A review of past studies helps to define the scope of present study and provides the framework for analysis and drawing inferences. The present chapter makes an attempt at reviewing earlier studies made in India to evaluate the role of banks in promoting rural development.

2.1.1 Evaluation studies on rural development

H.M. Patel (1977) in his article 'Rural development in India' observes that there is a crying need to improve both extension services as well as agricultural research services. The former need to concentrate more on persons than on quantitative results. Simultaneously, marketing arrangements need to be strengthened considerably if the weaker sections of the rural producers are to progress.¹

Johncole (1976) in a study on 'Rural Poverty' observes that one of the ways to bring peasants into the cash economy is to give them paid work they can do in their spare time. Rural people can be trained to make furniture, implements and tools both for their own use and for sale.²

Charan D. Wadhva (1980) in an evaluation study on 'Rural banks' observes that all loans granted by the commercial banks under the Differential Interest Rate (DIR) scheme to the weaker sections of the rural society must be made through the Regional Rural Banks in their areas of operation.³

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In a book "Rural Development in India" edited by T.K. Lakshman and B.K. Narayan, (1984) Mumtaz Thaha suggests that the next step in rural development should be to have a single programme and a single plan at the bank level. The plan should consist of location specific; beneficiary-oriented, time bound schemes and should follow the concept of integrated area planning.4

A case study of Panitola block in Dibrugharh District in Assam included in a book edited by T. Mathew (1984) reveals that most of the households preferred loans from moneylenders and traders. The reason for this preference is that the non-institutional agencies provide loans for all purposes including consumption at any time they require. It is further observed that there is a strong feeling among the rural poor that credit facilities from financial institutions are meant only for the upper strata of the society as they alone can provide the required security.5

In a book 'Rural India Real India' edited by N.K. Thingalaya (1986) O.J. Kanvinde notes that many schemes, particularly in the tertiary sector, are over financed, where as those in the agricultural and industrial sectors are grossly under financed.6

S.A. Shetty (1986) in a study on 'Credit delivery system' points out that subsidy is a source of corruption. It is also responsible to some extent for leakages of the benefit of the programme to non-eligible households.7

7) Shetty S.A., 'Rural Development-some thoughts on credit Delivery system', Ibid. p.179.
In a book 'Rural India – Real India' edited by I.N. N.K. Thingalaya, I.N. Tewary observes that loans are not properly used by beneficiaries due to lack of knowledge, opportunities and will. They waste the loan on eating and drinking and thus the purpose of the loan is defeated.8

G. Narayana Reddy (1986) in his study on 'Rural Dynamics and Development', warns that the development schemes leading to material prosperity without ethical discipline of hard work, thrift, saving and investment tend to cause social disruption instead of bringing about social development. The 'loan melas' of commercial banks which create a dole receiving mentality among people who only want to know what the government will give them, without the simultaneous sharing of responsibilities.9

Dr.A.K. Srivastava (1986) in an impact study of 'Integrated Rural Development Programme' notes that isolated attempts and adhoc programmes are not the answer to the problems of the 'rural poor' and 'rural weak'. The situation of the rural poor can only be improved if only they are integrated into an over all system.10

T. Jothi Pandian (1986) in his study on 'Bank finance for rural development' recommends that the branch manager and the staff working at field level need to be fully acquainted with the aims and objectives of the various development programmes and the areas where their participation and involvement is called for.11

K. Ravi et al. (1986) in a study on 'An innovative approach to Rural Development' suggest a model. The model suggested considers an Autonomous Rural Development Approach (ARDA) to the problem of rural development whereby all powers to assure successful implementation of a given activity need to rest with a single agency/institution. Once this happens, the given agency will carry out all functions of several departments and institutions. The major advantage that will accrue from this approach will be improved efficiency as a result of a single chain of command.\(^{12}\)

V. Bala Mohandas and P. Hrushi Kesava Rao (1986) in a study on 'Bank's finance in Rural Development' suggest that consumption loans should be combined with production loans. This would wean such borrowers away from moneylender.\(^{13}\)

In a book, "Rural Development – An Inside Look at Problems and Prospects" edited by R. Subramanian, it is observed that for better results in rural development it is necessary to bring together three major constituents identified here as partners in rural development. They are Technocrats (Government functionaries), Academics (Planners) and Democracy (The People's Forum). They have to be brought together in a right combination to suit a particular set of conditions.\(^{14}\)

S. Sivasubramanian (1988) in a study on 'Alternatives for development strategy' states that, there are no backward areas, but only backward people.

Without a sufficient human investment, backward areas are unlikely to develop. If a country looks after its people its Gross National Product will tend to look after itself.\textsuperscript{15}

S.S. Agarwal (1989) in his study 'Strategies for Rural Development' insists that a strategy for rural development must recognize three points: (i) the transfer of people from low productivity agriculture to more rewarding pursuits (ii) the control of unprecedented rate of growth of population; and (iii) mobilization of capital to improve the quality of life.\textsuperscript{16}

A.K. Agarwal (1989) in an attempt to suggest new strategy for rural poor, says that under the wage good strategy, the surplus labour force or the people below the poverty line can be put to work on capital projects, like irrigation, drainage, roads and dams. As a consequence, these people can be a source of capital formation without any strain on the financial resources.\textsuperscript{17}

V. Eswara Prasad et.al. (1990) conducted an impact evaluation study of Integrated Rural Development Programme in Anantapur District of Andhra Pradesh. The study revealed that a substantially larger proportion of the sample beneficiary (86.67 percent) crossed the poverty line as compared to the non-beneficiaries (58.16 percent).\textsuperscript{18}


Desingn Setty (1991) in his book, ‘Rural Development Problem and Prospects’ wants the banks to motivate the individuals and says that to do so; they have a role to educate the community in which they operate. The study concludes that the banks have increased paperwork, the number of returns and reports more than tangible actual accomplishment in the field.19

In an evaluation study entitled ‘Rural Development’ S. Giriappa (1993) finds that the small and marginal farmers, fishermen, artisans, labourers of scheduled castes and scheduled tribe households and also female-headed households face the problem of low income generation and low asset formation due to non-availability of adequate finance from the banks.20

Vyasa Krishna (1993) in his study ‘Rural Development through Financial Services, indicates that in the present scenario, instead of an exclusive Rural Insurance set up in the country, with a large capital base, a separate ‘Bancassurance’ set up bringing banking and rural insurance sectors under one umbrella would be more viable and fulfil the rural financial needs through a single window agency.21

Sharada Nath et. al (1993) in their book, ‘Role of Elites and Citizens in Rural Development in India’ suggests that both government and elites should try to create awareness and interest among the rural citizens before implementing the

development programmes. Rural citizens should be properly educated to utilize the benefits of rural development.22

P.K. Deshmukh (1994) in his book 'Growth Centre: A Strategy for Rural Development' suggests a strategy of rural development wherein the most crucial role of initiating the co-operative development after identifying the growth centres is to be performed by a development authority.23

S.S. Gill (1994) in his study 'Rural Development' observes that the beneficiary has to spend a lot of time and money in getting signatures of different officials on his application. It is therefore suggested that teams consisting of the representatives of the organizations concerned such as commercial banks, rural development agencies, revenue department should visit different villages according to a preplanned and pre announced schedule and clear all the loan applications on the spot.24

Debendra Kumar Das (1994) in his book 'Dynamics of rural development says that the core task of rural development, consists in fuller use of local resources and skills, modernization of farming, regeneration of agricultural allied activities institution building to fulfill the local needs, eradication of development problems and improvement in health and education.25

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Bipin Kumar (1995) in a case study of Integrated Rural Development Programme in Bikram block of Patna District in Bihar has found that there are malpractices in identifying beneficiaries, sanction of loans and obtaining assets. Only 25 percent of beneficiaries received full amount for the assets, while 70 percent received the money partially.\textsuperscript{26}

Shri Ram Maheswari (1995) in his book, 'Rural Development in India' states that rural development is a never ending process. The success of a set of programmes takes rural society upwards.\textsuperscript{27}

U.R. Nahar Ambika Chandani (1995) in his book "Sociology and Rural Development" observes that rural development programme in India is in need of re-orientation. What is needed is a new vision, a new direction. The perspective of ethno-development offers a promising alternative.\textsuperscript{28}

Dr. Jegannath Mishra (1997) in his book 'My Vision for India's Rural Development' notes that rural development largely consists in raising productivity of all the pursuits in which rural people are engaged-agricultural labour, washermen, transporters, carpenters and providers of rural services. Things are linked with each other and absence of one creates bottlenecks.\textsuperscript{29}

\textsuperscript{27) Shri Ram Maheswari, 'Rural Development in India', Sage Publications, New Delhi, 1995, p.268.}
development programmes. Rural citizens should be properly educated to utilize the benefits of rural development.²²

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\textsuperscript{27} Shri Ram Maheswari, ‘Rural Development in India’, Sage Publications, New Delhi, 1995, p.268.
M. Lakshmi Narasaiah and Jeya Raju (1992) in their book, ‘Rural Poverty and Anti Poverty Programme’ observe that there was a general dissatisfaction with the administration and utilization of subsidy given by the Banks. There were widespread complaints that the subsidy amount was not reaching the beneficiary in full and a large portion of it was being misappropriated by government and bank officials and some middlemen who worked as touts.30

Lalith Kumar Tyagi and Rajesh Kumar in an evaluation study on ‘Rural Development’ remark that lack of awareness of different schemes among the poor and manipulation and exploitation of masses by the local elite are blocking the benefits of development to reach the most needed rural people. The only way these hurdles can be overcome is through conscientisation and mobilization of the rural masses.31

J.N. Singh in an evaluation study on a ‘New approach to rural development’ observes that the Swarn Jayanti Gram Swarojgar Yojna (SGSY) seeks to lay emphasis on skill development through well-designed courses. The country has got lakhs of ITI trained skilled workers. Under such circumstances, instead of designing new courses of skill development, efforts should be made to gainfully utilize the services of already available skilled force.32

D. Sounder Raj in an article ‘People’s Participation in Rural Development’ suggests that the rural development programmes should be based on the felt needs

of the people in order to achieve greater people's participation and sustainability in development. He further adds that rural development programmes should motivate people to participate by making them aware of the benefits they receive from these programmes.  

S.N. Mishra in an article 'Decentralised Planning for Rural Development' suggests that to achieve the objectives of the decentralized plan, the basic prerequisite should be bottom up approach in planning process starting from Gram Sabha, reaching to the district level, then assimilated in the state plan and finally becoming part of the central plan. Such type of planning with the involvement of people will be need based and at the local level it is the Gram Sabha, which can really priorities their needs.

2.2.1 Impact studies on Integrated Rural Development Programme

Minhas et.al (1980) in an evaluation of study on, 'Declining incidence of poverty' rank 17 states on the basis of poverty, alleviation performance through bank credit. They have found that Andra Pradesh and Kerala were the only two states which managed to reduce both the head count ratio as well as the number of poor in the rural sector and thus secured first and second ranks respectively.

B. Bagchi and K. Sam (1980) conducted an Impact study of the 'Lead Bank' operating in Nadia district of West Bengal with a view to finding out how far they had

assisted in augmenting the flow of rural credit in the district. It was found that the rate of recovery of loan had been quite high. It was not below 76 percent. 36

C.K. Ambastha (1980) in a case study of ‘Farm Clinic Project’ by Syndicate Bank whose objective was to help rural people to ameliorate their living condition through their own earnest efforts, in Barker Panchayat of Udupi Taluk in Dakshina Kannada district of Karnataka, observed that the farmers developed nearly 100 acres of cultivable waste land. It was observed further that their serious involvement in cultivating their own land created approximately 25 extra mandays farm labour for each male and female. Not only this, the children also worked on their farms for 298 hours and some of these families provided employment to other agricultural labourers for 167 man days during busy part of the season. 37

P. Rangaswamy (1984) in an evaluation study of ‘Integrated Rural Development Programme in Haryana, found that among the five IRDP schemes chosen for the study. (buffalo, sheep poultry, animal cart and petty shop) petty shop showed the best performance with two thirds of the beneficiaries crossing the poverty line (Rs.6,400) Next came, animal and buffalo schemes. 38

B. Sathyanarayan (1986) in an impact evaluation of ‘Rural development in Mahabunagar district of Andhra Pradesh reveals that the common complaint voiced by most of the beneficiaries was that commercial banks were still guided by the

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38) Rangaswamy P., 'Evaluation of Integrated, Rural Development Programme in Haryana', Agricultural Economics Research Centre, Delhi, 1984, p.64.
security principle rather than by the farmer’s potential for development. The unwillingness combined with sluggishness on the part of the banks to advance loans was identified as the major bottleneck in achieving the target laid down.39

K. Jasbir Singh and P.C. Deb (1985) in an impact study of ‘Integrated Rural Development Programme’ in Ludhiana and Bhatinda district of Punjab observed that those who could take advantage of the credit facilities were in a better position to improve their socio-economic conditions. It was further observed that the comparatively better off sections of the community derived more benefits than the others from Integrated Rural Development Programme.40

S.D. Mishra (1985) in an evaluation study of ‘Integrated Rural Development Programme’ in Uttar Pradesh, found that about eight percent of the borrowers had incremental income below Rs. 1000 from their investment. The study showed that out of the total 136 sample projects financed by the bank, under Integrated Rural Development Programme only 34.56 percent had really crossed the poverty line and the remaining 65.44 percent remained below the poverty line.41

R.K. Panda (1985) in an impact study in Nilai Block of Cuttack district in Orissa observed that the beneficiaries under non-scheduled caste category had received much higher amount of assets than that of the beneficiaries under scheduled caste category.42

R. Nagaraja (1985) in his study of ‘Commercial banks and rural artisans’ suggested that commercial banks should equip themselves with technical and trained manpower to deal with rural artisans. It was further suggested that artisan development branches might be established to look after the needs of the rural artisans.43

P.T. George et al (1985) in their study of ‘Rural Credit and Farmer’s Borrowing cost’ in Chenglepet district of Tamil Nadu observed that term loan borrowing costs were high compared to crop loan borrowing from the financial institution, but the costs on crop loan were higher than the term loan from the non-financial institution.44

J.S. Sodhi (1987) conducted an ‘Evaluation of IRDP study in Sawai Madhopur district of Rajasthan. The study revealed that the coverage of the poorest of the poor was very low (only four percent). Twenty three percent of the sample households had been wrongly selected, that is, their household income was above the stipulated limit of Rs. 3500.45

R.K. Khatkar et al (1987) in an impact study of Bank and Integrated Rural development programme on income, employment and consumption expenditure of rural poor in Mahendragarh district of Haryana noticed that income and family expenses had increased significantly in all the categories. The income had

increased more in the case of small farmers followed by marginal farmers and landless labourers. The employment generation was found to be more in the case of marginal farmers followed by landless labourers.\(^{46}\)

S. Bhaduri and A.K. Chandra (1990) in an ‘Evaluation study of UCO Bank’ in 29 districts spread over seven states namely Assam, West Bengal, Bihar, Orissa, Rajasthan, Punjab and Himachal Pradesh, revealed that the Banks achievement for all the Lead districts in all sectors taken together, constituted 77 percent of target during the year 1989-90 which was comparatively higher than the previous year’s achievement.\(^{47}\)

Bhaskar et al (1994) conducted an ‘Impact evaluation study of ‘JRY in rural scenario’ in Karimnagar district of Andhra Pradesh, and they proposed that to avoid misallocation of funds from banks and misutilisation of resources, there should be a Joint Programme Implementation Committee (JPIC) in every village, involving voluntary organizations, youth associations and representation from all political parties.\(^{48}\)

### 2.2.2 Case Studies of Rural Development Schemes of Nationalised Banks

Pandey H.K. (1972) conducted an evaluation study of ‘Credit requirements and advances to farmers by Lead Bank’ in Varanasi district of Uttar Pradesh and found that the small farmers had obtained more credit than medium and large farmers.\(^{49}\)

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Vasant Desai (1972) in an evaluation study 'A review of the Banks' Credit to the Weaker Sectors' observed that under the present circumstances, the weaker sectors of the economy could expect a better deal in the hands of the public sector unless the officials of the nationalized banks were adequately educated with the objectives and social responsibilities of banking industry.\(^{50}\)

S.G. Shah (1977) in his article 'Credit to weaker sections' observed that interest concession for promoting capital investment in rural areas and concessional refinance to banks to increase their lending to small farmers would be defeated if the volume of such loans was limited by banks on procedural grounds.\(^{51}\)

K. Venkata Reddy (1980) conducted a case study on 'Rural Banking and Agricultural Finance in Royalaseema region in Andhra Pradesh. The study found that small farmers had received as much as 42 percent of total advances. The advances to landless labourers and village artisans remained to be very negligible. The study further revealed that bank branches were not within their easy reach. Each branch had to cater to the needs of as many as 35 thousand people and in rural areas this number was much higher.\(^{52}\)

Harjeet Singh and Balkar Singh Dhillon (1980) in an evaluation study of 'Estimation of credit gap in the integrated rural development programme' in Sangrur


They should have a vital responsibility in suggesting suitable schemes to enable the poor beneficiary to overcome his poverty with the assistance of loan from banks and subsidy from government.\(^5^9\)

Kattar Singh (1984) conducted an evaluation study of ‘Integrated Rural Development' Programme in Sabarkantha district of Gujarat. He observed that co-ordination between the District Rural Development Agency and the banks involved in financing Integrated Rural Development Programme was very good. As a result of better understanding and co-ordination between the District Rural Development Agency and the banks, the proportion of application rejected by the banks had been declining over the time and was as low as 4.75 percent in 1983-84.\(^6^0\)

A.C. Kutty Krishnan (1984) in a case study, of ‘Integrated Rural Development Programme' in Edakad village of Cannanore district noted that the majority of the beneficiaries to the extent of 80 percent were not eligible for assistance under the programme. The programme had not raised the income of those families who were below the poverty line.\(^6^1\)

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A.S. Rana (1987) in an impact study of 'Nationalised Banks' in Rohtak District in Haryana observed that out of 321 borrowing households of the weaker sections nationalized banks advanced loans to 141 households, 74 secured loans for milch animal scheme. The study revealed that the favourable horizontal and vertical spread of benefits were restricted not only by misutilisation of loan for unproductive purposes but also by the various costs of borrowing and buying incurred by the beneficiaries.62

K.J.S. Satyasai et.al (1987) in their impact study of 'Rural Credit' in West Godavari district of Andhra Pradesh observed that the respective shares of institutional sources in the case of marginal, small, medium and large farmers were 64.10, 69.30, 83.88 and 97.97 percent respectively. The study further revealed that the marginal and small farmers were more credit hungry and they were still at the mercy of the private money lenders.63

Khatkar (1988) in an impact study of 'Integrated Rural Development Programme' in Mahendragarh district of Haryana found that amongst rightly identified rural poor the Integrated Rural Development Programme funded by banks had made positive impact on generating gainful employment and significantly increased the earnings.64


L. K. Naidu (1988) in his book ‘Bank Finance for Rural artisans’ observed that the bank credit facilities were misutilised by non-artisans and by the more articulate artisans. There appeared to be some degree of collusion between such artisans and the bank staff.65

A case study on ‘Magnitude of farm credit in Punjab’ by Joginder Singh (1990) and I.S. Chather (1990) revealed that as many as 300 out of 328 farmers had to depend on credit for their farm activities. It was further found that crop loans formed a significant component of the total credit requirement.66

A case study, on the ‘Cost of short-term agricultural credit for small and marginal farmers’ of Aligarh district of Uttar Pradesh conducted by S.P. Singh and Mruthyunjaya (1990) revealed that the cost of getting credit from the banks was high. They suggested that banks should consider setting up regular or satellite mobile branches at appropriate places in order to reduce the cost and to provide credit at the doorstep of farmers.67

Karkal et.al (1990) in an evaluation study of ‘some priority sector lending’ observed that planning process of the banks regarding the scheme was not critically studied in the reports. Most of the evaluation studies give the impression that they were undertaken to build the image of the banks or under the instruction from the controlling agencies.68

A case study conducted by K. Gayathri (1993) in Chikmagalur district of Karnataka revealed many rural farmers were hesitant to approach a bank for financial assistance. They feared that if they failed to repay the loans taken from banks, the treatment meted out to them would be worse than that of money lenders.69

In an evaluation study of 'Banking and rural Development' Baidyanath Misra (1995) recommended that credit should be provided only for some viable projects which might ultimately succeed in changing the rural scene and improving the level of living of the beneficiaries. It was found that the advances for viable projects had increased from 3.4 percent to 35.9 percent in rural areas of Orissa.70

N.S. Bhat (1995) in an impact study of 'Agricultural borrowers from banks in Dakshina kannada District of Andhra Pradesh, suggested that in order to reduce the inequality in the distribution of income among agriculturists, the financial institutions should make the small farmers their target group and adopt appropriate credit policies that discriminate in favour of the target group in terms of the availability and the cost of credit.71

C.S. Singhal (1995) in his study, 'District Development Agencies' in Assam observed that the staff in District Rural Development Agency and the block level were not sufficient. He suggested that there should be collective responsibility between the bank and the District Rural Development Agency officials.72

K.K. Gaur (1999) in his book 'Role of Agricultural Credit in the prosperity of scheduled castes' in Bulandshahr district of Uttar Pradesh observed that credit absorption capacity of the beneficiary was not taken into account while deciding the quantum of assistance before forwarding the application to the bank. This led to the misutilisation of funds and added to the burden of the beneficiary. It is therefore incumbent on the officials of the block, to make careful assessment from this angle and suggest the amount to be lent in consultation with the bank manager.73

Aditi Kapoor (2000) in an evaluation study of 'Mahila co-operative banking society in Kumool in Andhra Pradesh' reveals that during the last five years government banks have given loans to just 421 out of 4200 families living below the poverty line in the district, but a private Nagalakshmamma's bank has given loans worth of Rs. 50 lakh to over 730 poor families.74

R. Venkata Rao and B. Sambasiva Rao (1999) in an impact evaluation study conducted in Guntur district of Andhra Pradesh on Integrated Rural Development Programme found that the assets provided under the three schemes viz milch cattle, petty business and cart and bullocks in the study area were on an average of good quality and well suited to the local conditions. It was also observed that all the assets were intact and were generating reasonable employment and positive income.75

74) Aditi Kapoor – 'Banking on illiterate Women' The Hindu, 5th March 2000, p.IV.
2.2.3 Nationalised Bank's Credit to Rural Development

J.D. Jain (1971) in his article 'The Role of Commercial banks in financing agriculture' suggested that for extending quicker and easily available, timely credit to the farmers at lesser cost, a credit information bureau must be set up in each village.\(^76\)

N. Bhattacharyya (1972) in his article, 'Nationalised Banks in rural economy' observed that banks especially the rural branches were suffering from lack of qualified and experienced hands. The management had failed to train adequate educated youth from rural areas to maintain branches in the villages.\(^77\)

Sharma B.P. (1974) in his book 'The Role of commercial banks in India's developing economy' stated that the commercial banks had a very important role to play in shaping the economy of the nation. They could serve as 'shock absorbers' and 'effective-feelers' on the one hand and the 'circulator of funds' in the arteries and veins of the money and capital market on the other.\(^78\)

O.R. Krishnaswami (1976) in an evaluation study of 'Banking in rural areas' suggested that every borrower should be issued a credit passbook in which the details of his land holdings, credit limit and credit transactions should be recorded. A credit limit should be fixed for each borrower with reference to his production and household requirements, resource position and pattern of income.\(^79\)

\(^76\) Jain J.D. 'Role of commercial banks in financing agriculture', Kurukshetra, Vol.19, No.20, July 1971, pp.2-5.
O.P. Mathur (1978) in his book, 'Public sector banks in India's economy' revealed that the State Bank of India in its over two decades of service had accelerated India's economic growth by its two outstanding features namely pursuing the policy of vigorous branch expansion and introducing bank credit facility to the new fields of priority sectors of the rural area.80

H.N. Agrawal (1979) in his book 'A portrait of Nationalised banks' indicated that the establishment of commercial banking was mainly for achieving certain social obligations in the economy. The various social obligations were obligation towards customers, obligation towards society obligation towards other financial institutions obligation towards the employees and obligation towards themselves.81

In an impact evaluation study of 'Lead Banks' performance in Jabalpur District by Hemchand Jain (1980) observed that advances per capita in the district were only Rs. 13 in 1970 as against about Rs. 60 for the country as a whole. It was further observed that only 5.26 percent was only advanced to agriculture. The study concluded that the amount collected in the form of bank's deposits by these banks were not disbursed in the form of advances for developing the district economy.82

An evaluation study conducted by Birla Institute (1981) Economic research division observed that competition among the public sector banks had been a casualty of nationalization. A disappointing result of this had been the deterioration in banking services.83

81) Agrawal H.N., 'A portrait of Nationalised Banks', Inter India Publications, New Delhi, 1979, pp.82-89.
S.A.R. Bilgrami (1982) in an analytical study on ‘Regional growth of public sector banks’ observed that banking industry was supporting anti-social and undesirable activities such as, hoarding and speculation and was mobilizing public savings in certain areas and investing them elsewhere, thus aggravating inter-regional and inter-state imbalances. Banks misuse their power, which went against the welfare of general masses and thus caused serious imbalances in the economy.⁸⁴

Ojha Ghanshyamdas et.al. (1983) who conducted an empirical assessment study of ‘Rural Credit’ in Telegana region of Andhra Pradesh observed that 70 percent of the beneficiaries were aware of the existence of credit institutions and the remaining were not aware of them. About one third of the members were still approaching middlemen, much discouraged by the problems like delay in getting the loans, corruption and redtapism.⁸⁵

An evaluation study of ‘Role of Banks in rural development’ conducted by Badar Alam Iqbal and Zillam Haider (1983) in Nowgawan town of Uttar Pradesh revealed that the Prathana banks’ operational activities were limited only to the acceptance of deposits and advancing of loans. On the basis of his study, he has recommended that the banks should provide techno-economic consultancy services and help in project formulation.⁸⁶

S. Subramanya (1986) in his book 'Trends and Progress of Banking in India' noted that the bank credit to weaker sections of the society had helped considerably in improving their socio economic conditions in recent years with an average increase in the net income of their sections from Rs. 24 to Rs. 274. The standard of living of the poor had improved sufficiently to lift many of them above the poverty line.\(^{87}\)

L.K. Naidu (1986) in a study on 'Bank finance for rural development' suggested, a more effective supervision by credit institutions to ensure proper use of credit and to prevent incomplete investment works stemming from under financing.\(^{88}\)

In a book 'Bank finance for rural development', edited by L.K. Naidu (1986) T.K. Meti and Mundinamani observed that profitability of the commercial banks had considerably decreased particularly after bank nationalization. The main reason was that, the earning capacity of these banks was much less because of the high pay structure and heavy overheads. Besides transactions and other operations of the rural banks did not appear to be promising and profitable.\(^{89}\)

John D.K. Sundar Singh (1986) in a book 'Bank Finance for rural development' edited by L.K. Naidu observed that priorities in Kanyakumari district could be totally different from the priorities generally fixed for the banks. The sectors

which should be given the highest attention were coconut plantation, Rubber plantations, Fisheries, Rubber based industries and Tapioca rather than the earlier classification of priorities.\textsuperscript{90}

L.K. Naidu (1986) in an impact study of 'Financing of weaker sections by commercial banks' observed that in the programmes of assistance to weaker sections, the official agencies made two fundamental errors in their assumptions. One is that finance was the panacea for all the ills in the society and the other was that every unemployed in the society was a potential entrepreneur. It was further indicated that assistance to weaker sections to be meaningful, formulation of carefully thought out area specific programmes suited to the skills of the beneficiaries, was of vital importance. This factor required thorough investigation by banks and government officials.\textsuperscript{91}

K. Narasimhulu (1986) in a book 'Bank Finance for Rural Development' edited by L.K. Naidu remarked that the bank economists had greater responsibility in bringing about the transformation in the attitude and actions of the banking community towards rural development. The group of professionals working in the bank like the economists had an important role to play in creating awareness among the bankers about the changes in the economic environment and the changing role of bankers.\textsuperscript{92}

\textsuperscript{92}Narasimhulu, L.K. Naidu, (Ed.), Ibid., p.383.
M.L. Chippa (1987) in a study on 'commercial banking development in India' observed that in spite of the emphasis given to the rural banking development after nationalization, the commercial banking had high degree of correlation with urbanization.\(^{93}\)

S.S. Sangwan (1989) in his study 'Viability of Rural Credit Structure' attempted to identify the factors, which had affected the viability of lending activity in rural areas. The study revealed that in view of sound banking principle the profit making Regional Rural Banks preferred to invest more of their funds at call and short notice than loans and advances to weaker sections.\(^{94}\)

Manmohan Singh (1990) in an analytical study of 'Weaker section and credit facilities' in a village near Amristar observed that those who had taken loans for lathe machines had paid Rs. 400 to the industrial officer for getting project report prepared and later they paid in kind to the field officer. It was observed that lack of connection or network was one of the main reasons why the poor were made to part with their share of subsidy and procure loan from the non-institutional agency, like the moneylender or cultivator to bribe the officials.\(^{95}\)

Krishnamma Raju (1992) in his book 'Bank Finance and Rural Development' indicated that the beneficiary families, which had obtained bank finance, improved their income, employment and asset position in the post-loan period compared to

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pre loan period. They also improved their economic position compared to non-beneficiary families. This showed that the bank finance had a favourable impact on the poorer sections of the society.  

M.S.R. Murthy and T.V. Gopalachary (1993) in their impact study of 'Commercial Banks and Rural Development Schemes' observed that credit cards could be issued to the farmers with a facility to purchase inputs like seed, fertilizers, pesticides and other plant protection materials. 

An Evaluation study of 'Differential Interest Rates' conducted by R. Sayeelakshmi (1991) in Thirumangalam Taluk of Madurai District revealed that vegetable vendor beneficiaries obtained nearly 57 percent of loan requirements from commercial banks through differential interest rate (DIR) scheme. The study found that the average income of the beneficiaries increased by 31.35 percent due to the above said bank loan.

A.R. Patel (1994) in his study of 'Restructuring Rural Credit System' recommended that there should be co-operative bank's branches one or two regional level banks, two national level banks and one or two private banks at the block level. Twenty-eight public sector banks should be merged so as to have one or two regional level banks.

Veerashakerappa (1994) in his evaluation study of 'Priority sector lending in Karnataka' observed that there was an in-built system in which low-income groups in rural areas were subject to exploitation, as they depended on non-banking institutions and most of their borrowings were for household consumption.\textsuperscript{100}

Rabindra Kumar, Choudhury (1995) in a study on 'Nationalised Banks' suggested that to bring back health to nationalized banking system, political interference must be stopped; the profitability criterion should not be lost sight off customer services should be radically revamped. It was further indicated that work-study should be undertaken to quicken the delivery of services to consumers.\textsuperscript{101}

T.R. Gurumoorthy (1995) in his article 'New life to rural credit agencies stated that the operation of the commercial banks should be restructured and streamlined. It was further suggested that primary agricultural credit societies and the regional rural banks were the most suitable agencies for extending financial assistance to rural development.\textsuperscript{102}

A.R. Patel (1995) in an impact study on 'Bank's approach to rural development' observed that rural branches should be reduced to a manageable number and they should be adequately staffed with qualified and trained officers as managers so as to help them to exercise their discretionary lending powers.\textsuperscript{103}

\textsuperscript{100) Veerashakerappa, 'Does priority sector lending help the poor? Kurukshetra, Vol.XLII, No.10, July 1994, pp.8-12.}
\textsuperscript{101) Rabindra Kumar Choudhary - 'Indian banking through quarter century period Nationalisation', Kurukshetra, Vol. XLIII, No.10, July 1995, pp.3-7.}
\textsuperscript{102) Gurumoorthy, T.R., Ibid, pp.31-33.}
B.K. Gopalakrishnan (1996) in a study on 'Creative and systematic approach to agricultural banking' indicated that the bankers ought to identify new agricultural schemes, which could lead to higher productivity, income and employment generation. He further suggested that the planning exercise ought to be creative and systematic right from the grass root level with proper analysis and survey of the areas.104

Narendra Jadhave and D. Ajit (1995) in a study on, the 'Role of banks in economic development' indicated that the process of financial intermediation is a liability. Asset transformation size-transformation, maturity transformation, and risk transformation, would support increasing capital accumulation through institutionalization of savings and investment and as such would foster economic growth.105

B.K. Gopalakrishnan (1998) in an impact study on 'Recovery camps' observed that for the purpose of honouring the prompt repayers some household gift articles and merit certificates were given as a token of appreciation of the promptness, honesty and integrity. This assumed considerable value to both the borrowers and the bank. The entire event was covered by the press and was published in local dailies. The villagers appreciated the bank's pro-active stand in conducting the recovery camps at their villages for collecting the money on the spot.106

The National Bank for Agriculture and Rural Development study of 1985, observed that the banks found it difficult to associate their staff in the identification of the beneficiaries because of the acute shortage of field staff in all the rural branches. The study recommended that the role of the banks needed to be redefined upon with due emphasis on their close involvement in the process of identification follow up and supervision of the end use of credit.\textsuperscript{107}

Bhagawati Prasad (1999) in a study on 'Nationalisation of banks' observed that it was necessary to revive people's confidence in the banking system and its quality. This could be done by the minimization of delays in various kinds of banking transactions, elimination of political interference and improvement of social commitment aspect of banks.\textsuperscript{108}

Kaujalgi (1999) in a study on 'Bank automation' in India observed that with liberalization and globalisation, banks would have to make more complex strategic decisions such as tele-banking, Internet banking and various types of cards which were completely absent in rural branches.\textsuperscript{109}

Ojha (1999) has conducted a multivariable international comparison of public sector banks of 16 different countries and indicated that Indian banks were found to carry a large and disproportionate contingent staff as compared to their assets.


In relation to International Standard, income from non-interest sources had been significantly low. These findings stressed the need for diversification of banking business.\textsuperscript{110}

Sourindra Bhattacharjee et al. (1999) in a study on ‘Viability of rural banking by the nationalized banks’, observed that viability of rural banking could be improved by fully reaping scale economics in their costs through more decentralized, debureaucratized, depolitized and autonomous operations.\textsuperscript{111}

Abhiman Das (1999) in his study of ‘Efficiency of Public sector banks’ revealed that banks in the State Bank group were in general, more efficient than other nationalized banks. It was further observed that the inefficiency that existed in the public sector banks was more as a result of both technical and allocative inefficiency.\textsuperscript{112}

TARA S. Nair (2000) in an evaluation study on ‘Recent trends in rural financial intermediaries and commercial banks indicated that the absorptive capacity of the economy depended on domestic savings, size of domestic market and more importantly, on government’s development expenditure particularly public sector investment in agriculture and physical infrastructure like roads, ports and other communication and transport facilities. Unless these aspects were given priority, a credit programme might end up creating a large pool of indebted individuals, perpetually dependent on external agencies.\textsuperscript{113}

\textsuperscript{110} Reserve Bank of India – occasional papers, Vol.20, No.1, Summer 1999, pp.56-57.
2.2.4 Banking Programmes for Rural Development

B. Sivaraman (1976) in a study on ‘New system in rural credit suggested that loans should be made available to the poorest of the poor for marriages, education, funerals and religious ceremonies, subsistence and medical expenditure. They would return their loans on a daily or weekly instalment basis. The new system would help the banks to collect the loans easily and enable the poor people to repay the loan easily.114

K.V. Beliraya and S. Mohana Krishna (1979) in an impact study of ‘Group lending to small farmers’, in Nellore District of Andhra Pradesh, opined that homogeneous groups were desirable as recipients of ‘group finance’, if a degree of success had to be achieved in their endeavour. It was further suggested that there must be a proper organization at the base level to execute and maintain the project.115

R.N. Hegde (1984) in an evaluation study of ‘Role of banks in developing fruit crops in India’ proposed that by using mass media like the newspaper, radio and Television, banks could propagate the message of success stories of farmers who were financed by their branches to attract more farm loan customers for raising fruit crop through credit. It is further recommended that at least at the Head office and Zonal level, services like counselling, professional guidance, project identification and preparation on fruit development and fruit processing could be given.116

Venkata Rao (1995) in an impact study on ‘Nationalised banks and priority sector lending’ revealed that extension of credit facilities to the needy was only one of the varied functions of banking. The viability and the survival of a bank’s branch in a rural centre could be ensured only when there was scope for rendering the other banking services, also at that centre.\(^{117}\)

Rajendra Gupta and Dr. Falendra K. Sudan (1999) in a study on ‘Banking Reforms and Priority sector lending’ found that the availability of credit rather than its concessional aspect was more important to genuine priority sector borrowing. It was suggested that foreign banks and newly emerging private banks might be allowed to partly involve in priority sector lending if they desired mutually.\(^{118}\)

K.G. Karmakar, (1999) in his book ‘Rural credit and self-help groups’ reviewed the existing rural credit system in India, analysed its strengths and weaknesses and prescribed various strategies and innovations which would enable the existing credit delivery system to emerge stronger and more viable. The author reviewed the problems of and prospects for rural credit in the context of its ascribed role in rural development. He discussed the micro finance needs of various groups including tribals and focused on that concept and functions of self-help groups and outlined strategies for developing a sustainable rural credit delivery system in developing countries.

This book also dealt systematically with the vast subject of rural development analyzing its basic concepts, elements, objectives, paradigms, determinants, policies and programme and management.\textsuperscript{119}

The review of literature attempted so far gives an idea about the formal and informal institutions of rural development. The case studies of Rural Development Programmes and Evaluation studies of specific rural development schemes in different states of India, provide a bird’s eye view of the impact of such schemes. The review of literature is grouped mainly under five headings namely, Evaluation studies on rural development, Impact studies on Integrated Rural Development Programme, case studies of Rural Development Schemes of Public Sector Banks, Bank’s Credit for Rural Development and Banking Programmes for Rural Development.

From the above review of literature, it is found that most of the studies were related to co-operative banks and rural development and service area approach of Lead banks. As far as the researcher’s knowledge is concerned no study was available on the role of public sector banks in promoting rural development in the national level, state level or even the District level. This has prompted the researcher to take up the present study on the ‘Role of Public Sector Banks in promoting rural development in Kanyakumari District.

2.2 Significance of the Study

The task of rural development is both a challenge and an opportunity to the banking system. Public sector banks are to be identified as development agencies to provide finance on a large scale to develop the village economy which is very much essential for rural development. In fact, one of the objectives of nationalization of commercial banks has been to accelerate rural development, thus make a significant impact on the problem of rural people and to bring rural areas at par with the development in urban areas.

In spite of the massive deployment of credit in rural areas, the benefits of bank credit did not reach those who were in the bottom of our social structure. The provision of bank credit on a large scale should have a positive impact on the asset position, income generation and employment creation among the beneficiary families. Hence the scrutiny over the loan dispersal and the end use of loan becomes inevitable.

The present study on the role of public sector banks in promoting rural development in Kanyakumari district is to assess the performance of public sector banks in accomplishing the objectives of nationalization for rural development in Kanyakumari district.
This research study on the performance of public sector banks will throw light on various aspects of rural development such as agriculture, allied activities of agriculture, industry and non-farm employment. This will help the banks to identify the credit gap in the different sectors of the economy and also to formulate suitable credit plans for the rural areas. The comparative analysis of the performance of different banks in the rural areas of the Kanyakumari district will induce the banks with low achievement to emulate the strategies of the banks with high achievement. The study is relevant as it focuses on the problems rural people face in obtaining credit from banks and it would be an eye opener to the banks to understand the real condition of the rural people and to develop empathy towards them. The study would enlighten the banks on the inter-sectoral and inter-regional imbalance in the economy of the district and enable them to frame suitable credit policy for the district.

Kanyakumari district is the smallest district in Tamil Nadu and a better banked district. The district is essentially an agricultural tract. The majority (83 percent) of people reside in villages and 53.3 percent of its working population are engaged in agriculture and allied activities.

There are 264 bank branches in the district. The urban area has 45 branches and semi-urban area has 80 branches and rural area has 139 branches. There are 103 public sector bank branches, 25 private sector bank branches and 128 co-operative bank branches and (eight) 8 branches of other financial institutions in the district.
Without developing the rural areas, balanced development in the district is unthinkable. To achieve this, the public sector banks have to play a decisive role. Rural development hinges on the development of agriculture, allied activities of agriculture, village industries, small scale industries in rural areas and to the promotional employment opportunities among the rural literates and illiterates. One of the main reasons for non-development of rural areas is the financial crunch faced by the rural people. Since this district is peopled mostly by marginal and small farmers, they need financial help from the bank for every agricultural operations. Further, the employment generation in the rural areas of Kanyakumari district depends upon the development of allied activities as well as the promotion of village industries which are badly in need of financial assistance from the banks. Hence, the overall rural development entirely depends on the financial support extended by the public sector banks in Kanyakumari district. By providing these credit facilities, the banks could become the facilitators of rural development in Kanyakumari district.

Further, the Government of India has introduced many rural development programmes. The success of these programmes entirely depends upon the support given by the public sector banks. If the public sector banks are not co-operative in implementing these, programmes, rural development will remain a dream. Under these circumstances, the researcher has selected Kanyakumari district as a study area to identify the role of public sector banks in promoting rural development in Kanyakumari district.
2.3 **Statement of the Problem**

The main objective of Nationalisation of Commercial Banks in India is to open branches in rural areas and to uplift the economic conditions of rural people. Consequently, public sector banks have opened many branches in rural areas of Kanyakumari District. Now the total number of branches in rural areas in the District is fourteen.

The public sector banks have failed to concentrate on rural development. The rural development of the district is depending upon the development of agriculture (65% of population depends on agriculture) and its allied activities, rural industries and employment generation. This study will find out 'whether public sector banks have promoted rural development or not'. Even after opening branches in rural areas the people who are depending upon agriculture in rural areas are still affected by seasonal unemployment and underemployment. This unemployment could be eliminated only if the banks would lend adequate loans to these people for their allied activities of agriculture.

Further rural development is possible only if agriculture and industrial development take place in Kanyakumari District. But, in practice, in the name of agriculture, the public sector banks are lending loans to non-agriculturists. Hence, the loans sanctioned by the banks have failed to reach the actual beneficiaries of agriculture. So the agricultural development is remaining static.

Eventhough the raw materials available in the district is highly suitable to develop rural industries, but, in practice, the development of rural industries is highly inadequate due to wrong lending policies of public sector banks.
In addition to this the development of service sector in the district is highly essential for creating employment opportunities to educated mass of the rural areas. To what extent the public sector banks in Kanyakumari District is responsible for the development of this sector is a question.

The public sector banks in the district have failed to concentrate on the development of agriculture and its allied activities, rural industries and failed to generate adequate employment opportunities. Hence, it is opined that the banks have failed to achieve over all rural development of the district.

2.4 Objectives of the Study:

1) To find out whether the agricultural sector in Kanyakumari district is actually benefited from the lending policy of public sector banks or not.
2) To find out whether the public sector banks’ have concentrated on the development of allied activities in rural areas of the district or not.
3) To find out whether the public sector banks’ lending activities industrialized the rural areas of the Kanyakumari district or not.
4) To examine whether the public sector banks are generating employment opportunities through government sponsored schemes in the rural areas of Kanyakumari district or not.
5) To find out whether the public sector banks’ have fulfilled its main objective of rural development or not.

Hypotheses:

1) The crop loans extended by the public sector banks have failed to have any substantial impact on agricultural development which is inevitable for the rural development of Kanyakumari district.
2) Public sector banks have not contributed to the growth of important allied activities like fisheries in the rural areas of the district.
3) Public sector banks have not given adequate attention to promoting industrial development in rural areas of the district.
4) Public sector banks have promoted non-farm employment significantly in the rural areas of Kanyakumari district.
2.4.1 Period of study

The study covers a period of 20 years from 1980 (the year in which six more banks were nationalized along with the fourteen nationalized banks) to 1999.

2.5 Method of approach

Collection of data:

The study depends upon both primary and secondary data. For collecting the primary data, one schedule and one questionnaire were prepared by the researcher. The schedule was for the beneficiaries and the questionnaire was for the bank managers. The investigator herself met the sample beneficiaries to collect data regarding their opinion about bank finance. The opinion of the managers was also collected directly by the researcher and incorporated in the study.

Secondary data regarding branch expansion, deposit and advance of public sector banks at the national, regional and district levels were obtained from the records of Indian Overseas bank Central office, Chennai and Regional Office Nagercoil. The data regarding the target and achievement of banks under study were obtained from the Annual Credit Plan report of Lead bank from 1980 to 1999. Additional information was supplemented by publications, reports of offices concerned such as the office of the Assistant Director of Statistics, Joint Directorate of Agriculture, Office of Animal Husbandry, Fisheries Development Department, Aavin Milk Society, District Industrial Centre and NABARD in Kanyakumari District.

Selection of banks

There were 15 public sector banks with 103 branches in the district. Of these nine public sector banks namely, State Bank of India (16 branches) State Bank of Travancore (24 branches) Indian Overseas Bank (29 branches) Canara Bank (14 branches) Indian Bank (4 branches) Syndicate Bank (4 branches), Central Bank of India (3 branches), Union Bank of India (2 branches) and United Commercial Bank (one branch) with 97 branches had been selected for the present research study because these nine banks only had been functioning in the district since 1980.
Sampling Procedure

Since the study is pertaining to beneficiaries, the universe are stratified into beneficiaries and non-beneficiaries and the selection of respondents were among the beneficiaries. Accordingly a total of 450 sample beneficiaries were selected for the study. First, the district was divided into nine development blocks. In each block, a bank branch on the basis of service area approach adopted by the bank, was selected for the study. Accordingly, State Bank of India for Rajakkamangalam block, State Bank of Travancore for Thiruvattar Block, Canara Bank for Thuckalai block, Indian Bank for Munchirai block, syndicate Bank for Kurunthencode block, Central Bank of India for Melpuram block and Indian Overseas Bank for Agasteeswaram and Thovalai block were selected for the study. Since UCO Bank was a single urban branch and did not extend loan to the rural areas, it was not included for the sample selection. For selecting the sample, the researcher has followed stratified random sampling method. From each bank, in each block 50 samples were selected on the basis of the beneficiary list given by the banks. From the list, the beneficiaries were classified into agriculture-66, allied activities-102, industries-86 and 196 from self employment.

Tools of Analysis

Growth analysis:

The compound growth rate was used to find the growth rate of the finance in each sector. To estimate the growth rate, logarithm of the amount given was linearly regressed over time and the growth rate was computed by using the formula (antilog of b-1). If y is the variable, then the form of the estimated equation is

\[ \log y = a + bt \]

where t is the time parameter. These were later converted into percentages for comparison.

Regression analysis

Regression analysis was used to estimate the functional relationship between the dependent variable and the set of independent variables. The scattergram was used to assess the type of relationship. The form of equation used was

\[ Y = b_0 + b_1 x_1 + b_2 x_2 + \ldots + b_n x_n. \]
Wherein $y$ is the dependent variable and $x_1, x_2 \ldots \ldots x_n$ are the set of independent variables, where, the actual loan obtained ($X_1$) gap (difference between the loan claimed and actually got ($X_2$), the total land owned and leased in ($X_3$) immediacy or timeliness of the loan ($X_4$) and the income through other sources. Among these except ($X_4$) which is binary, all other variables were measured exactly. For each section the income generated through various activities were taken as the dependent variable ($Y$). $b_1, b_2 \ldots \ldots b_n$ are called the regression co-efficients and $b_0$ is called the intercept term. The standard SPSS-80 packages were used to estimate and test the regression co-efficients through OLS. This package was also used to examine the presence of otherwise of the autocorrelation, multicollinearity and heteroscedasticity problems.

**Limitations of the study**

The study suffers from one important limitation. Though the data were collected from published sources, there was no uniform method of presentation of facts and figures by the authorities who prepared the credit plan of commercial banks.

Publication of credit plan report from different places by different regional offices pose another problem since yearwise performance was not clearly presented in the report.

Consolidated bankwise, sectorwise performance is not presented in all the credit plans is another limitation.

The district has not published any Gazetteer after 1995 and therefore a lot of essential information cannot be gleaned.

The offices like District Statistical Office, Office of the Joint Directorate of Agriculture, Office of Animal Husbandry, District Rural Development Agency, District Labour Office and office of the District Collectorate do not maintain the relevant data for twenty years. The unwillingness of certain bank managers to disclose the details of borrowing is another limitation.

Bank credit to miscellaneous activities is a limitation because the impact of the credit cannot be found out.