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An Evaluation of Agricultural Finance - A Study With Special Reference to Kaveri Grameena Bank

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ABSTRACT

Even today agriculture retains its importance in Indian globalised economy; about 70% of the population has been directly or indirectly depend on agricultural and its allied activities. The requirement agricultural credit has been increasing. The Indian sector banks have been experiencing a growth in profits, to retain the tempo the banks are more focusing on commercial lending by ignoring agricultural credit. But many drivers of profits of not sustainable in the long run, They should focus on key factors like diversified loan portfolio, CD ratio, Loans and advances healthy Internal risk management techniques by putting in place appropriated risk Measurement. Indian banking has witnessed tremendous changes in the wake of the new economic reforms ushered in the year 1992. The reforms have positively impacted on the banking system, which has become flexible, Competitive and efficient with better productivity.

The winning strategies for them could be clear customer segmentation and product offerings focus on Cost efficiencies and entrepreneurial ability to face stiff competition. Reserve bank of India which is aims at financial stability through structural and regulatory measures. It envisages the new economic reforms in the banking sectors as those aimed at enhancing operational efficiency thorough completion and prudential norms. The new global banking environment influences the Indian banking sector to keep away for priority sector lending. The biggest challenge for the banks in India is efficient management of non-performing assets (NPA's). So the study focuses to know what is the non-performing Assets are, and how they can handle to reduce loss. The present agricultural financing polices followed by public sector banks including RRBs are needs to be evaluated.

KEYWORDS

1. Introduction:

The inadequacy of rural credit continued to engage the attention of the Reserve Bank and the Government throughout the 1950s and 1960s. The Agricultural Refinance Corporation (ARC) was set up by the Reserve Bank in 1963 to provide funds by way of refinance, but credit cooperatives still did not function too well. Consequently, the All India Rural Credit Review Committee (Chairman: Shri B. Venkatappiah) was setup in July 1966 to, inter alia, review the supply of rural credit in the context of the Fourth Five Year Plan in general, and the requirements of the intensive programmes of agricultural production in different parts of the country, in particular, and to make recommendations for improving the flow of agricultural credit. After a comprehensive review, the Committee recommended that the commercial banks should play a Complementary role, along with co-operatives, in extending rural credit. The social control and the subsequent nationalization of major commercial banks in 1969 (and in 1980) acted as a catalyst in providing momentum to the efforts of leveraging the commercial banking system for extending agricultural credit. The outreach of banks was enlarged considerably within a relatively short period of time. The concept of priority sector was introduced in 1969 to underscore the imperative of financing certain neglected sectors like agriculture. The channeling of credit to the priority sectors was sought to be achieved through the stipulation that a certain proportion of the total net bank credit be deployed in these sectors by specific target dates. Decentralized credit planning through the Lead Bank Scheme was also introduced, under which, each district was placed with one of the commercial banks (called the district Lead Bank) to spearhead the credit allocation for, inter alia, agricultural lending. In order to emphasize the developmental and promotional role assigned to the ARC in addition to refinancing, the Corporation was renamed as the Agricultural Refinance and Development Corporation (ARDC) by an amendment to the Act in 1975. It was also the case that the 1950s and 1960s had been characterized by a big industrial push with inadequate attention being given to agriculture. It was the 1965- 1967 drought that brought matters to a head and focused concentrated attention to agriculture. The Green Revolution then followed in the late 1960s and 1970s necessitating adequate availability of credit that could enable the purchase of inputs such as fertilizer, high yielding varieties of seeds, pump sets for irrigation, and the like. Despite all these efforts, the flow of credit to the agricultural sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of the small and marginal farmers, while the co-operatives, on the other hand, lacked resources to meet the expected demand. The solution that was found involved the establishment of a separate banking structure, capable of combining the local feel and familiarity of rural problems characteristic of co-operatives and the professionalism and large resource base of commercial banks.

The recommendations of the Narasimham Working Group (1975), Regional Rural Banks (RRBs) were set up. Thus, by the end of 1977, there emerged three separate institutions for providing rural credit, which is often described as the 'multi-agency approach'. Following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development", the National Bank for Agriculture and Rural Development (NABARD) was set up in 1982 for providing credit for promotion of among others things, agriculture. NABARD took over the entire undertaking of the ARDC and the refinancing functions of the RBI in relation to state cooperatives and RRBs. NABARD is the Apex institution which has been entrusted with a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions to augment their resource base.

Since its inception, the NABARD has played a central role in providing financial assistance, facilitating institutional development and encouraging promotional efforts in the area of rural credit. NABARD also administers the Rural Infrastructure Development Fund (RIDF), which was set up in 1995-96; the corpus of RIDF is contributed by scheduled commercial banks to the extent of their shortfall in agricultural lending under the priority sector targets. NABARD has been playing a catalytic role in micro-credit through the conduit of Self-Help Groups (SHGs).

2. Banking Reforms

The main objective of banking sector reforms was to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocate efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. The reforms have focused on removing financial repression through reductions in statutory pre- emption, while stepping up prudential regulations at the same time. Furthermore, interest rates on both deposits and lending of banks have been progressively deregulated As the Indian banking system had become predominantly government owned by the early 1990s, banking sector reforms essentially took a two pronged approach. First, the level of competition was gradually increased within the banking system while simultaneously introducing international best practices in prudential regulation and supervision tailored to Indian requirements. In particular, special emphasis was placed on building up the risk management capabilities of Indian banks while measures were initiated to ensure flexibility, operational autonomy and competition in the banking sector. Second, active steps were taken to improve the institutional arrangements including the legal framework and technological system.

As the reform progressed, it was assumed that deregulation and competition would enhance efficiency and ensure better than before quality of service at reasonable but competitive cost to the customers. However, while many improvements have taken place, entirely as expected, several adverse features in regard to retail customers were noticed particularly in respect of a few banks. Apart from issues of appropriate pricing, instances of unequal contracts, unfair trade practices, nontransparent fees, intrusion into privacy, excessive penalties, delays in cheque clearing, arbitrary revision of interest rates or equated monthly installments, usurious interest charges in some cases and excesses by loan recovery agents have been noticed warranting several institutional, policy and procedural interventions by RBI. A delicate balance between competing considerations is needed but to the extent banks have special privileges, the regulator who has granted such privileges has a responsibility to ensure financial deepening and widening in an efficient, fair and equitable manner. RBI considers delicate balances of these considerations to be critical for both growth of financial sector and a meaningful contribution of financial sector to growth of economic development of India.

3. Importance of Agricultural Credit:

Starting from Pandit Nehru's exhortation soon after independence that 'everything else can wait, but not agriculture', agricultural growth has all along been central to India's efforts at poverty reduction. We have come a long way from the chronic food shortages and occasional famines of the immediate post-independence years; even as the population has increased, we have been able to maintain food self-sufficiency through both extensive agriculture and productivity improvement. But in recent years, there has been growing concern about the erosion at the margins of food self-sufficiency. A big challenge for sustaining food self-sufficiency is raising production which, given that available land is fixed if not diminishing, has to come from improved productivity. A host of cash and non-cash inputs is necessary to improve productivity, and an important one is agricultural credit. Development experience shows that credit is an important determinant of value added in agriculture. A quick assessment by the Reserve Bank of the relationship between institutional credit to agriculture (from commercial banks, cooperatives and RRBs) evidences positive and statistically significant elasticity - every 1 per cent increase in real agricultural credit results in an increase in real agricultural GDP by 0.22 per cent with a one-year. Further, the Granger causality test (based on lag length of 1) also indicates that the causality was unidirectional from agricultural credit to agricultural GDP.

4. Committee's of Agricultural credit:

The government of India by understanding the importance of agricultural credit it has been setting up of various committees by time to time. The recommendations of those committees are as follows:

Report of all India Rural Credit Survey Committee (1954)

This committee was initiated by the Reserve bank of India in 1951 to enquire into the agricultural credit situation in India. A detailed and extensive survey was conducted under the chairmanship of Mr.A.D.Goriala and the committee submitted its report in 1954. This report is monumental in the sense that it has brought out, clearly, the significance and magnitude of the agricultural credit problems and is bound to stand for many years to come as the basis for further study. This committee clearly stated that though anything comparable in scale to the present All India survey need not be repeated in the near future, there is a need for constant review of all the main features of the situation in the rural sector.

Report of the All India Rural Credit Survey Committee (1969)

The All India Rural Credit Survey Committee was appointed by the RBI in July 1966 in order to assess the credit needs and volume of institutional credit available in aggregate for agriculture and to make suitable recommendations. The committee was headed by Sri.B.Venkatappiah. The object of the committee was to review the situation of agricultural credit in India, since the implementation of the All India Rural Credit Survey Committee, 1954. The government wanted to know whether there was any conspicuous improvement since 1954 and hence one of the committee members of 1954 report viz., Dr.B.Venkattapiah was asked to head this committee. The committee observed that by and large the performance of co-operatives was far better and their share in rural credit had increased to about 30 to 35 percent of rural credit. However, it stated that there were certain black spots indicating short comings in the co-operative credit and added by and large big farmers alone were benefited by co-operatives and small farmers were completely left out of the purview of the co-operatives.

Banking Commission Report (1972)

The banking commission was set up by the government of India in February 1969 under the chairmanship of Sri.R.G.Saraiya, and the terms of reference of the commission review the working of the co-operative banks and to make recommendations for ensuring a coordinated development of commercial and co-operative banks, the working of the various classes of indigenous banking agencies such as mutinies and shroffs and to evaluate their utility in the money market complex and make recommendations in the light of the findings and existing legislative enactments relating to commercial and cooperative banking.

Report of the National Commission on Agriculture (1976)

This commission enquired into various aspects of Indian agriculture and allied problems. It has made particular reference to supporting services and incentives especially those of co-operatives and commercial banks. In the estimation of this commission both institutional and non-institutional agencies have been meeting the requirements of farm credit. The combined share of cooperatives and commercial banks, however, has not exceeded 40 % of the estimated requirements. The commission also opined that the direct financing of agricultural development by the banking system has also shown a sign of improvement.The commission was of the view that the existing institutions need to be better equipped to serve the small farmers, with appropriate internal changes and new external linkages.

Agricultural Credit Review committee (1986)
A senior expert group was constituted in 1986 which was later known as Agricultural Credit Review Committee to make a comprehensive review of the agricultural credit system in the country. The committee made crucial review of the credit-institutions viz; Commercial banks, Regional Rural Banks, and the Co-operative banking system, including the Land Development Banks. Increased over dues resulting in restricted eligibility for lending, and reduced minor irrigation financing have been identified as some of the reasons for the poor performance of the banks.

Vyas Committee (2000)
The Vyas Committee was appointed by NABARD in August, 2000 under the chairmanship of Prof. V.S.Vyas. The committee suggested measures to reduce the rate of interest on agriculture credit given by Commercial, Co-operative and Regional Rural Banks. The group studied the role of effectiveness of the Rural Infrastructure Development Fund Mechanism and suggested ways to improve the direct agriculture lending and it tries to identify the impediments in the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless labourers and suggests measures to be taken by banks for providing financial assistance to them. These groups also studied the role of micro finance in poverty alleviation and adoption of the SHG approach in extending banks outreach to the disadvantaged sectors and examine the need to regulate micro finance institutions and to suggest appropriate regulatory model. It examined the norms relating NPA's in cases of crop failure when seasonality and uncertainty are not captured.

5. NPAs Management:
After nationalization, the initial mandate that banks were given was to expand their branch network, increase the savings rate and extend credit to the rural and SSI sectors. This mandate has been achieved admirably. Since the early 90's the focus has shifted towards improving quality of assets and better risk management. The 'directed' lending approach has given way to more market driven practices. The Narashimhan Committee has recommended prudential norms on income recognition, asset classification and provisioning. In a change from the past, Income recognition is now not on an accrual basis but when it is actually received. Past problems faced by banks were to a great extent attributable to this. Classification of what an NPA is has changed with tightening of prudential norms. Currently an asset is "non-performing" if interest or installments of principal due remain unpaid for more than 90 days.

NPAs have the following impacts in the banking operations:
1. The interest income of the banks will fall as interest is to be accounted only on receipt basis.
2. Banks profitability if affected adversely because of provisioning for doubtful/ writing off of bad debts.
3. ROI (Return on Investment) is reduced.
4. Capital adequacy ratio is disturbed as NPAs enter into its calculation.
5. Cost of capital will go up.
6. Asset and liability mismatch will widen.
7. EVA (Economic value Addition) by the banks gets upset, because EVA is equal to net operating profit minus cost of capital.

Management of NPA's in Regional Rural Banks
The majority of RRBs, the high level of NPAs has been a major uncertain block to attain profitability and solvency. However, at all India level, percentage of NPAs to loans declined from 43.07% in 1995-96 to 27.89% in 1998-99. The median NPAs in per cent, too, has come down from 45.2% in 1995-96 to 26.2% in 1998-99. Undoubtedly, RRBs in general suffer from a high proportion of NPAs and therefore, command a low esteem in Indian banking industry. This is due to past policies of directed credit, faulty appraisal, poor monitoring and recovery efforts in RRBs, etc. To have a proper perspective of NPAs in RRBs, it is necessary to analyze the incidence of NPAs in further detail. The Gross NPA of RRBs stood at ₹ 7907 crore as on 31.03.2013 (i.e.5.65%). The percentage of Net NPA of RRBs has shown an increase from 2.98% to 3.40% during the year. The data revealed that 10 RRBs had gross NPA percentage of less than 2%, whereas 32 RRBs had it above 5%.

Recovery Mechanism of NPA's
The Government of India felt that the usual recovery measures like issue of notices for enforcement of securities and recovery of dues was a time consuming process. Thus, in order to speed up the recovery of NPAs, the government constituted a committee under the chairmanship of late Shri. Tiwari in 1981.The committee examined the ways and means of recovering NPAs and recommended, inter alia, the setting up of 'Special Tribunals' to expedite the recovery process. Later the Narasimham Committee (1991) endorsed this recommendation, and, suggested setting up of the Asset Reconstruction Fund (ARF). It was suggested that the Government of India, if necessary, should establish this fund by special legislation to take over the NPAs from banks and financial institutions at a discount and recover the dues owed by the primary borrowers. Based on the recommendations of the Tiwari and the Narasimham Committees, Debt Recovery Tribunals were established in various parts of the country. An Asset Reconstruction Company was also established. The various measures taken to reduce NPAs include rescheduling and restructuring of banks, corporate debt restructuring and recovery through recovery agencies, Civil Courts, Debt Recovery Tribunals and compromise settlement. In addition, some legal reforms were introduced to speed up recovery.

The legal mechanism for recovery of default loans was so far cumbersome and time-consuming. Thus, it was felt that banks and financial institutions should be given the power to sell securities to recover dues. The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, were passed on December 17, 2002. The act provides enforcement of the security factor without recourse to civil suits. This act was passed with the aim of enabling banks and financial institutions to realize long term assets, manage the problem of liquidity, reduce asset liability mismatches and improve recovery by taking possession of securities, selling them and reducing NPAs. The ordinance also allows banks and financial institutions to utilize the services of ARCs/SCs for speedy recovery of dues from defaulters and to reduce their NPAs.

6. Review of Literature:
The researcher has carried out a review of exhaustive literature relating the agricultural lending in banking both in India as well as aboard. An attempt has been made to summaries the important studies relevance of the present paper.

Meeker Larry G. and Gray Laura (1987) the public was given its first opportunity to review bank asset quality in the form of non-performing asset information. The purpose of this study is to evaluate that information. A regression analysis comparing the non-performing asset statistics with examiner classifications of assets suggests that the non-performing asset information can be a useful aid in analyzing the asset quality of banks, particularly when the information is timely.

Toor N.S. (1994) stated that recovery of non-performing assets through the process of compromise by direct talks rather than by the lengthy and costly procedure of litigation. He suggested that by constant monitoring, it is possible to detect, the sticky accounts, the incipient sickness of the early stages itself and an attempt could be made to review the unit and put it back on the road to recovery.

Prashanth K Reddy (2002) in his thesis titled, "A comparative study of Non Performing Assets in India in the Global context

- similarities and dissimilarities, remedial measures" highlighted that financial sector reform in India has progressed rapidly on aspects like interest.

Misra (2003) in his article, "Managing Non-Performing Assets: A Professional Approach", highlighted that the profitability of the financial institutions largely depended upon the level of income generated through optimum use of the assets after paying the cost of fund for acquiring them and other administrative costs involved therein. Redefined objective of managing NPAs through profit maximization approach and risk management approach were suggested. The author further concluded that the high rise in gross and net NPAs of the banking sector in the recent past was at an exponential rate giving an indication that present ongoing recession was taking a heavy toll on corporate credit discipline.

Reddy (2003) in their research paper, "NPAs: Threat to Financial Stability", confirmed that financial stability is an essential prerequisite for sustainable long-term economic growth of any country. Banking system being the largest component of financial system should take care to immunize itself from the macro economic shocks through maintaining optimal and quality asset portfolios to achieve the objective of smooth flow of funds into the most economic channels. The non-performing assets were posing a serious threat to this objective of the banking system. The authors concluded that macro and micro level reforms and adherence to cleaner practices on the part of banks, regulator, borrowers and government will enable the system to get rid of the NPAs overhang and let financial system be an essential adjunct for economic growth.

Meenakshi Rajeev P Mahesh (2010) studied banking sector reforms and NPA‟S in Indian commercial banks to examine the trends of NPA‟S in India from various dimensions and to explain how immediate recognition and self monitoring has been able to reduce it to a great extent. The study analyses the different aspects of NPA‟S like NPA in India comparative toothier countries, NPAS of Indian banks as per the different sectors and recovery of naps through various channels. It was found that NPAS in the contributory factor for crisis in the economy and root cause of the recent global financial crisis. It was observed that NPA‟S in priority sector is still higher than that of the non priority sector due to socio economic objectives of banks.

Rajeshwari Krishnan focused on the problem of swelling non- performing assets in banks and financial institution of the country becomes more and more unmanageable and created threats for the financial sector. She found that securitization can be used for the liquidating the illiquid and long terms debut like loan receivables of the financial institutions or bank by issuing marketable securities against them. She concluded that the SARFAESI act is defiantly and big leap forward not only in the filled of NPA management but also promoting the securitizing market in India. The act may be required to fine tuned to bring in 'natural justice'.

Siraj K.K. and P. Sudarsanan Pillai, (2012) Non Performing Assets engender negative impact on banking stability and growth. Issue of NPA and its impact on erosion of profit and quality of asset was not seriously considered in Indian banking prior to 1991. There are many reasons cited for the alarming level of NPA in Indian banking sector. Asset quality was not prime concern in Indian banking sector till 1991, but was mainly focused on performance objectives such as opening wide networks/branches, development of rural areas, priority sector lending, higher employment generation, etc. The accounting treatment also failed to project the problem of NPA, as interest on loan accounts were accounted on accrual basis.

Sandeep and Parul Mital (2012) analyzed the comparative position of nonperforming assets of selected public and private sector banks in India to find their efficiency through comparative study. Data has been collected from various secondary sources for period of 10years and analyzed with descriptive statistics and ANOVA. All the banks are making polices trying for the containment of NPA‟S for improving their asset quality and profitability. PNB and HDFC banks are found superior in management of NPA‟S comparative to SBI and ICICI and private sector banks are much comfortable and efficient comparative to public sector banks.

Viveksrivastava, Deepakbansal (2012) did a "a study of trends of non-performing assets in private banks in India" to find out whether there is positive trend and control of NPA" S by the private sector banks in India. The data were collected for a period of five years from2007-2012 from various secondary sources and analyzed by average and comparative percentage analysis. It was found that that the level of NPAS is alarming with public sector banks in India but there is slight improvement in the asset quality reflected by decline in the NPA percentage. The banks should take timely action against degradation of good performing assets.

Chaudhary, S., & Singh, S., (2012).A Committee on Banking Sector Reforms known as Narasimham Committee was set up by RBI to study the problems faced by Indian banking sector and to suggest measures revitalize the sector. The committee identified NPA as a major threat and recommended prudential measures for income recognition, asset classification and provisioning requirements. These measures embarked on transformation of the Indian banking sector into a viable, competitive and vibrant sector. The committee recommended measures to improve "operational flexibility" and "functional autonomy" so as to enhance "efficiency, productivity and profitability"

Prof. G. ChandrashakarRaostudied the present and most critical issue faced by the banking system has been hug pile-up of nonperforming assets which the bank have come to be saddle. As result the survival of many weak bank managements and unions of their employees. He noticed that the main reasons for the banking units to become weak leading to mounting NPAs in diversification of funds by promoters, the other region is the tardy legal system and the inadequate legislation for recoveries. The reasons stated for the increasing NPAs in the primary sector are directed and pre- approved loans sanctioned under sponsored programmers', absence of any securities, lack of effective follow up etc,.

B.Selvarajan& G. Vadivalagan, (2013) it is also called as Non Performing Loans. It is made by a bank or finance company on which repayments or interest payments are not being made on time. A loan is an asset for a bank as the interest payments and the repayment of the principal create a stream of cash flows. It is from the interest payments that a bank makes its profits. Banks usually treat assets as non-performing if they are not serviced for some time. If payments are late for a short time, a loan is classified as past due and once a payment becomes really late (usually 90 days), the loan is classified as non-performing.

Chandan Kumar Tiwari & Ravindra Sontakke, 2013).NPA usually refers to non-performing assets and the lenders consider it as those assets that are not fetching benefits to them. The word is not new to the bankers. It is regular but disguised loan asset.. An asset becomes nonperforming when it ceases to generate income for the bank. Prior to 31st March, 2004 a nonperforming asset was defined as a credit facility in respect of which the interest or installment of principal has remained past due for a specified period of time which was four quarters. Due to the improvements in payment and settlement system, recovery climate, up gradation of technology in the banking system, etc., it has been decided to dispense with past due concept, with effect from March 31st 2004.

7. Need for the Study:

Despite the measures initiated by RBI it is often said that the banking industry has not been able to provide required agricultural credit due to the problem of recover money from the existing NPA accounts in a large scale. Though the agriculture has been back bone Indian economy even today. While it is true, to some extent, the NPAs (gross as well as net) as percentage to advances and accretion to NPAs have marginally reduced during the last couple of years; banks have not been able to recover money substantially from the existing NPAs. One of the reasons cited for this poor recovery from NP As is that the mechanisms created for this purpose are not effective and thus, banks have not been able to derive full benefit from these mechanisms. Therefore, the proposed research will be an attempt towards examining the management of NPA recovery measures. The RRBs and SHG"s must retune their lending strategy in reducing the agricultural lending and demand gap.

8. Scope of the Study:

Regional Rural banks are operating in this country since long. The concept of prudential norms has been implemented in India since April 2002. The criteria for agricultural lending has been deciding by the state and central government, NPA and treating the defaulting accounts as NPA based on defaulting period have been gradually reduced from time to time. This has made NPA management more challenging a task for bankers day by day. The scope of this study is not only to bring to the notice of bankers and policy makers about the prominent reasons responsible for leading the account turning to NPA but also the ways how the borrowable accounts as well as NPA accounts be managed so as to contain the NPA volume of the banks to its minimum with a view to maximize profit.

9. Objectives of the Study:

1) To study the recent agricultural lending policies state and central government.
2) To analyze the trends in loans and advances to agricultural sector.
3) To study the problem of NPA's in agricultural lending in KGB.
4) To study the gap between demand and supply of agricultural finance.
5) To suggest he suggestions to improve the agricultural financial in KGB.

Keeping the importance of agricultural financial requirements and how the existing agricultural lending policies of government, RBI and banking institutions hypothesis has developed "The advance made by Regional Rural Banks is not adequate finance to the agriculture sector." For this purpose a structured questionnaire was administered to the samples of respondents from managerial staff, non managerial staff and customers of all regional rural banks in Karnataka. Secondary data was collected audited account books and published annual reports of the bank. Also internal records like manuals, Broachers etc. were useful source of secondary data. The technique used to analyze the non-performing assets of Kaveri Grameena Bank are, which helped to comparison between loan budgets and disbursed, loan outstanding. The published accounts and annual reports of Kaveri Grameena bank are primarily the basis for the purpose of study.

10. Profile of Kaveri Grameena Bank:

Kaveri Grameena Bank (KGB)formed on 01st November 2012 (sponsored by State Bank of Mysore) on amalgamation of Cauvery Kalpatharu Grameena Bank, Chikamagalur-Kodagu Grameena Bank and Vishvesvaraya Grameena Bank-all Regional Rural Banks sponsored by State Bank of Mysore, Corporation Bank and Vijaya Bank respectively The objective of amalgamation is to strengthen the Bank so that it can better cater the needs of the clientele in the farm and non-farm sector more effectively, efficiently and contribute more for the economic development of the area. Consequent upon amalgamation, the operational area of the Bank spreads to ten southern districts of Karnataka State viz., Mysore, Hassan, Bangalore Rural, Ramanagar, Bangalore Urban, Tumkur, Chamarajanagar Mandya, Kodagu and Chikamagalur districts. The Bank has 334 Branches with a customer base of 1945322 as on 31.03.2013.

The Bank is having its Central Office in Mysore City and has six Regional Offices at Mysore; Mandya; Bangalore; Tumkur; Hassan and Chikmagalur for operational convenience and effective control, duly decentralizing, sanctioning and monitoring of the loans to the needy and to solve operational gaps and customer grievances in an accelerated and effective way. In the area of operation, the Bank is a forerunner catering the needs and aspirations of farming community, business class, professional and self employed persons, rural artisans engaged in cottage & tiny industries and other sections of the society, almost covering 1/3rd of geographical area of Karnataka State. All our 334 Branches are fully computerized and functioning under Core Banking Solutions platform with 1369 dedicated staff members rendering effective, timely and needy services to our clientele. The Bank has identified the wishes and aspirations of our customers and has number of innovative products to suit their fund based and non-fund based financial needs. Details are furnished elsewhere. The Bank's initiative in farming, nurturing and credit linking Self Help Groups has been appreciated in all forums. Bank has also formed and linked Joint Liability Groups to facilitate the needy who could not offer security to avail financial assistance for income generating activities.

Table No.01 Market share of agricultural lending

Sl. No.	Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1	Co-operative banks	42480	48258	46192	63497	78121	87963	64664
	SHARE (%)	18.52	18.95	15.30	16.51	16.68	17.21	26.99
2	Regional Rural Banks	20435	25312	26765	35218	44293	54450	32127
	SHARE (%)	8.91	9.94	8.87	9.16	9.46	10.65	13.41
3	Commercial Banks	166485	181088	228951	285799	345877	368616	142838
	SHARE (%)	72.57	71.11	75.83	74.33	73.86	72.13	59.61
	Total (1+2+3)	229400	254658	301908	384514	468291	511029	239629

Source:

Table.No.2
Credit Flow of Agriculture

RRB's are actively participating in the credit flow to agriculture sector. Disbursement of agriculture credit with reference to the total credit for the last 5 years reveled as under:

year	Total Credit	Agricultural credit	% of Agri Credit to total credit	% Growth in	
				Agricultural Credit	Total Credit
2008-09	43367.13	26439.17	61	13.77	12.40
2009-10	56079.24	34639.94	62	31.02	29.31
2010-11	71724.19	43965.43	61	26.92	27.90
2011-12	82538.39	53058.14	64	20.68	15.08
2012-13	102161.70	64902.91	57	22.32	23.77

It may observe from the above that the share of agriculture credit to total credit has come down to 57% during the year but in absolute terms, the agriculture credit has more than doubled in 2012-13 for the year 2008-09. Agriculture growth rate has kept pace with the total credit deployments.

Table.No.3
Frequency and percent responses for various statements

Sl no	Statement		SA	A	CS	D	SD	Chi-square	P value
1	Loans and advances offer by RRBs more on for government	F	85	260	64	73	18	141.427	.000
		%	17	52	12.8	14.6	3.6		
2	Gap between demand and supply of loans to priority sector	F	144	234	23	42	57	145.365	.000
		%	28.8	46.8	4.65	8.45	11.4		
3	NPAs in RRBS Increasing Due Non Repayment of Agricultural Loans and Advance	F	187	179	17	80	37	138.815	.000
		%	37.4	35.8	3..40	16	7.4		
4	RRBs are not providing required financial assistance to Priority Sector	F	67	210	53	104	35	90.467	.000
		%	13.99	43.85	11.06	21.7	7.3		
5	Loans and advances to priority sector has been not properly utilizing for productive purpose	F	99	190	56	71	84	46.656	.000
		%	19.8	38	11.2	14.2	16.8		
6	The agricultural lending policies of both Central and State Government were not properly meet the requirements financial assistance towards Priority sector.	F	120	175	60	90	55	45.864	.000
		%	24	35	12	18	11		
7	The rate of NPAs and the problem of recovery in agricultural loan has been	F	150	240	10	60	40	176.998	.000
	affecting on the liquidity management of Regional Rural Banks.	%	30	48	2	12	8		
8	The agricultural lending policy has been influenced by subsidies rate of interest even though the objective of loan is productive purpose	F	65	190	44	61	90	64.654	.000
		%	14.45	42.23	9.8	13.57	2		
9	The advances made by the RRBs towards priority sector is productive purpose, though the repayment has been depends on gambling of monsoon	F	204	160	12	45	29	176.365	.000
		%	45.33	35.56	2.67	10	6.45		
10	The lending policy of the RRBs providing only short term and medium term loans for priority sector.	F	50	225	60	110	30	112.345	.000
		%							

Note: F-Frequency; %-Percent; SA-Strongly agree, A-Agree, CS-Can't say, D-Disagree, SD Strongly disagree, P value-Probability

Table.No.4
Hypothesis Testing Result

	N	Mean obtained	Std. Deviation	mean expected	t	P
H	500	35.3760	4.12367	30	29.151	.000

When the total scores on the issue of 'advance made by RRBs is not adequate finance to the agricultural sector', were verified against the expected mean value of 30.0, one sample t test revealed a significant difference between expected and observed mean values. t value of 29.151 was found to be significant at .000 level. Further, it is clear that the observed mean values were significantly higher than the expected mean values indicating that advance made by RRBs is not adequate finance to the agricultural sector is really true.

11. Findings of the Paper:

1. Various committees appointed by both central and state government have been highlighted the gap between demand and supply of financial assistance to agricultural sector, further it has been widening after economic reforms.
2. Even in the global banking scenario all the banks including regional rural banks in Indian are not adapting marketing strategy in marketing of agricultural credit. But banks are lending as per the guideline of the government at subsidized rate of interest that will influence the bankers negatively due to problem of recovery and NPAs.
3. The study found out that the profit in regional rural banks was declining trend due to competition lack of diversity of banking services and stringent rules of RBI before mergers and acquisition in name of social banking. The profit was declining initial period of mergers and acquisition due to operation was not linked with profit and lack of diversity in the banking services.
4. The study finds that regional rural banks renders combination of traditional and modern before mergers and acquisition and combination of modern, mixed of traditional, modern and global services after mergers and acquisition. Slowly and steadily the regional rural banks are moving from modern services to global banking services, thanks to freedom accorded to them through banks consolidation.
5. All the respondents have strongly agreed that the, public, private and the foreign banks, in the wake of globalize scenario, have made good progress in terms of deposit mobilization, and diversifying of banking services. The situation in-turn forced the regional rural banks to fall in line. Further they made it clear that mergers and acquisition would help regional rural banks for twin reason- namely survival and acceleration of the market share.
6. All the respondents of managerial cadre agreed that the mergers and acquisition as injected in to the regional rural banks helps plummeting incessant loss besides trimming of NPAs which was consider to be bane. The respondents have place on record that the loss and NPA is reduced by 100% and 50% respectively, which fulfills the objectives of the strategy in absorbing banks and the banks which takes over.
7. The study clearly depicted that the mergers and acquisition in regional rural banks could identify the surplus in human resources. The surplus has been utilized or redeployed on various new products offered by the regional rural banks in marketing their new products /services effectively.
8. It is found that the amount of loan outstanding is gradually increasing year after, it shows that bank is inefficient in proper appraisals, inefficient control system.
9. It is observed that the external reasons that contributed to increase in nonperforming of assets are natural calamities, which are beyond the means of borrower to cope with, political interference in recovery process, vitiated recovery climate, failure of activity due to economic and managerial reasons.
10. It is noticed the borrower related reasons that contribute to increase in nonperforming of assets are miss utilization of loans, diversification of funds, lack of technical and

managerial skills, failure of activity of economic reasons, poor maintenance of assists, personal accident death, shifting of place of residence and business place, willful default, geographical factors, changes in policy environment, changes in technology, changes economic conditions, lack of risk cover availability.

11. It is notice found that the related reasons that contribute to increase in nonperforming assets are improper identification of borrower or activity, insufficient gestation or repayment period, lack of post- disbursement follow-up lack of borrow contact, inadequate understanding of clientele, lack of recovery efforts, inefficient internal control systems, low motivation and commitment of staff, perception of bank as a charity institution, Poor industrial relations climate, lack of information to borrow on due dates, amount etc.

12. Suggestions for improve agricultural lending:

1. The regional rural banks must follow the marketing strategy in agricultural lending to reduce the gap between demand and supply of agricultural finance by that both banks and needy middle class formers will be benefited in the global banking scenario.
2. Even after six decades of independence of India, the agricultural gap has been increasing. The government and RBI must come out with clear policy in differential rate of interest for different formers for different agricultural productive activities by that the risk associated in lending can be reduced and this is also recommend in Basel III norms recommendations.
3. Regional rural banks may gear up to orient the employees on the role of banks in the competitive arena. Obviously the banks have to impart knowledge at the brooder prospective which operationally includes the impact of GATS on banking industry by that banks can also thinking to reduce the gap through market ordinate strategy by that the problem agricultural finance may find solution in global competitive market.
4. Regional rural banks need to follow uniform rates on long term and big formers agricultural financial services for all needy formers. This is indeed very essential to reduce the burden on the government and lending banks enumerate by charging differential rate of interest on risk bases.
5. India has been an agrarian society since the times immemorial. Probably the condition such as standard of living, per capita income, national income and GDP, has been accelerating. Thanks to stupendous growth in the industrial sector. As if the government continues the priority sector such as agriculture, small scale industry, housing an export. The Regional rural which nourish the priority sector continue to do so, focusing on globalization with harmful.
6. Whenever any borrowing units face problem may be the beyond the control of management, the bank should immediately find out the possibility where the unit can be brought back to normal health by giving some concessions like cut off interest appropriate rehabilitation package be released in time otherwise early action for recovery of entire loan be taken in order to minimize the expected losses in feature.
7. Proper recovery and Securitization of the financial requirement and the utilizations of the advances is another way which transforms non-performing assets to performing. So the regional rural bank can freely lending the loans and the eligible formers will getting the benefits by that the level of NPAs may reduce.
8. The bank should make the improvements in existing system of appraisals. They should create their own data's of various type of information and do unbiased appraisals, which should cover technical, commercial, Financial, economic and management aspects.
9. The bank management may come out with road map of having the quality of services. They must accord kingly status to the customers. As has been a adopted by the private and foreign banks. The regional rural banks have toned up the agricultural lending keeping the other productive lending as bench mark in mind. Regional rural banks may also retain the significance agricultural lending and adopted require steering to consolidate required marketing strategies.
10. Mergers and acquisition under homogeneous groups that is a regional rural bank with another a regional rural bank will continue to nourish priority sector such as agriculture. The Government of India may evaluate policies from time to time to ensure growth in economic activities. Regional rural banks are one of the drivers of economic development are under the obligations to implement policies of the government which in-turn enable the agriculture.

13. Conclusion:

The regional rural banks, which could nourish the priority sector such as agriculture, SSI, housing, export, education, health care and drinking water, may turn their face towards commercial value thereby ignoring the growth of priority sector. The Reserve Bank had advised regional rural banks to prepare special agricultural credit plans (SACP) on demand basis with a view to achieving distinct and marked improvement in the flow of credit to agriculture. Under SACP, banks are required to fix self-set targets for achievement during the year. The targets are generally fixed by banks showing an increase the disbursements. The demand for the agricultural credit has been increasing by day by day and addressing this challenge is a head hake for both the government and the Indian banking system.

The NPAs is another big worry for the banks in India including RRBs. It is just not a problem for the banks they are bad for the economy too. The money locked up in NPAs is not available for productive use and adverse effect on banks' profitability is there. The extent of NPA is comparatively higher in public sectors banks. To improve the efficiency and profitability, the NPAs have to be scheduled. Steps have been taken by government to reduce the NPAs. This has led to decline in the level of NPAs of the Indian banking sector by that agricultural credit can extended. But a lot more needs to be done. The NPAs level of our regional rural banks is still high as compared to the international standards. It is highly impossible to have zero percentage NPAs. One cannot ignore the fact that a part of the reduction in NPAs is due to the writing off bad loans by the banks. The Indian banks should take care to ensure that they give loans to creditworthy formers as prevention is always better than cure.

Kaveri Grameena Bank is also working in the global environment under cliché's of the government in agricultural credit lending. The KGB as also gets the benefits mergers and acquisition in a recent past. This is high time for the bank to extent its banking operations in rural by focusing more agricultural lending by that the bank achieve the core objective rural banks of rural economic development.

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