

ROLE OF REGIONAL RURAL BANKS IN PRIORITY SECTOR LENDING (AN ANALYSIS WITH SPECIAL REFERENCE TO AGRICULTURE SECTOR)

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ABSTRACT

The role of rural banking cannot be over looked in the economic development of a country. Rural economy is the backbone of Indian economy. As Gandhiji rightly said real India lies in villages. Majority of our population lives in villages. Thus the development of rural economy is very much essential to attain the objectives of economic planning. Here the role of banks and financial institutions is vital. Regional Rural banks were established on 2nd October 1975 for meeting the credit requirements of rural poor by overcoming the weaknesses of co-operative and commercial banks. The reserve bank of India introduced the concept of priority sector lending in 1967-68 for low income groups. Agriculture sector in India contributes about 18% of country's GDP and about 60 % of people are dependent on it. The present study is a sincere attempt to focus on rural economy and the role of RRBS in lending to the priority sector with special emphasis to the 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 have improved significantly in priority sector lending especially agriculture sector.

KEYWORDS: Priority Sector Lending, Loans and Advances, Agriculture, Rural Credit, Performance.

Introduction

Rural Economy is the backbone of Indian economy as majority of the Indian population lives in villages. The success of any economy depends on the availability of credit, which enhances the need of Banks in India. Commercial Banks and the cooperatives took the responsibility of rural credit before 1975, but were not successful in catering to all the demands of the rural population. Government of India established the Regional Rural Banks on 2nd Oct., 1975 to fill the gap of loan delivery system in India. On the recommendation of the Narasimham committee, Regional Rural Banks were set up with a local feel involving local employees for providing sufficient banking facilities to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. These banks were established with an authorized capital of 5cr which later augmented to 2000cr in the RRB Amendment Act, 2014. The Regional Rural Banks are owned by the Central Government, the State Government, and the Sponsor Banks and held shares in the ratio 50:15:35. Over the past three decades RRBs have played an important role in rural financing and have expanded their branches by leaps and bounds from 17 in 1975 to 14499 in March, 2015, maximum of them being on the rural and semi-urban areas. Presently RRBs are going through a process of amalgamation and consolidation due to which the number of RRBs has reduced to 56 in March, 2016 from 196 in 2004.

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RRBs also extend a helping hand to the Priority Sectors of the economy which do not get adequate institutional finance. The concept of Priority Sector Lending traced back to 1968 when the Reserve Bank of India categorized some sectors of the economy as those of National importance and assigned them as Priorities for development. These sectors were to be ensured assistance from the banking sectors as they lack the support of institutional finance. Economic Times says "As per the RBI, Priority sector advances constitute lending to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Categories of Priority sector lending are agriculture, micro, small and medium enterprises, export credit, education, housing, social infrastructure renewable energy and others.

Review of Literature

Numerous literatures on Priority sector lending are available for different time periods, geographical areas and financial institutions. To highlight the gap in the existing literature a brief review has been portrayed in the present study. Agarwal and Kumar (2009) analysed that the contribution of RRBS has considerably increased in agricultural and allied sector and is beneficial for the rural poor. Satyanarayan and Rafathunnisa (2000) remarked that the Term Loan of RRBS have declined during the period 1991-97. Ibrahim (2011) analysed that the role of Regional Rural Banks in priority sector lending during 2002-2009 has grown significantly.

Objectives of Study

- To study the role of RRBs in priority sector lending especially the agriculture sector.
- To make comparative analysis of the trends of institutional credit to agriculture sector.

Research Methodology

The study is descriptive and analytical in nature. It is based on secondary data from various sources. It is descriptive in the sense that it describes the role played by regional rural banks in lending to priority sector with special emphasis on agriculture sector. The study is analytical in nature because the lending to agriculture sector by RRBs has to be analysed in view of the recent development trends.

Sources of Data

The study is based on secondary data collected through the data based on RBI, NABARD, Banking financial statistics, Economic surveys of finance ministry etc.

Statistical Techniques Used

The trends in movement of the advance given by the RRBs to the priority sector are explained through charts, Tables with the help of Microsoft excel.

Data Analysis and Interpretation

The overall objective of priority sector lending program is to provide adequate institutional credit to the vulnerable sector of the economy. The Reserve bank of India has fixed targets for priority sector lending for banks. For the domestic scheduled commercial banks and foreign banks with 20 branches and above the target is 40% of the adjusted net bank credit (ANBC) and for foreign banks with less than 20 branches the target is 34% for 2016-17 and 36% for 2017-18 but the target set by the RBI for RRBS has been increased to 75% of outstanding advances from the 60% earlier. According to 'Business Line' among the significant revisions in the PSL Norms are, raising of the limit on loans to individual farmers from Rs10lakh to Rs50lakh against pledge/hypothecation of agricultural produce (including warehousing receipts) for a period not exceeding 12 months and doubling the aggregate limit to 2cr per borrower in the case of loans among others to connect farmers, producers, organisations /companies of individual farmers, farmers, partnership firms/co-operative engaged in agriculture and allied activities.

Table 1: Sector-Wise Loans Issued by RRBs (Rs. in 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	80.20	6542	19.80	33043 (100%)
2007-08	31708	82.18	6874	17.82	38582 (100%)
2008-09	36141	83.33	7226	16.67	43367b (100%)

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

From the above table it is evident that the percentage of loan provided by the regional rural banks to the priority sector during the period 2002-2009 is more than the non priority sector. The percentage of loan to the priority sector shows an increase of 13.35% while that of non priority sector registered a decline of 13.55% during the above time period.

Current Scenario of Institutional Credit to the Agriculture and Allied Sector

Table 2: Direct Institutional Credit for Agriculture and Allied Activities
(Total of Both Short Term and Long Term Percentage of Total Credit)

(Rupees in Billion)

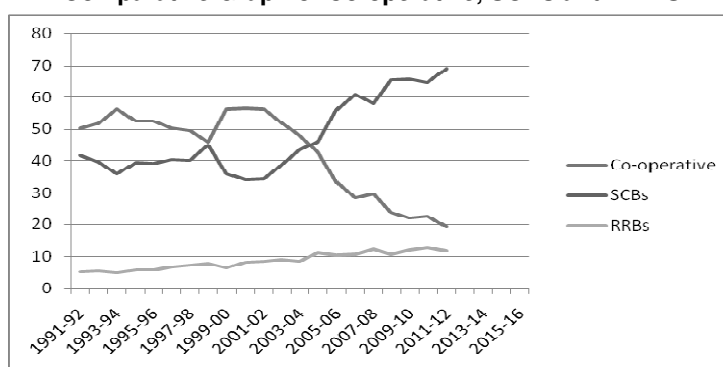
Year	Loans Issued						Total	State Government
	Co-operative		SCBs		RRBS			
	Amount	%	Amount	%	Amount	%		
1991-92	57.97	50.24	48.06	41.65	5.96	5.17	115.38	3.39
1992-93	64.84	51.75	49.60	39.58	6.98	5.57	125.30	3.89
1993-94	84.84	56.51	54.00	35.97	7.52	5.01	150.13	3.77
1994-95	98.76	52.61	74.08	39.46	10.83	5.77	187.73	4.07
1995-96	124.83	52.69	92.74	39.22	13.81	5.83	236.92	5.54
1996-97	132.54	50.31	106.75	40.45	17.48	6.64	263.45	6.68
1997-98	141.59	49.54	115.37	40.26	21.03	7.34	286.56	8.58
1998-99	150.99	46.18	146.63	44.85	25.15	7.69	326.97	4.20
1999-00	256.78	56.39	163.50	35.91	29.85	6.56	455.34	5.20
2000-01	272.95	56.64	164.40	34.12	39.66	8.23	481.87	4.87
2001-02	305.69	56.40	186.38	34.40	45.46	8.39	541.95	4.43
2002-03	340.40	52.23	252.56	38.75	58.79	9.02	651.75	-
2003-04	400.49	48.00	362.03	43.39	71.75	8.60	834.27	-
2004-05	450.09	42.74	483.67	45.93	119.27	11.33	1053.03	-
2005-06	481.23	33.41	805.99	55.97	153.00	10.62	1440.21	-
2006-07	540.19	28.50	1152.66	60.82	202.28	10.67	1895.13	-
2007-08	576.43	29.57	1134.72	58.20	238.38	12.23	1949.53	-
2008-09	587.87	23.90	1606.90	65.33	264.99	10.77	2459.76	-
2009-10	634.97	22.17	1882.53	65.73	346.40	12.10	2863.90	-
2010-11	781.21	22.65	2227.92	64.60	439.65	12.74	3448.78	-
2011-12	879.63	19.37	3128.77	68.93	530.58	11.69	4538.98	-
2012-13	1112.03	-	4844.99	-	646.49	-	-	-
2013-14	1199.64	-	-	-	783.74	-	-	-
2014-15	-	-	-	-	978.37	-	-	-
2015-16	-	-	-	-	1187.96	-	-	-

Source : Reserve Bank of India, NABARD

SCBs: Scheduled Commercial Banks; RRBS: Regional Rural Banks

Note: Data on Total Loan issued includes loans issued by the State Governments

Comparative Graph of Co-operative, SCBs and RRBS



In today's dynamic business environment, institutional sources of finance play a significant role in agricultural development. From the above table and graph it is evident that the cooperatives have lost their hold on agricultural sector. Commercial banks have become the highest loan provider to the agriculture and allied sectors. The share of RRBS has doubled from 5.17% to 11.7% in 2011-12 and the amount 646.49 billion rupees in 2012-13 to 1187.96 in 2015-16. The RRBS provide smaller amount but their contribution to the agriculture sector is gradually on the rise and may play an important role in the near future.

Short Term and Long Term Credit Provided by RRBs to the Agriculture and Allied Sector**Table 3: Direct Institutional Credit for Agriculture and Allied Activities
(Comparison of Short Term and Long Term Credit)**

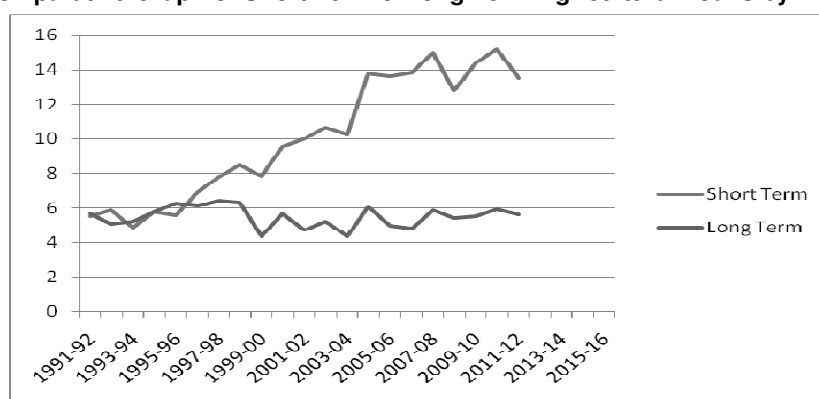
(Rupees in Billion)

Year	Loan Issued by RRBS			
	Short Term		Long Term	
	Total	%	Total	%
1991-92	3.37	5.51	2.60	5.66
1992-93	4.51	5.88	2.47	5.07
1993-94	4.76	4.88	2.76	5.24
1994-95	6.88	5.77	3.95	5.77
1995-96	8.49	5.56	5.32	6.31
1996-97	11.74	6.92	5.75	6.12
1997-98	14.57	7.82	6.45	6.44
1998-99	17.50	8.49	7.65	6.33
1999-00	22.85	7.86	7.00	4.38
2000-01	30.95	9.57	8.71	5.66
2001-02	38.10	9.99	7.36	4.71
2002-03	48.34	10.67	10.45	5.25
2003-04	61.33	10.29	10.42	4.37
2004-05	98.83	13.77	20.43	6.08
2005-06	128.16	13.62	24.84	4.97
2006-07	170.31	13.84	31.98	4.81
2007-08	203.77	14.98	34.61	5.87
2008-09	228.51	12.79	36.48	5.41
2009-10	305.29	14.39	41.11	5.53
2010-11	385.60	15.20	54.05	5.93
2011-12	470.11	13.56	60.48	5.64
2012-13	577.57	-	68.92	-
2013-14	706.46	-	77.28	-
2014-15	846.86	-	131.51	-
2015-16	984.12	-	203.84	-

Source: Reserve Bank of India, NABARD

RRBs: Regional Rural Banks

Note: Data on Total Loan issued includes loans issued by the State Governments.

Comparative Graph of Short Term & Long Term Agricultural Loans by RRBs

When we compare the short term and long term contribution of RRBs in the agriculture and allied sector, we find that it contributes more on short term loans than on long term loans. There is a significant growth registered in short term loans provided by RRBs from 5.51% in 1991-92 to 13.56% in 2011-12 and 3.37 billion in 1991-92 to 984.12 billion in 2015-16. RRBs contribution to short term loan has risen by almost 3 times from 1991-92 to 2011-12. From the table it is clear that it has risen further up to 2015-16 which proves the growing contribution of RRBs to the priority sector. Basically the purpose for which RRBs are incorporated was small investment which is being fulfilled and its scope is rising day by day.

Summary of Findings

From the data analysed in this research paper the following findings can be interpreted:

- Institutional credit to the agriculture sector has increased considerably in the last 2 decades.
- Cooperatives have lost their hold in the agriculture sector instead commercial banks play the leading role in this field.
- Contribution of RRBs to the agriculture sector is increasing day by day.
- RRBs provide more of short term loans to this sector as compared to term loans.
- The contribution of RRBs to priority sector especially agriculture sector is rising very fast. It has indeed become very important source of credit for the rural poor thus fulfilling the purpose of its establishment.

Conclusion

Regional Rural banks play a very vital role in meeting the rural credit requirements and has emerged an important financial institutional in this aspect. The efforts made by RRBS in the rural development and credit deployment to the priority sectors and especially agriculture sector is appreciable. RRBs are successfully achieving the objectives by taking banking to the door steps of rural households especially to the unbendable areas by providing easy and cheap credit to the weaker rural sectors and saving them from private lenders and also by generating employment in rural areas. The researcher thereby concludes that the contribution of RRBs to the priority sector and especially the agriculture sector is increasing by leaps and bounds. The objective of establishment of RRBs was to provide timely and cheap credit to the rural poor with the minimum formalities. The RRBs are successful in achieving their objectives and providing easy and cheap credit. According to the data collected by the researcher RRBs have played an appreciable role in providing short term loans to the agriculture sector thereby fulfilling the aim of their establishment to a greater extent.

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