

**RESERVE BANK OF INDIA**

**REGIONAL  
RURAL BANKS**

**REPORT OF  
THE REVIEW COMMITTEE**



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**Abbreviations**

<b>ACD</b>	..	..	..	<b>Agricultural Credit Department, RBI.</b>
<b>CAB</b>	..		..	<b>College of Agricultural Banking, RBI, Pune.</b>
<b>DBOD</b>	..		..	<b>Department of Banking Operations and Development, RBI.</b>
<b>DCCB</b>	..	..	..	<b>District Central Co-operative Bank.</b>
<b>DRI</b>		..		<b>Differential Rates of Interest.</b>
<b>FSS</b>			..	<b>Farmers,' Service Society/Societies.</b>
<b>LAMP</b>				<b>Large-sized Adivasi Multi-purpose Society/Societies.</b>
<b>LDB</b>	..			<b>Land Development Bank/Banks.</b>
<b>NCA</b>	..	..		<b>National Commission on Agriculture.</b>
<b>NIBM</b>	..	..		<b>National Institute of Bank Management, Bombay.</b>
<b>PACS</b>	..	..		<b>Primary Agricultural Credit Society/Societies.</b>
<b>RBI</b>				<b>Reserve Bank of India.</b>
<b>RRB</b>			..	<b>Regional Rural Bank.</b>
<b>SCB</b>	..			<b>State Co-operative Bank.</b>

# CHAPTER 1

## INTRODUCTION

The Reserve Bank of India (RBI) appointed on June 23, 1977 a Committee to review the working of Regional Rural Banks (RRBs), set up under the Regional Rural Banks Act of 1976, with the following terms of reference :

- (a) to evaluate the performance of the Regional Rural Banks in the light of objectives for which they were set up,
- (b) to indicate their precise role in the rural credit structure and
- (c) to make recommendations with regard to the scope, methods and procedures of their functioning and other matters germane to the enquiry.

### COMPOSITION OF THE COMMITTEE

1.2 The composition of the Committee was as below :

- |  |  |
|--|--|
| 1. Prof. M. L. Dantwala, Chair-<br>man | 2. Dr. K. Kanungo, Member              |
| 3. Shi K. Gopalrao, Member             | 4. Dr. V. A. Pai Panandiker,<br>Member |

Dr. H. B. Shivamaggi, Adviser, Economic Department, RBI, served as the Secretary of the Committee.

1.3 The Committee was expected to submit its Report within three months. As our review progressed, it became evident that the issues before us were rather complex and their detailed examination could not be completed within this time limit. We, therefore, requested the Reserve Bank of India to allow us extension of time which was granted for which we are grateful to the Bank.

### METHOD OF ENQUIRY

1.4 The main components of the Committee's method of enquiry were—(a) eliciting views of eminent and knowledgeable persons in Government, RBI, Commercial Banks and other institutions connected with rural finance and banking through discussions on important problems germane to the Committee's enquiry, (b) requesting commercial banks which had sponsored RRBs to submit memoranda on their experience in organising and running these banks, (c) inviting views from the State Governments on some of the issues connected with our tasks through a questionnaire structured for

the purpose and (d) organising field studies through the Economic Department of the RBI to evaluate the working of a few RRBs (Annexure 1.1). Besides, members of the Committee visited a few RRBs collectively and individually. The names of the Sponsor Banks and State Governments who submitted memoranda in response to the request from the Committee and the names of the individuals who spared their valuable time for discussions with the Committee are listed in Annexure 1.2.

#### COMMITTEE'S MEETINGS

1.5 The Committee held in all nine meetings, five in Bombay, three in Delhi and one at Bangalore. The Committee visited Pune to hold discussions with the Faculty Members of the Reserve Bank's College of Agricultural Banking (CAB) and Vaikunth Mehta National Institute of Co-operative Management as also with the group of RRB branch managers who were undergoing training in the CAB.

#### SCHEME OF THE REPORT

1.6 The Committee's report is divided into six chapters. After a resume of the RRB scheme in Chapter 2, we examine the nature and magnitude of credit gap in the rural areas by an analysis of credit flows through the existing channels of institutional credit in Chapter 3. This is followed by an overall review of the progress of the RRBs established so far, in Chapter 4. In Chapter 5, we make a comprehensive assessment of the performance of a few RRBs from different areas on the basis of detailed field studies. The recommendations of the Committee are given in the last Chapter in two parts. After indicating the place of RRBs in the totality of rural credit structure in part one, specific recommendations on the organisation and functioning of the RRBs are presented in part two.

#### ACKNOWLEDGEMENTS

1.7 The Committee is thankful to all individuals and institutions from whom it derived benefit through discussions and in other ways. We are grateful to Hon. Shri H. M. Patel, Minister for Finance, Government of India, for giving the Committee the benefit of discussion with him. We are also much obliged to Shri B. Sivaraman, Member, Planning Commission, Shri M. Narasimham, the then Governor, Reserve Bank of India and Shri B. Venkappiah, Chairman, Rural Electrification Corporation for sparing their precious time to meet and give us the benefit of their long experience and expertise on rural development and rural credit. The Committee is also thankful to the Sponsor Banks for submitting very useful memoranda and to the State Governments for making available their considered views on the RRBs. Our thanks are also due to the Chairman and staff of the RRBs visited by us and of those selected for detailed evaluation. The Committee also wishes to thank all other individuals and institutions, whom it is difficult to enumerate, who have helped the Committee in various ways in its work.

1.8 Finally, the Committee would like to place on record its high appreciation of the painstaking work and intelligent assistance it received from Dr. H. B. Shivamaggi and Shri M. G. Gaitonde, Director in the Economic Department, RBI, by collecting and processing the material required by the Committee and efficiently organising its schedule of work. The staff of the Division of Field Surveys and the Regional Offices of the Economic Department of RBI at New Delhi, Calcutta, Hyderabad and Cochin rendered valuable help to the Committee in its assessment of performance of RRBs by expeditiously conducting evaluation studies of selected RRBs under the overall guidance of Dr. Shivamaggi and Shri Gaitonde.

## CHAPTER 2

### RESUME OF THE SCHEME OF REGIONAL RURAL BANKS

In this Chapter, we deal with the genesis and rationale of the Scheme of Regional Rural Banks (RRBs). It provides the relevant background needed for the purpose of evaluation of the Scheme by the Committee.

#### GENESIS AND RATIONALE OF THE SCHEME

2.2 In spite of an impressive step-up in the availability of institutional credit to rural areas in recent years, there is a widely shared view that a more determined effort was needed to speed up the flow of institutional credit especially to meet the needs of the weaker sections of the rural community. The Government of India also felt that it was necessary to establish "new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks". In pursuance of this view, the Government of India appointed on July 1, 1975, a Working Group on Rural Banks under the Chairmanship of Shri M. Narasimham<sup>1</sup> 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". The Group submitted its report within a short period of one month on July 30, 1975.

2.3 The Group identified the various weaknesses of the co-operative credit agencies and the commercial banks and felt that the existing institutions, as they are presently structured, would not be able to fill the regional and functional gap in the rural credit institutional system within a reasonable period of time, even with such adaptation, re-organisation and restructuring as may be considered.

The Group observed that "in a country of the size and regional diversity as ours, no single pattern, be it commercial banks or co-operative credit, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives widened. It is in this context that we have come to the conclusion that a new type of institution is necessary". This is the genesis of the State sponsored, regionally based and rural oriented commercial banks which have now come to be popularly known as Regional Rural Banks.

2.4 The Group noted that while the major strength of the co-operative credit institutions lies in the local feel of the village society, that of the com-

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1. M. Narasimham was then Additional Secretary in the Department of Economic Affairs, Government of India.



mercial banks lies in the professional management of the business of banking. It therefore envisaged a new 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". The Group emphasised that "the role of the new institution would be to supplement and not supplant the other institutional agencies in the field".

2.5 According to the Group, instead of immediately making these RRBs a pattern for re-organisation of existing rural credit institutions in the country as a whole, a few such banks may be set up in areas where the existing credit structure has not made much impact. The location for the new banks should be so chosen as to avoid overlapping with credit institutions which are working satisfactorily and overfinancing of the same borrowers. It was suggested by the Group that initially 5 such banks should be set up in selected areas to serve as pilot institutions so as to provide guidelines in respect of size of operations, initial coverage, viability, etc., for future development.

#### PRINCIPAL FEATURES OF THE SCHEME AS IMPLEMENTED BY GOVERNMENT

2.6. The Government of India accepted the recommendations of the Group. Accordingly, the Regional Rural Banks Ordinance of 1975 was promulgated by the President of India on September 26, 1975. It was subsequently replaced by the Regional Rural Banks Act of 1976 dated February 9, 1976. The Act has made various provisions regarding the incorporation, regulation and working 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".

2.7. The criterion adopted for defining a household belonging to the weaker sections of the rural society was a net income of Rs. 2,000 per year at 1972 prices excluding wage payments received by the family members of the household concerned. This criterion has been translated in the case of the small and the marginal farmers in terms of landholdings of unirrigated and irrigated land. The norm varies from region to region depending on the local conditions.

The main features of the RRB Act are briefly indicated below :—

(i) *Jurisdiction* : The jurisdiction of each RRB was to be within specified districts in a State and that of its branches within limits specified

within the districts. Generally, the RRB was to have as its area of operation a compact area of 1 to 5 districts with homogeneity in agro-climatic conditions and rural clientele. A branch office was to cover generally 1 to 3 blocks and be in a position to finance 5 to 10 Farmers' Service Societies (FSS).

(ii) *Sponsorship* : Each RRB was to be sponsored by a scheduled commercial bank (mainly by a public sector bank). It was to be set up at the initiative taken by the Sponsor Bank in consultation with the State Government and Central Government. The Sponsor Bank was to provide assistance to the RRB in several ways such as subscription to its share capital, provision of managerial and other staff assistance to be mutually agreed upon for the period of first five years of its existence, and financial assistance on terms mutually negotiable.

(iii) *Capital Structure* : The authorised capital of each RRB was placed at rupees one crore and the issued capital at rupees 25 lakhs. 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. The Act does not provide for the holding of shares upto 15 per cent by local institutions and individuals which the Working Group had recommended with a provision to give a minimum guaranteed dividend (at the level of interest paid by commercial banks on one-year fixed deposit) to these shareholders.

(iv) *Management Structure* : The Management of each RRB was to be through a nine member<sup>2</sup> Board of Directors headed by a Chairman. The Chairman was to be appointed by the Government of India.<sup>3</sup> The Central Government nominates three directors (in addition to the Chairman) ; the State Government nominates two directors, while the Sponsor Bank nominates the balance of three directors. The remuneration of the staff directly recruited by the RRBs is prescribed by the Government which lays down that the structure of remuneration payable to the staff of the RRBs 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. The structure of the remuneration is generally lower than that applicable to the staff of the Sponsor Bank.

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2. Could be raised upto 15 with the approval of Government of India.

3. In practice, the Chairmen of the RRBs have been appointed by the Government of India on the recommendation of the Sponsor Banks. The latter has recommended a person from among its employees for this post. The Chairman so appointed 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.

## **BANKING BUSINESS**

2.8. Every RRB has the status of a scheduled commercial bank and has been empowered to mobilise deposits and to grant short and 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 FSSs operating within its area of operation. The RRBs can also provide loans both for production and consumption purposes within specified limits. The Reserve Bank of India (RBI) has granted certain concessions in regard to requirements of cash reserve, liquidity, interest rates on deposits etc. (*vide* Annexure 2.1). The RRBs can pay interest on deposits at rates higher by 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 (DCCBs) operating in the area of operation of the RRBs but 1/2 per cent lower than the rates on deposits payable by the village level Primary Agricultural Credit Societies (PACS). 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 PACS to its clients.

## **STEERING COMMITTEE**

2.9. At the national level, the Government of India have set up a Steering Committee to work out details of the RRB scheme, to monitor its progress and to provide suitable guidance to the RRBs.

## **TRAINING FACILITIES**

2.10. In order to help the RRBs to engage trained staff as early as possible, the RBI has arranged to provide training to the Chairmen and Branch Managers in the RBI's College of Agricultural Banking, Pune. It has also been decided that while the training programme for the Chairmen and Branch Managers of RRBs would be conducted at the College of Agricultural Banking, Pune, that of accountants, field officers and clerks will be conducted at the Training Centres of the respective Sponsor Banks under the overall supervision of the College of Agricultural Banking.

## CHAPTER 3

### EXISTING RURAL CREDIT CHANNELS AND CREDIT GAP IN THE RURAL SECTOR

The major premise on which the establishment of Regional Rural Banks was recommended was that the existing credit institutions, even after the necessary restructuring and modification, cannot be expected to meet the varied and growing needs for rural credit. We feel that this proposition needs to be more firmly established than was done by the Working Group on Rural Banks before a convincing case for the RRB can be made.

3.2. The enclosed Chart and Table 1 give a broad idea about the existing channels for the supply of rural credit and their relative contribution to the total quantum of agricultural credit. The Table also gives an idea of the progress achieved by the various rural credit institutions over the last few years and the credit requirements estimated by the National Commission on Agriculture (NCA) for 1979.

**TABLE—1 : INSTITUTIONAL FINANCE FOR AGRICULTURE—QUANTUM OF LOANS OUTSTANDING AT THE END OF THE PERIOD**

		(Rs. in crores)			
Type of Credit		Primary Agricultural Credit So- cieties	Commercial Banks	Total (1+2)	Co-operative Land Deve- lopment Banks
		1	2	3	4
<b>Short-term</b>					
1973-74	.. ..	807	179	986	—
1976-77	.. ..	1134	450	1584	—
1978-79+	.. ..	1200	600	1800	—
<b>Medium-term/Long-term</b>					
1973-74	.. ..	248	257	505	915
1976-77	.. ..	309	520	829	1137
1978-79+	.. ..	900	850	1750	N.E.
<b>Total</b>					
1973-74		1055	436	1491	915
1976-77		1442	970	2412	1137
1978-79+		2100	1450	3550	N.E.

N.E. : Not separately estimated by NCA.

+ : Estimated by NCA.

Figures are rounded off.

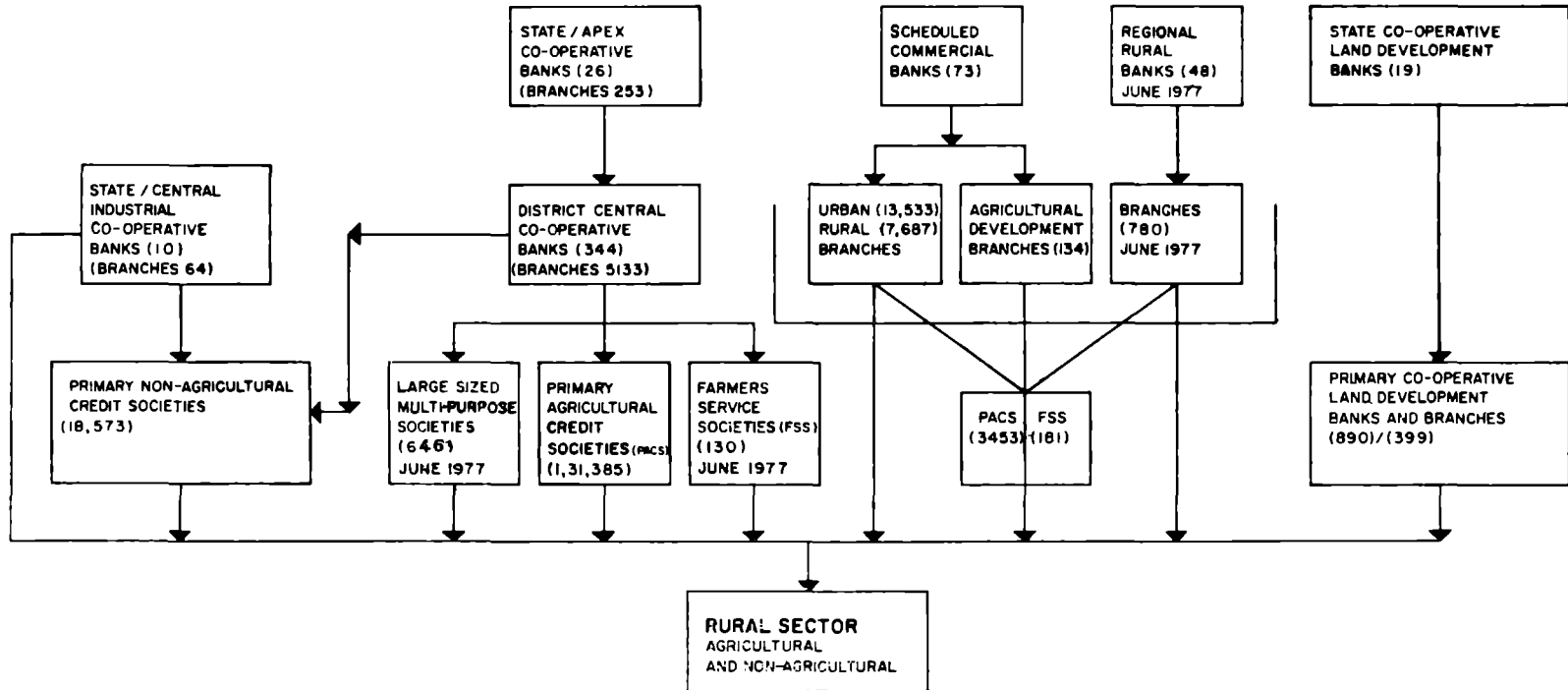
Sources : (1) Report on Currency and Finance 1976-77, RBI.

(2) Report of the National Commission on Agriculture.

# INSTITUTIONAL CHANNELS OF RURAL CREDIT IN INDIA

## NON- AGRICULTURAL CREDIT

## AGRICULTURAL CREDIT



Note: Figures in brackets indicate number of Institutions as on June 1976

3.3. It will be seen from the Table that in regard to the short-term credit, the PACS had almost achieved the level of total lending expected to be reached by 1979, by the end of June 1977 itself; and judging from the progress made by the commercial banks in the last few years, they too can be expected to achieve the target. It is, however, in regard to the medium/long-term loans that a leeway of nearly Rs. 1000 crores (implying doubling of loans advanced) has to be made in the next two years. The lag of Rs. 591 crores is particularly large in the case of PACS. As regards the commercial banks, it is noticed that the component of term finance in their total lending to agriculture was larger than that of the short-term credit, whereas in the case of PACS, the ratio of short-term and medium-term credit was 11 : 3. Between June 1974 and June 1977, the outstanding medium-term credit by PACS increased by only 24.5 per cent while that of the commercial banks by as much as 102.3 per cent. This is mainly because in the co-operative credit structure, there is a separate agency (LDBs) for disbursing long-term credit.<sup>1</sup> Even so, it appears to us that in the years to come, the commercial banks and the RRBs, if they take root, will have an edge over the PACS in the supply of medium-term loans, and this is an area which the commercial banks and the RRBs should exploit.

3.4. In our view, the deficiencies of a credit system should not be judged merely on the basis of the quantum of credit supplied and the gap between the aggregate supply and demand for credit. The concept of credit gap has to be more comprehensive and disaggregated. The relevant questions for assessing the credit gap would be :

(i) To what extent do the credit institutions meet the needs of different *sections* of rural borrowers — particularly small and marginal farmers, rural artisans, petty traders, etc.?

(ii) Do they meet different *types* of credit needs of borrowers — short, medium and long-term; production, marketing, processing and in the case of weaker sections consumption needs?

(iii) Are their *loaning operations* versatile enough to progressively wean away the potential borrowers from the moneylender and the

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1. The perusal of the Report by the NCA suggests that in their estimation of medium and long-term co-operative credit, they did not include the long-term credit supplied by the Land Development Banks. The corroboration of this is provided by their statement : The increase in total (short, medium and long-term) lending, through the co-operative system would be from Rs. 919 crores in 1973-74 to Rs. 2100 crores (outstanding) by the end of the Fifth Plan (1979) (Para 55.7.10). According to the revised figures, by 1973-74, PACS alone had provided total credit of Rs. 1055 crores. If the long-term credit of Rs. 915 crores provided by the LDBs in 1973-74 is added, the total credit supplied by the system in 1973-74 would come to Rs. 1970 crores, very close to Rs. 2100 crores projected for 1979.

In the discussion that follows, we are, therefore, excluding the contribution to the long-term credit by the LDBs, while assessing the performance of the co-operatives in regard to the quantum of credit supplied.

trader? It may be accepted that the inhibiting factors in this task may be beyond the control of credit agencies. A credit system cannot be wholly equitable if the structure of the rural economy is itself inequitable, nor can credit alone transform a basically inequitable economic structure into an equitable one.

(iv) All the above questions should be examined not aggregatively but for each State, ideally for each district.

3.5. In the light of the above criteria, we may assess, with such data as are available, the performance of the different credit agencies and some of the innovative arrangements for augmenting the flow of credit in desired directions.

### *Co-operative Credit*

#### PRIMARY AGRICULTURAL CREDIT SOCIETIES

3.6. *Coverage* : By the end of June 1976, there were 1,34,838 primary agricultural credit societies (PACS), out of which 11,634 were dormant. The active societies 'cover' 92 per cent of the villages. The societies (both active and dormant) had a membership of 40 million (the number of rural households was estimated at 77 million in the All-India Debt and Investment Survey, 1971-72) but the number of borrowing members was only 15 million, or 38% of the total. This phenomenon needs a deeper analysis than it has received so far, especially in the context of our endeavour to ensure universal membership. Who are these non-borrowing members? Do they belong to a class of farmers (and others) who have no need to borrow because they have enough resources of their own? Or are they ineligible for borrowing because they are not 'credit-worthy'? Or, worse still, are they eligible but are unable to borrow because the management of the societies is averse to accommodating them? Do the societies suffer from paucity of funds as a result of which they can accommodate only less than 40 per cent of its members? Whether the structural and operational innovations we have introduced and propose to introduce are meaningful or not for solving the problems of rural credit, will depend on precise answers to these questions.

3.7. *Quantum* : In the co-operative year ended June 1977, the PACS are estimated to have advanced Rs. 1016 crores of short-term and Rs. 99 crores of medium-term loans.<sup>2</sup> This is a substantial increase from the short and medium-term loans amounting to Rs. 663 crores and Rs. 56 crores, respectively, advanced by them during 1973-74. But the increase in the quantum of short and medium-term credit supplied by the co-operatives appears to have been achieved more through the increase in the scale or level of finance provided to the existing borrowing

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2. The distinction between loans advanced during the year and outstanding at the end of the year should be noted. The distinction is particularly important in the case of term loans.

members rather than by covering a larger number of enrolled members. Thus, while the total short and medium-term loans issued by the primaries have increased in quantum by 32 per cent between 1973 to 1976, the number of borrowing members increased by only 16 per cent (Table 2). In some

TABLE—2: SHORT-TERM AND MEDIUM—TERM LOANS ISSUED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES

States	1972-73		1975-76		Percentage variation	
	Total loans issued (Rs. in lakhs)	No. of borrowing members (In thousands)	Total loans issued (Rs. in lakhs)	No. of borrowing members (In thousands)	Col. 3 over Col. 1	Col. 4 over Col. 2
	1	2	3	4	5	6
1. Andhra Pradesh	31,84	10,05	73,51	12,38	131.8	23.2
2. Assam ..	1,21*	24*	1,21*	24*	—	—
3. Bihar	15,29	10,09	22,00	12,92@@	43.9	28.0
4. Gujarat ..	131,47	7,46	132,62	8,02	0.9	7.5
5. Haryana .. ..	26,22	4,14	43,54	4,15	66.0	0.2
6. Himachal Pradesh	4,79@	1,34@	5,81	1,28	21.3	—4.5
7. Jammu & Kashmir ..	2,15	1,15	2,15	1,15	—	—
8. Karnataka ..	47,39	7,20	81,60	8,18	72.2	13.6
9. Kerala .. ..	40,89	9,10	46,96@@	10,02@@	14.9	10.1
10. Madhya Pradesh	60,14	8,92	69,65	8,81	15.8	—1.2
11. Maharashtra	160,80	16,02	170,01	17,70	5.7	10.5
12. Manipur .. ..	28*	15*	42	10	50.1	—33.3
13. Orissa .. ..	15,56	4,07	20,66	3,91	32.8	—3.9
14. Punjab .. ..	61,95	9,54	74,98	11,78	21.0	23.5
15. Rajasthan ..	16,04	5,40	59,65	10,87	271.8	101.3
16. Tamil Nadu ..	77,99	8,08	102,85	10,90	31.9	34.9
17. Tripura ..	71	21	51	16	—28.4	—23.8
18. Uttar Pradesh ..	71,39	23,13	95,09	23,41	33.2	1.2
19. West Bengal ..	8,09	3,79	21,27@@	5,84@@	162.7	54.1
<b>ALL INDIA .. ..</b>	<b>776,07</b>	<b>130,47</b>	<b>1023,45</b>	<b>151,26</b>	<b>32.2</b>	<b>16.0</b>

\*Data relate to 1971-72.

@Data relate to 1970-71.

@@Data relate to 1974-75.

Source : Statistical statements relating to Co-operative Movement in India.



States — Manipur, Tripura, Madhya Pradesh, Orissa and Himachal Pradesh — the number of borrowing members has actually declined. In States like Uttar Pradesh and Haryana, while loans issued have increased by 33 to 66 per cent membership has remained virtually stagnant. Thus the benefit of the increase in disbursement of co-operative credit is restricted to a small number of active borrowers and is not shared by all members.

3.8. A more adequate idea of the adequacy of credit can be obtained by relating the quantum of credit to the acreage under cultivation in each State. In several States, particularly in Bihar, Madhya Pradesh, Orissa, Rajasthan, West Bengal and Uttar Pradesh, the per hectare credit provided by the co-operatives is very meagre being less than Rs. 42 (Table 3). Only in four States, namely, Punjab, Gujarat, Tamil Nadu and Kerala, the per

TABLE—3: PER HECTARE CREDIT ISSUED BY PACS DURING 1975-76 (SHORT & MEDIUM-TERM)

States	Gross Cropped area in Thousand hectares@ 1971-72	PACS loans issued (Rs. lakhs)	Per hectare total credit (PACS) available (Rs.)
	(1)	(2)	(3)
1. Andhra Pradesh .. .. .	126,52	73,51	58
2. Assam .. .. .	28,34	N.A.	—
3. Bihar .. .. .	106,83	22,00	21
4. Gujarat .. .. .	99,33	1,32,62	135
5. Haryana .. .. .	50,48	43,52	86
6. Himachal Pradesh .. .. .	9,01	5,81	64
7. Jammu & Kashmir .. .. .	8,61	N.A.	—
8. Karnataka .. .. .	109,88	80,05	73
9. Kerala .. .. .	29,58	46,88	158
10. Madhya Pradesh .. .. .	208,92	69,55	33
11. Maharashtra .. .. .	174,81	1,70,01	97
12. Orissa .. .. .	70,42	20,66	29
13. Punjab .. .. .	57,24	74,98	131
14. Rajasthan .. .. .	167,73	59,65	36
15. Tamil Nadu .. .. .	76,42	1,02,85	136
16. Uttar Pradesh .. .. .	230,25	95,09	41
17. West Bengal .. .. .	72,71	21,24	29
<b>ALL INDIA .. .. .</b>	<b>16,40,02</b>	<b>10,23,45</b>	<b>62</b>

@Agriculture in brief—14th edition.

hectare credit is between Rs. 130 and Rs. 160. There is also some association between the level of per hectare credit provided and the state of agricultural development in different States. Credit can to some extent stimulate agricultural development, but cannot obviously move faster than agricultural growth. This also has a lesson. The frequent charge that some regions are not receiving adequate institutional credit should more appropriately be attributed to the lag in agricultural development. The question as to which should come first, credit or development, can however still be debated.

3.9. Annexure 3.1 gives the ranking of major States according to different criteria such as (1) average membership per PACS, (2) percentage of borrowing members to the total, (3) percentage of overdues to demand, etc. On the basis of most of these criteria, the States of Bihar, Assam, West Bengal, Orissa, Madhya Pradesh, and Himachal Pradesh rank low, requiring special attention to the promotion of institutional credit.

3.10. *Class Bias* : One of the most frequent criticisms of all agencies of rural credit is that a large chunk of it is pre-empted by the large farmers with the result that the small and marginal farmers are deprived of their "due share". Table 4 gives State-wise information on the share of borrowers in PACS credit according to the size of their ownership holdings. During 1975-76, out of the total credit of Rs. 1023 crores disbursed by PACS, borrowers with ownership holdings upto 1 hectare received Rs. 122 crores (12 per cent) and those with holdings between 1 to 2 hectares received Rs. 181 crores (18 per cent). Tenant cultivators received Rs. 23 crores and agricultural labourers only Rs. 10.4 crores. According to the 26th Round (July 1971 — September 1972) of the National Sample Survey, in rural India, out of 119.6 million hectares of owned land, 11.3 million hectares (or 9.76 per cent) were owned by households owning upto 1 hectare of land, another 17.5 million hectares (14.7 per cent) were owned by households owning 1.01 to 2.02 hectares of land. Thus, in relation to the share in the total owned land, the shares of the small landowners owning upto 1 hectare and those owning between 1 and 2 hectares in the total credit disbursed do not appear to be inadequate. It is, however, possible that the data on the borrowers' size of holding with the co-operatives may not be very accurate. We also learn from knowledgeable persons that there are number of *benami* transactions under which bigger landowners borrow in the name of the small farmers. It may also be mentioned that under the (revised) directive from the RBI, the concerned State Co-operative Bank is under an obligation to ensure that the loans issued to small/marginal/economically weak farmers are not less than a stipulated percentage (usually 20 per cent) of the total short-term advances of the co-operatives during the year.

3.11. A more thorough analysis of the 'due share' of small farmers has been made in the Report of the Committee (Chairman: Prof. V. M. Dandekar) on financing of Small and Marginal Farmers through Co-operative Credit

TABLE-4 : PRIMARY AGRICULTURAL CREDIT SOCIETIES—LOANS AND ADVANCES ACCORDING TO SIZE OF OWNERSHIP HOLDINGS—1975-76

States	Total quantity of loans disbursed	Ownership Holdings				Tenant cultivators, Agricultural labourers and others	Per cent. of col. 1 <sup>to</sup> of <sup>col. 1 to 5</sup>			
		Upto 1 hectare	1-2 hectares	Above 2 hectares	col. 2		col. 3	col. 4	col. 5	
		1	2	3	4		5	6	7	8
1. Andhra Pradesh .. .. .	73,51	10,27	14,86	42,31	6,07	14.0	20.2	57.6	8.2	
2. Assam .. .. .	..	..	..	..	..	..	..	..	..	
3. Bihar .. .. .	22,00	7,30	4,50	6,25	3,95	33.2	20.4	28.4	18.0	
4. Gujarat .. .. .	132,62	6,13	15,15	110,78	56	4.6	11.4	83.5	0.4	
5. Haryana .. .. .	43,54	3,01	5,93	31,23	3,36	6.9	13.6	71.7	7.7	
6. Himachal Pradesh .. .. .	5,81	91	1,63	4,19	1,08	15.7	28.0	37.7	18.6	
7. Jammu & Kashmir .. .. .	..	..	..	..	..	..	..	..	..	
8. Karnataka .. .. .	81,60	8,67	13,14	56,15	3,64	10.6	16.1	68.8	4.5	
9. Kerala .. .. .	46,96	17,37	13,92	11,80	3,87	37.0	29.6	25.1	8.2	
10. Madhya Pradesh .. .. .	69,65	3,22	8,01	58,27	14	4.6	11.5	83.8	0.2	
11. Maharashtra .. .. .	170,01	11,87	23,37	133,90	87	7.0	13.7	78.8	0.5	
12. Orissa .. .. .	20,66	4,02	6,78	9,81	5	19.5	32.8	47.5	0.2	
13. Punjab .. .. .	74,98	7,55	12,53	47,19	7,71	10.1	16.7	62.9	10.3	
14. Rajasthan .. .. .	59,65	5,06	14,27	39,99	33	8.5	23.9	67.0	0.6	
15. Tamil Nadu .. .. .	102,85	15,97	22,09	59,55	5,24	15.5	21.5	57.9	5.1	
16. Uttar Pradesh .. .. .	95,09	13,91	18,19	60,13	2,86	14.6	19.2	63.2	3.0	
17. West Bengal .. .. .	21,27	6,37	6,26	8,26	38	29.9	29.5	38.8	1.8	
<b>All-India .. .. .</b>	<b>1023,45</b>	<b>122,27</b>	<b>181,27</b>	<b>678,72</b>	<b>40,29</b>	<b>11.9</b>	<b>17.7</b>	<b>66.3</b>	<b>3.9</b>	

Source : Statistical Statements relating to Co-operative Movement in India, 1975-76.

Structure appointed by the Government of Maharashtra. The Report observes : "On the question of coverage of small landholders by the co-operative credit structure, we may conclude that among the very small and small landholders the extent of the membership of the co-operative societies is much lower than among the medium and large landholders ; but that once they are admitted as members the very small and small landholders do not seem to suffer any handicap in their access to short-term credit" (page 41). The Report adds : "There is little evidence to suggest that the very small and small farmers do not receive their due share in the total short-term credit dispensed through the co-operative credit structure. In fact, they seem to receive more than their due share in comparison with the medium and large farmers".

3.12. The Committee found that in Maharashtra 66.7 per cent of small holders were members of the co-operative societies as on 31-1-1976, as against 76.6 per cent in the case of large holders ; the percentage of small holder-borrowers to all small holder members was 55.3 as against 34.0 in the case of large holder members. As for the average amount borrowed per hectare, it was found that taking all the 25 districts of Maharashtra, the amount received by very small (upto 1 hectare) and small (1 — 2 hectares) holder-borrowers was larger — Rs. 631 and Rs. 411, respectively than the amount received by medium (2-4 hectares) and large (above 4 hectares) holder-borrowers Rs. 307 and Rs. 174, respectively. "A possible reason for the finance per hectare being higher for the small holder-borrowers than for large holder-borrowers is that the smaller holdings might have a higher proportion of better quality lands, a higher proportion of irrigation and consequently a higher proportion of higher -valued crops" (page 13). That this is actually so is borne out by the data from the 1970-71 Agricultural Census.

3.13. The Committee, therefore, worked out the "credit eligibility" of different size class of borrowers based on the scale of finance adopted by the respective DCCBs in Maharashtra. The size of holding defining an economically weak farmer varied from 3 to  $7\frac{1}{2}$  acres. Even by this criterion, it was found that "very small and small landholder-borrowers generally did receive larger finance than the medium and large landholder-borrowers not only per hectare of their landholdings, but also in relation to their somewhat higher per hectare credit eligibility" (page 18). Even if total credit eligibility of *all* small holders (irrespective of whether they were members of the co-operatives or not) is taken as a criterion for judging the 'due share' of this class of cultivators, in Maharashtra State, at any rate, the position was satisfactory, as may be seen from Table 5.

3.14. It may be readily conceded, that the situation in most other States is not likely to be as satisfactory as in Maharashtra. Besides, the quantum of finance supplied by co-operative structure does not meet the full working capital requirement of farm production ; the farmer is supposed to provide

TABLE—5 : PERCENTAGE DISTRIBUTION OF OPERATIONAL HOLDINGS, CULTIVATED AREA, CREDIT ELIGIBILITY, BORROWER-MEMBERS AND LOANS ISSUED IN DIFFERENT SIZE OF HOLDINGS' GROUPS IN MAHARASHTRA

Size of holding	In per cent				
	Distribu- tion of size of holdings (operational holdings)	Distribu- tion of culti- vated area (hectares)	Distribu- tion of total credit eligi- bility	Distribu- tion of borr- owing mem- bers (1971-74)	Distribu- tion of total loans issued to borrowers (1971-74)
	(1)	(2)	(3)	(4)	(5)
Upto 1 hectare	.. 25.1	2.8	4.0	23.4	7.6
1-2 hectares	17.7	6.3	7.8	22.1	14.8
2-4 hectares	22.0	15.1	16.6	21.7	21.1
4 + hectares	.. 35.2	75.8	71.6	32.8	56.5

Source : Report of the Committee on Financing Small and Marginal Farmers through Co-operative Credit Structure in Maharashtra, 1976.

the balance from his own resources. The assumption of availability of own resources may not be legitimate in the case of small farmers, yet the co-operatives apply the same scale of finance to small and large farmers. Some liberalisation can be made in favour of the small farmers, keeping in view their repayment capacity. Discussing this problem, the All-India Rural Credit Review Committee, 1969 (Chairman : B. Venkatappiah) had emphasised that "account should be taken of the fact that some members are in a position to meet the outlays on the farm to a large extent from their own resources than other members. In view of the overall shortage of resources available for the purpose of agricultural credit, it is, in our opinion, important that the large cultivators should be required progressively to plough back more of their own resources for development purposes. It is a reorientation of the lending policies of the co-operative credit structure from this point of view that we would strongly recommend. This is also necessary if the requirements of small cultivators are not to be neglected by the co-operatives which are considered to be specially fitted to serve them." (p. 473).

#### INSTITUTIONAL CREDIT SEEN THROUGH RURAL INDEBTEDNESS

3.15. The All-India Debt and Investment Survey, 1971-72, conducted by the Reserve Bank of India, however, tells a different story. As will be seen from Table 6, the dependence of the lower asset groups (Rs. 500 and Rs. 500 to Rs. 1,000) on non-institutional agencies is much larger than that of higher asset groups.

3.16. Statewise, institutional credit accounted for more than one-third of the total cash debt of rural households only in five States viz., Maharashtra (67%), Gujarat (47%), Kerala (44%), Punjab (36%) and Assam (35%), (*vide* Annexure 3.2). At the other end are Rajasthan, Bihar, Andhra

TABLE—6: PERCENTAGE SHARE OF THE INSTITUTIONAL CREDIT AGENCIES IN THE TOTAL DEBT OF EACH CATEGORY OF HOUSEHOLD AS ON JUNE 30, 1971

All Rural Households	29.2
Cultivators	31.7
Small Cultivators, Asset group :	
(Rs.) 0 - 500	6.2
,, 500 - 1000	6.3
,, 1000 - 2500	10.4
,, 2500 - 5000	14.5
Agricultural Labourers	4.5
Rural Artisans	4.8
Other non-cultivator rural households	16.8

Source : All-India Debt & Investment Survey, 1971-72.

Pradesh, Jammu and Kahsmir, Tamil Nadu and Uttar Pradesh in which institutional credit did not provide even one-fourth of cash debt of rural households.

3.17. Statewise and categorywise, the share of institutional agencies in the debt of cultivators was better than the national average (31.7%) only in 7 States—Maharashtra (71%), Gujarat (52%), Kerala (45%), Punjab (44%), Assam (36%), Madhya Pradesh (33%) and West Bengal (33%) whereas this share was less than 20% in Rajasthan (10%), Bihar (12%), and Andhra Pradesh (15%).

3.18. Regarding agricultural labourers, not even 5% of cash debt outstanding was owed to institutional agencies except in 6 States namely, Assam, Kerala, Maharashtra, Punjab, Karnataka and West Bengal. Even in these 6 States, the institutional sources accounted for less than 20%. Thus private agencies constitute the chief source of credit to the agricultural labourers.

3.19. Similarly, in the case of rural artisans, the principal source of credit is non-institutional, the position being somewhat better in Jammu and Kashmir, Assam, Himachal Pradesh and Kerala where nearly one-third or more of the cash debt outstanding was from insitutional agencies.

3.20. Among the rural credit institutions, co-operatives continue to be the main source for cultivators, whereas in the case of rural artisans, whatever little credit they get is mainly from Government, as can be seen from the following figures :

**TABLE—7: CASH DEBT OWED TO DIFFERENT CREDIT AGENCIES AS ON JUNE 30, 1971**

Category	(Percentages)			
	Government	Co-operatives	Commercial banks	All others
	(1)	(2)	(3)	(4)
Cultivators	7.1	22.0	2.4	68.5
Small cultivators, Asset Group				
(Rs.) 0 - 500	2.9	2.5	0.3	94.3
„ 500 - 1000	1.4	4.2	0.6	93.8
„ 1000 - 2500	5.1	5.0	0.3	89.6
„ 2500 - 5000	5.6	8.6	0.2	85.6
Agricultural Labourers	1.3	3.0	—	95.7
Rural Artisans	2.7	1.7	0.3	95.3
Other non-cultivators	5.1	9.2	1.4	84.3
Total non-cultivators	3.4	6.0	0.8	89.8

*Source :* All-India Debt & Investment Survey, 1971-72

3.21. The Expert Committee on consumption credit, 1976 (Chairman : B. Sivaraman) had made recommendations for the supply of consumption credit to the weakest sections of the rural community, (cultivators upto 0.50 acre, landless labourers and rural artisans), but the progress achieved in this direction is disappointing. The Committee had estimated the total consumption needs of the weakest sections at Rs. 170 crores for 1976-77, of which the co-operatives were expected to take care of the needs to the extent of Rs. 70 crores. This target was raised to Rs. 115 crores in June 1976. However, the DCCBs and PACS together had issued consumption loans to this (weakest) section amounting to Rs. 1.95 crores and Rs. 2.18 crores by 30th September 1976 and 31st December 1976, respectively.

#### WORKING OF FARMERS' SERVICE SOCIETIES

3.22. The scheme of organisation of FSS was recommended by the NCA, and has been in operation since 1973-74. The basic objectives underlying the organisation of the FSS are as follows :

(i) A Farmers' Service Society is expected to provide besides credit, full package of services and technical guidance needed by farmers particularly the small farmers for increasing production, for diversification of farm activities, etc., in an integrated manner and at one contact point.

(ii) While farmers belonging to all categories in the area would be served by a FSS, the control over the society would vest in a board on which two-thirds of elected members would represent weaker sections with a view to creating atmosphere favourable for flow of credit as well as services and technical guidance to the weaker sections.

(iii) To enable the FSS to maintain expert as also trained managerial and technical staff for undertaking the diverse activities expected of it and at the same time function as a viable unit, it should have effective cover of a large area of operations covering say a block or population of 10,000.

3.23. By the end of December 1976, there were about 311 FSS<sup>3</sup> out of which 181 were sponsored by the commercial banks and 130 by the co-operatives. However their Statewise distribution is most uneven. As many as 116 (out of 311) FSS were in Karnataka out of which 87 were sponsored by commercial banks. Gujarat had 33 and all but one were sponsored by co-operative banks. Table 8 gives Statewise distribution of FSS.

TABLE—8 : APPROXIMATE NUMBER OF FARMERS' SERVICE SOCIETIES IN DIFFERENT STATES

States	Sponsored by commercial banks	Sponsored by co-op. banks (As on 30-6-77)	Total
	(1)	(2)	(3)
1. Andhra Pradesh .. .. .	15	6	21
2. Bihar	4	—	4
3. Gujarat ..	1	32	33
4. Haryana .. ..	5	1	6
5. Himachal Pradesh	—	—	—
6. Jammu & Kashmir	1	—	1
7. Karnataka	87	29	116
8. Kerala ..	—	10	10
9. Maharashtra	15	4	19
10. Manipur .. ..	1	1	2
11. Madhya Pradesh .. ..	16	9	25
12. Rajasthan ..	5	—	5
13. Tamil Nadu .. .. .	—	11	11
14. Tripura .. .. .	1	—	1
15. Uttar Pradesh .. ..	12	16	28
16. West Bengal ..	18	8	26
17. Orissa (Tribal area)	—	1	1
18. Goa, Diu and Daman .. ..	—	2	2
Other States/Territories ..	—	—	—
<b>Total (All-India) .. ..</b>	<b>181</b>	<b>130</b>	<b>311</b>

3. There were 346 FSS by March 1977.



3.24. The FSS were assigned a key role in the comprehensive scheme of rural credit formulated by the National Commission on Agriculture. In fact, the NCA felt it necessary to emphasise that "the FSS concept is not that of a 'reformed' primary co-operative credit society". The Commission however did not indicate what would be the fate of the reorganised PACS where the programme of establishing the FSS is taken up. The NCA has recommended a programme of establishing 2520 FSS over a period of 6 years (presumably commencing from 1974), with a "capacity to form new societies at the rate of 1000 per year" thereafter. In the meanwhile, the programme for revitalising the primary co-operative structure is being vigorously pursued.<sup>4</sup> Though we have stated elsewhere that the progress in this regard is far from satisfactory, a firm view has to be taken about the future setup of the credit structure at the primary level.

3.25. The Working Group on Rural Banks has also observed that "we recognise the significant contribution that is expected to be made by the institution of Farmers' Service Societies at the base of rural credit structure and *our proposals have to be regarded as being integrated with the Government decision to set up such societies*" (emphasis added). In the operational programme subsequently worked out, it was laid down that each RRB should form 20 FSS as retail outlets in its area of operation. The State Governments were also advised to attach existing FSS to the RRBs.

3.26. The FSS thus constitute an important component of the system of rural credit as visualised by the NCA and the Working Group on Rural Banks. However, for a variety of reasons, the progress achieved in establishing the FSS is far from satisfactory. More importantly, most of them appear to be a highly diluted version of the grand design of the NCA and are hardly distinguishable from the reformed PACS.

3.27. We have also to reckon with another fact to which our attention has been drawn by the commercial banks and others, namely, the reluctance of the State Governments — with a few exceptions — to attach the FSS or for that matter, the PACS to the RRBs. This question is important because it introduces a discordant element in the system of rural credit as recommended by the NCA and the subsequent incorporation of the RRBs in the system. Our Committee has to take a view on the following situations :—

(1) Notwithstanding the tardy pace of establishing the FSS and the diluted form in which they are functioning, should we put our faith in their becoming the major, if not the sole, channel of retail outlet of rural credit ?

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4. It is reported that in Uttar Pradesh by 30th June 1977, there would be about 8,000 reorganised PACS as against 21,933 societies as on 30th June 1975.

(2) What role do we envisage for the reorganised PACS as retail outlets? Do we accept the NCA's proposition that the FSS concept is not that of a 'reformed' primary credit co-operative society? Obviously, the two cannot function side by side. If so, either of the two situations can be envisaged: (a) one of the two (FSS & PACS) should give way to the other or (b) each State or region may adopt the system which it prefers. In the recent literature on the subject of rural credit, we are advised that in a country of the size and regional diversity, no single pattern can be expected to meet all the emergent requirements (of rural credit) in all areas. Following from this, no one feels any hesitation in recommending diverse forms of institutional credit structure and then suggesting equally diverse ways of avoiding duplication, or arrangements for "meaningful co-ordination", etc. In practice, different patterns somehow do not succeed in obtaining a single parentage. Each pattern, it seems picks up some limbs from different patterns depending upon their patronage potential. While we fully endorse the need for experimentation and diversity, we think, in offering freedom of choice to the States, internal consistency of each pattern should be emphasised.

3.28. In order to arrive at some decision regarding the retail outlet, we would like to review briefly the progress and performance of the FSS. The National Commission on Agriculture in its final Report (1976) observes: "Following our Interim Report on Credit Services over three years ago, the FSS had developed from an experimental or pilot stage into an integral part of the national development policy". The latest available information on the progress of the FSS does not appear to justify this optimism. The NCA had perceptively noted some shortcomings and even distortions in the formation and functioning of the FSS. None of these have disappeared two years hence. In a recent study of 166 FSS (out of the total of 346 functioning by 31st March 1977) undertaken by the Agricultural Credit Department of Reserve Bank of India, it was discovered that in several States, the existing PACS continue to function and disburse substantial amounts of loans in the area of operation of the FSS which means that they continue to receive credit support from higher level financing agencies. More disturbing is the finding that the provision that about two-thirds of the elected members of Board of Directors should represent the weaker sections is not adhered to in various States. The distinction of the FSS is that besides credit, it would provide full package of services and technical guidance to members. But till March 31, 1977, 55 out of 166 FSS under study had not been provided with any technical staff or assistance. Though the FSS were expected to be the main if not the sole institutional line of credit, a large number of societies had a loan business much below the phased target (Rs. 2 lakhs in the first year). Seventy five out of 166 societies covered by the study had not issued any medium-term loans for agricultural purposes, and only 3 FSS had issued long-term loans. More than 90 per cent of the societies had not issued consumption loans,

though it was thought of as an essential service. Loans to artisans were issued by only 27 FSS. Catering to the needs of the weaker sections was the primary function of the FSS. The proportion of short-term loans issued to them was just 38.8 per cent of the total loan business of all the FSS taken together, a performance no better than that of the PACS. In regard to overdues also, the record of the FSS is no better (perhaps slightly worse) than that of the existing PACS. A majority (53 per cent) of all societies covered by the study had overdues exceeding 50 per cent of demand. If the norms prescribed by the Study Team on Overdues were to be enforced, all these societies would have been ineligible for fresh finance and would have become dormant.

3.29. The performance of the FSS in regard to the much emphasised non-credit business (package of services) is no better. 76 societies (46 per cent) were not supplying even agricultural inputs, and such of them as were doing so had done meagre business. As many as 134 societies (80 per cent) had not undertaken marketing of agricultural produce of their members.

3.30. All in all, in spite of the insistence of the NCA that FSS are to be qualitatively different from the reorganised PACS, the manner in which the concept has been implemented does not justify this expectation. Our purpose in reviewing their performance is not to pass any judgement on the appropriateness of this institution, but merely to take a realistic view of the prevailing situation and reiterate our plea that instead of imposing any such innovation from above, the endeavour should be first to speed up the programme of revitalisation of the existing primary societies and then assist them to progressively evolve into FSS.

#### DISTRICT CENTRAL CO-OPERATIVE BANKS

3.31. The District Central Co-operative Bank (DCCB) is the major source of finance for the primary credit societies. On their strength and viability depends the efficacy of the primary societies.

3.32. At the end of June 1976, there were 344 DCCBs with 5133 branches. During the co-operative year 1976, their short-term loans and advance amounted to Rs. 1575 crores. The purpose-wise break-up of their short-term loans indicated that about 57.8 per cent of the total was disbursed for seasonal agricultural operations (including seeds, fertilisers, etc.), 10.4 per cent for marketing of crops (including procurement) and 4.5 per cent for processing of agricultural produce. Disbursement for allied agricultural activities including distribution of inputs and purchase of agricultural implements constituted only 2.6 per cent of their total short-term advances (Table 9).

3.33. The DCCBs disbursed Rs. 146 crores of medium-term loans during 1975-76, Rs. 80 crores (54.7 per cent) out of these were disbursed

**TABLE—9: CLASSIFICATION OF SHORT-TERM LOANS ISSUED DURING 1975-76 BY DISTRICT CENTRAL CO-OPERATIVE BANKS**

(Amounts in lakhs of rupees)

1. Seasonal Agricultural operations (seeds & fertilizers included)	906,38	(57.8)
2. Purchase of agricultural implements ..	4,19	( 0.3)
3. Marketing of Crops (incl. procurement)	164,29	(10.4)
4. Processing of agricultural produce .. .. .	70,84	( 4.5)
5. Other agricultural purposes (including distribution of inputs)	36,53	( 2.3)
6. Industrial Purposes	42,02	( 2.7)
7. Consumption loans ..	49,28	( 3.1)
8. Other purposes (including supply of consumer goods) .. ..	297,77	(18.9)
<b>Total</b> .. .. .	<b>1575,38</b>	<b>(100.0)</b>

Source : Statistical Statements relating to Co-operative Movement in India, 1975-76.

Note : Figures in brackets are percentages to the total loans issued.

for the purpose of conversion/rescheduling/replacement of short-term loans; Rs. 12.5 crores (8.6 per cent) for purchase of milch cattle and plough animals ; Rs. 5.2 crores (3.6 per cent) for sinking of or repairs to wells and another Rs. 7.3 crores (5.0 per cent) for agricultural implements and machinery. Allied agricultural purposes got about Rs. 6.7 crores (4.6 per cent) (Table 10). Thus, medium-term loans for various investment purposes formed a small proportion in the loan operations of DCCBs.

**TABLE—10: CLASSIFICATION OF MEDIUM-TERM LOANS ISSUED BY CENTRAL CO-OPERATIVE BANKS**

(Amounts in lakhs of rupees)

1. Sinking of or repairs of wells .. .. .	5,21	(3.6)
2. Purchase of Machinery, Pumpsets for irrigation	7,33	(5.0)
3. Purchase of Cattle ..	12,54	(8.6)
(a) Milch Cattle 859 }		
(b) Bullocks .. 395 }		
4. Minor Improvements to lands ..	1,35	(0.9)
5. Conversion loans	80,02	(54.7)
6. Other agricultural purposes	6,67	(4.6)
7. Industrial purposes	1,33	(0.9)
8. Others	31,69	(21.7)
<b>Total</b> .. .. .	<b>146,28</b>	<b>(100.0)</b>

Source : Statistical Statement relating to Co-operative Movement in India, 1975-76

Note : Figures in brackets are percentages to the total loans issued.

3.34. It will be recalled that the scheme of financing of primary agricultural societies by commercial banks (which incidentally brought about for the first time organisational linkage between the two main streams of credit to rural areas) was introduced in kharif 1970 in selected areas where the concerned Central Co-operative Banks were found to be financially and operationally weak. Since then, persistent efforts have been made for the rehabilitation of weak DCCBs so that they may be able to resume the financing of the PACS under their jurisdiction. One of the major handicaps in rehabilitating the central co-operative banks was lack of sufficient funds for writing off the bad debts of the banks. To remove this handicap, the Government of India formulated in 1972 the Central Sector Plan Scheme for providing financial assistance to selected weak DCCBs for writing off, after due investigation, the irrecoverable dues of the PACS outstanding against small and marginal farmers. Although the scheme of rehabilitation of weak DCCBs has been under implementation for the last seven years, the progress made so far is quite discouraging. The number of weak banks has been increasing year after year. It rose from 51 in February 1971 to 134 in June 1973 and 174 in June 1975. Based on their financial position as on 30th June 1976, 182 DCCBs had been brought under the programme of rehabilitation. Such banks constitute 53 per cent of the DCCBs in the country. Their State-wise distribution is given in Table 11.

3.35. A recent RBI review (1976-77) of the implementation of the scheme of rehabilitation of the weak DCCBs attributes its poor performance to two factors : “One, the programme has not been taken with due seriousness either by the apex banks or by the concerned CCBs. Two, the state and district level committees constituted for monitoring the programme have by and large not been functioning in an effective manner”.

3.36. The review cites several instances of the lack of seriousness in implementing the programme and some which illustrate sheer lack of will to rectify the sad state of affairs. To give one example ; “instances had come to light in several States where the banks had utilised the assistance (under Central Sector Plan Scheme) in writing off their bad debts on an *ad hoc* basis without complying with all the formalities prescribed by the Government of India. This was done ostensibly in some cases with a view to improving their non-overdue cover position so as to become eligible for further borrowings from the higher financing agencies. A tendency was also observed to write off amounts in respect of members of societies, whose record and documents had been misplaced or lost, from out of the assistance received from the Government.”

3.37. Our purpose in drawing attention to the state of affairs enumerated above is to emphasise the point that it would be unrealistic to expect any quick improvement in the functioning of the DCCBs. If this is accepted, we must think of some alternative to the DCCBs for keeping open the channels

TABLE—11: NUMBER OF WEAK DISTRICT CENTRAL CO-OPERATIVE BANKS IN DIFFERENT STATES

(As on June 30, 1976)

States	Total Number of DCCBs in the State	Number of weak DCCBs in the State
	1	2
1. Andhra Pradesh .. .. .	26	12
2. Assam	7	7
3. Bihar ..	28	28
4. Gujarat	18	2
5. Haryana ..	12	5
6. Himachal Pradesh	2	2
7. Jammu & Kashmir	3	3
8. Kerala ..	11	—
9. Karnataka .. ..	19	8
10. Madhya Pradesh	44	14
11. Maharashtra	26	9
12. Orissa ..	17	7
13. Punjab	17	14
14. Rajasthan	25	19
15. Tamil Nadu ..	16	1
16. Uttar Pradesh	56	34
17. West Bengal .. .. .	17	17
<b>TOTAL .. .. .</b>	<b>344</b>	<b>182</b>

(Source : ACD., RBI.)

of credit flows to the PACS. To a limited extent, this is sought to be achieved through the scheme of financing of the PACS by commercial banks, which as we point out later has not been quite successful. Hopefully the Regional Rural Banks will be in a position to perform this task more effectively than is being done by the commercial banks.

*Commercial Banks and Rural Credit*

3.38. Since the adoption of multi-agency approach in 1970, commercial banks have made commendable efforts to extend their branch net work to rural areas. The number of rural branches (in areas of population of less than 10,000) has gone up from 1832 in June 1969 to 9536 (including RRB branches) in June 1977 ; correspondingly their share in the total number

of branches has gone up from 22.4 to 38.4 per cent.<sup>5</sup> It is worth noting that out of 3582 new branches opened during 1976-77 as many as 1849, constituting 51.6 per cent, were opened in rural areas.

3.39. The State-wise distribution of bank offices is also becoming more even. As on June 1977, the national average of population per bank office came to 22000,<sup>+</sup> ranging from 11,000 in Punjab to 48,000 in Bihar. Between June 1969 and June 1977, the share of the high income States (Gujarat, Haryana, Maharashtra, Punjab and West Bengal) in the total number of branches came down from 35 per cent to 32 per cent and that of the low income States (Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa, Rajasthan, Uttar Pradesh) went up from 23 to 28 per cent (Table 12). The population covered per branch in these States also came down drastically from 1,39,166 to 32,167.

3.40. Simultaneously with the expansion of branch network, the deployment of bank funds to priority/neglected sectors (agriculture, small-scale industries, transport operators, retail traders/small businessmen, professionals, etc.) has also gone up from Rs. 504 crores in June 1969 to Rs. 3508 crores in April 1977 ; as a percentage of total bank credit it has gone up from 14 per cent to 26.1 per cent.

3.41. At the end of December 1976, commercial banks' advances to agriculture stood at Rs. 1335 crores (compared to Rs. 188 crores as at end June 1969) out of which Rs. 1003 crores were direct advances comprising of Rs. 484 crores as short-term and Rs. 519 crores as term loans. The break-up of Rs. 332 crores of indirect finance to agriculture is as under :

	(Rs. crores)
Distribution of fertilisers and other inputs .. .. .	104
Electricity Boards .. .. .	90
Amount disbursed through PACS .. .. .	45
Miscellaneous .. .. .	93

3.42. The share of the commercial banks in total loans issued by all credit agencies (co-operatives, Government, Commercial Banks, and RRBs) to agriculture during the year ending June 1977, was 22.1 per cent in short-term loans and 41.7 per cent in term loans.

3.43. State-wise break-up of direct finance to agriculture by scheduled commercial banks is available upto June 1976. In the short-term loans

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5. The number of rural branches has further increased to 11 081 by December 1977, accounting for 41.1 per cent of the total number of branches.

+ By the end of December 1977, the national average of population per bank office had come down to 19,000, ranging from 9,000 in Punjab to 40,000 in Bihar and Manipur.

outstanding, the share of the Southern region was highest at 69.4 per cent (Andhra Pradesh 21.3, Tamil Nadu 25.3, Karnataka 12.9 and Kerala 9.9)

TABLE—12: PER CAPITA INCOME AND DISTRIBUTION OF POPULATION, BRANCHES OF COMMERCIAL BANKS AND TOTAL ADVANCES—STATEWISE

States	Per Capita income 1975-76 (at current prices) (Rs.)	Popula- tion dis- tribution 1971 Cen- sus (%)	Percentage distribu- tion of Branch offices		Percentage Distribu- tion of total advances as at end	
			30-6-69	30-6-77	June '69	Dec. 1975
	1	2	3	4	5	6
Gujarat .. ..	1038†	4.87	9.1	7.4	6.1	7.0
Haryana .. ..	1217†	1.83	2.1	2.4	0.8	1.4
Maharashtra ..	1330	9.20	13.5	10.7	33.2	28.4
Punjab .. ..	1580	2.47	4.2	5.1	1.8	3.0
West Bengal ..	1046	8.10	6.1	6.5	21.7	15.4
Andhra Pradesh	919	7.94	6.9	7.4	4.5	5.4
Assam .. ..	850	2.67	0.9	1.4	0.4	0.6
Himachal Pradesh .. ..	1050	0.63	0.5	1.0	0.1	0.2
Karnataka .. ..	785	5.35	9.2	8.6	5.4	7.8
Kerala .. ..	861†	3.90	7.3	6.9	3.1	3.7
Tamil Nadu .. ..	851	7.52	12.8	9.3	11.8	12.0
Bihar .. ..	718†	10.28	3.3	4.7	1.6	3.2
Jammu & Kashmir ..	883	0.84	0.4	1.1	0.2	0.4
Madhya Pradesh	793	7.60	4.2	5.0	2.0	2.3
Orissa .. ..	785	4.01	1.2	2.1	0.5	0.7
Rajasthan .. ..	819†	4.70	4.4	4.1	1.4	1.8
Uttar Pradesh .. ..	781	16.13	9.1	10.9	5.4	6.4

Sources: 1. Agriculture in Brief; 2. RBI Annual Report, 1976-77; 3. DBOD Re- turns; and 4. Basic Statistical Returns.

†Relates to 1974-75.

TABLE—13: DIRECT INSTITUTIONAL FINANCE TO AGRICULTURE DURING THE YEAR ENDING JUNE 1977

	(Rs. crores)	
	All Institutional Credit Agencies	Commercial Banks
	1	2
Short-term Term Loans*	1428 600	315 250

\*Inclusive of LDBs.

Source: Report on Currency and Finance, 1976-77.



followed by the Western region at 15.0 per cent (Maharashtra 9.7, Gujarat 5.3). The share of the Eastern region (Bihar, Orissa, West Bengal) was 6.5 per cent and that of the Central region (Madhya Pradesh and Uttar Pradesh) 4.2 per cent. The share of the Northern region which includes Punjab, Haryana and Rajasthan was only 3.9 per cent. Thus, judged by any criteria (population or area), it is obvious that the distribution of commercial banks' short-term finance to agriculture is very uneven.

3.44. The distribution of term finance as on June 30, 1976 is somewhat better balanced ; the Southern zone accounting for 25.5 per cent, Western zone for 23.2 per cent, Central zone for 21.0 per cent, Eastern zone for 9.2 per cent and Northern zone for 21.3 per cent. On the whole, it appears that, compared to the PACS, the commercial banks are better equipped to provide term finance to agriculture.

3.45. Table 14 gives the distribution of short-term and term finance to agriculture by commercial banks according to size of holdings.

TABLE—14: PERCENTAGE DISTRIBUTION OF AGRICULTURAL FINANCE (OUTSTANDING AS ON 30TH SEPTEMBER—1976) ACCORDING TO SIZE GROUP OF HOLDINGS

					(Provisional)			
					Upto 2.5 acres	2.5 to 5 acres	5 to 10 acres	10 acres and above
					1	2	3	4
Short-term loans	..	..	..	..	32.4	21.8	19.7	26.1
Term loans	..	..	..	..	11.8	11.7	14.7	61.8

Source : DBOD returns.

3.46 As is to be expected, the share of medium and large farmers in term loans issued by commercial banks was large. But it is interesting to note that the inter-state variations in the share of different categories of cultivators is quite marked. Some illustrative idea is provided by Table 15.

3.47 The bias of commercial banks' loaning operation in favour of large farmers is particularly noticeable in Gujarat, Maharashtra, Punjab and Madhya Pradesh both in regard to short and term finance. As for the latter (term finance), purpose-wise distribution provides some explanation. Thus, in the total term finance of Rs. 407 crores, tractors and agricultural machinery account for as much as Rs. 154 crores, pumpsets and oil engines for Rs. 78 crores, sinking and deepening of wells for Rs. 66 crores, composite minor irrigation for Rs. 27 crores and purchase of plough animals and bullocks for a meagre amount of Rs. 7.6 crores. In Punjab, out of a total of Rs. 31.2 crores of term loan, as much as Rs. 25.1 crores was for purchase of tractors and agricultural implements/machinery. In Uttar Pradesh, in

TABLE—15 : SHARE OF SMALL AND LARGE FARMERS IN SHORT AND TERM LOANS OUTSTANDING AS AT END SEPTEMBER 1976—STATEWISE POSITION

States	(Percentages)			
	Short-term		Medium/Long-term	
	Upto 2.5 Acres	Above 10 Acres	Upto 2.5 Acres	Above 10 Acres
	(1)	(2)	(3)	(4)
Andhra Pradesh .. .. .	28.1	26.0	25.0	41.0
Tamil Nadu	47.1	11.6	26.1	37.5
Karnataka	20.5	25.5	8.7	70.6
Kerala	75.6	4.7	31.1	37.5
Gujarat	3.1	62.7	3.7	70.6
Maharashtra	7.1	54.9	8.4	65.0
Madhya Pradesh	6.5	51.9	3.1	65.4
Uttar Pradesh	21.6	40.8	6.5	62.5
Bihar	32.0	11.3	17.3	39.1
Orissa ..	30.9	11.1	18.3	16.2
West Bengal ..	48.8	4.4	36.8	20.8
Punjab	5.5	49.0	3.3	84.6
Haryana	4.8	48.4	23.5	61.4
Rajasthan .. .. .	9.1	52.9	1.9	82.0
<b>All-India .. .. .</b>	<b>32.4</b>	<b>26.1</b>	<b>11.8</b>	<b>61.8</b>

Source : DBOD Returns.

the total term loans of Rs. 51 crores, tractors accounted for Rs. 34 crores. These two States claimed 38 per cent of the total tractor loans advanced by the commercial banks.

### FINANCING OF PACS

3.48 The linkage of rural-based PACS with urban-oriented commercial banks, was a novel experiment which was introduced for the first time in the country in 1970 in order to augment credit supply for agriculture in areas where the co-operative credit structure was financially and operationally weak. A scheme drawn up by the RBI was initially introduced in the five States of Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh and Uttar Pradesh and was subsequently extended to six more States (Orissa, Jammu & Kashmir, West Bengal, Bihar, Maharashtra and Assam). At the end of December 1976, 3453 societies were being financed under the scheme by 528 branches of 24 commercial banks in 11 States.

3.49 As at beginning of 1977, outstanding short-term loans provided by the commercial banks to 2,548 societies stood at Rs. 30.58 crores. Medium-term loans given to 1,055 societies stood at Rs. 4.95 crores. The average of short-term loans disbursed per society increased from Rs. 0.3 lakh in 1970-71 to Rs. 1.0 lakh in 1976-77 which was still far below the norm of Rs. 2 lakhs of loan business envisaged for a society to attain viable status. The overdues at the societies' level formed 48 per cent of demand as on June 30, 1976.

3.50 A survey was undertaken by the Reserve Bank to assess the working of the scheme in five States in which the scheme was initially introduced and find out to what extent its two objectives of meeting the credit gaps and revitalising the adopted PACS were being realised. The report while highlighting the progress achieved by the commercial banks in terms of quantum of loans to the societies has also pointed out certain shortcomings in the working of the scheme during 1974-75 in some areas of the selected five States, such as high incidence of overdues (730 out of 2,297 PACS adopted and financed could not get fresh finance), low percentage of borrowing members (only about 42 per cent of the total membership of the adopted societies had availed of the borrowing facility), persistence of operational weaknesses in the ceded societies, low volume of medium-term loans (did not form even 10 per cent of the total short-term loans issued to the societies by these banks), inadequate financing of small farmers, etc. At the same time, purposive case studies conducted revealed that some banks in other areas of the same States were able to achieve fairly encouraging results through the societies despite the problems involved in this type of channeling of finance.

3.51 The question we should ask is : has the extension of commercial banks' credit to rural areas helped to fill the gap left by co-operative credit or has it gone as additional finance in the same areas which the co-operatives were serving rather well ? Table 16 helps us to examine this question. We employ three criteria for ranking the States according to the contribution of co-operative and commercial bank credit respectively : (1) agricultural credit per hectare issued in 1975-76, (2) agricultural credit per hectare outstanding as on June 30, 1976 and (3) agricultural credit per rural household outstanding as on June 30, 1976.

3.52 In terms of the first criterion — agricultural credit per hectare issued during 1975-76 — the top 5 States for commercial bank credit are : Kerala (99), Tamil Nadu (69), Karnataka (45), Andhra Pradesh (39), and Punjab (29). Three out of these five also rank high in the co-operative credit per hectare. Kerala (169), Punjab (160) and Tamil Nadu (155). More revealing is the fact that the first eight States are common in both the lists. Similarly the eight topmost States are common in both the lists according to the second criterion — agricultural credit per hectare outstanding as on June 30, 1976. According to the third criterion — agricultural credit per rural household — once again, the first eight States in the scheduled bank

**TABLE—16: RANKING OF STATES ACCORDING TO AGRICULTURAL CREDIT PER HECTARE ISSUED BY CO-OPERATIVE AND COMMERCIAL BANKS**

Per hectare total agricultural credit issued during 1975-76 (Rs.)		Per hectare total agricultural credit (out-standing) as on last Friday of June 1976 (Rs.)		Per Rural Household, direct finance to agriculture (outstanding) as on last Friday of June 1976 (Rs.)	
Scheduled Commercial Banks	Co-operatives	Scheduled Commercial Banks	Co-operatives	Scheduled Commercial Banks	Co-operatives
1	2	3	4	5	6
1. Kerala (99)	Kerala (169)	Kerala (166)	Gujarat (182)	Haryana (852)	Haryana (858)
2. Tamil Nadu (69)	Punjab (160)	Tamil Nadu (152)	Tamil Nadu (169)	Maharashtra (443)	Punjab (848)
3. Karnataka (45)	Tamil Nadu (155)	Karnataka (84)	Maharashtra (132)	Karnataka (221)	Gujarat (836)
4. Andhra Pradesh (39)	Gujarat (140)	Andhra Pradesh (81)	Punjab (127)	Punjab (220)	Maharashtra (647)
5. Punjab (29)	Haryana (115)	Punjab (60)	Haryana (106)	Kerala (189)	Karnataka (454)
6. Haryana (21)	Maharashtra (111)	Haryana (58)	Karnataka (103)	Tamil Nadu (181)	Tamil Nadu (352)
7. Gujarat (19)	Karnataka (92)	Maharashtra (58)	Andhra Pradesh (97)	Andhra Pradesh (152)	Madhya Pradesh (334)
8. Maharashtra (16)	Andhra Pradesh (86)	Gujarat (51)	Kerala (95)	Gujarat (133)	Himachal Pradesh (291)
9. Himachal Pradesh (15)	Himachal Pradesh (67)	West Bengal (39)	Himachal Pradesh (90)	Rajasthan (86)	Andhra Pradesh (289)
10. Uttar Pradesh (12)	Uttar Pradesh (55)	Himachal Pradesh (32)	Uttar Pradesh (75)	Madhya Pradesh (71)	Kerala (283)
11. West Bengal (10)	Madhya Pradesh (42)	Uttar Pradesh (26)	Bihar (56)	Himachal Pradesh (62)	Rajasthan (264)
12. Bihar (9)	Rajasthan (40)	Bihar (24)	Madhya Pradesh (44)	West Bengal (47)	Uttar Pradesh (205)
13. Madhya Pradesh (8)	Bihar (36)	Madhya Pradesh (20)	Orissa (43)	Uttar Pradesh (44)	Orissa (162)
14. Orissa (7)	West Bengal (35)	Rajasthan (16)	Jammu & Kashmir (34)	Bihar (30)	Bihar (98)
15. Rajasthan (7)	Orissa (34)	Orissa (12)	Rajasthan (19)	Orissa (22)	West Bengal (63)
16. Jammu & Kashmir (3)	Jammu & Kashmir (9)	Jammu & Kashmir (9)	West Bengal (17)	Jammu & Kashmir (14)	Jammu & Kashmir (53)
17. Assam (1)	Assam (9)	Assam (9)	Assam (3)	Assam (12)	Assam (4)

Sources : 1. Statistical Statements relating to Co-operative Movement in India, 1975-76.

2. D.B.O.D. Returns.

credit list are the same as under criterion 1 and 2. In the list for the co-operative credit, only Himachal Pradesh replaces Andhra Pradesh, which takes the 9th place.

3.53 Viewing from the bottom, under criterion one, the last eight States are common in the co-operative and commercial bank list — Assam, Jammu & Kashmir, Rajasthan, Orissa, Bihar, West Bengal, Madhya Pradesh and Uttar Pradesh. Same is the case under criterion two. The States most neglected both by the co-operative and commercial banks are Assam, Jammu & Kashmir, Rajasthan and Orissa.

3.54 If the combined per hectare loan issued by the co-operatives and commercial banks is adopted as a criterion for ranking the States, Kerala takes the first place with Rs. 268 per hectare, followed by Tamil Nadu (Rs. 224), Punjab (Rs. 189), Gujarat (Rs. 159), Karnataka (Rs. 137) and Haryana (Rs. 136), (Annexure 3.3). At the bottom, we find Orissa with Rs. 41 per hectare, preceded by West Bengal and Bihar (Rs. 45 each) Rajasthan (Rs. 47) and Madhya Pradesh (Rs. 50). An exercise in rank correlation between agricultural loan business of commercial banks and co-operatives under the three criteria also works out to a very high value coefficient of correlation ranging from + 0.8 to +0.9. This leads to the conclusion that commercial banks' agricultural credit has been additive and has not helped to fill the geographical gap in the availability of credit not covered by the co-operatives. This has a simple lesson. Mere establishment of additional credit agencies is no answer to the problem of deficient rural credit system.

3.55 Credit will flow where there is demand for it. If the regional disparities in the availability of credit are to be reduced, action is needed to stimulate demand for credit in lagging regions. And the only way to do this is to stimulate broad-based development in these regions. This is primarily the responsibility of the State Governments. To some extent, credit agencies can and should liaison with State Governments and support this effort by identifying viable projects, processing them, strengthening their field staff and simplifying their procedures. To cast themselves in a more ambitious role would be inviting frustration and attract undeserved criticism.

3.56 Before we close this chapter, it is necessary to draw attention to one disturbing feature of rural credit. Along with the significant increase in the flow of rural credit, there has been a disconcerting increase in the 'overdues' both of the co-operative and of the commercial bank credit systems. For the co-operative year 1975-76, 43.1 per cent (or Rs. 561 crores) of outstanding PACS loans were overdue. The recovery performance of public sector banks in respect of their direct advances for agriculture was equally disheartening, being only 51 per cent of the amount due at the end of June 1976.

3.57 The Study Team on Overdues of Co-operative Credit Institutions (Chairman : Dr. C. D. Datey) has made an exhaustive analysis of the causes of overdues, and its findings are quite unsavoury. It did not find much distinction between the repayment behaviour of small, medium and large farmers. High levels and consistent defaults could not be related to the district being 'backward'. "The general backwardness of the district or the occasional occurrence of a natural calamity in an otherwise 'developed' district had served as a pretext for widespread wilful default." A large number of members of the Managing Committee were themselves defaulters and had shown a general apathy to the matter of the recovery of loans. Defaults were by and large wilful. Lack of discipline and will to repay were the principal factors responsible for the prevalence of overdues. The Team's most disturbing observation is: "The attitude and certain policies pursued by State Governments have created a very unfavourable climate for repayment." Several specific instances are mentioned.

3.58 To the best of our knowledge, no such study of the overdues of the commercial banks has been conducted. Perhaps it would be worthwhile to conduct a sample study, as their overdue position may not be better than that of the co-operatives inspite of their professional management and comparative immunity from local pressures.

3.59 The point of this brief comment on overdues is that laying down of an arbitrary quota of credit for agriculture and putting undue pressure on credit institutions to speed up the flow of credit to agriculture is an exercise which may prove self defeating. As the experience in the co-operatives has shown, excessive overdues ultimately choke the flow of credit. If timely action is not taken to reverse the trend, we may end up in a situation under which the *taccavi* may remain the sole surviving source of rural credit.

## CHAPTER 4

### REVIEW OF OVERALL PROGRESS OF REGIONAL RURAL BANKS

As stated in Chapter 2, the Working Group on Regional Rural Banks had suggested the setting up of 5 pilot RRBs in the first year and more after reviewing the results of their working. The Government of India, however, drew up a bigger programme and decided to establish 50 RRBs by March 1977.

#### ESTABLISHMENT OF RRBs

4.2 Starting with 5 banks in October 1975, 30 RRBs were established by the end of October 1976, 40 by December 1976 and 48 by end June 1977, on the eve of the appointment of our Committee. Among the States, Uttar Pradesh, Haryana, Rajasthan and West Bengal were the four States where the RRBs were set up first (October 1975), while Tamil Nadu was the last to follow (March 1977) (vide Annexure 4.1). In Gujarat and Punjab, among major States, RRBs have not yet been established.

4.3 Bank-wise, State Bank of India, Syndicate Bank, Punjab National Bank, United Commercial Bank, United Bank of India led others by sponsoring the RRBs from the beginning of the scheme itself (October 1975). The Union Bank of India sponsored a RRB in December 1976. Barring one RRB, namely, Jammu Rural Bank (sponsored by Jammu and Kashmir Bank), all the RRBs have been set up by the public sector banks (vide Annexure 4.2). Among the 22 public sector banks, seven viz., Indian Bank, Dena Bank, State Bank of Hyderabad, State Bank of Travancore, State Bank of Patiala, State Bank of Indore, State Bank of Saurashtra have not yet sponsored any RRB.

4.4 Twenty RRBs had jurisdiction of one district each, another 20 RRBs had two districts each, seven RRBs three districts and one RRB four districts. Altogether the 48 RRBs have covered in all 85 districts or 23 per cent of the total number of districts. Considering the 16 States in which these banks have been set up, the RRBs have spread to over one-fourth (26 per cent) of the number of districts and to about one-third (32.6 per cent) of the population in these States. Among the States (excluding Tripura) the proportion of population covered by the RRBs was highest at 63 per cent in Bihar, while proportion of districts covered was highest at 59 per cent in West Bengal. Besides these two States, in Orissa and Assam also, the RRBs' coverages in terms of districts and population were significant at 40 per cent and 50 per cent, respectively. The territorial coverage of RRBs was quite small (less

than 16 per cent) mainly in the States of Maharashtra, Himachal Pradesh, Tamil Nadu and Jammu and Kashmir (vide Annexure 4.3).

4.5 By the end of June 1977, of the 48 RRBs, 19 banks<sup>1</sup> had completed a period of operation of one year, of these 5 banks had completed a period of  $1\frac{3}{4}$  years. On the other hand 8 banks were only 6 months old.

#### BRANCH EXPANSION

4.6 The 48 RRBs had opened 767 branches<sup>2</sup> at end June 1977, the average number of branches per bank being 16. Of the 48 banks, one had 50 branches 2 had 30 to 40 branches each, while 18 RRBs had 20 to 30 branches each, the number of branches of the rest of the RRBs ranging below 20. Each RRB was expected to open a minimum of 20 branches within the first year of its operation and 20 to 30 more branches in the second year. As the banks were set up on different dates and their period of operation differed, it is a time consuming task to process statistics of opening of branches date-wise, for ascertaining the number of RRBs which achieved the branch expansion target within the time-frame as envisaged. Broadly, however, if it is assumed, as seems to be implicit, that each RRB was expected to open 5 - 6 branches per quarter, we observe that of the 48 RRBs, 19 banks had opened branches at an average rate of 5 branches or more per quarter. Of the remaining 29 RRBs, 14 banks had opened 4 branches per quarter while 15 RRBs had set up on an average 3 branches per quarter.

#### DEPOSIT MOBILISATION

4.7 Annexure 4.4 presents details on the deposits and loans disbursements of each of the 48 RRBs. The total deposits of all these banks as at end June 1977 were of the order of Rs. 15.65 crores collected through 4.26 lakh accounts. The average deposits per RRB amounted to Rs. 32.62 lakhs and per branch to Rs. 2 lakhs. There are however wide variations in the performance of the RRBs from bank to bank. In 2 RRBs the average deposits collected per quarter<sup>3</sup> were above Rs. 25 lakhs but they were under Rs. 5 lakhs per quarter in 16 RRBs. Among the remaining 30 RRBs, 21 reported collection of deposits per quarter between Rs. 5 to 10 lakhs and 9 between Rs. 10 to 25 lakhs. The break-up of deposits according to types available in respect of 36 out of 48 RRBs shows that of the total deposits, 41 per cent were fixed, 55 per cent savings and the remaining 4 per cent current.

#### LOAN OPERATIONS

4.8 By end June 1977, the loans disbursed (outstandings) by the 48 RRBs amounted to Rs. 19.58 crores spread over 2.47 lakh borrowal accounts. On an average the per bank advances were Rs. 40.8 lakhs issued to 51 thou-

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1. By September 1977, 27 banks had completed one year of operation.
  2. By December 1977, the number of branches had increased to 1172.
  3. As the banks were set up at different dates and their period of operation differs, the value of the variable compared is reduced to a comparable unit of time, namely a quarter of 3 months.



sand borrowal accounts. Loans per branch worked out to Rs. 2.6 lakhs and Rs. 794 per borrowal account.

4.9 Of the total loans outstanding, 57 per cent were to small/marginal farmers and landless labourers, 33 per cent to rural artisans and others, while about 9.9 per cent were given as 'indirect' loans<sup>4</sup>. Loans for consumption purposes given to about 661 borrowal accounts were negligible at less than half per cent of the total.

#### CREDIT-DEPOSIT RATIO

4.10 Deployment of local resources for development of agriculture in the jurisdiction of each RRB is one of the key features in the scheme of rural banks. The performance of RRBs in this respect can be judged with reference to their credit-deposit ratios. The RRB's average credit-deposit ratio at 125 per cent was highly favourable compared to that (52 per cent) of the rural branches of commercial banks.

4.11 In respect of 24 RRBs out of 47<sup>5</sup>, this ratio was above 100 indicating that they had deployed in their areas more resources than those collected by way of deposits in those areas.

Credit-Deposit Ratio (Range) (Per cent)			Number of Regional Rural Banks
1.	Below	— 50	12
2.	50	— 100	11
3.	100	— 150	11
4.	150	— 200	5
5.	200	— 250	5
6.	Above	— 250	3
<b>Total</b>			<b>47<sup>5</sup></b>

Among the 12 RRBs whose credit-deposit ratio is below 50, most of them were late starters i.e., they were established towards the close of 1976, or in early 1977.

4. At end March 1977, 105 Farmers, Service Societies were linked to 14 RRBs. The amount of loans routed through these societies is not available.

5. One RRB, namely, Hardoi-Unnao was established in June 1977 and had not started any business by end June 1977.

## FINANCIAL ASSISTANCE

4.12 For the purpose of borrowing facilities, the Government of India has fixed the following formula :

<u>Deposits mobilised by RRB</u>	<u>Borrowings from Sponsor Bank</u>	<u>(In per cent) Refinance from RBI</u>
15	35	50

As at end-June 1977, 9 RRBs had availed of refinance facility from RBI to the tune of Rs. 2.46 crores and 10 RRBs had borrowed from Sponsor Banks a total amount of Rs. 2.02 crores.

## ORGANISATION

4.13 As pointed out in Chapter 2, the overall management of the RRB is to be under a Board of Directors consisting of 9 members including the Chairman, three members being nominated by Central Government, two by the State Government and three by the Sponsor Bank. The composition of the Boards of RRBs is generally found to conform to this pattern. According to available information, most of the Central Government nominees (excluding from RBI) on these boards were from Delhi. The State Government nominees were from the departments concerned with revenue, finance, agriculture, co-operation, etc., or regional commissioners, district magistrates/district collectors. The Working Group had suggested that the Chairman should be appointed by the Central Government in consultation with RBI and Sponsor Bank. The Group had also suggested that initially for 6 to 12 months, the Sponsor Bank should provide a Chairman to the RRB with the approval of RBI and Central Government. Accordingly almost all the RRBs Chairmen are drawn from Sponsor Banks.

## PERSONNEL

4.14 According to the RRB Act, the RRB is empowered to appoint such number of officers and other employees as are necessary for efficient performance of its functions. The Act also provides for deputation of such staff from Sponsor Bank to RRB during the first five years of its functioning. In this regard the Working Group had suggested that the selection for deputation for supervisory and clerical staff should be made keeping in view the special characteristics of RRB's operations. Recruitment of staff should be made from the area of operation of the RRB. Though precise information on direct recruitment is not available, several RRBs have by now recruited a significant number of the clerical and technical staff required by them and the process is in progress in others. For officer cadre, the RRBs seem to be still relying to some extent on Sponsor Banks.

## TRAINING OF STAFF

4.15. In order to help the RRBs to have trained staff as early as possible, the Reserve Bank of India have undertaken the task of providing training to the Chairmen and Branch Managers in the Reserve Bank of India, College of Agricultural Banking (CAB), Pune. So far, the CAB has completed four courses for the Branch Managers and in all 125 Branch Managers have received this training. The CAB has plans to open another channel for this training programme.

4.16. It has also been decided that while the training programme for the Chairmen and Branch Managers of Regional Rural Banks would be conducted at the College of Agricultural Banking, Pune, that of accountants, field officers and clerks will be conducted at the Training Centres of the respective Sponsor Banks under the overall supervision of the College of Agricultural Banking. The CAB is also helping in the preparation of syllabi drawn up by the Sponsor Banks and by deputing its faculty members to assist in conducting their training sessions.

## CHAPTER 5

### ASSESSMENT OF THE WORKING OF REGIONAL RURAL BANKS

Attempt is made in this Chapter to assess the overall performance of the RRBs with reference to the objectives for which they were set up. Though it would not be appropriate to pass a definitive judgement on the performance of RRBs at this stage as most of them have not yet completed even two years of their working, this assessment is necessary for examining the issues referred to our Committee. For the purpose of this assessment, the Committee held a series of discussions with a cross-section of persons involved or associated with the operations of the RRBs and in particular with the Chairmen of the Sponsoring Banks. Members of the Committee, individually and in groups, also visited a few RRBs to get a feel of the ethos in which they were operating. Letters were addressed to all the Sponsoring Banks and State Governments soliciting their views on certain specific issues. The response from the Sponsoring Banks has been very encouraging, but only 8 State Governments sent their replies. The Committee also arranged to conduct detailed spot studies of 12 RRBs through the Economic Department of the Reserve Bank of India (Table 1). The factual data presented below pertain to the 12 surveyed banks, as in June 1977.

5.2. The assessment of the performance of the RRBs has been made with reference to (i) suitability of location of the RRBs, (ii) spread of banking facilities, (iii) deposit mobilisation, (iv) credit purveyed, (v) credit-deposit ratio and funds position, (vi) recovery performance, (vii) quality of lending, (viii) management and (ix) financial viability. Based on all these indicators, an overall assessment is attempted.

#### SUITABILITY OF LOCATION

5.3. The Steering Committee appointed by the Government of India to guide the implementation of the RRB scheme has laid down the criteria for the location of RRBs. Accordingly, the RRBs were to be located in such areas where (i) the commercial and co-operative banks' credit support was inadequate and credit gaps were large, (ii) the weaker section of rural population was large in number and (iii) agricultural development potential was good.

5.4. It was observed that in all the districts covered by the selected RRBs, except in Deoria and Moradabad, the estimated credit gap as conventionally measured was over 70 per cent ; in some districts like Bankura, Purulia and Midnapore in West Bengal, Bhojpur, Rohtas and East and West Champaran in Bihar and Jaipur and Nagaur in Rajasthan, the credit gap ranged between 80 per cent and 95 per cent (Table 2). The co-operative credit support in

TABLE - 1: SALIENT FEATURES OF RRBs SURVEYED

Name of the RRB	(Amount in Rs. '000s)						
	Sponsor Bank	Jurisdiction (Districts)	Number of Branches	Deposits		Advances	
	(1)	(2)	(3)	Number of Accounts (4)	Amounts (5)	Number of Accounts (6)	Amounts (7)
1. Tungabhadra Gramin Bank ..(25-1-76)	Canara Bank	Bellary-Kaichur	20	38,986	54,47	8,765	52,15
2. Bhojpur-Rohtas Gramin Bank ..(26-12-75)	Punjab National Bank	Bhojpur-Rohtas	26	9,208	41,22	4,948	37,38
3. Champaran Kshetriya Gramin Bank .. .. .(21-3-76)	Central Bank of India	East & West Champaran	24	10,136	22,71	4,314	34,40
4. Kshetriya Gramin Bank ..(20-1-76)	-do-	Hoshangabad-Raisen	25	13,871	29,27	4,364	38,38
5. Jaipur-Nagaur Anchalik Gramin Bank .. .. .(2-10-75)	United Commercial Bank	Jaipur-Nagaur	41	12,753	70,64	7,172	106,85
6. Koraput-Panchabati Gramya Bank .. .. .(13-11-76)	State Bank of India	Koraput	19	3,584	12,28	5,914	29,11
7. Prathama Bank ..(2-10-75)	Syndicate Bank	Moradabad	20	29,150	78,63	6,653	59,03
8. Haryana Kshetriya Gramin Bank .. .. .(2-10-75)	Punjab National Bank	Bhiwani	20	10,693	32,51	3,028	49,87
9. Gorakhpur Kshetriya Gramin Bank .. .. .(2-10-75)	State Bank of India	Gorakhpur-Deoria	30	21,779	155,29	38,028	157,51
10. North Malabar Gramin Bank ..(12-12-76)	Syndicate Bank	Cannanore	11	7,882	13,27	3,843	17,21
11. Nagarjuna Gramin Bank ..(30-4-76)	State Bank of India	Khammam-Nalgonda	50	51,047	147,60	31,201	331,62
12. Mallabhum Gramin Bank ..(9-4-76)	United Bank of India	Bankura-Purulia-Midnapur	23	8,122	29,40	3,034	23,98
<b>All Surveyed RRBs ..</b>			<b>309</b>	<b>216,711</b>	<b>690,39</b>	<b>111,264</b>	<b>937,79</b>

Note : Date of opening is shown in brackets

almost all of these districts was meagre and inadequate. The DCCBs in some of these districts were classified by Agricultural Credit Department, RBI, as weak (as in Koraput, Mallabhum, Motihari, Jaipur-Nagaur and Bhojpur-Rohtas) and/or a significant proportion of PACS in some districts were dormant (26 per cent in Jaipur, 24 per cent in Mallabhum, 20 per cent in Bellary) and/or the proportion of rural families effectively financed by co-operatives was small (16 per cent in Bhojpur, 15 per cent in Jaipur-Nagaur, 10 per cent in Motihari). Further, in many of these districts the proportion of overdues owed to co-operatives was high ranging from 50 per cent to 60 per cent, thus choking the supply line of credit (Annexure 5.1). It was also observed that in most of the districts the proportion of the weaker sections to the total rural population was quite large; the scheduled caste and scheduled tribe population constituted over one-fourth of rural population in the jurisdiction of six RRBs (Koraput, Gorakhpur, Bellary, Hoshangabad, Jaipur and Mallabhum) while the proportion of small and marginal farmers and agricultural labourers constituted 45 per cent to 90 per cent in all the other districts. The districts were also endowed with good potential for agricultural development (as evidenced in Hoshangabad by Tawa project, Bellary by Tungabhadra project, Koraput by Panchawati dam and land reclamation project, Gorakhpur by Gandak Command Area Development Project). In some districts, special development programmes (SFDA in Motihari and Cannanore, DPAP in Bhojpur and Bhiwani) were in operation.

5.5. In respect of banking facility as measured by the population covered per branch of commercial bank, the norm of 75,000 population per branch indicated by the Steering Committee, was however not observed in districts like Bhiwani, Moradabad, Jaipur and Bellary where the per office population was lower than the Steering Committee norm. Further, in the districts of Moradabad and Deoria, the credit gap was relatively small (30 per cent and 10 per cent, respectively) and the state of co-operative credit was also relatively better. It appears, therefore, that while by and large the choice of districts for setting up RRBs was appropriate, the justification for RRBs in a few districts was not particularly strong.

#### SPREAD OF BANKING FACILITIES

5.6. One of the objectives underlying the RRB scheme is that the credit facilities through commercial banking (RRBs) channels should be extended to remote rural areas particularly to unbanked and under-banked centres. The RRBs surveyed by the Committee had opened over 300 branches by June 1977 and this came to about one-third of the total number of branches of commercial banks in the respective districts (Table 3). The bank at Khammam had opened the largest number of branches (50) in a short span of little over one year, closely followed by Jaipur-Nagaur (41) and Gorakhpur (30). The performance of other RRBs in opening branches has also been satisfactory in that each bank has opened around 20 branches within a short period of less than 18 months.

TABLE—2: CREDIT GAP ESTIMATES

(Rs. in lakhs)

District			Credit requirements	Credit supply	Credit gap	Credit gap (in per cent)
			(1)	(2)	(3)	(4)
1. Bellary**	..	..	1094	384	710	65.0
2. Raichur**	..	..	4384	951	3433	78.3
3. Bhojpur@	..	..	990	217	773	78.1
4. Rohtas@	..	..	1300	170	1130	86.9
5. Hoshangabad@	..	..	577	139	437	75.8
6. Raisen@	..	..	510	193	318	62.2
7. Jaipur@	..	..	1300	212	1087	84.0
8. Nagaur@			964	72	891	93.0
9. Koraput*	..	..	5673	215	5458	96.2
10. Moradabad@	..	..	1528	1071	457	29.0
11. East Champaran*			4364	388	3976	91.1
12. West Champaran*	..		3100	335	2766	89.2
13. Bhiwani	..		N.A.	N.A.	N.A.	N.A.
14. Gorakhpur@	..	..	1112	443	669	60.0
15. Deoria@	..	..	1249	1122	127	10.0
16. Cannanore@	..	..	1350	1200	970	80.8
17. Khammam*			1366	627	739	54.1
18. Nalgonda*	..	..	4096	1489	2607	63.6
19. Bankura*	..		2272	221	2051	90.3
20. Purulia*	..	..	2790	108	2682	96.1
21. Midnapore*			9211	1222	7988	86.7

Note: \*\*Lead Bank Report and Survey data. N.A.= Not available.

\*From the Steering Committee Proceedings.

@From the Study Team Report.

Sources: Study Team Reports, Steering Committee Proceedings, Lead Bank Reports (Bellary and Raichur) and Survey Data.

5.7. Apart from the aggregate number, the other and perhaps the more crucial tests of the performance of RRBs in branch expansion would be the number of branches opened in relation to the number each was expected to open within a prescribed period, and the proportion of branches opened at unbanked centres. Though there does not appear to be any uniform

TABLE—3: NUMBER OF BANK BRANCHES IN THE JURISDICTION OF SURVEYED RRBs

Name of the RRB	Commercial Bank Branches	RRBs' Branches	Per cent of Col. 2 to Col. 1
	1	2	3
Bellary .. .. .	67	20	29.8
Bhojpur-Rohtas ..	82	26	31.7
Champaran .. ..	67	24	35.8
Hoshangabad	51	25	49.0
Jaipur	153	41	26.8
Koraput ..	40	19	47.5
Moradabad ..	87	20	23.0
Bhiwani	26	20	76.9
Gorakhpur	65	30	46.2
Cannanore	133	11	8.3
Khammam ..	71	50	70.4
Mallabhum ..	180	23	12.8
<b>All Surveyed RRBs .. .. .</b>	<b>1022</b>	<b>309</b>	<b>30.2</b>

directive from the Government on this, the understanding was that each RRB would open 20 branches within the first year of its operation and another 20-30 in the second year. Applying this norm, we find that only 2 of the 12 RRBs surveyed conform to this prescribed target. In view of the numerous teething troubles faced by the RRBs, we do not consider this as a serious omission.

5.8. As for the number of branches opened by RRBs at unbanked centres, however, their performance was impressive. @ In Cannanore, all the branches opened were in the unbanked centres, followed by Koraput and Jaipur with 95 per cent and 88 per cent of their branches respectively in the unbanked centres. The proportion of branches opened in unbanked centres ranges from 60 to 75 per cent in the case of all the other banks except four ; namely, Gorakhpur, Champaran, Bhojpur and Mallabhum. In the case of Mallabhum this proportion was 43 per cent; in the remaining three banks it was below 15 per cent (Table 4). On the whole, the evidence gathered by us indicated that generally speaking the performance of RRBs in the spread of banking was quite satisfactory.

@As illustrative of this, two maps showing jurisdiction of two RRBs and their branches are attached.



TABLE—4: BRANCH EXPANSION BY SURVEYED RRBs

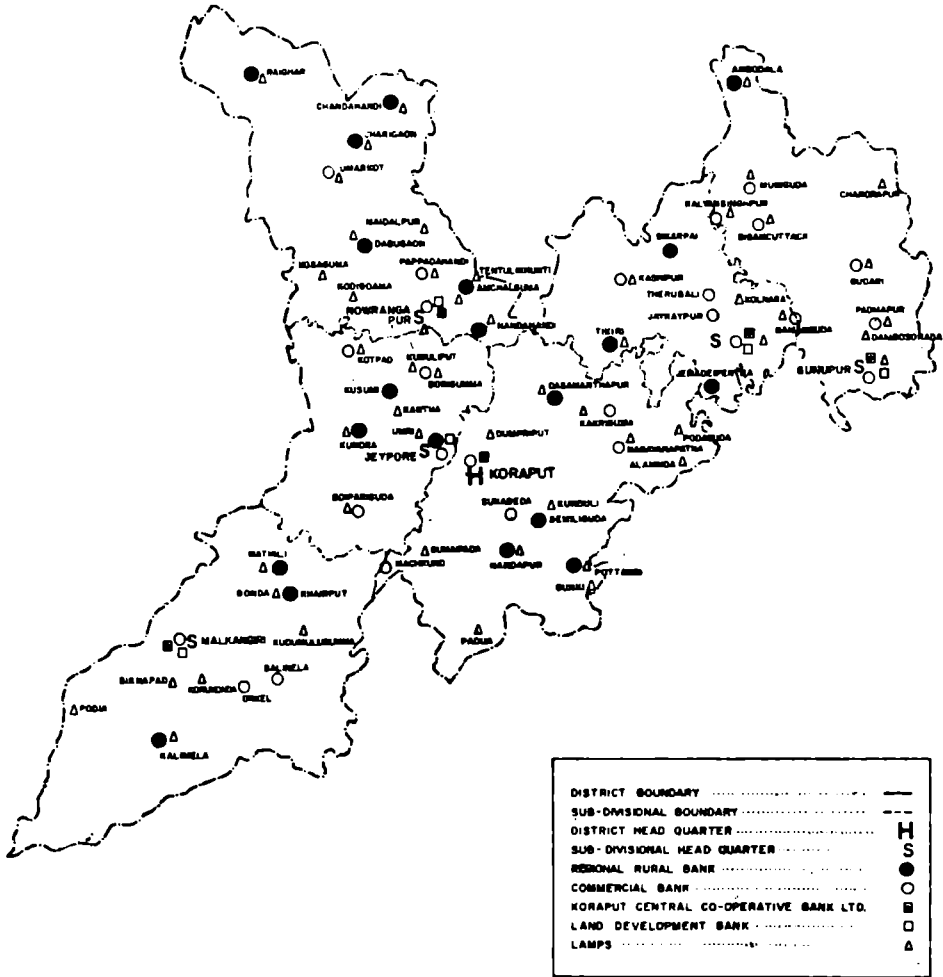
Name of the RRB	Number of branches opened		
	Total Number of branches	Of which at Unbanked centres	Per cent of Col. 2 to Col. 1
	1	2	3
1. Bellary .. .. .	20	12	60.0
2. Bhojpur-Rohtas .. .. .	26	4	15.4
3. Champaran ..	24	2	8.3
4. Hoshangabad	25	16	64.0
5. Jaipur-Nagaur .. .. .	41	36	87.8
6. Koraput	19	18	94.7
7. Moradabad	20	15	75.0
8. Bhiwani ..	20	13	65.0
9. Cannanore	11	11	100.0
10. Gorakhpur	30	1	3.3
11. Khammam ..	50	33	66.0
12. Mallabhum .. .. .	23	10	43.5
<b>All Surveyed RRBs .. .. .</b>	<b>309</b>	<b>171</b>	<b>55.3</b>

#### MOBILISATION OF DEPOSITS

5.9. In a short span of one and a half years of their working, the surveyed RRBs had mobilised sizeable deposits of over Rs. 6.90 crores as at June 30, 1977 with an average of about Rs. 57 lakhs per bank. Here again though no specific directive was issued, Government's expectation was that each RRB would collect deposits of about Rs. 100 lakhs in the very first year after commencement of working. Considered from this yardstick, the performance of Gorakhpur and Khammam RRBs was really impressive in that these banks had mobilised deposits of Rs. 150 lakhs each in the very first year of their operation. Deposit mobilisation by Moradabad at Rs. 78.6 lakhs, Jaipur-Nagaur at Rs. 71.0 lakhs, Bellary at Rs. 54 lakhs and Bhojpur at Rs. 44 lakhs was also not unsatisfactory. Only in the relatively backward regions of Koraput, Champaran, Hoshangabad and Cannanore which had completed hardly six months by June 1977, RRBs deposits were less than Rs. 30 lakhs.

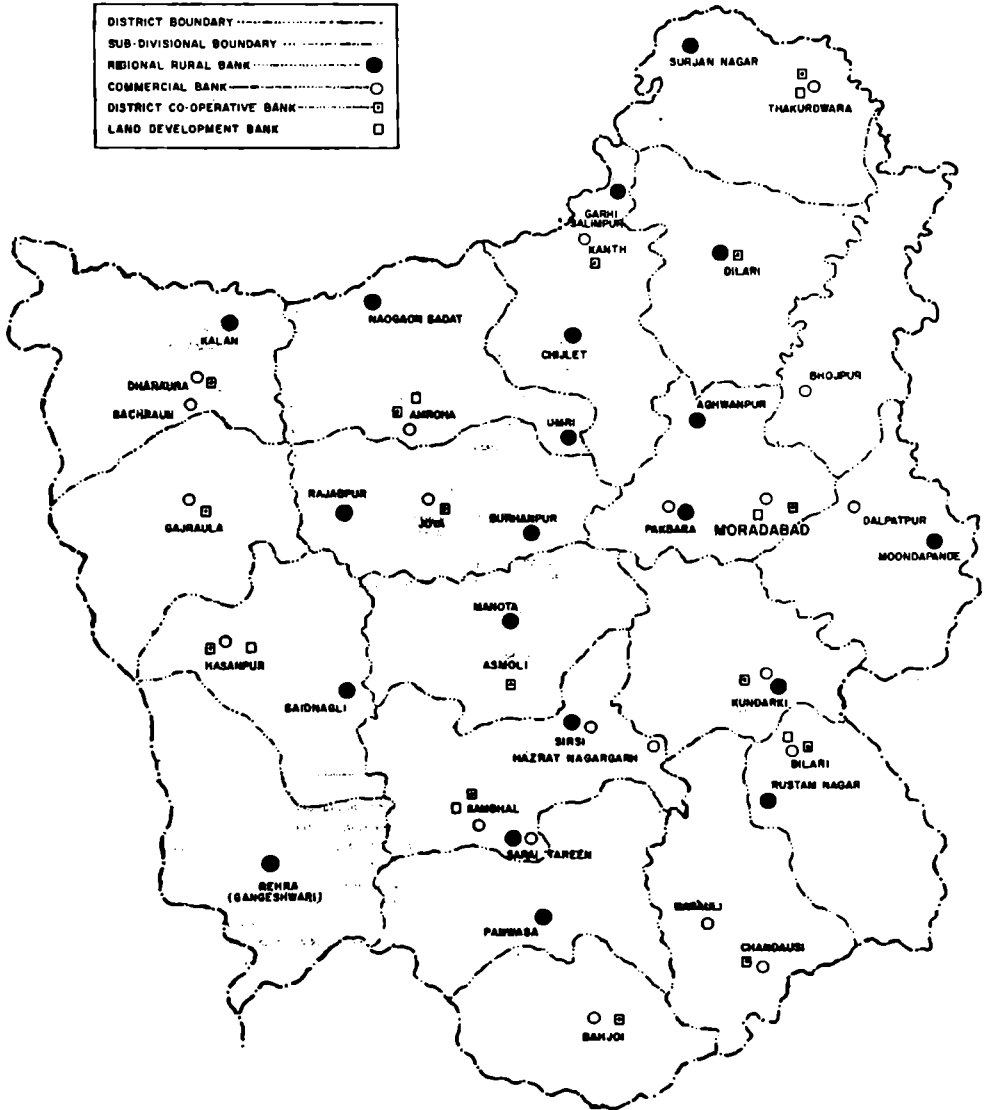
5.10. Between 50 to 60 per cent of the total deposits were in the form of fixed deposits in respect of three banks, namely, Gorakhpur, Jaipur and Bellary, while such deposits accounted for 20 to 40 per cent in all other banks except Mallabhum where the proportion was little over 12 per cent. Analysis of the pattern of ownership of deposits indicated that while in Koraput the

LOCATION OF RRB AND OTHER BANK BRANCHES IN KORAPUT DISTRICT,  
(ORISSA)



LOCATION OF RRB AND OTHER BANK BRANCHES IN MORADABAD DISTRICT,  
(UTTAR PRADESH)

DISTRICT BOUNDARY	-----
SUB-DIVISIONAL BOUNDARY	-----
REGIONAL RURAL BANK	●
COMMERCIAL BANK	○
DISTRICT CO-OPERATIVE BANK	□
LAND DEVELOPMENT BANK	□



bulk of the deposits were from institutions, in Moradabad and Cannanore RRBs, all the deposits were from individual households (Table 5).

5.11. An important feature of deposit mobilisation was that over one-third of the deposits of these RRBs were from their branches at unbanked centres. In the case of Bhiwani, the relevant proportion was as high as 72 per cent, whereas it was around 55 to 60 per cent for Mallabhum, Hoshangabad and Koraput (Table 6). Only in Jaipur-Nagaur and Gorakhpur, the deposits from branches at unbanked centres were relatively small. For all the twelve banks together, the deposits from the hitherto unbanked centres amounted to over 36 per cent of their total deposits. If the deposits collected from the hitherto unbanked centres could be assumed to be fresh deposits (though a part of this may have been diverted from the nearby branch of the commercial bank or co-operatives) the contribution of RRBs in deposit mobilisation ought to be regarded as commendable.

5.12. The two major constraints on deposit mobilisation invariably mentioned in almost all districts were (i) exclusion of other than small farmers from loan facilities which kept back the relatively better off potential depositors from depositing their savings in RRBs and (ii) the State Governments' preference for keeping their institutional deposits with the co-operatives.

TABLE—5 : MOBILISATION OF DEPOSITS BY SURVEYED RRBs

Name of the RRB	Amount of Deposits (Rs. in lakhs)	Of the total deposits proportion of fixed deposit (Per cent)	Of the total deposits proportion held from institutions
Bellary .. .. .	54	49.1	N.A.
Bhojpur-Rohtas .. .. .	44	25.6	7.3
Champanan .. .. .	23	23.2	24.0
Hoshangabad .. .. .	29	39.3	N.A.
Jaipur .. .. .	71	55.6	21.2
Koraput .. .. .	12	37.6	97.8
Moradabad .. .. .	79	29.9	—
Bhiwani .. .. .	33	28.9	22.9
Gorakhpur .. .. .	155	61.7	45.0
Cannanore .. .. .	13	29.2	—
Khammam .. .. .	148	25.2	22.4
Mallabhum .. .. .	29	12.1	3.6
<b>All Surveyed RRBs .. .. .</b>	<b>690</b>	<b>39.4</b>	<b>11.2</b>

N.A.=Not available

**TABLE—6: DEPOSIT MOBILISATION AT UNBANKED CENTRES BY SURVEYED RRBs**

					(Rs. in lakhs)		
Name of the RRB					Deposits from branches at unbanked centres	Total Deposits	Per cent of Col. 1 to Col. 2
Bellary	..	..	..	..	25	54	46.5
Bhojpur-Rohtas	..	..	..	..	15	44	34.7
Champaran	..	..	..	..	6	23	27.5
Hoshangabad	..	..	..	..	17	29	57.2
Jaipur	..	..	..	..	6	71	8.3
Koraput	..	..	..	..	7	12	55.2
Moradabad	..	..	..	..	29	79	36.9
Bhiwani	..	..	..	..	23	33	71.7
Gorakhpur	..	..	..	..	29	155	19.0
Cannanore	..	..	..	..	6	13	44.7
Khammam	..	..	..	..	64	148	43.6
Mallabhum	..	..	..	..	18	29	60.9
<b>All Surveyed RRBs</b>	..	..	..	..	<b>246</b>	<b>690</b>	<b>35.7</b>

Nonetheless, it can be said that most of the RRBs did play a useful role in mopping up a part of the savings in their jurisdictions. To a large extent this could be accomplished because (a) the RRBs branches were set up in untapped rural areas, (b) initial enthusiasm and good service to customers by the staff and (c) incentive by way of  $\frac{1}{2}$  per cent higher rate of interest.

#### LOAN BUSINESS

5.13. During 1976-77, the selected RRBs disbursed loans aggregating Rs. 9.4 crores, under 1,21,264 borrowal accounts. Agricultural loans amounted to Rs. 6.4 crores and formed about 69.0 per cent of the total loans issued. The bulk of the agricultural loan business (amountwise) was in the form of term loans which amounted to Rs. 4.3 crores (46.2 per cent); the crop loans amounting to Rs. 2.1 crores (22.6 per cent). Among the non-agricultural loans amounting to Rs. 2.9 crores, the bulk of the loans were term loans to rural artisans and others (30.1 per cent). Consumption loans were around one per cent of the total loans disbursed (Table 7).

5.14. An analysis of individual RRB's, loan operations (Table 8) revealed that except Bellary, Gorakhpur and Cannanore, all the banks offered term credit to a larger extent than crop loans or other types of credit. In Bhiwani,

TABLE—7 : LOAN BUSINESS OF SURVEYED RRBs

						(Amount in Rs. '000)	
						No. of Accounts	Amount
						1	2
<b>I. Agricultural loans</b>	..	..	..	..	..	<b>79,508</b>	<b>6,44,80</b>
(a) Crop loan	..	..	..	..	..	56,398	2,11,89 (68.8) (22.6)
(b) Term loan (agricultural purposes and allied activities)	..	..	..	..	..	23,110	4,32,91 (46.2)
<b>II. Non-agricultural loans</b>	..	..	..	..	..	<b>41,756</b>	<b>2,92,99</b>
(a) Rural Artisans	..	..	..	..	..	15,077	97,77 (31.2) (10.4)
(b) Consumption loan	..	..	..	..	..	3,060	10,34 (1.1)
(c) Others	..	..	..	..	..	23,619	1,84,88 (19.7)
<b>III. Total (I+II)</b>	..	..	..	..	..	<b>1,21,264</b>	<b>9,37,79</b>

Note : Figures in brackets indicate percentages to total.

TABLE—8 : PURPOSEWISE DISTRIBUTION OF CREDIT BY SURVEYED RRBs

Name of the RRB	Loan amount for the purpose as proportion of total loans issued (per cent)				
	Crop loans	Agricultural and Allied Activities (Term loans)	Rural Artisans (Term loans)	Consumption loans	Others
	(1)	(2)	(3)	(4)	(5)
Bellary	54.1	18.6	6.2	—	21.1
Bhojpur-Rohtas	34.8	26.6	10.5	0.1	28.0
Hoshangabad	28.1	28.1	9.4	0.6	33.8
Jaipur-Nagaur	2.3	68.1	12.7	0.1	16.8
Koraput	16.1	42.3	0.9	26.6	14.1
Moradabad	3.3	21.7	20.1	—	48.9
Champaran	27.6	31.6	1.7	0.3	38.8
Bhiwani	10.6	75.3	13.4	—	0.7
Gorakhpur-Deoria	63.3	27.6	0.5	—	8.6
Cannanore	38.1	8.4	3.8	12.2	37.5
Khammam-Nalgonda	6.4	60.4	14.9	—	18.3
Mallabhum	35.0	30.0	13.7	0.1	21.2
<b>All Surveyed RRBs</b>	<b>22.6</b>	<b>46.2</b>	<b>10.4</b>	<b>1.1</b>	<b>19.7</b>

the term credit for agricultural and allied activities was as high as 75.3 per cent of the total credit purveyed, the proportion was 60 per cent in the case of Khammam and it ranged between 30 and 50 per cent in other banks, except in the three banks at Bellary, Gorakhpur and Cannanore as mentioned earlier.

5.15. Crop loans accounted for a sizeable share at about 63 per cent in the case of Gorakhpur and about 54 per cent in the case of Bellary. In the four other RRBs namely Bhojpur, Cannanore, Hoshangabad and Champaran these loans were next in importance amounting to 25 to 40 per cent of the total loans issued, while in the case of remaining 6 banks the proportion was between 2 and 11 per cent.

5.16. Consumption loans were given by 7 banks, namely, Koraput, Bhojpur-Rohtas, Champaran, Hoshangabad, Cannanore, Mallabhum and Jaipur-Nagaur. Rural artisans received financial assistance from all the selected RRBs, but this line of credit was more important in 5 banks, namely, Moradabad, Khammam, Mallabhum, Bhiwani and Jaipur-Nagaur. Data on number of borrowers financed by these banks generally revealed the same pattern of the relative importance accorded to different purposes, as observed on the basis of volume of loans (Table 9).

5.17. Analysis of loan operations of the selected banks thus indicated a mixed pattern. While all the categories of weaker sections were given prescribed credit facilities (except in five RRBs where loans for consumption purpose were not given), their relative importance varied. A second characteristic of the RRBs' loan operations was that they were relatively more enthusiastic in respect of providing term credit for agriculture. This may be because term loans provide a quicker way of attaining higher loan targets, facilitate identification of purpose, and are easier for supervision over utilisation. Availability (from the very inception) of appropriate technical field staff required for appraisal of term loan proposals also perhaps contributed to this pattern.

5.18. The Working Group had stated that "one of the more important objectives of the rural banks would be to attempt effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. The performance of these banks will be judged by their success in coverage of such categories of borrowers." Judged by this criterion, the performance of the surveyed RRBs does not appear satisfactory (Table 10). One reason was that these banks had hardly completed one and a half years of their working by June 1977. Besides, as a result of the deliberate choice of location, the proportion of the weaker sections within their area of operation was quite large. Even so, it should be admitted that there are obvious practical limitations to larger direct lending to the weaker sections by the RRBs. Wherever the PACS/FSS have been ceded to RRBs, the magnitude of lending is larger.

TABLE—9 : CATEGORY-WISE DISTRIBUTION OF CREDIT BY SURVEYED RRBs

(Amounts in Rs. '000)

Name of the RRB	Small/Marginal Farmers & Land- less Labourers		Rural Artisans & others		Consumption loans		Total	
	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount	No. of A/cs	Amount
	1	2	3	4	5	6	7	8
Bellary	5,312 (60.6)	37,92 (72.7)	3,453 (39.4)	14,23 (27.3)	—	—	8,765	52,15
Bhojpur-Rohtas	3,704 (74.9)	22,93 (61.3)	1,220 (24.6)	14,41 (38.6)	24 (0.5)	4 (0.1)	4,948	37,38
Champanan	2,523 (58.5)	20,39 (59.3)	1,746 (40.5)	13,91 (40.4)	45 (1.0)	10 (0.3)	4,314	34,40
Hoshangabad ..	1,959 (44.9)	21,59 (56.3)	2,349 (53.8)	16,58 (43.2)	56 (1.3)	21 (0.5)	4,364	38,38
Jaipur	4,051 (56.5)	75,24 (68.1)	3,110 (43.4)	31,54 (29.5)	11 (0.1)	7 (0.1)	7,172	106,85
Koraput	2,262 (38.2)	17,19 (58.4)	1,511 (25.5)	4,40 (15.0)	2,141 (36.3)	7,82 (26.6)	5,914	29,41
Moradabad .. ..	2,616 (39.3)	18,30 (31.6)	4,037 (60.7)	40,73 (68.4)	—	—	6,653	59,03
Bhiwani	2,468 (81.5)	42,82 (85.9)	560 (18.5)	7,05 (14.1)	—	—	3,028	49,87
Gorakhpur	36,681 (96.5)	143,28 (91.0)	1,347 (3.5)	14,23 (9.0)	—	—	38,028	157,51
Cannanore	1,776 (46.2)	8,01 (46.5)	1,292 (33.6)	7,12 (41.4)	775 (20.2)	2,08 (12.1)	3,843	17,21
Khammam	14,110 (45.2)	221,55 (66.8)	17,091 (54.8)	110,07 (33.2)	—	—	31,201	331,62
Mallabhum	2,046 (67.4)	15,58 (65.0)	980 (32.3)	8,38 (34.9)	8 (0.3)	2 (0.1)	3,034	23,28
<b>All Surveyed RRBs ..</b>	<b>79,508 (65.6)</b>	<b>744,80 (68.8)</b>	<b>38,696 (31.9)</b>	<b>282,65 (30.1)</b>	<b>3,060 (2.5)</b>	<b>10,34 (1.1)</b>	<b>1,21,264</b>	<b>937,79</b>

Note: Figures in brackets indicate percentages to total.

While the RRBs have to intensify their efforts to extend the coverage of the weaker sections to retain their image of the small man's bank, the linking of co-operative societies with RRB becomes important. They will have to be actively assisted by the development agencies of the State Government. Voluntary agencies can also play a useful role in this endeavour.

5.19. Out of the 12 RRBs surveyed, 7 had given loans to about 3 to 7 per cent of the total number of small and marginal farmers, the relevant



percentage in the case of the remaining RRBs was hardly around one per cent. The rural artisans and other weaker sections assisted by the 7 RRBs formed about 3 to 9 per cent whereas for the remaining 5 RRBs this was again hardly around one per cent. The proportion of agricultural labourers financed was, however, less than one per cent in almost all the districts except Bhiwani and Jaipur in which it was about 8 per cent. Among the surveyed RRBs, the performance of Jaipur-Nagaur RRB was outstanding. It had financed about 12 per cent of total small and marginal farmers, 6 per cent of agricultural labourers and 30 per cent of total rural artisans in its area of operation (Table 10).

5.20. We have already noted that in purveying credit to the agricultural sector, the performance of RRBs in terms of total amounts disbursed was quite satisfactory. The RRBs outstanding advances to the agricultural and allied sectors formed about 5 per cent of the total advances by the commercial and co-operative banks. Among the 12 banks, the performance of five banks was relatively better. The Khammam bank's advances at Rs. 2.3 crores constituted about 12 per cent of the total advances by both commercial and co-operative banks in its jurisdiction. Next in the order of performance were Bhiwani at Rs. 51 lakhs (11.1 per cent), Koraput at Rs. 32 lakhs (15.1

TABLE—10: EXTENT OF WEAKER SECTIONS FINANCIALLY ASSISTED BY SURVEYED RRBs

Name of the RRB	Percentage of this type of borrowers financed to the total estimated number in that category		
	Small Farmers/Marginal farmers	Agricultural labourers	Rural Artisans
	(1)	(2)	(3)
Bellary .. .. .	7.3	—	5.2
Bhojpur-Rohtas .. .. .	6.3	Neg.	3.4
Hoshangabad .. .. .	4.3	0.1	9.6
Jaipur .. .. .	12.0	6.4	30.3
Koraput .. .. .	0.8	1.6	2.2
Moradabad .. .. .	0.9	1.2	1.1
Champaran .. .. .	4.3	0.1	8.6
Bhiwani .. .. .	1.4	7.8	0.1
Gorakhpur-Deoria .. .. .	2.7	0.6	0.6
Cannanore .. .. .	0.7	0.4	0.1
Khammam-Nalgonda .. .. .	4.1	0.2	0.8
Mallabhum .. .. .	0.1	Neg.	Neg.

Note : Neg. = Negligible.

per cent), Jaipur-Nagaur at Rs. 77 lakhs (7.8 per cent) and Gorakhpur at Rs. 1 crore (6.1 per cent). In the case of Cannanore and Mallabhum, the proportion was quite insignificant (Table 11).

#### CREDIT-DEPOSIT RATIO AND FUNDS POSITION

5.21. As observed in an earlier chapter, increasing the level of local deployment of deposits mobilised locally was a marked feature of the scheme of RRBs. In view of this, an analysis of credit-deposit ratio attained by these banks would be an important indicator of their contribution to the development of the concerned region. In Table 12, the credit-deposit ratio in respect of the 12 selected RRBs as at end-June 1977, along with latest available ratio

TABLE-11: OUTSTANDING ADVANCES FOR AGRICULTURAL AND ALLIED ACTIVITIES BY RRBs, COMMERCIAL BANKS AND DISTRICT CENTRAL CO-OPERATIVE BANKS IN THE JURISDICTION OF SURVEYED RRBs

Name of the RRB	(Rs. '000)				
	Total advances for agricultural and allied activities		Total advances of co-operative and commercial banks (1+2)	Advances by RRB for agricultural and allied activities @@	Col. 4 as percentage of Col. 3
	Commercial Banks @	District Central Co-operative Banks *			
	1	2	3	4	5
Bellary .. ..	16,71,89	10,08,35	26,80,24	46,53	1.7
Bhojpur-Rohtas .. ..	3,05,64	2,92,79	5,98,43	25,54	4.3
Champanan .. ..	4,23,69	2,42,05	6,65,74	20,95	3.1
Hoshangabad .. ..	5,25,89	3,17,22	8,43,11	22,05	2.6
Jaipur-Nagaur .. ..	5,94,85	3,87,31	9,82,16	76,95	7.8
Koraput .. ..	1,25,02	87,91	2,12,93	32,22	15.1
Moradabad .. ..	3,25,42	5,45,01	9,70,43	33,19	3.4
Bhiwani .. ..	1,59,17	3,04,78	4,63,95	51,35	11.1
Gorakhpur .. ..	5,96,90	10,90,33	16,87,23	1,03,12	6.1
Cannanore .. ..	5,49,60	5,84,98	11,34,58	8,16	0.7
Khammam .. ..	10,91,33	8,69,40	19,60,73	2,29,52	11.7
Mallabhum .. ..	5,15,22	8,52,45	13,67,67	5,76	0.4
<b>All Surveyed RRBs ..</b>	<b>68,84,62</b>	<b>66,82,58</b>	<b>1,35,67,20</b>	<b>6,55,35</b>	<b>4.8</b>

@ Advances outstanding (inclusive of advances from RRBs) as of March 1977.

\* Advances outstanding as of June 1976.

@@ Advances outstanding as of June 1977

Sources : Returns received in the Department of Banking Operations and Development and Statistical Statements Relating to Co-operative Movement in India.

of the rural branches of commercial banks (as at end-December 1975) operating in the respective regions, is given by way of comparison. Although, the commercial bank data relate to an earlier date there is hardly any possibility of a drastic change in the position during the short intervening period, as such the comparison is not likely to be vitiated.

5.22. The credit-deposit ratio in respect of the 12 RRBs taken together works out as at end-June 1977 to 129%, while that for rural branches of commercial banks in the same regions worked out to 64% as at end-December 1975. Inter-region comparison would show that this ratio was highest at 235% in Khammam RRB and lowest at 40% in Gorakhpur RRB. For 8 of these 12 RRBs, the ratio was above 100%, this position obtained only in three regions, namely, Cannanore, Bellary and Khammam in the case of rural branches of commercial banks. Thus, compared with rural branches of commercial banks, the performance of RRBs in local deployment of deposits raised locally was distinctly superior. Considering that the RRBs had restrictive provisions in regard to their clientele for loaning, the record was commendable.

TABLE—12: CREDIT-DEPOSIT RATIOS OF SURVEYED RRBs AND RURAL BRANCHES OF SCHEDULED COMMERCIAL BANKS IN THEIR JURISDICTION  
(In Per cent)

Name of the RRB	RRBs (As at end-June 1977)	Rural branches of Scheduled com- mercial Banks (As at end-December 1975)
	(1)	(2)
1. Prathama Bank, Moradabad, Uttar Pradesh .. .. .	74.6	80.6
2. Gorakhpur Kshetriya Gramin Bank, Gorakhpur, Uttar Pradesh .. .. .	40.1	36.1
3. Haryana Kshetriya Gramin Bank, Bhiwani, Haryana ..	179.5	40.0
4. Jaipur-Nagaur Anchalik Gramin Bank, Jaipur, Rajasthan	126.8	62.9
5. Bhojpur-Rohtas Gramin Bank, Arrah, Bihar .. .. .	79.6	20.6
6. Kshetriya Gramin Bank, Hoshangabad, Madhya Pradesh	103.1	78.9
7. Tungabhadra Gramin Bank, Bellary, Karnataka ..	181.8	148.7
8. Champaran Kshetriya Gramin Bank, Motihari, Bihar	159.3	23.6
9. Mallabhum Gramin Bank Bankura, West Bengal	77.7	34.6
10. Nagarjuna Gramin Bank, Khammam, Andhra Pradesh ..	235.3	134.0
11. Koraput-Panchbati Gramya Bank, Jaypore, Orissa	194.8	37.7
12. North Malabar Gramin Bank, Cannanore, Kerala ..	154.9	114.4
	<u>129.2</u>	<u>63.8</u>

5.23. While we are on the subject of credit-deposit ratio, it would be appropriate to indicate the funds position of the 12 surveyed RRBs. Though, on the basis of the formula according to which the proportion of the RRB deposits, RBI refinance and the Sponsor Bank advances is fixed at 15 : 50 : 35, actually it is found that only 7 out of the 12 RRBs had resorted to borrowing from the RBI and/or from the Sponsor Banks (Table 13). There is still a large potential for getting additional funds from the RBI/Sponsor Bank and thus there will be no difficulty for the RRBs, from the resources side, in expanding their loan business.

TABLE—13: FUNDS POSITION OF SURVEYED RRBs  
(As on June 30, 1977)

Name of the RRB	(Rs. in lakhs)						
	Working Funds	Paid-up Capital	Reserves	Deposits & other A/cs.	Borrowings (Total of Cols. 6 & 7)	From Sponsor Bank	From Reserve Bank of India
	1	2	3	4	5	6	7
Bellary ..	119.82	25.00	0.35	54.47	40.00 (308.00)	—	40.00
Bhojpur-Rohtas ..	65.97	25.00	—	40.97	— (232.00)	—	—
Champanan ..	52.57	25.00	0.42	22.70	4.45 (128.00)	4.45	—
Hoshangabad ..	68.91	25.00	0.74	29.27	13.90 (166.00)	5.72	8.18
Jaipur-Nagaur ..	138.36	25.00	0.22	70.64	42.50 (400.00)	17.50	25.00
Koraput .. ..	37.46	25.00	0.18	12.28	— ( 72.00)	—	—
Moradabad ..	104.00	25.00	0.37	78.63	— (445.00)	—	—
Bhiwani ..	78.17	25.00	0.66	32.51	20.00 (181.00)	10.00	10.00
Gorakhpur-Deoria	183.77	25.00	3.48	155.29	— (880.00)	—	—
Cannanore	38.37	25.00	—	13.37	— ( 76.00)	—	—
Khammam-Nalgonda .. ..	417.71	25.00	0.11	147.60	245.00 (835.00)	99.83	145.17
Mallabhum	74.68	25.00	—	29.28	20.40 (166.00)	8.40	12.00

Note: Figures in brackets indicate potential for borrowing from RBI/Sponsor Bank.

## RECOVERY PERFORMANCE

5.24 Data on overdues and demand during the year were available in respect of 8 out of 10 banks that had completed over one year of functioning. Judged by these data, the recovery performance of RRBs appeared quite encouraging inasmuch as overdues to demand formed only 15.7 per cent for all these eight banks taken together. Overdues were less than this average in half the number of banks, being as low as 9 per cent in respect of Bhojpur-Rohtas, Khammam and Jaipur-Nagaur. The recovery performance of three more banks was not quite satisfactory inasmuch as overdues ranged between 41 per cent and 45 per cent (compared with the overdues of all scheduled commercial banks of about 48 per cent as in June 1976). Only in one bank, namely Bellary, was the proportion of overdues to demand on high side at 48 per cent (Table 14).

5.25 Purpose-wise, the overdues position at 10.3 per cent was better in respect of crop loans as against 21 per cent for term loans for agriculture and 20 per cent in respect of loans to rural artisans. Wide variations were, however, observed among individual banks attributable to local conditions. Another satisfactory feature observed was that overdues in respect of consumption loans were also negligible.

## QUALITY OF LENDING

5.26 From the limited survey conducted on behalf of the Committee it appears that the RRBs are making conscious efforts to reach their clientele and assist them in obtaining loans.

TABLE—14: PROPORTION OF OVERDUES TO DEMAND OF SURVEYED RRBs

Name of the RRB	(Per cent)					
	Crop loan	Term loans for Agricultural and allied activities	Rural Artisans	Consumption	Others	Total
	(1)	(2)	(3)	(4)	(5)	(6)
Bellary .. .. .	—	85.7	55.7	—	40.1	48.0
Bhojpur-Rohtas .. ..	13.6	—	—	—	—	8.0
Champaran .. .. .	52.0	36.9	40.0	100.0	36.1	41.2
Hoshangabad .. ..	36.9	73.6	33.0	—	33.0	41.4
Jaipur .. .. .	2.3	13.8	2.0	4.7	14.7	6.5
Bhiwani	48.5	23.2	46.5	—	66.7	30.4
Khammam	4.8	15.8	10.7	—	—	8.8
Mallabhum .. .. .	52.9	—	69.0	—	—	44.8
All Surveyed RRBs ..	10.3	21.0	19.8	8.7	18.2	15.7

5.27 Though the area of operation of RRB branches and commercial bank branches was more or less equal—generally a radius of 16 kms. from each branch—the RRB branches posted with field staff appeared to be in a better position to canvass business in their command area compared with commercial bank branches which did not have field staff. For instance, a branch of the RRB in Moradabad district posted with field assistant had loaned to borrowers residing at distances upto 14 kms. from it compared to the branch of a commercial bank at the same centre which covered borrowers mostly within a range of 5 kms. radius. The RRB branches do not merely depend on the volition of weaker sections to borrow but also utilise their field staff for canvassing business by contacting prospective borrowers in villages. The RRB branches also appear to have had better rapport with villagers owing to their rural orientation and better liaison with extension agencies. In general, the RRB staff in the selected branches appeared to be making conscious and concerted efforts in catering to the credit needs of weaker sections of rural population.

5.28 All the RRBs surveyed had loan application forms printed in local languages. While most commercial banks also had introduced loan application forms in local languages, a few commercial banks had not yet fallen in line. For instance, the branch of a commercial bank in Koraput district had its loan application forms in English only. Loan application forms of RRBs were found to be brief and generally simpler than those of commercial banks. Borrowers were also helped by branch staff of RRBs to fill in loan application forms. Some RRB staff moreover helped borrowers in securing 'no due' certificates, getting extracts from land records, etc., whenever such assistance was needed.

5.29 Data on dates of application and disbursement of loan, amount applied for and amount sanctioned were collected for a sample of borrowers from the records of the branches in respect of both the agencies. It is observed from these data (vide Table 15) that in four of the six districts for which these data are available, about 70 per cent borrowers from RRB received their loan amount within a period of one week. Such a short time-lag was reported for the same percentage of borrowers in only two districts in respect of borrowers of commercial banks. On the basis of this limited data, it would appear that the time-lag for sanction of loans by RRBs may be shorter than that taken by the rural branches of commercial banks.

5.30 Insofar as adequacy of loan amount—judged by the proportion of the loan amount sanctioned to that applied for—is concerned, the data do not reveal significant variation in the performance between the two agencies. It is, however, observed that in four districts, the performance of RRB was either on par with that of the commercial bank or a shade better. Only in two districts, (Champaran and Bellary) the proportion of amount financed in relation to amount applied for was lower in the case of RRB.

TABLE—15 : QUALITY OF LENDING BASED ON BORROWERS DATA

(Proportion of borrowers in per cent)

Name of the RRB	Regional Rural Bank						Commercial Bank						Regional Rural Bank						Commercial Bank					
	Time gap between loan applied and loan disbursed						Time gap between loan applied and loan disbursed						Proportion of amount disbursed to amount applied						Proportion of amount disbursed to amount applied					
	Less than 1 week	1 week to 2 weeks	2 weeks to 1 month	1 month to 3 months	Above 3 months	Total	Less than 1 week	1 week to 2 weeks	2 weeks to 1 month	1 month to 3 months	Above 3 months	Total	Less than 25%	25% to 50%	50% to 75%	Above 75%	Total	Less than 25%	25% to 50%	50% to 75%	Above 75%	Total		
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22		
1. Bellary	46	36	18	—	—	100	—	—	100	—	—	100	—	14	7	79	100	—	—	—	100	100		
2. Bhojpur-Rohtas	—	100	—	—	—	100	—	100	—	—	—	100	—	—	—	100	100	—	—	—	100	100		
3. Champaran	—	100	—	—	—	100	—	100	—	—	—	100	—	—	44	56	100	—	—	—	100	100		
4. Hoshangabad	79	4	7	10	—	100	—	91	—	9	—	100	—	—	—	100	100	—	18	—	82	100		
5. Jaipur	71	8	10	8	3	100	68	—	—	7	25	100	—	11	1	88	100	—	—	17	83	100		
6. Koraput	67	10	10	10	3	100	60	33	—	7	—	100	—	—	—	100	100	—	—	—	100	100		

5.31 As regards the rates of interest charged by the RRBs on their loans, it was observed that the RRBs generally charged 12.50 to 14 per cent for crop loans and 13 to 14 per cent on term-loans for agricultural purposes and 14 to 16 per cent for non-agricultural purposes (Table 16). The commercial banks rates for crop loans were 10.50 per cent to 15 per cent; 10.50 per cent to 16 per cent on term loan for agricultural purposes and 10.50 to 16 per cent on term loans for non-agricultural purposes depending upon the loan amounts. The interest rates charged by commercial banks were generally lower than the rates charged by the RRBs. Thus RRBs which were catering to weaker sections of rural community were dispensing credit at higher rates of interest, while commercial banks which were purveying credit to other relatively better off sections charged lower rates of interest to them. The anomaly arises from the stipulation that the RRBs would charge the same rate of interest as is charged by the co-operatives. A second anomalous situation has arisen because the commercial banks are permitted to finance weaker sections under the DRI Scheme at 4 per cent interest rate. A good number of the RRB clientele, which was almost comparable to the eligible clientele under DRI Scheme, was financed by RRBs at higher rates of interest.

5.32 All in all, it appeared that RRB branches generally have an edge over commercial bank branches in regard to its accessibility to weaker sections of rural population, simplicity of loan application forms, assistance to borrowers in filling the same and flexibility of approach, but in regard to the cost of borrowing, loans from the RRBs were costlier.

## MANAGEMENT

### (a) Board of Directors

5.33 According to the RRB Act the strength of the Board of Directors was to be generally upto 9 but not more than 15. In the surveyed districts, except in two banks, viz., Bellary and Jaipur-Nagaur, where there were 13 and 11 members respectively, the Board of Directors consisted of 9 members. The Board was to comprise of members nominated by the Government of India (including Chairman), nominees from the State Government and from the Sponsor Bank. The Boards of all RRBs studied were found to be on this pattern. The representatives nominated by the Central Government were mostly officials belonging to various Ministries such as Finance, Banking and Revenue, Agriculture and Reserve Bank of India. Nominees from the State Governments were also officers from the State Developmental Authorities and Departments.

5.34 A scrutiny of the composition of Government nominees on the Boards according to each nominee's normal place of work, principal discipline of profession, etc., indicated the following points : (i) All the nominees from the Government of India were from Delhi and had to travel long distances in remote corners to attend Board Meetings every 5 to 6 weeks, (ii) Though the



TABLE- 16: RATES OF INTEREST CHARGED BY SELECTED REGIONAL RURAL BANKS

(Figures in Percentages)

Purpose	Tunga bha- dra Gramin Bank Bellary (Karnataka) @	Kshetriya Gramin Bank Hoshanga- bad (M.P.)	Bhojpur- Rohtas Gramin Bank Arrah (Bihar)	Champaran Kshetriya Gramin Bank Motihari (Bihar)	Jaipur- Nagaur R.R.B. Jaipur (Rajasthan)	North Malabar Gramin Bank Cannanore (Kerala)	Mallabhum Gramin Bank Bankura (W.B.) @@	Gorakh- pur Kshet- riya Gra- min Bank (U.P.)	Koraput Pancha- Gramya Bank Jaypore (Orissa)	Nagarjuna Gramin Bank Khammam (A.P.)	Prathama Bank Morada- bad (U.P.)	Harya- na Kshe- triya Gra- min Bank Bhiwani (Haryana)
	1	2	3	4	5	6	7	8	9	10	11	12
1. Crop loans	13·00	12·50	13·25	13·25	13·00	12·50	13·00	14·00	14·00	13·75	14·00	13·50
2. Milch Cattle	13·00	14·00	13·75	13·75	13·00	13·00	13·00	14·00	14·00	13·75	14·00	14·00
3. Draught Animals ..	13·00	14·00	13·75	13·75	13·00	13·00	13·00	14·00	14·00	13·75	14·00	14·00
4. Equipments	13·00	14·00	13·75	13·75	13·00	13·00	13·00	14·00	14·00	13·75	14·00	14·00
5. Sheep & Goat rearing	13·00	14·00	13·75	13·75	13·00	12·00	13·00	14·00	14·00	13·75	14·00	14·00
6. Poultry ..	13·00	14·00	13·75	13·75	13·00	13·00	13·00	14·00	14·00	13·75	14·00	14·00
7. Artisans & Self employed	13·00	14·00	13·75	15·00	13·00	12·50	13·00	14·00	14·00	16·00	14·00	14·00
8. Consump- tion loans	13·00	14·00	13·25	13·25	13·00	12·00	13·00	14·00	14·00	16·00	14·00	14·00
9. Others	13·00	14·00	13·75	13·75	13·00	13·00 to 14·00	13·00	14·00	14·00	16·00	14·00	14·00

@ 13 per cent if the repayment is within one year and 13·50 per cent if the repayment exceeds one year.

@@ For direct lending. For indirect lending interest rate of 10·50 for S.T. loans and 11 per cent for M.T. loans if re-lent to members.

RRBs were supposed to finance rural artisans and other non-agriculturists, none of the RRBs except one had a representative from the Industries Department, (iii) Though RRBs were expected to maintain close link with the co-operatives and route their finance through PACS, representatives or persons associated with the State Department of Co-operation were appointed on the Board of only 5 banks (Table 17).

5.35 Another feature that emerged from our study of the functioning of the Boards was the frequency of the absence of the Central Government nominees from meetings of the Board, particularly in the far off places like Bellary and places difficult to reach such as Koraput, Champaran and Hoshangabad. Discreet discussions with the Chairmen of the RRBs also revealed that the participation of the Central Government nominees (except from RBI) was somewhat casual.

(b) *Staff*

5.36 Under the RRB Act, the RRB was to recruit officers and staff required for efficient performance of its functions. It was also provided that during the first five years of its working, the Sponsor Bank, on request from the RRB, may depute its officers and staff as required by the RRB. In this regard the Working Group had suggested that the recruitment of staff should be made from within the area of operation of the RRB.

5.37 The surveyed RRBs had succeeded to a considerable extent in ensuring rural orientation and local touch in the appointment of their staff. More than 94 per cent of the staff (officer, clerical and technical taken together) was locally recruited in the case of 5 banks viz., Khammam, Bhojpur-Rohtas, Champaran, Gorakhpur and Mallabhum ; in the remaining banks also, except in Cannanore, the percentage was over 70. The Cannanore bank, being relatively new, worked on the strength of the staff on deputation from the Sponsor Bank (Table 18). Another feature worth mentioning was that in almost all the cases, the technical and clerical staff was recruited locally; the staff from the Sponsor Bank being confined to the officers cadre. Since the clerical and technical staff deals with day-to-day banking operations of the rural borrowers with whom they are familiar, this could be viewed as a significant contribution in imparting a rural touch to the functioning of the RRBs.

#### OVERALL ASSESSMENT

5.38 From the preceding paragraphs it is clear that by and large the RRBs surveyed have been working in the right direction for fulfilling the objectives set out for them. The performance of these banks of course varies in many respects. It is, therefore, necessary to rate the individual banks according to their performance with reference to certain indicators like deposit mobilisation, branch expansion, credit purveyed, etc. In this section indivi-

TABLE- 17: GOVERNMENT NOMINEES ON BOARD OF DIRECTORS OF SURVEYED RRBs  
(Their Department and Normal Place of work)

Name of the RRB	Agriculture Department		Development Department		Industries Department		Co-operation Department		Finance Department		Planning Department		Revenue and Banking Departments (including RBI)	
	Central	State	Central	State	Central	State	Central	State	Central	State	Central	State	Central	State
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1. Bellary	—	—	—	2 Raichur	—	—	2 Delhi	1 Raichur	—	—	—	—	3 Delhi(2)	—
2. Bhojpur-Rohtas ..	1 Delhi	—	—	2 Bhojpur-Rohtas	—	—	—	—	—	—	—	—	2 Delhi	—
3. Champaran	1 Delhi	—	—	2 East Champaran West Champaran	—	—	—	—	1 Delhi	—	—	—	1 Patna	—
4. Hoshangabad ..	1 Delhi	1 Bhopal	—	—	—	—	—	1 Bhopal	—	—	—	—	2 Delhi	—
5. Jaipur-Nagaur ..	1 Delhi	—	—	1 Jaipur@	—	—	—	—	—	1 Jaipur	—	—	2 Delhi	—
6. Koraput ..	—	—	—	1 Koraput	—	—	—	1 Jeypore	—	—	—	—	1 Bhubaneswar	1 Bhubaneswar
7. Moradabad	—	1 Lucknow	—	—	—	—	—	—	1 Delhi	1 Delhi	1 Lucknow	—	2 Delhi	—
8. Bhiwani ..	—	1 Chandigarh	—	—	—	—	—	1 Delhi	—	1 Delhi	—	—	1 Delhi	—
9. Gorakhpur	1 Delhi	—	—	1 Gorakhpur	—	—	—	—	—	—	—	—	2 Delhi	—
10. Cannanore	—	—	—	—	—	—	1 Karsargod	—	1 Cannanore	—	1 Cochin	—	2 Delhi	—
11. Khammam	2 Delhi	—	—	—	—	—	—	—	1 Khammam	—	—	—	2 Delhi	—
12. Mallabhum	—	—	—	1 Burdwan	—	—	—	—	—	—	—	1 Calcutta	2 Delhi	1 Calcutta
All Surveyed RRBs ..	6	3	—	7	—	1	2	5	4	3	—	1	12	2

@ MLA., Zilla Pramukh, Jaipur.

TABLE—18: STAFF POSITION OF SURVEYED RRBs

Name of the RRB	Officers			Clerical			Technical			Total Staff	Of which	
	On Depu- tation	Recruited locally	Total	On Depu- tation	Recruited locally	Total	On Depu- tation	Recruited locally	Total		On Depu- tation	Recruited locally
	1	2	3	4	5	6	7	8	9		11	12
1. Bellary ..	26 (34.2)	50 (65.8)	76	1 (1.2)	80 (98.8)	81	—	1 (100.0)	1	158	27 (17.1)	131 (82.9)
2. Bhojpur- Rohtas ..	1 (3.3)	29 (96.7)	30	—	9 (100.0)	9	1 (3.6)	27 (96.4)	28	67	2 (3.0)	65 (97.0)
3. Champaran	2 (8.0)	25 (92.8)	27	—	27 (100.0)	27	—	21 (100.0)	21	75	2 (2.7)	73 (97.3)
4. Hoshanga- bad ..	20 (51.3)	19 (48.7)	39	—	29 (100.0)	29	5 (19.2)	21 (80.8)	26	94	25 (26.6)	69 (73.4)
5. Jaipur	22 (40.2)	32 (59.8)	54	15 (29.4)	36 (70.6)	51	—	16 (100.0)	16	121	37 (30.6)	84 (69.4)
6. Koraput ..	15 (55.6)	12 (44.4)	27	—	22 (100.0)	22	1 (6.3)	15 (93.7)	16	65	16 (24.6)	49 (75.4)
7. Moradabad	15 (33.3)	30 (66.7)	45	—	40 (100.0)	40	1 (5.3)	18 (94.7)	19	104	17 (16.3)	87 (83.7)
8. Bhiwani ..	2 (20.0)	8 (80.0)	10	—	41 (100.0)	41	2 (8.2)	23 (92.0)	25	76	4 (5.3)	72 (94.7)
9. Gorakhpur	22 (44.0)	28 (56.0)	50	—	35 (100.0)	35	1 (1.7)	59 (98.3)	60	145	23 (15.9)	122 (84.1)
10. Cannanore	13 (100.0)	—	13	11 (100.0)	—	11	—	—	—	24	24 (100.0)	—
11. Khammam	4 (6.1)	62 (93.9)	66	—	63 (100.0)	63	1 (1.2)	85 (98.8)	86	215	5 (2.3)	210 (97.7)
12. Mallabhum	4 (14.8)	23 (85.2)	27	—	34 (100.0)	34	—	19 (100.0)	19	80	5 (6.3)	75 (93.7)

Note : Figures in brackets denote percentages to each total.

dual banks are rated according to their performance with reference to following 11 indicators: (i) the number of branches, (ii) villages served per branch, (iii) population served per branch, (iv) size of deposit mobilisation, (v) credit-deposit ratio, (vi) deposits per account, (vii) size of loans/advances, (viii) advances per account, (ix) availability of credit per 1000 rural population in the district, (x) proportion of RRBs advances to agricultural and allied activities to commercial and co-operative banks advances and (xi) proportion of overdues to demand. The methodology adopted for this is as under : To eliminate the difference in the operational aspects of the banks, quarterly growth rates were worked out in respect of all the banks. For rating the banks in respect of each of these 11 indicators, the average value of 12 banks is first computed. When the value of the individual bank in respect of that indicator is above 25 per cent of the 'average', the bank's performance is classified as good for that indicator. When it is below 25 per cent of the 'average' it is ranked as poor. The banks falling in between these two levels are judged as average. Results obtained are given in Annexure 5.2 The final assessment is made on the basis of the eleven indicators taken together. To arrive at this consolidated assessment, score card method has been used. For each 'good' rank a score of three, for each 'average' rank a score of two and for each 'poor' rank a score of one is given. Further, banks securing upto 40 per cent of the score have been classified as 'poor', those falling between 40 and 60 per cent of the score 'average' and those securing above 60 per cent as 'good'. Results thus obtained are set out below :

<u>Good</u>	<u>Average</u>	<u>Poor</u>
(1) Khammam	(1) Bellary	(1) Cannanore
(2) Gorakhpur	(2) Champaran	
(3) Jaipur	(3) Bhojpur	
(4) Koraput	(4) Mallabhum	
(5) Bhiwani	(5) Moradabad	
	(6) Hoshangabad	

5.39 It would be seen from the above ranking that out of the 12 banks, 5 banks viz., Khammam, Gorakhpur, Jaipur, Koraput and Bhiwani got 'good' ranking whereas only one viz., Cannanore is ranked 'poor'. The performance of remaining 6 banks viz., Bellary, Bhojpur, Champaran, Mallabhum, Moradabad and Hoshangabad was rated as 'average'. Of the five 'good' banks 3 banks viz., Gorakhpur, Bhiwani and Jaipur were the oldest banks as these were set up in the very first month in which the RRB scheme was launched; Khammam also came into existence quite early, in April 1976. Only the bank at

Koraput was a late starter in the field of all five 'good' banks. The State Government gave a good boost to the Gorakhpur bank by ceding a large number of farmers' service societies to it. In Koraput, large-sized adivasi multi-purpose societies were ceded to the RRB. The response from the State Governmental agencies to the banks at Khammam, Koraput, Gorakhpur and Bhiwani was very encouraging. The State officials whom the field staff met acknowledged the effective and useful role of the RRB in assisting the development programmes of the State Governments. They have enthusiastically associated RRBs in the various schemes for the development of small/marginal farmers and tribal population.

5.40 As for the Cannanore bank though arrangements were made to establish the bank by August 15, 1976, it could not be inaugurated till December 1976. Neither were the societies ceded to it, nor was it permitted to sponsor any FSS. Because of such inhibitions, the bank could not make much progress and in the ultimate analysis its performance was found to be 'poor'. Had the desired degree of co-operation from the concerned State Governments and co-operatives become available, many of the banks classified as 'average' could have qualified as 'good'. The crucial factor in the success or other-wise of the bank, apart from locational suitability, thus seems to be the acceptance of the RRB pattern by the State Government and its active assistance to it. Other types of support follow logically.

5.41 It is interesting to note that out of the 5 banks whose performance is rated 'good'; 3 have been sponsored by the State Bank of India. Incidentally it may also be mentioned that in our sample of the RRBs surveyed, there were 3 banks sponsored by the State Bank of India and all the three banks' performance was good. The Sponsor Banks' co-operation and initiative in releasing staff to RRB in the initial stages, contributed to their success.

#### CEDING OF SOCIETIES

5.42 One of the major planks of Regional Rural Bank Scheme was channelling of credit through the PACS/FSS. Though, in 5 out of 12 surveyed RRBs, some PACS/FSS had been ceded, an examination of the progress of ceding of societies made in all the surveyed districts, however, clearly brings forth the point, that the policy of ceding societies to facilitate larger lending from the RRBs has not evoked much response.

5.43 In Jaipur, the State Government had directed that 8 Panchayat Samitis may be allotted to the RRB, but the DCCB was not agreeable to part with societies which they had developed. In Hoshangabad, though 20 FSS were to be transferred to the RRB, none except one, had yet been ceded. In Khammam, Moradabad and Champaran also, the question of ceding of societies had made no progress owing to the opposition of the DCCBs and dispute regarding the societies to be delinked. In Bhojpur and Bhiwani, as a result of the RRBs persistent efforts, the co-operators agreed in the consultative

committee meeting to cede the societies but the implementation of the decision was withheld and delayed. In Gorakhpur and Mallabhum, it was observed that some societies (3 and 5 respectively) were ceded in the initial period. Later, however, resistance developed on the part of DCCBs to cede societies and not a single society was ceded thereafter. In fact, in Gorakhpur, even though resolutions for merger were passed by members in some societies, no progress could be made in this respect. In Cannanore, the authorities not only refused to cede any societies but did not even allow the bank to organise any farmers' service society. It was only in Bellary that as many as 20 FSS were ceded to the RRB. Similarly in Koraput, the DCCB had passed a resolution to cede 7 LAMPS of which 3 have already been ceded on the favourable terms to the RRB by way of a mix of good and bad societies. The good rapport between the DCCBs and the RRBs witnessed in Bellary and Koraput was mainly on account of appreciation of the role of RRBs by the senior Government Officials who were functioning as the Administrators of the district banks. Secondly, the fact that the Joint-Registrars of Co-operative Societies had been nominated as directors on the RRB Boards also helped for closer co-operation. Further in Koraput, the DCCB president was also on the RRB Board. These factors have facilitated the process of ceding societies to these two RRBs. The non-official co-operators in these districts, however, opined in private that the ceding was managed departmentally, and when the managements change, they will strive for delinking these societies from RRB.

#### FINANCIAL VIABILITY

5.44 On the question of financial viability and the time dimension within which it was to be achieved, the Working Group on Rural Banks had stated that "where the objective of the type of financial institutions (RRBs) is socio-economic, an initial period of financial loss may well be a price worth paying for the achievement of the larger social objective of widening the area of credit coverage"

5.45 In this section, an attempt is made to analyse the financial results of the working of a few of the RRBs which have been in operation for about one year by end-December 1976. In Table 19, data on expenditure and income of 9 RRBs are presented for the year 1976. As may be seen, on the expenditure side, the major item is salary of staff (and other allowances) which varies considerably from one RRB to another, depending on the total strength of staff and the proportion of the deputation staff. The salary of deputed staff is now paid by the Sponsor Bank which in the years to come will have to be borne by the RRB itself. Therefore, against this major item, two sets of figures are given. (1) actual expenditure incurred by the RRB and (2) the expenditure that would have been incurred if the RRB itself were to pay the salary of the entire staff according to its own scales of pay, etc. The other common items of expenditure are: rent, taxes, postage, stationery, etc. On

TABLE—19: EXPENDITURE ON SALARIES, ESTABLISHMENT AND INCOME OF SELECTED RRBs FOR THE YEAR ENDED  
DECEMBER 1976

Items of Expenditure	(Amount in Rs. lakhs)										
	Jaipur- Nagaur RRB (Rajas- than)	Bhojpur- Rohtas R&B (Bihar)	Cham- paran RRB (Bihar)	Tunga- bhadra RRB (Kar- nata ka)	Hosha- ngabad RRB (Ma- dhya Pradesh)	Pratha- ma RRB Mora- dabad (Uttar Pradesh)	Bhi- wani RRB (Har- yana)	Gorakh- pur RRB (Uttar Pra- desh)	Kham- mam RRB (Andhra Pradesh)	Ave- rage of 9 RRBs	Per Branch Average
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Number of Branches .. .. .	31	26	24	20	20	20	20	29	50	27	
1. Salary and other allowances ..	1.36 7.80*	0.94 4.44*	0.40 0.76*	1.64 7.32*	0.35 4.60*	0.75 5.08*	1.70 1.93*	1.50 4.13*	2.08 2.63*	1.20 4.30*	0.04 0.16*
2. Rent, taxes, etc. . .	0.28	0.22	0.13	0.15	0.18	0.15	0.24	0.51	0.28	0.24	0.01
3. Postages .. .. .	0.17	0.02	0.03	0.06	0.06	0.03	0.01	0.07	0.07	0.06	Neg.
4. Stationery, printing, etc ..	0.72	0.37	0.15	0.35	0.35	0.35	0.19	0.40	0.18	0.34	0.01
5. Misc. expenditure & provisions ..	0.50	0.95	0.51	0.75	0.93	0.89	0.93	1.06	0.57	0.79	0.03
6. Total (1 to 5) .. .. .	3.03 9.47*	2.49 5.99*	1.22 1.58*	2.95 8.63*	1.87 5.12*	2.17 6.50*	2.07 3.30*	3.54 6.17*	3.18 3.73*	2.61 5.61*	0.10 0.22*
7. Interest and discount received ..	4.24	2.63	1.68	3.74	0.88	3.16	3.98	6.77	4.68	3.53	0.13
8. Interest paid .. .. .	0.66	0.25	0.04	0.65	0.05	0.89	0.47	2.37	1.59	0.77	0.03
9. Gross Income (7—8) .. .. .	3.58	2.38	1.64	3.09	0.83	2.27	3.51	4.40	3.09	2.75	0.10
10. Gross Resources (Working funds)	96.22	38.82	44.50	62.36	38.98	79.26	50.11	126.16	232.45	85.43	3.16
11. Rate of returns on resources .. (9 as percentage of 10)	3.72	6.13	3.69	4.96	2.13	2.86	7.00	3.49	1.33	3.92	4.00
12. Loan Business(As on last friday of Dec. 1976)	52.58	25.43	19.99	49.96	16.34	40.15	37.45	62.02	119.75	47.07	1.74

\* Presuming salary is being paid by RRB to its all staff members including the Staff on deputation as per RRB pay scales.  
Neg. = Negligible.



the income side, the main item is 'interest received' which when netted for the item 'interest paid' on deposits and borrowings gives the figure of gross income.

5.46 If these figures of total expenditure and gross income are compared, it would appear that, under the present arrangement, where the salary of the deputed staff is paid by the Sponsor Bank, most of the RRBs are able to balance their expenditure and income. The per RRB and per branch averages shown in the last two columns also indicate the same position. The per branch average (last column) shows that the total actual expenditure of Rs. 10,000 is met by an equal amount of gross income. However, if the branch were to meet the entire salary expenditure, the total expenditure would go up to Rs. 22,000, the income remaining same at Rs. 10,000. Thus for a branch to be self-sufficient, its present income has to be doubled.

5.47 It would also be seen from item 12 in Table 19, that the average return on total working funds of these RRBs works out to about 4 per cent per annum. One important limitation of these data must be mentioned here. In relation to the average rate of interest charged (12-13% per annum) on advances and that paid on deposits and borrowings (8% per annum) by the RRBs, the amounts of interest received and paid by them appear to be small. This may be because both the advances and deposits have not run the full course of a year since the profit and loss accounts used for this purpose relate to the year of inception in the case of most of these banks. Information received from some Sponsor Banks (please see Annexure 5.3) also show that this rate of return was generally around 4 per cent.

5.48 Thus a RRB branch to be self-sufficient has to increase its annual income by Rs. 12,000, on an average, and at the average rate of return of 4 per cent this means additional loan business of Rs. 3 lakhs per branch, over and above the existing average loan business of Rs. 1.74 lakhs or total business of Rs. 4.74 lakhs. But this is a static picture. There are number of items on which the expenditure would also increase. Firstly, the RRBs are not presently equipped with the full complement of staff required for efficient working; their head offices will have to be strengthened as their number of branches and loan business grow so as to provide effective supervision. Also there will be natural growth in expenditure due to annual increments to staff. The expenditure on these counts can be expected to increase at the rate of 15 per cent per annum i.e., at about Rs. 3,500 per branch. The Working Group had suggested that dividend at 8 per cent should be paid to the local shareholders whose participation was expected around 15 per cent of the capital. This would mean an expenditure of about Rs. 36,000 per RRB or a little over Rs. 1,500 per branch at the existing rate of 27 branches per RRB. If roughly we put these prospective expenditures at Rs. 5,000 to Rs. 7,000 per branch, additional loan business of Rs. 1.25 lakhs to Rs. 1.75 lakhs per branch would be necessary. Thus taking all factors into consideration to be self-sufficient a branch of a RRB will have to have total loan business of Rs. 6.00

lakhs to Rs. 6.50 lakhs. For one RRB with 30 branches, the loan business will have to be around Rs. 2 crores or for one with 50 branches, the business will have to rise to about Rs. 3 crores per annum to be self-sufficient. A comparison with the DCCBs position in this respect will be in order as their staff and other working conditions are akin to those of RRBs. At the end of June 1976, the 344 DCCBs had 5477 offices and with outstanding loans of Rs. 1,428 crores, this works out to 16 branches and Rs. 4.1 crores of loan business per DCCB. On an average, each DCCB had recorded a profit of Rs. 7 lakhs after meeting the cost of management. Comparison with small-sized commercial banks whose expenses ratio must be higher than that of RRBs will also be useful here. Two of the non-scheduled commercial banks with about 50 branches each have recorded profitable working during 1975 with loans and advances business of around Rs. 5 crores each. Hence, a RRB will have to put its sight higher than a business of Rs. 3 crores, if it is to earn profits to build up efficient credit delivery and supervision system and the required bad debt and other reserves.

5.49 The crucial point, however, is whether and when it would be possible for a RRB to reach this level of business. Presently the average loan business of the selected RRBs is about Rs. 47 lakhs and this is to be raised to Rs. 2 crores or a little over four times. The discussion in the earlier section has pointed out that with their present level of business, the RRBs surveyed have assisted only a small proportion of the weaker sections in their area. This shows that there is enough scope for the RRBs to expand their business even among small farmers, rural artisans, etc. If they are allowed to purvey credit to other deserving sections of rural economy, this will perhaps help them better to mobilise local deposits and also expand loan business. Alongside this, under the present arrangements, there should be no difficulty for the RRBs in respect of resources for lending. Between December 1973 and December 1975, the rural advances of commercial banks have increased from Rs. 379 crores to Rs. 608 crores or at an annual average rate of 30 per cent. In view of the progress made by the RRBs during the short period of their working so far, their loan business could be expected to rise at a higher rate between 50 to 60 per cent per annum. On this basis, it would appear that the RRBs can attain financial viability during the next 3 to 4 years and may be able to reduce progressively their dependence on RBI/Sponsor Banks thereafter, provided of course, the RRBs make innovative efforts towards steadily increasing their lending business. The above conclusion is based on the overall performance of the RRBs: Some of them will be above the average while some others below the average in their performance. Consequently, those in the latter category will have to put in concerted efforts to attain financial viability.

#### CONCLUDING OBSERVATIONS

5.50 In this section, we sum up the main conclusions of our assessment. The location of the RRBs was found to be justified in most areas considering the wide credit gap, weak co-operative credit structure and agricultural potential

in these areas. The performance of the banks, within the time constraint, was appraised as good judged both by quantitative and qualitative tests such as branch expansion, lending operations and mobilisation of deposits. The financial results of the working of some of these banks do show that RRBs have the potential and capability to attain financial viability and become a profit making institution at a level of business of about Rs. 3 crores, which could be expected to be reached in about 3 to 4 years. Akin to financial viability is the question of increasing deployment of local resources. As revealed by their credit-deposit ratio, RRBs' performance was distinctly superior when compared to that of rural branches of commercial banks. The RRBs had succeeded to a great extent in taking banking to hitherto unbanked/under-banked centres in the remote rural areas of the country. They opened over 300 branches which came to one-third of the branches opened by commercial banks in the respective districts. Considering the staffing pattern, it could be said that the banks had succeeded in imparting rural orientation and local touch to their operations. An assessment of quality of lending of RRB compared to that of rural branches of commercial banks showed that the credit administration of the former was in many respects better and more responsive to rural needs. The overall recovery performance was good. Only in the matter of coverage of the weaker sections, there is much leeway to be made good.

5.51 During the course of the field study, the reaction of different sections of the rural community to this new credit institution was sought to be ascertained. These discussions revealed three trends of reaction. First, in all the surveyed districts, the weaker sections of the population have warmly welcomed the RRB. In some districts like Koraput and Hoshangabad, the weaker sections were found to be excited about the new credit institution. On the other hand, in almost all the districts, the overwhelming view of co-operative interests was not in favour of RRB. Only in Koraput (being a tribal region where there is vast scope for any institution), the opposition by co-operative leadership was not strong. In four of the districts, the DCCB officials felt that the RRBs would affect their business. The reaction of the officials of commercial banks operating in the surveyed RRB districts was a mixed one. In Bellary and Jaipur, the commercial banks apprehended that the RRBs would affect their deposits. In all other districts, however, the commercial banks did not visualise any adverse impact on their operations and accepted the RRB as a partner in the big task of meeting the rural credit needs.

5.52 All in all, it may be said that public response to this new institution was found to be generally favourable. The scheme of ceding of societies was, however, found to have met with difficulties in almost all the RRBs. On the other hand, where the State Government was keen to make full use of the new institution, the RRBs fared better.

## CHAPTER 6

### RECOMMENDATIONS

Having reviewed the various issues connected with the problem of rural credit, we submit our recommendations in this final Chapter. This we do in two parts. Part one deals with the organisational structure of rural credit institutions and the place of the RRBs in it. In part two, we deal with specific issues concerning the RRBs, such as its constitution, its functions and the system of control and regulation.

#### *Rural Credit Structure*

6.1 The first question the Committee had to examine was whether, in the light of the performance of the RRBs during the past two years or so and the views expressed before the Committee by persons, institutions and organisations vitally concerned with the problem of rural credit, this institutional innovation was well conceived and, if properly operated, would strengthen the rural credit structure. The Committee is definitely of the view that the RRBs, with some modifications in their organization and functions can become a very useful component in the totality of rural credit structure. In fact, we are convinced that such an institution is needed to make good some of the inadequacies in the existing rural credit system.

6.2 The main issue for consideration now is to take a view on the future programme of extension of the RRBs to other areas. The Committee has two options before it: (1) to suggest that further expansion of the RRBs be restricted selectively only to such areas where both the cooperative and commercial credit structures are weak or inadequate or (2) to suggest that the RRB pattern should become an integral part of the rural credit structure in India.

6.3 The Working Group on Rural Banks had taken the view that "the role of the new institution (RRB) would be to supplement and not supplant the other credit institutions in the field." This condition was easier to fulfil in the initial stage in which the RRBs were not supposed to become "a pattern for reorganisation of the rural credit institutions in the country as a whole." For good or bad, as the situation exists, the RRBs have crossed the experimental stage, and have become a part, though a tiny one, of the rural credit structure. Though the expansion of the RRBs from 5 to 48 was needlessly hurried as stated before, in our view, they have displayed a potential for making a significant contribution to filling-up the credit gap. Even so, the choice exists to restrict their expansion (or even to stop further expansion) to areas where both the co-operative and commercial credit structures are

weak or recommend its full-fledged expansion with a view to making them an integral part of the rural credit system.

6.4 If the first alternative were to be accepted, the Committee's task would be easy. In that case, all that the Committee has to do is to recommend some modification in the composition and functioning of the RRBs to improve their efficiency and utility. This we do in any case. The Committee, however, feels that the RRBs can make a substantial contribution towards improving the quality and quantity of credit flows to the rural areas by becoming an integral part of the rural credit structure. The two options are not however exclusive. They can be phased out in two stages. In the first phase, the RRBs could be extended selectively on the basis of the criteria indicated by the Working Group. If the scheme proves successful in widening the flow of rural credit and channeling it in the desired direction, the case for making it an integral part of the rural credit structure will be stronger. All the same, the Committee would like to explain why it prefers the second alternative.

6.5 There are two difficulties in accepting the argument in favour of limited expansion. The scheme propounded by the Working Group envisages combination of two criteria for establishing the rural banks: (1) weakness of both the co-operative and commercial credit structures and (2) existence of a high development potential. The Group gave some examples of areas where both these conditions are satisfied. In our view, such areas would not be many. Commercial banks, if not the co-operatives, would be quick to seize the opportunity of entering the areas which have a high development potential. Limiting the expansion of the RRBs only to areas which satisfy both the conditions stipulated by the Working Group would severely restrict their scope.

6.6 A much stronger case for a more full-fledged expansion of RRBs is based on our view that the credit gap as defined by us is not so area specific. Our discussion of the credit gap in an earlier Chapter indicates that the qualitative and quantitative dimensions of the credit gap are such that neither the commercial banks with their high cost of operations and remoteness nor the co-operatives, even assuming that many of their current shortcomings would be overcome in course of time, would be able to fill up.

6.7 If our recommendation that the RRBs should become an integral part of the rural credit structure is to be accepted, it would be necessary to convince the policy maker and the existing credit institutions, especially the co-operatives, that the RRB will not "create new problems and add to confusion." Given a climate of mutual understanding, it should be possible to avoid to a considerable extent "duplication of functions, overlapping of activities and overfinancing."

6.8 In order to establish this proposition, it is necessary to indicate the design of the total rural credit structure as it will emerge with the establishment of the RRBs. The co-operative credit structure will not be disturbed at the base level. We assume that the reorganised Primary Agricultural Credit Societies (PACS) and Farmers' Service Societies (FSS) wherever they can be effectively organised will constitute the base of the rural credit structure. We are fully aware of the weaknesses and shortcomings of the PACS and also of the fact that strenuous efforts made over the past almost two decades to put them on a sound footing have not yielded expected results. Yet we are firmly of the opinion that there are no short-cuts to strengthening the co-operative credit structure at the base level. We would go further and state that no innovation however ingenious at the intermediate level can wholly make good the deficiencies of the base level institutions.

6.9 After all, there were 1,34,838 PACS in 1975-76, with a membership of 395 lakhs and 'serving' 5,25,743 villages. Their existence cannot be wished away. There is no alternative to intensifying efforts to strengthen them, reorganise them, revitalise them and wherever possible assist them to graduate into FSS.

6.10 Our general approach to the base level rural credit structure is that institutions at this level should be relatively simple and easy to organise; they should not be loaded with functions which are so numerous and complex as to require a level of managerial and technical competence difficult to muster at the base level. We do appreciate the argument that the farmer should be able to obtain all his requirements for current and term credit, farm input supplies, marketing, extension service at a single point of contact. But this is an ideal which can be achieved progressively over a period of time. As the situation exists, a large number of PACS are not competent enough to perform even their prime function of providing credit efficiently. Yet they are the only institution which 'cover' — whatever that phrase means — 90 per cent of Indian villages. The argument for 'replacing' them by the FSS as advanced by the National Commission on Agriculture (NCA), or for 'converting' them into rural banks as advocated by the Banking Commission derives its rationale from (a) the urgency of meeting the credit requirements, especially those of the weaker sections of the rural community and (b) the need to provide a package of services without which credit becomes infructuous. We do not question the importance of both these desiderata. Our only contention is that these objectives can be achieved only by strengthening the existing institutions and giving them proper reorientation rather than replacing them by brand new institutions.

6.11 An institutional device however perfect conceptually, cannot be imposed from above. Besides, as the Working Group on Rural Banks has rightly observed, "No credit agency would be in a position to make much progress without the active co-operation of the State Government". In the

Working Group's scheme as well as ours, the RRBs would function at the intermediate level. It is at this level that the question of their relationship—vertical and horizontal—needs to be examined and clarified. Since the RRBs are to be sponsored by the commercial banks, the mutual relationship between them will have to be defined. This we do under a separate recommendation later.

6.12 The other critical decision will be regarding the relationship between the RRBs and the rural branches of the commercial banks. The commercial banks themselves will have to take a view on this issue. Our impression is that the commercial banks would prefer to meet the credit requirements of the rural areas through the RRBs and their branches rather than have their own network of rural branches. The RBI may discuss this issue with the commercial banks and take a decision regarding further licensing of rural branches. It is obvious that the two patterns—one of RRB and its branches and the other of a rural branch network of commercial banks—cannot co-exist if duplication is to be avoided. On this point the Working Group had suggested that “where a branch of the commercial bank (or central co-operative bank—with which we deal later) has been working with conspicuous success, the intention is definitely not to interfere with their functioning. But where they may not be functioning effectively within the rural bank's area of operation, the rural bank should be permitted to cover the areas ill served by them.” The approach adopted by the Working Group on this issue was alright so long as the RRBs were to be established on a selective basis. It will however not serve as a guideline, if as recommended by us, the RRBs are to become an integral part of the rural credit structure.

6.13 Under our scheme, where the RRBs are established, there should be a definite understanding that all commercial banks—not only the Sponsoring Bank—will hand over, in a phased manner, such of their rural credit business to the RRB as would fall within its jurisdiction or which it can effectively handle. This will not be an easy operation inasmuch as at the end of June 1977 there were 9536 rural branches (including 780 RRB branches) of commercial banks. Our reasons for preferring the system of RRBs in place of the commercial banks' rural branch network are the same as advanced by the Working Group, namely, its comparative simplicity, lower cost of operation, local involvement through appropriate staffing pattern and participation in the share capital, etc. Additionally, we find that the business operations of the RRBs, even during this infant stage, have been more varied and more in tune with the social purpose the Government has in view compared to the business of the rural branches of the commercial banks.

6.14 If this recommendation gives an impression that it would provide a good excuse for the commercial banks to relieve themselves of the onerous responsibility of catering to the credit requirements of the rural areas, it

would be completely erroneous. The responsibility of making a success of the RRB system will rest mainly on the commercial banks and it is upto them to ensure that the replacement of their rural branch network by the RRB is accomplished in a manner which will not slacken the pace of their involvement in the rural credit business.

6.15 The question of RRB's relationship with the co-operative credit structure both at the intermediate level (DCCBs) and at the retail level with the PACS and FSS is more complex. Where the co-operative structure at both these levels is weak and inadequate, the RRBs can fill up the gap. The RRBs with the approval of the co-operative leadership and the State Government can help to strengthen the retail level co-operative societies by routing their credit through them, as is being done by the commercial banks under the system of financing of the PACS.

6.16 At the intermediate level, as has been pointed out earlier, as many as 182 DCCBs out of 344 are weak and non-viable. In the first instance, the RRB system should be extended to such areas where the DCCBs are not able to adequately serve the PACS within their jurisdiction.

6.17 There are however areas where the co-operative structure at the intermediate level is fairly strong. The question then arises whether the RRB pattern and the co-operative pattern at the intermediate level (DCCB) can coexist without inviting the danger of overlapping and clash of interest. We feel that the credit gap, both quantitative and qualitative, is so large that given a spirit of understanding, both the RRBs and DCCBs can function side by side without a clash of interest. The competition from the RRBs which the DCCBs will face will be no more acute than what they are facing today from the commercial banks and their rural branches.

6.18 Besides, as is evident from our review of rural credit in Chapter 3, the type of financing done by the two systems is not wholly identical. Leaving aside the question of long-term finance, the co-operatives have an edge over the commercial banks in the matter of crop loans, and the latter have succeeded more in the field of medium-term loans.<sup>1</sup> More importantly, the co-operatives by and large, confine their agricultural lending mostly to seasonal finance<sup>2</sup>. Diversification of agriculture through horticulture, animal husbandry, forestry, etc., will swell the demand for credit which the co-operatives alone will not be able to meet. In the scheme of rural development envisaged by the Government, the requirements of non-agricultural

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1. More than 50 per cent of the term loans issued in 1975-76 by the DCCBs and branches of State Co-operative Banks was for "conversion/rescheduling/replacement of short-term loans." The corresponding percentage in the case of PACS was 42.6.

2. Ninety-four per cent of short-term loans issued by PACS was for "seasonal operations— inclusive of seeds and fertilisers." The commercial banks' direct finance to farmers was more diversified, 'allied activities' like dairying, fisheries, poultry, etc., constituting 15.7 per cent of their direct finance issued during 1975-76.



finance — for small-scale and cottage industries, repair shops, processing of farm and forest-based products, farm input supply industries, fisheries, fair-price shops, etc., will expand considerably, and the RRBs with the support of the commercial banks will be in a better position to meet them.

6.19 To sum up, policy makers have three options before them :

(1) To scrap the RRB structure, or (2) To proceed on a selective basis with the extension programme of establishing RRBs, on the basis of the criteria indicated by the Working Group on Rural Banks, and more particularly where the co-operative structure at the intermediate level (DCCBs) is weak, or (3) To adopt the RRB pattern for the bulk of rural credit business of commercial banks.

6.20 Our review of the performance of the RRBs has convinced us that in spite of the handicaps any innovation has to face initially, within a short span of two years, the RRBs have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was hitherto not available. The Committee is therefore definitely against the idea of scrapping the RRB structure.

6.21 In Chapter 3, we have reviewed at some length the quantitative and qualitative aspects of the credit gap in the rural sector, the flow of credit and the channels through which the flow takes place. Based on this assessment, we have come to the conclusion that the RRBs are well suited for the purpose of progressively filling up the credit gap and therefore the programme for the establishment of the RRBs deserves to be accelerated. In our view, the most relevant criterion for the selective extension of the RRB system is the state of the co-operative credit structure at the district level. As referred to in an earlier paragraph, in as many as 182 districts, the DCCBs are weak. The 48 RRBs cover 55 of these districts. To start with, the programme of establishing new RRBs may be implemented in the remaining 127 districts.

6.22 The Agricultural Credit Department (ACD) and the Department of Banking Operations and Development (DBOD) of RBI should jointly chalk out the programme of selection of areas for the establishment of new RRBs, in consultation with the State Governments and the commercial banks. If this recommendation is accepted, the only consequential requirement would be to persuade the commercial banks operating in the “command area” of the RRB to progressively entrust their rural credit business, which their rural branches are currently doing, to the RRB and its branches, keeping in view, the RRB’s capability to shoulder the responsibility.

6.23 The third alternative involves a radical innovation in as much as it envisages, over a period of time, total replacement of the rural branches of

the commercial banks by the RRBs and their branches. Above all it should have full support and concurrence of the commercial banking structure. Our impression is that the proposal would be acceptable to the commercial banks and the rural clientele would also welcome it.

6.24 It may be noted that of late there has been a rapid expansion of rural branches of commercial banks. Their number increased from 8836 as at the end of December 1976 to 9900 as at the end of August 1977, giving the rate of expansion of 133 branches per month.<sup>②</sup> In view of this, it is necessary to consider the question as to what should be the policy on the extension of rural branches of commercial banks during the first phase of selective establishment of the RRBs. We suggest that the RBI may discuss this question with the commercial banks and work out the modalities of the process. The commercial banks would be in a better position to make the choice only when they get a clear picture of the Government's policy on RRBs and particularly of the role and responsibilities of the commercial banks in assisting the RRB pattern to take shape. We may also mention that two Committees — one to study the multi-agency approach in agricultural financing under the chairmanship of Shri C. E. Kamath and another to study the functioning of public sector banks under the chairmanship of Shri James S. Raj — appointed by the RBI are currently looking into issues which are germane to this question. Their recommendations would be helpful in taking an appropriate decision in this regard.

6.25 The superiority of the RRB as an agency of rural credit over the rural branches of commercial banks is derived from its relatively lower cost of operation, its simplicity and low profile, local participation in its management, (with due safeguards against domination by vested interests) feel and familiarity of the local staff and close association of the district level agricultural and rural development agencies and personnel.

6.26 The Committee would therefore like to suggest that the Government of India and the RBI may take steps to initiate the process of making the RRBs an integral part of the rural credit structure.

### *Organisation and Functioning of the RRBs*

#### JURISDICTION OF THE RRBs

6.27 Ideally the jurisdiction of a rural bank should be confined to one district. A district is a well-established administrative entity. The identification of RRB with the local people and their problems may suffer if its jurisdiction becomes unduly large. Confining the jurisdiction of the RRB to

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② As per the latest available data, the number of rural branches of commercial banks increased by 2245 during 1977, reading 11,081 by the end of 1977 and thus registering the rate of expansion of 187 per month.

one district will also help it to remain in close contact with the development programmes of the district and with the co-operative and commercial banking institutions operating in that area. However, since the size and the state of economic development of districts vary a great deal, it would be advisable to retain some flexibility in this and other related matters. Normally, one RRB should cover a population of 10 to 15 lakhs.

6.28 From the angle of financial viability and managerial efficiency, the reasonable number of branches (per district) of each RRB will be between 50—60. This would mean that a RRB branch would have approximately a population of about 20,000 and an area roughly equal to that covered by 5 reorganised PACS.

6.29 The Overseeing Authority should have statutory powers to determine and alter the jurisdiction of each RRB as the situation warrants. Elsewhere, we have suggested that this Overseeing Authority should be vested in the RBI.

#### CONTROL AND REGULATION

6.30 The scheme of RRBs is being administered at present through a variety of control mechanisms. While the major responsibility of setting up a rural bank is on the sponsoring commercial bank — including the deputation of its officers to man the key posts in the RRB and providing financial support — on many crucial points such as location and licence, the decisions rest with (1) the Steering Committee appointed by the Central Government, (2) the State Government concerned and (3) the RBI. In our view, the system is needlessly cumbersome. As a first step in the process of simplification, we would suggest the withdrawal of the Central Government from the operational aspect of the scheme by winding up the Steering Committee. In the initial stage, since the concept of the RRB was new, a Steering Committee at the central level was necessary to ensure that the scheme was properly understood and implemented. Now that the scheme is fully operative, there is no longer any need to retain the steering function at the Central Government level. Such direction and guidance as the Central Government may like to provide can be done through the instrumentality of the RBI, which in any case is charged with the responsibility of overseeing the functioning of the commercial banks as well as the co-operative credit system. In view of the greater responsibilities devolving on the RBI and the innovative nature of the work involved in respect of RRBs, it will be necessary to have an appropriate organisational set up in the RBI to look after the RRB work.

6.31 Our subsequent recommendations in regard to participation in the share capital of the RRBs, the composition of Board of Directors and the appointment and accountability of the Chairman of the RRB would indicate the system of control and regulation we have in view.

## LINKAGE BETWEEN THE RRB AND THE SPONSORING BANK

6.32 Differing views have been expressed on the question of relationship of the Sponsoring Bank with the RRB. At one end, it is suggested that the RRB should be established as a subsidiary of the Sponsoring Bank; at the other, it is urged that sooner the umbilical cord is cut the better. Neither of the alternatives appears appropriate to us. Apart from the question of cost of operations, as a subsidiary of the commercial bank, the RRB will lose much of its distinctive image as an institution for the rural community on which the Working Group put much emphasis. The RRBs we visited did give us an impression of some distinctiveness, though in some quarters there is apprehension that the deputationists from the parent bank may bring their urban 'culture' with them. But this is a transitional arrangement and it will take some time and deliberate effort, particularly in the matter of recruitment of personnel, for the RRB to develop a distinctive image which we think is important. As subsidiaries of commercial banks, the RRBs would be hardly different from the existing rural branches of the commercial banks and the entire rationale for a separate type of rural credit institution would disappear. But the other extreme view under which the parent is expected to desert the child after giving birth to it is equally unappealing. Even a hard headed commercial institution cannot be expected to be endowed with such a degree of detachment. Apart from the transitional stage during which the Sponsoring Bank is expected to provide its personnel and technical guidance to get the RRB started, the RRB would require continuing support of the Sponsoring Bank in a variety of ways at least till the RRB pattern acquires a stature of a full-fledged credit structure. We do find it difficult to precisely specify the type of relationship which should exist between the Sponsoring Bank and its RRB, or coin a phrase for it, but neither do we think it is necessary to do so. Depending upon the stage of development of the region or of the RRB itself, the relationship should be allowed to evolve. The recommendations we have made in respect of (a) ownership of share capital, (b) composition of Board of Directors and (c) appointment of Chairman, etc., will help to develop appropriate relationship between the RRB and the Sponsoring Bank.

## SHARE CAPITAL

6.33 We endorse the recommendation of the Working Group on Rural Banks which had recommended that the authorised and paid-up share capital of the RRB should be Rs. 1 crore and Rs. 25 lakhs, respectively. The composition of shareholding recommended by the Group was as follows :

Central Government	..	50	per cent
Sponsor Bank		25	„
State Government		10	„
Local Participation	..	15	„

6.34 The RRB Act, however, deleted local participation in the share capital, retained the share of the Central Government at 50 per cent and enhanced the shares of the Sponsoring Bank and of the State Government to 35 per cent and 15 per cent, respectively.

6.35 In making their recommendations on the structure of share capital, the Working Group had argued that subscription to the share capital by co-operative banks/societies, other local institutions and individuals would help to foster a spirit of local participation. It had also recommended a minimum guaranteed dividend of 8 per cent which was equivalent to the interest paid by the commercial banks on one year's fixed deposits (in 1975).

6.36 It may be recalled that the Banking Commission had also recommended that 49 per cent of share capital of the rural banks as proposed by them, should be offered to the local people for subscription.

6.37 Differing views are held on the advisability of local participation in the share capital. One view is that local participation would provide a foothold to the RRB in the area of its operation and would enhance its acceptability, a consideration which has a significant bearing on the smooth functioning of the bank. On the other hand, it is argued that local participation in share capital will expose the bank to local vested interests. It may also hinder the bank in pursuing its objective of catering to the needs of the weaker sections of the community.

6.38 The Committee after weighing the arguments on both sides feels that there are distinct advantages in permitting local participation in the share capital of the RRB. A guaranteed dividend equivalent to the interest paid by the commercial banks on one year's fixed deposit as suggested earlier by the Working Group will be desirable to encourage such local participation. Such shareholding should be open to co-operatives, other local institutions and individuals within the jurisdiction of RRB. If there is a shortfall in the share of the local participation, it may be filled up by the Sponsoring Bank or the RBI, with the provision that as and when the local demand for subscription comes up, the shares so held may be released to the eligible institutions and individuals. We also suggest that hereafter the RBI, instead of the Central Government, may contribute to the share capital of the RRB and necessary provision may be made for this.

6.39 We are suggesting the augmentation of the share of Sponsoring Banks from the present 35 per cent to 40 per cent to make it commensurate with their responsibilities in setting up the RRBs.

6.40 In the light of these recommendations, the composition of the share capital will be as follows :

Reserve Bank of India	..	25	per cent
Sponsoring Bank	..	40	„
State Government	..	15	„
Local participation		20	„

#### APPOINTMENT OF BOARD OF DIRECTORS

6.41 Regarding the RRB Board, its composition has to be such as to bring about involvement of district development officials, local knowledgeable persons and bank officials and a proper mix of banking, technical skills and local needs and aspirations. At present, the Board generally consists of not more than 8 Directors excluding the Chairman as shown below :

	<i>Central Government</i>	<i>Local Directors</i>	<i>Sponsor Bank</i>	<i>State Government</i>
Recommended by Working Group	3	2@	2	1
Under the RRB Act	3	—	3	2

6.42 We suggest that as a general pattern, the Board should consist of 8 members plus the Chairman — 3 nominees of Sponsor Bank, 1 RBI Official, 2 Officer-nominees of the State Government (preferably officials dealing with district development programmes) and 2 non-officials from amongst the local shareholders to be nominated by the RBI. As the Over-seeing Authority, the Reserve Bank should issue the notification regarding the appointment of the RRB Board.

#### APPOINTMENT OF THE RRB CHAIRMAN

6.43 At present, the Chairman is an officer deputed by the Sponsor Bank though in actual practice he is appointed by the Central Government. The Sponsor Banks are of the view that since they are responsible for the proper functioning of the RRB, it is necessary that the Chairman should be a person of their choice. On the other hand, there is apprehension that if the Chairman of the RRB is a person deputed by the Sponsoring Bank, he may bring his bank's culture with him which may not be in consonance with the concept of the RRB. While there are arguments both for and against the Chairman of the RRB being from the parent bank on deputation, the balance of advantage in the initial 3 to 5 years lies in having a nominee of the Sponsor Bank. Our suggestion therefore is that the first Chairman of the RRB should be nominated by the Sponsor Bank for an initial period of 3 to 5 years. Subsequent appointments should be made by the Board of Directors of the

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@ To be appointed by the Government of India from amongst the remaining shareholders.

concerned RRB with the concurrence of the RBI. We expect in course of time suitable and competent persons will be available for appointment as Chairman from within each RRB itself.

#### LOAN AND OTHER BANKING BUSINESS OF RRBs

6.44 The RRBs at present are precluded from advancing loans directly to large farmers. While we fully endorse the view that the RRBs should cater predominantly to the needs of the weaker section of rural clients, we think that the total exclusion of all other borrowers would not be advisable for a variety of reasons. For one thing, their exclusion would adversely affect deposit mobilisation by the RRBs and lead to excessive dependence on Sponsoring Banks and RBI for refinancing. Secondly, since the RRBs, at least in the first instance, are supposed to be established in areas where the existing credit facilities are inadequate, in the interest of agricultural development, normal credit facilities should not be denied to any class of farmers. However, to ensure that the large borrowers do not pre-empt the bulk of loanable funds of the RRBs and the RRBs retain their distinct mark as the bank of small man, we suggest that at least 60 per cent of the loans advanced by the RRB should be earmarked for the benefit of small farmers, rural artisans and other rural poor. Our attention has been drawn to the difficulty in devising a foolproof method to ensure faithful adherence to such stipulations. The RRB Act --- or Rules --- should provide adequate safeguards, including penalty for misrepresentation of the borrower's status, to ensure strict adherence to the quota provision. More than such earmarking of funds for advancing loans to the weaker sections, what matters is firstly the approach and attitude of the personnel dealing with this group of clients and operational procedures which are simple and easy to comply with. In respect of the remaining 40 per cent loans, there should be a suitable ceiling on each individual loan.

6.45 Another crucial issue pertains to the provision of other banking facilities by the RRB. Since the rural branches of commercial banks are not supposed to operate the command area of the RRBs, it is but proper that the RRB branches should be allowed to take up all the banking services such as remittance facility on their own and/or on an agency basis on behalf of the Sponsor Bank and other banks, consistent with needs of the area and the capability of the branch personnel to render these services.

#### RATES OF INTEREST

6.46 It will be recalled that the RRBs are required to charge to the borrowers the same rate of interest as is being charged by the PACS (about 13 per cent). It has been represented to us that since the commercial banks generally charge a lower rate of interest, the RRBs which are sponsored by the commercial banks should also be permitted to charge the same rate as is charged by the commercial banks.

6.47 Recently the RBI has liberalised refinance facilities available to commercial banks to induce them to increase their lendings to small farmers. Under the "Small Farmers Window" scheme, direct individual loans to small farmers after January 1, 1978, will be eligible for refinance from Reserve Bank at the Bank Rate (9 per cent) if the amount of the loan (short, medium or long) does not exceed Rs. 2,500 each. Further, the banks have been asked not to charge more than 11 per cent of interest on such loans irrespective of whether refinance is obtained from Reserve Bank or not.

6.48 Further the commercial banks are permitted to issue loans at the differential rate of interest (DRI) —4 per cent—both directly and through the RRBs to certain categories of borrowers belonging to the low-income groups. The DRI facility has a very limited application. The commercial banks at present are required to advance a minimum of half per cent of their previous year's total advances outstanding to the economically weaker sections. At the end of December 1976, Rs. 47 crores were advanced to 10.05 lakh borrowers under the scheme.

6.49 The interest rate policy inclusive of DRI Scheme is a matter of general banking policy and as such, our Committee would like to refrain from making any recommendations on it. As for the RRB, we may, however, submit that their major responsibility is to make available adequate and timely credit to the class of borrowers who for lack of such facility are entirely at the mercy of private moneylenders who often charge them extortionate rates of interest. This task, if it is to be effectively performed, would involve considerable extension work which would include such varied tasks as identification of projects which would help augmenting their incomes, assistance in the preparation of bankable projects, tying up arrangements for supply of inputs as also for marketing of finished products, and supervision over expenditures incurred. The cost of these activities per unit of loan amount would be considerable. In our view, the assistance rendered by the RRB by way of this type of service would be more fruitful, even though more costly, than the concession in the cost of interest borne by individual borrowers. The latter probably has an immediate psychological effect and a sort of popular appeal, but the type of credit-cum-extension service would confer more lasting benefits. While we fully endorse the proposition that the weaker sections of the rural community should receive preferential treatment from the credit institutions, in our view, this purpose will be better served by direct assistance by the institutional agencies and the State Government in the form of intensified extension service for improving the production and productivity of the weaker sections, rather than by the system of differential rates of interest. Attention may also be drawn to the administrative problems involved in implementing the policy of differential rates and also the possibility of leakages through *benami* transactions.



6.50 Apart from the level of the interest rates, we have to consider the question whether it would be advisable to create a situation under which direct borrowing from the RRB would be cheaper than borrowing from the PACS/FSS. In our view, such an arrangement will be highly unfair to the co-operative structure and belie the oft-repeated assurance that the RRBs are meant to supplement and not supplant the co-operatives. If the co-operatives can reduce their interest rates for the weaker sections (as is being done in some States — see Annexure 6.1), the RRBs' rate may also then be correspondingly reduced.<sup>4</sup>

6.51 There is another device and probably a better one than the DRI arrangement, through which preferential treatment can be accorded to the weaker sections of borrowers. Recognising that resources available to co-operative credit will not suffice to meet the requirements of all cultivators, the All-India Rural Credit Review Committee (1969) had suggested certain adjustments in the method of arriving at the actual amounts to be provided as loans to individual cultivators with reference to the scales of finance and their acreage under different crops. Specifically, the Committee recommended that the co-operatives may provide (a) to each cultivator with a holding below 5 acres, a loan equal to the full entitlement on the basis of such scales and their acreage, (b) to each cultivator with a holding of 5 to 10 acres, to the extent of three-fourths of the entitlement and (c) to each cultivator with more than 10 acres to the extent of one-half of the entitlement.

6.52 To illustrate, if the scale of finance per acre for a particular crop is Rs. 200, a cultivator with 4 acres would be advanced Rs. 800, one with 6 acres a sum of Rs. 900 and one with 12 acres a sum of Rs. 1,200.

6.53 We endorse this recommendation of the Rural Credit Review Committee and suggest that the Sponsoring Banks may consider the adoption by their RRBs the principle of graded scale of finance to different categories of borrowers, paying due attention to the repaying capacity of the borrowers.

6.54 To sum up, our submission is that whatever may be the level of interest rates charged and the provision of differential rates of interest, the RBI should take steps to bring about uniformity in the interest rate policy for all credit institutions — co-operative and commercial — catering to the requirements of the rural community.

#### OPERATIONAL ASPECTS

6.55 Though the advantages both to the PACS and the cultivators whom they serve are overwhelmingly in favour of linking PACS with RRBs wherever the DCCBs are weak, this arrangement can be made only in those

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4. A study group appointed by the RBI is currently looking into the problem of interest rate structure of co-operatives.

areas where the concerned State Government and the co-operatives are convinced that such an arrangement is necessary. We have however found that in many States there is a marked reluctance to permit, let alone encourage, such linking. In all such cases, the RRB will have to undertake direct lending especially to clients not served by the co-operatives and for purposes for which co-operative credit is either not available or is inadequate.

6.56 As direct lending agencies, the RRBs should have all the facilities which are already available to the co-operative societies. The fact that the RRB Act, 1976 (Section 22) deems the RRB to be a co-operative society for income tax purposes underlines the need for such an uniform treatment. Besides, various facilities such as the automatic registration of mortgage of land and exemption from stamp duty available on the basis of Talwar Committee's recommendations, are meant for the benefit of farmers. These and similar facilities available to the commercial banks should be extended to the RRBs wherever this has not been already done.

6.57 As regards the relaxations and concessions made by the Reserve Bank to which a reference has been made in Chapter 2, the Committee is of the view that these are necessary and should be retained at least for the first five years from the inception of RRB, subject to subsequent review. Of particular importance is the formula for refinance facility given to the RRBs. According to the formula, the proportion of the RRB deposits, RBI's refinance and the Sponsor Bank's advances is fixed at 15:50:35. This formula is based on the awareness of the fact that the RRBs will encounter a number of difficulties in mobilising larger deposits. No changes should be made in this arrangement without a thorough assessment of deposit mobilisation efforts and resources required by the RRBs once they got going.

6.58 One arrangement which we strongly recommend for the purpose of identifying the small cultivators and avoiding overlap in financing is the issue of land pass book to each cultivator in which the details of land held and rights therein are enumerated. We urge that all the State Governments may expedite the issue of such land pass books, especially to the small farmers. Similarly, the other poor rural households may be given identity cards showing occupation and assets.

6.59 RRBs have already been provided with some other facilities such as insurance cover for deposits from the Deposit Insurance Corporation, credit risk coverage from the Credit Guarantee Corporation and eligibility to obtain refinance from the ARDC. These should be continued.

6.60 With a view to evolving suitable and simple application forms for the use of RRBs in financing individual borrowers and societies for agricultural purposes, the Expert Group headed by Dr. C. D. Datey has already finalised the new forms which should satisfy the objective in view.

6.61 To fulfil the main purposes set out for the RRBs viz., to reach out to the small farmers, rural artisans, agricultural labourers and other weaker segments in the rural areas without undue delay and to keep the costs of operations to the minimum, simplification of procedures is imperative. A Working Group with Shri P. N. Khanna, Chief Officer, D.B.O.&.D. as Chairman was appointed by the RBI for this purpose. Recently, the RBI has appointed an Expert Group under the Chairmanship of Dr. Guntant M. Desai on agricultural credit schemes of commercial banks which is also examining the problems of extending short, medium and long term financial assistance to various agricultural and allied activities. We suggest that the necessary changes in the procedures followed by the RRBs may be made in the light of the recommendations of these Groups.

#### MANAGEMENT STRUCTURE, STAFF RECRUITMENT AND TRAINING OF RRB STAFF

6.62 While it is necessary that all efforts should be made to keep down the costs of operation of RRBs, this should not be done at the cost of efficiency of operations.

6.63 At present, the Chairman who is also its Chief Executive, an accountant and a field/technical officer generally constitute managerial staff at the head office of the RRB. In view of the multifarious functions and the magnitude of loan business relating to small farmers, rural artisans and small traders in the rural areas, the staffing structure needs to be strengthened. We suggest that besides the Chairman, the RRB should have a senior officer with the rank of a General Manager to look after the banking operations and leave enough time to the Chairman to attend to the task of building up the RRB.

6.64 In view of the innovative nature of RRBs' loan operations, it is necessary to equip them with adequate technical staff. The exact composition of the technical staff will have to be determined according to local needs. For instance, if it is a district with a canal area project, the RRB of that district should have irrigation development specialist. In a district where there is a concentration of handloom weavers and other artisans, the RRB may require a technical officer with the requisite skill.

6.65 At present, the staff of RRB branch consist of a manager, one field/technical officer and a cashier-cum-clerk. From the point of better deployment of staff, we feel that the branch should have initially two persons viz., manager and cashier-cum-clerk. The technical needs of the branch should be looked after by the technical team at the head office. As and when the business of the branch expands, it may be necessary to provide technical staff even at the branch level or for a group of branches.

6.66 The problems of recruitment in the RRBs relate essentially to the three levels, viz., the Branch Manager, the Field Officer and the Cashier-

cum-Clerk. An important point relates to the qualifications for recruitment to these posts. In our view, the minimum qualifications for the positions of the Branch Manager and Field Officer should be a Bachelor's degree and for the Cashier-cum-Clerk position, Secondary School Certificate/Matriculation. The most important problem however relates to developing appropriate tests to measure the skills and aptitudes required for all these positions consistent with the character of the RRBs. This is a technical task of considerable complexity and we suggest that the National Institute of Bank Management be asked to develop appropriate selection tests for each of these positions in consultation with the RRBs.

6.67 The arrangements for training of RRB Managers is at the moment entrusted to the Reserve Bank of India's College of Agricultural Banking (CAB) at Pune. Given the scale of the training effort which is envisaged as a consequence of our recommendations, the demand for such training will be far too much for a single institution like the CAB to cope with. Besides, as many of the RRB Chairmen and the Sponsoring Banks have pointed out, the formal training programme imparted at the CAB in Pune needs to be preceded by a certain amount of on-the-job training.

6.68 Considering all the view-points and the scale of training effort required, the Committee is of the view that the centralised training as visualised at present will not be able to meet the demand and therefore, decentralised training under the auspices of respective Sponsor Banks becomes both inevitable and necessary. We would, therefore, suggest that the primary training responsibilities for all the staff of the RRBs be devolved upon the Sponsor Banks. We however feel that in view of the number of the RRBs which the Sponsor Banks will have to initiate, it would be desirable to set up a separate institute which may be called Rural Credit Training Centre by each of the Sponsor Banks to meet the training needs of the RRBs under their sponsorship. Since setting up of such Centres is a time consuming and laborious process, especially the recruitment of appropriate quality of faculty, we urge that immediate attention be given to this important task.

6.69 Beyond the type of training provided by these training institutes of the Sponsor Banks, there would be a need for providing an orientation at least to the Branch Managers of the RRBs into the problems of the rural economy. This should be done for a period of a month or so at the CAB in Pune and perhaps in three or four other centres in the country, with a view to cope with the training of the numbers of Branch Managers involved. These other centres could either be established specifically for this purpose by a group of Sponsor Banks or better still, some of the existing training institutions of the commercial banks could be given this work on a contractual basis.

6.70 These steps in our view, would substantially meet the problems of an appropriate recruitment and training programme of the RRBs.

#### SALARY STRUCTURE OF RRB STAFF

6.71 One of the considerations that weighed with the Working Group in recommending the setting up of rural banks was the high cost salary structure and general establishment costs of the rural branches of commercial banks. As the Group puts it, "the high emoluments of bank staff have sociological implications in the village and also set them apart from the rest of the village community." The Group therefore suggested that the staff of RRB (managerial, supervisory and clerical) should be recruited from within its area of operation, on scales of pay and allowances as applicable to employees of the State Government concerned. However, it also adds that "while the rural bank should not follow the scales of pay, and particularly of 'overtime', on par with urban jobs, it should not attempt at the same time to make harsh economies in respect of providing a basic modicum of social securities for these employees. Certain basic amenities such as housing, medical care, education of children, provident fund, etc., should receive first priority rather than the basic upgrading of pay scales whenever the rural bank is in a position to offer better terms of service." The Working Group further suggested that a provision about salary structure, if incorporated in the legislation itself, "would have the effect of over-riding the operation of any administrative decision in this regard based on awards of wage tribunals"

6.72 The guidelines relating to operations of RRBs issued by the Central Government stipulate that (1) the pay scale for the RRB branch manager is from Rs. 700 to Rs. 1250 *without any provision* for dearness allowance, (2) the field officer/accountant is given the scale of BDO (ordinary) *plus* D.A. as prescribed by the State Government concerned for BDOs, (3) the RRB clerk is given the pay scale of the Upper Division Clerks of Government *plus* D.A. as admissible to the UDCs and (4) the junior clerk of RRB is granted the scale of Lower Division Clerk in the district *plus* D.A. admissible to such LDCs.

6.73 In the actual working of these scales, some anomalies in certain areas appear to have cropped up between the total emoluments of branch managers and field officers/accountants. A memorandum submitted to the Committee by one of the Sponsor Banks states :

"The salary scale of branch managers of RRBs has been fixed at Rs. 700-40-900-50-1250. But, the salary of field assistant or accountant has been fixed on par with the salary of BDO in concerned State. In States like Karnataka where the salary scales of the BDOs have been revised upwards, this has resulted in an anomalous position as the accountant will be drawing more salary than the branch manager. Even in other States, the difference between the two scales is not commensurate

with the greater responsibilities that the manager has to shoulder. Hence, there is need for an upward revision of the pay scales of the branch managers of gramin banks”

6.74 While our Committee would not like to take any rigid posture on this issue, we would at the same time like to emphasise the need for keeping the operational costs of RRBs at a low level and for the proper alignment in the emoluments received by the different categories of RRB staff with a view to avoiding any anomalies.

Sd.

(M. L. DANTWALA)  
*Chairman*

Sd.

(K. KANUNGO)  
*Member*

Sd.

(K. GOPALRAO)  
*Member*

Sd.

(V. A. PAI PANANDIKER)  
*Member*

Reserve Bank of India,  
Bombay,

February 16, 1978.

## ANNEXURE 1·1

### Field Studies of Selected Regional Rural Banks and Associated Staff

Sr. No.	Name of the Regional Rural Bank	Study Team
1.	Nagarjuna Gramin Bank, Khammam, Andhra Pradesh ..	1. Shri P.D.N. Rao
2.	Bhojpur-Rohtas Gramin Bank, Arrah, Bihar ..	1. Shri A.S. Mhatre 2. „ A.V. Naik
3.	Champan Kshetriya Gramin Bank, Motihari, Bihar ..	1. Shri A.S. Mhatre 2. „ A.V. Naik
4.	Haryana Kshetriya Gramin Bank, Bhiwani, Haryana	1. Dr. S.R.K. Rao 2. Shri K.C. Sharma 3. „ Y.K. Goyal
5.	Tungabhadra Gramin Bank, Bellary, Karnataka ..	1. Shri K.M. Gudi 2. „ L.B. Karkera
6.	North Malbar Gramin Bank, Cannanore, Kerala ..	1. Shri M.P. Nair
7.	Kshetriya Gramin Bank, Hoshangabad, Madhya Pradesh	1. Shri R.D. Asgekar 2. „ G.R. Padmaras 3. „ Arun Kumar
8.	Koraput Panchbati Gramya Bank, Jaypore, Orissa	1. Shri M.P. Gaikwad 2. „ P.K. Zemse
9.	Jaipur-Nagaur Atchalik Gramin Bank, Jaipur, Rajasthan	1. Dr. C.L. Dadhich 2. Shri S. Ananthapadmanabhan
10.	Prathama Bank, Moradabad, Uttar Pradesh	1. Shri A.G. Karnik 2. „ Om Prakash
11.	Gorakhpur Kshetriya Gramin Bank, Gorakhpur, Uttar Pradesh .. .. .	1. Dr. S.R.K. Rao 2. Shri Y.K. Goyal
12.	Mallabhum Gramin Bank, Bankura, West Bengal	1. Shri K.M. Hanifa 2. „ A.L. Varma 3. „ Sibendra Nath Das

#### OTHER ASSOCIATED STAFF

1. Shri G. S. Oka
2. Shri M.B. Gondhalekar
3. Smt. K.A. Shroff
4. Shri L.S. Nathan

## ANNEXURE 1-2

### List of Sponsor Banks who submitted Memoranda to the Committee

1. State Bank of India
2. Canara Bank
3. United Commercial Bank
4. Indian Overseas Bank
5. State Bank of Mysore
6. Bank of India
7. Union Bank of India
8. Central Bank of India
9. Bank of Baroda
10. United Bank of India
11. Jammu & Kashmir Bank
12. State Bank of Bikaner and Jaipur
13. Syndicate Bank

### List of State Governments who replied to the Committee's Questionnaire

1. Maharashtra
2. Andhra Pradesh
3. Madhya Pradesh
4. Tamil Nadu
5. Tripura
6. Bihar
7. Jammu & Kashmir
8. Himachal Pradesh

### List of Individuals with whom the Committee had discussions

#### GOVERNMENT

1. Hon. Shri H.M. Patel, Union Finance Minister.
2. Shri B. Sivaraman, Member, Planning Commission.
3. Shri G.V.K. Rao, Secretary, Union Ministry of Agriculture & Irrigation,
4. Shri M.R. Shroff, Additional Secretary (Banking), Department of Economic Affairs.
5. Smt. T. Satyabhama, Jt. Secretary, Union Ministry of Agriculture.

#### RESERVE BANK

1. Shri M. Narasimham, the then Governor.
2. Dr. K.S. Krishnaswamy, Deputy Governor.
3. Shri Madhava Das, Executive Director.
4. Shri P. N. Khanna, Chief Officer, Department of Banking Operations & Development.
5. Shri M.S. Raje, Principal, College of Agricultural Banking, Pune.

#### COMMERCIAL BANKING SECTOR

1. Shri James Raj, Chairman, Public Sector Banks Committee.
2. Shri H.C. Sarkar, the then Managing Director, State Bank of India.
3. Shri P.F. Gutta, Chairman, Central Bank of India.
4. Shri R.C. Shah, Chairman, Bank of Baroda.
5. Shri C. P. Shah, Chairman, Bank of India.
6. Shri A. M. Kadhiresan, Chairman, Indian Overseas Bank.
7. Shri C. E. Kamath, Chairman, Canara Bank.
8. Shri Gulam Ghouse, Managing Director, Agricultural Finance Corporation.
9. Shri M.B. Deshmukh, Managing Director, State Bank of Mysore.
10. Shri S.N. Soni, Deputy General Manager, Indian Overseas Bank.
11. Shri O.P. Mathuria, Assistant General Manager, Punjab National Bank.
12. Shri K.D. Agarwal, Gorakhpur Kshetriya Gramin Bank.

#### OTHERS

1. Shri T.A. Pai, Member of Parliament.
  2. Shri B. Venkatappiah, Chairman, Rural Electrification Corporation.
  3. Prof. G.B. Kulkarni, Vaikunth Mehta National Institute of Co-operative Management, Pune
  4. Prof. B.M. Ghiara, National Institute of Bank Management.
  5. Prof. S. Dasgupta, National Institute of Bank Management.
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## ANNEXURE 2·1

### Concessions given by the Reserve Bank of India to Regional Rural Banks

(i) All the RRBs established under the Act *ibid* are included in the Second Schedule to the Reserve Bank of India Act, 1934, with effect from the dates of their inception.

(ii) In order to enable the RRBs in the initial stages to comply with the cash reserve requirements of section 42 of the Reserve Bank of India Act, 1934, the Reserve Bank has, by a notification issued in the Official Gazette, exempted all the RRBs from the provisions of the *proviso* to sub-section (1) of section 42 of the Reserve Bank of India Act, 1934, for a period of two years with effect from the 2nd October, 1975. The cash reserve to be maintained by the RRBs is, therefore, at the rate of 3 per cent of their total demand and time liabilities (as specified in sub-section (1) of section 42 of the Act) as against the increased rate of 6 per cent, at present applicable to other Scheduled Commercial Banks.

(iii) In order to enable the RRBs to comply with the liquidity requirements of section 24 of the Banking Regulation Act, 1949, the Government of India have by a notification dated the 3rd October 1975, notified all the nationalised banks for the purpose of sub-clause (ii) and (iii) of sub-section (2A) of section 24 of the Banking Regulation Act, 1949. Thus, any balances maintained in *current* account by a RRB not only with the State Bank of India, but also with any of the nationalised banks, shall be deemed to be cash in India for the purpose of compliance with the liquidity requirements of section 24 *ibid*.

(iv) The Scheduled Commercial Banks are required to maintain minimum of assets that constitute the statutory liquidity requirements under section 24 of the Banking Regulation Act, 1949 at 33 per cent of their demand and time liabilities. The statutory liquid assets required to be maintained by the RRBs have, however, been fixed at only 25 per cent, as specified in the Act *ibid* for the present.

(v) These banks are also allowed to offer a rate of interest on deposits at one-half per cent more than that offered by Scheduled Commercial Banks.

(vi) The Reserve Bank has formulated a scheme for free transfer of funds between the Head Office of a RRB and its different branches through the offices of the public sector banks operating in the areas covered by RRBs. The *free* remittances would be allowed in multiples of Rs. 5,000, subject to a minimum of Rs. 5,000 at a time. All the public sector banks have been requested to give effect to the scheme from the 1st January 1977.

#### Insured Status

The RRBs are registered as insured banks with the Deposit Insurance Corporation. All deposits upto Rs. 20,000/- per depositor in the same right and capacity, in each bank are, accordingly, insured with the Deposit Insurance Corporation of India, thus providing protection to the depositors.

#### Refinance facilities from the Reserve Bank

The Reserve Bank can extend short-term refinance to these banks either under section 17(2)(B) with the 'Sponsor Bank' as co-signatory or under section 17(3B) of the Reserve Bank of India Act 1934 at rates of interest not more favourable than those charged to co-operative banks. Similarly, section 46(A) and 46(B) of the Act, *ibid*, have been amended to enable these banks to be financed from the National Agricultural Credit (Long-term Operations) Fund and National Agricultural Credit (Stabilisation) Fund. However, taking into account the nature of loans and advances which the RRBs are expected to grant and having regard to the constraints that these banks may experience in providing eligible paper to the Reserve Bank, it has been decided to extend refinance facilities to RRBs under section 17(3B) of the Reserve Bank of India Act, which empowers the Reserve Bank of India to provide financial accommodation to Scheduled Commercial Banks against a mere declaration regarding grant of eligible loans and advances by them. Accordingly, the Refinance Scheme for RRBs under section 17(3B) of the Reserve Bank of India Act, 1934 has been evolved; the scheme has come into force from the 1st October 1976. RRBs have been asked to submit applications for availment of limits for refinance. The refinance limit for each RRB will be fixed for a period of one year and for this purpose the co-operative year, i.e., 1st July to 30th June, will be taken as the basis. The refinance will be provided at 2% below the Bank Rate, i.e. at 7 per cent per annum at present. Pending the scrutiny of applications for regular limits, each RRB has been sanctioned an *ad-hoc* refinance limit of Rs. 10 lakhs. The availment under the *ad-hoc* limit will, however, be subject to the various conditions of the Refinance Scheme.

## ANNEXURE 3-1

## RANKING OF STATES IN CO-OPERATIVE CREDIT BY DIFFERENT CRITERIA—1975-76

Average membership of PACS (Numbers)	Percentage of borrowing members to total member- ship of PACS	Percentage of borrowing members to total cultivator households	Per hectare loan Amount (PACS) (Rs.)	Percentage of overdues to demand					
(1)	(2)	(3)	(4)	(5)					
1. Kerala	1274	Punjab	75.3	Punjab	N.A.	Kerala	158	Rajasthan	26.3
2. Tamil Nadu	776	Haryana	52.9	Haryana	65.4	Tamil Nadu	136	Haryana	26.5
3. Orissa	597	Rajasthan	51.5	Maharashtra	43.0	Gujarat	135	Tamil Nadu	28.2
4. Uttar Pradesh	538	West Bengal	49.0	Kerala	42.9	Punjab	131	Kerala	31.8
5. Haryana	325	Kerala	45.4	Rajasthan	40.0	Maharashtra	97	Punjab	33.4
6. Karnataka	311	Gujarat	46.5	Gujarat	33.2	Haryana	86	Jammu & Kashmir	35.3
7. Rajasthan	272	Andhra Pradesh	42.1	Tamil Nadu	30.6	Karnataka	73	West Bengal	36.8
8. Jammu & Kashmir	262	Jammu & Kashmir	40.5	Himachal Pradesh	30.1	Himachal Pradesh	64	Karnataka	38.9
9. Madhya Pradesh	259	Maharashtra	40.1	Andhra Pradesh	30.0	Andhra Pradesh	58	Andhra Pradesh	39.1
10. Maharashtra	222	Bihar	38.0	Karnataka	28.5	Uttar Pradesh	41	Gujarat	39.3
11. Himachal Pradesh	212	Madhya Pradesh	35.3	Uttar Pradesh	22.0	Rajasthan	36	Uttar Pradesh	40.3
12. Bihar	206	Uttar Pradesh	33.5	Jammu & Kashmir	21.9	Madhya Pradesh	33	Himachal Pradesh	41.8
13. Andhra Pradesh	201	Karnataka	31.8	Bihar	18.6	Orissa	29	Madhya Pradesh	48.3
14. Gujarat	199	Tamil Nadu	28.5	Madhya Pradesh	18.2	West Bengal	29	Orissa	56.8
15. Punjab	153	Himachal Pradesh	24.3	West Bengal	14.6	Bihar	21	Bihar	60.6
16. Assam	127	Orissa	19.5	Orissa	13.8	Jammu & Kashmir	25	Maharashtra	39.6
17. West Bengal	125	Assam	6.2	Assam	1.5	Assam	4	Assam	89.4

N.A. = Not available.

**ANNEXURE 3-2**

**Share of Institutional/Non-Institutional Agencies in the Total Cash Debt of Each Category of Rural House-holds**

(In per cent)

States	Institutional Agencies				Non-Institutional Agencies			
	All Rural House-holds	Cultiva-tors	Agricul-tural la-bourers	Arti-sans	All Rural House-holds	Cultiva-tors	Agricul-tural la-bourers	Artisans
	1	2	3	4	5	6	7	8
1. Andhra Pradesh	13.7	15.3	2.1	1.9	86.3	84.7	97.9	98.1
2. Assam	34.7	35.7	17.9	50.0	65.3	64.3	82.1	50.0
3. Bihar	10.7	11.5	1.2	—	89.3	88.5	98.8	100.0
4. Gujarat ..	46.9	51.9	4.2	1.1	53.1	48.1	95.8	98.9
5. Haryana ..	26.4	30.6	4.8	6.5	73.6	69.4	95.2	93.5
6. Himachal Pradesh	23.9	24.1	4.5	40.0	76.1	75.9	95.5	60.0
7. Jammu & Kashmir	20.4	20.4	—	66.7	79.6	79.6	100.0	33.3
8. Karnataka	29.7	30.6	8.4	5.9	70.3	69.4	91.6	94.1
9. Kerala	44.4	45.2	13.3	31.2	55.6	54.8	86.7	68.8
10. Madhya Pradesh	31.6	33.4	3.2	—	68.4	66.6	96.8	100.0
11. Maharashtra	67.4	70.7	10.6	8.8	32.6	29.3	89.4	91.2
12. Orissa	30.0	32.4	1.9	7.4	70.0	67.6	98.1	92.6
13. Punjab	36.0	43.9	9.5	12.1	64.0	56.1	90.5	87.9
14. Rajasthan	9.4	9.8	2.5	7.6	90.6	90.2	97.5	92.4
15. Tamil Nadu	22.1	24.3	1.9	2.4	77.9	75.7	98.1	97.6
16. Uttar Pradesh ..	23.4	26.5	1.9	3.7	76.6	73.5	93.1	96.3
17. West Bengal ..	30.6	33.1	5.3	—	69.4	66.9	94.7	100.0
<b>All-India</b>	<b>29.2</b>	<b>31.7</b>	<b>4.5</b>	<b>4.8</b>	<b>70.8</b>	<b>68.3</b>	<b>95.5</b>	<b>95.2</b>

## ANNEXURE 3-3

## Per Hectare Loans Issued by Co-operatives and Commercial Banks—State-wise Position

(Rs. in lakhs)

States	Gross Cropped Area (In thousand hectares)*	PACS loans issued during 1975-76@	LDB loans issued during 1975-76@	Direct finance advanced by Scheduled Commercial Banks (April-March)**	Total (2+3+4)	Per hectare total credit available (Rs).
	1	2	3	4	5	6
1. Andhra Pradesh ..	126,52	73,51	35,47	49,50	158,48	125
2. Assam	28,34	N.A.	18	27		N.A.
3. Bihar ..	106,83	22,00	16,22	9,51	47,73	45
4. Gujarat ..	99,33	132,62	6,52	19,09	158,23	155
5. Haryana .. ..	50,48	43,52	14,41	10,62	68,55	136
6. Himachal Pradesh ..	9,01	5,81	21	1,32	7,34	82
7. Jammu & Kashmir	8,61	N.A.	19	26		N.A.
8. Karnataka	109,88	80,05	21,02	49,38	150,45	137
9. Kerala ..	29,58	46,88	3,05	29,36	79,29	268
10. Madhya Pradesh	208,92	69,55	17,01	17,05	103,61	50
11. Maharashtra	174,81	170,01	23,12	28,32	221,45	127
12. Orissa	70,42	20,66	3,37	5,06	29,09	41
13. Punjab	57,24	74,98	16,98	16,36	108,32	189
14. Rajasthan..	167,73	59,65	6,82	11,55	78,02	47
15. Tamil Nadu	76,42	102,85	15,88	52,63	171,36	224
16. Uttar Pradesh	230,25	95,09	30,43	29,74	155,26	67
17. West Bengal ..	72,71	21,24	4,31	7,36	32,91	45
<b>All-India ..</b>	<b>16,40,02</b>	<b>10,21,78</b>	<b>2,15,35</b>	<b>3,41,20</b>	<b>15,78,33</b>	<b>96</b>

\* Agriculture in Brief-14th Edition.

@ Statistical Statements relating to Co-operative Movement in India, 1975-76.

\*\* D.B.O.D. Returns.

N.A.=Not available.

**ANNEXURE 4.1**

**Progress in Setting up of Regional Rural Banks-- Month-Wise**

Month and year	Number of RRBs. established	States where RRBs were set up	
		Earlier	Newly
	(1)	(2)	(3)
October 1975	5	—	Uttar Pradesh, Haryana, Rajasthan & West Bengal
December 1975	1	—	Bihar
January 1976	3	Uttar Pradesh	Madhya Pradesh & Karnataka
February 1976	1	—	Orissa
March 1976	6	Uttar Pradesh, Bihar & Haryana	Jammu & Kashmir
April 1976	3	West Bengal & Orissa	Andhra Pradesh
July 1976	1	—	Assam
August 1976	4	Andhra Pradesh, Karnataka & West Bengal	Maharashtra
September 1976	3	Rajasthan, Uttar Pradesh & Andhra Pradesh	—
October 1976	3	Karnataka, Rajasthan & Orissa	—
November 1976	3	Madhya Pradesh, Bihar & Orissa	—
December 1976	7	Madhya Pradesh, Bihar & Uttar Pradesh	Kerala, Tripura & Himachal Pradesh
February 1977	1	Uttar Pradesh	—
March 1977	6	West Bengal, Madhya Pradesh & Bihar	Tamil Nadu
June 1977	1	Uttar Pradesh	—
<b>Total</b>	<b>48</b>		

**ANNEXURE 4-2**

**Number of Regional Rural Banks According to Sponsoring Bank and Date of Establishment**

Sponsoring Bank	Number of RRBs Sponsored by the Bank	States in which set up	Date of Establishment	
			First RRB	Others
	1	2	3	4
1. State Bank of India	8	Uttar Pradesh Orissa Andhra Pradesh —Do— Madhya Pradesh Orissa Madhya Pradesh Bihar	2-10-75	10-4-76 30-4-76 30-9-76 20-10-76 13-11-76 26- 3-77 30- 3-77
2. Punjab National Bank	5	Haryana Bihar Rajasthan Bihar Himachal Pradesh	2-10-75	26-12-75 7-10-76 10-11-76 23-12-76
3. United Bank of India	6	West Bengal Uttar Pradesh West Bengal Assam Tripura Bihar	2-10-75	6- 1-76 9- 4-76 26- 7-76 21-12-76 12- 3-77
4. Syndicate Bank	5	Uttar Pradesh Haryana Andhra Pradesh Karnataka Kerala	2-10-75	28- 3-76 6- 8-76 6- 8-76 12-12-76
5. United Commercial Bank	3	Rajasthan West Bengal Orissa	2-10-75	16- 8-76 11- 8-76
6. Central Bank of India	6	Madhya Pradesh Bihar —Do— Uttar Pradesh West Bengal Bihar	21- 1-76	21- 3-76 23-12-76 25-12-76 7- 3-77 10- 3-77
7. Canara Bank	2	Karnataka Kerala	25-1-76	11-12-76
8. Indian Overseas Bank	2	Orissa Tamil Nadu	25- 2-76	9- 3-77
9. Jammu & Kashmir Bank Ltd.	1	Jammu & Kashmir	12- 3-76	
10. Bank of India	3	Uttar Pradesh —Do— —Do—	27- 3-76	29- 3-76 7- 6-77
11. Bank of Baroda	2	Uttar Pradesh —Do—	29- 3-76	8- 2-77
12. Bank of Maharashtra	1	Maharashtra	26- 8-76	
13. State Bank of Bikaner & Jaipur	1	Rajasthan	6- 9-76	
14. Allahabad Bank	1	Uttar Pradesh	19- 9-76	
15. State Bank of Mysore	1	Karnataka	2-10-76	
16. Union Bank of India	1	Madhya Pradesh	20-12-76	

**ANNEXURE 4-3**  
**Spread of Regional Rural Banks Among States**

States	Number of RRBs	Number of Branches of RRBs	Percentage of districts covered	Percentage of population covered
	(1)	(2)	(3)	(4)
1. Andhra Pradesh	3	86	24.0	27.9
2. Haryana	2	40	16.7	17.7
3. Karnataka	3	43	26.3	32.0
4. Kerala ..	2	31	30.0	29.6
5. Uttar Pradesh ..	10	173	23.2	29.2
6. Bihar .. ..	7	67	45.2	62.9
7. Madhya Pradesh ..	4	62	18.6	22.7
8. Orissa ..	4	72	29.4	51.6
9. Rajasthan ..	3	62	26.9	30.2
10. Tamil Nadu	1	8	14.3	14.7
11. Assam .. ..	1	11	42.9	45.6
12. Jammu & Kashmir .. ..	1	26	10.0	15.9
13. Tripura .. ..	1	8	33.3	100.0
14. Maharashtra .. ..	1	14	15.4	12.1
15. West Bengal ..	4	56	53.8	48.0
16. Himachal Pradesh ..	1	8	10.0	14.9
<b>Total</b>	<b>48</b>	<b>767</b>	<b>26.1</b>	<b>32.6</b>

**ANNEXURE 4.4**

**Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)**

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
				Small/Marginal farmers & landless labourers		Rural Artisans and others		Consumption loan		Indirect loans		Total			
				No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
1.	Prathama Bank, Moradabad (U.P.)	2.10.1975	20	29,242	77,71	2,877	33,19	4,576	45,43	—	—	—	—	7,453	78.62
2.	Gorakhpur Kshetriya Gramin Bank, Gorakhpur (U.P.)	2.10.1975	30	18,607	155,75	22,305	103,12	1,324	14,29	—	—	9,692	39,53	33,321	156,94
3.	Haryana Kshetriya Gramin Bank, Bhiwani (Haryana)	2.10.1975	20	10,614	30,69	3,334	51,35	700	7,20	83	17	533	6,48	4,650	65,20
4.	Jaipur Nagaur Anchalik Gramin Bank, Jaipur (Rajasthan)	2.10.1975	36	13,034	67,17	4,251	76,95	3,778	36,67	—	—	—	—	8,029	113,62
5.	Gaur Gramin Bank, Malda (W.B.)	2.10.1975	21	4,808	53,05	4,523	27,63	1,192	5,92	106	8	249	97,70	6,070	131,33
6.	Bhojpur-Rohtas Gramin Bank, Arrah (Bihar)	26.12.1975	26	9,057	41,16	4,052	25,54	1,285	14,76	24	4	—	—	5,361	40,34
7.	Samyut Kshetriya Gramin Bank, Azamgarh (U.P.)	6.1.1976	27	18,514	100,82	5,751	36,70	2,929	45,35	—	—	—	—	8,680	82,05
8.	Kshetriya Gramin Bank, Hoshangabad (M.P.)	20.1.1976	25	13,771	29,28	2,611	22,05	2,929	18,00	54	20	4	3,35	5,588	43,60
9.	Tungabhadra Gramin Bank, Bellary (Karnataka)	25.1.1976	20	38,986	54,47	9,661	46,53	9,771	30,66	300	106	2,638	21,83	22,370	100,08



## ANNEXURE 4·4—(Contd.)

Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
				Small/Marginal farmers & landless labourers		Rural Artisans and others		Consumption loans		Indirect loans					
				No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
10.	Puri, Gramya Bank, Pipli (Orissa)	25·1·1976	21	12,664	45,36	5,413	34,36	3,863	21,06	—	—	—	—	9,276	55,42
11.	Jammu Rural Bank, Jammu (Jammu & Kashmir)	12·3·1976	26	5,427	30,24	683	7,30	243	4,85	—	—	—	—	926	12,15
12.	Champan Kshetriya Gramin Bank, Motihari (Bihar)	21·3·1976	23	10,203	22,68	2,614	20,95	1,823	14,19	—	—	—	—	4,437	35,14
13.	Bara Banki Gramin Bank, Bara Banki (U.P.)	27·3·1976	21	6,244	43,19	1,906	7,08	945	7,63	—	—	—	—	2,851	147,14
14.	Gurgaon Gramin Bank, Gurgaon (Haryana)	28·3·1976* 1·4·1976@	20	20,106	33,31	2,053	31,05	2,188	21,33	—	—	—	—	4,241	52,38
15.	Rae Bareli Kshetriya Gramin Bank, Rae Bareli (U.P.)	29·3·1976	20	12,719	55,49	2,439	20,87	2,820	25,40	—	—	—	—	5,259	46,27
16.	Farrukhabad Gramin Bank Farrukhabad (U.P.)	29·3·1976	21	9,229	37,36	1,906	14,59	955	6,20	—	—	—	—	2,861	20,79
17.	Mallabhum Gramin Bank Bankura (W.B.)	9·4·1976	23	7,761	29,28	1,025	5,76	778	6,63	—	—	730	11,08	2,533	23,47
18.	Bolangir Anchalik Gramya Bank, Bolangir (Orissa)	10·4·1976	21	9,227	20,12	10,868	55,51	4,459	4,58	94	15	—	—	15,421	60,24

ANNEXURE 4.4—(Contd.)

Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
						Small/Marginal farmers & landless labourers		Rural Artisans and others		Consumption loans		Indirect loans			
						No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount		
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
19.	Nagarjuna Grameena Bank, Khammam (A.P.)	30.4.1976	50	51,047	145,89	21,608	229,52	10,794	13,84	—	—	—	—	32,402	343,36
20.	Pragjyotish Gaonlia Bank, Nalbari (Assam)	6.7.1976	11	5,785	11,73	812	3,94	849	5,53	—	—	—	—	1,661	9,47
21.	Rayalaseema Grameena Bank, Cuddapah (A.P.)	6.8.1976	19	9,129	32,63	1,260	15,95	1,615	7,26	—	—	—	—	2,875	23,21
22.	Malaprabha Grameena Bank, Dharwar (Karnataka)	16.8.1976* 31.8.1976@	15	8,266	9,21	1,364	3,99	1,982	8,40	—	—	—	—	3,346	12,39
23.	Moyurakshi Gramin Bank, Suri (W.B.)	16.8.1976	10	2,535	5,02	410	10,02	590	2,59	—	—	—	—	1,000	12,61
24.	Marthawada Gramin Bank, Nanded (Maharashtra)	26.8.1976	14	6,372	20,56	879	13,83	977	8,90	—	—	16	692	1,872	29,65
25.	Marwar Gramin Bank, Pali (Rajasthan)	6.9.1976	17	7,339	34,89	1,121	17,26	864	6,25	—	—	—	—	1,985	23,51
26.	Bhagirath Gramin Bank, Sitapur (U.P.)	19.9.1976	19	4,407	29,04	169	1,52	397	3,41	—	—	—	—	566	4,93
27.	Sri Visakha Grameena Bank, Srikakulam (A.P.)	30.9.1976	17	10,878	91,03	5,282	28,32	3,284	15,06	—	—	—	—	8,566	43,38

## ANNEXURE 4.4—(Contd.)

Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
						Small/Marginal farmers & landless labourers		Rural Artisans and others		Consumption loans		Indirect loans			
						No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount		
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
28.	Cauvery Grameena Bank, Mysore (Karnataka)	2.10.1976	8	6,161	39,55	1,322	10,23	1,250	68,31	—	—	1,265	7,78	3,837	86,32
29.	Shekhawati Gramin Bank, Sika (Rajasthan)	7.10.1976	9	2,937	13,34	651	12,70	273	3,25	—	—	—	—	924	15,95
30.	Cuttack Gramya Bank, Cuttack (Orissa)	11.10.1976	13	3,938	20,88	367	2,41	450	2,91	—	—	—	—	817	5,32£
31.	Bilaspur-Raipur Kshetriya Gramin Bank, Bilaspur (M.P.)	10.11.1976	20	8,619	18,76	7,804	43,06	1,157	19,67	—	—	—	—	11,961	62,73
32.	Magadh Gramin Bank, Gaya (Bihar)	10.11.1976	7	832	11,88	183	1,57	70	99	—	—	—	—	253	2,56
33.	Koraput-Panchabati Gramya Bank, Jeypore (Orissa)	13.11.1976	17	4,949	18,29	5,314	32,22	63	25	—	—	—	—	5,377	32,47£
34.	South Malabar Gramin Bank, Malappuram (Kerala)	11.12.1976	20	15,786	27,19	7,554	28,62	2,430	10,83	—	—	—	—	9,984	39,45
35.	North Malabar Gramin Bank, Cannanore (Kerala)	12.12.1976	11	7,125	13,37	1,958	8,16	1,254	7,25	—	—	—	—	3,212	15,41
36.	Tripura Gramin Bank (Agartala)	21.12.1976	8	3,251	16,43	1,958	11,19	490	5,32	—	—	—	—	2,448	16,51

**ANNEXURE 4.4 —(Contd.)**

**Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)**

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
				Small/Marginal farmers & landless labourers		Rural Artisans and others		Consumption loans		Indirect loans		Total			
				No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
37.	Rewa-Sidhi Gramin Bank, Rewa (M.P.)	20.12.1976	10	2,555	12,80	228	3,42	485	9,09	—	—	—	—	713	12,51
38.	Himachal Gramin Bank, Mandi (Himachal Pradesh)	23.12.1976	8	5,065	9,74	142	1,41	193	2,04	—	—	—	—	335	3,45
39.	Kosi Kshetriya Gramin Bank, Purnea (Bihar)	23.12.1976	5	999	3,00	38	40	220	1,60	—	—	—	—	258	2,00
40.	Ballia Kshetriya Gramin Bank, Ballia (U.P.)	25.12.1976	4	948	11,83	32	2,92	227	1,20	—	—	—	—	259	4,12
41.	Sultanpur Kshetriya Gramin Bank, Sultanpur (U.P.)	8.2.1977	10	1,745	7,47	130	1,85	238	2,15	—	—	—	—	368	4,00
42.	Uttar Banga Kshetriya Gramin Bank, Cocch Behar (West Bengal)	7.3.1977	2	211	24	5	9	—	—	—	—	—	—	5	9
43.	Pandyan Gramya Bank, Sattur (Tamil Nadu)	9.3.1977	8	2,082	14,11	1,055	10,22	533	4,23	—	—	—	—	1,588	14,45

## ANNEXURE 4.4—(Contd.)

Statement Showing the Progress of Regional Rural Banks in the Specified Fields  
(As on the last Friday of June 1977)

(Amounts in thousands)

Sr. No.	Name of the RRB	Date of establishment	Number of branches	Deposits		LOANS ADVANCED								Total	
				Small/Marginal farmers & land-less labourers		Rural Artisans and others		Consumption loans		Indirect loans		Total			
				No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount	No. of A/cs.	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
44.	Vaishali Kshetriya Gramin Bank, Muzaffarpur (Bihar)	10.3.1977	3	731	2,01	57	1,42	402	2,69	—	—	—	—	459	4,11
45.	Monghyr Kshetriya Gramin Bank, Monghyr (Bihar)	12.3.1977	2	414	3,02	6	10	29	10	—	—	—	—	35	20
46.	Bundelkhand Kshetriya Gramin Bank, Tikamgarh (M.P.)	26.3.1977	7	1,065	3,50	11	7	102	60	—	—	—	—	113	67
47.	Santhal Parganas Gramin Bank, Dumka (Bihar)	30.3.1977	1	205	11,14	106	44	58	14	—	—	—	—	164	58
48.	Hardoi-Unnao Gramin Bank, Hardoi (U.P.)	7.6.1977	1	54	28	—	—	—	—	—	—	—	—	—	—
<b>Total</b>			<b>767</b>	<b>4,25,693</b>	<b>1565,96</b>	<b>1,50,098</b>	<b>1117,38</b>	<b>80,834</b>	<b>644,01</b>	<b>661</b>	<b>1,70</b>	<b>15,127</b>	<b>194,67</b>	<b>2,46,720</b>	<b>1957,76</b>

£ Figures relate to the last Friday of July 1977.

\* Date of establishment.

@ Date of inclusion in the Second Schedule to the Reserve Bank of India Act.

**ANNEXURE 5.1**

**Suitability of Location of RRB**

District of RRB	Proportion of Weaker Sections to Total Rural Population Per cent	Proportion of Scheduled Castes and Scheduled Tribes in Rural Population (Per cent)	Banking Facility (Average population per office)	State of Co-operative Institutions	Potential for Agricultural Development
	1	2	3	4	5
1. Bellary (Bellary & Raichur Dists.) .. .. .	65	26	24,000 (However in some talukas the average is as high as 75,000)	(i) 20% PACS dormant. (ii) 65% overdues of DCCBs. (iii) Also Boards superceded by Govt.	High yielding variety programme, IAAP and Tungabhadra Project.
2. Bhojpur (Bhojpur & Rohtas Dists.)	75	18	73,000	(i) Percentage of overdues over 50%. (ii) 16% borrowing members to rural population.	The DPAP is operating in 7 blocks out of 23 blocks in the districts.
3. Motihari (East and West Champaran Dists.)	83	15	55,000	(i) Percentage of overdues over 60%. (ii) 10% borrowing members to rural population.	SFDA
4. Hoshangabad (Hoshangabad & Raisen Dists.)	33	25	35,600	(i) 60% overdues.	Tawa irrigation project with command area of 60% of the total area.
5. Jaipur (Jaipur & Nagaur Dists.) .. .. .	45	28	25,000	(i) 26% PACS dormant. (ii) Weak DCCB. 16% effective only.	35% area is irrigated.
6. Koraput ..	70	S.T. above 50 S.C. 20 70	60,000 (Large part of the population without any facility)	(i) Weak DCCBs & LDBs. (ii) Old overdues sizeable.	(i) Panchabati Dam (ii) Large Land Reclamation project.

## ANNEXURE 5·1—(Contd.)

	1	2	3	4	5
7. Moradabad ..	50	N.A.	27,500	N.A.	Large water reservoir. Fertile soil.
8. Bhiwani	80	N.A.	38,097	(i) 68% overdues.	(i) 22% area is irrigated. (ii) 63% cropped area.
9. Gorakhpur (Gorakhpur & Deoria Dists.) .. ..	75	59	63,193	(i) 94% overdues.	(i) 82% area is irrigated. (ii) Gandak Project. (iii) 'On Farm Development scheme'.
10. Cannanore .. ..	93	6	1,68,928	(i) 32% overdues.	
11. Khammam (Khammam & Nalgonda Dists)	87	21	6,37,926	(i) 17% PACS dormant.	(i) 55% area is irrigated.
12. Mallabhum (Bankura, Purulia & Midnapore Dists.).	92	28	3,97,529	(i) 24% PACS dormant. (ii) Weak structure.	

N. A. = Not Available.

ANNEXURE 5.2

Ranking of RRBs According to Each Individual Indicator

Number of Branches	Villages served per Branch	Population served per Branch	Size of deposit mobilisation	Size of loan advances	Deposit per account	Advances per account	Availability of credit per 1,000	Percentage of RRBs Assistance to Agricultural and allied activities to total advances to these of commercial and co-operative banks	Percentage of loan overdues to demand
1	2	3	4	5	6	7	8	9	10
<b>G O O D</b>									
Koraput	Champaran Hoshangabad Jaipur Koraput	Bellary Champaran Koraput	Khammam Gorakhpur Moradabad	Gorakhpur Khammam	Bhojpur- Rohtas Gorakhpur	Jaipur Bhiwani Khammam	Bellary Bhiwani Gorakhpur Khammam	Koraput Bhiwani Gorakhpur Khammam Mallabhum	Bhojpur- Rohtas Jaipur Bhiwani Khammam
<b>A V E R A G E</b>									
Hoshangabad Jaipur Cannanore Champaran Gorakhpur Mallabhum	Bhojpur- Rohtas Khammam	Gorakhpur	Bellary	Bellary Jaipur Koraput	Jaipur Koraput Bhiwani Mallabhum	Champaran Moradabad Mallabhum		Jaipur	
<b>P O O R</b>									
Bellary Bhojpur- Rohtas Moradabad Bhiwani	Bellary Bhiwani Gorakhpur	Bhojpur- Rohtas Jaipur Bhiwani Cannanore Khammam Mallabhum	Bhojpur- Rohtas Champaran Hoshangabad Jaipur Koraput Bhiwani Cannaore Mallabhum	Bhojpur- Rohtas Champaran Hoshangabad Moradabad Bhiwani Cannanore Mallabhum	Bellary Champaran Hoshangabad Moradabad Cannanore Khammam	Bellary Bhojpur- Rohtas Hoshangabad Koraput Gorakhpur Cannanore	Bhojpur- Rohtas Hoshangabad Jaipur Koraput Moradabad Cannanore Mallabhum	Bellary Bhojpur- Rohtas Cannanore Champaran Hoshangabad Moradabad	Bellary Champaran Hoshangabad Mallabhum



## ANNEXURE 5-3

### Exercises on Viability of RRB by two Sponsor Banks

#### I

#### COST OF OPERATIONS OF RRB

Direct expenditure incurred by the Bank in connection with the opening/sponsoring of Rural Bank and the salary expenditure of the deputed officials comes to about Rs. 1.60 lakhs upto June 1977. The Bank would have to continue to incur this expenditure till the Rural Bank is in a position to manage its branches and Head Office with its own personnel. Further, the Rural Bank is not in a position to meet all the expenditure in the present situation of its limited business transactions.

It is anticipated that the Rural Bank will have a net work of around 30 branches by the beginning of 1978 and the number would go upto about 50 by the end of 1978. It is also hoped that the Rural Bank will have an average loan business of about Rs. 4 crores during 1978.

The Rural Bank would get an average margin of little over 4% on its advances, as detailed below :

#### A. Return on Advances :

About 25 per cent of advances@ 11% (through societies) .. .. .	2.75
About 50 per cent of the advances@ 13½% .. .. .	6.50
About 25 per cent of the advances@14% .. .. .	3.50
	12.75%

#### B. Cost of Funds :

50 per cent of the advances refinanced by RBI @7% .. .. .	3.50
35 per cent of the advances refinanced by Sponsored Bank@ 9½% .. .. .	3.325
15 per cent of the advances financed by Rural Bank's own deposits@10% .. .. .	1.50
	8.325%

C. Margin available to Rural Bank (A—B)= .. .. .	4.425%
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Assuming that the Rural Bank would have on an average loan business of about Rs. 4 crores at a safe interest margin of 4 per cent, the revenue receipts of the Rural Bank during 1978 would be Rs. 16 lakhs. The Rural Bank would also earn about Rs. 1 lakh by way of interest on securities, deposits and other receipts.

The Rural Bank would have to incur an expenditure of around Rs. 11.50 lakhs during 1978, as detailed below :

A. Branch Expenditure (Average) .. .. .	
1. Manager— No. 1 .. .. .	Rs. 11,000 p. a.
2. Clerk-Cashier—No. 2 .. .. .	Rs. 10,000 p. a.
3. Rent .. .. .	Rs. 2,000 p. a.
4. Stationery, Electricity, Postage and Sundry Expenditure .. .. .	Rs. 2,000 p. a.
Sub-Total .. .. .	Rs. 25,000 p. a.

Total expenditure for 40 (average) branches Rs. 10 lakhs.

**B. Head Office Expenditure (Average)**

1. Chairman—No. 1	.. .. .	Rs. 20,000 p. a.
2. Administrative Officer—No. 1	.. .. .	Rs. 15,000 p. a.
3. Officer—No. 1	.. .. .	Rs. 12,000 p. a.
4. Technical Officer—No. 1	.. .. .	Rs. 12,000 p. a.
5. Clerical Staff—No. 10	.. .. .	Rs. 50,000 p. a.
6. T. A., D. A. and Vehicle Expenses	.. .. .	Rs. 12,000 p. a.
7. Rent	.. .. .	Rs. 12,000 p. a.
8. Stationery, Forms, Stamps, Postage, etc.	.. .. .	Rs. 15,000 p. a.
9. Electricity, Water, etc.	.. .. .	Rs. 1,000 p. a.
10. Sundry Expenses	.. .. .	Rs. 1,000 p. a.
		<hr/>
		Rs. 150,000 p. a.

C. Total Expenditure (A+B) .. .. . Rs. 11.50 lakhs

Thus the Rural Bank would have a revenue surplus of Rs. 5.50 lakhs during 1978 provided its loan business averages Rs. 4 crores and gets a margin of 4 per cent in interest. Even if the average loan business is reduced to Rs. 3 crores, the Rural Bank would still have a revenue surplus of Rs. 1.50 lakhs.

Cheaper refinance provided by the Reserve Bank of India and Sponsor Bank and the economy in the staff expenditure would be the factors which contribute to the profitability of Rural Bank even at a business level of Rs. 3 crores with a network of 40 branches.

**II****COST OF OPERATIONS OF RRB**

It should be possible for a Branch of RRB to service about 2500—3000 loan a/cs in about 3 years of standing which mean an average deposit of Rs. 10 lakhs and an average advance of Rs. 20 lakhs. To handle the above size of business a Branch should have a Manager, one Field Assistant cum Accountant, 4 clerks and a part-time messenger. Probable working results of such a Branch may be given as follows :

EXPENDITURE	Rs.
Salary & Allowances	41,500.00
Amenities to Staff	10,000.00
Commission to NND Agents & G.L. appraiser	8,000.00
Rent on Buildings	3,000.00
Stationery	3,000.00
Depreciation on Capital Expenditure	3,000.00
Misc. Expenses	1,000.00
Share of H.O. Expenses	5,000.00
Interest on Rs. 10 lakhs Deposits @6%	60,000.00
Interest on Borrowings Rs. 15 lakhs @ 8%	1,20,000.00
	<hr/>
	2,54,500.00
	<hr/>
INCOME	Rs. (lakhs)
Average Advances of Rs. 20 lakhs @13%	2.60
Misc. receipts	0.10
	<hr/>
	2.70
	<hr/>
Net Profit per Branch	Rs. 15,500.00

In about 3 years, the Bank should be able to establish 75-100 Branches which means it will earn a profit of Rs. 10 to 15 lakhs per year. By 3rd year the Bank should be able to wipe out the loss of first 2 years and declare dividend to Share-holders. This, in spite of the fact that 100% of the loans is for priority sector at low rate of interest, difference between borrowal and lending rate is barely 5%.

#### ANNEXURE 6.1

In the seventh meeting of the Agricultural Credit Board held on December 24, 1974, it was decided that the question of introduction of differential rates of interest by co-operatives should be left to the discretion of the state co-operative banks. According to the information available with ACD., RBI., the schemes of differential rates of interest have since been introduced to some extent in States like Maharashtra, Gujarat, Rajasthan, Madhya Pradesh, Karnataka and Punjab and the relief given in the interest rate to small and marginal farmers on their loans under these schemes ranges between 1 and 4 per cent. The State-wise details of the scheme are given in the following table :

#### Differential Rates of Interest— Co-operatives

Name of the State	Date of starting the scheme	Differential rate of interest	Interest normally charged	Amount advanced since inception (Rs. crores)
1. Rajasthan .. .. .	1.5.1975	12%	13 %	6.52
2. Gujarat .. .. .	1.7.1975	10%	12½ %	13.50
3. Maharashtra .. .. .	1.7.1975	9%	13 %	N.A.
4. Punjab .. .. .	July 1976	10%	12½ %	6.46
5. Karnataka .. .. .	May 1977 (Kharif 1977-78)	4% Below the normal rate charged under S.T. loans		N.A.

N.A. = Not Available.

As regards sharing of differential interest rate burden, the one per cent differential burden in Rajasthan is entirely borne by the State Co-operative Bank. In Gujarat, 2½ per cent difference is shared jointly by State Co-operative Bank (1/2 per cent), Central Co-operative Bank (1 per cent) and Primary Society (1 per cent). In Karnataka, the 4 per cent differential interest rate burden is shared equally by the State Co-operative Bank and the Central Co-operative Bank. Similarly in Punjab, the loss of 2½% will be shared by the State Co-operative Bank and the Central Co-operative Bank in the ratio of 2:½. In Maharashtra, however, the arrangements in this regard are slightly different. Of the 4 per cent burden, the Central Co-operative Bank will bear to the extent of incremental income arising out of the increased lending operations consequent on the introduction of the and scheme and the rest by the State Co-operative Bank.

In the three States of Gujarat, Rajasthan and Punjab—data for Karnataka and Maharashtra are not available—the advances at the differential interest rate aggregated to over Rs. 26 crores as compared to Rs. 47 crores of outstandings of all commercial banks under the DRI Scheme.