In India, non-institutional credit have proved rather a drag than a help to the rural peasants. Hence, the post independence national policy was aimed at the institutionalization of agricultural credit. However, even after three decades of continuous efforts to reorient the institutional credit structure towards a greater involvement in rural credit, the percentage was not higher than 35.¹

The primary Agricultural Credit Societies, at the end of 1974-75 covered about 96 per cent of the total number of villages in the country. But only about 9 per cent of the total population living in the villages were members of the Societies. Out of the total membership of the societies only 36 per cent were borrowers during the year. One of the major bottlenecks in the expansion of co-operative credit has

been the existence of a large number of non-viable and dormant societies. A programme for re-organising these societies into viable units has been in hand for the past many years, but progress has been much below expectations. Again, the problem of over dues was one of the most serious lacuna in the co-operative movement. Large over dues reduced the effectiveness of co-operative credit and make it difficult for the societies to secure a further inflow of funds.

On the basis of various estimates, the current farm expenditure in 1967-68 had been placed at Rs. 12,00 crores. In regard to medium and long term credit, the amount required was Rs. 100 crores and Rs. 160 crores respectively. Out of this, the co-operative sector was estimated to have been provided Rs. 3338 crores by way of short-term and Rs. 46 crores by way of medium term-loans during 1967-68. Long-term loans provided during the year were put at 3 crores. In short, the co-operative credit structure could provided only 33 per cent of the estimated credit requirement of the farmers during 1967-68. On the other hand, 5.3 per cent of the total credit requirements was met by the Commercial Banks. Thus only about 39 per cent of the total credit requirements of the agricultural sector was estimated to have been met by the institutional agencies by the end of 1967-68.

The All India Rural Credit Review Committee in 1969 had estimated that the total production credit requirements in 1973-74 would be the tune of Rs. 2000 crores; with an additional amount of Rs. 500 crores as medium-term and Rs. 15,00 crores as long-term credit requirements. The magnitude of the problem can be seen from the fact that it

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2 Report of the Study Group of the National Credit Council, (Oct. 1969) p - 34
it has been estimated that about Rs. 15,000 crores of rural credit would be needed by 1985; and even at present the figure may approximately reach Rs. 10,000 crores.\(^3\)

The co-operative credit facilities were quite inadequate to meet the increased credit requirements of the farmers. Therefore, among other reasons for nationalisation of fourteen major Commercial Banks in India was the intention that these Banks would extend credit facilities to agriculture which was previously a monopoly of money lenders and co-operatives. It was also assumed that the "management needs of a developing agriculture cannot wait for co-operatives to become strong, as to be in a position to cover the entire needs, lest the gaps become wider and the problems of bigger magnitudes and insoluble".\(^4\)

Further, the entry of Commercial Banks into agricultural sector may also be welcomed as it allows free transfer of resources between different sectors and regions. Because "savings in a traditional agriculture tend to be relatively small at initial stages of development, increased demand for working and fixed capital must largely come from increased supply of credit. Credit institutions must perform the function of transfering savings between sectors, regions and between income classes." Commercial Banks with their urban base, it was expected, to perform this function more easily and meaningfully if branch out in rural areas.

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3 H.M. Patel: opp. , page
5 Uma J. Lele, "Role of Agricultural Credit and marketing in Agricultural Development," p. 417
Accordingly different strategies have been involved since nationalisation in induce the Commercial Banks in Agricultural lending and hitherto co-ordinate them with other agencies in the field of agricultural credit.

**Area Approach and Lead Bank Scheme**:

In view of the large variety of conditions in which the Commercial Banks and co-operatives have to work, all over the country, the need arose to make specific plans for the development of credit and banking according to local conditions. A study group of the National Credit Council under the Chairmanship of Prof. D.R. Gadgil, therefore, recommended in October 1969, the adoption of "Area Approach" for evolving area-wise plans for the development of banking and credit structure. So far as Commercial Banks are concerned, the Group recommended that "the Banks should be assigned particular districts in an area where they should act as pace-setters providing integrated banking facilities and in this way all the districts in the country should be covered. This should be the first step in making institutional credit available to the neglected areas and classes".6

In the 'area approach', the Group has insisted on a district as to be the basic unit for the following reasons:—

(i) it is the unit in relation to which the co-operative structure is at present organised and operates, (ii) Statistical and other data are available at the district level, (iii) the number of districts in the country is not too large to think in terms of an effort being made for evolving plans for each district and lastly (iv) district is the main administrative unit.

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As recommended by the Study Group, the "area approach" would have three different aspects, (i) that of the establishment of branches or new units at particular places (ii) formulating relationships within a structure or between structures, i.e., dynamic inter-relationship between different credit agencies, (iii) the formulation of proper policies and procedures for the overall economic development of a particular area. Therefore, the "area approach" with district as a unit, it was felt, would reduce the uneven disposal of agricultural credit and enable the planners to identify and study the local needs, problems, resources and potentialities in a better way.

In 1969, the Committee of Bankers, (Nairnman Committee) reiterated the same suggestions made by the Study Group. It recommended that the banks should be allotted specific districts where they have to take the lead in exploring and exploiting the development potentialities. The Reserve Bank of India, while accepting these suggestions, formulated the "Lead Bank Scheme", and "gave a concrete shape to the area approach". Accordingly, the scheme was introduced in Dec. 1970. The major objectives of the scheme are (i) balanced regional development (ii) Diversification of credit and (iii) Geographical spread of banking facilities.

According to the Lead Bank Scheme, every district in the country was allotted to one or another Commercial Bank and is known as Lead Bank of the District. The basic function of the Lead Bank is to measure resource potentials and estimate the credit requirements especially of backward regions and of the weaker sections in that district. It

7 Ibid., p - 63
identifies growth centres and opens branches to mobilize deposits. The bank helps the efficient dispensation of credit for productive purposes and also spreads banking habits among the people, especially in the rural areas. In short, the lead bank is required to act as a consortium lender and after identifying growth centres and areas suffering from credit gaps, it has to involve other banks operating in the same area in the programme of banking and economic development. It was a basic departure in the functioning of banks in our country as for the first time credit was to be allocated in compliance with the socio-economic objectives as visualized in the Five Year Plans. Instead of being a mere cold appraiser and a stern monitor, the commercial banker thus, became an innovator and promoter.

**Branch Expansion in the Rural Areas:**

Commercial Banks when shouldered the responsibility of expanding agricultural credit and developing banking habits in the rural areas, geographical dispersal and branch expansion became inevitable. Hence, branch expansion programme has been received greater impetus since nationalisation.

Prior to nationalisation, commercial banks in our country were largely urban oriented. The banks had hardly undertaken the pains to branch out in the rural areas on a large scale. Therefore, rural areas in general and agricultural sector in particular were unknown fields to the traditional commercial banker.

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Even after the completion of three Five Year plans, there were at the end of June 1969, about 617 towns out of the total of 2700 in India, which were devoid of commercial banking facilities. Of this 617 towns, even 444 did not have co-operative banking facilities. Out of a total of about 6 lakhs villages in the country hardly 5000 villages were served by commercial banks.\(^{11}\)

Among the States, Tamil Nadu had the largest number (91) of towns without any office of a commercial bank, followed by Madhya Pradesh (79), West Bengal (64) and U.P. (59). The distribution of towns without any banking facility (commercial or co-operative) showed that Tamil Nadu (35), West Bengal (53), Bihar (43) and Uttar Pradesh (45) had the largest number of unbanked towns.\(^{12}\)

The magnitude of the under development of banking in India can be gauged from the fact that the average population served by a commercial bank office in the country was as high as 73,000 as against 4000 in U.K., 7000 in U.S.A., 15,000 in Japan, and 11,000 in Iran.\(^{13}\)

Over a period of seventeen years, till nationalization, the net increase in the number of all commercial banks in the country was 3512. The slow progress is once again clear from the fact that the average number of branches increased in the order of about 205 branches per annum. The progress of commercial banking in the country prior to nationalization is given in Table No. XXVII.

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\(^{13}\) Ibid., p. 6.
Since nationalisation there has been a tremendous change in the progress of commercial banking in India. Faster branch expansion was one of the noteworthy features of the banking system in our country. After nationalisation the number of commercial banks increased at the rate of about 1722 per annum as it is evident from table No. XXVIII. The average number of new branches opened in one year by the nationalised banks was nearly 909, followed by 452 by the State Bank of India Group and 365 by other Scheduled Commercial Banks.

One of the objectives of nationalisation was the extension of banking facilities to backward regions especially to rural areas. Accordingly commercial banks have given greater significance in the geographical dispersal of branches and hitherto unbanked and underbanked rural and semi-urban areas. Centre-wise distribution of commercial bank offices after nationalization is given in table No. XXI X.

Out of the total 15,003 branches opened by commercial banks between June 1969 and April 1977, 7314 branches were located in rural areas, 3,337 in semi-urban areas, 2,775 in urban areas and 2,081 in metropolitan centres. Following this rural bias in the branch expansion programme, the proportion of rural offices to the total has risen from 22.4 per cent in the pre-nationalisation period to 37.7 per cent by the end of April 1977. But at the same time the proportion with semi-urban centres went steeply down from 40.1 per cent in 1969 to 29.5 per cent in 1977, while the proportion of urban offices remained almost unchanged. It is also clear from the table that the net increase of offices in urban and metropolitan centres were higher than the semi-urban areas.
It is also worth noting that due to the massive branch expansion since nationalisation, the population per bank office has been decreased steeply from 69,000 in 1969 to 26,000 in April 1977.

In all states, the progress of branch expansion was remarkable between June 1969 and April 1977. Even in the relatively backward states such as Assam, Bihar, U.P., Madhya Pradesh and Orissa, Commercial Bank offices numerically increased. Accordingly, the population served per bank office in all states has considerably declined. However, in as much as ten states, the population per bank office was above the all India average of 26,000 in 1977 as against thirteen states in 1969. It was highest in Manipur (56,000) followed by Bihar (55,000), Assam (49,000) and Tripura (38,000). In, Madhya Pradesh the average population per bank office stood at 39,000 in April 1977 as against 121,000 in June 1969. Table No.XXX will illustrate the State-wise progress of commercial banks during 1969 to 1977.

Priority Sector Advances by Nationalised Banks:

Nationalisation makes the role of commercial banks much different from what it had traditionally been. Instead of a bank manager being a person who lends money to those who come to his portals with adequate collateral, he has urged to become an agent of development. Different strategies were evolved in due course to induce the banks in agricultural lending and to co-ordinate the nationalised banks with other agencies connected with the development programmes to help the farmers.
One of the important strategies adopted by the public sector banks in this regard is what is known as the "village adoption scheme". Under this scheme certain contiguous villages are grouped together and designated to a nationalised bank (branch); The particular bank has to meet the entire credit requirements of the farmers for agricultural and allied operations in those villages.

The State Bank of India group as a means to intensify the strategies of agricultural lending, has come out with the establishment of "Agricultural Development Banks" (ADB) in 1971. Areas having a sizeable potential of investment lending are being selected for the establishment of ADBs. By the end of 1975, the State Bank of India group has opened 216 such Agricultural Development Banks; a large number of those in areas with "preponderance of small farmers". The ADBs, while catering to the agricultural credit needs of their respective areas intensively, are also interested in exercising effective supervision over the end use of credit.

The Reserve Bank of India and the Union Government have also taken a number of steps to encourage the nationalised banks to expand their activities in financing agriculture. As an inducement for the banks, the Reserve Bank of India has rendered refinancing facility to the banks engaged in agricultural lending. Accordingly, the additional advances sanctioned by the commercial banks for seasonal agricultural operations is refinanced by the Bank. Again, in January 1973 the Reserve Bank has extended refinancing facility to the commercial banks by introducing a new scheme "the small farmers' window". Under this scheme direct individual loans to the small farmers, not exceeding Rs. 2500 for each

14 R.K. Talwar, "Banking industries role in sharpen focus after Twenty Point Programme", Indian Express, April 1976.
15 Dr. I.G. Patel, "Bank credit must reach the poorer strata of priority sector" Eastern Economist, Decem. 1977, P. 1221.
farmer, granted after January 1973—whether they are extended for short or medium-term or long-term loans—will be eligible for refinance from the bank.

Another remarkable step taken was the establishment of the Credit Guarantee Corporation of India Ltd., following the recommendations of the Working Group, under the chairmanship of S.S. Shiralkar. The idea behind the establishment of the Corporation was to pool the risk involved in agricultural financing and to cover them by a common and characterised guarantee scheme, which was formulated in 1971. According to the scheme, loans advanced to farmers and other priority sector ventures were covered by the guarantee provided by the Corporation. Therefore, loans accounting Rs. 1000 for seasonal agricultural operations and Rs. 5000 for capital expenditure were covered by the guarantee of this Corporation. Now the Corporation safeguards wider coverage on agricultural lending, including cultivation of crops and other agricultural development schemes.

With a view to helping the poorer among the poor in their productive endeavours, the public sector banks are currently operating in the backward districts a Differential Interest Rates Scheme. The suggestion of the scheme while considering the income inequalities among the agricultural borrowers itself, was to make institutional credit more accessible to the weaker sections of the society. (Formerly the Reserve Bank of India appointed a committee which studied the question and recommended the linkage of the scheme with the credit guarantee scheme for covering

small loans by farmers and the borrowers of other neglected sectors.) A borrower whose income does not exceeding Rs. 1200 if residing in rural areas or having agricultural land not exceeding 2.5 acres of unirrigated land or one acre of irrigated land are made eligible for the concessional rates.

The Reserve Bank of India in Sept. 1969 appointed an Expert Group under the chairmanship of R.K. Talwar to examine the problems arising out of various state enactments relating to the rights of transferability through sale or mortgage, agricultural debt relief and regulation of money lending etc. While submitting its report in 1970, the group made a number of recommendations for improving the participation of commercial banks in agricultural lending. The group asserted that in order to cater for the requirements of agriculturists to a great extent, certain restrictive features of the various state enactments, particularly those relating to right of alienation in land or interest therein need be removed. 17

Some of the important recommendations made by the Talwar Committee are:-

1) Cultivators who have no right or have only restricted rights of alienation in their lands or interest should be vested with rights to alienate land/interest in land held by them in favour of banks for securing loans for agricultural purposes.

2) It should be ensured that the concept of first charge in favour of co-operatives does not affect commercial banks in regard to loans based on common security. However, institutional agencies should get priority of charge vis-a-vis private agencies.

3) To overcome lengthy procedures involved in obtaining registration of mortgages created in favour of a bank, it is necessary to ensure that it would be sufficient that if a copy

of the mortgage deed is sent for registration to the sub-registrar. The mortgage so created should also be noted in record of rights.

4) Cultivators borrowing from commercial banks should be exempted from payment of stamp duty, registration fee and charges for the issue of non-encumbrance certificate to the same extent to which they are eligible for these concessions if they borrow from co-operatives.

Many of the important recommendations made by the Talwar group were incorporated in the state enactments later.

As a result of all these efforts from the part of the Reserve Bank and the Government of India, Commercial Banks advances towards priority sector including agriculture has increased considerably. The figures given in Table No.XXXI will illustrates the sectoral development of bank credit during the period 1969 to 1977.

As it is evident from the table, the total priority sector advances increased from 524 crores in 1969 to 3508 crores in April 1977. In June 1969 only 14 per cent of the total sectors, while in April 1977 the percentage share of priority sector advances stood at 26.1 per cent. However, as large as 48.4 per cent of the total bank credit was employed in the residual sector alone, though its share was reduced from 72.4 per cent in 1969 to 48.4 per cent in April 1977. It is more alarming to note that the agriculture sector, which constitutes about 70 per cent of the total population received a share as merge as 9.6 per cent of the total bank credit even after 3 years of bank nationalization while taking in to account of the inequalities still prevailing in the employment of bank credit, the Reserve Bank of India in Jan. 1977, urged the nationalized banks to step up
share of their advances to agriculture and other neglected sectors as equal to one third of the total bank credit by the end of the Fifth Five Year plan. Therefore, the banks are directed that at least 60 per cent of their deposits from rural and semi-urban centres should be deployed in those areas only.13

Table No. XXXII and No.XXXIII will indicate the scheduled commercial banks advances to agriculture during the period 1969 to 1975.

Co-ordination between Commercial Banks and Co-operative Credit structure.

Soon after the entry of commercial banks in the field of agriculture credit, it was felt, that unless an effective co-ordination between them and the co-operative credit structure is created, the desired results of helping the farmers in a proper manner cannot be realised. The Cadgil Committee, while recommending the 'area approach', had early emphasised the need for dynamic interrelationship between different credit agencies in the field of agriculture lending. The group therefore, expressed the view that "with nationalisation the difficulties of making the co-operatives and nationalised commercial banks function in one system will be greatly minimised and the resources of nationalised commercial banks and the local knowledge of co-operative agencies should be rationally combined". Further, the group was reasonable to think in support of this view that the commercial banks in terms of organisation and staff attitudes, have serious drawbacks in reaching the rural areas, but they have resources. The co-operatives, on the other hand, were weak in management and resources.19

Co-ordination is obligatory particularly in feeding mutually the information regarding the behaviour of borrowers in respect of their past financial dealings so as to know the honesty and credit-worthiness of a borrower. It will enrich the co-operatives and the Nationalised Banks to play a mutually complementary role in meeting the diversified credit needs of the farmers without getting into conflict with each other.

One of the major efforts in this direction after nationalization was the evolution of the scheme of "Financing Primary Agriculture Credit Societies by the Commercial Banks". It is felt that this type of co-ordination will automatically increase the business of the credit societies and will improve their working conditions in qualitative and quantitative terms. On the other hand the nationalised banks are also to be benefited by the presence of the rural based co-operatives in dealing with the farmers about whom commercial banks knew little. Therefore, to quote the words of the Study Group "the benefits of local knowledge and local supervision over the use of loans will also accrue to the bank if finance is routed through the credit society in the village. The capacity of a commercial bank or co-operative bank to deal directly with several hundred individual agriculturists residing within jurisdiction is extremely limited. If the bank is really to meet the credit gaps in its area, it can do it better if it enlists the co-operation of the village primary credit society."

It is also considered that commercial banks while rendering
the assistance of primary agricultural credit societies can
be able to enjoy all the previllages on their behalf under
the co-operative societies Act. Apart from all these, it
has to be taken in to account that out of the total number
of 341 central co-operative banks, as many as 100 had a
loan business of less than one crore in 1971-72.23 Accordingly
the "Scheme of financing primary Agricultural credit societies
by commercial banks" was formulated by the Reserve Bank of
India in consultation with the central government with a
view to fill-up the existing credit gaps in the areas where
the central co-operative banks were financially and
administratively weak.

The Scheme was initially introduced in the year 1970
in 49 selected districts of five states viz. Andrah pradesh,
Harayana, Karnataka, Madhya pradesh and Uttar pradesh. It was
further extended to some more selected districts of Orissa,
Jammu & Kashmir, West Bengal, Bihar, Maharashtra and Assam.

The main objectives of the Scheme are : (1) to meet
the production and investment credit needs of the farmers
fully, (2) to finance small farmers by encouraging them to
become members of the societies, (3) to reviviaslise the primary
agricultural credit societies so that they become effective
credit agencies in the village levell and (4) to rehabilitate
the weak co-operative central banks by taking over their
affiliated societies for financing. 24

According to the scheme it is considered that the
commercial banks will be in a position to meet the credit needs
of the members of the societies more effectively than the
co-operative central banks. In-fact, this will be a stimulus

23 Anamol Singh : "Co-operative Banks, an analysis,":
to farmers to become members of the societies in future. Thus, certain features inherent in the scheme, if allowed full play, are very conducive to the building up of a strong co-operative credit structure, especially at the primary level. 25

Table No XXXIV will illustrate the working of the scheme more clearly. Accordingly, it was pointed out that the average number of societies ceded was less than 10, as it was declined in many states during 1974-75. Out of the total of 405 branches covered by the scheme, only 127 branches had the full quota of 10 societies each. Again, the percentage of ceded societies actually financed by the concerning banks declined from 70 per cent in 1970-71 to 65 per cent in 1974-75. The proposition of actually financed societies to the ceded societies was highest at 85 per cent Madhya Pradesh, followed by Harayana (34 per cent), Uttar Pradesh (83 per cent), Bihar (75 per cent), Jammu & Kashmir (68 per cent), West Bengal (62 per cent), Orissa (59 per cent), Karnataka (58 per cent), and Andhra Pradesh (47 per cent) at the end of June 1975.

Regarding the admission of new members the survey revealed that about two lakhs members were admitted to these societies up to 1974-75. The average increase in membership per society was 80 in 1974-75 as against 50 in 1970-71. However, except in Uttar Pradesh and Orissa average number of borrowing members were below 200 which was the prescribed form for society to become a viable unit. Following reasons are pointed out for this phenomenon: (1) lack of co-operation from the part of the extension staff of the co-operative department, (2) absence of full time paid secretaries in many of the societies, (3) indifferent attitudes of the management of the societies and (4) inadequate efforts on the part of the field staff of the commercial banks itself.

The survey surfaced the fact that there existed a wide gap between the total membership and borrowing membership of these societies. Out of the total members, only 42 per cent formed the borrowing members as on 30th June 1975. It was for the reason that, as a result of a large number of defaulters, that societies could not satisfy the condition regarding the minimum recovery of 25 per cent to 50 per cent, of demand for fresh loans. Moreover, many of the enrolled members were neither in need of nor eligible for loans, also account for such a gap.

It was further pointed out that many societies adopted for financing by the commercial banks have not attained the minimum level of loan business which was fixed at Rs. 2 lakhs for each society. The level was fixed on the assumption that this would enable a society to earn sufficient profits in order to meet the operational expenses. Slow growth of membership and, in certain cases, limited area of operation constituted for this weakness. Societies classified according to loan business is given in table No. XXXV.

As it is evident from the above table, out of 2297 societies in all the five States, only 131 were having a loan business of Rs. 2 lakhs and above. Only 428 societies could attain the level of loan business between one lakh and Rs. 1.99 lakhs. A number, as large as 1738 societies were not even having a loan business of Rs. one lakh by the end of 1974-75.

The total agricultural loans and advances made by commercial banks through the societies in ten states (excluding Assam), according to the survey increased from Rs. 546.96 lakhs in 1970-71 to Rs. 1576.45 lakhs in 1974-75.

26 Survey conducted by R.B.I., Refer (27)
The average short term loans disbursed per society rose from Rs. 32,000 to Rs. 78,000 during the same period. The progress towards this direction during 1970-71 to 1974-75 is given in Table No. XXXVI.

According to the Survey, the progress of the scheme achieved during this period has not been uniform in all the states owing to variations in agricultural conditions and inherent weakness of the societies themselves. It is also asserted that the more important task of revitalization of the societies and professionalization of their management have not received due emphasis.

The Survey made a number of recommendations for the effective working of the scheme. Some of the important among them are grouped below:

1. To facilitate the expansion of loan business of societies, commercial banks should discourage issue of short and medium term loans directly to the farmers residing in the area of operation of societies,

2. Banks should persuade the cultivators approaching for loans to become members of the societies for availing themselves of the required finance,

3. Lending procedures of the required finance, the commercial and co-operative institutions should be uniform to avoid any discriminatory treatment being shown to the societies situated in the same area.

4. Banks should delegate powers to branch agents for sanctioning credit to avoid delays.

(5) As the concession in differential rate of interest available to non-members is acting as a disincentive to small farmers becoming members of societies, suitable modifications in the Scheme is essential.

(6) Joint loans to Group of small farmers for sinking of community, irrigation wells etc., could be issued through the medium of farmers service Societies or viable multipurpose Societies.

Regional Rural Banks:

In spite of all the efforts to institutionalise agricultural credit, it was found that the small and marginal farmers continued to be at the mercy of the traditional supplier of credit i.e., the money lenders. Bulk of the institutional credit tend to flow into the hands of the more well-to-do farmers since they can provide adequate security and use the funds to the maximum advantage. But it was realised that making more credit available to the poor sections is not enough unless simultaneously steps are taken to make unviable operations of these people viable. Therefore, the Government of India as recommended by the Banking Commission (1972) decided to set up a chain of Regional Rural Banks in the country. Accordingly, the president of India issued an ordinance on 26th Sept., 1975, to enable the Government for this purpose.

The main objective in setting up of the Regional Rural Banks was to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers,
 artisans and small entrepreneurs in rural areas. Thus, the Rural Banks were intended as an alternative system which could replace the money lender in villages. A Rural Bank, as recommended by the Banking Commission, is an institution set-up to serve a compact group of villages covering a population from 5000 to 20,000 generally working as a co-operative bank or a subsidiary of a commercial bank. In the words of the then Union Minister, for Revenue and Banking, the intention of setting up Regional Rural Banks was "to have an institution which would combine the rural touch and local feel, a familiarity with rural problems and attitudinal identification with the rural economy which the co-operatives possess in a large degree; with modern business organisation, commercial discipline, ability to mobilize resources and access to the central money markets which the commercial banks have - in other words, an institution which is locally based, rurally oriented and commercially organized".

The new Regional Rural Banks are expected to fill the void between the rural co-operative credit structure and the commercial banks. They are intended to provide alternative source of credit to the neglected sections so as to free the poor people from the clutches of the ruthless money lenders. The purpose was to supplement the efforts already being made by the commercial banks and co-operative banks, combining the strong points of the both. The Rural Banks, therefore, are meant to supplement rather than supplant the existing credit structure.

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28 Annual Report and trend and Progress of Banking in India (1975-76) R.B.I., P - 60.
A Regional Rural Bank is required to undertake the business of (1) granting loans and advances to small and marginal farmers and agricultural labourers whether individually or in group, (2) granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, industry or other productive activities within the area of its operation.

Instead of the above mentioned functions, the Regional Rural Banks are, in due course, expected to perform the following functions:

1. to implement the programme of supervised credit,
2. to provide short and medium term credit to agriculture and other developmental purposes,
3. to act as an agent of the land development bank and thus the supply of long term credit to the rural people,
4. setting up and maintaining of godowns,
5. supplying agricultural implements and other inputs to farmers,
6. to mobilize rural savings,
7. to provide various ancillary banking services to the rural people and
generally assisting the overall development of the villages in its area of operation.

The management of the bank is vested in a nine member Board headed by a Chairman appointed by the Government of India. The Board consists of three members nominated by the sponsoring commercial bank, three by the Union Government and two by the State Government. The bank has a share capital.
of Rs. 1.00 crore made up to 50 per cent by the Union Government, 15 per cent by the State Government, and 35 per cent by the sponsoring Commercial Bank. The area of operation of the Rural bank is limited to particular regions consisting of one or more districts of a state.

The first Regional Rural Bank was established on 2nd Oct. 1975. By the end of 30th June 1976, 19 Rural Banks were established in different states. These banks have opened 112 offices and mobilized deposits worth Rs. 1.2 crores and extended advances of the order of Rs. 1.5 crores. The number of accounts of these banks stood at 50,000 and they financed directly about 35,000 small and marginal farmers by the end of June 1975.