CHAPTER - I

INTRODUCTION

The present banking system in India was evolved to meet the financial needs of trade and industry and also to satisfy the public demand of financial institutions of the country. The constituents of the present system of banking in the country are of varying origin and sizes. Reserve Bank of India is at apex, and acts as the fiscal agent of the government, manages the currency, and controls the credit in the national interest. The Reserve Bank of India is followed by the State Bank of India; the State Bank of India's subsidiaries; 20 major nationalized scheduled banks; Co-operative Banks and Regional Rural Banks which were formed to assist particularly rural folk. Thus, the banking sector in India comprises of the public sector, commercial banks, private sector, cooperative banks and regional rural banks.

1.1 Meaning and Concept of Banks

The banking whose beginning is shrouded in mystery has now become the foundation of modern economic development. The dictionary meaning of the term ‘Bank’ is the slop at the side of a river, a raised mass of the earth or a repository for money. In the wider sense of economics, a bank means a repository, a store or a safe of the whole economy.¹ Banking which is the kingpin of all economic activities and is an instrument is shaping the economic destiny of a country is also considered as the nerve
center of economics and finance of a nation and the barometer of its economic perspective.\textsuperscript{2}

The origin of modern bank is traceable in ancient times. There is a reference to the activities of money changers in the temples of Jerusalem in the new testament. In Greece, the famous temples of Delphi and Olympia served as the great depositors for the people's surplus funds and these were the centers of money-lending transactions. These temples acted as the safe places or store houses for the precious metals before the days of coinage and in the later times they lent out money for public and private purposes at interest though they paid themselves. The development of early commercial banking was closely associated with the business of money changing. The bank of Venice, Geneva, Amsterdam, Hamburg had been originally established with this purpose, although some of them may have afterwards been made subservient to other purposes. As a public enterprise, banking made its first beginning around the middle of 12\textsuperscript{th} century in Italy and bank of Venice, founded in 1157 was the first public banking institution followed by the establishment of the bank of Barcelona and Bank of Genoa in 1401 and 1407 respectively.\textsuperscript{3}

In the modern scenario, a 'bank' is an institution that accepts deposits of money from the public withdraw able by cheque and used for lending. Thus, there are two essential features which make a financial institution a bank i.e., acceptance of money from the public and lending to them. The former is its unique or most distinctive function which relates to
the use of deposits for lending it to other and not for financing its own business of any kind. The word lending is used broadly to include both direct lending to borrowers and indirect lending through investment in open market securities. Banks are said to be departmental stores of financial services as they render a wide variety of such services to their customers. The range of these services differs from bank to bank, depending mainly on the size and type of banks. So far we have highlighted only two of them because in combination, they are the necessary services which a bank as a bank must perform.\textsuperscript{4}

The banks play an important role in the development of a country. A sound, progressive and dynamic banking system is a fundamental requirement for economic development. As an important segment of the tertiary sector of an economy, banks act as the backbone of economic growth and prosperity by acting as a catalyst in the process of development.\textsuperscript{5}

The banks render vital services to the masses belonging to the various sectors of the economy like agriculture and industry. They inculcate the habit of saving and mobilize funds from numerous small households and business firms spread over a wide geographical area. The funds so mobilized are used for productive purposes in agriculture industry and trade.\textsuperscript{6}

Some studies based on the experiences of individual countries and some other based on comparative data from developed and
underdeveloped counties observed that the financial-intermediation has a positive role to play in the development process, because finance plays a significant role in the economic development and without finance the economy is like a fish without water. As an economic institution, banks are directly and positively related to the performance of any economy. In view of the changing structure and requirements of a developing economy the role of commercial banks has occupied a new and significant meaning within the banking institutions. The increased structure of banks identifies itself with the problems and responsibilities for making banking as an instrument for bringing about social and economic transformation of a developing country. Banks have got the position of prime movers and pace setters for the achievement of socio–economic objectives of the country because social responsibilities have undergone far-reaching changes. 

1.2 Banking System in India

Banking in India is as old as hills. It flourished even in ancient Vedic times. Money was accepted as deposits and given in the form of advances. The great Hindu Jurist, A.D. Manu, devoted his work in second or third century to deposits and advances and laid down rules relating to rates of interest to be paid or charged. During the Mughal period, the indigenous banks played a very important role in lending money and financing of foreign trade and commerce. They were also engaged in profitable business of money changing. Every town, big or small had a ‘Sheth’ also
Table No. 1.1
Banking and Financial Agencies in Ancient India under the Unorganized Money Market

Money-lenders

Indigenous Bankers

Professional
Maltanis
Chettiers
Shroffs
Others

Non-Professional
Traders
Marwaris
Commission Agents
Others

Professional
Non-Professional

Land-Lord

Others
(i.e., friends, relatives, etc.)

Merchant

Agriculturists
known as ‘Shah’, ‘Shroffs’ or ‘Chettiar’ who performed a number of banking functions. In big cities, besides sharoffs, there was ‘Nagar Sheth’ or ‘Town Bankers’ (Table No. 1.1). These Sheths or Shroffs, besides doing money lending business were engaged in transferring from place to place and doing collection business mainly through ‘Hundis’. The ‘Hundis’ were an accepted mode of transfer of money for commercial transactions. There was atleast one ‘Sheth’ in almost every town or village, even in the remotest corners of the country. Most of the money, he employed in his trade, was his own. The rate of interest charged by him was very high as the advances were unsecured and risky, and were repaid over a long period of time. There had been changes in the standard of public morality; growth of the banking habits, change in the public opinion and expansion of banking in rural and semi-urban areas, the money-lenders or so called sheths fastly looses their importance.8

India’s present financial system is large with a variety of banks, financial institutions, capital market institutions, non-banking institutions and a number of indigenous banks. Reserve Bank of India controls all banking operations in the country. Broadly the Indian financial system can be divided into organized and unorganized segments. The organized sector consists of banking institutions and non-banking institutions which includes post offices’ savings bank operations, stock markets etc. Banking institutions are further divided into development banks, co-operative
banks and commercial banks. The structure of Indian financial system is depicted in the flowchart given in Table No. 1.2.

Table No. 1.2
Structure of Indian Financial System
So as to understand the present make up of banking sector in India and have an idea of how it will shape up in facing the new millennium challenges, it will be in fitness of things to look at its development, which have witnessed tremendous change in the face of commercial banking all over the country.

1.1.1 Banking System in India Before Nationalization

Historically, banking in India was started and developed by the industrialists/businessmen, whose activities were concentrated mainly in big cities and nearly six lakh of villages and even the smaller towns were devoid of banking facilities.

Modern banking make its beginning with the setting up of the first Presidency Bank, the Bank of Bengal in Calcutta in 1806, two other such banks were also setup in Bombay and Madras in 1840 and 1843 respectively. They were private share-holder's banks though East India Company had also contributed to the share capital of each of them. There were only five commercial banks in existence in the beginning of 19th century which were established in India with Indian ownership and management. During the period from 1901-1914, twelve more banks were established. Couple of other banks established during the 18th century had much shorter lives. They all were amalgamated into the Imperial Bank of India in 1921 which was nationalized as the State Bank of India in 1955. Till the middle of the 20th century, there was a long period of slow growth interspersed with short periods of rapid growth of bank formation,
followed by banking crises which saw the failure of banks in large numbers. Thus, recurrent bank failures were the main features of the growth of banking in India over this period. During this period of high economic activities, most of the times the victims of banks failure were small banks which sprang up like mushrooms and several causes were responsible for these periodic failures. The main among them were insufficient paid up capital and reserves and poor liquidity of assets, unrestricted loans to directors and concerns in which they were interested, incompetent and dishonest management, and absence of a Central Bank to supervise, guide and help other banks in the country. The periodical failure of banks hampered greatly the growth of commercial banking in the country for want of public confidence in it.  

It may be emphasized that banking system in India came to be recognized in the beginning of 20\textsuperscript{th} century as powerful instrument to influence the pace and pattern of economic development of the country. The major banking events between 1918-1939 were the amalgamation of the three Presidency Banks into the Imperial Bank of India in 1921 and the establishment of the Reserve Bank of India in 1935 as the Central Bank of India with its large network of branches all over India, and conservative management according to the principles of commercial banking, but stature and strength of commercial banking in the country was not sound. With the setting up of the Reserve Bank of India (RBI), it filled a big gap in India's banking structure and met one of the necessary
conditions for a healthy growth of banking in the country. Thus, the role of commercial banks in India remained confined to providing vehicle for the community’s savings and attending to the credit needs of only certain selected and limited segments of the economy. The banking scenario prevalent in the country during the period 1948–1968 presented a focus on class banking on security rather than on purpose. The emphasis during this period was on laying the foundation for a sound banking system in the country. Banking Regulation Act was passed in 1949 to conduct and control the operations of commercial banks in India. Another major step taken during this period was the transformation of Imperial Bank into State Bank of India and redefining of its role in the Indian economy, strengthening of the co-operative credit structure and setting up of institutional framework for providing long-term finance to agriculture and industry. Banking sector, which during the pre-independence India was catering to the needs of the government, rich individuals and traders, opened its door wider and set up first time to bring the entire productive sector of the economy – large as well as small, in its fold.¹⁰

1.2.2 Banking System in India After Nationalization

The Social Control Act, 1968 brought banking industry under the purview of social lending and the nationalization of banks marked a phase of government control and domination. Commercial banks were viewed as agents of change and social control on banks. After the nationalization of 14 commercial banks, the President of India issued an ordinance in 1980
and took 6 more commercial banks under government's control.11 The six fold objectives as set by the government for nationalized banks have been removal of control by few, the elimination of the use of bank credit for speculative and unproductive purposes, extension of credit to priority sectors, giving a professional bent to bank management, the encouragement of new classes of entrepreneurs and provision of adequate training as well as reasonable terms of service to bank staff.12 This period saw the birth and growth of what is now termed as 'directed lending' by banks. It also saw commercial banking spreading to far and wide areas in the country with great pace during which a number of poverty alleviation and employment generating schemes were sought to be implemented through commercial banks. One of the major objectives of development of banking system at the time of their nationalization was to extend the scope of bank credit to the unbanked especially the rural hinterland and functionally means extending credit to agriculture, small industry and to the self-employment, which were deemed to be important in terms of their contribution to national income growth and expansion of employment opportunities. Nationalization of banks aimed at improving the economic status of those persons and the areas, which were badly neglected in the pre-nationalization era. After nationalization of banks a significant move was required to promote balanced economic development by removing regional imbalances and making it 'mass' banking from 'class' banking. The main thrust of the commercial banking during this period was on
social lending in order to fulfill the objectives of growth, equity, social justice and self-reliance. This period also witnessed the birth of Regional Rural Banks in 1975 and NABARD in 1982 which has priority sector as their focus of activity. Although number of commercial banks declined from 281 in 1968 to 268 in 1984, number of scheduled banks shot up from 71 to 264 and number of non-scheduled banks registered perceptible decline from 210 to 4 during the corresponding period. In the consolidation phase which began in 1985, for the first time, serious attention was paid to improving housekeeping, customer services, credit management, staff productivity and profitability of the banks and concrete steps were taken during this period to rationalize the rates of bank deposits and lending. The result was that during this period, the banks ended up consolidating their losses rather than the gains. However, they tried to keep up their morale by continuing to post profits through antiquated accounting methods.

1.2.3 Banking System in India After Reformatory Period

Continued financial profligacy of the government coupled with close monitoring and control rendered the finance system completely dependent and inefficient so much by the year 1991, the situation was ripe for drastic reforms. For the first time in its history, India faced the problem of defaulting on its international commitments. The economy suffered from serious inflationary pressures, emerging scarcities of essential commodities and breakdown of fiscal discipline. The government took swift
action to restore international confidence in the economy and redress the imbalances. Various macro economic structural reformatory measures were undertaken in the field of foreign trade, tax system, industrial policy, and other financial sectors with the objective to improve the underlying strength of the economy, attempt to ensure against future crises and further the fundamental developmental objectives of growth with equity and self reliance. In spite of experiencing certain ups and downs, the commercial banks have witnessed a phenomenal increase in India and subsequently, the number and relative importance of non-scheduled commercial banks became nil by the year 1999–2000 and the number of Regional Rural Banks branches rose from 19 to 196 in the same period, with a view to meet the rural credit needs more efficiently. Similarly, with easy entry of private and foreign banks in commercial banking sector, their respective shares in different banking parameters have also witnessed a change.

1.3 Institutional Set-up for Rural Finance in India

Introduction of the scheme for social control over commercial banks assisted the process of directing the flow of commercial bank credit towards agriculture by declaring agriculture as a priority sector for bank lending. Targets were laid for the banking system in respect of the deployment of funds for agriculture and other priority sectors and banks were encouraged to lend to agriculture through several incentives and schemes of assistance. In other words, it would be appropriate to have a
closer look at the evolutionary process of the network of rural credit institutions. It is well known that there exists a multi-agency system of providing rural finance. A very large number and types of such institutions, have been set-up to provide credit to the rural poor to achieve the main objective of national credit policy which is the development through credit. These credit institutions are not only multi-type agencies but these agencies also function at multi-levels (Table No. 1.3).

**Table No. 1.3**

**Existing Institutional Set-up for Rural Finance in India**

<table>
<thead>
<tr>
<th>Level</th>
<th>Number</th>
<th>Name of the Institution</th>
<th>Functional Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>5</td>
<td>1. Reserve Bank of India</td>
<td>Refinance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. The Agricultural Refinance and Development Corporation</td>
<td>Refinance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. The Agricultural Finance Corporation</td>
<td>Refinance and Consultancy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. The National Cooperative Development Corporation</td>
<td>Refinance and Consultancy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. The National Bank for Agriculture and Rural Development</td>
<td>Refinance, Consultancy and Monitoring</td>
</tr>
<tr>
<td>State</td>
<td>4</td>
<td>1. State Land Development Banks</td>
<td>Refinance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. State Cooperative Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. State/Central Industrial Cooperative Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Commercial Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td>District</td>
<td>2</td>
<td>1. Regional Rural Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Central Cooperative Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td>Field</td>
<td>6</td>
<td>1. Primary Land Development Banks</td>
<td>Financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Commercial Banks</td>
<td>Financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Regional Rural Banks</td>
<td>Financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Primary Agricultural Credit Societies</td>
<td>Financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Farmers Service Societies</td>
<td>Financing</td>
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<tr>
<td></td>
<td></td>
<td>6. Large-Sized Adivasi Multi-purpose Societies</td>
<td>Financing</td>
</tr>
</tbody>
</table>

1.3.1 Reserve Bank of India (RBI)

A complete absence of a banking institution both at the national and field level for a very long period led to the growth and virtual monopoly of money-lenders in supplying credit to the rural people in India. The credit to bring the Reserve Bank of India into existence goes to the Indian Central Banking Enquiry Committee (1931), the recommendations of which were so strong that the bank saw its inauguration on April 1, 1935.1 In the starting years of its inception, the RBI, through its Agriculture Credit Department, made attempts to establish contacts with the co-operative agencies operating in different parts of the country. The Reserve Bank of India individually or jointly with the Department of Banking Affairs in the Union Ministry of Finance and the Government of India has been appointing various committees, groups, study teams and panels to go into the rural credit problems and suggest measures to achieve the objectives of national credit policy.

1.3.2 The Agriculture Refinance and Development Corporation (ARDC)

With the launching of Five Year Plans during fifties, a wide variety of developmental and promotional functions came to be performed by the bank, with economic development assuming a sense of urgency, which in the past was not considered in the purview of Central Banking. Thus, the increasing workload with the RBI making it unable to provide undivided attention to the fast growing rural credit structure, the inadequacy of long-term agricultural refinancing arrangements, the emphasis of the Third
Five Year Plan and the recommendations of All India Rural Credit Survey Committee for making permanent arrangements for term-loans in the rural credit were the factors that led to the creation of Agricultural Refinance corporation which started functioning from July 1, 1963 and which was renamed as Agricultural Refinance and Development Corporation in 1975. Since its inception ARDC had been actively engaged in agricultural and rural development by refinancing 75 to 95 percent of the project financed by land development banks, commercial banks, regional rural banks and different co-operative banks. The ARDC had been making considerable efforts to bring development in those states which are classified as less developed or backward.

1.3.3 Agricultural Finance Corporation (AFC)

The commercial banks which had been working as credit institutions since long but they had little experience in the field of rural credit. A need was felt to set-up an institution at the national level to help commercial banks in financing agricultural projects, the Indian Banks’ Association (IBA) promoted the Agricultural Finance Corporation (AFC) on April 10, 1968. Since then AFC has been acting as technical appraisal and consultancy agency for the member banks in the field of project formulation in the rural and backward areas and working in very close association with various State Governments in preparing viable schemes which could be supported by rural credit institutions. Presently, the
corporation is working like a research and developing wing of banking industry rather than an independent financial institution.

1.3.4 National Co-operative Development Corporation (NCDC)

The National Co-operative Development Corporation (NCDC) was set-up in 1963 for promoting various economic programmes in the co-operative sector and providing financial assistance in the form of loan and subsidy to the co-operatives. The corporation was assigned the responsibility of implementing programmes covering poultry, fisheries, minor forest produce, handloom, coir, sericulture and dairy farming in the co-operative sector, basically meant for weaker sections of the society.

1.3.5 The National Bank for Agriculture and Rural Development (NABARD)

With the requirements of ever expanding dimensions and complexity of the RBI’s role in the field of rural development and on the basis of recommendations of various committees’ and commissions’ to create an Agricultural Development Bank of India as the apex organization, NABARD was created as the famous institution, which was viewed by its creators as a device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of Integrated Rural Development and also as an exercise in decentralization.18

1.3.6 Co-operative Credit System

In 1951, the All India Rural Credit Survey Committee in its report explained the reality of rural credit and admitted that co-operation had
failed but stated that co-operatives must succeed as it was the least unsatisfactory channel of credit to the cultivator. The co-operative movement received a new impetus in the form of ‘Integrated Scheme of Rural Development’ and continues even today. The co-operative credit structure developed into a three-tier system over the years consisting of State Co-operative Banks and State Land Development Banks at the state level, Central/District Co-operative Banks at the district level and Primary Agricultural Credit Societies, Farmers’ Service Societies and Large-sizes Adivasi Multipurpose Societies at the field level.

In Himachal Pradesh, the State Co-operative Bank is an apex bank under short-term credit structure. It has a network of 153 branches in Shimla, Kinnaur, Bilaspur, Mandi, Sirmaur, and Chamba districts of the state. There are two central co-operative banks in the state, namely, Kangra Central Co-operative Bank Ltd. (KCCB) with 159 branches operating in Kangra, Hamirpur, Kullu, Una and Lahual–Spiti districts whereas Jogindra Central Co-operative Bank (JCCB) with 20 branches working in Solan district only.  

1.3.7 Commercial Banks

The structural weaknesses, failure to mobilize adequate deposits, mounting overdues, lack of trained staff, etc. were the certain factors due to which the co-operative credit system was trailing behind the demand for it in the agricultural sector. The conversion of Imperial Bank of India into the State Bank of India may be considered as the first effort to involve a
commercial bank in rural banking. The Rural Credit Survey Committee in 1954 reported that this new institution should draw up in collaboration with the Reserve Bank of India and undertake a much larger programme of branch expansion to rural areas. Over the years, there has been a tremendous growth in the rural branches of commercial banks which is possible due to the various efforts of the government to involve commercial banks in rural banking.

In Himachal Pradesh, there are 19 commercial banks with a network of 667 branches. Out of these, 542 branches are located in rural areas and 125 branches in urban or semi-urban areas. SBI, PNB, UCO and SBOP are the major banks operating in different parts of the state. In addition to these commercial banks, five private commercial banks, namely, ICICI, UTI, HDFC, IDBI and IIB with 9 branches are also serving the people of Himachal Pradesh.

The commercial banks affect ability, opportunity and willingness to save by inspiring confidence of people and through a battery of incentives like giving higher interest rates on deposits, providing cheaper or free transmission of funds, safe custody of valuables, financial consultations, etc. This is needless to say that capital formation largely depends on the effectiveness of institutions which funnel the money capital flows.

An efficient commercial banking system equipped with an adequate coverage must be build to increase the rate of capital formation, so that apart from mobilizing savings, it may also be able to foster the banking
habits in a society. The awareness among the people about socially wasteful spending is to be created by the commercial banks and provide them the golden opportunities to make investment in more income generating assets. The innovator always looks towards the banks for credit he needed to carry out his plans. Obviously, it is the bank which provide the basic fuel simply the credit for economic growth.22

The economy of a developing country faces many problems, like poverty, scarcity of capital, lack of entrepreneurship etc. It mostly depends on agriculture but at the same time agriculture is not modernized. The commercial banks can work as catalytic agents of growth by following the right kind of policies in their working, depending upon the socio-economic conditions prevailing in the country. The banks have amazingly large investment potentiality and can make a significant contribution in eradicating reduction in inter-regional and inter-sector disparities through rapid expansion of banking services. The lending policy of a bank should be production based and purpose-oriented with socially desired goals.

A developing country like India, where the pressure of population is heavy and a good of them is living below poverty line who can not think of saving at all, faces a serious problem of capital formation, because without capital no country can develop rapidly. Thus, when we think development we are forced to think about the various sources of credit. Indian farmers, labourers and artisans, who reside in rural areas do not get credit in time and hence they suffer.23 The commercial banks help the agriculture sector
in a number of ways, such as, expansion of branch network and providing credit to this neglected sector for the modernization and mechanization of farms and for marketing agricultural produces. The commercial banks are moving fast towards the attainment of agriculture development goal. The financial assistance is also provided for animal husbandry, dairy farming, sheep breeding, poultry farming and horticulture. Since commercial banks are the most important source of institutional credit in India, they fulfill the credit requirements of small and marginal farmers, landless agriculture workers, artisans, petty shopkeepers and all types of rural people for the upliftment of rural areas. Commercial banks help the industrial sector in many ways by granting loans to small scale cottage and village-industrial units for expansion, modernization and renovation and also provide them working capital finance. Bank’s role is not only to provide finance to set up industries but they also nurse the sick units with a view to enable them to continue their production and maintain their level of employment.

The commercial banks further help in developing both exports and imports by providing foreign exchange facilities to importers and exporters of goods. The commercial banks help the economy by providing funds to investors and consumers that tend to stimulate and facilitate the growth in both the supply and demand for goods and services. By providing loans to the investors and consumers, the commercial banks are not only helping in increasing the living standard of the people, but also enhance
the demand for raw material and finished goods which ultimately leads to increase in the employment opportunities.

The commercial banks provide a range of services to the whole community in many ways. Apart from the basic banking services such as deposits, loans and advances, banks have been traditionally rendering certain ancillary services also to their customers such as remittance, demand drafts, sale and purchase of foreign exchange, locker facilities, traveler's cheques, trustier and executor services etc. Modern commercial banks have diversified their activities with their entry into new non-traditional areas of business. These new areas include mutual fund, merchant-banking activities, portfolio management, corporate and project counselling, hire-purchase finance, equipment leasing, venture capital and factoring services. These activities by banks constitute the life blood of economic society and result in the development of industry and trade in the country.

By increasing the branch network in backward areas, the banks made credit facilities available at doorstep in these areas. The funds collected in the advanced regions through deposits may be channelised for investment in the underdeveloped regions of the country and this result into more balanced regional development. The commercial banks have been assigned the task of accelerating the economic growth by bringing about a revolution in different sectors of the economy and better distribution of income and growth, reducing unemployment and
inter/intra regional economic disparities and ameliorating the economic lot of the vast majority of people living in substandard economic conditions.

To sum up, the services rendered by the modern commercial banks is of inestimable value. Banks have become an omnibus institution in the modern times to which people of varied interests look for help and success. They give life and sustenance to their customers and get vitality and vigor in turn from them to become an effective tool of social transformation and rejuvenations.

1.3.8 Regional Rural Banks (RRBs)

Co-operatives and commercial banks were the institutional agencies providing credit to the rural people at the village level prior to the appearance of Regional Rural Banks on the rural credit scene. As the co-operatives failed to meet the increasing rural credit needs and commercial banks lacked the ability to tackle the vast expanding credit requirements of the rural poor because of their cost structure and inadequate local involvement. On the recommendations of M. Narshimam led working group, a commercial banking institution under the name Regional Rural Bank appeared on the rural credit scene on September 26, 1975. The RRBs were established mainly with a view to develop the rural economy by providing credit and other facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas to the small and marginal formers, agricultural labourers, artisans and small entrepreneurs.
Himachal Gramin Bank (HGB) with 108 branches and Parvta Gramin Bank (PGB) with 27 branches are operating in different parts of the state which increases the tally of total number of commercial banks to 811 in Himachal Pradesh.

The study of the evolutionary process of the rural credit institutional network in the preceding paragraphs exposes certain tendencies. Keeping in view the huge amount of credit needs and the vastness of the area and population to be covered, the Government of India conceded that no single rural credit agency could meet the ever expanding requirements. Accordingly, a multi-agency approach to rural credit has been adopted.

1.4 Commercial Banking and Rural Credit

Credit plays a vital role in the economic development of a country, be it developed, underdeveloped, or a developing one like India. The pressure of population is heavy and a good number of them are living below poverty line who cannot think of saving at all. Thus, a country like India faces a severe problem of capital formation because no country can develop rapidly without capital and whenever we think of development we are forced to think about the various sources of credit. Indian farmers, agricultural labourers and artisans, who reside in rural areas, do not get credit in time and hence they suffer. The short-term and medium-term financial requirements of Indian farmers are met through the loans borrowed from money-lenders, co-operative societies and from the government.
Broadly, there are two sources of credit available to the rural people:

i) Non-institutional finance

ii) Institutional finance

Non-institutional or private sources include money-lenders, traders and commission agents, relatives and landlords. Institutional sources consist of co-operatives, commercial banks, RBI and ARDC. In spite of favourable attempts made by the government to provide sufficient institutional credit to the rural masses, the government is lagging behind even today and people of the country as well as the state of Himachal Pradesh are being exploited by the money-lenders. The money-lenders, landlords and big tenants occupy an important place in banking business. The money-lenders being the sole suppliers of the credit needs of the peasantry, they take undue advantages of the helplessness of the cultivators and try to get as much for their services as possible. Traders and commission agents supply funds to the farmers for productive purposes much before the crops mature. They force the farmers to sell their produces at low prices to them and they charge a heavy commission in lieu of this service.

Rural people generally borrow from their own relatives in cash or kind in order to tide over temporary difficulties. These loans are contracted in an informal manner and they return it soon after the harvest. People, particularly small farmers and tenants depend mainly upon landlords and others to meet their financial requirements. These sources of finance have
all the defects associated with money-lenders, traders and commission agents. Interest rates being very high, the rural poor are unable to repay the loans and they are cheated out of their lands. The landless labourers are forced to become bonded slaves. Serious defects of private sources of agricultural finance includes use of credit for unproductive purposes, high rate of interest and hence inability of farmers to return the principal credit, meet the interest charges, difficulty of small and marginal farmers to raise credit.

Institutional credit refers to the funds made available by co-operatives, commercial banks, and other government financed agencies. The need for institutional credit arises because of the weakness or inadequacy of private agencies to supply credit to rural population. This type of credit is never exploitative and the motive is always to help rural poor to raise their productivity and maximize their income. The rate of interest is relatively low and varies from purpose to purpose. The rural community requires not only credit but also guidance in the planning of their agricultural operations and in general they need help for maximizing their income.

In India, on account of low standard of living and prevailing poverty, rural finance is most important economic problem. About 80 percent of the Indian population lives in the rural areas and nearly 70 percent of them depends upon agriculture for their livelihood which in fact, accounts for over 45 percent of gross national product. A significantly large part of
the rural population is poor and a substantial part of the working population has little or no paid work. Therefore, it is necessary that strategies should be developed to employ the rural workforce so that they can meet their bare needs. This can be done through implementing schemes which increase the employment potential of the economy in general and agriculture in particular. For this, the first task before the government is to provide sufficient credit to the people living in the rural areas.

With the increasing commercialization, the dependence of peasants on money-lenders tended to increase and unfortunately, the co-operative credit societies which were providing reasonably cheap credit to the farmers could not replace the money-lenders. After the independence, efforts were made to provide large funds for agricultural development and its modernization and hence commercial banks and other financial institutions were asked to provide facilities for this task. After the nationalization of the commercial banks, it was thought feasible to integrate the operations of commercial banks and provide credit to agriculture on a significantly large scale. Credit for development was made through various schemes and programmes tailored to suit the emerging conditions of various socio-economic groups in rural areas. Commercial banks had also set up Regional Rural Banks to cater more effectively to the needs of the rural poor. Commercial banks with the support of RRBs continued to register all round progress in branch expansion, deposit
mobilization and credit support to the weaker sections in rural community. Small and marginal farmers, agricultural labourers, artisans and other weaker sections in rural areas continued to be the main beneficiaries of loan assistance from RRBs and commercial banks.

1.4.1 Commercial Banks

Introduction of the scheme of social control over commercial banks in 1968 and subsequent nationalization of major commercial banks in 1969 and 1980 assisted the process of directing the flow of commercial bank credit towards agriculture by declaring "agriculture" as a priority sector for bank lending. At present, the commercial banks are playing a significant role in the disbursement of credit to agriculture and its allied activities. Various schemes like Lead Bank Scheme, Village Adoption Scheme, Differential Rate of Interest Scheme, etc. have been launched for providing credit to agriculturists. The performance of commercial banks in lending has been given in Table No. 1.4. The table shows that the branch network of commercial banks have been expanded from 641 in 1997-98 to 670 in 2005-06, registering an exponential growth rate of 0.47 percent during this period. The agricultural advances by all the scheduled commercial banks rose considerably, in absolute terms, from Rs.5803.96 lacs in 1997-98 to Rs. 57245.22 lacs in 2005-06.
## TABLE NO. 1.4

**COMMERCIAL BANKS**

<table>
<thead>
<tr>
<th>Years</th>
<th>No. of Branches</th>
<th>Loan Disbursement</th>
<th>Demand</th>
<th>Recovery</th>
<th>Overdue</th>
<th>%age of Overdues over Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>641</td>
<td>5,803.96</td>
<td>6,808.24</td>
<td>4,650.46</td>
<td>2,157.78</td>
<td>31.7</td>
</tr>
<tr>
<td>1988-99</td>
<td>648</td>
<td>7,725.67</td>
<td>6,041.80</td>
<td>4,283.37</td>
<td>1,758.43</td>
<td>29.1</td>
</tr>
<tr>
<td>1999-00</td>
<td>648</td>
<td>8,463.50</td>
<td>5,727.41</td>
<td>4,103.31</td>
<td>1,424.10</td>
<td>28.4</td>
</tr>
<tr>
<td>2000-01</td>
<td>653</td>
<td>11,041.00</td>
<td>8,688.97</td>
<td>6,296.26</td>
<td>2,392.71</td>
<td>27.5</td>
</tr>
<tr>
<td>2001-02</td>
<td>653</td>
<td>15,807.79</td>
<td>8,395.48</td>
<td>6,133.23</td>
<td>2,262.25</td>
<td>26.9</td>
</tr>
<tr>
<td>2002-03</td>
<td>656</td>
<td>19,183.62</td>
<td>8,810.85</td>
<td>7,828.21</td>
<td>982.64</td>
<td>11.2</td>
</tr>
<tr>
<td>2003-04</td>
<td>655</td>
<td>26,138.16</td>
<td>12,018.20</td>
<td>10,265.17</td>
<td>1,753.03</td>
<td>14.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>665</td>
<td>35,484.91</td>
<td>8,220.00</td>
<td>5,885.00</td>
<td>2,335.00</td>
<td>28.4</td>
</tr>
<tr>
<td>2005-06</td>
<td>670</td>
<td>57,245.22</td>
<td>24,492.00</td>
<td>22,288.00</td>
<td>2,204.00</td>
<td>9.0</td>
</tr>
<tr>
<td>AVG</td>
<td>654</td>
<td>20,765.981</td>
<td>9,648.09</td>
<td>7,970.33</td>
<td>1,918.88</td>
<td>***</td>
</tr>
<tr>
<td>STD</td>
<td>8.83</td>
<td>16,745.02</td>
<td>6,118.03</td>
<td>5,705.01</td>
<td>478.08</td>
<td>***</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td></td>
<td>0.47</td>
<td>27.56</td>
<td>12.39</td>
<td>15.07</td>
<td>1.06</td>
</tr>
</tbody>
</table>

Source: Agenda Papers, State Level Bankers’ Committee, Himachal Pradesh.

The high exponential growth rate indicates that the commercial banks have made excellent progress in providing direct finance to agriculture. Recovery of loan varies from year to year. The amount recovered during 1997-98 was to the tune of Rs.4650.46 lacs which has increased to Rs.22288.00 lacs in 2005-06. At the same time overdues of the commercial banks have also gone up from Rs.2157.78 lacs in 1997-98 to Rs.2204.00 lacs in 2005-06. The overdues have recorded a growth of only 1.6 percent during the period of 1997-98 to 2005-06. The percentage of overdues over demand decreased sharply from 31.7 percent in 1997-98 to 9.0 percent in 2005-06. The above discussion leads to conclude that the overall recovery performance of commercial banks is satisfactory.
1.4.2 Regional Rural Banks

Regional Rural Banks (RRBs) form an integral part of the Indian Banking System with focus on serving the rural sector. RRBs combine the local feel and familiarity with rural problems, which the co-operative possess, and the degree of business organization as well as the ability to mobilize deposits, which the commercial banks possess. RRBs have some feature of co-operatives and some features of commercial banks. In other words, RRBs work as a hybrid of co-operatives and commercial banks in rural sector of our economy.

Regional Rural Banks were established on Oct. 2, 1975. The main objective of the RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs so as to develop agriculture, trade, industry and other productive activities in the rural areas. RRBs are sponsored by scheduled banks, usually a public sector commercial bank. The State Co-operative Banks are also allowed to sponsor RRBs in consultation with the Reserve Bank of India. The area of RRBs is limited to a specified region comprising one or more districts of a state. The branches of RRBs are established in those areas of the region which are unbanked or under banked and where the commercial banks and co-operatives are weak or fail to ensure the credit requirements of weaker sections. At present, there are two regional rural banks working in Himachal Pradesh. These are Himachal Gramin Bank and Parvatiya Gramin Bank.
1.4.2.1 Himachal Gramin Bank

The Himachal Gramin Bank (HGB) came into existence on 23rd December, 1976, constituted under the Regional Rural Banks Act, 1976. It is sponsored by Punjab National Bank. The Bank has the privilege of serving six districts of the State, i.e., Mandi, Kangra, Kullu, Hamirpur, Bilaspur and Una. The performance of Himachal Gramin Bank has been presented in Table No. 1.5.

**TABLE No. 1.5**

**HIMACHAL GRAMIN BANK**

<table>
<thead>
<tr>
<th>Years</th>
<th>No. of Branches</th>
<th>Loan Disbursement</th>
<th>Demand</th>
<th>Recovery</th>
<th>Overdue</th>
<th>%age of Overdues over Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>102</td>
<td>412.17</td>
<td>695.14</td>
<td>405.44</td>
<td>289.70</td>
<td>41.7</td>
</tr>
<tr>
<td>1988-99</td>
<td>103</td>
<td>538.00</td>
<td>711.00</td>
<td>420.45</td>
<td>290.55</td>
<td>40.9</td>
</tr>
<tr>
<td>1999-00</td>
<td>103</td>
<td>654.58</td>
<td>674.46</td>
<td>476.48</td>
<td>197.98</td>
<td>29.4</td>
</tr>
<tr>
<td>2000-01</td>
<td>103</td>
<td>737.57</td>
<td>856.45</td>
<td>556.74</td>
<td>299.71</td>
<td>35.0</td>
</tr>
<tr>
<td>2001-02</td>
<td>103</td>
<td>1,135.46</td>
<td>874.67</td>
<td>579.62</td>
<td>295.05</td>
<td>33.7</td>
</tr>
<tr>
<td>2002-03</td>
<td>106</td>
<td>1,939.13</td>
<td>1,066.00</td>
<td>766.00</td>
<td>300.00</td>
<td>28.1</td>
</tr>
<tr>
<td>2003-04</td>
<td>106</td>
<td>2,311.90</td>
<td>1,231.00</td>
<td>945.00</td>
<td>286.00</td>
<td>23.2</td>
</tr>
<tr>
<td>2004-05</td>
<td>106</td>
<td>3,437.89</td>
<td>1,392.00</td>
<td>1,150.00</td>
<td>242.00</td>
<td>17.4</td>
</tr>
<tr>
<td>2005-06</td>
<td>111</td>
<td>4,453.06</td>
<td>2,171.00</td>
<td>1,858.00</td>
<td>313.00</td>
<td>14.4</td>
</tr>
<tr>
<td>AVG</td>
<td>105</td>
<td>1,735.52</td>
<td>1,074.63</td>
<td>795.30</td>
<td>279.33</td>
<td>***</td>
</tr>
<tr>
<td>STD</td>
<td>2.81</td>
<td>1,430.31</td>
<td>481.04</td>
<td>471.16</td>
<td>36.25</td>
<td>***</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>0.85</td>
<td>30.96</td>
<td>13.32</td>
<td>17.99</td>
<td>0.83</td>
<td>***</td>
</tr>
</tbody>
</table>

Source: Agenda Papers, State Level Bankers’ Committee, Himachal Pradesh.

It is observed from table that the number of branches of Himachal Gramin Bank which were 102 in 1997-98 has increased to 111 in 2005-06, with an exponential growth rate of 0.85 percent during this period. The loan advancement of the Himachal Gramin Bank has risen up from
Rs. 412.17 lacs to Rs. 4453.06 lacs during the period of 1997-98 to 2005-06. The exponential growth rate indicates that there is a tremendous increase in the loan disbursement to agricultural sector and allied activities. It was about 30.96 percent during the period of 1997-98 to 2005-06. The demand of dues of Himachal Gramin Bank has increased from Rs. 695.14 lacs in 1997-98 to Rs. 2171.00 lacs in 2005-06. The exponential growth rate reveals that the average annual growth rate in demand is 13.32 percent. The recovery of the bank has increased from Rs. 405.44 lacs in 1997-98 to Rs. 1858.00 lacs in 2005.06. The exponential growth rate is observed as 17.99 percent during this period. The overdues of the bank have also increased from Rs. 289.70 lacs in 1997-98 to Rs. 313.00 lacs in 2005-06, with a growth rate of 0.83 percent during this period.

1.4.2.2 Parvatiya Gramin Bank

The Parvatiya Gramin Bank (PGB) came into existence in the month of November, 1985. It is sponsored by State Bank of India. It is functioning in the Chamba District of Himachal Pradesh. In order to improve the working funds position, the bank can avail the refinance facilities provided by different institutions like NABARD, State Bank of India and IDBI/SIDBI under different schemes at different times. The position of Parvatiya Gramin Bank has been presented in Table No. 1.6.
TABLE NO. 1.6
PARVATIYA GRAMIN BANK

(Amount in Lacs)

<table>
<thead>
<tr>
<th>Years</th>
<th>No. of Branches</th>
<th>Loan Disbursement</th>
<th>Demand</th>
<th>Recovery</th>
<th>Overdue</th>
<th>%age of Overdues over Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>27</td>
<td>53.65</td>
<td>81.68</td>
<td>49.94</td>
<td>31.74</td>
<td>38.9</td>
</tr>
<tr>
<td>1988-99</td>
<td>27</td>
<td>68.33</td>
<td>87.97</td>
<td>55.30</td>
<td>32.67</td>
<td>37.1</td>
</tr>
<tr>
<td>1999-00</td>
<td>27</td>
<td>80.91</td>
<td>105.42</td>
<td>66.71</td>
<td>38.71</td>
<td>36.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>27</td>
<td>155.95</td>
<td>112.61</td>
<td>75.31</td>
<td>37.30</td>
<td>33.1</td>
</tr>
<tr>
<td>2001-02</td>
<td>27</td>
<td>228.82</td>
<td>125.27</td>
<td>84.46</td>
<td>40.81</td>
<td>32.6</td>
</tr>
<tr>
<td>2002-03</td>
<td>27</td>
<td>335.10</td>
<td>183.11</td>
<td>140.40</td>
<td>42.71</td>
<td>23.3</td>
</tr>
<tr>
<td>2003-04</td>
<td>27</td>
<td>217.72</td>
<td>228.94</td>
<td>184.65</td>
<td>44.29</td>
<td>19.3</td>
</tr>
<tr>
<td>2004-05</td>
<td>27</td>
<td>436.19</td>
<td>285.00</td>
<td>239.00</td>
<td>46.00</td>
<td>16.1</td>
</tr>
<tr>
<td>2005-06</td>
<td>27</td>
<td>716.49</td>
<td>433.00</td>
<td>389.00</td>
<td>44.00</td>
<td>10.2</td>
</tr>
<tr>
<td>AVG</td>
<td>27</td>
<td>254.79</td>
<td>182.55</td>
<td>142.75</td>
<td>39.80</td>
<td>***</td>
</tr>
<tr>
<td>STD</td>
<td>***</td>
<td>214.99</td>
<td>116.52</td>
<td>112.72</td>
<td>50.11</td>
<td>***</td>
</tr>
<tr>
<td>Growth Rate (%)</td>
<td>***</td>
<td>31.12</td>
<td>20.39</td>
<td>25.44</td>
<td>4.56</td>
<td>***</td>
</tr>
</tbody>
</table>

Source: Agenda Papers, State Level Bankers' Committee, Himachal Pradesh.

It is observed from table that the number of branches of Parvatiya Gramin Bank which were 27 in 1997-98 has remained static during the period of nine years, which indicates that not even a single branch has been opened during this period. The amount of Rs. 53.65 lacs was given as a loan to the farmers in 1997-98 which has increased to Rs. 716.49 lacs in 2005-06. The exponential growth rate in loan advancement is very high, being 31.12 percent. The recovery of loan in the year of 1997-98 was to the tune of Rs.49.94 lacs which has increased to Rs. 389.00 lacs during 2005-06, with a growth rate of Rs. 3174 lacs in 1997-98 to Rs. 44 lacs in 2005-06. The growth rate of overdues is 4.56 percent which is quite low as compared to the growth rate of recovery of loans. The above
discussion indicates that the overall recovery position of the bank is quite satisfactory.

In nutshell, the above analysis indicates that the loan disbursement of the financing institutions has recorded a remarkable growth rate which reflects that these institutions have done an excellent job in financing agriculture and allied activities. But, the worst thing that comes out of the above facts is that the recovery of agricultural loans is not forthcoming. Consequently, the overdues are growing every year. The growth of overdues may considerably affect the soundness and success of both the lending institutions and the farm sector. The decennial surveys conducted by National Sample Survey Organisation also throw some light on the incidence and extent of indebtedness in Himachal Pradesh. The survey points out that there was a steep increase in the proportion of household reporting debt and average debt per household between 1981 and 1991. The proportion of rural household reporting debt was 12.3 percent in 1981, which increased to 29.0 percent in 1991. The proportion of urban household reported debt was 6.6 percent in 1981 and increased tremendously to 21.6 percent in 1991. The average debt per rural household increased greatly from Rs. 353 to Rs. 1435 from 1981 to 1991. The average debt per urban household also increased significantly from Rs. 389 to Rs.2525 during 1981 to 1991 in Himachal Pradesh. Out of the total cultivators 21.8 percent were indebted and the average debt per cultivator was Rs. 1212 in 1991. As per the estimate made by NSSO
during the 59th round in 2002-03, per farmer household average debt was Rs. 9618 in the state. Thus, it is clear from the above facts that the burden of debt is getting heavier with the passage of time. This is the cause of much concern. There is a need to make strenuous efforts in order to bring the rural people out of the cobweb of indebtedness.

1.5 Causes and Consequences of Rural Indebtedness

In India approximately 85 percent of those named as ‘poor’ live in villages. In order to eradicate poverty and maximize the opportunity of employment, the rural credit plays a significant role. The Indian economy is based on agriculture and account for one half of the national income and provides employment to about three fourth of the working population of the country. Agriculture is the ‘way of life’ than a mode of business. Due to uneconomic farming, the Indian households are forced to borrow money either for meeting out the consumption needs or for purchasing seeds and other agricultural implements. In this way, the Indian farmer borrows year after year and is not in a position to repay the loan. Hence, the farmer is caught in the vicious circle of low earning, poverty and indebtedness.

Agriculture, being the main occupation in India is not able to sustain the living of rural population. The Indian farmer, specially the small and landless farmer has been traditionally a poor lot, who takes loan not only for investment in seeds, fertilizers, etc. but also for his bare subsistence and for the fulfillment of his social obligations. He always borrows heavily in expectation of his good crop and once he borrows, he
finds himself unable to repay the loans. As a consequence, his burden of
debt accumulates till he breathes his last and relinquishes the debt to be
paid by his successors. The majority of farmers in India is a class of small
and landless farmers which always remains submerged in indebtedness.

According to Hennery Wolf, "It is the burden of debt which restricts
the agriculture and deplore to a life of poverty and slavery which deprive
him of the incentive to increase his production."

In underdeveloped economy like India, on account of low standard of
living and prevailing poverty rural finance is most important. Major
proportion of the total population is engaged in agriculture however, its
contribution to the national income is not in proportion to the number
engaged in that sector. It is because of increase of agricultural labourers
over the years and its pressure on limited land. In the absence of
alternative non-agricultural occupation, the small owner cultivators
started selling of their land to bigger landlords and have reduced the
status of farmer to the status of landless agricultural labourers. Obviously,
increase in the number of landless agriculture labourers has intensified
the problem of poverty in rural India.

Since majority of farmers have long lasting deficit budgets and have
no saving to fall back on, as a result they require loans not only for
carrying out their agricultural operations but also for meeting their
consumption needs, purchase of seeds, bullocks or other agricultural
implements. In order to meet their consumption needs oftenly most of the
people of this community are compelled to go to the village money lenders who in their case happens to be the only source of credit. Once the poor agriculturists have access to the money lenders, they go entirely under their control. They charge very high rate of interest, manipulates the accounts and the poor illiterate borrower find it difficult to get out of the clutches of the village money lenders. Hence, the well known saying that, "The Indian farmer is born in debt, lives in debt and dies in debt," reflects the condition of a cultivator.  

The causes of rural indebtedness are complicated due to economic instability prevailing in the country because of slow progress of small scale and cottage industries in the rural areas, rapid growth of population, lower size of holdings due to fragmentation, dependence of agriculture on the vagaries of monsoon and famines, lack of business sense due to illiteracy, the burden of land revenue, inefficient marketing of produce, the excessive rate of interest and certain other objectionable practices. Besides this, the rural community being more conservative in nature believes in celebrating several social and religious ceremonies in the traditional way with distribution of food to the relatives and entire village community. Another main cause of rural indebtedness is the chronic debt which has been taken over by the present generation from their ancestors. Oftenly, the cultivators incur additional debt to repay the old debts and hence, the ferocious circle continues from generation to generation. The professional money lenders are also responsible for increasing indebtedness of rural
households. Once the cultivators or rural poor are in debt, majority of them find it extremely difficult to free themselves from the clutches of village money-lenders and finally the ownership of the security like, land and houses passes on to the money-lenders which they have obtained through the signature of the borrowers on the blank stamped papers. Unawareness of alternative institutional sources of finance and having less or no security acceptable by the commercial banks needy rural households are compelled to go for loans to the money-lenders and submit themselves to conditions lay down by them.

The increasing rural indebtedness has extremely undesirable social and political consequences. The rural households who lost their lands to money-lenders feel alienated from society and frustrated. This growing frustration and discontent, especially among the tribals or backwards have oftenly resulted in violent agitation. The emergence of violent Naxalite movement in Telangana of Andhra Pradesh is one of such expression of discontentment growing out of rural indebtedness and loss of land and livelihood. Presently, the growing violence between so called higher and lower castes in number of states of the country is another expression of growing frustration among rural households. Such violence and social inability have, adverse effects on growth and the progress of national economy.

It may broadly be said that majority of the rural households in India are always in debt. A cultivator borrows either for consumption or for
productive purposes and therefore, one must not take into consideration only the amount of debt but also the purpose for which the debt is taken. Rural people always borrow funds to meet current consumption needs or expenses over marriage, litigation, illness and so on. It is this unproductive debt which the borrower finds difficult to repay and it goes accumulating and enlarging year after year and leaves the cultivator in perpetual form.

1.6 Economic Profile of Himachal Pradesh – An Overview

Himachal Pradesh being a hilly state is enriched with natural wealth, which comprises of forest and horticulture resources. Majority of the population of the state lives in villages. Agriculture is the main source of the state economy and a large number of people are directly or indirectly engaged in the agriculture. This beautiful and charming state is situated in the northern part of India and is covered by the ranges of the Himalayas and the Shivaliks. Himachal Pradesh is extended between 30°22′ to 33°12′ North latitude and 75°04′ to 79°04′ East longitude. In the East, Himachal Pradesh form India’s boarder with Tibet, to its North lies the state of Jammu and Kashmir, to the South-East it is Uttar Pradesh, to the West it is Punjab and to its South Haryana is situated.

1.6.1 Administrative History

The Himalayan region, now known as Himachal Pradesh came into existence on 15th April, 1948 with the merger of 26 Shimla hill states and
4 Punjab hill states into a centrally administered area. At that time, there were four districts namely; Chamba, Mahasu, Mandi and Sirmaur with an area of 27,169 sq. km. In 1951, it became part "C" state and on July 1st, 1954 the state of Bilaspur was also merged with Himachal Pradesh. On 1st November, 1966 Kangra, Kullu, Lahaul Spiti, Shimla and some districts of Punjab were also integrated with it. Later, Himachal Pradesh on 25th January, 1971 became the 18th fullfledged state of the Indian Union.

Presently, the state has been divided into 3 divisions viz., Mandi, Kangra and Shimla. These three divisions are further divided into 12 districts, i.e., Bilaspur, Mandi, Kullu, Lahaul-Spiti, Una, Hamirpur, Kangra, Chamba, Shimla, Solan, Sirmaur and Kinnaur. These districts are further divided into sub divisions, tehsils and sub tehsils. As on 31st March, 2004 there were 51 sub divisions, 74 tehsils and 34 sub tehsils. From the development point of view, the state is divided into 75 Blocks and 3,037 panchayats (Statistical Outline H.P. 2003-04).

1.6.2 Area and Population

According to 2001 census, only 0.61 percent of the total population of India lives in Himachal Pradesh and it occupies 16th position in the state-wise ranking of population in the country. Himachal Pradesh is extended over an area of 55,673 sq. km. and its total population is 60,77,900. Out of total population, the urban population is only 5.96 lac and rural population is 54.82 lacs. The rural population which is 90.17 percent of the total population is residing in 17,495 inhabited villages.
Moreover, the total population of the state according to census 2001 is distributed into 30.9 lacs males and 29.9 lacs females. The sex ratio shows that the number of females per thousand males is 970. The density of population for the state is 109 persons per sq. km. as against 933 for the country as a whole. There is wide variation in the area and population figures in the state. The density of population in Lahaul-Spiti is the lowest for any district in the state which stands at 2 persons per sq. km whereas it is as high with 369 persons per sq. km Hamirpur is with highest density in the state.

1.6.3 Literacy

The state of Himachal Pradesh, though a small state with a backward society, is not behind others in the field of education and the literacy rate in the state is 17.13 percent. The highest literacy rate, i.e., 83.16 percent is in district Hamirpur and lowest rate is in district Chamba, i.e., 62.73 percent. Moreover, 86.02 percent males and 68.08 percent females are literate in the state (Census 2001). It reveals that state is almost sound from literacy point of view. The percentage of literacy in the state has increased considerably, particularly after the merger of new areas in 1966. This tremendous increase in the literacy rate reflects the committed efforts of the state government to remove illiteracy from the state. Though the female's literacy rate, i.e., 68.08 percent is much below the literacy rate of males, the state is making progress in this field and
today the overall literacy in Himachal Pradesh is much higher than the average literacy rate of the nation. By the end of December 31, 2005, there were 10,642 primary schools, 2,193 middle schools, 953 high schools, 709 senior secondary schools, 44 degree colleges and 4 universities including one private university (Education Department, Himachal Pradesh).

1.6.4 Employment

According to 2001 census, there are 19.64 lacs main workers, 10.27 lac marginal workers and 30.78 lacs non-workers. Further, out of main and marginal workers, i.e., 29.91 lacs, 19.60 lacs are cultivators, 0.92 lacs are agricultural labourers, 0.50 lacs are engaged with household industries and 8.89 lacs are concerned with other occupations. In other words out of total main and marginal workers, 65.55 percent are cultivators, 3.10 percent are agricultural labourers, 29.67 percent are other workers and only 1.68 percent are engaged with household industries. It clearly indicates that majority of workers are cultivators and a small percentage of workers are concerned with household industries. Moreover, as on 31st March, 2005, there were 1.44 lacs regular government employees and 0.12 lacs were part time employees. Besides this, 0.29 lacs were work-charged employees and 0.31 lacs were daily paid employees (Economic Survey 2005 – 06).

Table No. 1.7 shows the poverty position in the state. It is observed that out of total families, i.e., 10.37 lacs, 2.86 lacs families are living below
the poverty line. This position is worst in district Chamba where 61.72 percent families are living below the poverty line.

Table No. 1.7

Poverty Position in Himachal Pradesh

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>District</th>
<th>Total Families</th>
<th>No. of Families below Poverty line</th>
<th>%age of families below Poverty Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Bilaspur</td>
<td>65,532</td>
<td>17,448</td>
<td>26.63</td>
</tr>
<tr>
<td>2.</td>
<td>Chamba</td>
<td>76,418</td>
<td>47,165</td>
<td>61.72</td>
</tr>
<tr>
<td>3.</td>
<td>Hamirpur</td>
<td>83,505</td>
<td>20,179</td>
<td>24.17</td>
</tr>
<tr>
<td>4.</td>
<td>Kangra</td>
<td>2,65,740</td>
<td>63,972</td>
<td>24.07</td>
</tr>
<tr>
<td>5.</td>
<td>Kinnaur</td>
<td>10,899</td>
<td>2,896</td>
<td>26.57</td>
</tr>
<tr>
<td>7.</td>
<td>Lahaul Spiti</td>
<td>6,446</td>
<td>2,445</td>
<td>37.93</td>
</tr>
<tr>
<td>8.</td>
<td>Mandi</td>
<td>1,69,863</td>
<td>42,012</td>
<td>24.73</td>
</tr>
<tr>
<td>9.</td>
<td>Shimla</td>
<td>94,316</td>
<td>31,755</td>
<td>33.67</td>
</tr>
<tr>
<td>10.</td>
<td>Sirmaur</td>
<td>58,618</td>
<td>13,753</td>
<td>23.46</td>
</tr>
<tr>
<td>11.</td>
<td>Solan</td>
<td>65,418</td>
<td>17,951</td>
<td>27.44</td>
</tr>
<tr>
<td>12.</td>
<td>Una</td>
<td>81,014</td>
<td>15,439</td>
<td>19.06</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>10,36,996</td>
<td>2,86,447</td>
<td>27.62</td>
</tr>
</tbody>
</table>

As per survey on poor families (1998 – 99)
Source: Rural Development Deptt., Himachal Pradesh

The above analysis shows that even after 60 years of independence, the state has not achieved desirable progress in front of poverty alleviation. 27.62 percent Himachal families are still living below the poverty line even today. It reveals that poverty alleviation programmes are much away from their real objectives.
1.6.5 Agriculture and Allied Activities

Agriculture is the main occupation of the people of Himachal Pradesh and it has an important place in the economy of the state. It provides direct employment to 69 percent of the total workers of the state. About 21 percent of the total Gross State Domestic Product (GSDP) comes from agriculture and its allied sectors. Out of the total geographical area of 55.67 lacs hectare, the area of operational holdings is about 9.99 lacs hectares and is operated by 8.63 lacs farmers. The average holding size comes to 1.2 hectare. According to an agriculture survey, 84.5 percent landholdings are owned by small and marginal farmers, 14.9 percent by semi medium and medium farmers and only 0.6 percent by large farmers. About 80 percent of the total cultivated area in the state is rain fed. Rice, wheat and maize are important cereal crops of the state. Groundnut, soyabeen and sunflower in ‘Kharif’ and mustard and toria are important oilseed crops in the ‘Rabi’ season (Economic Survey 2005–06).

1.6.6 Horticulture

Horticulture is playing a vital role in the economy of the state. The total area under fruit cultivation is about 1, 86,903 hectares during 2004-2005 and total production was 6.92 lac tonnes. During 2005–06 it was envisaged to bring 4,000 hectares of additional area under fruit plants against which 3,825 hectares of area was brought under plantation and 10.52 lac fruit plants of different species were distributed upto 31.12.2005.
Among fruits apple comes at the top which has covered 86,202 hectares land and constitutes about 46 percent of the total area under fruit crops and about 76 percent of the total fruit production of Himachal Pradesh.

1.6.7 Industrial Development

Himachal Pradesh is still backward and it remained a neglected region from the viewpoint of industrial development for a very long time. The natural and human resources of the state are only the foundation of its economic development. As nature is to the best in Himachal, tourism plays an important role in the state and there are huge potentials for the development of this industry. However, tourism is the major industry in the state, but it is also suffering with number of weaknesses. The state is unable to draw the full benefits from tourism industry. Nevertheless, in the last two decades the state has achieved a great deal of industrial advancement due to improved infrastructure facilities and abundance of natural wealth. The prominent industrial estates are Parwanoo in district Solan, Mehatpur in district Una, Poanta Sahib in district Sirmaur, Bilaspur, Nalagarh and Baddi in district Solan, Jawali and Dehra Gopipur in district Kangra and Samshi in district Kullu. The other areas where state government has made big progress are Chamba, Mandi and Shimla. Besides, there is huge potential for wood, mineral, agriculture and horticulture based industries.\(^{31}\)
Moreover, the state has vast potentials for exploiting the hydro-electric power. A conservative estimate of the total potential in Himachal Pradesh could well be put up at 25,000 MW or even more. The huge hydel potential of the state can play a major role in power development programmes in the northern region, which will provide an economic base for the overall development of Himachal Pradesh. Roads and road transportation plays a very vital role in the development of industry and economy of the state as it is the only mean of transportation. By the end of December 2005 the government has constructed 28,646 kms. of motor able roads inclusive of jeepable track starting almost from a scratch.
References


17. Ibid., pp. 255-256.


