



## Performance of Regional Rural Banks in Andhra Pradesh

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### ABSTRACT

*The RRBs have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India. The Regional Rural Banks were established "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto". Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. This paper highlighted the performance of priority and non-priority sector of the Regional Rural Banks in India. The results of the study shows performance of RRBs in lending to both priority and non-priority sectors is highly significant.*

**KEYWORDS :** Priority Sector, Non-Priority Sector, Performance.

### Introduction

One of the main functions of Regional Rural Banks is to finance rural priority sectors. The RRBs have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India. These banks are state-sponsored, regionally based and rural-oriented. As enshrined in the Preamble to the Regional Rural Banks Act, 1976, the Regional Rural Banks were established "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto". The Regional Rural Banks were treated as scheduled banks right from their inception and functioned alongside the larger commercial banks and the cooperative banks. Over a period of time, they have developed an impressive branch network in the rural sector. During the three decades of their existence, the Regional Rural Banks have passed through several phases. However, with their focus of operations mainly in the rural areas, the Regional Rural Banks have always been in an ideal position to provide financial services to the rural population. An attempt has been made in this chapter to analyse the performance of Regional Rural Banks providing finance to priority and non-priority sectors in the study area viz., Andhra Pradesh.

### 1. Lending to Priority Sector

Regional Rural Banks were originally allowed to lend only to the "Target Group" comprising small and marginal farmers, landless labour, rural artisans and other weaker sections of society. Subsequently, on considerations of operational profitability, they were allowed to lend up to 60 per cent of their incremental lending during a year to 'Non-Target Group' borrowers. From 1997-98 onwards, lending to 'Target Group' approach was discontinued and the concept of 'priority sector lending' was made applicable to RRBs. Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections. Regional Rural Banks were advised that their advances to the priority sector should constitute 40 per cent of their total 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 should constitute 25 per cent of the priority sector advances (20 per cent of total outstanding advances). The priority sector lending target has subsequently been revised to 60 per cent of total advances, with sub-target of 15 per cent for weaker sections.

### 2. Classifications of Priority Sector

### Advances

#### 2.1 Agriculture

Direct finance to agriculture includes short, medium and long term loans given for agriculture and allied activities (dairy, fishery, piggery, poultry, beekeeping, etc.) directly to the following;

- Individual farmers (without limit)
- Self-Help Groups (SHGs) or Jointly Liability Groups (JLGs) of individual farmers (without limit)
- Others (such as corporates, partnership firms and institutions) up to Rs. one crore and One third of finance above Rs. one crore.

Indirect finance to agriculture includes loans given for agriculture and allied activities other than the above and includes loans given to intermediaries for the purpose.

#### 2.2 Small Enterprises (Direct and Indirect Finance)

Small enterprises (erstwhile SSI) comprise a very important segment of the rural economy, next only to agriculture. Direct finance to small enterprises includes all loans given to the following:

Micro and small (manufacturing) enterprises engaged in manufacture/ production, processing or preservation of goods, with original investment in plant and machinery not exceeding Rs. five crore, and

Micro and small (service) enterprises engaged in providing or rendering of services with original investment in equipment not exceeding Rs. one crore.

The micro and small (service) enterprises also include small road & water transport operators, small business and professional and self-employed persons.

Indirect finance to small enterprises includes finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to co-operatives of producers in this sector.

#### 2.3 Retail Trade

This includes retail traders/private retail traders dealing in essential commodities (fair price shop), and consumer co-operative stores.

#### 2.4 Micro Credit

Micro credit is defined as 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 or to Micro Finance Institutions (MFIs) for on-lending up to Rs.50,000 per borrower.

## 2.5 Educational Loans

Education loans include loans and advances granted to only individuals for educational purposes up to Rs.0 lakh for studies in India and Rs.20 lakh for studies abroad, and do not include loans granted to educational institutions.

## 2.6 House Loans

Housing Loans up to Rs.20 lakh to individuals for purchase / construction of dwelling unit per family and loans given for repairs to the damaged dwelling units of families up to Rs. one lakh in rural and semi-urban areas and up to Rs. two lakh in urban and metropolitan areas. Loans by banks to their own employees are not included under the priority sector.

## 3. The Weaker Sections Under Priority Sector

- Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers.
- Artisans, village and cottage industries where individual credit limits do not exceed Rs.50,000/-.
- Beneficiaries of Swarnjayanti Gram Swarajgar Yojana(SGSY).
- Scheduled Castes and Scheduled Tribes.
- Beneficiaries of Differential Rate of Interest (DRI) scheme.
- Beneficiaries under Swarnjayanti Shahari Rojgar Yojana (SJSRY).
- Beneficiaries under the scheme for Liberation and Rehabilitation of Scavengers (SLRS).
- Advances to Self Help Groups
- Loans to distressed poor to prepay their debt to informal sector, against appropriate collateral or group security.
- Persons from minorities' communities as may be notified by the Government of India from time to time.

## 4. Guideline for Priority Sector Advances

Some important general guidelines issued to banks from time to time by the Reserve Bank in connection with priority sector lending include the following;

The bank staff should help the borrowers in completion of the application forms. However, in areas covered by special schemes such as SGSY, the concerned project authorities like DRDAs, DICs, etc. should arrange for completion of application forms received from borrowers.

Banks should give acknowledgement for loan applications received from the weaker sections.

All loan applications up to a credit limit of Rs.25,000/- should be disposed of within a fortnight and those for over Rs.25,000/-, within 8 to 9 weeks.

Branch Managers may reject loan applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the higher authorities. In the case of proposals from SC/ ST, however, rejection should be at a level higher than that of Branch Manager.

In the case of borrowers affected by natural calamities, banks may convert drawings in excess of the value of security into a term loan repayable over a reasonable period of time and provide further working capital and extend/ re-phase the installments due under term loans.

Branch Managers should be vested with discretionary powers to sanction proposals from weaker sections without frequent references to any higher authority.

## 5. RRBs and Micro Finance

Micro finance refers to the provision of thrift, credit and other financial services and products of very small amount to the poor for enabling them to raise their income levels and improve their living standards. It may be recalled that the RRBs were established mainly for this purpose, i.e. providing financial services in the rural sector to the weaker sections. Hence, it will not be wrong to label RRBs as the original "micro finance banks". Due to several advantages, micro credit is generally purveyed by banks through 'groups', rather than in the individual mode.

## 6. RATES OF INTEREST

The rates of interest on various categories of priority sector advances will be as per RBI directives issued from time to time.

In respect of direct agricultural advances, banks should not compound the interest in the case of current dues, i.e. crop loans and installments not fallen due in respect of term loans, as the agriculturists do not have any regular source of income other than sale proceeds of their crops.

When crop loans or installments under term loans become overdue, banks can add interest to the principal.

Where the default is due to genuine reasons banks should extend the period of loan or reschedule the installments under term loan. Once such a relief has been extended, the overdues become current dues and banks should not compound interest.

Banks should charge interest on agricultural advances in respect of long duration crops, at annual rates instead of quarterly or longer rates, and could compound the interest, if the loan/installment becomes overdue.

## 7. Performance of Regional Rural Banks

The year-wise priority sector and non-priority sector advances of Regional Rural Banks in Andhra Pradesh are shown in table-1. The table indicates that the total priority sector advances of Regional Rural Banks has increased to Rs.14,50,102 lakhs in 2012 from Rs.1,51,670 lakhs in 2001 i.e. an increase of 9.6 times whereas it was increased to Rs.2,25,468 lakhs in 2012 from Rs.54,235 lakhs in 2001 i.e. an increase of 4.2 times in the case of non-priority sector advances. The percentage share of priority sector advances in total advances has increased to 86.5 per cent in 2012 from 73.7 per cent in 2001 whereas it has declined to 13.5 per cent in 2012 from 26.3 per cent in 2001 in the case of non-priority sector.

**Table-1**  
**Year-wise Priority and Non-Priority Sector Advances of Regional Rural Banks in Andhra Pradesh**  
(Rs. In Lakh)

S.No.	Year	Priority Sectors	Non-Priority Sectors	Total
1	2001	151670 (73.7)	54235 (26.3)	205905 (100.0)
2	2002	175705 (72.0)	68451 (28.0)	244156 (100.0)
3	2003	212503 (72.3)	81325 (27.7)	293828 (100.0)
4	2004	248174 (72.2)	95426 (27.8)	343600 (100.0)
5	2005	269636 (60.2)	105642 (23.6)	447900 (100.0)
6	2006	411944 (79.3)	110304 (21.2)	519600 (100.0)
7	2007	490793 (77.3)	137806 (21.7)	634600 (100.0)
8	2008	618367 (78.0)	181167 (22.9)	792500 (100.0)
9	2009	758745 (85.3)	178161 (20.0)	889100 (100.0)
10	2010	911541 (83.3)	182159 (16.7)	1093700 (100.0)
11	2011	1168466 (85.7)	195234 (14.3)	1363700 (100.0)
12	2012	1450102 (86.5)	225468 (13.5)	1675570 (100.0)

**Note:** Parentheses indicates percentage

**Source:** Various annual reports of the NABARD & RBI, 2000-12, Mumbai.

To examine the performance of Regional Rural Banks, the co-efficient of variation, linear and compound growth rates and 't' values are calculated and shown in table-2. The table indicates that the co-efficient of variation account for 0.446 for priority sectors and 0.281 for

non-priority sectors. The linear and compound growth rates account for 19.421 per cent and 23.485 per cent for priority sectors whereas it was 11.424 per cent and 13.300 per cent in the case of non-priority sectors. Which is why the linear growth rate curve of priority sectors lies above to the linear growth rate curves of non-priority sectors and total advances as shown in chart-I. On the whole the performance of RRBs in lending both priority and non-priority sectors is significant both at 0.05 per cent and 0.01 per cent levels as the calculated 't' value account for 37.057 and 15.753 which is higher than the tabular 't' value.

**Table-2**  
**Year-wise Indices, Co-efficient of Variation, Linear, Compound Growth Rates and 't' values of priority and non-priority sectors of RRBs in Andhra Pradesh**

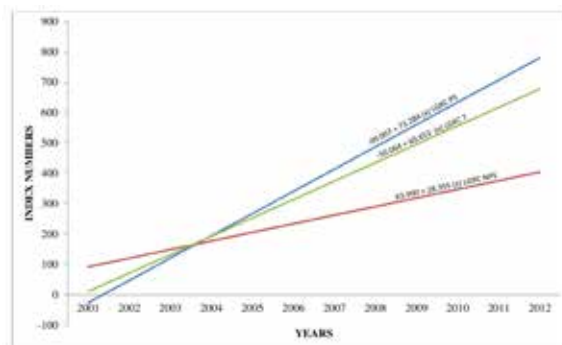
S.No.	Year	Priority Sectors	Non-Priority Sectors	Total
1	2001	100.00	100.00	100.00
2	2002	115.85	126.21	118.58
3	2003	140.11	149.95	142.70
4	2004	163.63	175.95	166.87
5	2005	177.78	194.79	217.53
6	2006	271.61	203.38	252.35
7	2007	323.59	254.09	308.20
8	2008	407.71	334.04	384.89
9	2009	500.26	328.50	431.80
10	2010	601.00	335.87	531.17
11	2011	770.40	359.98	662.30
12	2012	956.09	415.72	813.76
	CV	0.446	0.281	0.404
	LGR	19.421	11.424	17.622
	CGR	23.485	13.300	20.954
	't' value	37.057**	15.753**	84.685**

**Note:** \*\* significant both at 0.05 per cent (1.796) and 0.01 per cent (2.718).

**Source:** Compiled from Table-1.

**CHART - I**  
**LINEAR GROWTH RATE CURVES OF PRIORITY AND NON-PRIORITY**

**SECTORS IN ANDHRA PRADESH**



Note:

- LGRC PS = Linear growth rate curve of Priority Sectors
- LGRC T = Linear growth rate curve of Total Advances
- LGRC NPS = Linear growth rate curve of Non-Priority Sectors

**Conclusion**

The year-wise priority sector and non-priority sector advances of Regional Rural Banks in Andhra Pradesh indicates that the total priority sector advances of Regional Rural Banks has increased to Rs.14,50,102 lakhs in 2012 from Rs.1,51,670 lakhs in 2001 i.e. an increase of 9.6 times whereas it was increased to Rs.2,25,468 lakhs in 2012 from Rs.54,235 lakhs in 2001 i.e. an increase of 4.2 times in the case of non-priority sector advances. The percentage share of priority sector advances in total advances has increased to 86.5 per cent in 2012 from 73.7 per cent in 2001 whereas it has declined to 13.5 per cent in 2012 from 26.3 per cent in 2001 in the case of non-priority sector. The performance of Regional Rural Banks, the co-efficient of variation, linear and compound growth rates and 't' values are calculated that the co-efficient of variation account for 0.446 for priority sectors and 0.281 for non-priority sectors. The linear and compound growth rates account for 19.421 per cent and 23.485 per cent for priority sectors whereas it was 11.424 per cent and 13.300 per cent in the case of non-priority sectors. On the whole the performance of RRBs in lending both priority and non-priority sectors is significant both at 0.05 per cent and 0.01 per cent levels as the calculated 't' value account for 37.057 and 15.753 which is higher than the tabular 't' value.

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