CHAPTER - I

INTRODUCTION

Background - A Profile of Rural Karnataka - Rural Poverty in Karnataka - Meaning of Rural Development - Multi-agency Credit System and Rural Development - Organization of the Study
INTRODUCTION

A comprehensive study of the rural credit and related issues was undertaken for the first time after independence in 1951-54 by the All-India Rural Credit Survey Committee set up by the Reserve Bank of India. The Committee recommended for the rebuilding of Co-operatives within each state at all levels, viz., the state, district, taluka and village level. The Imperial Bank of India was nationalised and rechristened as the State Bank of India favouring the recommendation made by the All India Rural Credit Survey committee. The committee felt for the need for "the creation of one strong, integrated, state-sponsored state-partnered commercial banking institution with an effective machinery of branches spread over the whole country".1 In pursuance of this, the state Bank of India was constituted with one of the main objectives of extending banking facilities on a large scale more particularly in the rural and semi-urban areas. The All-India Rural Credit Review Committee observed that "the recent development including those associated with the social control of banks and the fast changing agricultural situation should itself induce a more active participation of Commercial banks".2 The Committee recommended to this end a

multi-agency approach to the rural credit system. The commercial banks, thus, entered the sphere of rural finance and on a massive scale after the nationalisation of 14 major Commercial banks in July 1969 to be followed by the nationalisation of 6 more banks in April 1980. Further with the establishment of the Regional Rural Banks (RRBs) in 1975 one more wing was added to the rural finance structure. With this, there is an explicit recognition of the fact, that banking is in the nature of a service industry or utility industry, that its main objective is to subserve the society rather than just seek private profit. Here the Commercial banks have made a departure from Traditional Banking to Social Banking. While Traditional Banking stresses the security-based, short-term, profit-earning lending, Social Banking emphasises promotional-production-oriented lending-purpose oriented lending in rural areas for promoting rural development.

The Multi-Agency-Approach: Findings of the Official Committees: The multi-agency rural credit system under which co-operatives, Commercial banks and RRBs play an important role in purveying rural credit and mobilisation of rural savings gave rise to certain problems. In consideration of these problems the RBI set up a Committee to Review Arrangements for Institutional credit for Agriculture and Rural Development (CRAFICARD) in 1978. The CRAFICARD (the Sivaraman Committee) in its Report in 1981 reviewed the rural
credit delivery set-up at the ground level and the national level. It considered structural and operational aspects of co-operative credit institutions.

The Report of the Committee to Review the working of the Monetary System (the Sukhmoy Chakravarthty Committee Report) in 1985, the Report of the Agricultural Credit Review Committee (the Khusro Committee Report) in 1989 and the Report of the Committee on the Financial system (the Narasimham Committee Report) in 1991 reviewed the role played by the multi-agency rural credit system in India. These Committees appreciated the role played by the multi-agency credit system, while outlining the weaknesses of this system.

The findings and recommendations of the Official Committees are essentially macro in nature. Using the issues thrown up by these Committees an attempt has been made in the present research work to:

(i) Review the existing multi-agency rural credit system with particular emphasis on Commercial banks and RRBs in Karnataka and its effectiveness in alleviating rural poverty and in promoting rural development in Karnataka.

(ii) Suggest the structural reorganisation of rural banking system, if necessary.
Hypotheses

The present study proposes to examine the following hypotheses:

(i) The rural credit system in India in general and Karnataka in particular has changed over time in structure from uni-agency institutional credit system to multi-agency institutional credit system.

(ii) Karnataka State is a pioneering state in the field of banking. In the context of evolving Karnataka economy, there exists a need for trade-off between Traditional Banking and Social Banking for promoting Rural Development.

(iii) The existing rural credit system has not yielded desired results in alleviating rural poverty.

Area of the present study

The present research study is confined to the post-nationalisation period. This study relates in the main to the study of the multi-agency institutional rural credit system with particular focus on Commercial banks and RRBs in Karnataka. Such a study for a state like Karnataka has a special significance because this state has a well spread out rural credit structure. As this study proposes to evaluate the role of traditional banking vs social banking it becomes significant from the point of view of banking theory and also banking policy.
Survey of literature

Many research studies have been conducted in India on various aspects of banking development during post-nationalisation period. Studies organised in India have investigated dynamic and major functional or structural changes in the field of banking and new techniques adopted by Commercial banks to cater to the specific needs transforming the economy of the country. Some attempts have also been made to identify the important social obligations of nationalised banks and to assess their progress.  

3. Many research studies have been conducted in India. Some of these studies are:


In Karnataka also many research studies have been conducted. But these studies relate to particular area, or bank or banks. 4

However, the present study "Commercial Banks and Rural Finance with special reference to Karnataka" is in some respects different from the earlier studies and is not repetitive. First, the present study has taken Karnataka as a

single unit and has looked into all the Commercial banks and RRBs that operate in the field of rural economy of Karnataka. Hence, the coverage of the study is substantially wider. Second, some of the seminal issues raised by various official committees on the functioning of Commercial banks and RRBs like trade-off between traditional banking and social banking, structural and functional aspects of Commercial banks and RRBs have been extensively analysed and their place in the wider spectrum of rural financial system, if it may be called, has been assessed. Third, the various issues connected with Commercial banks and RRBs have been analysed with a view to energising the rural development, which has multi-dimensional aspects and which aims at compromising the objectives of growth and social justice in Indian development plans. Fourth, taking into account the views of the various official committees and bankers as well as experts a humble attempt has been made to suggest the lines on which organisational and functional changes of Commercial banks and RRBs are to be initiated for promoting rural development maintaining intact the other components of the rural financial system.

Methodology

Methodology adopted in the present study is mainly analytical based on official sources of data. The trade-off between traditional banking and social banking would be
examined in the light of the evolving concept of 'Rural Development'. Issues arising out of social banking such as concesionary rates of interest, profitability and overdue problem in Karnataka have been dealt with keeping in view the opinions expressed by official Committees. Appropriate statistical techniques like simple ratios, percentages, coefficient of variation etc., that are useful for the analytical study have been employed to substantiate our analysis.

Sources of Material

The present study has relied upon the publications and reports on banking published by the Reserve Bank of India, the Government of India, the Government of Karnataka as also the relevant books on banking development and rural development and articles on the subject published in various periodicals etc.

A Profile of Rural Karnataka

In a study which involves the role of Commercial banks and RRBs in providing finance for promoting rural development in the state of Karnataka there arises a need for a brief profile of rural Karnataka as also rural poverty and rural development.

Rural Karnataka is Real Karnataka. As per 1971 census 2.22 crores of people i.e. 76 percent of the total population
lived in 26826 villages. As per 1981 census out of 3.71 crores of people in the state 2.64 crores of people i.e. 71 percent of total population lived in 27028 villages. As per 1991 census out of 4.48 crores of people in the state 3.10 crores of people i.e. about 70 percent lived in 25119 villages. Karnataka lives in villages and village constitutes the very heart of Karnataka.

The rural society of Karnataka is composed of (i) farm sector and (ii) non-farm sector. Farm sector includes large farmers, medium farmers, semi-medium farmers, small farmers, marginal farmers and sub-marginal farmers. Non-farm sector includes traders who trade in general goods. They also trade in farm inputs. Non-farm sector also includes artisans who provide general services. They also provide services/inputs to farm sector.

As per 1971 census 40.02 lakh cultivators and more than 27 lakh agricultural workers were engaged in agriculture. As per 1981 census, 52.44 lakh of cultivators and more than 36 lakh of agricultural workers were engaged in agriculture. According to the provisional results of the 1991 census, more than 56 lakh cultivators and 46 lakh agricultural labourers were engaged in agriculture. Thus agriculture is the prime activity of the rural economy of Karnataka. Agricultural sector has been serving the needs of industry by providing food, raw materials and by releasing the surplus labour to
industrial sector. Also its contribution to capital formation as well as its capability as foreign exchange earner is significant. Agriculture contributes much to the income of the state.

An increasing proportion of farmers has been compelled to supplement their incomes by wage labour. Small holdings, lack of capital, and population increase combine to intensify the labour input into cultivation. Without adequate use of other factors such as water and fertilisers - artificial or natural - the pressure for more food creates increasing over-exploitation of the soil, decline in productivity and hence falling incomes and food intake. Many farmers accumulate debts, mortgaging their lands in order to gain more money to buy food and pay back debts. Many are forced to sell their land. Many small farmers are becoming more and more dependent on wage labour. As a result, agricultural labourers represent a large and increasing section of rural poverty.

In Karnataka, marginal and small land holdings are termed as uneconomic land holdings. Year after year these categories of land holdings have increased in number. These landholdings are getting smaller and smaller both in terms of ownership rights because of subdivision and also in terms of unit of cultivation because of fragmentation which generally accompanies sub-division of landholdings. Farms in Karnataka are, thus, scattered plots, small in size and are dominated
by food crops. Agriculture in Karnataka is essentially a food-based system. Food crops alone occupy about 70% of total area under cultivation in the state.

Rural Poverty in Karnataka

Poverty refers to the inadequacy of income to buy the basic necessities of life—food, clothing and shelter. In other words, poverty is a condition of an individual or family, not able to meet the basic minimum needs necessary for decent human existence for lack of purchasing power. Planning Commission has defined poverty line as monthly per capita expenditure of Rs. 65/- in rural areas and Rs. 75/- in urban area at 1977-78 prices, corresponding to minimum requirement of 2400 calories per capita per day in rural area and 2100 calories per capita per day in urban area. At 1984-85 prices the per capita monthly expenditure at the poverty line has been estimated to be at Rs. 107/- in rural area and Rs. 122/- in urban area. The planning Commission thereby has fixed the poverty line of Rs. 6,400/- per family.

Target group which includes small farmers, marginal farmers, landless agricultural labourers, scheduled caste, scheduled tribe, artisans is a real problem of Rural Karnataka. This target group has low income, low consumption, subsistence living, high unemployment, or under-employment, low saving and low capital stock. Predominance of primary
sector, traditional and primitive methods of production, illiteracy, ill-health, tradition-bound attitudes and behaviour, feudal structure and inequality: economic, social, and political and food-based agricultural system - are important characteristic features of Rural Karnataka, which have been held responsible for enhancing poverty in Rural Karnataka.

Generally speaking in rural areas where a large proportion of rural households is engaged in cultivation a large part of value of assets is accounted for by land. In the case of marginal farmers the income from land is small or negligible and wages from casual labour is an important source of income. Similarly, agricultural labourers and artisans who have very little of productive assets, derive their meagre incomes from casual employment. These three categories of rural households - marginal farmers, agricultural labourers and artisans - constitute the lowest asset groups. Table-1.1 explains further the lowest asset groups in Karnataka.

Table-1.1 states that occupation-wise, agricultural labourers and artisans constitute the most vulnerable or destitute category of the rural poor. Cultivators by and large do not seem to fall in this destitute category. 87.5% of the agricultural labourers and 80.5% of the artisans in Karnataka constitute this destitute category. Among the rural
Table - 1.1

Occupation-wise distribution of the percentages of households in Karnataka as on 30th June 1971

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Percentage of households in each category</th>
<th>Total Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upto Rs. 500/-</td>
<td>Rs. 500/- to Rs. 1000/-</td>
</tr>
<tr>
<td>Cultivators</td>
<td>1.64</td>
<td>5.56</td>
</tr>
<tr>
<td>Agricultural Labourers</td>
<td>50.10</td>
<td>20.94</td>
</tr>
<tr>
<td>Artisans</td>
<td>27.85</td>
<td>18.83</td>
</tr>
<tr>
<td>Other non-cultivators</td>
<td>41.27</td>
<td>12.63</td>
</tr>
<tr>
<td>All Rural Households</td>
<td>15.79</td>
<td>7.63</td>
</tr>
</tbody>
</table>


households, there is a hard core of poor cultivation households with upto Rs. 500/- worth of assets. In a study, B.S. Minhas found that more of the rural poor belong to (i) rural labour households operating no land (ii) Agricultural labour households operating no land and (iii) Small land operators operating land below five acres in size. The poorest sections of the rural population belong to the

families of small and marginal farmers, agricultural labours, rural artisans Scheduled Caste and Scheduled Tribes. These categories of rural poor constitute the target group.

The target group has the poor resource base or capital base. Inequalities in the ownership of income-earning assets (like land, livestock, tools, equipment and skills) which are the result of certain social and economic processes have acted as a serious constraints on the rural poor. The important characteristics of marginal and small farmers are:
(a) Utilisation of higher proportion of land for growing food crops for subsistence
(b) lower proportion of marketable surplus
(c) inability to take risks
(d) borrowing more for consumption than for production
(e) predominance of labour among inputs and inability to offer security first due to smallness of landholdings and secondly due to lack of proper recording of their rights. The most important characteristics of agricultural labourers are that they have very little or no productive assets and their meagre incomes are derived from casual or irregular employment available in villages. Consequently they have to rely entirely on wage-employment both on the farm and outside. The present position of the rural artisans is like that of the

7. Ibid.
agricultural labourers. They lack improved or modern productive assets, though they possess some basic skills. There is no assured market for their goods. Consequently the rural artisans have to rely on wage employment to some extent. Though they may require consumption credit initially and during some periods their real need is for investment credit i.e. credit for acquiring modern productive assets, supported by input supplies and marketing facilities. In addition they require some services, the provision for which is the responsibility of Governments both central and states. The major task consists of (i) Supply of raw materials, (ii) introduction of improved tools (iv) Upgrading of skills through training and (v) marketing arrangements and export promotion.

Poverty is more widespread in rural areas of Karnataka. The bulk of Karnataka's population resides in rural Karnataka and a vast majority of them are in the ranks of the poor, the illiterate and downtrodden. The problem of poverty in Karnataka is essentially a problem of rural poverty. Table-1.2 presents the percentage of people below the poverty line in rural Karnataka.

Table-1.3 presents the Rural Poverty Ratio for India and Karnataka from 1960-61 to 1987-88.

It is clear from Table-1.3 that in 1960-61 percentage of rural population below the poverty in India was 56.28 and for
Table - 1.2

Percentage of people below poverty line in Karnataka

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cultivators</td>
<td>29.89</td>
</tr>
<tr>
<td>2. Agricultural labourers</td>
<td>43.92</td>
</tr>
<tr>
<td>4. Illiterates</td>
<td>40.21</td>
</tr>
<tr>
<td>5. Primary and Middle School</td>
<td>30.07</td>
</tr>
<tr>
<td>6. S.S.L.C. and above</td>
<td>18.51</td>
</tr>
</tbody>
</table>


Table - 1.3

Rural Poverty Ratio for India and Karnataka from 1960-61 to 1987-88

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Rural population below the poverty line</th>
<th>Rural poverty ratio</th>
<th>Total Rural population below the poverty line</th>
<th>Rural poverty ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>202.2</td>
<td>56.28</td>
<td>10.20</td>
<td>56.1</td>
</tr>
<tr>
<td>1970-71</td>
<td>207.1</td>
<td>47.80</td>
<td>10.18</td>
<td>45.9</td>
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<tr>
<td>1980-81</td>
<td>254.4</td>
<td>50.8</td>
<td>13.77</td>
<td>51.16</td>
</tr>
<tr>
<td>1984-85</td>
<td>222.2</td>
<td>39.9</td>
<td>9.39</td>
<td>35.50</td>
</tr>
<tr>
<td>1987-88</td>
<td>196.0</td>
<td>33.4</td>
<td>10.30</td>
<td>35.90</td>
</tr>
</tbody>
</table>

Karnataka 56.1 - almost the same percentage both for India and Karnataka. This percentage declined to 33.4 for India and 35.9 for Karnataka in 1987-88.  

If we consider the structural features of agricultural farms it will be noticed that farms in Karnataka are scattered plots, small in size and are dominated by food crops. According to the 1970-71, Agricultural census, there

8. There are a number of studies relating to the persistence of poverty, inequality and unemployment in many of the developing countries including India. For instance see,

V.M. Dandekar and Neelkanth Rath, Poverty in India, (PUNE: Indian School of Political Economy, 1971).


were 35.51 lakh of landholdings in Karnataka, out of which 10.81 lakh farms were of size upto one hectare in area. 8.40 lakh farms were of the size between 1 and 2 hectares. Together they comprise 19.21 Lakh farms. Their number go on increasing in Karnataka because of sub-division and fragmentation. Having said about the structure of farm size, it would be logical to look at the farmers who own less than half hectare and less than one hectare. The economic status of the marginal and sub-marginal farmers is certainly precarious and would definitely fall below the poverty line. Except the fact that they own a little land and a roof over their head so that their status is slightly better than that of agricultural labourers in terms of income, there is no difference between the two groups.

Poverty line is defined on the basis of monthly per capita expenditure of Rs.107/- in rural areas at 1984-85 prices. It is also an accepted fact that the major determinants of per capita rural income are gross cropped area per person and per hectare income generated. The gross cropped area per person in Karnataka is only 0.45 hectare in rural areas indicating the fact that there is heavy population pressure. Income generated i.e. net value added per hectare is only Rs.4014/-. This figure reflects the prevailing low productivity of land. It is these two factors which together determine the agricultural income per person
at Rs.1797 (i.e. 0.45 hectare x Rs.4014).\(^9\) As per rural person, availability of gross cropped area, the prospects are only for a further reduction from this low figure as a result of faster population growth.\(^{10}\)

Summarily agriculture continues to be a prime activity in the rural economy of Karnataka. The conditions of the rural poor have not shown substantial improvement during the course of last three decades of planned development. The target group consisting of marginal farmers, small farmers, agricultural labourers, rural artisans and others has been suffering from acute poverty. Although with various programmes for rural development, the percentage of rural poor population tended to decline, it is substantial in absolute terms. Then, rural development needs further strengthening in the years to come.


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</tr>
</thead>
<tbody>
<tr>
<td>264</td>
<td>118.2</td>
<td>Rs.4745/-</td>
<td>0.45</td>
<td>Rs.4014/-</td>
<td>Rs.1797/-</td>
</tr>
</tbody>
</table>

Meaning of Rural Development

Eradication of poverty of the target group in Rural Karnataka manifests itself into economic development. Rural economic development is a process by which rural population increases the efficiency with which it provides desired goods and services thereby improving individual living levels and general well-being. Rural development requires a major transformation of the rural economy. This needs increase in efficiency and productivity in rural sector: primary, secondary and tertiary sectors of the rural economy. In other words rural development aims at increasing rural welfare.  

"From economic point of view development would mean moving away from low income to high income, from low consumption to high consumption, from subsistence living to higher standard of living, from dominance of primary sector to secondary and tertiary sectors, from high unemployment or under employment to full employment, from low saving and low capital stock to high saving and high capital stock". 


Development ultimately means development of people. People's prosperity is important. If people prosper area prospers, so development includes both people—prosperity and area-prosperity. People/Area-prosperity presupposes welfare—welfare of all (SARVODAYA) and uplift of the last (ANTYODAYA). Then only welfare aims at the greatest happiness, through economic development.

Rural Development is a strategy designed to improve the economic, social, cultural and political life of rural poor—the target group. It involves extending the benefits of development to the poorest among those who seek a livelihood in the rural areas. The belief that the total wealth and income of the country must be increased first before it could be used for the removal of poverty led to the euphoria of growth-oriented development. When even after country


registered a substantial growth rate which led to a situation where no dent was made on poverty there is a need for a shift of emphasis from growth to growth with social justice. This has been realised in Indian development planning by focusing attention on "Minimum Needs Programme" and on a direct attack on poverty in general and rural poverty in particular. The shift of emphasis in the development strategy of Indian planning falsifies in some measure the accepted notion that the automatic trickle-down-effect would not be ensured by the sheer emphasis on growth.

The benefits of rural development must accrue more and more to the relatively less privileged classes of society and there should be a progressive reduction of the concentration of incomes, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth through organised efforts is enabled to put his best in the interest of higher standard of life for himself and increased prosperity for the country.

Commercial Banks and Rural Development

Economists have expressed a wide variety of opinions on the effectiveness of banking system in promoting or

facilitating economic development. Prof. J.A. Schumpeter, the first modern economist to study the relationship between commercial banks and economic development regarded banking system as one of the two key agents (the other being entrepreneurship) in the whole process of development. \(^{15}\) Other economists who attribute a positive effect of the financial institutions in the development process are: Adelman and Morris, Cameron et al., Gerschenkron, Goldsmith, McKinnan, Minsky, Patrick and Shaw. \(^{16}\)

J.G. Gurley has observed that banks do not contribute to economic development. \(^{17}\) Gurley contends that the development of financial institutions is not necessary for growth. In


fact he concludes that "recent experiences strongly suggest that banking systems as intermediaries are not highly essential to the growth process". 18

The diverse views on the relationship between the financial/banking institutions and economic development raise a typical issue of which comes first, that is HEN or EGG issue. Whether the growth of financial institutions should precede the growth or the rural activities or the other way round is a moot point. In the Indian context and especially in the context of promoting rural development, it is worthwhile to note that rural people in general being illiterate and poor-asset based expect/require that initiative for the establishment of rural financial system should be taken by the state, appreciating the varied requirements of credit. Thus, 'supply-leading' instead of 'Demand-following' technique appears to be the right move. This in effect means, that banking institutions which possess the required technical skills are to be established to take initiative for providing credit and other incentives for introducing technological changes in agriculture and promoting other rural activities.

Underdevelopment relates to the vicious circle of poverty. This is typical of a poor agriculture-based economy. Here the banks have to play a very significant role in supplying credit for investment and credit operations to break the vicious circle of poverty. "One of the most important problems in the field of finance, if not the single most important one, almost every one would agree, is the effect that financial structure and development have on economic growth".\textsuperscript{19} Bank behaviour and thus the contribution of banking system to economic development whether positive, negative or neutral is strongly conditioned by the structure of the banking system and this in turn is shaped primarily by legislation and other government policies.

A banking system may make a positive contribution to economic growth and development. The large credit needs of agriculture and of industry, especially of cottage and small industries, cannot be met, except through a network of credit institutions which will mobilise savings in the rural areas and disburse on a large scale to productive enterprises individual, co-operative or joint stock. In this process of development the encouragement of larger savings from current income and of productive use of them will have to play the major part. But, at the same time judicious credit creation somewhat in anticipation of the increase in

production and the availability of genuine savings has also a part to play, for without this kind of an initial push, the upward process may not start at all or may fail to gather momentum.

The process of economic development, once started, will make new demands on the banking system and this may necessitate changes in organisation and structure. For the successful fulfilment of the plan, it may become necessary to direct special credit facilities to certain lines of high priority. The proper discharge of its functions by the banking system will necessitate its operation more and more in the light of priorities for development indicated in the plan and less and less in terms of returns on capital.

In this context, the First Five Year Plan has observed, "The banking system .... will have to be fitted increasingly into the scheme of development visualised for the economy as a whole, for it is only thus that the process of mobilising savings and of utilising them to the best advantage becomes socially purposive". 20

Commercial Banking and Economic Development: Historical Review

Alexander Gerschenkron considers that banks play a key role at certain stages of industrialisation process.

According to him, when Germany began to industrialise, as a moderately backward area, it had fewer potential entrepreneurs and less liquid capital. As a result, the banking system became prime source of both capital and entrepreneurship; the banks participated actively in shaping the major decisions of individual enterprises. It was they who very often mapped out a firm's path of growth, conceived farsighted plans, decided a major technological and vocational innovation and arranged for mergers and capital increases.

In Russia also under the imperial government banks played the functions of entrepreneurs and suppliers of capital to industrial development. The Russian financial expert E. Epstein maintained that Russia's economic evolution was due to its banking system. In Italy, Professor Cohen concludes, that Italian Bank behaviour and industrial growth conform to the Gerschenkron Hypothesis. Professor Green finds that the banks in Louisiana made positive contribution to the economic welfare of state's citizens. This is also true of Japan. In Kenya, Somalia, and Tanzania the operations of banks have coincided with the development objectives of these countries.

Banks as Development Agencies for Rural Development

The lack of assets coupled with lending policies based on assets leads to reduced opportunities of the rural poor to
avail of credit facilities for improving their incomes. Thus rural poverty is also the result of an inequitable access to resources and lack of institutional banking. The farmers, require transfer of capital resources to give them a better base for production and the latter requires a more realistic credit policy and comprehensive institutional infrastructure. Thus a landless labour households has only labour as its resources but it can be used productively only if complementary resources are available. Similarly, the small farmers have assets in the form of their land holdings but these can generate increased incomes with the application of new farm technology provided there is access to other resources; so also is the case of rural artisans who have the skill but not the capital (in the form of modern tools) or other resources. The capital base and the productive capacity of the rural poor (i.e. land, water, inputs, skills) will have to be improved and strengthened with the aid of institutional support. 21

The basic cause of exploitation of the rural poor today is the heavy under-employment and un-employment in this sector. As a result, labour is in a buyers market and the wages are very low. Labour being the most important resource of this class, it has to be given a fair price. This cannot

be done without a pressure being created on the labour market. The National Commission on Agriculture has suggested exploiting in full the secondary and tertiary sectors of growth in the rural sector. This is the background and justification for the emphasis on employment promotion programmes, the village and small industries and the services and supply sectors. The role of the State development administration is paramount in this area. Unless State support is complete and adequate, efforts to solve this problem purely by credit methods are bound to fail.

Credit institutions - co-operatives, commercial banks and RRBs which together form multi-agency credit system must see that credit should act consciously as a lever of rural development. It calls for initiative and energetic involvement on the part of the multi-agency credit system in developing or undeveloped sections or sectors through selective and strategic input of credit. The role of credit institutions has to be attuned to meet the requirements of specific areas and specific target groups. The credit institutions under the multi-agency credit system has to play the role of the development banker.

Organisation of the study

In the light of the foregoing discussions the present study is organised into five chapters. They are:
Chapter - I, in the introductory chapter an attempt is made to outline the view points of official committees on the performance of the multi-agency institutional credit system. These view-points which are essentially macro in nature offer a backdrop for the present study of Commercial banks role in the promotion of the rural development in Karnataka for the testing of certain hypotheses. Further the objectives of the present study, scope, significance and methodology have been outlined with the profile of the rural Karnataka, a review of rural poverty, rural development and relationship between multi-agency credit system and rural development is presented in this chapter.

Chapter - II, presents evolution of Multi-agency Credit system in Karnataka - A historical account, shift from uni-agency credit system to multi-agency credit system, predominant role of Commercial banks under multi-agency credit system in providing credit for rural development in Karnataka, performance of multi-agency credit system in providing credit for rural development in Karnataka and appraisal of this system.

Chapter - III, seeks to discuss Traditional Banking Vs Social Banking in Karnataka. Shift from traditional banking to social banking - concepts and main features of both traditional banking and social banking, no trade off between
traditional banking and social banking, Evaluation of the shift towards social banking, social lending under social banking and poverty alleviation and some issues arising out of social banking operations - are discussed in the third chapter.

Chapter - , deals with Restructuring of Commercial Banking System for Rural Development in Karnataka. This chapter elucidates the need for restructuring of Commercial Banking System for Rural Development in Karnataka, earlier attempts at restructuring of Rural Banking and proposed restructuring of Commercial Banking System for Rural Development in Karnataka.

Chapter - , presents the Summary and Conclusions of the present study.