



## Role of Regional Rural Banks Finance to Weaker Sections of the Rural Society in India

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### ABSTRACT

*The importance of the rural banking in the economic development of a country cannot be overlooked. Since 1975 RRBs are being regarded as one of most important sources of institutional financing of rural credit in India. The Regional Rural Banks (RRBs) 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 to the rural areas credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, small entrepreneurs and rural artisans. The objective of this paper is analyzing the rural credit to the weaker sections and the role played by the RRBs in the priority and non priority sector landings. The study is analytical and exploratory in nature and makes use of secondary data.*

**Keywords : Rural credit, weaker sections, loan outstanding, priority and non-priority sector**

### INTRODUCTION:

The country is self-reliant in the supply of food-grains, infra-structural facilities in terms, irrigation, health and education have been strengthened during the plan period. But even today we are not completely out of woods. The main reason is that India economy was predominantly an agricultural economy. About 80 per cent people lived in rural areas. Indian farmer was exploited by money-lenders and traders. The role of institutional credit in India financing agriculture was very poor. The availability of credit is the most important determinant in the process of rural development. The Nationalization of banks enables them to supplement the efforts of the co-operatives. As there were still spatial gaps in rural lending the Regional rural banks were introduced in 26 September 1975 the ordinance was replaced by the Regional Rural Banks Acts, 1976. The RRBs were established with a view to development of agriculture activities in the rural area.

The RRBs which are often viewed as the small man's bank have taken deep root and have become a sort of an inseparable part of rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele, out-reach and business volume as also contribution to development of the rural economy. According to the NABARD reports and the RBI occasional report from a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975. The numbers have grown in to 196 RRBs with 14494 branches working in 525 districts across the country in March 2005-06. Since 2006-07 amalgamation of RRBs was gradually declining 133 to 82 RRBs with 14520 to 16001 branches working in 534 to 621 districts in country in 2011-12.

### OBJECTIVES OF THE RRBs:

Main objective of the Regional Rural Banks are as follows

1. To provide the financial facilities for the development of agriculture trade, commerce and other productive activities to the economically and socially marginalized,
2. To provide low-cost banking facilities to the poor,
3. To provide employment facilities to the weaker sections by appointing them as the works of RRBs and

4. To raise the standard of living for the socio-economic upliftment of the weaker sections of the rural society.

### RESEARCH DESIGN:

The present study is diagnostic and exploratory use of secondary data. The relevant secondary data have been collected mainly through the data base of RBI, NABARD and Journal of Indian Institute of Bankers has also referred. The paper is analyzing finance to the weaker section in the country and its role played by the RRBs. The study is confined only to the specific area like loans and advance made by the RRBs especially priority and non-priority sectors for the ten years period starting from 2001-02 to 2011-12.

### EXPANSION OF REGIONAL RURAL BANKS IN INDIA:

RRBs were established in India in 1975 essentially for the purpose of taking banking service to the door-steps of needy rural masses particularly in places without banking facilities. This is called for a wide network of branches spread over the nook and corner of the rural India. There is a rapid growth in the number of RRBs and their branches in the different states and union territories of the country. There are 196 RRBs with 14443 branches (excluding satellite branches and extension countries) spread over 372 districts in 23 states/UT as on 31<sup>st</sup> March 1990. This is in comparison to 5 RRBs with only 17 branches spread over 9 districts in 1975, 85 RRBs covering almost 144 districts in 1980 and 196 covering 372 districts in 1990-91. Hence, number of RRBs has been gradually declining to 82 as 31<sup>st</sup> March 2012-13. This is due to the amalgamation programme which took place coverage of districts are shown in table -1.

**Table-1 YEAR-WISE BRANCH EXPANSION OF RRBs IN INDIA (In numbers)**

S.NO	YEAR	NO.OF RRBs	NO.OF BRANCHES	NO.OF DISTRICT COVERED
1	1975-76	5	17	12
2	1980-81	85	3279	144
3	1985-86	188	12606	333

4	1990-91	196	14443	372
5	1995-96	196	14509	425
6	2000-01	196	14301	482
7	2005-06	196	14494	525
8	2006-07	133	14520	534
9	2007-08	96	14761	594
10	2008-09	91	15181	616
11	2009-10	86	15475	618
12	2010-11	82	15480	619
13	2011-12	82	16001	620
14	2012-13	82	16914	621

**Source: compiled from various issues and statics on Regional Rural Banks, NABARD, Mumbai**

The table-1 shows that number of branches has increased from 12606 in 1985-86 to 16914 in 2012-13, registering an increase. However, the number of branches has gradually constant from 1990-91 up to 2005-06, but the number of district covered has increased considerably from 372 in 1990-91 to 525 in 2005-06. After amalgamation of RRBs the district covered from 534 in 2006-07 to 621 in 2012-13. There had been an impressive progress in the number of branches and the coverage of the districts.

**CLASSIFICATION OF DEPOSITS**

Deposit is the life blood of banking sector. RRBs have various deposit schemes and accept demand (saving) and time (term) deposits. Most popular deposits are saving deposits and term deposits.

**SAVING DEPOSITS**

The saving deposits become popular in India and accounts opened to inculcate and encourage the habit of saving among small income group people. The account holders are paid interest on the minimum balance half-yearly. The number of withdrawals is getting restricted for one time.

**TERM DEPOSITS**

The deposits accepted for specified periods are called term deposits and are also known as fixed deposits. The account holder agrees do not to withdraw the amount earlier than the specified term. The period stipulated at the time of opening the account itself depending upon when the depositor wants his money back. It helps the banker to deploy the funds for longer period. Accordingly, the fixed deposits provide stable funds and constitute term liabilities of the bank. The rate of interest and other terms and conditions on which the bank accepts these deposits are regulated by Reserve Bank of India under the Banking Regulation Act 1949. Now the fixed deposits are growing in RRBs. The RRBs are generating in the nook and corner of rural India since its inception. They have a local familiarity and mobilized rural savings from the public. The deposit outstanding position of RRBs in India is presented in table-2

**Table-2 DEPOSIT OUTSTANDING POSITION IN RRBs IN INDIA (Rs. in lakhs)**

Year	Deposits amount		
	Saving Rs.	Time Rs.	Total Rs.
1975-76	72 (50.00)	72 (50.00)	144 (100)
1980-81	74 (32.03)	157 (67.97)	231 (100)
1985-86	324 (24.65)	990 (75.35)	1314 (100)
1990-91	914 (20.64)	3619 (79.83)	4533 (100)

1995-96	2475 (18.51)	10895 (81.49)	13370 (100)
2000-01	6098 (16.94)	29897 (83.06)	35995 (100)
2005-06	17355 (27.03)	46840 (72.97)	64195 (100)
2006-07	20003 (24.50)	61617 (75.49)	81620 (100)
2007-08	21022 (22.26)	73390 (77.73)	94412 (100)
2008-09	24353 (21.39)	89475 (78.60)	113828 (100)
2009-10	28710(21.13)	107104(78.86)	135814(100)
2010-11	33663(21.48)	123039(78.51)	156702(100)
2011-12	37173(21.49)	135769(78.50)	172942(100)

**Source: Compiled from various issues of statistics of Regional Rural Banks, NABARD, Mumbai,2011-2012.**

The table 2 above reveals that the saving deposits of RRBs have been steadily increasing more than eighteen and half times between 1975 -76 and 2005-06. The share of saving deposits to the total deposits has gradually declined from 50 per cent in 1975-76 to 27.03 per cent in 2005-06. Amalgamation period 2006-07 has witnessed a spectacular increase in both saving deposits (7 times) and time deposits (1.65 times). But there is a reverse trend observed in the share of saving and time deposits to the total deposits during 2006-07 to 2011-12. The share of saving deposits has increased from 22 per cent in 2006-07 to 56 per cent in 2011-12 whereas the share of time deposits has drastically declined from 78 per cent to 45 per cent in the same period. It reveals that the RRBs have covered a large number of small people for mobilizing small amounts of savings.

**EVALUATION OF RRBs**

It was understood that the RRBs to survive as credit institution could not remain unviable for a long time, through the RRBs might not become viable in the initial years. It was realized that the question of viability of the RRBs could not be some as other business ventures. A business unit has the entire free dome to take decisions on many matters such as staff recruitment, deploying it resource, opening branches and methods of service. But the RRBs could not flexible in many of their affairs even their client was specific remote and not assisted by any one. Keeping in view the nature of the operations of the RRBs, these institutions could not certainly to be evaluated on the basis of mere financial viability. The viability of the RRBs has to be assessed in terms of increase in business per branch, productivity of staff, debt recovery rate, socio-economic improvement of the weaker sections.

**FINANCIAL SYSTEM OF RRBs:**

The committee on the financial system 1991 (Narasimham Committee) stressed the poor financial health of the RRBs to the exclusion of every other performance indicator 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 per cent. The low equity base of a few RRBs, Narasimham committee suggested that the RRBs should be merged with sponsor banks. This proposed readily accepted. The committee suggested that the objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions. This step marked a major turning point in the functioning of RRBs. There were also certain organizational problems such as low capital base, multiple ownership lack of trained staff, problem of debt recovery, lock of financial resources etc.

**RRBs FINANCE TO WEAKER SECTIONS:**

The potential and the need for diversification of economic activities in the rural areas had begun to recognize and this was a sector where the RRBs could play a meaningful role in the economic upliftment of the weaker sections of the rural society. The main aim of the Regional Rural Banks was to meet the excess demand for institutional credit in the role areas, particularly among the economically and socially marginalized sections. RRBs as part of the multi-agency approach to rural credit are eminently suitable to do the job envisaged for

them that as district level organizations, they can be trusted to take banking closer to rural household. 90 percent of the RRBs branches opened in these rural areas. The RRBs adopted there before there had no banking facilities. The RRBs adopted new innovations for credit delivery with lower risk of default such as self-help group linked lending, non-priority sector collateralized lending, kisan credit card scheme for landed agriculturists etc.,

#### SECTOR-WISE LOANS OUTSTANDINGS of RRBs

Credit is the most important instrument for any banking institution. It is therefore, necessary to study the process of sector wise credit disbursement of RRBs. The government has identified the important sectors which were neglected by the banks before nationalization, as priority sector for banking in the mainstream of the economy. Priority sector comprising of

agriculture, small scale and village industry, retail trade and small business, small road operators (like auto rickshaws, bullock carts, road carriers), self-employment schemes and self-help groups (SHGs) etc, playing a crucial role in rural development as well as economic development of the country. But unfortunately, commercial banks did not make any comprehensive venture in this sector due to high risk of recovery of loans. Therefore, financial needs of this sector were deprived of and neglected. But, it was perceived, this sector had great potentialities of improving not only the standard of living of the rural poor people but also the banking business. RRBs along with other banking institutions supported rural development programmes by providing a large chunk of their disbursement to the priority sector. The sector wise outstanding advances by RRBs are shown in table 3.

**Table 3 SECTOR-WISE CLASSIFICATION OF OUTSTANDING ADVANCES BY RRBs (Rs in Lakha)**

PRIORITY SECTOR							NON-PRIORITY SECTOR	Total
Year	Short term crop loan	Term loans (agri & allied)	Rural artisans	Small scale industries	Retail traders	Others		
2000-01	2240.38 (19.72)	3159.63 (27.82)	544.23 (4.79)	176.80 (1.55)	2494.77 (21.96)	387.54 (3.41)	2353.32 (20.72)	11357 (100)
2001-02	2880.58 (21.84)	3329.87 (25.25)	584.23 (4.43)	188.83 (1.43)	2608.08 (19.78)	519.48 (3.93)	3073.51 (23.31)	13185 (100)
2002-03	3692.61 (23.34)	3557.84 (22.49)	568.65 (3.59)	253.65 (1.60)	2780.45 (17.57)	884.72 (5.59)	4080.54 (25.79)	15819 (100)
2003-04	4882.74 (26.21)	3521.95 (18.90)	671.80 (3.60)	224.48 (1.20)	2984.39 (16.02)	1483.2 (7.96)	4859.95 (26.08)	18628 (100)
2004-05	6494.72 (29.31)	3765.65 (16.99)	9694.33 (3.13)	330.32 (1.49)	3264.11 (14.73)	2075.9 (9.36)	5532.76 (24.97)	22157 (100)
2005-06	7663.65 (29.34)	4057.57 (15.53)	714.98 (2.73)	432.16 (1.65)	3606.15 (13.80)	3995.3 (15.36)	5643.92 (21.61)	26114 (100)
2006-07	18707 (35.88)	3745 (7.18)	736 (1.41)	880 (1.68)	3677 (7.05)	15748 (30.20)	8641 (16.57)	52134 (100)
2007-08	22748 (32.93)	10468 (15.15)	671 (0.97)	1227 (1.77)	4531 (6.55)	19339 (27.99)	10090 (14.60)	69074 (100)
2008-09	24986 (31.02)	11480 (14.25)	820 (1.01)	1400 (1.73)	5015 (6.22)	25329 (31.45)	11502 (14.28)	80532 (100)
2009-10	33663 (34.78)	12619 (13.03)	810 (0.83)	1598 (1.65)	5234 (5.40)	28895 (29.85)	13956 (14.42)	96775 (100)
2010-11	40663 (34.47)	14407 (12.21)	881 (0.74)	2625 (2.25)	5082 (4.30)	36643 (31.06)	17625 (14.96)	117956 (100)
2011-12	40700 (35.29)	14400 (12.48)	900 (0.78)	2600 (2.26)	5100 (4.42)	35300 (30.61)	16300 (14.13)	115300 (100)

**Source: Various Statistical Reports on Regional Rural Banks, NABARAD, Mumbai 2011-12.**

It is observed from the table 3 that the priority sector outstanding advances accounted for 79.25 per cent in 2000-01 which has gradually declined to 78.41 per cent in 2005-2006. After amalgamation of RRBs 2006-07 sector-wise outstanding advances accounted for 83.4 per cent which has continuous increase and reached to 85.8 per cent in 2011-2012. This analysis reveals that up to the restructuring of the RRBs, the banks have given top priority to the non-priority sector to get more profits. During the financial sector reforms, the RRBs were able to reach more than 85 per cent of the priority sector outstanding advances. The weaker sections and the unemployed youth have deprived of the loans and advances from the bank for taking up agricultural allied activities and self-employment ventures. Rural artisans and retail trade have become victims. There is one and half and two-fold decrease in the outstanding advances of rural artisans and the retail trade respectively. However, the small scale, village and cot-

tage industries have received a considerable check of loans outstanding (about fifteen fold increase). As a result of the financial sector reforms the loaning operations of RRBs have tended to move towards income / profit fetching sectors like other purposes including home loans, gold loans and loans for real estate. On the other, the recovery of the loans from the term loans that is agricultural allied activities and self-employment programmes is not satisfactory, even in some cases accumulated overdues has increased at borrower level

#### RECOVERY PERFORMANCE OF RRBs

Financial sector reforms have taken the agricultural credit to the crossroad. Introduction of prudential norms for asset classification, income recognition and providing has brought more cautious approach in asset liability management and profitability. Again, raising Non-Performing Assets (NPAs) in agricultural financing has affected disbursement of credit to

poor landless farmers and marginal workers. As the report of the committee on financial system observed in 1991, the end result is the disturbing growth in over dues, which hampers the recycling of scare resources of the banks. Moreover, the government sponsored schemes witnessed extremely poor recovery rates. The particulars relating to the demand, collection and balance (over dues) and recovery performance are shown in table-4

**Table -4 RECOVERY PERFORMANCE OF RRBS IN INDIA (Rs.lakhs)**

YEAR	DEMAND	RECOVERY	OVER DUES	PERCENTAGE OF RECOVERY
2000-01	752618	493868	258750	65.62
2001-02	871329	600433	270896	68.91
2002-03	961793	678953	282840	70.59
2003-04	1156982	827434	329548	71.52
2004-05	1324695	9733880	350815	73.49
2005-06	1765608	1371278	394330	77.67
2006-07	1973017	1575518	397499	79.85
2007-08	2407158	1920967	486191	79.80
2008-09	4336713	4106715	229998	77.85
2009-10	5607924	5430418	177506	80.09
2010-11	7172419	7019180	153239	81.18
2011-12	7854655	7744170	110485	82.63

Source: NABRAD, relevant issue of Statistics on RRBs, Mumbai

The table-4 over leaf reveals that there is more than seven-fold and about thirty two-fold increase in the demand and recoveries of loans and advances of RRBs during the period under study. The overdues have declined by Rs.1482.15 crores in 2011-12, over 2000-01, forming a decrease of 42.69 per cent. Thereafter, the recovery of loans is steadily increasing. In fact, the percentage of recovery to demand of RRBs has progressively improved over the years from as low as 57 per cent in 1997 to 77.85 in 2008 and further to 83 per cent in 2012. It is an impressive growth in the recoveries of bank loans.

#### CONCLUSION:

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional rural banks were established by the Government of India to develop the rural economy. The RRBs now looked upon with hope for upgrading the rural India. In the present study, the role of RRBs in the rural credit structure has been deeply analyzed. The objective of serving the weaker sections effectively could be achieved only self sustaining credit institutions. However in the liberalized banking era, these banks had to become competitive, improve their profitability and conform to prudential regulation of asset classification and provisioning norms on equal grip. At last keeping in mind the above views in can be said that the regional rural banks plays an important role in the economic upliftment of the weaker sections of the rural society.

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