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REGIONAL RURAL BANKS AND EFFECTIVE CREDIT SYSTEM

1. DR. UMESH H. ARAHUNASI,
Professor, Dept. of Commerce
Shri Jagadgur Fakkireshwara
Govt. First Grade College,
SHIRAHATTI - 582120 (Tq & Dist: Gadag)
Karnataka State, India

2. DR.MALLIKARJUNA KADDIPUDI
Professor, Dept of Commerce
Govt First Grade College,
BYADGI-581106 Dt. Haveri
Karnataka.

INTRODUCTION: "Agriculture is the backbone of the Indian Economy"- said Mahatma Gandhi five decades ago. Even today, as we enter the new millennium, the situation is still the same, with almost the entire economy is being sustained by agriculture, which is the mainstay of the villages. Not only the economy, but also every one of us looks up to agriculture for our sustenance too. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture: 60% of industries are agro based: 50% of national income is contributed by rural and the agriculture sector is the largest foreign exchange earner to India. Such an essential and key sector is neglected by financial institutions, especially by the banks. The necessity of rural banks was felt because the then existing credit agencies the co-operative banks and the commercial banks lacked in certain respects in meeting the needs of the rural areas. The co-operative credit structure is weak so far as the managerial talent and post credit supervision and loan recovery are concerned. These institutions have not been able to mobilize the adequate resources and therefore depend upon the Reserve Bank for re-finance to a large extent.

The commercial banks are basically urban-oriented, though they have to play a significant role in rural banking. Their methods procedures, training and orientation shall have to be adapted to the rural environment. This is not likely to be achieved easily and quickly. Moreover, the cost of their operations is quite high due to high salary structure, staffing pattern and high establishment cost. Thus the commercial banks are unable to provide credit at cheap rates to the weaker sections in the rural areas. The need was, therefore, felt for a new institution which should combine the merits of these two institutions without suffering from their drawbacks. A Rural Bank has been contemplated as an institution to combine the rural touch and local feel, a familiarity with rural problems and attitudinal identification with the rural economy which the co-operatives possess in large degree, with the modern business organization, commercial discipline ability to mobilize resources and access to the central money markets which the commercial banks have. In other words, the institution of rural banks is intended to be local based rural oriented and commercially organized.

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the government passed the Regional Rural Banks Act, 1976. The main objective of RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs and develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

Regional Rural Banks (RRBs) were established in our country in 1975 essentially for taking banking to the doorsteps of rural masses, particularly in areas without (where there is no) banking facilities. RRBs, were expected to operate as State sponsored, region based and rural-oriented commercial banks. RRBs were expected to mobilize resources from rural areas and play a significant role in developing agriculture and rural economy by deploying mobilized resources in rural sectors for the needy not conversed by other formal credit institutions. National Bank for Agriculture and Rural Development (NABARD) was established by an Act of the Parliament on 12 July 1982.

Objectives of the Study: Although the overall objective of the study is to analyze the performance of credit provided to the priority and non-priority sectors with special reference to PGB, the specific objectives are as follows.

i. To explore the development of RRBs and Pragathi Gramin Bank.
ii. To critically examine the Priority/Non-Priority Sector Lending.
iii. To offer useful suggestions and recommendations.

Methodology of the Study: The present study is diagnostic and exploratory in nature and makes use of secondary data. The relevant secondary data has been collected from the published records of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD) and Pragathi Gramin Bank. In addition, the secondary data has also been collected from various journals and

REGIONAL RURAL BANKS IN INDIA: Regional rural banks (RRBs) have taken deep roots and have become a sort of inseparable part of the rural credit structure in India. A number of committees have gone into the issue of their financial viability and possible restructuring. Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local Secularities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narsimham committee conceptualized the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act1 of 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. RRBs were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs**.**

Over the years, the RRBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. The expansion of RRBs from 1975 to 2010 are shown in the below table -1.

Table – 1: Expansion of RRBs from 1975 to 2010

Year	No. of RRBs	District	Branches
1975	6	12	18
1980	85	144	3279
1985	188	333	12608
1990	196	375	13760
1995	196	425	14509
2000	196	510	14301
2005	196	523	14484
2010	84	619	15475

Source: Compiled from "Statistics on Regional Rural Banks, NABARD, MUMBAI, March 2002 reports,

It is clear from the above table that the number of RRBs in India in the year 1975 was only six (6) with eighteen (18) branches spread over twelve (12) districts. However, during the span of five years from 1975 the number of RRBs increased to 85 with 3,279 branches covering 144 districts which again increased tremendously in 1980 to the tune of 188 RRBs with 12,608 branches spread over 333 districts. It can also be noticed that the development of RRBs is not considerable after 1985. In 2010, the development of RRBs found negative direction to the tune of 84 from 196 in 2005.

PRAGATHI GRAMIN BANK – AN OVERVIEW : The consolidation of the RRBs was first suggested by the Working Group to Suggest Amendments to the RRBs Act, 1976 (Chalapathy Rao Committee) in 2001. It had suggested that while retaining the regional character of these institutions, the number of sponsor banks may be reduced. Subsequently, the Advisory Committee on Flow of Credit to Agriculture and related Activities (Vyas Committee) had suggested in 2004 that in the first stage, all RRBs of a sponsor bank in a State should be amalgamated into a single unit in that State and at the second stage; there should be a State-level consolidation of RRBs. Subsequently, the Internal Working Group on RRBs, constituted by the RBI (Sardesai committee) in June 2005, also suggested two options for strengthening RRBs, namely, merger between RRBs of the same sponsor bank in the same State or the merger of RRBs sponsored by different banks in the same state.

After a debate, from 2005 the RRBs were amalgamated, to improve the operational efficiency and to achieve the economies of scale. In this connection, the present case study analyzes the efforts of Pragati Gramin Bank in Northern Karnataka. After the amalgamation of RRBs, in the year 2005, The Canara Bank sponsored Pragathi Gramin Bank. In the earlier, Canara Bank had sponsored four RRBs in Karnataka including Tungabhadra Gramin Bank, Chitradurga Gramin Bank, Kolar Gramin Bank and Sahyadri Gramin Bank which were amalgamated into Pragathi Gramin Bank (PGB) in 2005. The headquartered of PGB is at Bellary and the bank has been serving in eight districts of Karnataka with a total of 365 branches of which 278 are in rural areas and 29 are in urban and 58 are in semi-urban areas as on March 2010. The district wise development of Pragathi Gramin Bank has been shown in Table 2.

Table – 2: District-wise Development of Pragathi Gramin Bank

Districts	2005	2006	2007	2008	2009	2010
Bellary	65	65	65	65	67	NA
Chitradurga	64	64	64	65	66	NA
Davanagere	42	43	43	44	45	NA
Kolar	62	62	63	64	64	NA
Koppal	40	41	41	42	42	NA
Raichur	51	51	51	53	53	NA
Shimoga	26	26	27	27	28	NA
Total	350	352	354	360	365	368

Source: Pragathi Gramin Banks Annual Reports2005-2010, NA = Not Available

Table 2 clearly shows that in the year 2005 there were only 350 branches of PGB working in seven districts which constantly increased 365 branches in 2009 which again increased to 368 branches in 2010.

Analysis of Loans Issued to Priority and Non-priority Sectors: PGBs occupy an important position in the rural credit market. Loans provided to the needy people have been categorized into two like priority sector and non-priority sector. Priority sector bank lending is an active instrument of financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit to the weaker sections of the society. The areas like agriculture, small Industry, exports, small transport operators, small business housing, self employed persons, professionals and education fall under priority sector. Table-3 exhibits the sector-wise loans issued by the PGB.

Table- 3: Sector-Wise Loans Issued by PGB (Rs. In. Lakhs)

Year	Priority sector	Non-priority sector	Total Loans
2005 - 06	88,229 (78.50)	24,171 (21.50)	1,12,400 (100)
2006 - 07	1, 16,812 (77.84)	33,262 (22.16)	1,50,074 (100)
2007 - 08	1,49,557 (83.98)	28,529 (16.02)	1,78,086 (100)
2008 –09	1,89,077 (84.98)	33,406 (15.02)	2,22,483 (100)
2009 - 10	2,38,722 (93.20)	17,398 (6.80)	2,56,120 (100)
2010 - 11	2,61,100 (89.82)	29,600 (10.18)	2,90,700 (100)

Source: Annual Reports of PGB from 2005-06 to 2010-11.

The table 3 reveals the year-wise loans issued by PGB to both priority and non-priority sectors. It can be observed from the table that nearly 80 percent of the total loan amount has been used for priority sectors through the period. The percentage of loan to non-priority sector was little high during 2005-06 (21.5 percent) and 2006-07 (22.16 percent). However, the portion of non-priority sector out of total loans has never crossed 20 percent from 2007-08 onwards. It is important to note that the total amount of loan given to both the sector has been increased from Rs. 112400 lakhs in 2005-06 to Rs. 2,90,700 in 2010-11.

Short–term Loans and Term- Loans: The PGB provides short-term and term loans to agriculture and allied activities. Disbursement of short term and term loans from 2005-06 to 2010-11 by PGB is presented Table-5.

Table- 5: Disbursement of Short Term and Term Loans (Rs. In Lakhs)

Year	Amount of Short-Term Loans	% Of Increase over previous Year	Amount of Term-Loans	% of Increase over Previous Year
2005-06	58,112	----	12,550	----
2006-07	80,097	37.82	12,211	(-)2.70
2007-08	1,02,551	28.03	12,675	3.79
2008-09	1,35,092	31.73	15,040	18.65
2009-10	1,92,276	42.32	14,049	(-)6.58
2010-11	2,40,746	25.20	17,025	21.18

Source: Annual Reports of PGB from 2005-06 to 2010-11.

Table 5 clearly describes that amount of short term loans given by the bank is more than the amount of term loans throughout the period. It can be noticed that amount of short term loans is found continuous increasing trend whereas the term loans is found variation. The highest increase in short term loan is recorded in 2009-10 to the tune of 42.32 percent. In case of term loans, there is a decrease in development by 6.58 percent during 2009-10. The disbursement of term-loans for agriculture and allied activities are not quite encouraging.

Findings and Conclusion: The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this in view, RRBs were established by the Government of India to develop the rural economy. In the present study, the role of PRBs in the rural credits structure has been deeply analyzed. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors. The priority sector loan constituted higher in percentage throughout the study. PGB also lend money to the agricultural sector through the short-term and long-term loans for the development of the agricultural sector. To conclude, it can be suggested that banks need to encourage the priority sector loans by providing larger amount to term loans as compare to non-priority sector as it has visa versa effect i.e. one sector improvement leads to another sector enhancement.