

An Analysis Of Priority Sector Lending By Regional Rural Banks (With Special Reference to Indian Agriculture Sector)

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Abstract

The importance of the rural banking in the economic development of a country cannot be overlooked as the real India lies in villages and village economy is the backbone of Indian economy accelerating the tempo of development of different sectors of the economy. In our country about 70% of the population lives in rural areas in some 6, 30,000 villages. Regional Rural Banks (RRBs) established on October 2, 1975 emerged as an important financial institution in India for meeting the credit requirements of the rural India which "combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have".

The concept of priority sector lending introduced in the credit policy of Reserve Bank of India in 1967-68 has emerged as the new paradigm of economic growth and plays a major role in driving away the poverty from the country. Typically, these are small loans to small and marginal farmers for agriculture and allied activities, loans to Micro and Small Enterprises, loans for small housing projects, education loans and other small loans to people with low income levels. Presently, the target for aggregate advances to the priority sector is 40 per cent of the Adjusted Net Bank Credit (ANBC) or the credit equivalent of Off Balance sheet Exposure (OBE), whichever is higher for domestic banks. Agriculture sector in India contributing about 18% of the country's gross domestic product (GDP) employs nearly 60% of the population shows that the increasing diversification of agriculture results in higher demand for agriculture credit than its actual supply. Easy availability of adequate agriculture finance at the right time has an important role in the development of the agriculture as well as in overall development of the Indian economy.

The present study is a modest attempt to focus the changing paradigm of the Indian rural economy and highlight how Regional Rural Banks can assist in lending to Priority Sector with special focus on agriculture sector. 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 the lending to priority sector especially agrarian sector.

Keywords: Priority Sector Lending, loans and advances, Agriculture, Rural credit, performance

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1. Introduction

Rural Banking industry in India is one of the booming sectors of the economy and is very crucial for the long- run economic growth and development of the country. Although Agriculture now accounts for only 13.7 percent of the total Gross Domestic Product (GDP), it still provides livelihood to 3/4th of the country's population and is an important engine for economic growth besides the largest foreign exchange earner to India. It shows that the increasing diversification of agriculture results in higher demand for agriculture credit than its actual supply. Easy availability of adequate agricultural finance at the right time has an important bearing on the overall development of the Indian economy. As such rapid growth of Agriculture is critical for inclusiveness. Growth with equity and stability has been the cornerstone of planned India development since 1950s. The Approach to the 12th Five year plan also emphasises "faster and more inclusive growth" which can be accomplished by sound monetary banking policies. Weaker sections, farmers, agricultural labourers and artisans running cottage-small industries and seeking self employment are highly unorganised and hence prioritising a part of the total bank credit is essential. Credit to priority sector is emphasized to take care of the hitherto excluded or less serviced rural-agricultural and other small producers.

The Banking Commission (1972) recommended establishing a low- cost institution like co-operatives and professionalised in their management like commercial banks for rural credit and ultimately Government of India established RRBs on 2nd October, 1975 for meeting the credit requirements of the rural India on the basis of the recommendation of the Working Group under the chairmanship of Sh. M. Narashimham. The RRBs has come to form as the third component (besides Co-operatives and Commercial banks in India) of the multi agency credit system for agricultural and rural development. The total authorized capital of RRBs was fixed at Rs. 1 Crore which has been raised to Rs. 5 Crores .They are jointly owned by Government of India, the concerned State Government and Sponsor Banks in the proportion of 50%, 15% and 35% respectively. They mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans, landless farmers, small traders, tiny enterprises etc. These are hybrid institutes operating under the control of National Bank for Agricultural and Rural Development (NABARD) which is the apex refinancing institution for agricultural and rural credit in the country since July 1982 and has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. The number of RRBs in the country as on 31 March 2013 stood at 64, with a network of 17,856 branches covering 635 districts notified in 26 States and the UT of Puducherry thus penetrating in every corner of the country and extending a helping hand to those sectors that impact large segments of the population and the weaker sections, and which are employment-intensive, as part of the priority sector such as growth of agriculture, promotion of tiny and small entrepreneurs, loans for small housing projects, education loans and other small loans to people with low income levels along with development of backward area.

The conceptualization and development of the concept of Priority Sector Lending can be traced back to a meeting of the National Credit Council of Reserve Bank of India held in July 1968 which emerged as the new paradigm of economic growth and plays a major role in driving away the poverty from the country. The term "priority sector" refers to those activities which have national importance and have been assigned priority for development. The priority sector lending is mainly intended to ensure the assistance from the banking system to those sectors of the economy which has not received adequate support of institutional finance. All the RRBs were targeted to achieve 40 percent of their outstanding advances to the priority sector w.e.f April, 1997. The target for lending to the weaker sections was aimed at 25 percent of the Priority Sector advances. The guidelines for priority sector lending by bank was revised on April 30, 2007 and overall priority sector lending target was fixed at 40 per cent of the Adjusted Net Bank Credit (ANBC) or the credit equivalent of Off Balance sheet Exposure (OBE), whichever is higher for domestic banks and 32 per cent for foreign banks.

However, the banks are not able to reach the prescribed target of lending to priority sector (Reserve bank of India- Guidelines on Lending to Priority Sector – Revised (2007)).

RRBs were originally allowed to lend only to the Target Group comprising small and marginal farmers, landless labourers, rural artisans and other weaker sections of society. Subsequently, they were allowed to lend up to 60 per cent of their incremental lending during a year to Non-Target Group borrowers. After a review, it was decided that from the financial year beginning April 1, 1997, the advances of RRBs to Priority Sector borrowers were to constitute 40 per cent of their outstanding advances, as in the case of commercial banks. Within the overall target of 40 per cent, the advances granted to weaker sections of society were to constitute 25 per cent of the Priority Sector advances (i.e. 10 per cent of total outstanding advances). The levels of achievements vis-à-vis the prescribed targets as above for lending to priority sector by RRBs were reviewed in the meeting with the Estimate Committee of Parliament held on August 6, 2002. To encourage lending of credit to priority sectors, from the year 2003-04 onwards, the RRBs are required to achieve 60 percent of their outstanding advances for priority sector borrowers. Out of this overall target, atleast 25 percent (ie. 15 percent of the total advances) should be lend to weaker sections of the society.

The primary objective of the study is to focus on the changing paradigm of the Indian rural economy and highlight how Regional Rural Banks can assist in lending to Priority Sector with special focus on agriculture sector. 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 the lending to priority sector especially agrarian sector.

Categories of priority sector lending

(a) Agriculture (Direct Finance) includes short term and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, bee-keeping, etc.) directly to individual farmers, Self Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions), for taking up agriculture/allied activities.

(b) Agriculture (Indirect Finance) includes distribution of fertilisers, pesticides and seeds, loans to Electricity Boards, loans to farmers through Primary Agricultural Credit Societies, Farmers Service Societies and Large sized Multi Purpose Societies. *General Purpose Credit Cards and Overdrafts against 'No-frills' Account are treated as Indirect Finance to Agriculture Under Priority Sector*-With a view to providing credit card like facilities in rural areas with limited point-of-sale (POS) and limited automated teller machine (ATM) facilities, all SCBs, including RRBs, were advised in December 2005 to introduce a General Credit Card (GCC) Scheme for their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit cards. Banks also provide a small overdraft facility against basic banking 'no-frills' accounts. rbi.org At present, 50 per cent of the credit outstanding under GCC is allowed to be classified as indirect finance to agriculture under the priority sector. It is proposed to permit banks to classify 100 per cent of the credit outstanding under GCC and overdrafts up to Rs.25000 against 'no-frills' accounts in rural and semi-urban areas as indirect finance to agriculture under the priority sector.

(c) Micro and Small Enterprises (Direct Finance) includes small road & water transport operators, small business, professional & self-employed persons, retail trade i.e. advances granted to retail traders dealing in essential commodities (fair price shops), consumer co-operative stores and advances granted to private retail traders with credit limits not exceeding Rs.20 lakhs and all other service enterprises. **Indirect Finance** to small enterprises shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(d) Micro Credit: Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG mechanism will constitute micro credit.

(e) Education loans include loans and advances granted to only individuals for educational purposes up to Rs.10 lakh for studies in India and Rs.20 lakh for studies abroad, and do not include those granted to institutions.

(f) Housing loans: Loans up to Rs. 25 lakh to individuals for purchase/ construction of dwelling unit per family, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged dwelling units of families up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban and metropolitan areas.

(g) Loans to Self Help Groups/ Non- Governmental Organisations: Loans provided by banks to Self Help Groups (SHG) and Non- Governmental Organisations or small groups which are in the process of forming into SHGs.

2. Review of literature

Review of literature shows the previous studies carried out by the researchers in this field in order to gain insight into extent of research. This is also important because it helps the researcher in identifying the research gap which would become the base for selecting issues and dimensions to be undertaken in the present research.

Satpathy Asit Ranjan (2011) of the Department of Finance, Seemanta Engineering College, Odisha highlighted the agricultural credit scenario in India with special focus on institutional finance for agricultural sector. He gave a comparative picture of the credit flow to agriculture of the Commercial Banks, Co operative banks and Regional Rural Banks and recommended that linkage among all agencies at all levels is needed for improving credit flow to agriculture.

Dr. Karam Pal and Jasvir S. Sura (2006) in his study “**Efficacy of Regional Rural Banks (RRBs) in India: A Conventional Analysis**” assesses the growth pattern of RRBs; and examined the credit distribution and geographical distribution of RRBs. The period taken for the analysis was from the inception of RRBs ie.1975 till 2005.It was found that the overall position of RRBs in India is not quite satisfactory due to the poor credit-deposit ratio. The study suggested that the government should spread the branches of RRBs at grass root level to provide such banking service to the really needy rural people. Moreover, it is the responsibility of the bank management and the sponsored bank to take corrective measures to raise the credit-deposit ratio of the bank that would make RRBs relevant in the rural India.

P. Satish of the National Bank for Agriculture and Rural Development (NABARD) in his valuable analysis on “**Repositioning RRBs as the main arm of the agricultural credit delivery mechanism in India**” emphasised on expanding the role of RRBs with the intention of taking banking services to the villages to cover such categories of rural masses, which hitherto were considered unbankable by other institutions specially the commercial banks. He was of the view that the relationship between sponsor banks and RRBs needs to be changed. . The time has come for the RRBs to come upon their own upon and play a greater role in agricultural credit under the overall guidance and advice of NABARD.

Jacob Kurien in his study on , “**Non-repayment of Institutional Loans and Viability of Social Banking - A Study of Priority Sector Beneficiaries in Chengalpattu M.G.R. District, TamilNadu**”: Ph.D. Thesis, May, 1996 revealed that the Agricultural Rural Debt Relief Scheme, introduced in 1990 has accentuated the increasing number of Non Performing Assets (NPA) under priority sector advances.

Veerpaul Kaur Maan and Amritpal Singh in their study “**Role of NABARD and RBI in Agricultural Sector Growth**” focussed on the pattern of regional distribution of institutional agricul-

tural credit by commercial banks and RRBs and the growth of agriculture. The study attempted to find how far the commercial banks have succeeded in reducing the regional gaps in the supply of farm finance. The growth of agricultural credit from commercial banks and RRBs was quite satisfactory as it increased to 19.1 per cent between 2000 and 2007 from 1.8 per cent between 1990 and 2000. The share of credit supplied by commercial banks and RRBs in total agricultural credit increased from 30.1 per cent in 2000 to 52 per cent in 2007. It seems likely that these large loans were advanced towards financing the new activities added to the definition of agricultural credit.

Uppal and Kaur (2007) analysed the priority sector advances by the public, private and foreign bank groups. It is concluded from their study that the improvement in financial health of the banking system is reflected in the declining share of NPAs in the total advances of all bank groups. They interpreted that although reforms have produced favourable effects by the achievement of minimum capital adequacy norms and increased non-interest income but on the other side their poor performance of priority sector advances, persistence of large NPAs and decreasing interest income are the issues that call for third banking sector reforms in India.

3. Objectives of the study

The main objective of the study is to evaluate the lending pattern of Regional Rural Banks of India to the priority sector chiefly agriculture and its allied activities.

The specific objectives of the study are given as:-

- 1) To make a comparative analysis of the trends of Institutional credit to Agriculture- Agency – wise.
- 2) To assess the growth pattern of RRBs and to recommend some workable suggestion to augment the performance of RRBs in India.
- 3) To analyse Purpose-wise Outstanding Loans and Advances of Regional Rural Banks.
- 4) To probe into the extent of agricultural loans of RRBs in its total outstanding loans vis-a-vis credit advanced to non- agriculture sector.
- 5) To study the correlation between the Loans for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans).
- 6) To examine Sector-wise Loans issued by RRBs.

4. Research Methodology

The methodology of the study is both descriptive and analytical in nature and makes use of secondary data. The descriptive methodology is used to describe the role played by Regional Rural Bank in lending to priority sector with special focus on agriculture and allied activities. The study is also of Analytical nature because the lending to priority sectors by RRBs has to be appraised in view of the recent developmental trends.

➤ Sources of data

The study is primarily descriptive and evaluative based on secondary data analysis. The secondary data been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD), Banking and Financial Statistics, Annual Monetary Policy Statements and Annual Reports of RBI and NABARD, Economic Surveys of the Ministry of Finance The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred.

➤ **Statistical Techniques Used:** The trends in the movement of the advances given by RRBs to the priority sector are examined through charts and tables with the help of Microsoft Excel.

- **Limitations:** The major limitations of the study are as follows
- The study is prepared based on the data collected from the secondary sources and documents published by the government. So, any manipulation in secondary data will lead to wrong analysis.
 - The study does not cover all the issues of RRBs because of time constraint but an attempt is made to cover all the important issues in this study.
 - The results can be contradictory if it is obtained from the other source of information.

5. Data analysis and interpretation

The analysis of the data is processed step by step as per the objectives of the study.

Current scenario of institutional credit

In India a multi-agency approach comprising co-operative banks, scheduled commercial banks and RRBs has been followed for disbursing credit to agricultural sector. In today's changing global and domestic business environment the institutional sources of finance play a significant role in agriculture development.

Table 1- INSTITUTIONAL CREDIT TO AGRICULTURE

(Rs.in Crores)

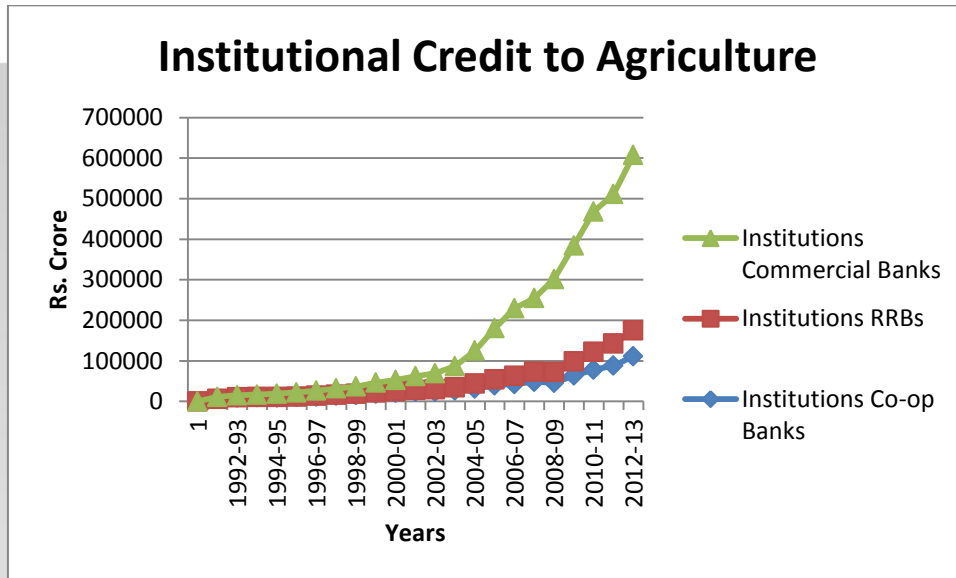
Year	Institutions						
	Co-op Banks	Share %	RRBs	Share %	Commercial Banks	Share %	Total
1991-92	5800	52	596	5	4806	43	11202
1992-93	9378	62	831	5	4960	33	15169
1993-94	10117	61	977	6	5400	33	16494
1994-95	9406	50	1083	6	8255	44	18744
1995-96	10479	48	1381	6	10172	46	22032
1996-97	11944	45	1684	6	12783	48	26411
1997-98	14085	44	2040	6	15831	50	31956
1998-99	15916	43	2538	7	18443	50	36897
1999-00	18363	40	3172	7	24733	53	46268
2000-01	20801	39	4219	8	27807	53	52827
2001-02	23604	38	4854	8	33587	54	62045
2002-03	23716	34	6070	9	39774	57	69560
2003-04	26959	31	7581	9	52441	60	86981
2004-05	31424	25	12404	10	81481	65	125309
2005-06	39404	22	15223	8	125859	70	180486
2006-07	42480	18.52	20434	8.9	166485	68	229399
2007-08	48258	18.96	25312	9.93	181088	71.11	254658
2008-09	45966	12.82	26765	9.29	228951	77.89	301682
2009-10	63497	16.51	35217	9.16	285800	74.33	384514
2010-11	78007	16.65	44293	9.45	345877	73.85	468291
2011-12	87963	17.21	54450	10.65	368616	72.13	511029
2012-13*	111203	18.3	63681	10.48	432491	71.2	607375

* provisional

Source: *Economic Survey and NABARD various issues*

Table-1 gives the quantum of institutional credit flow to agriculture from the year 1991- 92 to 2012-13. Year after year, increasing targets are set for agriculture credit disbursements in the Union Budget implying its increasing importance for investments in agriculture. The target for the credit flow to agriculture and allied sector had been fixed at Rs.5,75,000 crore during 2012-13. Against this target, the total credit flow to agriculture by commercial banks (CBs), co-operative banks and Regional Rural Banks (RRBs) was Rs.6,07,375 crore (provisional) exceeding the target by 6 per cent. The credit flow has increased by 19 per cent over 2011-12.

Chart 1



It is exhibited from the above chart that within the institutional framework, co-operative banks, particularly since the 1990s have lost their dominant position to commercial banks. The share of co-operative banks has declined to 18% during 2012-13 from 52% in 1991-92 while the share of Commercial banks has increased from 43% to 71% during the same period. The RRBs recorded an increase in its share from 5% to 10% almost doubled during the above period.

Acme Intellects

Table 2- Key Indicators of Performance of RRBs in India from year 2006-07 to 2012-13
(Figures: - Rs in Crore)

PARAMETERS	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	GROWTH
No. of RRBs	96	91	86	82	82	82	82	---
Profit/Loss making	81/15	83/8	80/6	79/3	75/7	79/3	63/1	---
No. of Branches	14526	14761	15158	15480	16001	16909	17861	5.63
Districts covered	534	594	617	618	620	638	635	(-0.47)
Staff	68289	68005	68509	69042	70153	74291	76118	2.45
Owned Fund	7285.98	8732.59	10895.73	12247.16	13838.92	16462.01	19303.86	17.26
Deposit	83143.55	99093.46	120184.5	145035	166232.3	186336	211488	13.49
Borrowings	9775.8	11494	12733.8	18770	26490.81	30288.8	38073	26
Investments	45666.14	48559.54	62629.45	79379.16	86510.44	95974.9	108548	13.1
Gross Loan(O/s)	48492.59	58984.27	67858.48	82819.1	98917.43	116385	137078	17.77
Loan Issued	33043.49	38581.97	43445.59	56079.24	71724.19	82538.4	102162	23.77
CD Ratio	58.32	59.52	56.46	57.1	59.51	62.46	66.13	---
Accumulated Losses	2759.49	2624.22	2325.59	1775.06	1532.39	1332.57	1091	18.12
Profit (before Tax)	926.4	1383.68	1859.36	2514.83	2420.75	2549.4	3280.81	28.68
Loss	301.25	55.58	35.91	5.65	71.32	71.32	28.87	59.52
Tax Paid to govt.	139.66	301.12	461.14	625.25	634.22	663.24	896.22	35.12
Gross NPA	3178.01	3566.34	2804.02	3084.82	3712	5859.12	7906.95	34.95
Gross NPA%	6.55	6.05	4.13	3.72	3.75	5.03	5.65	---
Net NPA Amount	1625.41	1929.71	1114.54	1423.31	1941.32	3372.29	4527.76	34.26
Net NPA%	3.46	3.19	1.68	1.8	2.05	2.98	3.4	---
Recovery % (as on 30 June)	79.8	80.84	77.76	80.09	81.18	81.6	81.2	---
Net Worth	4526.48	6107.37	8570.04	10472.1	12306.53	15129.4	18355	21.32
Branch Productivity	9.06	10.75	12.41	14.72	16.57	17.9	19.67	9.88
Staff Productivity	1.93	2.33	2.74	3.7	3.78	4.07	4.62	13.51

Source: Various Reports of NABARD

Table-2 exhibits the number of RRBs in the country as on 31 March 2013 stood at 64 as against 82 on March 2012, with a network of 17,861 branches covering 635 districts. The investments and the outstanding loans & advances during 2006-07 were Rs 45666.14 crore and Rs. 48492.59 crore, respectively which increased to Rs. 108548 crore and Rs. 137078, respectively by 2012-13. In the year 2006-07, RRBs registered a profit (before tax) amounting to Rs. 926.4 crores which shoots up to Rs. 1383.68 crores in the next year and finally to Rs. 3280.81 crores in the year 2012-2013. The number of profit making RRBs stood at 63 out of 64 RRBs as on 31st March 2013. The percentage of NPAs to outstanding loans increased from 6.55 per cent to 5.65 per cent over a period of seven years (2006-07 to 2012-13). The recovery percentage of RRBs recorded an increase of about 1.4 per cent over the same period.

With regard to productivity, the average branch productivity (business per branch) of all 64 RRBs stood at Rs. 19.67 crore in the year 2012-13. The average staff productivity which implies business per staff of all the Regional Rural Banks was Rs. 4.62 crore during the year 2012-13. The Net worth of Regional Rural Banks improved from Rs. 4526.48 crore in 2006-07 to Rs. 18355 crore in 2012-13

OUTSTANDING LOANS TO AGRICULTURE AND NON-AGRICULTURE

Regional Rural Banks are providing loans and advances to agricultural sectors as agricultural development plays a crucial role in the development of the Indian economy. In this regard, 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 Table below:-

Table 3:- LOANS OUTSTANDING TO AGRICULTURE V/s NON-AGRICULTURE

Years	Agriculture(%)	Non-Agriculture(%)
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

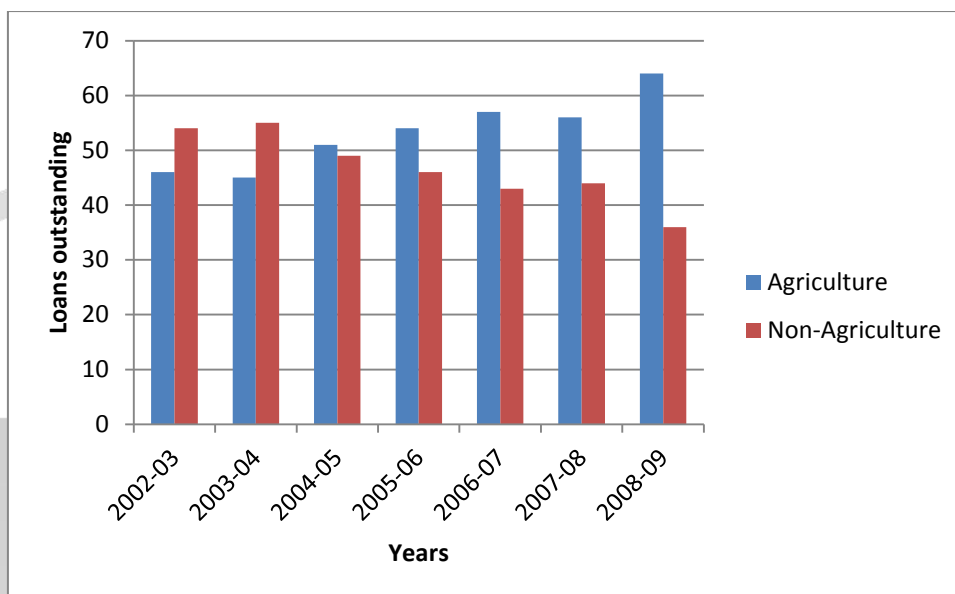


Table-3 depicts that the RRBs have been quite successful in its agricultural loans. These banks have able to mark an upward trend in its loans outstanding with 46% in the year 2002-03 to 64% in 2008-09 indicating an increase of 18 per cent. The table also reveals that the loan outstanding to non- agriculture has been decreasing from 54% in 2002-03 to 36% in 2008-09 showing a fall of 18 per cent. The co-efficient of variation differs though the value of standard deviations of the percentages of the agricultural and non- agricultural loans outstanding by the RRBs remain the same at 6.626067. Hence, the agricultural loans outstanding are more consistent than that of non- agricultural loans outstanding.

Table 4-PURPOSE -WISE OUTSTANDING LOANS AND ADVANCES OF RRBs
 (Rs. in Crores)

Sr. No	Purpose	2006	2007	2008	2009	2010	2011	2012
1	Short term(crop loans)	13877	18707	22748	26652	33643	40663	474
2	Term loans for agriculture and allied activities	7632	3745	10468	10715	12619	14404	167
A	Total agriculture (1 and 2)	21509 (54.2)	27452 (56.6)	33216 (56.3)	37367 (55.1)	46282 (55.9)	55067 (54.9)	641 (53.2)
4	Rural artisans	748	736	671	772	810	881	11
5	Other industries	757	880	1227	1656	1598	2625	36
6	Retail trade	3452	3677	4531	4690	5234	5082	66
7	Other purposes	13246	15748	19339	23317	28895	36643	452
B	Total non- agriculture	18204 (45.8)	21041 (43.4)	25768 (43.9)	30435 (44.8)	36537 (44.1)	45231 (45.1)	564 (46.8)
	Total (A + B)	39712 (100.0)	48493 (100.0)	58984 (100.0)	67802 (100.0)	82819 (100.0)	100298 (100.0)	1206 (100.0)

Source: NABARD

Table-4 shows that RRBs have been contributing more than 80 percent of their total credit to the total agriculture sector (Short-term and term-loans) at end-March 2012. The share of agricultural loans (Rs.27,452 crore in 2006-07) increased to 56.6 percent at end-March 2007 from 54.2 per cent at end-March 2006 with marginal decline in the successive years to 53.2 per cent at end -March 2012. Within agriculture, crop loans constituted almost 74 per cent of the volume of lending. Within the non-agricultural sector, majority of the credit was for Other purposes from end March 2006 to end -March 2012. Purpose-wise composition of credit disbursed by RRBs remained broadly unchanged during 2011-12, with more than half of total credit going to the agricultural sector.

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

Agriculture is the backbone of Indian economy. Rapid growth of Agriculture is essential not only to achieve self-reliance but also to bring about equity in distribution of income and wealth resulting in reduction of poverty levels. The RRBs are taking care of this sector by providing short-term and term-loans.

Table 5-SECTOR- WISE LOANS ISSUED BY RRBs

(in Rs. Crores)

Years	Priority sector	% of Total Loans	Non Priority Sector	% of Total Loans	Total Loans
2002-03	8847	69.98	3794	30.02	12.641(100%)
2003-04	11722	75.24	3857	24.76	15.579(100%)
2004-05	16568	78.58	4514	21.42	21082(100%)
2005-06	20658	81.61	4655	18.39	25313(100%)
2006-07	26502	80.2	6542	19.8	33043(100%)
2007-08	31708	82.18	6874	17.82	38582(100%)
2008-09	36141	83.33	7226	16.67	43367(100%)

Source: Central Statistical Information Department, NABARD, June 2009

Table- 5 depicts the year-wise loans issued by Regional Rural Banks to the priority as well as non-priority sectors in the country. It is exhibited from the table that the loans issued to priority sector constitute more percentage than the loans provided to the non-priority sector during the period 2002-03 to 2008-09. The percentage of total loans to the priority sector shows an increase of 13.35 per cent (from 69.98 percent on 2002-03 to 83.33 per cent on 2008-09) while the percentage of total loans to the Non Priority sector registered a decline of 13.35 per cent (from 30.02 per cent to 16.67 per cent) during the above period.

Table 6-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	4834	1045
2003-04	6133	26.87	1042	26.87
2004-05	9883	61.14	2043	61.14
2005-06	12575	27.23	2144	27.23
2006-07	17031	35.43	3198	35.43
2007-08	20377	19.64	3461	19.64
2008-09	22851	12.14	3648	12.14

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

Table-6 exhibits the year-wise loans provided for Short term and Term loans. The disbursement of term-loans for agriculture and allied activities by the RRBs are not quite satisfactory. It has been increased from Rs.1045 crores in 2002-03 to Rs.3648 crores in 2008-09 indicating an increase of 3.49 per cent whereas the disbursement of Short-term loans has increased rapidly from Rs. 4834 crores in 2002-03 to Rs.22,851 crores in 2008-09 showing a hike of 4.72 per cent over the above period.

6. Major Findings

The major findings of the study are clubbed as under:-

- 1) The RRBs recorded two-fold increase in its share of Institutional Credit to Agriculture from 5 per cent during 1991-92 to 10 per cent during 2012-13. The share of co-operative banks has declined to 18% during 2012-13 from 52% in 1991-92 while the share of Commercial banks has increased from 43% to 71% during the same period.
- 2) The table exhibits the number of RRBs in the country as on 31 March 2013 stood at 64 against 82 as on March 2012, with a network of 17,861 branches covering 635 districts notified in 26 States and the UT of Puducherry. The RRBs registered an increase in its investments from Rs. 45666.14 crore in 2006-07 to Rs. 108548 crore in 2012-13 while it recorded profit (before tax) amounting to Rs. 926.4 crores in 2006-07 which shoots up to Rs. 1383.68 crores in the next year and finally to Rs. 3280.81 crores in the year 2012-2013.
- 3) The percentage of NPAs to outstanding loans increased from 6.55 per cent to 5.65 per cent over a period of seven years (2006-07 to 2012-13). The recovery percentage of RRBs recorded an increase of about 1.4 per cent over the same period.
- 4) The RRBs have been quite successful in its agricultural loans. The agricultural loans outstanding are more consistent than that of non- agricultural loans outstanding showing an increase of 18 per cent in its outstanding loans while the loans outstanding to non- agriculture has recorded a decline of about 18 per cent from 2002-03 to 2008-09.
- 5) The share of agricultural loans in 2006-07 increased to 56.6 percent at end-March 2007 from 54.2 per cent at end-March 2006 with marginal decline in the successive years to 53.2 per cent at end -March 2012.
- 6) Purpose-wise composition of credit disbursed by RRBs exhibited that RRBs have been contributing more than 80 percent of their total credit to Total agriculture sector including Short-term and Term-loans at end-March 2012. Within agriculture, crop loans constituted almost 74 per cent of the volume of lending. Within the non-agricultural sector, majority of the credit was for Other purposes from end March 2006 to end -March 2012.

- 7) The loans issued by RRBs comprising both priority and non priority sectors indicates that disbursement of loans to priority sector constituted an increase of 13.35 per cent (from 2002-03 to 2008-09) while the percentage of total loans to the Non Priority sector registered a decline of 13.35 per cent during the above period.
- 8) RRBs have provided loans for Crops (Short-term) and Agriculture and allied activities (Term-loans) for the development of the agriculture sectors in the economy. The disbursements of short-term loans for crops during the period (2002-03 to 2008-09) are quite encouraging and it constituted a hike of 4.72 per cent than that of term-loans for Agriculture and allied activities which exhibited an increase of 3.49 per cent over the above period.
- 9) These findings may be of considerable use to rural banking institutions, policy makers and even for corporate houses in developing and shaping the appropriate credit structure in India.

7. Suggestions / Recommendations

Growth in Agricultural productivity is vital not only to achieve self-reliance but also to bring about equity in distribution of income and wealth resulting in reduction of poverty levels. However, bold action from policymakers is required for achieving a highly productive, internationally competitive, and diversified agricultural sector.

- 1) Cooperative societies may be permitted to sponsor or co-sponsor with commercial banks in the establishment of the Regional Rural Banks. Government should encourage and support banks to take appropriate measures in rural development.
- 2) Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
- 3) The Government should regularly make policies for opening more and more branches in weaker and backward areas of the state.
- 4) The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group for elevating poverty and empowering women.
- 5) Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.
- 6) A uniform pattern of interest rate structure should be devised for the rural financial agencies.
- 7) The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
- 8) The credit policy of the RRBs should be based on the group approach of financing rural activities.
- 9) The RRBs should relax their lending procedures and make them easier for village borrowers.
- 10) RRBs should continuously bring innovations in designing their products and methods of delivery by making efficient utilisation of technology.
- 11) Special steps should be taken for training / capacity building of government functionaries so that they develop a positive attitude and treat the poor and marginalized as viable and responsible customers.
- 12) Follow up actions are necessary for watching the loan utilisation by the borrowers.

8. Conclusion

Regional Rural Banks were established by the Government of India to develop and revitalize the village economy. Its expansion at a fast pace has greatly helped in reducing the regional disparities in respect of banking facilities in India. With the passage of three decades, the efforts made by RRBs in mobilizing deposits, rural development, branch expansions, and credit deployment to the priority sector, in particular agriculture and the weaker section of rural areas are highly praise worthy. The Government of India also stated an innovative credit delivery mechanism as “Kisan Credit Card” in 1998 to facilitate farmers easy and timely access to short term credit from RRBs and Commercial Banks. Although the agricultural flow data is quite impressive but the small and marginal farmers are unable to avail credit easily. Therefore new innovative models are needed in product design and methods of delivery through better use of technology and related processes to reach small and marginal farmers in rural areas.

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