CHAPTER - I

REVIEW OF LITERATURE

This chapter annotates theoretical papers of a varied nature - empirical studies, critical reviews and analyses of the current situation. The papers reflect the deep concern planners, decision-makers and policy framers have felt for the progress of the rural areas of India during the last decades. It is a common place of Indian economy that it is predominantly agrarian. Mishra and Sundaram (1979) have adduced conclusive evidence to prove that we are still predominantly an agrarian economy. The rural and agricultural manpower is still relatively untouched by any signs of development. They point out that these peasants are the victims of exploitation of development; they are the labourers exploited by the upper crust, or the real owners of India's agriculture, the illiterate traditional artisans, the rustic aboriginals who still wander and labour in the wealth of our forests. 1

This large rural population, which accounts for 80 per cent of the nation's population, is not a monolithic whole. Traditionally, it has been divided into many sections. As early as 1933, the Report Committee recorded that rural population is an association of individuals and families, groups and collectivities that plan and act in concert to meet their individual and common needs. It is these characteristics that

mark village communities. They may be organised or disorganised, homogeneous, or heterogeneous, united or divided, self-sufficient or deficient but they are 'communities' in many senses of the term. Their social, economic, political, and cultural existence can neither be easily denied nor dismissed. Dynasty after dynasty tumbled down, revolution succeeded revolution, wars have passed over but these communities have continued down to this day, almost unchanged, undisturbed and unshaken.²

More than two decades later, in 1957, Dumont and Pocock said that often it is divided physically by hamlets and satellites, socially by castes and kinship groups, culturally by tribes and religions, and physically by factions and party strifes.³ This is another side of the same social reality.

Even after independence most of them are relatively isolated and backward. To develop these villages several attempts have been made, yet there are no acknowledged guidelines or models that can be followed. The policies, plans and programmes of rural development have been seriously misguided. They have created disparities, inequities and imbalances within and between sections and sub-sections, sectors and sub-sectors, and regions and sub-regions. The idea of comprehensive and integrated rural development has therefore now gained currency.

Our official approaches to rural development are piecemeal and fragmented rather than integrated and comprehensive. They tend to emphasize the parts and concentrate on a few aspects, approaching the question from different angles and perspectives. For example, consider the plithora of projects for rural uplift: Drought-Prone and Command Area Programmes, Intensive Agricultural and Cattle Development Programmes, whole Village Development Programmes, and Programmes for Small Farmers, Marginal Farmers, Landless Labourers, Artisans, Scheduled Castes or Scheduled Tribes. These cannot be said to have made any headway in the mission. In fact, some of them have worked at cross purposes.

No plan can have any chance of success unless the people of the lowest level unit are involved in its making and implementation. Ultimately people at the viable cluster of villages must be prepared to accept the challenge and make necessary sacrifices for preparing and executing their own plans. There are pockets of dry farming zones, groups of small farmers, agricultural labourers and primitive tribes who require special attention and special programmes adapted to their needs and resources. Recognising the needs of such groups, who may be called the "Weaker Sections of the Rural Society", the Government of India has evolved several programmes including the setting up of Regional Rural Banks.
A village is often not a single community but a highly stratified social and economic hierarchy in which there is little or no vertical mobility. The early village studies attempted 'holistic' descriptions. Later, interest was shown in the study of specific problems. Processes of directed cultural change initiated by governmental programmes gave impetus to the study of change. In all these studies caste has figured quite prominently. To some, caste system appears to be dying, while to others it is developing in two apparently opposite directions getting stronger and weaker almost at once. While on the one side, people frequently proclaim that the caste system is fast disintegrating, on the other, one also comes across such observations that it has penetrated not only into bureaucracy but also has roots in the academic sector.

According to J.H. Hutton, "a caste-system is one whereby a society is divided up into a number of self-contained and completely segregated units (castes), the mutual relations between which are ritually determined in a graded scale." The groups that have constituted that the lowest stratus of this system have been regarded for generations together as untouchables. There are thought to be some 3000 castes in India, and it would need an encyclopaedia to deal with them all.

4 J.R. Hutton, Caste in India, Oxford University Press, Bombay, 1963
5 Ibid., p. 2.
Caste is the most dominant single aspect of Indian society, and no study of Indian society can be complete without getting into the ramifications of the Hindu caste system. One's status in the social structure is determined by one's caste, which is a strong barrier or prop to individual mobility. Solidarity of caste groups excludes one another from too intimate forms of social intercourse.

Caste demarcation and attendant privileges, rights, duties and social distance are maintained and perpetuated by strong religious belief. Thus social status is ascribed by birth, social contacts between groups are limited and sanctioned, and occupations restricted by caste. For centuries, a lower social status has been accorded to the Scheduled Castes and Scheduled Tribes. And now their attempt to raise themselves in social hierarchy is resented by the upper castes. Another thing is that ideas of purity and pollution still persist in villages. People are selective about whom to receive instructions and advice from etc.

M.N.Srinivas, Y.B.Damle, S.Sahani and A.Beteille in their "Caste - A Trend Report and Bibliography", in Current Sociology, Vol. VIII, No.3, 1959, have developed concepts of pollution and purity. These concepts effectively give expression to and also strengthen the hierarchical distance prevailing between castes. Dumont says, "the castes teach us a fundamental social principle hierarchy."

N.K. Dutta, describes the features of caste in the following words:

Members of a caste cannot marry outside it, there are similar but rigid restrictions on eating and drinking with a member of another caste, there is some hierarchical gradation among the castes, the most recognised position being that of the brahmins at the top; that birth determines a man's caste for life unless expelled for violation of his caste rules, and that transition from one caste to another, high or low is not possible.  

Dutta's description is a normally accurate description applicable to India as a whole. From these features we can note that social disabilities of the untouchables were specific, severe and numerous. So it was believed by social thinkers that these lower castes had no scope at all for change in their status. However with Srinivas's work on the Coorgs, the attention of scholars was turned to the dynamic aspect of caste and it is now recognised that changes are possible in the caste-system. Bailey's study of an Orissa village further confirmed how a caste occupying low status in the caste-hierarchy could move up by manipulating appropriate mechanisms. In that study, he said that Caste endogamy is not broken by the

new economy and the richer section has to make efforts to carry a section of the old case along with it to form a new sub-caste to enjoy a higher status than before.  

Dr. Y.B. Damle's Paper, "Reference Group Theory with regard to Mobility within the Caste-System" analytically distinguished the various forces exerting their influence over the various strata of Indian Society. 

The castes in an area are interdependent and bound by strong ties to each other. What Dr. Kathleen Gough says of the Tanjore village is probably applicable to many other villages as well. As in all Indian villages, in this village a unity of the whole village overrides the separateness of each caste. Each caste has a well-defined place in the village social structure. The Seminar on "Trends of Change in Village India", organised by the National Institute of Community Development, in November 1961, reached the conclusion: Caste is still a force to be reckoned with ... caste emerges as a political factor probably because there is no other cohesive unit of social structure that can absorb new political functions. 

It also states that despite changes in occupation caste has existed through the ages. This goes to suggest that such shifts do not mean a cessation of caste.

11 Yogesh Atal, Changing Frontiers of Caste, National, Delhi, 1968, pp 230 - 231
12 Ibid., p.229.
The vital core, endogamy, remains unaffected. The findings of other authors have been similar. Thus, Desai and Damle write: Changes are more apparent than real. They have no important effect on the caste system as a whole.\textsuperscript{13}

The nature of the functioning of caste in urban areas is different from that in a village and in villages it differs from region to region. Yogesh Atal concludes in his thesis that caste is still a vital force and changes have been very few and mostly peripheral. "The caste system ... is not dead, nor are there any signs of its decay."\textsuperscript{14}

In India, a hierarchical social class structure combining caste and occupation exists. That is why MacIver and Page say that when status is wholly predetermined so that men are born to their lot in life without any hope of changing it, then classes take the extreme form of caste.\textsuperscript{15}

Normally, division of economic activities forms stratified social classes on the basis of the nature of occupation, level of income, extent of property owned, etc. These factors underlie the economic order. This economic order and the traditional order of family lineage, styles of living and caste affiliation in India merge into one bound by religious sanctions.\textsuperscript{16}

\begin{thebibliography}{99}
\bibitem{13} I.P. Desai and Y.B. Damle, \textit{A Note on the Change in Caste}, Ghurve Felicitation Volume, Popular Book Depot, Bombay, 1954.
\end{thebibliography}
Dr. Gough also noticed that the people who oppose the traditional village system are not those who suffer most acutely under it, but those who have partly extricated themselves from it through some change in their economic circumstances. There is no doubt, moreover, that the traditional forms of 'caste distinction' against which official propaganda is so much directed will disappear from the village only when the old economic arrangements which allow of high caste authoritarianism have been more thoroughly undermined.\(^{17}\)

Prof. D.G. Mandelbaum says that the results of the development programmes of the last century in the field of transportation and communication, in the spread of Western education, in the frequent switch from subsistence crops to cash crops, have all had consequences on village caste relations. As the newer development programmes take effect there often is some levelling of economic differences among the villagers. The less high castes, newly advantaged, jockey for higher ritual rank and attempt to use their new political franchise to gain both economic and ritual prerogatives for their castes. But the lower castes, those who are mainly landless labourers, often gain nothing at all. The gap between them and the other villagers frequently widens rather than diminishes on account of development projects. But as a social form, it is not felt adequate by many villagers to deal with the new economic and technological influences and these influences reach even to

relatively remote villages. There is widely thus in Indian villages today a process of social change from the traditional forms and orders to some other forms. The newer forms may not be those proposed by legislators and planners but they are not a mere recasting of the older social system either. 18

"Thus what we find in rural India today as in rural areas throughout the region is the co-existence of two kinds of social system, each having its characteristic mode of organisation and its appropriate pattern of values." 19

The first is organised in terms of kinship, caste and community and a high value is placed in it on personal loyalties and ties of group personal dependence. The second is the 'office' where relations are in principle governed by impersonal values and standards. Clearly, the system based on kinship, community and personal dependence was the predominant one in rural India until recently and can to that extent be characterized as 'traditional'. The new type of social arrangements have grown enormously since 1950. However, it would be a mistake to think that the second grows necessarily at the expense of the first. Rather, what is so conspicuous in the countryside today is the interpenetration of the two kinds of social system in spite of their diverse modes of organisation and patterns of values.

18 Ibid., pp. 17 - 18.
The interpenetration of the two systems is clear, first, in the pattern of recruitment to the new bureaucratic structures. It is well known that recruitment to the administrative system is highly selective in terms of caste and community at every level, and at lower levels also in terms of kinship and personal dependence. Initially administrative positions were virtually a monopoly of the upper castes, particularly the Brahmins, but with the politicization of the countryside, members of numerically dominant castes are being recruited everywhere. Getting a person a job in an office as clerk, accountant or secretary has developed as an important ingredient of patronage.

New occupations have emerged which take the villagers right out of the productive organisation of the village. The penetration of a cash economy and the increased geographical mobility have also loosened the economic system. Finally, political and legislative changes have altered the bargaining positions of the old economic classes.

Just as there was greater overlap in the past between the broad hierarchies of caste and class, there was also greater correspondence between the caste structure and the distribution of power. Today political power in Tamil Nadu has shifted from Brahmins to Non-Brahmins. The emerging leaders of the village are not members of the old landowning group.
They generally belong to the class of small owner-cultivators. Their power is, to a large extent, based upon numerical support within the village and political contacts outside it. These two factors tend to reinforce each other. Power tends to be divided between several dominant castes which belong to the Non-Brahmin division. But although political power has shifted from the landowners (Brahmins), it has not gone into the hands of the landless.

The distribution of power among the different social groups is obviously directly related to the question of access to and control over the resources of society. Barraclough (1974) states: If we are really serious about encouraging development policies that benefit the low-income rural classes, a great deal more attention must be paid to analysis the social structure and political processes. "Development is not just economics or sociology or technology but history. How it proceeds depends to a large extent on how power is distributed among different social groups ... Rural Development for the low-income majorities requires fundamental and often revolutionary reforms in social institutions ..."20

The traditional poverty of the lower castes had made them helpless dependents on nature and selfish higher castes. They had to be enabled to stand on their own legs and the first requisite in this regard was to make their trades and

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professions viable without the traditional financial constraints. They had to be provided, in other words, with money to pursue their trades without resort to the traditional sources which tended impoverish them. The corollary was that the needs of their lives should also be supplied without resort to the traditional sources. These are revolutionary ideas since they visualise not only the liberation of the poor from the selfish exploitation of the traditional agencies but also the encouraging of the desire and capacity among the poor for standing on their own legs. The government decided to reshape the traditional banking system in such a way that it could play a major role in this mainly psychological transformation of rural India.

Uplifting the neglected sections of rural society through the assistance of banks has been considered the most revolutionary concept of this decade. Its basic purpose was to help the poor to move forward in the task of improving their age-old, tradition-bound and often miserable life. It was felt that the banks could benefit the down-trodden with convenient lending procedures and free them from the people who exploited their earnings for their own growth and selfish ends. The attempt was to eliminate the usurious money lenders who charged exhorbitant rates of interest. The poor could thus never repay the amount in full and thereby remained indebted to the lenders forever. The following
analysis is intended to study the nature of services rendered by the Regional Rural Bank in Tamil Nadu and its performance in the light of the objectives for which it was set up.

Literature on banking in India, especially on Rural Banking in India, has been growing in recent years. The term 'Banking' has traditionally been used to refer to the acceptance of deposits and the creation of credit for the purpose of making a profit on the differential in the rates of interest. Banks have also usually engaged themselves in transmitting funds from people for a fee and have been performing ancillary functions such as safe custody of valuables and the like. They originated as private ventures involved in the finance of large-scale trade and later, in large-scale industry.

Over the years, as agencies handling large volumes of funds, they attracted public attention. Initially the desire was to safeguard the monies of depositors. Later came the ideological desire to discipline banks to conform to social investment policy and even to use them for purposes of social engineering.

Profit on transactions is no longer seen as the primary purpose of banking and, in many contexts, 'Social Purpose' is said to require certain kinds of loans to be made even at a loss.21

Social purpose has dictated the intensification of the involvement of Banks with the priority sectors of agriculture, small industries, small business, small transport, retail trade, etc., with an emphasis on the weaker sections, usually defined in economic terms with the weightage for non-economic handicaps such as caste, sex, health, etc. In quest of fulfilment of social purposes there has been an expansion of banking facilities into hitherto unbanked/underbanked areas.

The turn-around in banking policy in favour of the priority sector, weaker sections and unbanked/underbanked areas has been of a nature and on a scale without precedent anywhere in the world. It may be seen that the controlling factors, such as concepts of priority sector, etc, are themselves new to traditional conceptions.

In the context of rural banking, the term 'rural' has been defined by the Census Department as a centre or place which has a population of 10,000 or less.

The Hilton Young Commission (1926) recommended that the word 'bank' or 'banker' should be interpreted as meaning every person, firm, or company accepting deposits of money subject to withdrawal by cheques, draft or order. The Indian Banking Companies Act (1949) defines a Banking Company as "a company which transacts the business of banking in any State of India",
and defines banking as "the acceptance, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawn by cheques, draft, order or otherwise".

In the context of the present study, the Regional Rural Bank is defined as "the bank established under Section 3 of the Regional Rural Banks Act, 1976". The Act has made various provisions regarding the incorporation, regulation and working of the Regional Rural Banks. According to this Act, "the Regional Rural Banks are set up mainly with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto." 21

Studies of rural India are numerous. They have made quite a number of observations which are by now well known. As they point out, India is a land of villages. "Four-fifths of India's population lives in villages, and is socially and economically backward in comparison with the urban population. Ignorance, poverty and helpless resignation to a hostile environment have retarded rural progress. After independende,

22 The Regional Rural Banks Act 1976.
the development of the rural community became the primary concern of our national government.\textsuperscript{23} According to the 1971 census, India has 5,67,338 villages and a rural population of 439 million. This means, of the total population of India, nearly 89 per cent live in villages. The proportion of the working population in India then was about 33 per cent of the total population. It is also observed that 84.8 per cent of the rural working population in India are dependent upon agriculture and allied activities.

The problem of agricultural finance attracted the attention of the government by the closing years of the last century. The reason for this was the great discontentment among the peasant community due to rising indebtedness and unscrupulous practices of money-lenders who had acquired almost monopolistic control over agricultural finance and had often reduced agriculturist debtors to virtual serfdom. It was against this background that the Co-operative Movement made its appearance with a view to provide some relief to agriculturists in matters of agricultural finance through thrift and mutual help. Sir Federick Nicholson wrote his historic "Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency" in 1895. He pointed out that agricultural operations could not be

\textsuperscript{23} Ministry of Community Development and Co-operation, Government of India "Gram Sevika" (July 1960) p.1.
carried on without credit and suggested the formation of rural co-operative credit societies based on the principle of unlimited liability. Ever since that time, there have been frequent and numerous studies on the subject emphasising the need for liberating the agriculturists from the clutches of village moneylenders and providing institutional credit for agricultural operations.

But this task of liberation calls for deep study. The methods of these money lenders are astute. And they are easily accessible to the needy. Due to their long existence in the field they are far more familiar institutions to the poor farmers than organizations of recent origin. Though the money lenders are grabbing, the peasants know them as part of their social existence, whereas any organisation tends to appear to them in the light of extraneous forces. That is why Subhas K. Basu exclaims as late as 1979 that it is difficult to say what exactly should be done to deal with the conditions which allow the village moneylenders to retain monopoly control.24

It was the Co-operative Societies Act of 1904 which gave an impetus to the formation of Agricultural co-operative Credit Societies. The Act of 1912 made an attempt to extend the co-operative Organisation to non-agricultural credit as well. The problems involved in the organisation of co-operative credit to the agricultural sector and to non-agricultural sector have

been examined and re-examined a number of times since the inception of the co-operative movement.

The objective of the rural credit policy in India, since 1951 has been to enlarge the role of institutional credit agencies and to correspondingly reduce the role of non-institutional credit agencies, especially the private money-lenders. The dynamic programme of agricultural production that will be needed to achieve such an increase will not be possible without an equally dynamic programme of agricultural credit.

In its general report of 1954, the Committee of Direction of the Reserve Bank of India quoted M. Lewis Tardy's enumeration of the criteria to be fulfilled in such plans, made as early as 1938:

1) "It should be granted for a sufficiently long period commensurate with the length of the operation which it is designed to facilitate;

2) It should be granted at a low rate of interest;

3) It should be adequately secured, in order, more particularly, to avoid any abuse of credit facilities, but the security should not necessarily be material; it should, if necessary, be in the form of a personal credit secured mainly by the borrower's moral standing and farming ability.
4) It should be adapted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression;

5) It should be placed in the hands of institutions, the directors of which have received special training and had actual banking experience.

It was held as early as 1949 by the Rural Banking Enquiry Committee headed by Sir Purushotamdas Thakurdas that "the proper goal of commercial banks is to finance trade and commerce in agricultural commodities". The implication was that commercial banks should not participate in direct financing of farmers' needs such as various inputs like fertilizers, pesticides, seeds or implements. Subsequently the First Plan emphasised that "co-operatives are also in a better position to mobilise local savings.... It would, therefore, be advantageous to distribute even the State Loans for development purpose through co-operative societies ... We recommend the Policy".

Apart from the viewpoint which was stated in 1954, the weighty pronouncement which affected and guided the central banking policy until June 1968 was made in the renowned All India Rural Credit Survey Report headed by Mr A.D. Gorwala.

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26 The First Five Year Plan, The Planning Commission, Government of India
The survey revealed that "the share of institutional agencies, comprising of the Government, the co-operative and the commercial banks in financing the borrowings of the rural households was 7.1 per cent in 1951-52 whereas the corresponding share of private money lenders (excluding relatives, traders and commission agents, landlords and others) was as high as 68.6 per cent."\(^{27}\)

This Report also revealed "the positive role played by the money lenders in the village economy and the strength possessed by them in operating their business". And it aptly pointed out "the real problems resulting from their virtual monopoly in supplying rural credit."\(^{28}\)

The money-lenders can and often do resort to several questionable practices due to the helplessness, ignorance, and the necessity of the borrowers.\(^{29}\)

The money-lender provides loans for all purposes professional purposes as well as social and religious ceremonies,


\(^{28}\) Ibid., pp. 169 - 170.

especially marriages of sons and daughters. And he is assured of running his business year after year under the socio-economic conditions prevailing in the village where he has become an integral part of the society.

Considering the strengths and weaknesses of the rural credit system dominated by the non-institutional credit suppliers, the All-India Rural Credit Survey committee recommended that organising multi-purpose co-operatives, integrated credit facilities linking production with marketing of inputs and outputs, processing and warehousing activities provided the only viable alternative to the credit problems of the Indian villages. 30 Accepting the recommendations of the Committee, the Government of India created a co-operative credit structure based on a three-tier system consisting of an apex body at the State level viz., the State Co-operative Bank, an intermediary layer of the District Central Co-operative Bank at the District level and the Primary Credit Societies at the base or village level.

The Primary Credit Societies were further divided into Primary Agricultural Credit Societies and Primary Non-Agricultural Credit Societies. The latter were designed to meet the needs of rural credit for non-agricultural purposes. Within this co-operative structure for rural credit, a clear

30 All India Rural Credit Survey Report, Volume II, op.cit., Chapters VII and IX.
distinction was made between two types of co-operative agency, namely, co-operative credit agencies which provide short and medium-term loans and "Land Development Banks" which would specialise in providing only long-term loans for agricultural development.

The Banking Commission appointed by the Government of India on 3rd February, 1969, under the Chairmanship of Shri R.G. Saraiya, to study the structure of banking development in India mooted in its report of 1972 the idea of setting up Rural Banks. The Commission recommended that in areas where the co-operative credit structure is generally weak, a rural bank may be established either by making a good primary agricultural credit society to work as a subsidiary of a commercial bank or by the commercial bank setting up its own subsidiary. Such a rural bank may be called a rural subsidiary bank, it suggested. 31

However, the Regional Rural Banks came into being later based on the specific recommendation made by the Working Group on Rural Banks appointed by the Government of India on July 1, 1975, under the chairmanship of Shri M. Narasimhan, to examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. This Working Group said:

"the objectives of rural credit policy in India do not require

much elaboration. Simply stated, policy in this area aims at institutionalising the credit structure and enlarging its coverage. Until recently, the main instrument of doing so was the co-operative movement. In a few areas, the co-operative credit structure has succeeded well; in many more, performance has been less than satisfactory. The selective record of progress has also served to widen regional disparities in co-operative functioning. There is also reason to believe that the benefits of co-operative development, even in States where it has done well, have not extended to all strata of cultivators. Thus, even now, (end of June 1973) non-institutional sources of credit account for nearly two-thirds of total agricultural credit."\(^{32}\)

The Working Group also observed that "many, if not most, of the rural banks branches are what the banks call deposit centres rather than advance centres. The rural branches of banks which operate in the economically weaker areas of the country are proving to be instruments for the reverse transmission of funds from the rural areas to the urban and metropolitan centres. Clearly, this trend needs to be arrested and funds garnered in the rural areas deployed in the area itself."\(^{33}\)


\(^{33}\) Ibid., pp. 3 - 4.
Considering the weaknesses of the various credit agencies and the difficulties involved in filling up the regional and functional gaps in rural credit, the Working Group recommended that a new type of institution be formed "which combines local feeling and familiarity with rural problems which the co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to control money markets and a modernised outlook which the commercial banks have".  

The Working Group visualised an organisation that would have an entirely new set of objectives and clientele for its operations. It said that one of the more important objectives of the rural banks would be to attempt effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. The performance of these banks will be judged primarily by their success in coverage of such categories of borrowers to help and encourage meaningful productive activity and recovery of their advances rather than by the profits they make.

The Government of India accepted the recommendations of the group. Accordingly, the Regional Rural Banks Ordinance of 1975 was promulgated by the President of India on 26th September, 1975. It was subsequently replaced by the Regional

34 Ibid., p. 4.
35 Ibid., p.11.

According to the Steering Committee appointed by the Government of India to guide the implementation of the Regional Rural Bank Scheme, the Regional Rural Banks were to be located in such areas where (i) commercial and co-operative banks' credit support was inadequate and credit gaps were large, (ii) the weaker section of rural population was large in number and (iii) agricultural development potential was good.

Though the Working Group on Regional Rural Banks had suggested the setting up of 5 Pilot Regional Rural Banks in the first year and more after reviewing the results of their working, the Government of India drew up a bigger programme and decided to establish 50 Regional Rural Banks by March, 1977. There were 48 Regional Rural Banks at the end of June 1977.

The Reserve Bank of India appointed on 23rd June 1977 a Committee to review the Working of Regional Rural Banks under the Chairmanship of Prof. M.L. Dantwala. Uttar Pradesh, Haryana, Rajasthan and West Bengal were the four States where the Regional Rural Banks were set up first (October, 1975), while Tamil Nadu was the last to follow (March 1977).
According to this Review Committee, an analysis of individual Regional Rural Banks, and their loan operations revealed that except three, all the banks offered term credit to a larger extent than crop loans or other types of credit.\(^{36}\)

The Working Group on Rural Banks (1950) had suggested that the contribution of the Regional Rural Banks in covering small and marginal farmers, landless labourers, rural artisans, etc., might be reviewed at a later date. In pursuance of this suggestion, Review Committee (1975) studied the performance of these banks in this regard and did not find their record satisfactory.\(^{37}\)

On the central criterion, thus, the performance of the regional banks was found wanting. But on the positive side it could be seen that they had popularised the idea of government aid to rural and agricultural sectors on a responsible basis that of repayable advances. The Regional Rural Banks had reached out to remote areas where till now the only source of aid was the grabbing traditional moneylender.

So the difficulties experienced by the banks during this period of exploration could be considered teething trouble, and the experiment could be extended and continued cautiously. An important point to note in this regard was that the banks in different States had their individual patterns of help to


\(^{37}\) Ibid., p.48.
the identified groups of beneficiaries. So the judgement passed on the overall performance of the banks in this regard could not be applied to each of them. Considering these, and also considering the fact that in other regards these banks had done well enough, it was decided that the experiment could be continued and extended to another term.

The main issue for recommendation of the Review Committee was to take a view on the future programme of extension of the Regional Rural Banks to other areas. To sum up, policy makers had three options before them. One was to scrap the Regional Rural Bank structure. The second was to proceed on a selective basis with the extension programme of establishing Regional Rural Banks, on the basis of the criteria indicated by the Working Group on Rural Banks, and more particularly where co-operative structure at the intermediate level (District Central Co-operative Banks) is weak, or, thirdly, it could adopt the Regional Rural Bank pattern for the bulk of rural credit business of commercial banks. 38

The Review Committee's report was published in 1977. By 1979, a few of the Regional Rural Banks had reached a loan business level of Rs.3 Crores individually. This was the target that the Dantwala Committee (i.e. the Review Committee on Regional Rural Banks, 1977) had fixed for them.

38 Ibid., p.74.
The others were lagging behind despite the fact that they had been in existence from 1975. It was, therefore, felt that time was ripe for a second review of the achievements of these banks. So the Steering Committee on Regional Rural Banks in its meeting held on 13th December, 1979 suggested to the government a quick study on the viability of the Regional Rural Banks.

This study proposed by the Steering Committee was basically different from that of the Review Committee of 1977. The latter studied the working of these banks in order to identify weak links and to propose remedies. The former involved the very viability of the rural banking project. This study was thus meant to play a crucial role in the further evolution of the scheme and the thinking behind it.

The Working Group on Rural Banks (1975) had talked of four dimensions for judging the viability of a bank, viz., area dimension, financial dimension, time dimension and task dimension. The study taken up as a result of the December 1979 suggestion of the Steering Committee added these comments to the above criteria:

A bank is said to be viable if it attains a level of loan business giving it an income level which would enable it to meet not only all the expenses but also help it to build a minimum reserve over
a period of time. In this broader sense, the viability level of its loan business could be a range and not a fixed figure. Besides, viability may be achieved at a lower level of business if the coverages of area is small and overheads by way of branch expenses are low. But in the case of a Regional Rural Bank covering a district or two, it is expected to open 75 - 100 branches in its area of operation as such its viability has to be judged on the basis of spread it has to achieve. Thus a Regional Rural Bank which is found to be viable with 10 branches may become non-viable when it opens more branches till it succeeds in building up adequate business commensurate with the number of branches. This aspect has to be kept in mind in assessing the performance of Regional Rural Banks from the angle of viability. 39

On the basis of these ideas, the framework for the study was outlined as follows:

(a) Of the Regional Rural Banks which had completed 3 years or which had reached a loan business of Rs. 3 crores by December 31, 1978 had become viable as

On the basis of these ideas, the framework for the study was outlines as follows:

(i) to study the nature generally of India's and especially of Tamil Nadu's rural population and its disabilities and needs;
(ii) to study the objectives of the rural bank and to clarify their background;
(iii) to collect data to see if these objectives have been fulfilled; and
(iv) to seek out the factors that help or hinder the working of the Pandyan Grama Bank.

Besides the above mentioned studies or reports on Regional Rural Banks by the Government of India and the Reserve Bank of India, an individual study by Professor Charan D. Wadhwa presents the findings of the two case studies. 40

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The banks selected for this study are the Haryana Kshetriya Gramin Bank, Biwani (Haryana), and the Jaipur Nagaur Aanchalik Gramin Bank, Jaipur (Rajasthan). To strengthen these Banks, Prof. Charan D. Wadhva (1980) recommends the allowing of public participation, especially of the local people, both in its equity structure and on its Board of Management.  41

It may be recalled that the Banking Commission and the Working Group on Rural Banks had also recommended local participation to the extent of 49 per cent and 15 per cent respectively, with a guaranteed minimum dividend to such shareholders at the rate of interest paid by the commercial banks on fixed deposits of one year maturity.

Prof. Wadhwa also recommends that all efforts must be made by the Regional Rural Banks and the concerned authority to impart as much flexibility to the terms of lending and loaning procedures, which will enable them to effectively compete with the non-institutional sources of credit like the private money-lenders. This suggestion is, indeed, but the reiteration of the pious hopes with which the government launched the project. The crux of the problem is how to achieve this. When the rural population has got used to banking, the need for full-fledged banks would begin to be felt and the regional rural banks, says Prof. Wadhva, should be

41. Ibid., p.175.
ready to supply this need. So he suggests that Regional Rural Banks should be allowed at the time of their establishment (or after two to three years of their operation) to undertake the full range of banking services including remittances and safe deposit vaults.

But the results of such an expansion of the specific objectives of the Regional Rural Banks may have an undesirable result. It may make them take the example of the other commercial banks, whose inadequacies necessitated the founding of the Regional Rural Banks.

And then, once again, the target-beneficiaries may lose the benefit of the service of Regional Rural Banks. The original staff of the Regional Rural Banks are mostly graduates, mostly city-oriented. Their understanding of and sympathy for their clientele may not be quite at the optimum level. Prof. Wadhva suggests that the minimum qualifications for recruitment to the staff of the Regional Rural Bank should be relaxed to all persons who have completed higher secondary (or equivalent) examination.42

Finally, let us review the work especially written on the Sociology of Banking by Ravi Ravinder Sigh Mehta.43 In his study Sociology of Banking - A study of the Branch Bank, he analyses the banking processes, reviews the structural-functional

42 Ibid., pp. 185 - 186.
theory, and offers a study of small group through harmonization of the divergent established sociological models for a prospective understanding of the branch bank.  

According to Sinha banking functions can be classified broadly under two categories: 1) pecuniary, defined as "safe and confidential keeping of monetary savings of the society members in a centralised extra-house cultural depository, and need-based withdrawal of the safekept savings" and 2) financial, defined as "borrowing of monetary savings from a definite cultural source to supplement personal savings to meet the need of actual or anticipated situation". Whereas the first category provides only for deposit and withdrawal, the second provides for borrowing and repayment. These two functions can be called deposit mobilization and deposit channelization respectively. Not all the banks can have both the functions. A bank may have both the functions but some of its branches may have only one of these functions. Thus the whole banking sub-system is multifunctional.

Mehta says that a second characteristic feature of the banking sub-system is that it is a cultural trait of that society which has money, both printed and minted, as a medium of exchange and unit of accounting.

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44 Ibid., p.11.
Numerically, a constituent part of the banking sub-system is single or in multitude. The bank, for example, is not a singular structure. There are many kinds of banks. Each kind of bank is more or less functionally equivalent and further divisible. A banking part may be further divisible and multiplicative.

The multiple differentiation of the banks of the same kind has been necessitated by the large demographic size and wide geographical division of the associated society. A single social structure is functionally insufficient and incapable when the society is large and widely divided. Moreover, the social actors and groups of the society favour or desire localization of requisite social structures. The differentiation of the various kinds of the bank is due to the cultural plurality of the society and for functional convenience. By continual differentiation the social system becomes larger and larger. The regional rural banks have been differentiated and functionally integrated to the banking sub-system. In the sub-system there is distribution of not only the functions but also the communities (localized part societies) among the part banks.

The banking sub-system is manipulative. The norms and practices of the banking sub-system are subject to social evolution, approval and acceptance. Socio-cultural changes in the banking sub-system are executed or desired at the instance of the social demands.
The banking sub-system is used as a social means for bringing desired socio-cultural changes in society. Ignorance of the bank and the facilities it offers shows that it is not widely, repeatedly or properly popularized. Banking facilities are not statutorily enforced and enforceable.

These are some of the books which have had a significant impact on the research in hand. It is not possible here to review all the books which have influenced this study. However, the author with due respect acknowledges the debt to many other books from which consciously or unconsciously he has drawn material and has woven the fabric of this research.

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