Chapter - 1
Introduction
INTRODUCTION

In a country like ours, where nearly three-fourth of its population lives in villages, the all round development of rural areas is of great importance. What Gandhiji said about a half century back that India lives in villages, holds true even today. The rural people have been living in an atmosphere of absolute poverty, illiteracy, unemployment and under-employment. In spite of rapid scientific and technological advancement, there does not seem to be any drastic decline in the incidence of poverty. In all the developing countries including India, the number of poor remained constantly increasing. In the past no attempt was made by the Britishers to ameliorate the socio-economic conditions of rural poor rather they exploited them and their selfish policies further deteriorated the plight of toiling Indian masses. But after the independence, the condition on changed and rural development became target of attraction of economists, politicians and social reformers. It was realised that without the development of entire rural sector, the all around development of the country was not possible. One of the most formidable and fundamental aspects of India’s development effort has been to evolve a strategy to ameliorate the social and economic conditions of plus fifty percent who, continue to live below the poverty line, and are expected something to come up. Keeping this end in a view, the Government of India accorded top priority to rural development in its policies and programmes. Number of measures were planned and introduced in the field of rural
development. Thus in the post-independence era, the development of rural sector has become a matter of great concern and of utmost importance.

**Concept of Rural Development**

Since rural development intends to improve the living conditions of millions of people suffering under the yoke of extreme poverty, it is necessary to understand as to what do we understand by rural development and what are the conceptual foundations of the same. Several opinions have been expressed about the concept of rural development and distinguished scholars give different interpretations. According to Sanders, "Rural development provides a large umbrella under which all the rural people can be brought together for channeling their efforts for their own betterment". 4 The view expressed at the Ahsridge Conference on Social Development regarding the rural development, "as movement designed to promote better living for all in the whole community, with the active participation and on initiative of the community". 5 For Batten rural development is a, "process during which the people of small community first thoroughly discuss and define their wants and then plan and act together to satisfy them". 6 Four conceptual approaches to rural development viz., a process, a method, a programme and a movement, have identified by Sanders. It is a process of transformation involving the masses in bringing about the changes in their attitudes, conditions and methods of living compatible with those of modernized societies. In fact, the process is exogeneous in a sense that the changes are brought within the system of community by external efforts
particularly by the Government. Hence it may also be regarded as a method. Rural development as method is more an action oriented approach and its ultimate objective is socio-economic transformation of the rural masses. When rural development is assumed as a movement it signifies a current of action organized and consciously propagated by reformists who are committed to bring about a social and psychological change in the communities. Thus, viewing rural development as a process, method, program or even a movement is nothing more than throwing a light upon its various aspects.  

In the views of Stensland, “Rural development is a process whereby people may learn to mobilise all their resources to meet the common ends”.  According to United Nations Report, “Rural development has come into international usage to connote the progress by which the efforts of people themselves are united to those of governmental authorities to improve the economic, social and cultural conditions of communities to integrate these communities into the life of the nation and to relate them to contribute fully to national programmes.”  

In the words of Ensminger “Rural development seeks to involve a process of transformation from traditionally oriented cultures towards an acceptance and reliance on science and technology”.  To sum up, Rural Development involves developing rural economy so as to raise the standard of living of those rural people who are poor and require upliftment.
In fact, rural development involves a process wherein the rural society as a whole moves from one step ahead, thereby enhancing its social and economic standards. It embraces all those programmes that touch all levels of human living that is, agricultural and allied activities, irrigation, health, communication, supplementary employment through village and small-scale industries, housing and social welfare. So, rural development means complete transformation of rural society from traditional way of living to modern way of living.

**Objective of Rural Development**

The main objectives of rural development are as:

1. To secure the fullest development of all the material and human resources of the rural areas.

2. Maximising production in agriculture and allied activities in rural areas through the use of modern technology and improved scientific knowledge, to raise the socio-economic status of those families who have adopted agriculture as their profession.

3. Leading rural people from the chronic underemployment to full employment;

4. Generating maximum possible employment opportunities in rural areas, especially for the weaker sections of the society through the establishment of rural industries with emphasis on village and cottage industries so as to enable them to improve their standard of living.
5. The larger possible extension of the principles of co-operation and every effort to be made to make rural people credit worthy, and
6. Providing certain basic amenities, like drinking water, electricity, specially for productive purposes, roads, connecting villages to marketing centres and facilities for health care and education etc. 12
In brief, rural development aims at all around development of rural economy with more emphasis on socio-economic amelioration of rural people.

**Commercial Banking**

Commercial Banks occupy a unique position among financial institutions. This uniqueness of commercial banking arises on account of the fact that among the various financial institutions banks alone have the ability to create money in the form of credit and thereby provide the economy with additional purchasing power and liquid investible resources. 13
Traditionally, however, a commercial bank has been considered basically as a business institution that aims at maximising its own profit while undertaking its activities, its services to society being incidental to the basic objective of maximising its own profit. This orthodox view on the nature of a bank has undergone a change in recent years and the banking system of a country is now being considered as constituting essentially and fundamentally the financial infrastructure of the economy 14 rather than as a mere agglomeration of profit seeking business institutions. A well-developed commercial banking system is, therefore, one
of the basic requirements of the rapid economic development of an underdeveloped country.

Consequently, the functioning of commercial banks in a presently developing economy like India should be motivated by social productivity and social objectives rather than maximising private profit. Bankers, therefore, have a dynamic role to play in a presently developing economy. The past does not determine the future but if it does strongly influence development and the concerns of policy in the years ahead.

In the beginning, Indian banking business functioned on small and with the objective of Profit maximisation. Hence they provided credit facilities to the major and well-established industrial and trading concern. Their branches had also been located in the urban and metropolitan centres where these industrial houses were established. The introduction of social contract in the banking business envisaged new dimensions, like involvement of commercial banks credit flow to the priority and neglected sectors, namely agriculture, small scale industry, road and water transport operators, retail traders, small businessmen, professionals, self-employed persons and education. To extend banking facilities in unbanked and underbanked centres specially in rural areas and to ensure an increased flow of assistance to hitherto neglected sectors, the Govt. of India nationalised the fourteen major commercial banks in July 1969 and six banks in October 1980.
The present endeavour seek to assess the emerging dimensions of Indian banking business in respect of their branch expansion in the unbanked and underbanked areas and to see how far they have ignored the regional disparities in the banking world. Efforts have also been made to analyse the credit flow of these banks to the priority and neglected sectors of the economy during the post-nationalisation period. The branch expansion policy of the banks during the post-nationalisation period has been found to be rural oriented and aimed to dissolve the regional disparities in the banking business. It is widely accepted that credit is a phenomenon of economic development and the banking system along with entrepreneurship is a vital agent that plays a crucial role in this process. By itself it may not constitute much to the national dividend but its services in mobilising and canalising the resources and developing a salutary climate for capital formation, which is accepted as a sine-quo-now of economic development, is indeed significant.

**Role of Banks in Economic Development**

Modern commercial banks had their origin in England. But the development of commercial banks in India and in other similar developing countries is different from the origin and growth of commercial banks in England in one significant respect. England had a well-developed business system and trading and industrial community before the modern banking institutions emerged from their ancestors like the merchant bankers, the moneylender and gold smith, so that banking development in the country
succeeded business and commercial development. Consequently, the role of the banks was limited to the provision of the short-term working capital required by trade and industry and the banks had a very limited promotional role in promoting new industries and manufacturing undertakings. As a result of this chronological pattern of industrial and commercial development in England on the one hand and banking development on the other, banking institutions followed business and industrial development and were generally set up in business and industrial centres where there is demand for their services and which promised them sufficient return in the form of profit. With their working funds coming largely in the form of short term deposits of the public, their owned funds following only a small part of their working capital, banks were ideally suited for the provision of short term working capital to trade and industry and could not afford to lock up their funds in the form of long term loans. With maximisation of their own profit as their basic objective, like that of any other business institution, banks developed such working principles of theories of lending like the “real bills doctrine” and adopted the principles of granting only self liquidating loans and that too only for short periods. Their principle was never to make any advance without security. The commercial banks constitute quantitatively the most important group of para-banking institutions in India. They unmistakably occupy a unique position on account of what Schumpeter has described as their credit creating power. They invest and lend not only what they are enabled to
mobilise from the accumulated savings of the public but much more than that 
owing to their manufacturer of chequing account money which distinguishes 
them from other banking and financial institution. The commercial banks in 
fact form the core of the organised banking system of the country. If there 
were no commercial banks with the power to make short term loans and 
expand credit, the business enterprise would suffer from a straight jacket 
capital rigidity that would impair its effectiveness. Through the shifting of 
loanable funds from one borrower to another, the commercial banks give an 
assurance of the supply of capital whenever needed and thus enable the 
businessmen to operate with smaller amounts of capital and to introduce 
flexibility into their business. Despite the fact that the commercial banks in 
India have been functioning for the last about two centuries, the growth 
consciousness among them is admitted by a recent phenomenon. Till 
recently their functions comprised accepting deposits and financing 
short-term needs of trade. Commerce and industry in which the 
directors of the bank were interested. Their working was characterised by 
conservation, rigidity and lack of foresightedness. There was an almost 
complete absence of innovative approach both in the matters of mobilisation 
of deposits; promotion of savings and lending of funds for growth oriented 
purposes. Security, profitability and liquidity were the guiding principles, 
may be that, they dampened the growth of already strained Indian 
economy.
However, the Indian commercial banks have been more dynamic during the period since the advent of planned economic development era, in as much as they have brought about change in their asset portfolio in the purpose wise distribution of bank credit and their operational techniques so as to adjust to the needs of the changing economy. The growth of commercial banks in a developing economy has preceded industrial and business development in the country. Hence the commercial banks have to play a more promotional role in a developing economy. Apart from promoting their own banking network in the country and promoting the banking habit among the people, banks have to play a dynamic role in encouraging the development of productive activities in regions where they do not exist at and which are conducive to such development. Commercial banking in the developing countries have much to learn from the commercial banking practices of Germany during the late half of the 19th and the first half of the present century during which the rapid industrial development of the country was made possible by the vigorous role played by the banks in promoting new industries. As was observed by Dr. Jakob Goldschmidt, a German banker in his evidence before the Macmillan Committee in June 1930, 'scarcely a single important company in Germany has been funded without the collaboration of a bank. Whether it is the case of converting a private firm into a limited company or of exploiting a new invention by establishing a new enterprise, the assistance of a bank is always involved. The bank examines the
situations and when necessary obtains reports from experts in the particular line. If the banks after examination decides to fund company, it draws up the scheme of financing, determines the amount and type of capital to be issued and then, in some cases itself takes a part of the shares into its security portfolio with the idea of issuing them at a later date. In this way the funding bank becomes at the same time the issuing bank, the later function begins. However, only with the introduction of the shares in the Stock Exchange through the intermediary of a bank the banks play the significant role in the economic development of a country. Their roles can be analysed under the following heads:

1) **Financial Intermediation:** Banks accept the deposits from the savers and lending them to the borrowers and investors. So banks act as the intermediaries between the savers and the investors and thereby make available the savings of millions of individual savers for productive uses by the investors. But for the presence of well-developed banks and of other financial institutions, the small savings of individuals spread all over the country will lie idle with all handful effects on the level of economic activity, income and microeconomic equilibrium in the country. The role of banks is crucial as intermediaries.

2) **Generation of Savings:** Rapid economic development of an underdeveloped country requires a high rate of capital formation, which in turn, requires a high rate of modest saving. The commercial banks play a crucial role in mobilising and generating domestic savings for capital
formation. In the traditional flows people hold their savings in an under
developed country, particularly in rural areas, in money and goods.
Though the people in an underdeveloped country are traditionally frugal
and do a lot of savings, the traditional forms in which savings are held
make them not available for purposes of productive investment
elsewhere in the economy. By accepting deposits on interests, banks
offer a better substitute for money and commodities as store of value.
Since bank deposits are both liquid and earning in character, they are
preferable to money and commodities as store of value. By offering
different types of deposits facilities to the people banks have the ability to
make the savings of the people available for productive investment by
the businessmen and industrialists. Besides, the prospect of a ready
source of finance in case of need makes the banks as attractive
depositories of saving for the people and thereby encourages domestic
savings. A well developed banking system in a country, will, therefore,
have an encouraging effect on domestic savings in the country and in
mobilising such savings for productive investment.

3) Credit creation: The unique ability of banks to create money in the
form of credit is another aspect of the functioning of banks that is
significant in a developing economy. Investment assumes the decisive
role in determining the level of economic activity in the Keynesian in
a socio-economic system. Whenever aggregate investment in the
economy is in excess of aggregate savings, the level of economic activity
and income tends to increase. It is the credit created by banks that enables an economy to have such an excess of investment over savings and hence the credit creating activity of banks assumes significance in a developing economy where the level of economic activity and income should steadily increase as is implied in the process of the economic development of the country. The importance of bank credit in encouraging and influencing the level of economic activity in a country was stressed by Schumpeter in his theory of economic development. How Fray and Hayer stressed the role of bank credit in the expansionary phase of the trade cycle in their theories of the trade cycle. Bank credit is being used by the Govt. of India as an important source of finance for meeting its administrative and development expenditure.

4) Promotion of Liquidity: An other aspect of the significance of a developed banking system in a country is the promotion of overall liquidity in the economy by promoting the liquidity of the economy as a whole the banks can directly encourage the level of aggregate expenditure in the economy and thereby induce higher levels of investment and economic activity. Further the increase in overall liquidity has a decreasing effect on the level of productive activity in the economy.

5) Inter-regional Mobilisation of Resources: The economic development of a larger country like India will become meaningful only when there is a balanced development of the different regions of the country. Such a balanced development of the different regions of the country is possible
only when financial resources be moved from region to another since all the different regions of a large country like India cannot be equally endowed with financial and other resources. A well developed banking system with a wide network of branches spread throughout the country, in its urban as well as rural areas, will help in the mobilisation of such resources from one region to another and thereby help in bringing about a balanced development of the different regions of the country. It will also result in a more productive use of the financial resources at the disposal of the country by shifting resources from those regions, where they are in excess of the requirements and hence stand idle or underutilised, to those regions where they are in short supply and hence have a greater productive use. The social productivity of the financial resources at the disposal of the country is thereby being maximised by the presence of a well-developed banking system in a country thereby providing it with a well-developed financial infrastructure.

6) Subsidiary Services: Various subsidiary services are undertaken by the bank. These services may be the collection of cheques, making remittances, issuing drafts, business and investment advisory services, merchant banking etc. are of significance to the functioning of a modern economy and for the rapid economic development of an underdeveloped country. The foregoing discussion of the role of banks in economic development highlights the need for a balanced development of banking facilities in a large country like India.
A review of the historical development of commercial banks in England shows how commercial banks had an urban origin and an urban base in the initial stage of banking development in England since the commercial banking development in the country tended to follow industrial and commercial development and banking institutions were set up in industrial and business centres, which promised them profitable business opportunities. The lending principles and operational practices of banks were tailored to suit the needs of large-scale industry and trade. Banks developed as basically business institutions aiming at maximum profit and their modus-operandi was such as to promote their own profitability in the process of undertaking their activities without any regard to the social productivity of the funds lent by them to the borrowers—commercial banking in India was developed along the British Indians and the Indian Commercial banks followed the principles and practices developed by their predecessors in England. Maximisation of profit was the primary objective of the commercial banks in the country and, being motivated by profit, they adhered to such orthodox principles of commercial banking like the real bills doctrine and the Commercial loan theory and granted only secured loans mainly to trade and industry for short periods and concentrated only on those lines of activity, like extending credit to trade and industry, which promised them adequate profit. Since large-scale industry, small-scale trade and commerce were localised in cities and industrial centres,
commercial banking in India also developed originally in the cities and industrial centres in the country. Commercial banking, therefore, had an urban base. The objective of profit maximisation and the adherence to the real bills doctrine by the Indian commercial banks gave rise to certain imbalances in the Indian commercial banking system with their adverse repercussions on the balanced regional and sectoral development of the Indian economy.

These imbalances are:

i) **Regional imbalances**

ii) **Local imbalances**

iii) **Sectoral imbalances**

These imbalances as they existed in the Indian banking system at the time of Bank Nationalisation, can now be discussed here. The occasion of Bank Nationalisation in India is chosen for the purpose of this discussion because the nationalisation of 4 major commercial banks in the country on the 19th of July 1969 forms the great divide in the history of Indian commercial banking in that it makes the end of an era of profit motivated and security oriented banking and the beginning of a new era of purpose oriented banking motivated by social productivity.

i) **Regional imbalances:**

The emergence of regional imbalances in the distribution of banking facilities in the country was one of the consequences of the trading principles and practices followed by commercial banks in India.
Regional imbalances in the development of banking facilities in the country took the form of marked disparity in the availability of banking facilities as among the different states in the country. *Table 1.1* shows the distribution of commercial bank offices among the eighteen states in the country as at the end of June 1969. These data reveal that the relatively developed states like Haryana, Punjab, Maharashtra, Gujrat, Tamilnadu Kerala and Karnataka had relatively developed banking facilities as at the end of 1969. With the average number of people served by a single bank office in each of these states being lower than the average number of people being served by a single bank office in the country as a whole. The relatively underdeveloped states like Bihar, Madhya Pradesh, Orissa and Uttar Pradesh had banking facilities that were, on an average, much lower than the all India average availability of banking facilities as at the end of June 1969.

**ii) Local Imbalances:**

Local imbalances in the distribution of banking facilities in the country took the form of marked inequality in the distribution of banking facilities as between the urban and rural areas within a region. Such an imbalance can be perceived from the rural-urban distribution of commercial bank offices in the country as at the end of June 1969. Data pertaining to the rural-urban distribution of commercial bank offices in the country as at the end of June 1969 show that the rural offices of commercial banks formed only 22.4 percent of the total number of 8262
bank offices functioning in the country (see Table 2.2) thereby showing that even within a region banking facilities tended to be concentrated in the bigger cities, industrial centres and port towns to the neglect of the banking needs of the rural areas. From the above analysis of the regional and local imbalances in the availability of banking facilities in the country as at the end of June 1969, it is clear that commercial banking activity tended to be concentrated in the relatively developed states or regions, and even within a region banking activity tended to be concentrated in the urban and industrial centres in the country. Commercial banking activity motivated by the objective of maximising private profit, tended to follow industrial and business activity since such business and industrial centres offered the banks opportunities for profitable business.

iii) Sectoral Imbalances:

Sectoral imbalances refer to the existence of imbalances in the distribution of bank Credit among the different sectors of the economy. Data pertaining to the sectoral or purpose wise distribution of scheduled commercial bank credit in India as at the end of March 1968 are presented in Table 1.2. These data reveals that the bulk of scheduled commercial bank credit in the country went to large and medium industry, instituting the secondary sector of the economy. This sector got 67.5 percent of total amount of capital credit advanced by scheduled commercial banks in the country in March 1968. The tertiary sector of
the economy, consisting of commerce, personal, professional and other activities, received 30.3 percent of total bank credit. Agriculture or primary sector of the economy received only a negligible 2.2 percent of the total scheduled commercial bank credit in the country as at the end of March 1968. This sectoral distribution of bank credit in the country in 1968 compares very unfavourable with the relative significance of the primary, secondary and tertiary sectors in the country's economy. During the two period 1968-70 the share of the primary sector in the net Domestic Product of the country was 43.78 percent; the share of the secondary sector was 23.62 percent while that of the tertiary was 32.60 percent. The above data reveal that the distribution of scheduled commercial bank credit in the country was highly imbalance as among the different sectors of the country's economy. While the secondary and tertiary sector received the major shares of the total credit extended by the scheduled commercial banks in the country in 1968, the credit needs of agriculture, the largest single contributing sector to the country's net domestic product, were neglected by the commercial banks in the country. The sectoral imbalances in the distribution of bank credit in the country as at the end of June 1969 can be understood from the data contained in Table 2.4. From the data for the year 1969 contained in the table it can be observed that the bulk of the scheduled commercial bank credit in the country as at the end of June 1969 went to large scale industry, trade and commerce and the credit needs of agriculture, small
scale industries and of the other priority sectors of the economy were almost neglected by the scheduled commercial banks in the country, the combined share of these three sectors being only 14.0 percent of the total credit expanded by the scheduled commercial banks in the country in 1969 as against 79.5 percent of the total received by a large and medium industry. Whole sale trade and commerce. The above sectoral imbalances in the distribution of bank credit in the country in 1969 had serious implications to rural banking in that it showed that the rural banking needs of the country were being neglected by the commercial banks functioning in the country. The factors that caused such sectoral imbalances in the distribution of bank credit in the country can be discussed under the below mentioned three heads:

1) The British Tradition

The Indian commercial banking system was developed along the commercial banking principles, practices and traditions developed in England and the Indian banks hitherto followed those principles and tradition developed by their British predecessors. So, the Indian banks, like their British predecessors were traditionally adverse to the granting of long loans, often called term loans, and to the granting of loan without sound securities against the loans granted by them. Further, since a large part of the resources of commercial banks comes from current and short term deposits kept with them by the public and the liable to be withdrawn at short
notice and within a short period, the banks could not afford to lack in their resources in long term loans without seriously endangering in the process, their own liquidity positions.

2) The aim of Profit maximisation

The traditional aim of commercial banks has been that of maximising profit, and in accordance with this aim, they concentrated more on those lines of credit activity which offered them higher profitability and greater safety of the fund lent. These lines of credit activity happened to be lending to the large scale industrial and commercial sectors of the economy since the large scale industrial and commercial sectors were not only prepared to offer a higher rate of profit than the agricultural and small scale industrial sectors, but were also capable of providing the banks with the type of securities required by them against their loans. In contrast, the agriculturists and small-scale industrialists could not offer the type of securities acceptable to the banks against the loans granted by them.

3) The locational factor:

The locational factor in the Indian Banking system is also responsible for the sectoral imbalances in the distribution of banking credit in the country. It has been pointed out above, while discussing local imbalances in the distribution of banking facilities in the country, that the Indian banks are traditionally urban based and that while bank offices are
found situated largely in the industrial cities, urban centres and bigger towns, the rural areas of the country remained unbanked. Since the commercial banks have been situated mostly in the industrial centres and cities, they could have better understanding of changing business conditions, could study the credit worthiness of their industrial and business borrowers and could get their loans regularly serviced and repaid. The distance involved between the banks situated in the cities and the agricultural borrower scattered all over the villages makes his aspect of a bank's lending activity to agriculture very difficult thereby making agricultural lending risky and unsound. From the above it follows that sectoral imbalance in the distribution of banking facilities and bank credit in the country emerged as the consequence of the local imbalances found in the distribution of banking facilities in the country.

**Nationalisation of Commercial Banks**

The objective of profit maximisation and the adherence to the real bill doctrine by the Indian commercial banks for a long time till 1969 were, therefore, largely responsible for the type of imbalances found in the Indian commercial banking system till then. Commercial banks were providing credit only to those purposes which offered adequate security and return on their investment in the form of credit and concentrated their activities in those regions and localities and in those fields which offered them scope for safe and profitable business. Banks
often tended to follow economic and business development and fol ked to industrial and business centres rather than lead and initiate economic and business activity in regions and localities where such development is yet to take place to an extent commensurate with their relative resource endowment positions. While such lending and business practices of commercial banks were justifiable when viewed from the point of view of the orthodox real bills doctrine and from the point of view of maximising profit, they had adverse consequences for the economy as a whole. Since capital, in the flow of credit, is a complementary factor in the process of production, non—availability of sufficient banking facilities and bank credit can be pointed out as one of the factors responsible for perpetuating the underdeveloped activities in the country. A balanced distribution of banking facilities and bank credit among the different religions and localities of the country and among the different sequesters of its economy are, therefore, necessary in order to bring about a balanced development of the different regions and localities of the country and to bring about a balanced development of the different sequesters of the country's economy and such a balanced development, in its turn, is necessary in order to accelerate the rate of economic development of the country as a whole. This requires a basic change in the structure and lending practices of the commercial banks and such a basic change can be brought out only through public ownership of banks, since the privately owned bank cannot afford to place national and social goals ahead of
their own private profit whenever there arises a conflict between private profit and considerations of social benefit and objectives. This provides, evidently, one economic justification for bank nationalisation in the country since state ownership of banks will enable them to introduce the required changes in their branch expansion and lending activities required for bringing about the needed balance in the Indian Banking system. A balanced distribution of banking facilities and bank credit among the different regions and localities of the country and among the different sectors of the economy so as to spread up the process of a balanced regional and sectoral development of the economy calls for a certain amount of sacrifice of the objective of profit maximisation, the primary objective of commercial banks under private ownership. The objective of profit maximisation needs to be replaced to retain cases and supplemented in others, by the objective of social productivity and significance of the finance made available by the banks. But such a drastic change in the lending policies of banks can be brought about only if they are taken over by the Government. Need for bringing about a balanced distribution of banking facilities among the different regions and localities of the country and of bank funds among the different sectors of the economy, therefore, offers a strong economic justification for the nationalisation of commercial banks in India. In 1969 and are avowed objective of the banking expansion policy enunciated by the Government since last decades is that of bringing about such a balanced development of
about such a balanced development of banking facilities and a balanced sectoral distribution of bank credit in the country.

**Need for Rural Banking**

The need was felt that there should be rural banking. Because of tradition prevalent before nationalisation of commercial banks, was that commercial banks were providing credit only to those purposes that offered adequate security and returns on their investment and banks concentrated their activities in those fields that offered them scope for safe and profitable business. Case for a rapid expansion of rural banking in the country can be made out on the following grounds:

1. **To correct imbalances:**

   As has been pointed out above, a characteristics feature of the Indian commercial banking system in 1969 was the existence of marked regional, local and sectoral imbalances in the availability of banking facilities in the country and in the distribution of bank credit with all their adverse effects on the rapid and balanced development of the country, economy. It has also been observed that the sectoral imbalances in the distribution of bank credit found in the country in 1969 were the naturally corollary of the local imbalances that existed in the availability of banking facilities in the country. One obvious method of correcting the local and sectoral imbalances in the Indian Banking system is that of developing and expanding the rural banking network in the country by
directing the commercial banks to open more and more branches in the rural areas and in hitherto unbanked rural centres. The branch licensing policy of the Reserve Bank of India in recent years has been as to bring about an expansion of rural banking in the country. The Reserve Bank of India Report on Trend and Progress of Banking in India 1985-86 states for instance that the main objective of the policy would be to achieve a coverage of 17,000 (1981 census) per bank office in rural and semi-urban areas of each block and to provide banking facilities in those pockets of rural areas where there are wide spatial gaps. Expansion would be allowed considering the need, spatial gaps and financial viability of the proposed branches. Hilly tracts, sparsely populated regions and tribal areas will be given special consideration and expansion in such areas will be allowed on a comparatively liberal basis taking into account existing gaps in the availability of banking facilities. It is also envisaged that a rural branch is normally available within 10 kilometres. Expansion in urban and metropolitan/port town areas will continue to be restrictive and banks will be allowed to open offices in these areas on highly selective basis. Rural banking in the country is therefore, ended in order to set right the local and sectoral imbalances in the distribution of banking facilities and the bank credit in the country.

ii) Provide Institutional Credit to Rural Areas:

Secondly, expansion of rural banking in the country arises on account of the need of the rural areas for an adequate, elastic and cheap
institutional source of credit. Traditionally the rural sector of the Indian banking and credit system was dominated by the moneylender. According to the All India Rural Credit Survey (1951-52) Report, agriculturist moneylenders and professional moneylenders supplied as much as 69.7 percent of the total agricultural credit in the country in 1951-52, the share of commercial banks being only 0.9 percent of the total. Besides its high cost and the element of exploitation associated with it, the source is not adequate and elastic since the inability of the moneylenders to create credit limits, his ability to finance agriculture to the required extent. As the economic development of the country takes place and as agriculture becomes increasingly commercialised, the need for credit of the agricultural sector increases since modern scientific farming is more capital intensive in nature than traditional subsistence farming. This increasing need for the credit of the agricultural sector of the country's economy can be met only if the rural credit system is adequate and elastic. The banks alone, among financial institutions, can met this requirement.

iii) To mobilise rural savings:

Rural banking is also necessary in order to generate and mobilise the savings of the agricultural and other rural sectors of the economy for productive Investment in the non-agricultural sectors of the economy. One of the recognised role of agriculture in a developing economy is to generate savings required for capital Formation in the
industrial and non-agricultural sectors of the country. The savings generated in the agricultural sector can be mobilised for productive investment in the non-agricultural sectors only when the rural and urban sectors of the economy are linked together. Besides, as the economic development of the country takes place and as an increasing fraction of its population moves from the agricultural sector, the predominant sector in an underdeveloped country is economy, to the industrial and non-agricultural sectors and as agriculture becomes increasingly commercialised and market oriented the surplus generated in the rural sector of the economy will readily increase. To mobilisation of such surpluses from the agricultural sector for investment in the non—agricultural sectors requires a well-developed banking system with a network of branches spread as between the urban and rural sectors of the economy.

iv) To integrate the money market:

A characteristics feature of the Indian money market has been its traditional dichoformy with the modern sector and the indigenous sector as its two parts. While the modern sector of the Indian money market consists of the commercial banks, the co-operative banks and other modern financial institutions whose credit activities are closely controlled by the Reserve Bank of India, the indigenous sector consists of the indigenous bankers and the moneylenders whose credit activities are not directly under the control of the Reserve Bank of India. With the
moneylenders playing the dominant role in providing rural credit in the country, the rural segment of the Indian Banking system has been, till recently outside the direct control of the Reserve Bank of India so that changes in the credit policies of the Reserve Bank of India had very little impact over the volume of credit and level of economic activity in the rural areas of the country. Expansion of commercial banking in the rural areas of the country will bring about an integration of the rural segment of the Indian money market and the rural sector of the banking system of the country with the modern sector of the money market and with the major part of the Indian Banking system and will thereby enable the monetary authority of the country to transmit the effects of the changes in monetary policy to the rural sector of the Indian economy. Rural banking in the country is, therefore, needed in order to bring about an integrated development of the Indian banking system so essential for the effective use of monetary policy as an instrument of economic change and development in the country.

v) To induce Rapid Economic Development:

It should also be noted that the urban-industrial sector and the rural agricultural sector of an economy area not clear-cut competing sectors. On the contrary, they are complementary to each other. The development of one sector encourages as well as sustains the development of the other sector through supplying each other's input requirements and by providing market for each other's product. It is
possible to bring about a rapid development of an economy only when a strong link between the two sectors in a market oriented economy, the role of the banking system is developing and strengthening such a link is equally important. Rapid expansion of rural banking in the country will strengthen the link between the urban-industrial and rural agricultural sectors of the Indian economy and will thereby accelerate the rate of economic development of the country as a whole.

vi) The Promotional Role:

Lastly, the promotional role which the banks can play as financial and investment advisors to their customers is equally important in bringing about rapid economic development of the rural areas of the country. Agriculturists and other rural entrepreneurs can take advantage of the advisory service which the banks, with their expert staff, undertake and manage their undertakings on sound lines. This is one aspect of the non-financial promotional role, which the banks should play in promoting rural development. The presence of banks and their increasing and constant contact with their rural clients will induce a sense of financial discipline among them and will promote the practice of cost-profit calculation among the agriculturists and other village entrepreneurs and businessmen and these changes in the attitudes of the rural people will be conducive to the economical use of scarce resources for productive purposes.
**The concept of rural banking:**

Having understood the need for rural banking in the country, it is now necessary and also appropriate to define the concept of rural banking. Two distinct approaches to the concept of rural banking can be adopted; first, the geographical approach, and second the functional approach.

1. **The Geographical Approach:**

   The geographical approach to the concept of rural banking is to define a rural bank as a bank or branch of a bank situated in the rural areas and rural banking as banking transactions undertaken by such a bank and confined to a rural areas. The Reserve Bank of India adopts this approach when it classifies commercial bank branches in the country into urban, semi-urban and rural branches. According to this approach a rural bank office is one which is functioning in a centre with a population of less than 10,000 and as per this classification, 1832 offices out of the total number of 8,262 commercial bank offices, following 22.4 percent of the total, functioning in the country at the end of June 1969 were rural offices or rural branches (See Table 2.2) The total number of rural bank branches in the country, as per this classification was 30,177, forming 58.7 percent of the total number of 51,385 branches of commercial banks functioning in the country at the end of June 1985. 34,494 focussing 58.1 percent of the total number of 59,388 branches at the end of June 1990, 35,187 branches following 58.4 percent of the total number of 60,190
branches at the end of March 1991, 35275 branches following 58.3 percent of the total number of 60528 branches of commercial bank functioning at the end of March 1992, 35406 branches forming 57.8 percent of the total 61248 branches of the commercial bank functioning at the end of June 1993, 35404 branches forming 57.3 percent of total number of 61742. 57.3 percent of total number of 61742 branches of commercial banks functioning at the end of June 1994. 33089 branches in forming 52.9 percent of the total number of 62531 branches of commercial banks at the end of June 1995; 33,000 branches forming 52.3 percent of the total of 63105 branch commercial banks, 32981 branches forming 51.9 percent of the total of 63513 branches functioning at the end of June 1997.23

ii) Functional Approach:

The second approach to this concept of rural banking is the functional approach according to which rural banking can be defined as financing and provision of other banking services to agriculture and other rural activities like cottage and small-scale industries, rural artisans, retail trade and other self-employment programme in the rural areas. It may be noted in this connection that the Regional Rural Banks functioning in the country at present area developed on this functional basis in order to provide financial assistance to certain defined target-groups in the rural areas. It should be noted that a rural bank in the functional sense need not be a rural bank in the geographical sense since it is quite possible, as is
always the case, that a bank, have a office situated in a semi-urban or an urban center may extend financial assistance to productive undertakings in the rural areas and may accept deposits from people living in the rural areas and deriving their income mainly from agriculture and other rural activities. Hence, from the functional point of view, rural banking can be defined as the provision of banking facilities and services to rural economic activities and services are located in a rural, semi-urban or even in an urban center. It should be noted that the term rural banking refers to the functions of providing banking facilities and services to rural economic activities and does not limit itself to any one institution like a commercial bank, or a co-operative credit society or a regional rural bank. The term includes banking facilities and services provided by a variety of banking and credit institutions like the commercial banks, the co-operative credit institutions, the regional rural banks, rural credit associations and even the traditional moneylenders and indigenous banks operating in the rural areas of the country. However, from the point of view of integrity the rural credit and banking system of the country with its larger and modern banking system, under the control and regulation of the Reserve Bank of India, is desirable to confine the phrase rural banking, to the modern banking institutions like the commercial banks, co-operative credit institutions and the regional rural banks and to the transaction undertaken by them.
REVIEW OF LITERATURE

A large number of studies have been made in India in the field of rural credit after independence. Most of them were confined to analysis of specific sub-sectors such as agriculture credit or Co-operative credit or commercial banks credit. As it is not possible to deal with all the studies. Here, an attempt is made to review some the literature available on rural credit encompassing allies aspects having a great bearing on the present study. Studies conducted during the fires decade after independence were mostly government sponsored. Their major purpose was to prepare reliable estimates of the spread and extent of the rural indebtedness.

Reports

In 1951, an exert committee was set-up under the chairmanship of Shri Gorwala\textsuperscript{24} to plan, regulate and supervise a survey regarding facilities available in rural areas for providing credit to agriculturists and make necessary recommendations. The Committee, which submitted its report in 1954, found that these were woeful lack of credit in the rural areas. It main findings were.

(1) In spite of years of its working, the co-operative credit movement was playing an insignificant part in the field of rural credit. (2) By and large it was the big cultivator who benefited from it, (3) Lending was still on the basis of security of tangible assets an not on the basis of productive requirements. (4) The private interests of trader-cum-money lender were very strong and
had derived further strength from the superstructure of urban trade and finance. (5) The co-operatives, at the lower levels were unable to get much help from the higher structure of co-operatives, which itself was weak one or from the state. The committee recommended the establishment of an integrated scheme of rural credit, nationalisation of the Imperial bank of India, establishment of National Co-operative and Warehousing Board on all India level, establishment of two special funds under the Reserve Bank and one special fund under the Ministry of Food and Agriculture, introduction of system of granting loans, particularly short term loans on the basis of anticipated crops and not just on the security of land and tangible assets, need for emphasising the economic viability of the co-operatives at the village level, and creation at the regional and state levels of relief and guarantee funds in order to assist in writing off irrecoverable debts arising out of natural calamities over a number of years consecutively.

The committee appointed by the Government of India under the chairmanship of Shri B.P. Patil on Taccavi loan and co-operative credit reaffirmed that co-operatives should be the normal channel of agricultural credit and taccavi loans should be confined to provide distress finance.

In July 1966, the Governor of Reserve Bank of India appointed the Rural Credit Review Committee, which submitted its report in July 1969. The notable recommendations were the establishment of the agricultural credit board in the Reserve in the Reserve Bank, the setting up of small farmer's development agency (SFDA) in each of the selected districts and
the establishment of a rural electrification corporation. It envisaged a more active and bigger role of the agricultural refinance and development corporation for timely and adequate flow of credit for agriculture and through co-operative and commercial banks.

The Dantwala Committee on Regional Rural Bank, laid out certain norms to be observed in regard to the linkages between Regional Rural Banks and the sponsoring banks. The committee fully endorsed the proposition that the weaker sections of the rural community should revive preferential treatment from the credit institutions. But, it observed this purpose would be better received through direct assistance by the institutional agencies and the state government, in the form of intensified extension service for improving the productivity of the weaker sections rather than by the system of differential rate of interest. It drew attention to the administrative problem involved in implementing the policy of differential interest rates (DIR), with the attendant possibility of leakage's though benami transactions.

The report of the working group on Multi Agency Approach to Agricultural Finance pointed out the fact of the overlap succinctly. The group identified five basic problems which arise when different credit institutions namely, co-operatives, Regional Rural Banks and commercial banks functions simultaneously. They were (I) the existence of a number of agencies relating credit in a common area of operation which leads to uncoordinated credit disbursement, resulting in multiple financing,
overfinancing, underfinancing, financial indicipline and diversion of resources, (ii) inability of credit agencies to formulate and develop meaningful agricultural credit programme o the basis of area approach, (iii) problems of overlapping and duplication of banking facilities and consequent wasteful expenditure (iv) problem of recovery of credit and since more than one agency may have claims on the same income security. and (iv) problems arising out of the different systems, procedures and policies, security norms, varying interest rates etc.

The Reserve Bank of India conducted an All India Rural Debt and Investment Survey 1961-62.²⁹ According to the report the percentage of indebted households did not show and appreciable variation in comparison with the base figure available for 1951-52. The debt per household was found to be between RS. 67 to RS. 69 for cultivators and RS. 52 for non-cultivators. The magnitude of average debt per household registered an increase of nearly 46 percent from 447 in 1951-52 to RS. 647 in 1961-62.

The Reserve Bank of India also conducted and All India Rural Debt and Investment survey 1971-72³⁰, which estimated the volume of aggregate debt of all rural households, which indicated that the aggregate liabilities of the rural households in the country were of the order of RS. 3648 crore. Comprising Rs. 3552 crore of debt in cash and RS. 96 crore in kind, the latter forming 2.5 percent of the total cultivator households, which formed 72 percent of all rural households, accounted for RS. 3374 crore that is about
88 percent. The balance of RS. 474 crore forming 12 percent was owned by non-cultivator households.

The All India Debt and Investment Survey 1981-82\textsuperscript{31}, which was conducted by Reserve Bank of India, revealed that the average value of total assets per rural household had increased by more three folds from RS. 11,311 in 1971 to RS. 36,090 in 1981. The survey by collecting and analysing data from more than one lakh households selected from about 12,000 sample villages, got revealed facts on rural the indebtedness vis-à-vis assets. The average liability per household was RS. 503, in contrast with the average assets per household amounting to RS. 11,343, that is, unit household liabilities formed only 4.34 percent of unit household assets. The study found that the debt asset ration in respect to the cultivators had declined from 7 percent to 4 percent over the decade for the country as a whole. The ratio was higher for the non-cultivator group, its debt forming a percent of its assets. With in this category, the ratio, was the highest for agricultural labourers (14 percent) followed by artisans (12 percent) and other non-cultivators 6 percent). Of all the assets of rural households, land constituted the single most important item. The survey analysed the source of credit by the pattern of its distribution among various agencies both institutional and non-institutional. Considerable progress was observed in the extension of institutional credit between 1961-1981. It was found that although the non-institutional agencies still occupied a dominant position in
the supply of credit to the rural households, their predominance was steadily on the decline at the behest of institutional agencies.

The National Council for Applied Economic Research\textsuperscript{32}, in their report "Credit Requirements for Agriculture" revealed that co-operatives, universally acknowledged as the most desirable type of financing agencies, had substantially increased its relative share in the total supply of agriculture finance. Commercial bank too made significant progress after nationalisation. Yet, the importance of the money lender trader group as a source of credit was still over-whelming specially for small size categories of farms which received 75 percent of its requirement from this source. It was also observed that 66 percent of the short-term loans for cultivation from all sources went to the cultivators of his yielding variety seeds.

The Rural Labour Enquiry Committee,\textsuperscript{33} 1974-75 in its report, analysed the incidence and extent of indebtedness among rural households. The report pointed out that in most of the states the majority of households were in debt. A comparison between households with cultivated land and without cultivated land showed that the incidence of indebtedness was higher in all states among households with land, than those without land. At the All-India-Level the incidence of indebtedness was 71 percent among households with cultivated land and about 48 percent among households without cultivated land.
The Reserve Bank of India appointed a committee under the chairmanship of Sh. B. Sivaraman\textsuperscript{34} to review arrangements for institutional credit for agriculture and rural development. The committee found that the principal reasons for overdue were: failure to link up lending with development programme, defective loaning policies including untimely loan disbursements, overfinancing, or underfinancing and unrealistic schedule for loan repayment, neglect and absence of efforts for marketing arrangements and linkage of credit recovery with the scale of produce.

The Agricultural Credit Review Committee under the chairmanship of Prof. A.M. Khusro\textsuperscript{35} has pleaded for checking the growing politicisation of the agricultural credit system in order to improve the quality of lending and recovery of loans. The committee regretted that there were no visits to the beneficiaries by the bank staff in many cases due to time limitations. Even where inspection was carried out, it was largely perfunctory and poor in quality. The committee made recommendations, banks should opt professional approach to scrutiny and sanction of individual loan applications, there should be proper rapport and coordination between sponsoring administration and credit disbursing institutions and the schemes for agricultural financing should be result-oriented not target-oriented.

The Reserve Bank of India set up a one man High Level Committee of Sh. R.V. Gupta\textsuperscript{36} to suggest measures for improving the delivery systems as well as simplification of procedures for agricultural credit. The committee's mandate was to identify the constraints faced by commercial
banks in increasing the flow of credit. The committee revealed that the basis of lending should be confidence in the borrower and that the focus of such appraisal needs to shift from purely project based considerations to a holistic assessment of the income stream of the borrower. The committee also analysed the problem of non-farm sector investment and viewed that banks should design specific loan products for this sector. The committee was of the opinion that international experience shows that credit to borrowers engaged in such non-form sector activities has a high turnover on the account of rapid recycling of funds lending to increase in credit flows.

**Books**

J. Kodesia\(^{37}\) made an attempt to analyse the suitability and viability of the credit institutions and reached on the conclusion that one of the most distressing features of the co-operative credit structure was the increasing proportion of overdue year by year, a large part of which was due to welfare defaults.

S.N. Ghoshal\(^{38}\) in his book Agricultural Financing in India analysed the short term and medium term credit needs of the farmers. The another feels that, despite the existence of co-operative institutions which were established to make available timely and adequate credit to farmers the agricultural development continued to suffer due to lack of credit facilities. He is of the opinion that because of the failure of co-operative credit structure the responsibility has been entrusted to commercial banks for financing this neglected sector.
B.K. Pal and K.L. Mukhopadhay\textsuperscript{39} in their work 'Agricultural Finance in West Bengal' have made a joint effort to assess the credit requirements of the farmers of West Bengal. They hold that no doubt, the co-operative banks, and government-sponsored institutions are meeting the credit needs of the farmers, yet the agriculturists are suffering for want of funds. The authors proposed suitable institutional changes to bridge the credit gap, which is likely to widen in the coming future. They suggested that Reserve Bank of India and other financial institutions should amend their working procedures to enable the common agriculturists to get the benefits of agricultural credit in an easy way.

B.P. Sharma\textsuperscript{40} in his book 'Role of Commercial Banks in India's Developing Economy' has observed though the financial institutions particularly commercial banks have been playing a significant role in the promotion of agriculture and in mobilising rural savings, but then there remains a lot to be done in this field. The banks have failed to cover landless labourers, small and marginal farmers which directly or indirectly and indirectly need bank credit facilities badly.

G.C. Srivastava\textsuperscript{41} in his book 'Rural Industrial Development' presents a penetrating analysis of rural industries and their role in rural development. The author opines that the industrialisation of rural areas are a befitting reply to tackle the gigantic problems of economic stagnation, poverty, underemployment and employment. He observe that rural industries can play a significant role in eradicating poverty by creating employment
opportunities in the rural sector, which would ultimately amount to prosperity and development of rural sector.

Ajit Singh in his book “Rural Development and Banking in India: Theory and Practice” has presented an account of the banking system in our country and their role in rural development. He holds that the commercial banks have been playing a pivotal role to improve upon the socio economic plight of rural masses and that is why they are called development agent.

In R.D. Sharma is book “Agricultural Financing in India - Role of State Bank of India, study is conducted to evaluate the role of state bank of India in the agricultural development. The author is of the opinion that state bank of India being a prestigious public sector bank and having a wide network of branches has been playing an appreciable role in the development of agriculture.

V.G. Rao and Parmjit Malaya in their book ‘Role of Commercial Banks in Agricultural Development’ have examined the operational aspects of existing banking schemes at the gross root level and made an attempt to assess the contribution of commercial banks in the development of agriculture. They feel that since nationalisation though the commercial banks have done a commendable job in developing agriculture yet there is a dire need to have a fresh look on the problem of bring more improvements in the future plans.
Charan D. Wadhwa\textsuperscript{45} in his book 'Rural bank for Rural Development' made an attempt to evaluate the role of institutional credit in rural development. The author feels that several financial institution & has been established with a view to cater the financial needs of rural poor. But due to various reasons like pressure of local leaders, complicated banking procedures, like warm attitude of banking personnel and corruption etc., the poor have not been benefited at all.

S.V. Thakur\textsuperscript{46} in his book 'Rural Industrialisation in India, Strategy and Approach' has advocated for rural industrialisation in India. He feels industrialisation of rural area will generate employment opportunities, reduce dependence on agriculture on agriculture, eradicate poverty and can contribute substantially for the betterment of rural sector. The arranged that industrial development is one of the keys to rural development.

The study by B.N. Choubey\textsuperscript{47}, 'Agricultural Banking in India' offers a comprehensive description of the various institutions which are actively engaged in the task of financing agriculture. It has been observed by the author that despite the complexity of institutions the agricultural sector still has been suffering from want of adequate funds.

A.S. Kahlon and Karam Singh\textsuperscript{48} in their book 'Managing Agricultural Finance' expressed their view that despite the presence of plethora of financial institutions still the agricultural sector sufferers for want of funds. The authors have stressed upon the need of effective management of agriculture credit keeping in view the shortage of agro-credit as it is awfully
needed in the adoption of new technology and improved methods and practices to enhance the agricultural production.

Ram Avatar\textsuperscript{49} in his book 'Institutional Finance to small-scale industries has envisaged that small-scale industries are instruments of socio-economic transformation of rural sector. The author is of the view that despite the efforts of government, still small-scale industry suffers for want of adequate funds. He strongly holds that finances are pre-requisites for the survival of small industries and finances can be made available by the government through commercial banks.

J.P. Singh\textsuperscript{50} in his book 'Role of Institutional Finance in Agricultural Development', has attempted to reveal the meaning need and importance of institutional credit in the development of agriculture. He has made an effort to examine some important issues relating to agriculture, lack of simple and straightforward banking methods and non-repayment of agricultural loans by the farmers. He has also tried to identify the types and classes of farmers for whom credit is directly required and how far the institutional credit agencies have been able to meet the credit requirements of the farmers.

Kewal Kumar\textsuperscript{51} in his book 'Institutional Financing of Indian Agriculture with special reference to Commercial Banks' analysed in depth, the progress made in the dispensation of rural credit by various institution. According to him, the share of the institutional credit agencies, which had notional after independence was significant in 1971. Quantitatively
speaking, co-operatives played a major role among the institutional agencies. From the point of view of the quantity of loans, or the number of farmers served, or the percentage of villages covered, co-operative had become a far stronger force than the commercial banks. But qualitatively speaking, commercial banks were found superior to co-operatives. The author has also attempted to assess the importance and impact of the agriculture credit on the agricultural produce.

R.K. Panda in his book 'Agricultural Indebtedness and Industrial Credit' explores the fact that through number of measure shave been undertaken by the government to provide institutional credit to small farmers and small entrepreneurs, yet the small farmers are not free from the clutches of moneylenders. He tried to reveal that the small farmers have not been benefitted by the institutional credit. According to him, measure should be taken to ensure the effectiveness of the institutional credit for the benefit of farmers.

In 'Bank Finance for Rural Development' edited by L.K. Naidu, the author holds that public sector banks have been extending credit facilities to the neglected sectors of the rural economy. They are financing agriculture, small-scale industries, and small business in a creditable manner to eradicate poverty and unemployment from the rural sector so as to accelerate the grassroots development.
Rama Nand Pandey in his book, "Commercial Banks and Rural Development", has made an attempt to investigate the role, need and importance of commercial banking for rural development in general and with special reference to the Siwan district of Bihar in particulars. The study observed that nationalisation of commercial banks has done a lot for the rural development of Bihar.

C.S. Rayudu and C.N. Krishna Naik in their 'Management of Rural Banking' made the study of management of Rural Banking in India with reference to credit institutions operating at grassroots level. The coverage is confined to rural institutions, apex bodies and national level institutions coordinating base level institution. The main aspects examined in the present study have been the way in which rural credit is managed by several types of institutions exclusively established and operating and the way in which they have been formed. The authors hold that non-institutional credit lenders has still strong presence. They have suggested that there must be proper appraisal of credit requirements of each household taking an integrated view of all the economic activities of the households and the talent demands of the rural households should be identified and assessed while sanctioning a full package of credit to households with which the scope for non-institutional money lenders to be eliminated.

U.C. Patnaik and RN Mishra in their book 'Rural Banking in India' tried to find out the magnitude and reasons of mounting overdues and behavioural attitude of the borrowers in their repayment. According to the
authors mounting overdue is a major problem in co-operatives, commercial banks and Regional Rural Banks. Internal factors like lack of pre-lending appraisal, post lending supervision, inadequate marketing outlet etc., external factors like natural calamities wilful default, political and government interference, write off etc., miscellaneous factors like mis-utilisation of credit, low price for agricultural products are considered as important reasons for mounting overdue. The author suggest that pre-lending appraisal like evaluation of agricultural product asses of external forces, availability of inputs, local market structure etc. are to be taken into consideration. The employees of lending institutions should develop a positive attitude in creating friendly relation with borrowers.

The book 'Banking and Rural Development' by H.B. Shivamaggi is divided into two parts. The first part namely, Rural Development Problems, highlights changing pattern of land rights in India, basic problem of rural development, agricultural labour problem, marketing of agricultural produce. Second part namely, Role of Banks, highlights rural credit perspective and the role of banks in rural development, the problem of Agricultural credit in India, policy on credit to small/marginal farmers and landless labourers and concludes with an evaluation of poverty alleviation programmes. Among other things, the study has indicated that the assumptions regarding investment requirements and return form them were too optimistic; the actual position was that the investment level per household, were inadequate to generate enough additional income so as to lift the beneficiaries above the
poverty line. The schematic approach which takes care of back ward and forward linkages were absent in many cases. There are many instances in which the beneficiary is interested in the subsidy amount and not in taking up any activity. These are many among the poor who are not capable of starting any activity on their own. They are to be given wage employment. The author suggests that the credit delivery system has to be as simple as possible and should not provide any room for misutilisation of funds. According to him, facile credit is more dangerous than lack of credit because it may lead to misutilisation of loan resulting in lending the borrower into larger unproductive debt burden.

G.P. Mohapatra in his book 'Rural Banks for Rural Development' tried to assess the role of Regional Rural Bank in the Ganjam district of Orissa and to pinpoint its short-comings in fulfilling the avowed purposes for which it has been created. The working of other financial institutions of the rural sector of Ganjam district has been examined to make a comparative study of their relative working in the provision of credit for the uplift of the rural poor in the district. The study reveals that the viability of Rushikulya Gramya Bank (RGB) Ganjam district is in danger due to the ever-increasing losses. The bank has to be allowed to lend to the richer sections. This will also improve the deposit mobilisation and the resources position of the RGB. The author opinion based on the interviews with the bank staff that subsidies are not provided at the right time. The undue delay in the payment of
subsidies by the government organisations creates a lot of difficulties. This should be avoided.

**Articles**

B.B. Tandon and Poonam Lahiri Chowdhary in their article 'Commercial Banks and Backward Areas' have attempted to analyse the contribution made by nationalised commercial banks in reducing disparities between the developed and backward states. Their study indicated that credit utilisation with respect to deposits grew at a faster rate in backward states than in developed states.

S. Vasudeva Shetty in his paper entitled, 'Some Issues on Rural Development' has made an attempt to identify the causes of rural poverty and to analyse the role which banks have played before and after nationalisation in the rural development especially in poverty alleviation in the country. The study has observed that the sound financial structure developed over the years has largely failed to respond to basic needs of larger section of the society.

Kaushik Basu in his article 'Implicit interest rates, Usury and Isolation in Backward Agriculture' revealed that high rates in underdeveloped rural areas are not due to conventional hypothesis of lender's risk. They exist mainly due to the fact that most of the loans taken from non-institutional sources are unproductive and that there exist personalised relation between
the borrower and the lender. The rate is always higher for the poor as majority of the loans are for consumption purposes.

G. Sudarshan\textsuperscript{62} in his article 'Financing of Integrated Rural Development Programme has presented the role of commercial banks in financing various schemes under the Integrated Rural Development programme. The author has empirically analysed the financial assistance provided by all the financial institutions and reveals that share of commercial banks in the advancement of loans for various schemes under the IRDP is much higher than those of co-operatives and Regional Rural Banks.

B. Nagaraja\textsuperscript{63} in his article 'Financing of Rural Artisans by Commercial Banks; some problems and suggestions, explores that rural artisans have been an integral and continuing elements in economic and cultural set-up of India. Though the importance of this sector in indeed phenomenal from the view point of employment generation, contribution to national income and foreign exchange earnings yet, unfortunately this sector has completely been ignored by the commercial banks and they prefer to finance agriculture which is not the only way of bringing about rural development in the country. The author has pointed out some problems faced by commercial banks in financing rural artisans and suggested remedies to eradicate them.

B.K. Ghosh\textsuperscript{64} in his article "Some Reflections on Rural Banking Agricultural financing by Commercial Banks" pointed out the relevant
information about rural banking and agriculture financing by commercial banks after nationalisation. The author has made an attempt to highlight how much credit is made available by the banks to agriculture sector during 1969 to 1985.

A.B. Noor and Naryanana Rao in their article ‘Agricultural Development Policies: Need for a fresh look’ made an attempt to highlight the problems faced by the farmers with regard to their credit needs. They pinpointed that the credit facilities or incentives which are essential for the development of agriculture, are always availed by rich and affluent farmers. Small and marginal farmers even in respect of subsidies and cash incentives are either pre-empted by feudal landlords or by government officials. Keeping in view the problems, particularly of small and marginal farmers, the authors have strongly recommended a fresh look at the agricultural development policies and have also given some measures to remove the bottlenecks.

H.N. Rao in his article ‘Expanding Role of Banks in rural Economy’ made an attempt to evaluate and predict the role of banks in the rural economy. The author argues that no doubt, commercial banks have contributed substantially for the development of rural sector mainly through agricultural development but landless labourers and small and marginal farmers have not been benefited by the bank credit with the same spirit so far. The author a emphasises that the banks small have to play a leading role in this regard in the coming days.
M.N. Mishra\textsuperscript{67} in his article ‘Rural Banking for the Rural Poor’, holds the view that the Regional Rural Banks were established with a view to provide financial help to the rural poor. But what is happened that the beneficiaries of these banks are mostly the rich farmers and not the small and marginal farmers, landless labourers and rural artisans. According to him this practice is mainly due to the connivance of and corrupt practices indulged in by the bank officials and the powerful local leaders.

Raja Gopal\textsuperscript{68} in an article ‘Agricultural Financing in changing perspective an overview has remembered that prior to five year plans, no deliberate effort was made by the government for the development of agriculture and it continued to be a neglected sector. After nationalisation, the commercial banks are actively engaged in the task of financing agricultural sector, but there appears to no significant change in the socio economic status of peasant community. Defective lending policies, inductee loan amount, non-co-operative attitude of bank employees and complicated procedures of granting loans by the banks are the main hindrances in the way of financing by the banks. The author feels that the time has come to have a fresh look. On the problems faced by the farmers and to make the banks to amend their existing banking practices, rules and regulations to enable the people of rural areas to get the bank credit easily and live a respectable life.

Sunil Kumar\textsuperscript{69} in his article ‘Commercial Banks and Rural Development’ views that despite the presence of commercial banks in rural
sector people are dependent upon moneylenders with regard to their credit requirements. The author feels that, because of the difficult and time consuming procedures of the bank people hesitate to go to the banks for the sake of credit requirements.

Y.P. Bansal and R.S. Narwal\textsuperscript{70} in their article 'Farmers constraints in Borrowing from Credit' discussed the problems faced by the farmers in obtaining credit from financial institutions, particularly from the commercial banks. According to them, the factors, such as lack of knowledge about banking procedures, illiteracy of the borrowers, non—co-operative attitude of the bank employees and tuff procedures of bank etc., restrict farmers to approach commercial banks for obtaining agriculture credit. The study has investigated in-depth the constraints of farmer in obtaining loans from commercial banks and he suggested an empirical strategy for accelerating the pace of farm finance.

Renu Kohli\textsuperscript{71} in her article 'Directed credit and Financial Reforms' examines the theory and empirical evidence on directed credit programmes, reviews the Indian experience and draws some policy conclusions for the Indian financial sector through a comparison of policy implementation in East Asia and India. The author has sought to identify instead conditions under which interventionist polices in India can be made more successful, based upon economic theory and evidence that there is a case for directed programmes. The area of study here has confined largely to lending to small industry, it has not considered Agricultural lending which is to be treated
separately gives the covariant nature of risks in agriculture and the consequent reluctance of banks to lend to farmers. The author agrees, after examining existing evidence on the costs and benefits of priority sector lending in India, that credit policy needs to be re-appraised and geared towards more specific objectives. These objectives could be defined locally on the basis of a bank industry exchange that could guide the banks as to which firms or industries are to be financed. Other aspects where a policy review has been suggested is an introduction of a system of periodic review of targeted firms and industries, designing a sharply focused credit policy with incentives structures to reduce moral hazard and ensure good performance, and streamlining of the monitoring and supervision function of banks.

Article ‘Microfinance in India: Design, structure and Governance’ by K. Kaladhar is an attempt to deal with the nature of microfinance in general, analyse the status and trends of microfinance in India with specific reference to commercial banks and relate the on going financial sector reforms, in their nature and content to the position of micro finance in India. International microfinance aspects are also considered for comparison with the Indian situation. Based on the analysis, conclusions are drawn regarding policy stance, restructuring, design features and micro finance governance. The author opines that microfinance function has been the backbone of rural and semi-urban areas for the banking system and innovations are required on the lines suggested in the specific content of loan policy and procedure,
transparency norms, flexible banking house, etc. If one were to focus on 95 percent of the borrowal account with the overall objectives of improving microfinance activity, as per the goals set, we must have clearly segmented structures in the form of rural subsidiaries of commercial banks for carrying our innovations. For overall supervision, a concomitant feature would be specialising in central banks functioning by entrusting microfinance governance to a separate organisation such as NABARD.

N.A. Mujumdar in his article 'Overhauling the Somnolent Rural Credit System' highlights the problems conforming the rural credit delivery system. The author opines that the financial sector reforms (1991-96) have seriously eroded the flow of resources for financing rural development, including agricultural development. This period witnessed the neglect of priority sectors, decimation of public sector banks, and the general somnolence of the rural credit delivery system, comprising rural branches of commercial bank, co-operative credit structure and Regional Rural Banks. The Reserve Bank of India (RBI) appears to think that application of Basle norms to the public sector banks is all that the reforms are about. Thus the reform package does not have the sub-text of Indian socio-economic philosophy, on the analogy of ray, the reforms emanating from the recommendations of the rural credit survey in the 1950's. It is this 'rootless' of reform which is responsible for marginalisation of rural credit. Superimposed on this somnolent rural credit system is the new banking culture nurtured by reforms, which symbolises the abdication of commitment.
to development, a feature that characterised the financial system during the post-nationalisation period. In the new culture the emphasis is on a 'quick kill'. Banks have no funds to support the production of sugar in Maharashtra, but they have enough resources to extend sizeable bridge loans to enterprises like the MS shoes. The author further argues that there are atlas four factors which are critical in the exercise of contextualisation of the role of rural credit in the future development strategy viz., food security, ensuring sustained Agricultural growth, employment and emergence of wide range of hi-tech segment in the rural sector. According to author the development imperatives demand that overhauling of the somnolent rural credit delivery system should form and integral part of any meaningful package of financial sector reforms. It is high time that RBI amends its agenda and addresses this issue squarely.

Article entitled 'Viability of Rural Banking' by P. Satish and C.K. Gopal Krishna, reviews the framework regarding viability of banking and examines the macro-level components of the financial structures of rural banking institutions, to see whether non—viability is structurally in-built. The author opines that a financial institution is viable when its assets exceeds the liability excluding share capital and reserve fund. A related concept in viability is that financial institution is currently viable if it can generate surplus over its expenses. A recent study commissioned by World Bank, undertaken by a private constancy institution has also gone into profitability of rural financial institutions especially of commercial bank as well as the RRB. It
reveals that a rural branch of a commercial bank is in net profit whereas the RRB is in a net loss. This is mainly on account of comparatively lesser operating income for the RRB as well as a greater percentage of operating expenses. The analysis reveals, among others, that several banking institutions and units have been able to reduce the loan losses and keep them with in manageable limits so as not to affect the institutions or the units profitability. The author suggested line of action which can be adopted for making the rural banking operations or the existing non-viable institutions or units viable, viz., increasing the level of business both on asset as well as on the liability side the greater the volume of working funds the lesser would be the per unit cost of management, each rural banking institution has to look for increasing its income through expanding its portfolio of non-fund bases and non-asset based activities, the deregulation of interest rates which has been set in notion for co-operative banks and RRBs has to be extended for commercial banks also so as to ensure that every banking institutions able to price its product so that it cover it cost of funds including a return on equity, cost of operations and risk costs, better system of loan appraisal, tightening of the repayment terms, and follow up system, reassessment of the borrowings, increasing the share capital or own funds of the rural banking institutions etc. The implementation of these steps in a systematic manner would ensure the viability of these operations.

K.P. Aggarwal, V. Puhazhenrdhi and K.J.S. Satyasai\textsuperscript{75} in their article ‘Gearing Rural Credit for the Twenty-First Century’ high light the challenges
which the rural credit will have to face. The authors opine that rural areas dominated by the marginal and small farmers and poorer section of population, if neglected, will lead to imbalances. Rural-urban divide may deepen, inter-regional disparities may widen and income inequalities may intensify. The authors reviewed the existing rural credit system. They argue that in spite of conscious effort for the expansion of credit to agriculture, there exists a substantial gap between the demand for and supply of agricultural credit and the dependence of small farmers and of less developed regions on informal source for credit is still quite high. The credit needs of the rural non-farms sector which holds promise for the future also have to be taken care of. Thus the task before the rural credit system in the next century will be formidable and complex as it has to deal with two diverse challenges, namely, addressing to the basic problems of rural development and globalising Indian Agriculture. Thus, it has to deal with two distinct clientele groups; one having small individual credit need but accounting for high proportion of total credit needs and the other requiring huge amount of credit for practising capital intensive, export-oriented hi-tech agriculture. Hence, what is needed is to gear the existing credit system to these challenges. Do we need to demarcate and separate the entity of the credit structure for the two clientele groups? If we decide to agree on the above argument, can the commercial banking system and co-operatives concentrate on separate clienteles? When a single organisation, i.e. commercial banks can handle both short-term and investment credit needs,
why should there be two separate channels with huge management, administration and transaction costs in the co-operative system? Can single window system be followed for this purpose? These issues need to be addressed.

K.M. Shajahan in an article “Priority Sector Lending: Some important issues,” highlights the various important issues. The author quoted findings and suggestions of various communities and working groups viz., RBI committee on All India Rural Credit Survey (1954), the study group of the National credit council (1969) headed by D.R. Gadgil, working group headed by K.S. Krishnawamy. While analysing, the author concluded with this that priority sector leading emerged after the nationalisation of banks as a major directed programmed of directed credit basically aimed at extending much needed credit to hither to neglected key sectors of the economy. In recent years, the drop in overall priority sector lending has, no doubt, come about alongside the decline in overall credit deposit ratio of the banks.

But what is also disturbing is that in the process the position of the poorer states in regard to priority sector bank credit deems to have worsened because of the manner in which priority sector targeting has been done by linking it to the total bank credit advanced rather than to total bank deposit mobilised. The targeting of RBI of priority sector bank lending as a proportion of total credit, and not total deposits, has meant that the priority sector credit falls not only when there is shortfall in reaching the norm itself but also when the denominator used for the norm, namely CD Ratio, slips
downwards. In stead, if priority sector lending targets had been fixed in terms of total deposits, priority sector credit need not have declined even when overall CD ratio slipped down wards.

N.A. Mujumdar in an article ‘Credit Support to priority sectors: A Macro Perspective’ pin pointed some of the aspects. The author condemned the loan melas and debt forgiveness or write off which has eroded the repayment ethics. The neglect of priority sectors at the macro level was exacerbated at the micro-level by the emergence of the new banking culture, with its emphasis on a ‘quick kill’. The new culture also signalled the abdication of commitment to development. No doubt public sector banks have retained the priority sector credit target in 1996-99 but it is the mindset of bankers, which is yet to change. Public sector banks have such an excellent track record in penetrating the rural sector and in reaching out to the mass of small borrower: it should not be difficult for them to rediscover their sense of commitment to development.

In her article entitle “Rural Bank Branches and Financial Reform” Renu Kohli makes an attempt to evaluate the performance of bank branch licensing policy in India and relates it to the present restructuring of the banking industry under financial reform. Within this context, the focus of the article is the future course of rural public sector banks. It offers the Indonesian transformation of Bank Rakyat Indonesia, as a model relevant for the rural branches of public sector banks in India. It argues for their
transformation as an alternative to closer or gradual substitution by private sector banks.

V. Puhazhendhi and B. Jaya Raman in their article ‘Rural Credit Delivery, performance and challenges before banks’ review the performance of the rural credit delivery system, in three focus areas of the rural credit market, viz., agricultural, non-farm sector activities and poverty alleviation and the challenges that the banks are likely to encounter in the next decade. The paper also suggests strategies for overcoming these challenges. The paper opines that the demand for credit in agriculture is showing increasing trend due to commercialisation and diversification that has taken place in the sector over time. The credit needs of the farm sector that holds promise for the future also have to be taken care of. Accelerating the pace of capital formulation in agriculture, infrastructure development with focus on transportation and marketing, ensuring credit discipline will enable the rural sector to absorb more credit from institutional sources. The focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency recovery performance, small farmer coverage and balanced sectoral development.

**SCOPE OF THE STUDY**

The study is an attempt to highlight the role of banking sector in the area of rural development. In banking sector we covered all those institutions
which are engaged in providing financial assistance for the cause of rural
development.

The chief institutions thus, are included, Commercial Banks, Co-operative
Banks, Regional Rural Banks and National Bank for Agriculture and Rural
Development.

In the study an attempt is being made to assess the role of these institutions
in rural development.

**OBJECTIVES OF THE STUDY**-

The overall objective of the study is to assess the role of various
banking institutions in the rural development of India. The following are the
specific objectives of the Study:

1. To study the problems of rural areas and the scope of banking
   institutions in solving these problems.
2. To study the role of Commercial Banks in rural development.
3. To study the role of Co-operative Banks in rural development.
4. To study the role of Regional Rural Banks in the rural development.
5. To study the role of National Bank for Agriculture and Rural
   Development.
6. To make a comparative study of the institutions engaged in the rural
   development and to assess the role of banking institutions in rural
   development.
7. To identify the gaps and to suggest improvements in the existing system of rural banking.

**METHODOLOGY**

In order to attain the aforesaid objectives the following steps were undertaken.

(i) **Data Required** -

For the completion of the study we used both primary as well as secondary data. The secondary data was used to make quantitative analysis of the contributions made by different financial institutions in rural development.

The primary data was used so as to clarify various issues concerning with the rural developmental work and also to make qualitative assessment of the role of banking institutions in the rural development.

(ii) **Sources of data collection** -

The primary data was collected by way of discussions with the officials of banking institutions, officials of the state and central government departments, discussions with eminent scholars and academicians and by taking feedback from the selected number of beneficiaries in rural areas.

The secondary data was collected from the annual report of the Commercial Banks, Co-operative Banks, Regional Rural Banks, National Bank for Agriculture and Rural Development and the Reserve Bank of India, the
statistical record of these institutions, various published and unpublished reports, newspapers, journals, books etc.

III) Sample-

Since we had proposed to study all the institutions engaged in the rural banking, there was no question of sampling so far as secondary data is concerned. For the collection of primary data we selected beneficiaries based in rural areas of Haryana.

ORGANISATION OF THE STUDY

The first chapter of the study is an introductory chapter, in which we discussed the concept of rural development and rural banking, need for rural banking in India. In this chapter we also highlighted the important statistics on some aspects of the institutions engaged in rural banking. This chapter shall also explain the methodology of research used for the present study.

In the second chapter we made an in-depth analysis of the role of Commercial banking in rural development.

In the third chapter we discussed the role of co-operative banks in the rural credit. The nature, functioning and the role of Regional Rural Banks and National Bank for Agriculture and Rural Development in the rural development is being discussed in the forth and fifth chapter respectively.

In the sixth and the last chapter we discussed the present multi-agency approach to rural banking in India. We highlighted the problems and also suggested certain remedial measures.
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