

DISBURSEMENT OF GROSS BANK CREDIT BY RRBS: AN IN-DEPTH STUDY OF POST- MERGER PERIOD

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ABSTRACT

Of the total population of India, more than 70% people are living in rural area and such of them are very remote. Major population of these areas are depends on agriculture. To make sustainable economic growth, the focus must be given on agriculture and rural economy. Among the different requirements for the development of rural economy, the right type of credit and availability of that credit at proper time is very important. RRBs of India have been setup in rural areas where the reach of co-operative banks and commercial banks are distinct. The main objectives of these banks are to give finance to agriculture and to provide employment to the people of rural and remote areas of the country. RRBs have been conceived the strong points of commercial banks and co-operative banks and reducing the weak points of both. The objectives of the study are to evaluate the performance of RRBs towards disbursement of credit in agriculture, non-agriculture as well as priority and non-priority sector for the post-merger perio.

Keywords: Regional Rural Banks, Disbursement of Credit

INTRODUCTION

Rural credit is a small amount of money which gives to the poor peoples including small scale farmers and unemployed person as loan to start their own work by development banks or any other financial institutions. Till Independence in India, the credit requirements of rural households were mainly met from the non-institutional sources, as the banking and cooperative movement were in the nascent stages. The rural households, both cultivators and non-cultivators, require credit for the productive and nonproductive purposes. Even now the purposes remain the same. At present, the productive purposes of cultivators include loans both working capital and fixed capital. Working capital is used to buy seeds, fertilizers, pesticides, etc., and to pay taxes to the government, etc. Fixed capital is meant for permanent improvements on land, digging and deepening of wells, fencing of land, and for purchasing implements and machinery, etc. Non-cultivators also use loans for creation of income generating assets in the sense of formation of fixed capital and for circulating capital in the sense of working capital. The unproductive purposes are the same for both the cultivators and non-cultivators.

OBJECTIVES OF THE STUDY

1. To evaluate the performance of RRBs towards disbursement of credit for post-merger period.
2. To analyze the trend of flow of credit for different purpose.
3. To make analysis with growth percentage of Credit Disbursed by RRBs.

HYPOTHESIS OF THE STUDY

1. The credit deployed by RRBs to priority was impressive.
2. Impressive disbursement of credit by RRBs to agriculture and non-agriculture purpose.
3. The growth rate of credit deployed by RRBs was significant.

Evolution of RRBs

The establishment of Regional Rural Banks (RRBs) has been a landmark in the history of rural banking. Till 1968, the official policy was in favor of developing cooperative credit system. In 1969, All India Rural Credit Review Committee found that over large parts of the country small farmers had been lacking access to cooperative credit. Further, the quantum of credit from the cooperative system was too little to meet the credit requirements of agriculture. In 1969 a major effort was made to improve rural credit delivery system through nationalization of 14 commercial banks which emphasized on opening of rural branches. But rural branches of commercial banks (CBs) proved to be a source of channelizing savings from rural areas to urban areas. They also lacked trained personnel to handle rural issues and acted more as a competitor to the cooperative credit system rather than supplementing it. As CBs worked more for profit earning, they failed to include the disadvantaged sections of the society in their banking domain.

Thus keeping these shortcomings in view, Banking Commission 1972 recommended that a chain of rural banks be set up in addition to the regular branches of commercial banks. A Working Group was set up under the chairmanship of Mr. M. Narasimham to give suggestions to improve the rural credit delivery system. The Group suggested institution of Regional Rural Banks as a means to provide low cost credit to rural artisans, landless labourers and small and marginal farmers. The 20 point programme of the Government also envisaged making credit available to weaker sections of the society. Thus the Regional Rural Banks ordinance was promulgated by the president on 26th September, 1975 which came into force with immediate effect. On October 2, 1975 five RRBs were set up at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan and Malda in West Bengal. The first five Regional Rural Banks are as follows:

1. Prathama Bank and Gorakhpur kshetriyaGramin Bank in Uttar Pradesh
2. Haryana KrishiGramin Bank in Haryana
3. GourGramin Bank in West Bengal
4. Jaipur-Nagpur AnchalikGramin Bank, Rajasthan.

These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. The Ordinance of 1975 was replaced by the Regional Rural bank Act 1976. RRBs were expected to play a vital role in mobilizing the savings of the small and marginal farmers, artisans, agricultural labourers and small entrepreneurs and inculcate banking habit among the rural people. These institutions were also expected to plug the gap created in extending the credit to rural areas by largely urban-oriented commercial banks and the rural cooperatives, which have close contact with rural areas but fall short in terms of funds. 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.

Reform & Merger Process

In the wake of introduction of financial sector reforms in 1991-92, the commercial viability of RRBs emerged as the most crucial factor in deciding about their desired role due to their limited business flexibility with hardly any scope of expansion/diversification, smaller size of loans with higher exposure to risk-prone advances and professional efficiency in financial deployment. To strengthen RRBs and improve their performance many initiatives have been taken by the Government of India and the Reserve Bank of India (RBI). As part of the comprehensive restructuring programme, recapitalization of RRBs was initiated in the year 1994-95. The process continued till 1990-00 and covered 187 RRBs with aggregate financial support of Rs.2188.44 crore from the shareholders, viz., Government of India, State Governments and sponsor Banks in the ratio of 50:15:35. Further, the branch licensing policy for RRBs has been liberalized. Under the new norms, empowered committees at the regional offices of RBI clear RRBs application to open new branches. The branches of RRBs may undertake government business including conducting foreign exchange business with the prior approval of the concerned Government authority and RBI. These banks have also been allowed to open extension counters at the premises of the institutions of which they are principal bankers after obtaining license from the concerned regional office of the RBI. The RRBs need not obtain permission of RBI for the installation of ATMs at the branches and extension counters for which they hold licenses issued by RBI. They are also permitted to open off-site ATMs after assessing the cost and benefit. As against the earlier policy of opening a large number of branches in far flung rural areas, RRBs have been permitted to merge/close down their unviable branches and the branch licensing policy for RRBs is almost at par with that for commercial banks. Now RRBs compete with the commercial banks in rural credit market of India. RRBs give loans for agriculture and rural development while commercial banks also serve needs of commerce and industry in rural areas. In 2005-06, the Government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity, marketing efforts etc., and also derive the

benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities.

Objectives of RRBs

The RRBs Act has made various provisions regarding the incorporation, regulation and working of RRBs. According to this Act, the RRBs are to be set-up mainly with a view to develop rural economy by providing credit facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas.

Such facility is provided particularly to the small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs and for other related matters.

The objectives of RRBs can be summarized as follows:

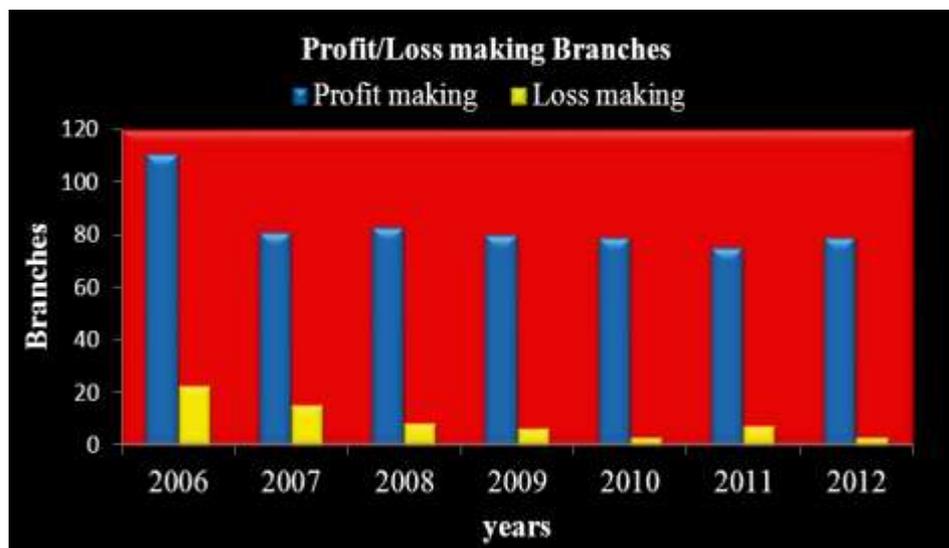
1. To provide cheap and liberal credit facilities to small and marginal farmers, agriculture labourers, artisans, small entrepreneurs and other weaker sections.
2. To save the rural poor from the moneylenders.
3. To act as a catalyst element and thereby accelerate the economic growth in the particular region.
4. To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
5. To increase employment opportunities by encouraging trade and commerce in rural areas.
6. To encourage entrepreneurship in rural areas.
7. To cater to the needs of the backward areas which are not covered by the other efforts of the Government?
8. To develop underdeveloped regions and thereby strive to remove economic disparity between regions.

Each RRB will operate within the local limits specified by notification. If necessary, RRB will also establish branches or agencies at places notified by the Government. Each RRB is sponsored by a public sector bank, which provides assistance in several ways, viz., subscription to its share capital, provision of such managerial and financial assistance as may be mutually agreed upon and helps the recruitment and training of personnel during the initial period of its functioning.

Credit Deployment by RRBs

The impact analysis of the performance of RRBs in the post financial sector reforms period in India clearly indicates the efficiency of measures taken in RRBs. Though, the operational results were overshadowed in the past by immediate adverse impact on the introduction of prudential norms, their subsequent performance indicates that the reform process has started yielding results in respect of RRBs. In this paper an attempt is made to analysis the performance of RRBs towards credit deployment for the post-merger period i.e., 2006 to 2012. Parameters like number of RRBs, branches of RRBs, profit/loss making RRBs and other parameters are used to evaluate the credit deployment of RRBs.

Particulars	2006	2007	2008	2009	2010	2011	2012
No. of RRBs	133	96	91	86	82	82	82
Profit making	111	81	83	80	79	75	79
Loss making	22	15	8	6	3	7	3
No. of Branches	14494	14526	14761	15138	15480	16001	16914
District Covered	525	534	594	617	618	620	635



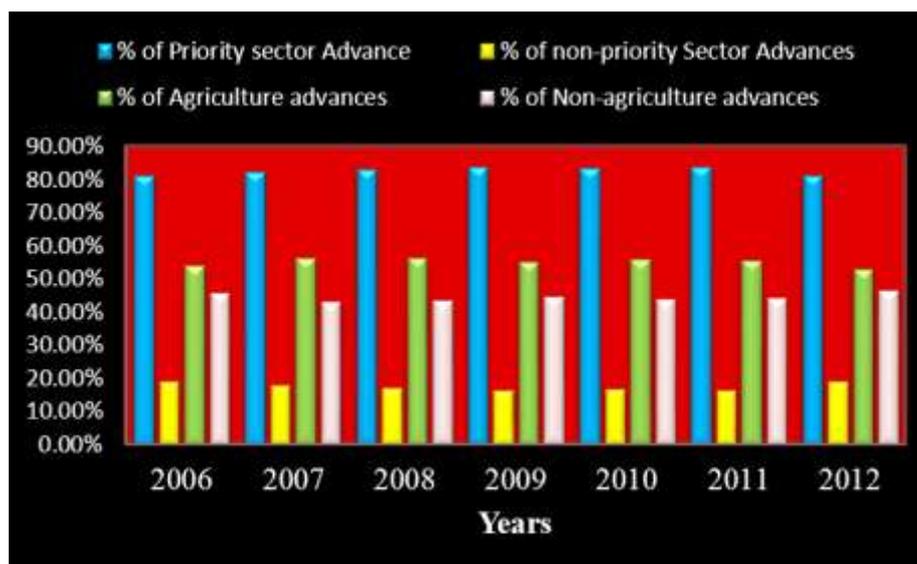
(Amount in Rs. Crore)

Purpose/End of March	2006	2007	2008	2009	2010	2011	2012
A. Agriculture (1+2)	21509	27452	33216	37367	46282	55100	64100
1. Short term crop loan	13877	18707	22748	26652	33663	40700	47400
2. Term Loan	7632	8745	10468	10715	12619	14400	16700
B. Non-agriculture (3+4)	18204	21041	25768	30435	36537	43900	56400
3. Rural Artisans, etc.	748	736	671	772	810	900	1100
4. Other industries	757	880	1227	1656	1598	2600	3600
5. Retail trade	3452	3677	4531	4690	5284	5100	6600
6. Other purposes	13246	15748	19339	23317	28895	35300	45200
Total (A+B)	39712	48493	58984	67802	82819	98900	120600
Priority Sector Advances	32177	39852	48894	56555	68828	82600	97400
Non Priority Sector Advances	7535	8641	10090	11247	13956	16300	23100

Source: Report of trend and progress of Banking in India, various issues.

Analysis of Credit Deployment by RRBs (% with total advances)

Parameters	2006	2007	2008	2009	2010	2011	2012
% of Priority sector Advance	81.03%	82.18%	82.89%	83.41%	83.11%	83.52%	80.76%
% of non-priority Sector Advances	18.97%	17.82%	17.11%	16.59%	16.85%	16.48%	19.15%
% of Agriculture advances	54.16%	56.61%	56.31%	55.11%	55.88%	55.71%	53.15%
% of short term crop loan	34.94%	38.58%	38.57%	39.31%	40.65%	41.15%	39.30%
% of Term loan	19.22%	18.03%	17.75%	15.80%	15.24%	14.56%	13.85%
% of Non-agriculture advances	45.84%	43.39%	43.69%	44.89%	44.12%	44.39%	46.77%
% of Rural artisan etc	1.88%	1.52%	1.14%	1.14%	0.98%	0.91%	0.91%
% of other industries	1.91%	1.81%	2.08%	2.44%	1.93%	2.63%	2.99%
% of retail trade	8.69%	7.58%	7.68%	6.92%	6.38%	5.16%	5.47%
% of other purpose	33.36%	32.47%	32.79%	34.39%	34.89%	35.69%	37.48%

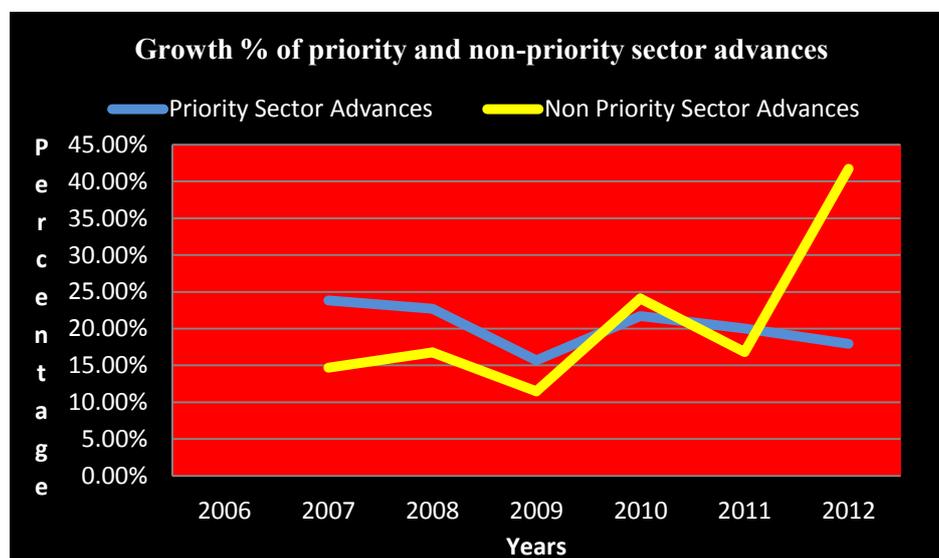


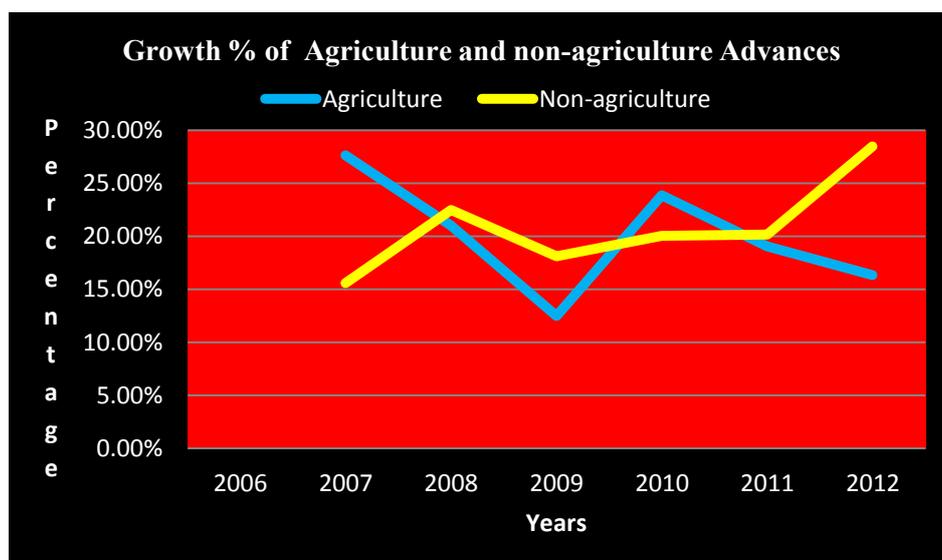
Above analysis of credit deployment by RRBs revealed that the proportion of priority sector advances to total advances was above 80% which showed the focus of RRBs towards priority sector improvement. The proportion of agriculture advances was more than 54% up to 2011 but it was declined to 53.15% in 2012. The proportion of short term crop loan was improved up to 2011 constantly but in 2012 it stood at 39.30% with decline. The proportion of term loan

showed trend of decline during the study period. The proportion of non-agriculture advances was improved in 2012 which stood at 46.77% highest proportion. The proportion of rural artisan and retail trade showed trend of decline during the study period. The proportion of advances to other industries and other purpose showed trend of improvement.

Analysis of growth in Credit Disbursed by RRBs

Purpose/End of March	2006	2007	2008	2009	2010	2011	2012
A. Agriculture	N.A.	27.63%	21.00%	12.50%	23.86%	19.05%	16.33%
1. Short term crop loan	N.A.	34.81%	21.60%	17.16%	26.31%	20.90%	16.46%
2. Term Loan	N.A.	14.58%	19.70%	2.36%	17.77%	14.11%	15.97%
B. Non-agriculture	N.A.	15.58%	22.47%	18.11%	20.05%	20.15%	28.47%
3. Rural Artisans, etc.	N.A.	-1.60%	-8.83%	15.05%	4.92%	11.11%	22.22%
4. Other industries	N.A.	16.25%	39.43%	34.96%	-3.50%	62.70%	38.46%
5. Retail trade	N.A.	6.52%	23.23%	3.51%	12.67%	-3.48%	29.41%
6. Other purposes	N.A.	18.89%	22.80%	20.57%	23.92%	22.17%	28.05%
Total	N.A.	22.11%	21.63%	14.95%	22.15%	19.42%	21.94%
Priority Sector Advances	N.A.	23.85%	22.69%	15.67%	21.70%	20.01%	17.92%
Non Priority Advances	N.A.	14.68%	16.77%	11.47%	24.09%	16.80%	41.72%





Above chart revealed the impression that there has been increase in priority sector advances and non-priority sector advances but the growth rate of priority sector advances tends to decline while the growth rate of non-priority sector advances tends to increase. Especially in 2012, the growth rate of non-priority sector advances was more than the growth rate of advances to priority sector. Besides that, the growth rate of advances in agriculture advances tends to decline in last two years. The growth rate of advances in non-agriculture advances tends to increase especially in last three years. Especially in 2012, the growth rate of non – agriculture advances was increased. From the comprehensive view of above two charts, it was noticed that the trend of growth percentage of non-priority sector advances and non-agriculture advances was move up.

CONCLUSION

The above study revealed that the deployment of credit towards priority sector, agriculture, crop loan was impressive, but the growth rate of credit disbursement towards non-priority sector and non-agriculture sector was move up in last couple of years. The credit deployment proportion to retail trade and rural artisan was declined during the study period; the RRBs should focus on upliftment of retail trade and rural artisans. The RRBs should give attention to improvement in agriculture advances rather improvement in other purpose deployment and other industries because the basic objective of RRBs is to upliftment of rural poor, small and marginal farmers. Rural economy covered remote areas and villages in which major population of India is living. Development of rural economy reflects the development of our country. Government of India had initiated financial inclusion programme for upliftment of rural society and RRBs are playing vital role in that connection. However, the RRBs have to play their role in the competitive environment particularly with the number of private banks and financial institutions coming out with their new innovative products coupled with technology up gradation. So, RRBs should be able to derive competitive advantage from the extensive branch network, already in place, in which they look for diversification of their lending portfolios to achieve better productivity and sustainability In trying to bring about

improved performance, the banks should have to evolve an appropriate strategy to serve the rural mass and to achieve sustainable viability in economic environment.

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