a working group under the chairmanship of Sri. M. Narasimham to examine in detail the need for setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. The working group submitted its Report within one month and the Government of India accepted the recommendations, with certain deviations. The deviations were:

1. in respect of the number of RRBs that would be established (Government decided to have ten times the number suggested by the group).

6. M. Narasimham was the Additional Secretary in the Department of Economic Affairs, Government of India.
2. In approach (while the group's approach was area development, the Government considered the Banks as agencies for giving special assistance to small and marginal farmers, rural artisans and such other economically weaker sections of the community in rural areas).

The advent of these new Financial Institutions on the Banking horizon has generated a great deal of interest among the planners, policy makers and observers of the Indian Economy. This innovation in the field of rural credit has added a new dimension to the banking in India. It is considered as a potentially powerful policy instrument for achieving the objectives of rural development mainly through the development of the rural poor.

The Reserve Bank of India in its report has described the setting up of the Regional Rural Banks as a "development which will have far reaching effects on the extension of banking facilities to the rural areas". Since the Commercial Banks in India have been lending a negligible

proportion of credit to the rural poor and considering the need to fill the gap between the available credit facilities and credit needs of the weaker sections in rural sector, the establishment of the Regional Rural Banks has become an urgent necessity. Though there has been tremendous growth of rural credit over time in the country, the non-institutional sources still accounted for two-thirds of the total agricultural credit in the country. Money lenders - both professional and non-professional who constituted major source of non-institutional credit, charged various rates of interest and indulged in unscrupulous practices and the poor villagers who are forced by their need are caught up in the vicious grip of money lenders. Sometimes they are forced to forfeit their rights over their meagre lands in settlement of debts thus depriving themselves of the only source of subsistence. The findings of a number of studies have revealed that the Institutional Credit both Cooperative and bank is concentrated in a few economically


prosperous states and a large portion of the institutional
credit has gone to the big and medium farmers and the per
acres availability of credit has been very low (Thangalaya,
1980).\textsuperscript{10} Even the introduction of Multi-purpose Co-operatives
on the recommendations of the All India Debt and Rural
Credit Survey and Farmers' Service Societies advocated by
the National Commission on Agriculture\textsuperscript{11} did not provide
viable alternative to the credit problems of the rural
population. There are still many unbanked areas in the
country though demand for rural credit has grown over the
years after the introduction of Modernisation in Agriculture.

These banks are expected to supplement and not to
supplant the existing institutions operating in rural areas.
They are expected to combine the local feel and familiarity
with rural problems which co-operatives possess and the
abilities of Commercial banks to mobilise the deposits.\textsuperscript{12}
The major objective of the Regional Rural Banks should not
only be to mobilise resources from the region and use them
within the same region but also to spread banking in all
rural areas for developing banking habits in the countryside.

\textsuperscript{10} Thangalaya, N.K. (1980), The Regional Rural Bank and
\textsuperscript{11} Government of India, Report on credit service to small
and marginal farmers and agricultural labourers,
National Commission on Agriculture, New Delhi.
\textsuperscript{12} Government of India, Report of the Committee on RRBs,
op. cit., p.11.
The Regional Rural Banks basically are the Government owned, regionally based and rurally oriented institutions which cannot enter the urban or metropolitan centres. The preamble of the Regional Rural Banks Act, 1976 clearly put forth that the Banks are set up with a view to developing the rural economy by providing credit and other facilities for various productive activities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs—persons belonging to the weaker and the nitnerto neglected sections of the rural society.

The Government felt that Indian banks tammed the "closed shops" of the affluent sections. The rigidity of Commercial Banks and the domination of the affluent in Co-operatives nave made the Institutional Credit more sour grapes for the rural poor. Hence it is intended that new institutions of rural banking must rectify this deficiency and work for furthering the development of the rural poor. In a very short period of their existence, the Regional Rural Banks have become "weakman's banks". Those persons within the operational jurisdiction of the respective Regional Rural Bank and with rural knowledge and orientation

who are selected as staff are giving the much desired "local touch" and poor people feel 'most homely' while dealing with Regional Rural Bank branches.

STATEMENT OF THE PROBLEM:

In India, according to the 1981 census, 76.3 percent of population lives in villages, where agriculture constitutes a single major source of livelihood. Majority of agriculturists are either owners of small and marginal land holdings or landless agricultural labourers. These sections as also rural artisans have what may be called Subsistence Economy with its precarious balance. They have hardly any savings to fall back on. With the failure of monsoon or due to any family accident or mishap these people are forced to go into debt. They are all required to borrow not only for carrying their occupations but also for consumption purposes. In other words, they require credit for both productive and non-productive purposes. It so happens that once these people are compelled to have recourse to money lender, they find it difficult to get out of their clutches just like a worm caught in a cobweb.

The problem of rural indebtedness assumed alarming proportions and the government had to intervene and take
steps - both to relieve the borrowers from the burden of past debts and also to provide credit for their agricultural operations and to meet their consumption needs.

Since the co-operatives have become the domain of the affluent and the nationalised banks with their security-oriented approach had not served the neglected sections who have hardly any security acceptable to banks to be offered, the Government has come out with a special institution to cater only to the credit needs of the weaker sections.

The Regional Rural Banks are expected to play a vital role in bringing about rural development which is so essential for economic development of the country. In this connection, rural development can be defined as a strategy designed to improve the economic conditions of the specific groups of people i.e., rural poor. Political independence without economic emancipation will be meaningless to the masses. Similarly, social changes cannot be brought about without improvement in the financial position of the weaker sections.
Regional Rural Banks as an effective instrument of rural development have been commencing various productive activities and also providing consumption loans. It is desired to see how far they have succeeded in fulfilling their objectives.

IMPORTANCE OF THE STUDY:

Poverty has been the bane of our rural society. The percentage of population languishing below the 'poverty line' has gone up noticeably from 30 per cent of the total population in 1947 over 53 per cent of the population as now forming an annual growth rate of more than 2 per cent – close on the heels of rate of growth of population. In absolute numbers, the persons living below the poverty line increased from 220 million on the eve of the fifth plan to over 290 million on the eve of the sixth plan or by 32 per cent. While the percentage of population depending on agriculture has been more or less constant during 1950-1980, the number of marginal farmers had increased from 24 million to 36 million and the number of agricultural

14. It is ascertained by several authoritative inquiries into the official statistics relating to poverty in India that these statistics have ever been shown at much lower figures and hence they claim no valid grounds. Different estimates arrive at different pictures on this aspect. For an elaborate study, please see Economic and Political weekly, Nov.19, 1983, pp.72-77.
labourers from 27 million to 48 million. This long standing grave injustice of gross negligence of the rural poor induced the Government to think for a novel and really innovative banking institution - Regional Rural Banks which function exclusively in rural areas and assist only the weaker sections.¹⁵

Though different aspects of agricultural credit by co-operatives and commercial banks have been studied, analysed and highlighted, the significance of credit made available by the Regional Rural Banks to both agriculture and non-agricultural sectors is an area yet to be fully analysed which pronounces the need for this study.

It is felt necessary to study how far the Regional Rural Banks have spread their branch network in hitherto neglected areas and remote villages and how far they could penetrate into even hamlets which have some potential for development. It is desired to see how far they could mobilise rural savings and employ their resources available through deposits, borrowing from sponsor bank, definance from NABARD for the benefit of the targeted sections.

An understanding of these is essential to provide solutions where needed for the fulfillment of their objectives. A microlevel study is undertaken to see how far a branch of a Regional Rural Bank has fulfilled its requirements.

The present study is confined to the role of Kalpatharu Grameena Bank which operates in Tumkur, Bangalore districts in Karnataka State. The role of the Grameena Bank with its salient features is critically analysed with due emphasis on the utilisation by and impact of credit on the borrowers of certain types of agricultural and non-agricultural loans.

REVIEW OF LITERATURE:

Though the literature in the field of bank credit in India is diverse, it is found wanting in the area of credit structure of Regional Rural Banks. Therefore an attempt is made here to provide a comprehensive view of the credit made available for various productive activities in rural areas by the rural Banks. In this context, it is necessary to mention the contribution made by a few persons with reference to the working of Regional Rural Banks. Prominent among them is C.D. Wadhwa who made a noteworthy study titled
"Rural Banks for Rural Development" (1980). The study covered the analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for restructuring these banks. But the study on the operational performance of RRBs was made with the help of Secondary data and as such it did not touch the impact of Bank Credit on Rural Economy. Besides, the study was conducted in 1977 when the Regional Rural Banks were in infancy and any assessment of their performance at that stages may not be highly useful especially after more than a decade of their existence.

It is desired here to refer the Review Committee constituted by the Reserve Bank of India in 1977 under the Chairmanship of Prof. M.S. Dantwala to evaluate the working of Regional Rural Banks vis-a-vis the objectives for which they were set up and also to indicate their precise role in the rural credit structure. The Committee recommended some modifications in the organisation and function of Regional Rural Banks to make them better suited for the purpose of progressively filling up the credit gap in the rural section.
However, even this study could not give a concrete idea of their operations as only two years had elapsed since their establishment.

A reference has to be made here to the Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD) set up in 1979 by the Reserve Bank of India under the Chairmanship of Sri. B. Sivaraman, which submitted its report in May 1981. The Committee felt that the main criterion for the assessment of Rural Banks should not only be in terms of growth of deposits and branch expansion but also the progress achieved in the field of disbursement of credit to weaker sections in all its aspects including recovery.

The Committee criticised the tendency on the part of Branch Managers to demand security for their advances from weaker sections and lending procedures which are not in conformity with the needed credit.

In view of a large number of Regional Rural Banks being established in the country and of certain weaknesses discernible in their working results particularly relating to their profitability aspect, the Government of India
set up a working group in August 1984. Under the Chairmanship of Shri. U.K. Das now under the Chairmanship of Sri. S.M. Kelkar, the group reviewed the working of 188 RRB's covering 333 districts out of 436 districts in the country and made several recommendations regarding share capital, staff, operational area, districtors, viability and recoveries of Regional Rural Banks.

Rapid expansion of banking is a prerequisite for rapid economic development. In 1975 there were only 6 (six) RRB's with branch network of only 17. But, by June 1988, the number of RRB's rose to 196 and the number of branches to 13,586. With this 83 per cent of total districts (440) in the country have been covered by ARBs.

Several reports and papers on various general aspects of Regional Rural Banks have been published in recent years. However an in-depth study on utilisation and the impact of credit on borrower's income is found wanting.
OBJECTIVES:

Considering the importance and crucial role the Regional Rural Banks have been assigned to play in the development of Rural India. To make an analytical study of the functioning of Regional Rural Banks and in order to bring out valid inferences, the following specific objectives are made:

1. To study the structure and organisational set up and operational efficiency of RRBS.

2. To study the role of Kalpathary Grameena Bank and its Branch at Palavally in mobilising deposits and extending credit to the weaker sections.

3. To study the utilisation of credit by the borrowers of some agricultural and non-agricultural loans given by Palavally Branch of Kalpathary Grameena Bank.

4. To study the impact of such credit on the sample borrowers and

5. To suggest measures in the light of empirical study for the effective functioning of Regional Rural Banks.
METHODOLOGY:

The study has been conducted in Tumkur District which form part of the South Region of Karnataka. A part of this region is chosen because very few studies of this nature have been conducted in this region.

The present study is concerned with the Role of Grameena Banks, viz., Kalpatharu Grameena Bank in Rural Development in Palavally. The four villages form part of the operational area of Palavally Branch of Kalpatharu Grameena Bank.

Since it is an uneasy task to cover all branches of the bank and all types of loans, the present study confines itself to Palavally Branch in Pavagada Taluk and to six categories of loans extended by the branch. The selection of the branch is based on the following criteria.

1. the villages covered by the branch are predominantly backward.

2. the villages viz., Palavally, Hosahally, Dasarammanahally, Kenchayananahally are inhabited mostly by Backward Castes.
3. the villages are having potential for economic development and the villages form a cluster.

4. the villages are selected because of their proximity to the investigator.

5. the branch is one of the oldest branches of Kabpatharu Grameena Bank having been established nearly a decade back.

6. the primary data for the study are collected from 80 respondents by survey method.

TOOLS OF DATA COLLECTION:

As majority of the respondents are illiterates or with low literacy levels, interview schedule which is presented and modified before its final use, is employed in the study for collection of data. Further, observation technique is followed to understand certain aspects of the problem. The interview schedule is administered to the borrowers in the villages under study. In addition, secondary data is collected from villages records, bank and such other official documents whenever it is felt necessary.
The Primary data for the study are collected with the help of a schedule from the sample borrowers of both Agriculture (crop, dairy and sericulture loans) and non-agricultural (Rural Artisans and Small Business) loans from Palavally Branch. A random sample of 80 borrowers has been taken covering each of the above categories representing 12 borrowers drawn from among the borrowers of crop loans, dairy loans, and sericulture loans and Rural artisans, Small Businessman and Agricultural labourers.

Secondary data regarding the growth of Regional Rural Banks in India and in Karnataka were collected from published records of NABARD etc., and data relating to the growth of Kalpathary Grameena Bank with details of branches, deposits, advances and overdues were collected from the Annual Reports and records of the Bank issued by the Head Office.

Finally the collected data have been processed and analysed manually both primary and secondary data were tabulated to bring out systematic analysis of the role
of Kalpatharu Grameena Bank in terms of sanction of loans, utilisation of credit and the impact of credit on the incomes assets and employment of the borrowers.

LIMITATIONS:

The scope of the study is restricted to know the benefits in terms of income, employment and assets that have accrued to the beneficiaries from the advances of the branch. Also this study includes the general performance of Kalpatharu Grameena Bank in its branch expansion, mobilising deposits, its lending and overdues, during the last twelve years. Since the Bank was established on 31-3-1982, its activities in the year 1982 were negligible.

The secondary data collected from the published Annual Reports and documents of the Bank provide an exact information on various aspects. The primary data collected from the respondents with the help of Schedules may not be so accurate as most of the borrowers are not in the habit of maintaining proper accounts/records with regard to income generated, number of mandyas of employment generated and the extent of utilisation of credit for the sanctioned purpose, repayment of loans, dues for the tanks etc. The beneficiaries are clearly not in a position to give correct figures.
In many cases the borrowers could not remember their past operations and even if they do so they were unable to give correct figures of income. So the data cannot be immune to built-in biases in the responses obtained from the borrowers. As far as possible proper care is taken in obtaining correct information.

CHAPTER PLAN:

The work relating to the study of the Role of Grameena Banks in Rural Development (A case study of Kalpathary Grameena Bank) has been divided into six chapters.

Chapter II is devoted to the study of Rural Development and Role of Commercial Banks in Rural Development. The various aspects of Commercial Banks such as genesis of Commercial Banks, growth and expansion of the Banks are critically examined.

In Chapter III Genesis, Objectives and Functions of Regional Rural Banks in India, the various aspects of Regional Rural Banks such as progress of Regional Rural Banks, Genesis and Expansion of the Banks are critically reviewed and objectives, functions.
In Chapter IV, Regional Rural Banks in Karnataka and Kalpatharu Grameena Bank, the growth and expansion of Kalpatharu Grameena Bank is examined in the chapter. The growth of the deposits, sector-wise advances and branch expansion of the Bank are critically analysed.

Chapter V is divided into two parts. Part I of the chapter deals with the analysis of some of the agriculture and non-agricultural loans of the Bank. The deposits, advances and recovery performance of Kalpathary Grameena Bank, Palavally branch are analysed. In Part II, the pattern of loans sanctioned to the sample borrowers, the adequacy and utilisation of credit, the impact of credit on the incomes and employment of the sample borrowers, the repayment and deposits performance of the sample borrowers are analysed.

The last chapter contains the summary and main findings of the study.