

ROLE OF INDIAN REGIONAL RURAL BANKS (RRBs) IN THE PRIORITY SECTOR LENDING- AN ANALYSIS.

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Abstract:

The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said “real India lies in villages,” and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established in October 2, 1975 and are playing a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by RRBs in the development of rural economy. The objective of this paper is to analyze the rural credit and the role played by the RRBs in the priority and non-priority sector landings. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that RRBs in India has significantly improved rural economy.

Keywords: Rural credit, priority and non-priority sectors, loans and advances, Reserve Bank of India.

I. Introduction

Activities of modern economy are significantly influenced by the functions and services of banks. Banking sector constitutes the core part of economic system. Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy.

Even after 60 years of independence, the rural economy in India is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Such an essential and key sector is neglected by financial institutions and especially by the banks.

Regional Rural Banks (RRBs) are constituted to meet the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers, agricultural labourers, artisans, landless farmers, small traders, tint enterprises etc. Hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available.

In general, RRBs are commercial banks but they adopt some of the principles of cooperatives such as location in areas, work for rural population in a limited area etc. Thus they are hybrid institutes. RRBs operate under the control of two institutions, the National Agricultural Bank and Rural Development (NABARD) and Reserve Bank of India (RBI). The primary objective of this study is to analyze the performance in terms of loans provided to the priority and non-priority sectors of the country and especially various types of loans such as crop loans, term loans, loans to rural artisans, retail trade, small scale industries and self-help groups etc. The paper is divided into six sections.

A brief review of the RRBs in India is given in section-2. In section-3, review of literature is quoted. Methodology is discussed in section-4. Section-5 presents the results and analysis and the conclusion of this paper is in the sixth section of the paper.

II. Regional Rural Banks (RRBs) in India-An Overview

Rural people in India such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically backward castes and classes, have been exploited in the name of credit facility by informal sectors. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural masses in India. The informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in the rural population of India. The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented. Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the country side.

The history of Regional Rural Banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee

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felt the need of regionally oriented rural banks' that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. The first five RRBs were set up in five States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks. These banks covered 11 districts of these five states. The first five Regional Rural Banks are as follows;

- ❖ Prathama Bank and Gorakhpur kshetriya Gramin Bank in Uttar Pradesh,
- ❖ Haryana Krishi Gramin Bank in Haryana,
- ❖ Gour Gramin Bank in West Bengal,
- ❖ Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan.

Priority Sector Lending

Introducing priority sector lending is the most successful and advantageous decision of the Government of India. India is an agricultural country with predominantly rural economy. Majority of industries are agro based. To make the agriculture sector more profitable and to increase the scope of rural industries, the government included the concept of priority sector and included those sectors by commercial banks. To encourage banks to participate in agricultural and rural development, the government made priority sector loans as an important target for banks. Priority sector is a sector which is given priority in offering financial services by the banks. Reserve Bank of India prescribed guidelines and targets to all the banks operating in India with regard to priority sector services.

III. Review of Literature

The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part.

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Patel and Shete (1980) of the National Institute of Banking Management made a valuable analysis of performance and prospects of RRBs. They also gave a comparative picture of performance in deposits, branch expansion and credit deployment of the co-operative banks, commercial banks and RRBs in a specified area. This was an eye opener for many researchers engaged in this field of rural credit.

NABARD (1986) published "A study on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

Naidu, L.K. (1998) conducted a study on RRBs taking a sample of 48 beneficiaries of rural artisans in Cuddapah district of Andhra Pradesh under Rayale Seen Gramin Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank.

Kalkundrickars (1990) in his study on "Performance and Growth of regional Rural Banks in Karnataka" found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans.

Kumar Raj (1993) carried out a study on the topic "Growth and Performance of RRBs in Haryana". On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries.

A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

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According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.

Chavan and Pallavi (2004) have examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan's paper documents the gains made by historical underprivileged region of east, northeast and central part of India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

Professor Dilip Khankhoje and Dr. Milind Sathye (2008) have analysed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94 or not.

Dr. M.Syed Ibrahim (2010) carried out a study on the topic "Performance Evaluation of Regional Rural Banks in India". In this study, it was concluded that RRBs in India showed a remarkable performance in the post-merger period.

As none of these studies analyzed the role of RRBs in priority sector lending, there was a need to carry out the present study.

IV. Methodology/Research Design

The present study is diagnostic and exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD). The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred. An attempt is made here in this paper to examine the rural credit structure of the country and the role played by the RRBs. The study is confined only to the specific area like loans and advances made by the RRBs especially priority and non-priority sectors for the seven years period starting from 2002-03 to the year 2008-09. In order to analyze the data and draw conclusions in this study, various

statistical tools like Descriptive Statistics, 't' test, Correlation and Anova have been accomplished through EXCEL and SPSS Software.

V.Results and Discussion

Sector-wise Loans issued by RRBs

RRBs occupy an important position in the rural credit market. Loans provided to the needy people have been categorized into two. One is priority sector and the other one is non-priority sector. Priority sector bank lending is an active instrument of Indian financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit to the weaker sections of the society. Priority Sector is a sector which is given priority in offering financial services by the banks. The concept of priority sector was first brought into the financial system in 1968, when the government imposed social control over the banks. Banks were directed to lend some percentage of loans to the sectors listed in the priority sector. In 1968 there were 3 sectors; agriculture, small industry and exports. Gradually, the list of segments under priority sector increased. At present it consists of agriculture, small scale industry, small transport operators, exports, small business housing, self employed persons, professionals, education etc. Recently the micro finance through Self-Help Groups (SHG) is also included in priority sector. Loans given to priority sectors by RRBs consists of short-term loans, term loans, loans to rural artisans, small scale industries, retail trade, and self-help groups' etc. Table-1 exhibits the sector-wise loans issued by the RRBs.

Table-1.Sector-wise Loans Issued by RRBs (Rs. in Crores)

Years	Priority Sector	% to Total Loans	Non- Priority Sector	% to Total Loans	Total Loans
2002-03	8,847	69.98	3,794	30.02	12,641 (100%)
2003-04	11,722	75.24	3,857	24.76	15,579 (100%)
2004-05	16,568	78.58	4,514	21.42	21,082 (100%)
2005-06	20,658	81.61	4,655	18.39	25,313 (100%)
2006-07	26,502	80.20	6,542	19.80	33,043 (100%)
2007-08	31,708	82.18	6,874	17.82	38,582 (100%)
2008-09	36,141	83.33	7,226	16.67	43,367 (100%)

Source: Central Statistical Information Department, NABARD, June-2009.

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Table-1 reveals the year-wise loans issued to both priority and non-priority sectors in the country. It is important to observe from the table that the loans issued to priority sector constitute more percentage than the loans provided to the non-priority sector.

A two sample 't'-test was performed to determine whether the disbursement of priority sector loans significantly differs from the disbursement of non-priority sector loans by the RRBs. The Hypotheses framed are as follows:

Ho: There is no difference in performance between the Priority Sector Loans and the Non-Priority Sector Loans;

H1: There is difference in performance between the Priority Sector Loans and the Non-Priority Sector Loans.

The test results are given in Table-2.

Table-2. 't'-Test Results for the Priority Sector Loans and Non-Priority Sector Loans.

Mean	21735.14	5351.714
Variance	1.04E+08	2182484
Observations	7	7
Pooled Variance	53085941	
Hypothesized Mean Difference	0	
df	12	
t Stat	4.206773	
P(T<=t) one-tail	0.000609	
t Critical one-tail	1.782288	
P(T<=t) two-tail	0.001217	
t Critical two-tail	2.178813	

Tables- 2 provides the result that there is strong evidence that ('t' is > 2.178813), HO is rejected. Hence, there is difference in performance between the disbursement of priority sector loans and the non-priority sector loans by the RRBs.

Loans for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans)

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Agriculture is the mainstay of Indian economy. More than 70 % of the population depends on agriculture and its allied activities. The RRBs are taking care of this sector by providing short-term and term-loans. Table-3 exhibits the year-wise loans provided for crops and agricultural activities.

Table-3 Disbursement of Short-Term and Term-Loans (Rs. in Crores)

Years	Amount of Short-Term Loans	% of Increase over Previous Year	Amount of Term Loans	% of Increase over Previous Year
2002-03	4,834	----	1,045	----
2003-04	6,133	26.87	1,042	26.87
2004-05	9,883	61.14	2,043	61.14
2005-06	12,575	27.23	2,144	27.23
2006-07	17,031	35.43	3,198	35.43
2007-08	20,377	19.64	3,461	19.64
2008-09	22,851	12.14	3,648	12.14

Source: Central Statistical Information Department, NABARD, June-2009.

In the table 3, it is exhibited that the short-term loans for crop has been increasing year after year. The disbursements of short-term loans were Rs. 4, 834 crores in 2002-03 which has gone up to Rs. 22,851 crores in 2008-09. The year 2006-07 registered a higher rate of percentage i.e., 35.43

The disbursement of term-loans for agriculture and allied activities by the RRBs are not quite encouraging. It has been increased from Rs.1, 045 crores in 2002-03 to Rs.3, 648 crores in 2008-09. The increase over the period was 3.49 times.

In order to test whether the disbursement of short-term loans has the linear relationship with the term-loans, the CORRELATION tool was performed. The results are furnished in Table-4.

	Column 1	Column 2
Column 1	1	
Column 2	0.98576	1

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The disbursement of short-term loans and the term-loans of the RRBs is very strong positive correlation. The linear correlation co-efficient is 0.98576 which is close to +1. This means that the demand for short-term loan increases the demand for the term-loan.

Disbursement of Loans to Priority Sectors by RRBs (Rs.in Crores)

Rural credit policy in India envisaged the provision of a range of credit services, including long-term and short-term loans to rural community. During the operation of three decade, the RRBs in India have recorded a significant growth in the disbursement of loans. Table-5 provides the loans issued to various groups apart from the short-term and term-loans in the priority sector.

Table-5 Disbursement of Loans to Various Groups in the Priority Sectors by RRBs

(Rs.in Crores)

Years	Rural Artisans	SSI	Retail Trade	SHG	Other Priority Sector
2002-03	238	138	1,421	350	819
2003-04	276	167	1,653	510	1,941
2004-05	316	210	1,967	858	1,290
2005-06	304	342	1,841	1,171	2,282
2006-07	320	342	1,984	1,406	2,222
2007-08	326	638	2,024	2,107	2,775
2008-09	552	670	2,370	2,388	3,662

Source: Central Statistical Information Department, NABARD, June-2009.

It has been observed from the above table that the loans provided by the RRBs to various groups have been increasing year after year. The loans to rural artisans have been increased from Rs.238 crores in 2002-03 to Rs.552 crores in 2008-09. The increase over the period was 2.3 times. Likewise, all the groups have been provided loans by the RRBs in an increasing amount.

The performance of the different groups in the priority sector loans of RRBs consists of Rural Artisans, SSI, Retail Trade, Self-Help Groups and other Priority Sector. 'ANOVA' is used to test whether all the groups' performance are equal or not. The Hypotheses framed are as follows:

HO: All the groups in the priority sector loans are equal

H1: All the groups in the priority sector loans are not equal

The test results are given in Table-6.

Table-6. The ANOVA results of various groups in the Priority Sector Loans.

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Summary

Groups	Count	Sum	Average	Variance
Loans to RA	7	2332	333.1429	10263.81
Loans to SSI	7	2507	358.1429	47173.48
Loans to RT	7	13260	1894.286	90253.9
Loans to SHG	7	8790	1255.714	595184.2
Loans to OPS	7	14991	2141.571	875620.3

ANOVA

Source of Variation	SS	df	MS	F	P-Value	F-Crit
Between Groups	19822596	4	4955649	15.30943	6.28E-07	2.689628
Within Groups	9710974	30	323699.1			
Total	29533571	34				

The mean level of loans to other priority sector (2141.571) is higher than that of Retail Trade (1894.286), or Self-Help Groups (1255.714) and so on. According to the test result, $F = 15.30943$. With a critical value of .05, the critical $F = 2.689628$. Therefore, since the F statistic is more than the critical value, we, reject the null hypothesis that all the groups in the priority sector loans are equal

Disbursement of loans to Agriculture V/s Non-Agriculture (%)

RRBs are providing loans to agricultural sectors for their development in the country. In this context, the total loans provided by RRBs are categorized into two groups namely agriculture and non-agriculture. The year wise percentage of loans outstanding to agriculture and non-agriculture is furnished in Tabe-7.

Table-7 Loans Outstanding to Agriculture V/s Non-Agriculture (%)

Years	Agriculture	Non-Agriculture

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2002-03	46	54
2003-04	45	55
2004-05	51	49
2005-06	54	46
2006-07	57	43
2007-08	56	44
2008-09	64	36
Mean	53.28	46.71
Standard Deviation	6.626067	6.626067
Co-efficient of Variation	12.44	14.18

Source: Central Statistical Information Department, NABARD, June-2009.

In the table 7, it is exhibited that the RRBs have been quite successful in its agricultural loans. During the period under reference, the banks have been able to mark a rising trend in its loans outstanding with 46% in the year 2002-03 to 64% in 2008-09.

A further analysis of the table reveals that the loan outstanding to non-agriculture has been decreasing from 54% in 2002-03 to 36% in 2008-09. Even though the standard deviations of the percentages of the agricultural and non-agricultural loans outstanding by the RRBs remain the same value of 6.626067, the co-efficient of variation differs. Hence, the agricultural loans outstanding are more consistent than that of non-agricultural loans outstanding.

VI. Conclusion

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional Rural Banks were established by the Government of India to develop the rural economy. With the passage of three decades, the RRBs are now looked upon with hope for rejuvenating the rural India. In the present study, the role of RRBs in the rural credits structure has been deeply analysed. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors. The priority sector loans constituted higher in percentage through out the study. RRBs have lent money to the agricultural sector through the short-term and term-loans for the development of the agriculture sectors in the economy. The disbursements of short-term loans for crops during the study period are encouraging and it constituted a higher rate than that of term-loans. Also the loans provide by the RRBs to various groups in the priority sector shows an increasing trend. The years 2007-08 and 2008-09 registered higher growth. When compared to the loans to non-agricultural activities, the highest share is recorded in the agriculture. However, it is the responsibility of the banks and

the management to look into the matter of providing sufficient amount of loans to non-priority sector as well. The gap between short-term loans for crop and the term-loans for agricultural and allied activities need to be minimized. The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India.

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