Chapter 3

Research Design and Methodology
In a country like India, the all-round development of rural areas is imperative as about 80 per cent of the population live in villages. The rural people are living in an atmosphere of absolute poverty, illiteracy, unemployment and under-employment. In the past, no attempt was made by the Britishers to ameliorate the socio-economic conditions of rural poor rather they exploited them. Moreover, their selfish policies had further deteriorated the plight of toiling Indian masses. After independence, the programme of rural development became target of attraction of economists, politicians, and social reformers. It was realized that without the development of entire rural sector, the all-round development of the country would not possible. Rural development is an important tool for bringing about desired improvement in the life of the rural people. It is a strategy
designed to improve the social and economic life of a specific group of people. It envisages for bringing about over-all socio-economic development in the country. Moreover, the development and progress of a nation would really mean reconstruction and resurgence of the rural masses of the country. Therefore, the actual growth and development of Indian economy lie in the emancipation of poor masses from the state of poverty in which they have been living for centuries.

**STATEMENT OF THE PROBLEM**

Among the various infrastructure facilities needed to improve upon the plight of rural masses, the provision of bank credit is certainly sine-qua-non without which rural development becomes difficult. The availability of bank credit is, therefore, one of the strategic inputs for the successful implementation of rural development schemes. But, the institutional finance flowing into agricultural and rural development programmes is significantly low in relation to their share in the national economy. Traditionally, owing to the non-availability of institutional lending agencies like co-operatives and commercial banks, the farmers and other segments used to avail credit from the non-institutional agencies. These agencies, who instead of providing credit facilities, used to exploit them for their selfish ends
through the process of charging manipulated high rate of interest and usurp their holdings. At this juncture, co-operative banks have emerged so as to overcome these evils and to provide financial help to the needy villagers. The co-operative banks, however, were not in a position to keep pace with the increasing financial needs of modernisation of agriculture, which started taking place in the late sixties on account of "Green Revolution" besides expansion of rural industrialisation.

In order to ensure that agriculture production may not suffer for want of adequate and need based credit, the introduction of various other financial institutions into the rural credit scene become inevitable. It was this feeling that led to the adoption of "Multi-agency Approach" to the rural finance. The acceptance of this approach has brought the commercial banks into the spectrum of rural finance. With this objective, the Government of India nationalised 14 major commercial banks in 1969, to provide credit facilities to the neglected rural sector. The post nationalisation period in the banking sector has witnessed a substantial amount of resources being earmarked towards meeting the credit needs of the poor. The banking network underwent an expansion phase without comparables in the world. The credit came to be recognized as a remedy for many of
the ills of the poverty. Credit packages and programmes were
designed basing on the perceived needs of the poor.

Inspite of the tremendous progress in the availability of
institutional credit in rural areas in recent years, the
contribution of co-operative and commercial banks together
never exceeded 40 per cent of the estimated rural credit
requirements. Hence, it was felt that more concerted effort was
essential to speed up the flow of institutional credit especially to
meet the needs of the weaker sections of the rural sector.
Consequently, on the basis of recommendations made by the
Group headed by Mr. M. Narasimham, the Government of India
set-up six Regional Rural Banks [RRBs] on a pilot basis on 2nd
October 1975. At present, there are 196 RRBs with 14,443
branch network. The RRBs are intended to develop the rural
economy by providing rural credit and other facilities particularly
to the small and marginal farmers, agricultural labourers,
artisans and small entrepreneurs so as to develop agriculture,
trade, commerce, industry and other productive activities in the
rural areas. Thus, RRBs emerged as a new dimension in
organised banking system. Despite the efforts made by Regional
Rural Banks over the past few decades, rural poverty in India
continues to be significant. The number of rural poor has more
or less remained static and is estimated to be about 244 million.
In other words, the underlying objectives of RRBs are laudable, the development in rural areas has not been achieved to the expected levels. Hence, the present study aims at tracing out the reasons for inadequate achievement of rural development.

REVIEW OF LITERATURE

It is proposed to review the literature that exists in the field of bank finance for rural development. In this context, an effort has been made to survey the important studies having impact on the present study. Literature is reviewed both from Books and Articles.

Books

Ghoshal, S.N's "Agricultural Financing in India" deals with the short-term and medium-term credit needs of the farmers. The author feels that despite the existence of co-operatives which were established to make available timely and adequate credit to the farmers, the agricultural development continued to suffer due to lack of credit facilities. He holds that because of the failure of cooperative credit banks are financing this neglected sector¹.

Charan D. Wadhwa's "Rural Bank for Rural Development" is an attempt to evaluate the role of institutional credit in rural development. The author feels that several financial institutions
have been established with a view to catering to the financial needs of rural poor. But owing to several reasons like influence of local leaders, complicated banking procedures, lukewarm attitude of banking personnel, corruptions and the like, the poor have not been benefited at all. He emphasises that rural banks must develop simple schemes and co-operative attitude for providing requisite financial help and assistance to the needy rural poor.

Pany, R.K., in his book "Institutional Credit for Agriculture in India," attempted to highlight the meaning, need and importance of institutional credit for agriculture. He examined some important things relating agricultural credit like insufficient financial assistance to agriculture, lack of simple and straightforward methods of banking and payment behaviour of agricultural loans by farmers.

In the book, "Bank Finance for Rural Development" (edited) Nadiu, L.K., holds that public sector banks have been extending credit facilities to hitherto neglected sectors of the rural economy. They are financing agricultural, small business and small scale industries in a creditable manner to eradicate poverty and unemployment from the rural sector.
A study conducted by Narayana, N and Chandrasekhar, G., in six villages in Anantapur district reveals that in the cases of co-operative and commercial banks, more than 80 per cent of credit sanctioned for the purpose of sheep rearing, poultry-forming and artisan activities was directed towards unspecified purposes. This sort of tendency reveals the ineffective and inadequate supervision resulting in non-repayment of loans to banks and thereby aggravating the problem of overdues.

Sunil Kumar's study "Regional Rural Banks and Rural Development" is designed to make an indepth enquiry into the performance of RRBs in respect of developing the rural areas and meeting the credit needs of the weaker sections of the population living in the country side. In his work the author examined in detail the problems of rural population, the theoretical aspects of rural development, role of credit in rural development and the like. He opined that the RRBs are acting as catalysts for rural development. His study is mainly confined to the study of sample beneficiaries who come under the purview of Vaishali Kshetriya Grameena Bank (V.K.G.B), Bihar. He concluded that V.K.G.B has financed more to the rich people and thus, the norms and objectives of the bank in respect of lending have not been maintained.
The work "Rural Banks and Rural Credit" was developed by Bala Mohan Das, N., Prabhakar Rao, J.V., and Hrushikeshva Rao, in which they have made a joint effort to assess the need of rural credit for the development of rural people. They expressed that the inadequate credit facility provided by the commercial banks and co-operatives emerge the rural banks which meant purely for rural credit. Their study is confined to financial and operational performance of Visakha Grameena Bank, Andhra Pradesh. They concluded that the S.V.G.B has a distinct place with its five points strategy in recovery performance among all the R.R.Bs in the country. However, the low performance in the case of agricultural cash credit and agricultural term loans was due to diversion of agricultural loans for other purposes, ineffective post-supervision of credit, and decrease in agricultural income because of natural calamities. They suggested that so as to register higher rates of recovery, S.V.G.B has to take steps to strengthen effective credit administration for which active co-operation from the staff is to be ensured.

Krishanama Raju, S's study "Bank Finance and Rural Development" deals with the credit facilities provided by commercial banks to eradicate the poverty in the rural areas. In his book, he studied the performance of commercial banks'
credit on income, employment and asset creation in the agriculture, animal husbandry and tertiary sector.

Patnaik, U.C and Mishra, R.N's work "Rural Banking is India", in an attempt to evaluate the role of institutions in financing the agricultural sector. If there is any development of the nation, that is possible only through the development of agricultural sector so that the country to be self-sufficient food grains. He observed that the non-recovery of agricultural credit is a serious problem. His study revealed that out of 300 sample borrowers chosen from sample districts, a larger chunk, and 77 per cent are defaulters. Therefore, he suggested that there should be a lot of care while financing to the agricultural sector as there is mounting overdues.

"Regional Rural Banks and Rural Development" by Priyan, A.K., is an empirical study conducted to evaluate the role of RRBs in financing the rural development. In his book, he remarked that rural development is the king-pin of our nation's development. The present study throws light on the rural credit provided by RRBs, the progress of RRBs in India and the impact of bank credit in developing the rural mass. His study is confined to Chakravarthi Grameena Bank, Rajasthan. He found that the bank provided credit facilities to small and marginal
farmers. This proves that in true sense their bank is "poor man's bank". He also observed that the bank played a vital role in extending credit facilities to persons belonging to SC/STs in order to bring up these weaker sections above the poverty line.\(^{10}\)

Sandhu, B.S.'s "Banking and Rural Development" deals with the rural development and different programmes launched for rural development. The main finding of his study is that under the I.R.D.P (Integrated Rural Development Programme), loans were misused by the number of beneficiaries. Some of the sample beneficiaries have utilized the loans to undertake activities other than the main purpose. The basic purpose of providing financial assistance is to provide productive assets to the beneficiaries and to bring about sufficient support in their income so that they may cross the poverty line.\(^{11}\)

Archana Singhal, B.S. Yadav, in his book "Role of Regional Banks in Rural Development", identified that the importance of agricultural development for economic sustenance and to build a strong industrial base. He stated that Regional Rural Banks appeared on the banking map of the country in 1975 have now become the main plank of the organized rural credit structure. In his book, the author explained the extent of availability and utilization of RRB's credit and its impact on rural development.
He concluded that the role of RRBs is a great source and tool for economic planning geared to attain the goal of rapid regional development\textsuperscript{12}.

Pati, A.P’s "Regional Rural Banks in Liberalised Environment" reveals the financial viability and profitability of the Regional Rural Banks in the state of Assam. The author tries to identify the important problems associated with the functioning of RRBs. Considering the dearth of research work in this region, this book provides some genuine insight into the functioning of the RRBs in particular and Rural banking in general in the North East region\textsuperscript{13}.

Acharya Shyama Charan and Mohanty Ashok Kumar, in their book "Operational Analysis-Regional Rural Banks", stated that Regional Rural Banks are an innovative ones in the aspects of objectives, functions, area of operations and its clientele, in the Indian banking scenario. This book provides the existing credit institutions, their strengths and weaknesses in achieving the goals for which they were setup. It identified the necessity of setting up of new institutions called Regional Rural Banks, and analyzed their operations at all India level and in the state of Orissa\textsuperscript{14}. 
Articles

Khemani, C.H., and Balakrishnan, K.V., in their article observed that any credit programme launched for the weaker sections should have consumption credit component as its integral part. In the absence of such an approach, the borrowers will be driven to traditional money-lenders for meeting their urgent consumption needs. As the rates of interest by money-lenders are usurious the repaying capacity despite materialisation of production programmes, is bound to be adversely effected. It is well known that out of any surplus generated, it is easier for the money lender to recover his dues before bank dues are paid.

In an article entitled "Rural Banking for Rural Poor" Mishra, H.N., holds the view that the RRBs were established with a view to providing financial help to the rural poor. But the beneficiaries of these banks are mostly the rich farmers and not the small and marginal ones. According to the author, this practice is mainly due to the collusion and corrupt practices indulged in by the bank officials and the influence of local leaders.
In an article "Expanding Role of Banks in Rural Economy" Rao, H.N., makes an attempt to evaluate and predict the role of banks in the rural economy. He opines that no doubt, commercial banks have contributed substantially for the development of rural sector mainly through agricultural development, but landless and small marginal farmers have not been benefited by the bank credit so far. He emphasises that the banks shall have to pay a leading role in this respect in the days to come.

In an article "Bank Lending-Thumb support for industrialisation of rural India", Batnagar, J.S., says that banks have played a significant role in the field of rural industrial progress. They are not merely lending agencies but also act as catalysts in the development process by providing credit for rural industries which provide gainful employment to the rural population.

In an article entitled "Regional Rural Banks – An Analysis", N.B. Shete makes an attempt to describe the need and evolution of RRBs. He also stressed the performance of RRBs by giving more details about purpose wise advances made by the RRBs and also explained the recovery position of RRBs.
Balishter's article "Performance of RRBs - An Evaluation" deals with the performance of RRBs in meeting agricultural needs of rural people. He also explained in his article about the evolution and growth of RRBs, deposit mobilisation of RRBs and recovery performance of RRBs.

Karthikeyan, A., in his article "Rural Development of Banks" has discussed the priority sector advances by banks for rural development. He opined that the credit expansion of these sectors did create an impact in agricultural production, development of small industries and employment generation through service and business sectors. He further feels that the development in rural areas is not in proportion to the quantum of finance deployed by the banks after the nationalisation because of these reasons: (i) wrong identification of borrowers; (ii) improper appraisal of the loan proposals and (iii) non-verification of end use.

In an article "Rural Credit Scenario in India" Ranga Rajan, C., the then Governor, Reserve Bank of India, at the silver Jubilee celebrations of the college of Agricultural Banking at Pune on January 12, 1995 highlighted the rural credit position. In his keynote address regarding the rural banks, several factors have affected the operational efficiency and viability of
RRBs such as high establishment and operational cost, low level of business, restricted area of operation and the like. Consequently, a number of RRBs have been showing negative results. During 1993, 173 RRBs had incurred losses out of 196. However, measures have been taken to enable the RRBs to diversify operations, relocating branches, increasing their non-target group lending from 40 per cent to 60 per cent\textsuperscript{22}.

Sankaraiah, T and Bhaghavan Reddy, B., in their article “Recovery performance of Rayalaseema Grameena Bank” made an attempt to study the trends in the recovery efficiency of the RGB. They concluded that the recovery drives adopted by the bank were defective. On the other hand, growing overdues reveal that the RGB has not maintained any balance between disbursement and recovery of loans\textsuperscript{23}.

Review note brought out by Culcutta Regional Office of NABARD, titled “Review of the working of the Regional Rural Banks”, has provided the information about all India perspective of the RRBs and the performance of RRBs of West Bengal as on March 1987. It is observed that the annual losses of RRBs recorded a steep raise. A number of RRBs went for non-target group lending in a big way\textsuperscript{24}.
Uma Kani Das in her article captioned "performance and Prospects of RRBs" observed that the financial position of the RRBs has been in a very bad shape. Most of the RRBs are incurring losses and their operational efficiency is at the low level.\textsuperscript{25}

In an article "Do Rural Banks Matter? Evidence from the Indian Social Banking Experiment", authored by Rabin Bergers and Rohini Ponde, explained the key reasons, why poor people remain poor. They also explained that the impact of opening of rural banks on poverty and output. They suggested that Indian rural branch expansion programme significantly lowered rural poverty and increased non-agricultural output.\textsuperscript{26}

Butt, N. and Thoratt, Y., in their article "India's Regional Rural Banks: The Institutional Dimension of Reforms", stated the key success for reform process of Regional Rural Banks. He observed that political support for the reform process is a key determinant to the extent of which the Regional Rural Banks can be turned around. The reforms introduced since 1993 have not adequately addressed the incompatibility of the incentives, and provide recommendations for getting incentives right.\textsuperscript{27}

"Micro Finance Institutions (MFIs) in India", a seminar paper of Muralidhar Rao, K., General Manager, NABARD,
Mumbai, at Manila on Regulation of MFIs, in July 2004, highlighted the emergence and position of MFIs in India. In his address on MFIs, he explained the range of institutions in public and private sector, offers micro finance service in India. According to him, there is at least one retail credit outlet for about 5000 rural people. In his paper an attempt is made to deal with various aspects relating to emergence of private micro finance industry in the extent of prevailing legal and regulatory environment for private sector rural and micro finance operators.  

Sambir Reddy, B., in his article, "Assessment and Identification of Rural Poor in India: A study based on NSS household data", analysed and estimated the incidence of poverty in different sections of population using State-Specific poverty lines. The major states in India were classified into three poverty zones – High, Medium and Low poverty States on the basis of magnitude of the rural poverty ratios. In his paper, a new methodology was developed to identify the poor in rural areas. Index of deprivation was used to measure deprivation levels of individual households, which classify the households into poor, and non-poor.
In an article "Revisiting the lending infrastructure and changing the Mindset-Critical to Farm Lending", Yerramraju, B., explained the institutional credit for agriculture and allied activities. He analysed the debt profile of rural households. He also mentioned the role of NABARD in shaping the investment credit in agriculture and measures that can strengthen the system of agricultural credit\(^{30}\):

Sharma, R.D and Gurjeet., in their article "Strategy for Customer Satisfaction in Rural Banks - A Case Study of Shivalik Kshetriya Gramin Bank, Hoshiyapur" stated the nature and extent of customer satisfaction in regional rural banks through customer opinion and works out a strategic action plan. Shivalik Kshetriya Gramina bank, Hoshiyapur in Punjab was selected to workout the level of customer satisfaction in this bank by using Likert's 5 points scale\(^{31}\).

In an article "Productivity Growth in Regional Rural Banks", Amarender Reddy, A., examines total factor productivity, technical and scale efficiency changes in regional rural banks by using the data from 192 banks for the period 1996 to 2002. He further says that rural banks showed significant economies of scale in terms of assets and number of branches under each
bank. Banks located in economically developed areas have exhibited significantly higher productivity growth\textsuperscript{32}.

Sarma, R.H., in his article, "Will RRB mergers lead to efficient rural lending?" pointed out that amalgamations of RRBs would not automatically improve efficiency but would enlarge their area of operation and business opportunities. He also mentioned that low credit-deposit ratio is a cause for low profitability. Because of lazy banking tendencies in rural banks, people deposit their surpluses with the sponsor banks. He clearly opined that there should be a change in the mindset of the employees and the management\textsuperscript{33}.

**NEED FOR THE STUDY**

It is evident from the review of literature that rural development as an area of research continues to fascinate the social science researchers. A large number of the poorest of the poor continued to remain outside the fold of the formal banking system. These studies also showed that the existing banking policies, systems and procedures, and deposit and loan procedures were perhaps not well suited to meet the most immediate needs of the poor. Any study made with regard to RRBs and rural development in a particular area may not be relevant to other areas as India is a vast country with different
socio-economic conditions. Further, the reforms in banking sector had made the earlier studies irrelevant to the present situation prevailing. Therefore, there is a dire need to undertake area specific studies. The present study, therefore, is an endeavour to examine the role of RRBs in rural development in a socially and economically backward area of the state of Andhra Pradesh i.e., Cuddapah district of Rayalseema.

OBJECTIVES OF THE STUDY

The study specifically aims at:

- reviewing the progress made by the RRBs in India;
- evaluating the performance of Rayalaseema Grameena Bank [RGB] Cuddapah;
- assessing the impact of RGB financing on Rural Development; and
- identifying the problems of the beneficiaries vis-à-vis bank officials.

HYPOTHESIS

The present study pre-supposes that there is no significant rural development in Cuddapah district of Andhra Pradesh through the credit deployed by Rayaseema Grameena Bank, Cuddapah. The hypothesis would be tested with the help of different characteristic variables of rural development.
SAMPLE DESIGN

Rayalaseema Grameen Bank sponsored by Syndicate Bank was established on 6th August 1976, under the RRBs Act 1976 with its Head Quarters at Cuddapah. The RGB’s operational area covers three districts of Andhra Pradesh viz., Cuddapah, Kurnool and Markapur Division of Prakasam. The RGB has 148 branches covering all three districts. For the purpose of selection of sample, the multi-stage and simple random techniques have been adopted.

<table>
<thead>
<tr>
<th>Service Areas of RGB, Cuddapah</th>
<th>Rural Branches</th>
<th>Select branches</th>
<th>Universe of Beneficiaries of Select Branches</th>
<th>Sample Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuddapah</td>
<td>12</td>
<td>1</td>
<td>1407</td>
<td>141</td>
</tr>
<tr>
<td>Proddatur</td>
<td>18</td>
<td>2</td>
<td>3978</td>
<td>398</td>
</tr>
<tr>
<td>Rajampet</td>
<td>19</td>
<td>2</td>
<td>1350</td>
<td>135</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>5</td>
<td>6735</td>
<td>674</td>
</tr>
</tbody>
</table>

Source: Official records of RGB, Cuddapah.

In the first stage, the area of the study has been narrowed down purposively to Cuddapah district only. The RGB has 49 rural branches, 10 semi urban branches and five urban branches, in its three service areas (Cuddapah, Proddatur, and
Rajampet) of Cuddapah district. Since the present study is confined to rural development, the rural branches are only considered for the purpose of study in the second stage. Hence, the universe of the study constitutes 49 rural branches covering three service areas of RGB viz., Cuddapah [12], Proddatur [18] and Rajampet [19]. In the third stage, 10 per cent of the total rural branches has been selected at random. The sample; thus, constitutes five rural branches consisting of 6,735 beneficiaries. These beneficiaries spread over three service areas namely, Cuddapah [1407], Proddatur [3978] and Rajampet [1350]. In the final stage, 10 per cent of beneficiaries from select branches representing 674 beneficiaries-141 beneficiaries from Cuddapah, 398 from Proddatur and 135 from Rajampet Service areas - has been chosen at random. The sample beneficiaries are involved in different economic activities, such as agriculture and allied activities, small business, rural artisans, milk trade and also daily wage earning through hard labour. They also represent different social and economic strata of the population of the study area.

PERIOD OF THE STUDY

For the purpose of evaluating the performance of RGB, a moderate study period of six years commencing from 1998 -1999
and ending with 2003-2004 has been adopted. To assess the impact of RGB financing on the socio-economic status of the beneficiaries, one year period starting with April 2002 and ending with March 2003, has been considered.

SCOPE OF THE STUDY

The present study is a microlevel and area specific study. The scope of the study is confined to the objectives of the study as specified earlier. The present study is limited to the rural branches of RGB operating in Cuddapah district only.

DATA BASE

The data and information for the present study have been obtained from primary and secondary sources. The primary information has been gathered from the sample beneficiaries and bank officials by administering structured schedules designed for the purpose. The secondary data have been collected from the published and unpublished reports of the Reserve Bank of India, Bombay; National Bank for Agricultural and Rural Development [NABARD] Bombay; National Institute of Rural Development, Hyderabad; Annual Reports; District Credit plans, Annual Action plans, and other publications of RGB, Cuddapah. Journals and magazines concerning Banking, Finance and Rural Development were also referred to.
TOOLS OF ANALYSIS

The data collected from different quarters are analyzed with the help of statistical tools and techniques such as percentages, averages, ratios, variance of analysis, students' 't' test, chi-square test and other statistical tests for drawing meaningful conclusions.

CHAPTERISATION

The thesis is organized into Eight Chapters

Chapter-1 : Introduction
Chapter-2 : Regional Rural Banks: An Overview
Chapter-3 : Research Design and Methodology
Chapter-4 : Profile of Cuddapah District
Chapter-5 : Performance Evaluation of RGB
Chapter-6 : Impact of RGB Financing on Rural Development
Chapter-7 : Problems of the Beneficiaries vis-a-vis Bank Officials
Chapter-8 : Summary, Conclusions and Suggestions
References


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