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RURAL BANKS FOR RURAL DEVELOPMENT -
THE INDIAN EXPERIMENT

by
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Rural Banks for Rural Development : The Indian Experiment*

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The establishment of the new institution of the regional rural banks in India since 1975 has aroused a great deal of interest of the policy-makers and observers of the Indian economy. This innovation in the field of rural credit has been seen to be a potentially powerful policy instrument for achieving the objective of rural development mainly through the development of the rural poor. The Reserve Bank of India in a recent report has described the setting up of the regional rural banks (RRBs) as a "development - which will have a far reaching effect on the extension of banking facilities to the rural areas."¹ The purpose of this paper is to examine the background and the salient features of the scheme for establishing the RRBs and to evaluate their performance in the short period of their existence. The paper also presents the case for their reorganisation in the light of the experience gained so far to enable them to be more effective in achieving the objectives for which they have been set up.

* I am grateful to Mr. M. Narasimham and my colleagues Professors V.S. Vyas, B.M. Desai and Uma K. Srivastava for the discussions I have had with them on the subject of this paper. I am, however, alone responsible for the views expressed in this paper.

1 Reserve Bank of India, Report on Currency and Finance 1975-76, Vol.I. Economic Review, Bombay, 1976, p.100

I

The Background

The objective of the rural credit policy in India, since 1951, has been to enlarge the role of institutional credit agencies and to correspondingly reduce the role of non-institutional credit agencies, especially the private money-lenders.

The All India Rural Credit Survey Report revealed that the share of institutional agencies, comprising of the Government, the Co-operatives and the Commercial Banks in financing the borrowings of the rural households was 7.1 per cent in 1951-52 whereas the corresponding share of private money-lenders (excluding relatives, traders and commission agents, landlords and others) was as high as 68.6 per cent.² Not denying the positive role played by the money-lenders in the village economy and the strengths possessed by them in operating their business, this Report aptly pointed out the **real** problems resulting from their virtual monopoly in supplying rural credit.³ Similar problems have been pointed out by several other committees which probed into this question. Thus, the rate of interest charged on loans can be quite high - often much above the legally prescribed maximum by the State Governments.⁴

² Reserve Bank of India, All India Rural Credit Survey, Vol.II, Bombay, 1954, p.167

³ Ibid, Chapters VIII and IX

⁴ Ibid, p. 174

⁵ Ibid, Ghatak has empirically tested the hypothesis that the rate of interest charged by the money-lenders is out of proportion to the risks involved and did not find it to be valid in most cases. See Subrata Ghatak, Rural Money Markets in India, Delhi. The Macmillan Company of India Limited, 1976. However, the possibility of this and the adoption of several other questionable practices by private money-lenders mentioned subsequently in this paragraph can't be denied.

Very often the interest rate charged is very high and out of proportion to the risk involved.⁵ The money-lenders can and often do resort to several questionable practices due to the "helplessness, ignorance and the necessity of the borrower".⁶ These practices include : "(a) demand for advance rent, (b) demand for a present for doing business, known as qirah kholai (purse opening), (c) taking of thumb impression on a blank paper with a view to inserting any arbitrary amount at a later date if the debtor becomes irregular in payment of interest, (d) general manipulation of the account to the disadvantage of the debtor, (e) insertion in written documents of sums considerably in excess of the actual money lent, and (f) taking of conditional sale deeds in order to provide against possible evasion of payment by the debtor."⁷ To these one may add, possible exploitation of the poor borrower through advance contracts for tied sale of output only through the money-lender resulting in a sale price which is lower than what the borrower could have gotten had he tried to sell his output directly in the market.⁸

There can be several other ways of control over the poor borrowers in the villages exercised by the private money-lenders. These controls mostly take roots in the socio-economic environment prevailing in the

6 Government of India, Report of the Agricultural Finance Sub-Committee, New Delhi, 1945, p.59

7 Government of India, The Indian Central Banking Enquiry Committee, Majority Report, New Delhi, 1931, p.77

8 See Government of India, (Department of Revenue and Banking), Report of the Expert Committee on Consumption Credit (Chairman : Mr. B. Sivaraman), New Delhi : April 1976, Chapter 5.

villages. As Ghatak points out, the "social force can take form of 'loss of face or local prestige', caste disapproval or pressure through local self-governing bodies, i.e., panchayats. The economic force lies in the possible drying up of the source of credit".⁹ Several scholars, mainly sociologists, have investigated the various forms of socio-economic controls exercised by the money-lenders over the borrowers in the villages. Thus, Gough referred to the coercive measures which the money-lenders could employ in an Indian village to extract payment from the poor borrowers, especially those who belong to the lower castes such as the payment of fines to the temple funds operated by the high caste Brahmins and at the extreme, eviction of peasants from their lands.¹⁰ The poor villagers are permanently trapped in the net of the moneylender because of the vicious circle of poverty where their expenses exceed their income every year and they have to go to the money-lender to borrow money for meeting their consumption needs in the lean season and even to buy seeds etc. at the sowing time. The moneylender provides loans for all purposes - production and consumption including social and religious ceremonies, especially marriages of sons and daughters. And he is assured of running his business year-after-year under the socio-economic conditions prevailing in the village life where he has become an integral part of the society.

9 Ghatak, op.cit, p.15

10 Cf. Kathleen Gough, 'The Social Structure of a Tanjore Village' in McKim Marriott (ed.), Village India, Chicago : The University of Chicago Press, 1955, p. 44

Considering the strengths and the weaknesses of the rural credit system dominated by the non-institutional credit suppliers, the All India Rural Credit Survey Committee recommended that organising multi-purpose co-operatives providing integrated credit facilities linking production with marketing of inputs and outputs, processing and warehousing activities provided the only viable alternative to the credit problems of the Indian villages.¹¹ The Government of India accepted the recommendations of this Committee and provided its active support through the State Governments and the Reserve Bank of India to create a growing cooperative credit structure based on a three-tier system consisting of an apex centre at the State level (State Co-operative Bank), an intermediary layer of Central District Co-operative Bank - at the district level and the primary or base level of primary agricultural credit societies at the village level.

The commercial banks had usually been lending a negligible proportion of their funds to the rural areas. Considering the vast gap that existed in meeting the credit needs of modern agriculture in the framework of a planned developing economy and the desire to increase the role of the institutional credit agencies, the Government accepted the idea of multi-agency approach to the development of credit institutions which was recommended by the All India Rural Credit Review Committee.¹²

1 All India Rural Credit Survey, Vol.II, op.cit., Chapters VIII & IX

2 See, Reserve Bank of India, Report of the All India Rural Credit Review Committee, Bombay, 1969

The Government therefore encouraged the commercial banks to provide more credit to agriculture which has been classified as a priority sector. This policy became more prominent after the introduction of the scheme for social control of the scheduled commercial banks launched by the Government of India in 1967-68. And it became most pronounced after the nationalisation of the fourteen large scheduled commercial banks in 1969.

Both the Cooperatives and the commercial banks have made substantial progress over the years in providing rural credit, especially to the agriculturists. Thus, nearly all of the Indian villages (95 per cent in June 1974) were covered by the cooperatives.¹³ The share of cooperatives in the total borrowings of the rural households has grown from 3 per cent in 1951 to over 25 per cent in 1974.¹⁴ The commercial banks paid special attention to opening branches in rural areas in the post-nationalisation period. Thus, the number of 'rural' branches of all scheduled commercial banks (in centres with population of 10,000 or less) rose from 1,832 at the end of June 1969 (or 22.4 per cent of total number of branches in the country) to 9,146 branches at the end of April 1977 (or 37.7 per cent of total branches) representing an increase of nearly 400 per cent in a period of 8 years. Whereas the credit

13 The source of data is : Reserve Bank of India, Statistical Statements Relating to Cooperative Movement in India 1973-74, Part I : Credit Societies, Bombay, 1975

14 Estimated on the basis of the data provided in the Report of the Expert Committee on Consumption Credit, op.cit, Chapter II.

outstanding of all the scheduled commercial banks to agriculture (excluding plantations) accounted for 5.37 per cent of the total credit outstanding of these banks at the end of December 1969 this proportion had risen to 10.44 per cent at the end of December 1976.¹⁵

Despite the tremendous growth of the cooperatives and the commercial banks in the country over time outlined in the above paragraph, it is estimated that even now, the non-institutional credit accounts for two-thirds of the total agricultural credit in the country.¹⁶ There are still many unbanked areas in the country. The cooperative and the commercial banks are not able to meet all the credit requirements of the rural areas and there would be "still a large unfilled gap".¹⁷

Both the cooperative credit agencies and the commercial banks have several weaknesses in relation to the task of meeting the requirements of rural credit. These have been reviewed extensively in the literature both by researchers and several Official Committees which have gone into

¹⁵ These computations are based on the data provided in the various issues of the Reserve Bank of India Bulletin (a monthly publication of the Reserve Bank of India, Bombay).

¹⁶ Government of India, Report of the Committee on Rural Banks, New Delhi : 1975

¹⁷ Ibid, p.1. The National Commission on Agriculture appointed by the Government of India for examining the demand and supply of rural credit in 1985 also come to similar conclusion. See, Government of India, Report of the National Commission on Agriculture, New Delhi : 1976, part XII: para 55.7.11.

their working.¹⁸ It would be worthwhile summarizing the salient points of weaknesses of both these institutions with the latest supporting data as a background to the need for the creation of the new institution of regional rural banks.

The major weaknesses of the cooperatives, especially at the level of the Primary Agricultural Credit Societies (PACS) may be summarised as follows : Cooperative Credit Societies have had a mixed record of success. "Cooperative Credit Societies have been successful in some areas, not so successful in some other areas and have miserably failed in some other areas".¹⁹ There has been continuing evidence gathered by several Committees which goes to show that the benefits of the cooperative credit have not been adequately passed on to the weaker sections of the society. The evidence gathered by the All India Rural Credit Survey Committee based on 1951-52 data and later by the All India Rural Credit Review Committee based on 1961-62 data provided by the Reserve Bank of India's All India Rural Debt and Investment Survey points out to the validity of this assertion. To quote the Report of the All India Rural Credit Review Committee, "It does appear from these figures that the

18 See for example, Ghatak, Rural Money Markets in India, op.cit.: Report of the All India Rural Credit Review Committee, op.cit.; Report of the Committee on Rural Banks, op.cit.; Reserve Bank of India, Report of the Study Team on Overdues of Cooperative Credit Institutions, Bombay, 1974; and Reserve Bank of India, Report of the Committee on Integration of Cooperative Credit Institutions, Bombay, 1976.

19 Report of the Committee on Rural Banks, op.cit, p.1

proportion of small cultivators who had access to cooperative credit was relatively low in all the States and that the bigger cultivators received a much larger share of cooperative credit than would appear to be justified if allowance were made for the extent to which their own resources could have helped to finance their outlays on the farm.²⁰ This report also pointed out that in the "existing framework of arrangements in respect of rural credit facilities, there is a distinct gap so far as the non-cultivator sections of the village community are concerned."²¹

Recent data on the progress of cooperative credit societies also gives reasons to believe that a very small proportion of the loans advanced by the cooperatives, especially, by the primary agricultural credit societies (PACS), has gone to small cultivators and landless labourers. Thus, loans advanced to landless persons by PACS in 1973-74 accounted for only 4.10 per cent of the total amount of loans advanced. The corresponding proportion for loans advanced to landless persons and small farmers owning land below 2 hectares amounted to 20.42 per cent.²²

The weaknesses of the management and operations of the cooperative societies, especially Primary Agricultural Credit Societies (PACS), have

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- 20 Report of the All India Rural Credit Review Committee, op.cit., p.172
 21 Ibid. pp. 459-60
 22 Computed from the data provided in the Statistical Statements Relating to Co-operative Movement in India 1973-74 Part I: Credit Societies, op.cit.

also been known for quite some time. Thus, commenting on the working of the PACS, the Committee on Integration of Co-operative Credit Institutions have observed as follows :

" Even after a long period of existence, the PACS have not been able to deliver the goods expected of them. A majority of them have not become viable so far. Out of about 1.5 lakh societies, only about one-third have full-time paid secretaries. About 40 per cent of the societies function in loss. Many of them are dormant or defunct. Most PACS are financially and managerially weak and suffer from inadequate business, heavy overdues and faulty and inefficient management."²³

The above opinion can be substantiated and further explained in terms of the data for the co-operative year 1973-74 (ending with June 1974). The poor management of loaning activities is evident from the fact that the overdues as a proportion of loans outstanding of the PACS at the end of June 1974 was as high as 42 per cent.²⁴ Part of the problem has arisen from the window dressing resorted to by the co-operatives every year to present a favourable picture of their performance by showing repayment of an old loan by issuing a fresh loan of higher amount. Even the All India Rural Credit Survey Report of 1954 observed that "Cases of book adjustment of old loans through renewals which overstate the amount

23 Report of the Committee on Integration of Co-operative Credit Institutions, op.cit. pp. 26-27

24 It would be much more as a percentage of loans issued during the year. This figure is computed from the Statistical Statements Relating to Cooperative Movement in India 1973-74, op.cit.

of repayments were not rare".²⁵ The heavy dependence of the cooperatives on the government or government's cooperative funding agencies even after several years of the operations of co-operatives also needs to be pointed out. This may be illustrated with reference to the working of the PACS in 1973-74.²⁶ Thus, at the end of June 1974, the owned funds were only 17 per cent of the working capital of the PACS. The ratio of their deposits to their working capital at that time was a low of 6 per cent.

The commercial banks have also their own weaknesses. Despite the stepped up lending activities of the scheduled commercial banks to the rural areas, they still operate their branches in rural areas more for mopping up deposits rather than deployment of these funds in local areas thus providing for reverse flow of funds from the rural areas to the urban areas. This phenomenon has become less sharp in recent years. Nevertheless it still holds. Thus, at the end of June 1974, deposits mobilised from the 'rural' branches accounted for 7.7 per cent of the total deposits mobilised but corresponding advances through the 'rural' branches accounted for 5.3 per cent of the total advances.²⁷

The commercial banks also appear to be relatively neglecting 'smaller' borrowers while providing agricultural credit. Thus, even at a broad level of classification of loans to 'agriculture and allied

25 All India Rural Credit Survey, Vol.II, op.cit., p. 218

26 The following observations are based on the data provided in the Statistical Statements Relating to Co-operative Movement in India op.cit.

27 This observation is based on the data provided in the Reserve Bank of India, Banking Statistics, Basic Statistical Returns, Volume 4, June 1974, Bombay' December 1975. The definition of 'rural' branch has already been explained earlier in this paper.

activities', the aggregate of loans outstanding in the lowest category of 'Rupees Ten Thousand and Less' at the end of June 1974 accounted for 36.53 per cent of the total loans outstanding.

The linkage between the commercial banks and the co-operative societies, though growing over time, is still very weak. Thus, commercial banks financed only 1.40 per cent of the PACS at the end of June 1974.²⁸ This percentage would have risen to about 2.00 by the end of December 1975.²⁹

One thing which is common to the performance of the cooperative credit agencies and the commercial banks so far is the relative neglect of the credit needs of the weaker sections of the rural society. The then Prime Minister announced a Twenty Point Programme (often also called the 'Twenty Point Economic Programme' and the 'New Economic Programme' of the Government of India) on July 1, 1975.³⁰ Some of the points of this programme specifically aimed at ameliorating the lot of the weaker sections of the rural society. The most direct of these points having bearing on rural credit scene related to a "plan for liquidation of rural indebtedness; Legislation for moratorium on recovery of debts from

28 Based on the data in the Statistical Statements Relating to Co-operative Movement in India, op.cit.

29 Estimated from the observation made in the Report of the Expert Committee on Consumption Credit, op.cit.

30 For a complete listing of the Twenty Points of this Programme and the details of its incorporation in the Revised Fifth Five Year Plan of India (published by the Government of India in 1976), see Charan Wadhva "Reshaped Fifth Five Year Plan : Response to Changed Environment" in Charan D.Wadhva(ed.), Some Problems of India's Economic Policy, New Delhi : Tata McGraw-Hill Publishing Company Limited, 1977, Chapter 10.

landless labourers, small farmers and rural artisans".³¹ In July 1975, the Government of India issued guidelines to the State Governments to the effect that appropriate legislative action should be taken to ensure that all the debts of small farmers holding land upto 2.5 acres of unirrigated land should be taken as totally discharged and those of marginal farmers holding between 2.5 and 5 acres of such lands should be scaled down. Also, it was suggested that a moratorium from recovery of debts through the courts should be declared for both the above categories of farmers for a period of one year. It was further suggested that the debts of those who hold irrigated land should be scaled down as per currently defined conversion ratios in the State in question. In pursuance of these guidelines, several State Governments enacted legislation for moratorium, discharge and scaling down of the debts from the non-institutional sources of the small and marginal farmers, landless labourers, rural artisans and other weaker sections of the rural society.³² Such legislation was clearly expected to create a vacuum for meeting both the production and consumption credit of the weaker sections of the society as the traditional sources of credit were either going to dry up or would demand extortionately high rates of interest on loans to cover the risk of non-payment within the purview of law. Thus, the Government of India seriously considered devising alternative sources of credit to meet the credit requirements of the weaker sections of the rural society. The Government conceived the possibility

31 Ibid. Chapter 10

32 For a review of the action taken by the several State Governments on this front, see Report of the Expert Committee on Consumption Credit, op.cit. Appendix.

of setting up rural banks as part of the New Economic Programme.

Under these conditions, the Government of India appointed a Working Group under the Chairmanship of Mr. M. Narasimham to "examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people."³³ The idea of new rural banks was also inspired by considerations of lowering the costs of rural banking and operating such banks with local staff in an environment which the poor people in the villages would find most homely.

This Working Group on Rural Banks (headed by Mr. M. Narasimham) was appointed on July 1, 1975 and was asked to submit its Report within a short period of one month. The Report was submitted by this Working Group on July 30, 1975.³⁴

Recommendations of the Working Group on Rural Banks

The Working Group on Rural Bank noted that the major strength of the Co-operative Credit institutions lies in the local feel of the village society and that of the commercial banks lies in the professional management of the business of banking. The Group also identified the various weaknesses of the co-operative credit agencies and the commercial

33 Report of the Committee on Rural Banks, op.cit., Appendix.
Mr. M. Narasimham was then Additional Secretary in the Department of Banking.

34 The Report was entitled 'Report of the Committee on Rural Banks', op.cit., The following section is based on this Report.

banks most of which have been covered in the earlier section of this paper. It, therefore, came to the conclusion that a new institution of regional rural bank for providing rural credit for rural development mainly through the provision of credit to the weaker sections of the society was necessary. It envisioned this new institution as an Institution which "combines the local feel and familiarity with rural problems which co-operatives possess and the degree of business organisation ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial banks have".³⁵ It also laid down a blueprint of the structure of the management and operations of the new regional rural banks and guidelines for careful selection of their locations as well as the locations of their branches. It clarified that "the role of new institution would be to supplement and not supplant the other institutional agencies in the field".³⁶ It made several other suggestions in phasing the expansion programme for opening these banks and prioritised the programmes of activities for these banks over time.³⁷

35 Ibid, pp. 9-10

36 Ibid, p. 13.

37 I have covered some of the major recommendations of this Working Group and the deviations between these recommendations and the implementation of the scheme for the establishment of the regional rural banks (RRBs) in my paper, "Regional Rural Banks : An Innovation in Indian Banking", to be published in the Vishleshan (forthcoming issue). I will, therefore try to avoid duplication of these aspects here as far as possible.

The Scheme of Regional Rural Banks (RRBs) as Adopted by the Government

The Regional Rural Banks (RRBs) were set up under the Regional Rural Banks Ordinance 1975 promulgated by the President of India on September 26, 1975. This was subsequently replaced by the Regional Rural Banks Act of 1976 dated February 9, 1976. There were no major changes in this Act of 1976 and the Ordinance of 1975 except clarifications on certain issues. The main features of the scheme for setting up RRBs as adopted by the Government of India are discussed below.³⁸

Objective: The Regional Rural Banks Act of 1976 provided for the incorporation, regulation and winding up of RRBs. According to this Act, the RRBs were to be set up mainly "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, **credit** and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto".³⁹

38 For further details, the readers are referred to the Reserve Bank of India, Annual Report and Trend and Progress of Banking in India, 1975-76, Bombay, 1976, pp. 60-62.

39 Government of India, The Gazette of India, Extraordinary, New Delhi : February 9, 1976, Part II, Section I, p. 149. The criterion applied for defining a householder belonging to the weaker sections of the rural society specified in this Act was a net income of Rupees 2,000 per year at 1972 prices excluding wage payments received by the family members of the householder concerned. This criterion has been translated in the case of the small and the marginal farmers in terms of landholdings of unirrigated versus irrigated land. The definition varies from region to region depending on the local conditions. To illustrate, the small and marginal farmers are defined by the Haryana Kshetriya Gramin Bank (a regional rural bank) as farmers who hold upto 5 acres of non-irrigated land and 2.5 acres of first class irrigated land .

Jurisdiction : Each RRB will operate within specified districts in a State and operate branches within local limits specified within a district.

Sponsorship : Each RRB will be sponsored by a scheduled commercial bank (mainly by a public sector bank). It will be set up at the initiative taken by the sponsoring bank in consultation with the State Government. The sponsor bank will provide assistance to the RRB in several ways. These include subscription to its share capital, provision of managerial and other staff assistance to be mutually agreed upon within the period of first five years of its existence and financial assistance (refinancing facilities) on terms mutually negotiable.

Capital Structure : The authorised capital of each RRB would be Rupees 10 million and the issued capital would be Rupees 2.5 million. The issued capital would be subscribed by the Government of India, the sponsoring bank and the concerned State Government in the proportion of 50 per cent, 35 per cent and 15 per cent respectively.

Management Structure: The Management of each RRB will be through a nine member Board of Directors headed by a Chairman. The Chairman is appointed by the Government of India.⁴⁰ The Central Government nominates three

40 In practice, the Chairmen of the RRBs have been selected by the Government of India on the recommendation of the sponsoring bank. The latter has recommended a person from among its employees for this post. The Chairman so selected is on deputation with the RRB. The sponsoring bank pays the full salary of the Chairman (and also of its other staff) on deputation with the RRB.

directors (in addition to the Chairman); the State Government nominates two directors while the sponsoring bank nominates the balance of three directors. The remuneration paid to the staff directly recruited by the RRBs is prescribed by the Government. The structure of the remuneration is uniformly lower than the structure applicable to the staff of the sponsoring commercial bank (and in general to the staff of all the largely urban-oriented scheduled commercial banks). The Government of India has laid down that the structure of remuneration payable to the staff of the RRB should be on par with the salary structure of the employees of the State Government and local authorities of comparable level and status in the area of the RRB.

Banking Business : Every RRB has the status of a scheduled commercial bank and has been empowered to mobilise deposits and to grant short term and medium term loans directly only (whether individually or in groups) to the small and marginal farmers, agricultural labourers, rural artisans, small entrepreneurs and persons of small means engaged in any productive activity and also (indirectly) to all types of co-operative societies and the farmers service societies operating within its area of operation. The RRBs can also provide loans both for production and consumption purposes within pre-specified limits. They can pay rates of interest on deposits which are uniformly higher by $\frac{1}{2}$ per cent over the rates payable by the scheduled commercial banks for all periods of maturity upto 5 years. The rates payable on deposits are at par with those offered by the district central co-operative banks operating in the area of

operation of the RRBs but $\frac{1}{2}$ per cent lower than the rates on deposits payable by the village level primary agricultural credit societies. The Government has also prescribed that the rate of interest charged by the RRBs on its direct loans to the persons belonging to the specified categories of the rural society would be on par with the rate charged by the primary co-operative societies to its clients. Currently (May 1977), this rate was 14 per cent per annum. The Government permitted the RRBs to lend Rs. 100 for every Rs. 15 of its own lendable resources (paid up capital and deposits mobilised), the rest being contributed by refinancing from the Government of India to the extent of Rs.50 and from the sponsor bank to the tune of Rs.35. The rate of interest for refinancing facilities to the RRBs has been fixed at $9\frac{1}{2}$ per cent per annum. In comparison, the refinancing facilities are available to the co-operative societies at 7 per cent per annum (which is 2 per cent below the bank rate).

Programme for setting up RRBs and Targets for their Business:

The Government of India proposed to set up 60 regional rural banks with an expected total number of 785 branches by the end of March 1977. Each RRB was expected to open a minimum of 20 operating branches within first year of its operation and 20 to 30 more branches in the second year to cover all relatively "unbanked" or "underbanked" centres in the area of its operation. Assuming that the RRBs were properly organised with linkages for indirectly lending in their areas of operation through the co-operative societies and upto 20 Farmers Service Societies to be

formed with the co-operation of the State Governments and attached to each RRB, the Government expected the 60 RRBs to be able to lend Rupees 3 billion for one full year of their operations.⁴¹ The target set for deposit mobilisation per branch per year was Rupees 0.5 million on an average (or Rupees 10 million assuming that it succeeded in achieving the target of 20 branches in one year).⁴²

II

PROGRESS AND APPRAISAL OF THE WORKING OF THE RRBs

Progress of RRBs : The Government of India set up first five regional rural banks on October 2, 1975 (the birthday of Mahatma Gandhi) within a week of the promulgation of the Regional Rural Banks Ordinance. As Table 1 shows, 19 RRBs had been set up by April 30, 1976 with a total number of 112 operating branches. Some more details regarding the working of these RRBs are provided in this Table. By the end of December 1976, 40 such RRBs had been set up with a total number of 491 operating branches of the first 37 banks (see Table 3). The State-wise distribution of the 40 RRBs is given in Table 2.

41 As pointed out earlier, the Government expected that even after this amount of lending, the demand for credit would still not be fully met. As will be shown later in this paper, this assumption needs to be thoroughly re-examined in the light of the experience gained so far.

42 Later in this paper, the performance of the RRBs will be appraised in the light of these targets.

Table 3 presents further details on the deposits and disbursements activities of 15 (out of 40) RRBs each of which had successfully met the target of opening a minimum of 20 branches by the end of 1976. At the end of 1976, the total deposits of the first 37 regional rural banks were of the order of Rupees 77.9 million while the total disbursements amounted to Rupees 80.5 million consisting of Rupees 46.7 million (or 66.6 per cent of total disbursements) to the 'small and marginal farmers and the agricultural labourers' and Rupees 23.3 million (or 33.4 per cent of total disbursements) to the 'rural artisans and others' in the villages. The details of the bank-wise performance of each of the 15 selected RRBs is given in Table 3.

Appraisal of the Working of the RRBs

Even though the period of operations of the RRBs is very short for providing a fair appraisal of their working, some of the developments in the working of these banks so far do provide indicators of the problems being faced by these banks. A study of these problems can be very useful in discussing the issues relating to the future working of these banks.

By March 1977, 43 RRBs had been established compared to the target of setting up 60 such banks. As Table 3 shows, of the first six RRBs which had completed one year or more of their existence by December 31, 1976, only four RRBs could complete the target of opening 20 branches and out of all these six banks, only one (Gorakhpur Kshetriya Gramin Bank) could complete the target of mobilising Rupees ten million in 1976. Out of the

other 34 RRBs which had been set up at different dates within the year 1976, 11 RRBs had succeeded in opening 20 branches but only 1 of them (Nagarjuna Gramena Bank, Khammam (A.P.)) succeeded in meeting the target of deposit mobilisation well before completing one year of its existence as per latest data available on the performance of this bank. Thus, most banks could not meet the target for deposits mobilisation in the first year of their working. Similarly, the performance of the RRBs fell much short of the expectations of the Government of India. The overall Credit/Deposit ratio for the first 37 banks operating in 1976 was only 1.03 compared to an expected value of 5.00 and a maximum possible value of about 6.66. Thus, the RRBs could not have made a major impact on the rural credit scene in 1976.

The data presented in Table 3, however, does show wide variations in the performance of the RRBs from bank to bank. The performance of 2 of these banks (discussed above) stands out much above the others. It would be worthwhile undertaking several case studies of the working of the RRBs with a view to exploring the factors which have led to relative 'success' and 'failure' in their performance.⁴³

The opening of the RRBs at a pace of about 3 RRBs per month during the period October 1975 to December 1976 has been done in great haste.

43 I have examined some of these factors operating in the cases of the working of the Haryana Kshetriya Gramin Bank and the Jaipur Nagpur Aanchalik Gramin Bank. See Charan D. Wadhva, "Management and Operations of the Regional Rural Banks : Two case Studies", Working Paper Number 170, Ahmedabad : Indian Institute of Management, August 1977. Some of the findings from this study are quoted in the text in the following pages without repeating the source in footnotes.

The Working Group on Regional Rural Banks had suggested the setting up of 5 pilot RRBs in the first year at carefully selected places on an experimental basis which could be extended after reviewing the results of their working.⁴⁴ Similarly, the selection of locations for branches has not been done in a co-ordinated manner at the State level demarcating the areas of specialisation of the existing institutional credit agencies operating in the various districts of the State as was suggested by the Working Group on Regional Rural Banks.⁴⁵ As the experience of RRBs in Dhiwani (Haryana) and Jaipur and Nagaur districts cited earlier shows, it has not been always possible to ensure that the branches of the RRBs are opened at locations where neither a cooperative agency (or a viable cooperative credit society) nor a branch of any commercial bank exists. There is a formal requirement of licensing of the location of the branch of the RRBs by the Reserve Bank of India (RBI). Perhaps under pressure from the Central Government to let the RRBs meet their one year target for branch expansion, the RBI might have relaxed its rigorous scrutiny of the cases presented by the RRBs for permission to open branches at the locations requested by the latter.

The shortfall in meeting the target of deposit mobilisation by most RRBs can be explained by several factors. The target appears to have been set at unrealistic level especially in relation to the related target of lending. Thus, if the target relating to Rupees 3 billion lending by the RRBs per year is to be achieved through deposit mobilisation, these banks will be expected to generate deposits of the order of Rupees 450 million a year by themselves under the currently prevailing ratio of credit

44 Report of the Committee on Rural Banks, op.cit., p.33

45 Ibid, p.28

to self-generated lendable funds. The experience gained so far on the front of deposit mobilisation by the RRBs rules out such a possibility. One basic problem in this regard relates to the rejection of the recommendation of the Working Group on RRBs for local participation by individuals and private bodies in the equity structure of these banks. Yet another problem in this regard is posed by the total exclusion of the richer sections of the village society from the direct lending activities of the RRBs. The Working Group on Regional Rural Banks had recommended that a minimum of about 50 per cent of the loans advanced by the regional rural banks must necessarily be for the "small" borrowers.⁴⁶ The richer sections of the society, who alone have the scope for depositing their surplus funds with these banks, feel less interested in doing so in view of the lending policies of these banks. Under the existing circumstances, however, it is most likely that a major portion of the deposits of the RRBs would be coming from the urban and semi-urban branches of these banks. It appears that by and large, the RRBs have not succeeded much in getting the co-operation of the State Governments in opening deposit accounts of the State Government and its agencies. This factor also appears to have contributed to the shortfall in the deposits.

The shortfall in meeting the target of loans advanced can also be explained by several factors. Some of them are listed below :

46 Ibid, p. 25

Most of the banks have been lending only directly to the specified weaker sections of the rural society. The scope for direct lending by RRBs in their areas of operation is limited. Contrary to the vision of "Influx of individual applications" from 'small' borrowers "the moment the bank starts functioning",⁴⁷ the experience of the working of at least two RRBs studied by us and cited earlier shows that this was not the case. The staff of the RRBs had to make some efforts to identify potential 'small' borrowers who would possess capacity to repay loans at the relatively high rate of interest of 14 per cent per annum from farming, small industry and small trading activities in which the borrowed funds were to be deployed. This has posed a challenging situation and the RRBs in their own ways have made a contribution by going out in the field to create awareness and develop entrepreneurship among selected people belonging to the weaker sections of the society. It appears doubtful if most of these borrowers could have undertaken the range of productive activities which they have undertaken with the help of credit from the RRBs from other alternative sources. Yet it is equally true that the majority of the 'small' borrowers still continue to depend heavily on the informal (non-institutional) sources of credit. The decision process of the borrower regarding his choice for supply of credit from among the formal and the informal sources of credit under local conditions prevailing in the village deserves to be studied more closely.⁴⁸ Such studies will be useful in the drive of the RRBs to cover more of such borrowers who are continuing to rely heavily on the informal sources of credit.

47 Ibid, p. 26

48 One such study is : B.M. Desai, "Formal and Informal Credit Sources in Tribal Areas : A Case of Dharampur Taluka", Artha - Vikas, Vol. XII, No.2, July-December 1976.

Another important reason explaining the relatively slower growth of direct lending by the RRBs lies in the anomalous situation created by the Differential Interest Rate (D.I.R.) scheme of lending operated by the commercial banks. Compared to the rate of interest of 14 per cent per annum charged to the ultimate borrower by the RRBs, the commercial banks can lend to the same target segment of borrowers at the rate of 4 per cent per annum under the D.I.R. scheme. The commercial banks are able to offset the squeeze on the profitability of their operations through D.I.R. scheme by charging higher rates on other loans. Thus, wherever the D.I.R. loans are available from the commercial banks in the areas of operation of the RRBs, it would be irrational to expect the borrowers to seek loans from the RRBs. It is strange that RRBs as an institution directly lending only to the weakest sections of the rural society cannot presently administer loans at D.I.R. scheme rates. This anomaly needs to be rectified soon.

The main reason for the lower rate of growth of advances by the RRBs has been the absence of their effective links with the multi-purpose Primary Co-operative Credit Societies and the Farmers Service Societies. Such linkages were expected to play a crucial role in expanding the loaning activities of the RRBs over time. The absence of these linkages is explained to a great degree by relative apathy of the concerned State Governments for the RRBs (coming mainly under the control by the Central Government) and relative sympathy for the co-operatives (which come under the administration of the State). Despite the fact that

several State Governments have publicly announced their intentions to cede weaker cooperative societies in favour of the RRBs wherever they overlap, not much action has actually been taken by the former in this respect. The weaker primary agricultural credit societies have, of course, vested interests to preserve their identities.

Similarly, by design, the multi-purpose Farmers Service Societies (FSSs) are to be closely linked either with the major commercial banks or with the RRBs with the stipulation that the salary of the Managing Director of the FSSs is to be paid by the sponsoring commercial banks. The State Governments and the Co-operative agencies, therefore, see FSSs also as an institution with considerable control by the Central Government operating in the field of agriculture which is a State subject. This explains why the number of FSSs already operating which are recognised by the Reserve Bank of India is less than 100 in the country and not many new FSSs are being created by the State Governments. Efforts made by the Spearhead Teams sponsored by the National Institute of Bank Management (and founded by the Commercial banks) for promoting the idea of forming FSSs in the selected villages have under these circumstances not yielded much success.

It is obvious from the experience narrated above that the mere fact of participation by the State Governments in the equity of the RRBs has not always led to providing full support to them.

Looking at the experience of the Haryana Kshetriya Gramin Bank and the Jaipur Nagaur Gramin Bank, there is reason to believe that most of the RRDs are not viable at present.⁴⁹ Admittedly, the average cost of operating a branch of the rural bank is much lower than the average cost of operating a rural branch of a public sector commercial bank; but it is much higher than the cost of operating a branch of a co-operative especially at the village level. Table 4 gives the comparative picture of selected indicators of the average performance and costs of district central cooperative banks, the PACS and two selected RRDs.

It may well be argued that it is unfair to compare the costs of management of the cooperatives which have been operating for years and are still largely (60 per cent in numbers) based on low-paid part-time secretaries and the professionally manned RRDs on the basis of their experience in the very first year of their existence. The point is well made. However, it is unlikely that the break-even point for the operations of an average branch of RRDs can be reached without very substantially increasing the amount of loaning and decreasing the risk of default of loans.

49 Charan D. Wadhva, "Management and Operations of the Regional Rural Banks : Two Case Studies," op.cit. In this paper, I have examined the comparative cost structure and financial performance of two selected RRDs in 1976 and the cooperatives at the district level and the primary level (PACS) on the basis of the data for the cooperative year 1973-74 (ending June 1974). These conclusions are most likely to hold even when the 1975-76 cost data for these tiers of cooperatives is used when it becomes available.

Assuming that the RRBs will not have much success in increasing self-generated deposits and will have to rely on loaning as their main business through refinancing facilities provided by the R.B.I. and the sponsoring bank and further that the net earnings from such recycling of funds after taking into account the risk of default is at the rate of 4 per cent per annum, given that the salary structure and staffing patterns at the Head Office as well as at a typical branch of the RRBs (approximating to Rupees 24,000 per annum including Head Office expenses), the break-even point of amount of loans to be advanced for an average branch of this type would be at Rupees 600,000 per annum as shown in Figure 1.

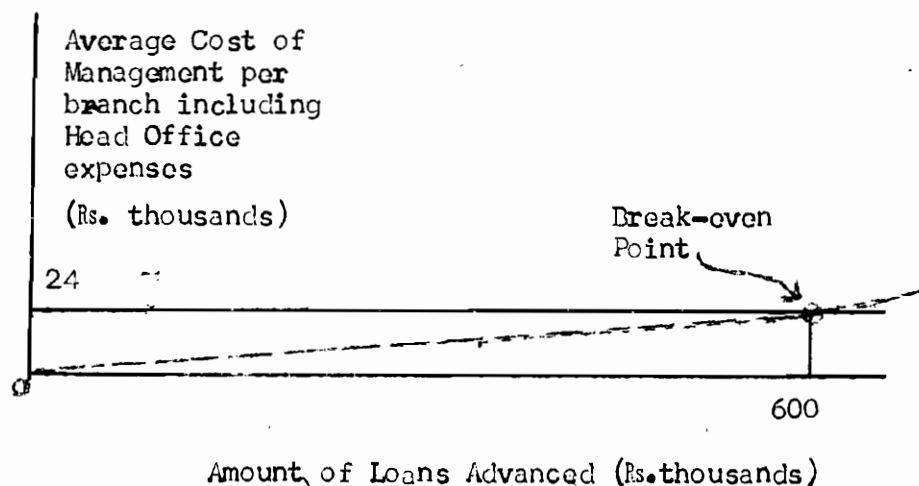


Figure 1 : The Break-Even Point for amount of Loans for an average branch of a RRB.

The case studies of the regional rural banks cited earlier reveal that the orientation of the staff of the RRBs educated in the college in cities is still essentially an urban one. The staff members look for higher salary and more perquisites. They have not adapted themselves sufficiently to become an integral part of the socio-economic milieu in which they function. They cannot be identified with the inhabitants of the villages where their branches are situated. Given a choice, many of them would prefer to settle down in cities. This may well be the general case. If this is true, then one of the important justifications for opening the new rural banks would in effect not be valid. The Working Group on Regional Rural Banks perhaps did not sufficiently realise that the setting up of the new regional rural banks with a staffing pattern recommended by the Group may not be itself assure the true local involvement of the staff members in the villages where they serve. As V.S. Vyas had warned : "Merely bringing down the pay-scales of the bank-functionaries or having "non-decolam" look — desirable that these are -- do not ensure a cultural affinity with the rural people." ⁵⁰

The RRBs have not been able to expand their direct lendings to the persons from the weaker sections of the rural society partly because of the strict and inflexible procedure adopted by them for loaning. In the matter of procedures for deposits as well as loaning, they operate very much like the scheduled commercial banks. Despite efforts made by

50 V.S. Vyas, "A Note on Proposed Rural Banks", Ahmedabad : Indian Institute of Management, 1977, p.2.

a committee set up by the Reserve Bank of India for simplification and standardisation of the loaning procedure of the RRBs, these procedures still remain sufficiently complicated and time consuming. The RRBs have not been given the facilities like exemption from stamp duties on loan applications, procedure for "out of court" settlement of cases for recovery from the borrowers in chronic default etc. which are available to the co-operative credit agencies. Thus, instead of combining the best features of the co-operatives and of the commercial banks and minimizing combining their worst features, the RRBs seem to have acquired in practice a number of weaknesses of the commercial banks and are currently deprived of some of the good features of the loan administration of the co-operative credit agencies. These aspects of the design of functioning of the RRBs and the co-operative credit agencies must be kept in mind while comparing the relative performance of these two types of institutions.

III

The Case for Reorganisation of RRBs

The foregoing appraisal of the performance of the RRBs during the first one or one-and-a-half years at the most shows that all is not well working in with their working and there is an urgent need for reorganising ~~them~~ ^{working in} ~~them~~ ^{them} several ways to enable them to achieve the objectives for which they have been set up. The weaknesses in the functioning of the RRBs observed in the above section need to be removed.

The uniqueness of the RRBs lies in their specialisation in the task of rural development by directly providing credit facilities to the weaker sections of the rural society who have been relatively neglected in the past both by the co-operative agencies and the commercial banks. This distinctive function of the RRBs must be largely preserved. This gives it ample justification for its existence. The RRBs must be identified as the 'Rural Banks of the Rural poor'. They can play a very useful part in meeting the vast gap that exists in the credit needs of the rural poor.

The RRBs have been functioning within several constraints which may be described as "not-so-hospitable rural environment" within which they have had to function. They have not received as much support of the State Governments as was expected by them. The Co-operative Credit agencies have not welcomed the emergence of the RRBs on the rural credit scene. The State Governments have provided precious little help in the formation of FSSs and attaching them to the RRBs in their area of operations. The sponsoring commercial banks, despite initial enthusiasm, have started giving cold shoulder to their sponsored RRBs as the former view the latter as a drain on their financial as well as manpower resources. As pointed out earlier, there has been a degree of unfair competition of RRBs for loaning activities with the commercial banks as well as the cooperative banks based on factors beyond the control of the RRBs. Thus, in several ways, many RRBs have been subjected to unfair trial of strength within the period of their utmost infancy when they

needed all-round support for accomplishing the objectives for which they were set up.

The most important action required for revitalizing the working of the RRBs and making them viable is by allowing them to expand their loaning activities through forging effective linkages between them and the primary agricultural credit societies and the Farmer Service Societies as per the original design. The pre-requisite condition for this to happen is the availability of the unstinted support from the concerned State Governments. A broader view must be taken by the credit societies in the exercise by the State Government aimed at the coordination of the roles of the cooperative credit societies, the commercial banks and the regional rural banks in different areas of the state. Such an exercise will undoubtedly require strengthening the PACS and reorganizing them as truly viable units. The cooperative credit societies must be made aware that the stronger and the more viable cooperative credit societies would be an asset for the regional rural banks and in the interest of the welfare of the State. The cooperatives should now become more self-reliant. The weaker societies must be coded in favour of the RRBs. In order to ensure that the major portion of the indirect credit by the RRBs through the cooperative credit societies also goes to serve the credit requirements of the weaker sections of the society, the RRBs can insist that out of the funds loaned through them, a minimum percentage (say, 75 per cent) must be loaned by the cooperative credit societies to the specified categories of the weaker

sections of the society who form the potential clientele of the RRBs. In order to further ensure that the cooperative credit societies do not use the funds available from the RRBs to slide back on their own lending to these weaker sections of the rural society, the State Government must ensure that lending to the weaker sections by the cooperative credit societies on their own rises over time and stipulate that it should not fall below the average proportion (say on the basis of a three-year moving average) of funds loaned for this purpose. In addition, a new programme of lending to the weaker sections of the society can be launched as a joint programme of the cooperative credit societies and the RRBs where each such new loan will be funded in the proportion of say $33\frac{1}{3}$ per cent by the cooperative credit societies and $66\frac{2}{3}$ per cent by the RRBs. This will also ensure a stake of the cooperative credit societies in the recovery of loans in this new programme.

The State Government must help in the formation of the Farmer Service Societies of the cultivators of the small and marginal farmers as well as new Small Business Service Societies of the landless labourers, rural artisans, and other self-employed persons of small means engaged in various productive occupations, trading and services (such as the chobies, sweepers and barbers) and attach them to the RRBs in their areas of operations. The State Governments must formulate a time-bound programme for forming such cooperative societies mainly consisting of the weaker sections of the villages and attaching them to the RRBs. The control of the State Governments over these bodies can be increased by

a much greater representation both in the financial structure and the structure of the management.

The linkage of the RRBs with the sponsoring banks also needs to be strengthened. The commercial banks must view the RRBs as their principal agencies for further expansion of their rural credit activities. No new branches of any scheduled commercial bank (and definitely of the sponsoring commercial bank) may generally be opened in the areas of the operation of the RRBs. The non-viable branches of the commercial banks should gradually be turned over to the RRBs operating in that area. The sponsoring commercial banks and the R.B.I. must ensure adequate refinancing facilities for a well-formulated credit plan of the RRBs for lending to the weaker sections of the rural society in their areas of operation.

There is a need to establish a close link between the RRBs and the special programmes initiated by the Central Government in the national five year plans such as the Small Farmers Development Agency (SFDA), Marginal Farmer and Agricultural Labourers Agency (MFAL), Tribal Development Corporations and Drought Prone Area Programmes to develop regional economies classified under these programmes. A sizable population belonging to the weaker sections of the rural society reside in the areas classified under these programme agencies. Most of these agencies have not given much thought to the working capital requirements of the beneficiaries under their programmes. This task can well be

performed by the RRBs. Vyas, in fact, recommended this task as the distinctive task of the RRBs for supporting the activities of these programme agencies. He argued that thus reorganised, the rural banks will be identified as the "Development Banks for the Rural Poor".⁵¹

The key for the success of the RRBs would clearly lie in their superior credit administration. The RRBs must be oriented to make themselves specialists in the credit appraisal, monitoring the progress of loans and efficient recovery of loans as well as the developmental role of locating viable borrowers and providing them with complete consultancy services in setting up and running the business in the initial stages of their operation until they become self-sufficient. These are very challenging jobs and would require ingenuity, dedication and utmost adaptation by the managers of the RRBs to the local conditions to keep the costs of such management services at a very low level. All efforts must be made to strengthen the credit administration by the RRBs to make them a successful agency for channelising deposits from the commercial banks and funds from the R.B.I. to the cause of rural development of the rural poor. The loaning activities must take the RRBs beyond their break-even point soon.

Much greater attention needs to be paid to financing Group activities in the loaning activities of the RRBs as was argued by the

51 V.S. Vyas, op.cit., pp.2-3

Working Group on RRBs.⁵² Those group activities which have maximum inter-linkages with the economic activities in the village economy should be preferred. The Group Approach to financing will not only enable the RRBs to increase their coverage of the client groups with given administrative cost but will also reduce the risk of default by pooling the risks attached to the default by individual members of the Group. A detailed study group of experts needs to be set up to formulate project plans for lending by the RRBs on Group Approach which would suit various types of groups taking into account the local conditions prevailing in the areas of operation for those schemes.⁵³

The differential interest rate policy must be reviewed. All D.I.R. loans by the commercial banks (and at least by the sponsoring commercial banks) to the weaker sections of the rural society must be made through the RRBs in their areas of operation. Since these are going exclusively to finance the credit needs of the specified weaker sections of the society, the extension of such a facility should be provided to the RRBs.

52 Report of the Committee on Rural Banks, op.cit., p.26

53 For a survey of literature on the Group Approach to agricultural credit, see, Donald Gordon, Credit for Small Farmers in Developing Countries, Boulder, Colorado, Westview Press, 1975; For discussion of some of the earlier thinking of application of this concept in the Indian situation, see Reserve Bank of India, Financing of Agriculture by Commercial Banks, Report of the Seminar held at Bombay; December 6-8, 1968 quoted in B.M. Desai, "Cost of Operations in Agricultural Financing by Formal Agencies", Working Paper No. 167, Ahmedabad: Indian Institute of Management, July 1977. Desai also argues for adopting group approach for reducing the costs of loaning in Indian agricultural activities.

A detailed study of the administration of the D.I.R. Scheme of the commercial banks in the rural areas through the RRBs needs to be carefully carried out. The current scheme of differential interest rate on deposits applicable to the RRBs can also be improved upon to enable them to generate more deposits. The RRBs can be allowed to increase the interest rate on deposits by $\frac{1}{2}$ per cent above prevailing rates. If followed, such a policy will also ensure parity with the primary agricultural credit societies in the matter of interest rates on deposits.

In the case of direct lending operations, the RRBs must pay greater attention to the credit needs of non-cultivators in the future, specially in the areas where the small and marginal farmers have access to credit through the co-operative agencies. The PACS do not lend much to the non-cultivator weaker sections of the rural society. In the new Industrial Policy of the Janata Government in India which came to Power in April 1977, major emphasis is being planned on setting up rural industries. The RRBs, in their new role as specialists for entrepreneurial development programmes among the weaker sections of the society, can play a very useful part in the setting up of selected rural industries.

The emphasis in direct lending programme of the RRBs must shift to linking credit for production with marketing of the output either through the existing co-operative marketing agencies or through establishment of new agencies where-ever these are non-existent. Pending

the formation of new co-operative marketing agencies in areas where they do not exist, the RRBs must provide consultancy service for marketing the products of the borrowers. The recovery of loans must be closely linked with the marketing of the products (including services) of the borrowers. Similarly, special efforts should be made to help the borrowers get jobs in the area of the operation of the RRBs and link recovery of loans with receipt of the wages by the borrowers.

And simultaneously, all efforts must be made by the RRBs and the concerned authorities to impart as much flexibility to the terms of lending and loaning procedures which will enable them to effectively compete with the non-institutional sources of credit such as the private moneylenders. The staff of the RRBs will have to win the confidence of the borrowers in order to lend more to such borrowers who are still heavily dependent on the village money lenders.

Last, but not the least, with the number of regional rural banks having risen to about 50 covering most of the States of the Indian Union (with the notable exceptions of Gujarat and Punjab where the co-operatives have traditionally been strong and successful), there is a greater need for the co-ordination of the policies, procedures and practices of the various RRBs at the national level. With 50 per cent of the equity contributed by the Government of India and a major role in refinancing accepted by the Reserve Bank of India, a new cell should be opened in the Reserve Bank of India for performing the role of monitoring and co-ordinating the working of the RRBs.

IV

Concluding Remarks

In conclusion, it may be said that the regional rural banks in India have been set up for meeting a distinctive objective and felt need in the area of rural credit. The regional rural banks may be identified as the development banks of the rural poor in India. In this sense, they represent a new experiment in rural banking. We have reviewed the performance and problems of the working of these banks during their initial period of working from October 1975 to December 1976. We have argued the case for a much greater role for these banks in the near future and suggested a framework for the reorganisation of the working of these banks.

The regional rural banks, as currently operating, were conceived as a new institution by the previous Congress Government led by Mrs. Indira Gandhi. There have indeed been many problems in the working of the regional rural banks as analysed above. With a change in the Central Government, there has been a talk of winding up these banks based on an unproven feeling that these banks have failed to achieve much good in the existing structure of institutional credit. There is also a further talk of the possible merger of these banks either with the sponsoring commercial banks or with the cooperative banks. If such an option was available to the RRBs, there is very little doubt about the choice which these banks would like to exercise under these circumstances.

Clearly, the linkages of the regional rural banks are much stronger with the sponsor banks than with the co-operative banks. We have pointed out in this paper that the regional rural banks have had to work under several constraints some of which were not of their own making. In fact, due credit must be given to the RRBs and their sponsoring banks to have achieved some tangible results within a short period of time. It would be unfair to pass a definite judgement on the performance of these banks which would seal off their future. Efforts have not been made to reorganise the working of these banks where scope exists. There is no question of efforts at reorganising these banks having failed so that the experiment could be written off as a failure.

The Reserve Bank of India has recently set up a Committee to review the working of the regional rural banks under the Chairmanship of Professor M.L. Dantwala.⁵⁴ This Committee is currently at work. The Report of this Committee is most likely to influence the decision of the policy makers on the future of the regional rural banks in India.

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54 See the news item to this effect in the Economic Times (Bombay), June 24, 1977, p.1.

REGIONAL RURAL BANKS (RRBs) IN INDIA ESTABLISHED UPTO APRIL 30, 1976

Name of RRB and location of its Head Office	Date of establishment	Name of the sponsoring commercial bank	State	Jurisdiction (within local limits of districts)	No. of operating branches
Prathama Bank, Moradabad	October 2, 1975	Syndicate Bank	Uttar Pradesh	Moradabad	9
Gorakhpur Kshetriya Gramin Bank, Gorakhpur	October 2, 1975	State Bank of India	Uttar Pradesh	Gorakhpur & Deoria	10
Haryana Kshetriya Gramin Bank, Bhiwani	October 2, 1975	Punjab National Bank	Haryana	Bhiwani	12
Jaipur-Nagaur Aanchalik Gramin Bank, Jaipur	October 2, 1975	United Commercial Bank	Rajasthan	Jaipur & Nagaur	11
Gaur Gramin Bank Malda	October 2, 1975	United Bank of India	West Bengal	Malda, West Dinajpur and Murshidabad	18
Bhojpur Rohtas Gramin Bank, Arrah	December 26, 1975	Punjab National Bank	Bihar	Bhojpur & Rohtas	6
Samyut Kshetriya Gramin Bank Azamgarh	January 6, 1976	Union Bank of India	Uttar Pradesh	Azamgarh & Ghazipur	7
Kshetriya Gramin Bank, Hoshangabad	January 20, 1976	Central Bank of India	Madhya Pradesh	Hoshangabad & Raisen	6
Tungabhadra Gramin Bank, Bellary	January 25, 1976	Canara Bank	Karnataka	Bellary & Raichur	7
Puri Gramya Bank, Pipli	February 25, 1976	Indian Overseas Bank	Orissa	Puri	2

Table 1 (contd.)

Name of RRB and location of its Head Office	Date of establishment	Name of the sponsoring commercial bank	States	Jurisdiction (within local limits of districts)	No. of operating branches
11. Jammu Rural Bank Jammu	March 12, 1976	Jammu & Kashmir Bank Limited	Jammu & Kashmir	Jammu	2
12. Champaran Kshetriya Gramin Bank Champaran	March 21, 1976	Central Bank of India	Bihar	East and West Champaran	3
13. Bara Banki Gramin Bank, Bara Banki	March 27, 1976	Bank of India	Uttar Pradesh	Bara Banki	1
14. Gurgaon Gramin Bank Gurgaon	March 28, 1976	Syndicate Bank	Haryana	Gurgaon	8
15. Rae Bareilly Kshetriya Gramin Bank Rae Bareilly	March 29, 1976	Bank of Baroda	Uttar Pradesh	Rae Bareilly	1
16. Farrukhabad Gramin Bank, Farrukhabad	March 29, 1976	Bank of India	Uttar Pradesh	Farrukhabad	1
17. Mallabhum Gramin Bank, Bankura	April 9, 1976	United Bank of India	West Bengal	Purulia, Bankura and Midnapur	3
18. Bolangir Aanchalik Gramya Bank, Bolangir	April 10, 1976	State Bank of India	Orissa	Bolangir	1
19. Nagarjuna Gramin Bank, Khammam	April 30, 1976	State Bank of India	Andhra Pradesh	Khammam and Nalgonda	4

SOURCE: Reserve Bank of India: Annual Report and Trend and Progress of Banking in India, 1975-76, Bombay: 1976, p63.

TABLE 2

STATE-WISE ESTABLISHMENT OF REGIONAL RURAL BANKS (RRBs) IN INDIA
AS OF DECEMBER 31, 1977

State	Number of RRBs
1 Andhra Pradesh (AP)	3
2 Assam	1
3 Bihar	4
4 Haryana	2
5 Himachal Pradesh (HP)	1
6 Jammu & Kashmir (J&K)	1
7 Karnataka	3
8 Kerala	2
9 Madhya Pradesh (MP)	3
10 Maharashtra	1
11 Orissa	4
12 Rajasthan	3
13 Tripura	1
14 Uttar Pradesh (UP)	8
15 West Bengal (WB)	3
TOTAL	40

SOURCE: Data available with the Government of India, Ministry of Finance, Department of Revenue and Banking.

PERFORMANCE OF SELECTED REGIONAL RURAL BANKS AS ON DECEMBER 31, 1976

(amount in thousands of rupees)

Sl. No.	Name of the bank [†]	Number of centres opened	Deposits		Disbursements				Total disbursements	
			Number of accounts	Amount	Small/marginal farmers & agricultural labourers	Rural artisans and others		Number of accounts	Amount	
						Number of accounts	amount			
1	2	3	4	5	6	7	8	9	10	11
1	Haryana Kshetriya Gramin Bank Bhiwani (Haryana)	20	7199	2444	1262	1789	1730	2334	2992	4123
2	Jaipur-Nagaur Aanchalik Gramin Bank, Jaipur (Rajasthan)	30	8149	5092	2368	3887	2310	2002	4678	5889
3	Gorakhpur Kshetriya Gramin Bank, Gorakhpur, UP	20	11239	10003	15016	6446	828	883	15844	9699@
4	Prathama Bank, Moradabad (UP)	20	21739	5436	1738	1804	3451	2852	5189	4636
5	Samyut Kshetriya Gramin Bank Azamgarh, UP	21	11644	4394	3708	2231	1511	2124	5219	4355
6	Kshetriya Gramin Bank Hoshangabad (MP)	20	8011	1299	1580	1159	1706	843	3286	2002
7	Tungabhadra Gramin Bank Bellary (Karnataka)	20	23698	2023	4826	3471	3622	1362	8648	5282@@
8	Puri Gramya Bank Pipli (Orissa)	20	5461	1703	3605	1875	2178	830	5783	2705

contd....

2	3	4	5	6	7	8	9	10	11
Jammu Rural Bank Jammu (J&K)	20	1897	1128	111	120	74	140	185	260
Champan Kshetriya Gramin Bank, Motihar (Bihar)	20	5134	1561	1897	1395	865	630	2762	2025
Barabanki Gramin Bank Barabanki, UP	21	3762	1808	3149	912	413	395	3562	1307
Gurgaon Gramin Bank Gurgaon, Haryana	20	15298	2447	1444	2068	1391	1195	2835	3263
Rae Bareilly Kshetriya Gramin Bank, Rae Bareilly	20	5127	3277	2834	2101	526	520	3360	2621
Farukhabad Gramin Bank Farukhabad, UP	21	5329	2261	1751	1303	502	395	2253	1698
Nagarjuna Gramina Bank, Khammam, AP	35	24983	8473	9580	8231	3244	3657	12824	11888
Total (First 37 RRIDs)	491	194998	77859	67874	46655	32165	23392	100039	89547

For date of establishment, see information in Table 1

Include a total amount of Rs 23.70 lakhs disbursed to 6485 farmers through 13 FSS/PACS

Include a total amount of Rs 67 thousand disbursed to 129 farmers as consumption loans and Rs 382 lakhs disbursed through cooperative societies

RCE: Based on data collected by the Government of India, Ministry of Finance, Department of Revenue & Banking.

Comparative average performance and costs of District Central Co-operative Banks,
Primary Agricultural Credit Societies and Selected Regional Rural Banks

(Amount in Rupees thousand)

Indicator of performance/ cost	1	2	3	4	5
		Average performance/ cost of District Central Co-operative Banks (DCCBs) at all-India level (1973-74 (End of June, 1974)	Average performan- ce/cost of Primary Agricultural Cre- dit Societies at all-India level (1973-74 (End of June, 1974)	Haryana Kshetriya Gramin Bank 1976 (December 31, 1976)	Jaipur Nagaur Ancha- lik Gramin Bank 1976 (December 31, 1976)
Number of offices	4,832	153,808	20	31	
Deposits	7,185,996	892,789	2,444	5,092	
a) Deposits per office of relevant bank/ banks	1,487	5.8	122	164	
Credit (Loans outst- anding)	11,628,006	10,549,658	3,744	5,258	
a) Credit (loans out- standing) per office of relevant bank/ banks	2,406	68.6	187	170	
Credit/deposit ratio ⁺	1.6	11.8	1.5	1.03	
Cost of management (ex- cluding interest paid on deposits)	380,338	359,624	379*	700*	
a) Salaries as percentage of cost of management	70.87	53.60	63.46*	65.86*	

contd....

Table 4 (contd.)

	1	2	3	4	5
6 b) Other administrative costs as % of management		29.13	46.40	36.54	34.14
7 Cost of management per office (including Head Office) of relevant bank/banks		79	2.3	19	23
8 Cost of management as % of credit (Loans outstanding)		3.27	3.41	10.12	13.31
9 Profit or Loss (-)		126,304	227,741	-27*	-323*
10 Profit or Loss (-) per office		26	1.5	-1	-10

+ The comparable Credit/Deposit ratio of the scheduled commercial banks in India is 0.7 to 0.8

* including estimated salaries paid by the sponsoring bank

SOURCE: Computed from data provided in Reserve Bank of India's STATISTICAL STATEMENTS RELATING TO COOPERATIVE MOVEMENT IN INDIA, 1973-74 PART I : CREDIT SOCIETIES; and data provided by the Haryana Kshetriya Gramin Bank and the Jaipur Nagaur Aanchalik Gramin Bank.