Chapter - 6

SUMMARY AND CONCLUSIONS
The rural transformation and reconstruction can only be achieved by pumping credit in rural economy. Credit has been considered not only as one of the critical inputs in agriculture, but also as an effective means of economic transformation. A large number of agencies, including cooperatives, regional rural banks, commercial banks, non-banking financial institutions and well spread informal credit together represent Indian rural credit system. These networks apart from working as financial intermediaries also playing a key developmental role in the economy.

The rural credit assumes importance because most Indian rural families have inadequate savings to finance forming and other economic activities. Thus availability of timely credit at affordable rates of interest are pre-requisite for improving rural livelihood and accelerating rural development.

India has a range of rural financial service providers, including the formal/institutional sector financial institutions at the one end of the spectrum, informal/non-institutional providers like money lenders, friends and relatives, traders etc at the other end of the spectrum, and between these two extremes, a number of semi-formal/micro finances providers.

The magnitude of the dependence of the rural poor on informal sources of credit can be observed from the findings of the All India Debt
and Investment survey, 1992 which shown that the share of the non-institutional agencies (informal sector) in the outstanding cash dues of the rural households continued to be quite high at 36 per cent even though the dependence of the rural households on such informal sources had reduced marginally from 38.8 per cent to 36 per cent over the last decade (1981-1991).

The institutional credit is marked with plethora of paper work. The credit is delayed due to collaterals of the kind not available to many of the rural population. This turns away the credit worthily borrowers to informal sources that provide credit readily. The institutional credit has the lacunae to under financing. Moreover, the institutional credit provided to rural poor especially small and marginal farmers is inadequate to meet their agricultural needs.

To avoid the hassles of borrowing from two kinds of sources, quite a few borrowers get all the credit from single source which covers all of their requirements, that is the informal source. Even those people who get the loan from both the sources, first pay off the loan from the informal sources then, pay institutional sources. Thus, the credit from the institutions is relegated to the third or fourth position. The institutional credit providers also lack in manpower that understand the nature and necessities of the rural economic endeavours and provide them the credit according to their needs.
It is still true that with all the progress recorded by commercial banking in rural areas, the poor households in rural areas hardly get any finance from the institutional source, which for all practical purposes, does not exist for the poor sections of the rural community. Small and marginal farmers and the poor rural households continue to depend as yet on non-institutional sources of finance (such as agricultural and professional money lenders, traders and relatives and friends) even for productive enterprises and efforts under there circumstances, the government seriously thought of establishing the regional rural banks.

On the recommended of a working group, the regional rural banks were started functioning from 1975. The regional rural banks were set up mainly with a view to develop the rural economy by providing credit and other facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas particularly to the small and marginal farmers, agricultural labourers, artisans and sundry entrepreneurs.

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 fed and familiarity of rural problems characteristic cooperatives with the professionalism and large resource base of commercial banks.
Subsequently, the RRBs were set up through the promulgation of RRB Act 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 labourers, 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 part four decades has been the massive expansion of their retail network in rural areas. From a modest beginning of 17 branches covering 12 districts in December 1975, the numbers have grown into 15235 branches working in 534 districts across the country by March 2009. RRBs have a large branch network in the rural areas forming around 43 per cent of the total rural branches of commercial banks. The rural orientation of RRBs is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilize rural savings.
though their innovative schemes of deposit mobilization. The amount of deposits has gone up from Rs.2475576.44 lakhs in 2001-02 to Rs.6451432.04 lakhs by 2008-09. This achievement is definitely praiseworthy, though their areas of operation are confined to the relatively backward districts. The per bank and per branch deposits also increased during the same period from Rs.22724.06 lakhs to Rs.132927.27 lakhs and Rs.309.51 lakhs to Rs.750.36 lakhs respectively.

A similar trend is also noticed in the field of advances as the figure of advances has gone up from an amount of Rs.1376937.52 lakhs in 2001-02 to Rs.5576836.04 lakhs in 2008-09. The credit deposit ratio shows that there is a net inflow of funds into rural sector to serve the weaker sections. The total volume of loans issued by RRBs is steadily increasing year by year. Total loans issued in 2001-02 are Rs.1057067.07 lakhs, which rose to Rs.4127300.10 lakhs by 2008-09. The major share of loans have gone to the priority sector which means that the RRBs giving top most priority to agriculture and allied activities.

The investments of RRBs in India registered positive growth rate during last eight years on the other hand investment and deposit ratio is also registered positive growth rate. The growth per cent of total borrowings is gradually declining which is a welcome development in the functioning of RRBs. The RRBs registered good recovery
performance which leads them towards the path of development. As regard their financial status, during the year 2008-09, 80 RRBs earned profits while 6 RRBs incurred losses.

The financial viability of RRBs has engaged the attention of the policy makers from time to time. Infact, as early as 1981, the committee to Review Arrangement for Institutional credit for Agriculture and Rural Development addressed the issue of financial viability of the RRBs. The committee recommended that the loss incurred by a RRB should be made good annually by the shareholders in the same proportion of their share holdings. Though their recommendation was not accepted under a scheme of recapitalization, financial support was provided by the shareholders in the proportion of their shareholdings subsequently, a number of committees have come out with different suggestions to address the financial non-viability of RRBs. For instance, the working group on RRBs (Kelkan Committee) in 1984 recommended that small and uneconomic RRBs should be merged in the interest of economic viability. Five years down the line, in a similar vein, the agricultural credit review committee (Khusro Committee) 1989 pointed out that the weakness of RRBs are endemic to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks the objective of serving the weaker sections effectively could be achieved only be self-sustaining credit institutions. The committee on Restructuring of RRBs 1994 (Bhandari Committee) identified 49 RRBs
for comprehensive restructuring. It recommended greater devolution of
decision making powers to the boards of RRBs in the matters of
business was mosted by the committee on Revamping of RRBs 1996
(Basu Committee).

The expert group of RRBs in 1997 (Thingalaya Committee) held
that very weak RRBs should be viewed separately and possibility of
their liquidation be recognized. They might be merged with
neighbouring RRBs. The expect committee on rural credit 2001 (Vyas
Committee-I) was of the view that the sponsor bank should ensure
necessary autonomy for RRBs in their credit and other portfolio
management system. Subsequently, another committee under the
chairmanship of Chalapathy Rao in 2003 recommended that the entire
system of RRBs may be consolidated while retaining the advantages of
regional character of these institutions. As part of the process, some
sponsor banks may be eased out. The group of CMDs of select public
sector banks, 2004 (Purwar Committee) recommended the
amalgamation of RRBs on regional basis into six commercial banks –
one each for the Northern, Southern, Eastern, Western, Central and
North-Eastern Regions.

A committee under the chairmanship of A.V. Sardasai revisited
the issue of restructuring the RRBs (Sardasai Committee 2005). The
Saradasai Committee held that to improve the operational viability of
RRBs and take advantage of the economics of scale, the route of merged amalgamation of RRBs may be considered taking into account the views of the state holders. As such the Government of India issued orders for the merged of RRBs. With the merger the number of RRBs has been reduced 86 by the end of March 2009.

In Andhra Pradesh the first Regional Rural Bank that was established on 6th August 1976 is Rayalaseema Grameena Bank. Within 11 years by 1987 15 more Regional Rural Banks were established in Andhra Pradesh. As a part of amalgamation the number of RRBs in the state has been reduced to five. Among these five RRBs Andhra Pragathi Grameena Bank was established on 1st June, 2006 by amalgamating three Regional Rural Banks, viz., Rayalaseema Grameena Bank, Sree Anantha Grameena Bank and Pinakani Grameena Bank.

The area of operation of Andhra Pragathi Grameena Bank (APGB) comprises 5 districts namely Kadapa, Kurnool, Nellore, Prakasam and Anantapur. Andhra Pragathi Grameena Bank has so far been able to achieve the objective of helping the weaker sections by controlling its operational expenses quite efficiently. The APGB in its operational area, made significant progress in the direction of deposit mobilization and credit disbursements, as the amount of deposits has increased from Rs.195955 lakhs to Rs.303771 lakhs. The total amount
of advances has also gone up from Rs.786733 lakhs in 2006 to Rs.308232.68 lakhs by March 31st 2009. There has also been considerable increase in the amount of advances made available to the farm and non-farm sectors since the establishment of APGB. These two categories put together account for more than eighty per cent to total advances during last four years. The real share of rural artisans and small businessmen has also increased.

The study reveals that the overall performance of the APGB in its lending's is quite impressive but the achievement in the non-priority sector is gloomy. The proportion of total credit to the total non-priority sector has declined though some non-form sector activities are able to secure higher percentage of credit. The share of agriculture and its allied activities in the total advances has gone up year by year. Contrary to this, the share of non-priority sector loans has gone down year by year. This trend of lending is quite disappointing since there is following proportion of non-priority sector lending's in the banks total lending's.

The performance of APGB with regard to issuing of Kiran Credit Cards to the farmers registered positive growth rate during first three years of its establishment. But during 2008-09 the KCC cards issued to farmers reduced. In case of Rhythu Mitra Groups formation the record of APGB is not satisfactory, as the number of groups is declining year by year. The APGB is also formed farmers co-operative societies and its performance is satisfactory.
In Anantapur the first RRB namely Sree Anantha Grameena Bank was established on 1st November 1979. After the amalgamation APGB is serving the being well known for its scanty rainfall and rural poor in the district inadequate irrigation facilities, the district has been depicting all features of underdeveloped. Though there has been adequate expansion of banking sector in the district, the credit needs of the majority of the rural population especially weaker sections are not met. It is felt that only through the development of rural banking the basic credit for investment of the small and marginal farmers, rural artisans and the small businessman can be met in the district.

The study reveals that APGB in Anantapur district mobilized deposits to the tune of Rs.64362.43 lakhs in 2008-09. The study further makes it clear that the role of APGB with regard to lending’s for the implementation of government sponsored programmes is also praise worthy in Anantapur district. The recovery performance of APGB under government sponsored schemes is also good.

Of course, within the reasonable limits, the APGB in Anantapur district has been doing its best to maximize the lending’s to small entrepreneurs and persons engaged in business activities. As the recovery performance of the APGB is good, a higher proportion of credit can be made available to these borrowers to develop the severely drought affected areas in Anantapur district.
Findings of the Study

1. After the establishment of Regional Rural Bank's the dependency on non-institutional sources of credit has gone down significantly.

2. The process of amalgamation of Regional Rural Banks led to further strengthening of operational efficiency of RRBs.

3. The per Bank and per Branch deposits of RRBs gradually increasing year by year, which shows that the RRBs are successful in mobilizing savings of rural people.

4. The Regional Rural Banks according top priority to priority sector while issuing loans.

5. The investment and deposit ratio of RRBs slightly declined after amalgamation of RRBs slightly declined after amalgamation of RRBs.

6. The recovery performance of RRBs is more than two-thirds of the demands.

7. The Branch expansion of Andhra Pragathi Grameena Bank is high in rural and semi-urban areas.
8. The share of term deposits of APGB is higher than the demand deposits. Moreover, nearly 79 per cent of APGB deposits are mobilized from rural and semi-urban areas.

9. Major portion of loans issued by APGB is for farm sector.

10. The recovery performance of APGB ranges between 81 per cent to 74 per cent.

11. The main source of knowledge about loan schemes of APGB is bank officials in both developed and underdeveloped areas of Anantapur district.

12. The time lag between date of sanction and date of disbursement of loans to sample borrowers is 10 days in case of large number of borrowers.

13. Large number of sample borrowers utilized their loan amount for sanctioned puroses.

14. The loans given to sample borrowers by APGB in Anantapur district led to change of main occupation agricultural labour.

15. The bank finance resulted for the increase of gross annual income of nearly 50 per cent sample borrowers.
16. The bank finance is also resulted in the enhancement of employment opportunities to more than half of the sample borrowers.

17. Moreover the financial help of the bank also resulted in positive growth of productive and non-productive assets of sample borrowers.

Suggestions

1. For improving operational efficiency, new technology should be introduced. Computerization and automation will help in reducing unproductive and costly operations.

2. The Andhra Pragathi Grameena Bank should conduct Awareness Programmes among the rural poor about the repayment of loans and savings habits.

3. To increase the deposits, the Andhra Pragathi Grameena Bank should organize “Deposits Week” and takes steps to mobilize deposits.

4. It is suggested that in order to mobilize more fixed deposits from the rural areas, the banks should introduce ‘Mobile Banking’ system during the harvest season.
5. To maintain a steady growth rate of deposits, it is recommended that the banks should come forward to offer some subsidiary services like marketing assistance, technological assistance, insurance facilities, export facilities and so on, to the customers.

6. RRBs should open branches in urban and semi urban places in order to mobilize vast amount of deposits for providing loans to the people in rural area.

7. In order to reduce the amount of over dues, strict action should be taken to collect loan-dues, which would serve as a lesson to other defaulters. At any cost concessions should not be shown to defaulters.

8. The Andhra Pragathi Grameena Bank should take reduce the operating expenses by means of improving the efficiency of the non-viable branches by utilizing some expertise services like professional management, private management and the like.

9. In order to get the desired results of bank credit, there should be complementary support from the State Government, which is lacking in many respects. The State Government compels the bank to finance, but does not give the necessary support like creating an infrastructure facility, particularly for marketing and recovery. This
has been pointed out by many committees appointed earlier by the RBI, but very little action has been taken so far.

10. New attractive and innovative schemes should be introduced according to the requirements of different types of clients in rural areas.

11. RRBs should prepare a model scheme for granting loans. This scheme should include each and every aspect, which the bank is normally expected to look into while processing loan applications.

12. RRBs may appoint recovery agents for recovery of loans on the lines of agents for GIC, LIC, NSC, NBFCs and the like. These agents should work on commission basis and be appointed from the area of operation of the branches.

13. RRBs should prefer advancing loans to self-help groups. This will decrease transaction cost and recovery cost. The Branch Manager should pay special attention regarding formation and training of these types of groups.

14. Refining facility to RRBs should be made available at subsidiary interest rate by sponsoring bank and NABARD.

15. To avoid unnecessary competition, RBI and sponsor banks should make a policy for transfer of business from rural branches of commercial banks to RRBs.