

REGIONAL RURAL BANKS IN INDIA AND KARNATAKA: A TIME SERIES ANALYSIS

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ABSTRACT

Regional Rural Banks (RRBs) in India are an integral part of the rural credit structure of the country. Since the very beginning, when the RRBs were established in October 2, 1975, these banks played a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs.

KEYWORDS: Banks, Deposits, Borrowings, Credit and Farmers.

INTRODUCTION

The RRBs were introduced to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the Cooperative Banks and the Commercial Banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the Cooperative Banks were dominated by the rural rich, while the CBs had a clear urban bias. In this connection, the Government of India conducted a survey on Rural Banks, under the chairmanship of Narasimham in 1975 (Velayudham, 1990 and Gadgil, 1992). This Narasimham Committee recommended that there was an urgent need to try new experiments, especially to improve the rural credit. In this context, the Government of India had set up RRBs on October 2, 1975 to strengthen the institutional rural credit system in India (Bhatt, 2006).

The RRBs are jointly owned by the Government of India, the concerned state government and sponsored banks (Singh, 1990). These institutions shared the capital in the proportion of 50 per cent, 15 per cent and 35 per cent respectively (Jagan, 2004 and Bose, 2005). The major

objectives of the RRBs are; to develop the rural economy by providing credit facilities for agriculture, trade, commerce, industries and other productive activities in rural areas, particularly to the small and marginal farmers. Further, the RRBs were instrumental in extending credit for poverty alleviation schemes. And also it is felt that the RRBs are instrumental in recognizing the diversified economic activities in the rural areas.

The RRBs are the third important financial institutions in the Indian Banking system. Table –1 clearly indicates that the performance of the RRBs from the liberalization period i.e., 1990-91 to 2008-09. The table highlights that there is a consistency in terms of numbers during first part compared to the second part. In addition to this most of the RRBs were amalgamation (combine together) during the post liberalization regime compare to the liberalization regime. Because of the downsizing process of the public sector organizations, the GOI in consultation with sponsor banks and the National Bank for Agriculture and Rural Development (NABARD) took a decision to amalgamate the RRBs (Kumara Rama, 2008). The process of amalgamation resulted into reduction in number of RRBs from 196 RRBs to 86 RRBs in March 2010. Currently around 86 RRBs and 15,235 branches are working in 518 districts across the country (Sharma, 2009).

The Table –1 clearly reveals the performance of the RRBs during the liberalisation period from 1990-91 to 2008-09. However, the performance is far better during the first part of liberalisation period compared to the second part i.e., 2000-01 to 2008-09. This is mainly because, most of the RRBs, were amalgamated during the post liberalisation regime compared to the liberalisation regime. The GOI in consultation with sponsor banks and the NABARD took a decision to amalgamate the RRBs mainly to downsize the public sector organizations. The process of amalgamation resulted in the reduction of the number of RRBs from 196 to just 86 RRBs in March 2010. Currently there are only around 86 RRBs and 15,235 branches working in 518 districts across the country. The overall CGRs clearly indicate that the growth rates are positive for all the variables.

Table-1: Performance of the RRBs in India Over a Period of Time.

Years	No.of RRBs	No.of Branches	Deposits (₹ in Crore)	Borrowings (₹ in Crore)	Investments (₹ in Crore)	Loans & Advances (₹ in Crore)
1990-91	196	14443	4151	1184	2981	1938
1991-92	196	14527	6748	1615	4856	1977
1992-93	196	14539	17808	4522	13201	6572
1993-94	196	14543	22488	5201	17074	8400
1994-95	196	14542	25726	5612	19646	10549
1995-96	196	14509	29958	6189	23038	13878
1996-97	196	14497	35298	6771	25968	17170
1997-98	196	14461	43288	7334	28743	20952
1998-99	196	14475	54338	7992	31490	23986
1999-2000	196	14499	67226	8788	36609	27488
CGR	0.00	-0.02	20.00	10.00	15.00	23.00
2000-01	196	14301	81476	9839	45363	32007
2001-02	196	14311	97579	10638	56780	38036
2002-03	196	14350	115059	11921	72409	46106
2003-04	196	14311	132931	13080	86515	55837
2004-05	196	14446	150988	13919	99731	66901
2005-06	196	14484	168591	14918	105966	81142
2006-07	133*	14494	189822	17422	114086	98696
2007-08	96*	14521	216620	22603	123616	118075
2008-09	91*	14761	253571	28572	135515	143798
2009-10	86*	15235	296559	33520	145491	169926
CGR	-10.07	0.50	15.00	14.00	13.00	21.00
OCGR	-3.29	0.07	18.00	11.00	16.00	20.00

Notes: OCGR = Overall Compound Growth Rate

* indicates that in the respective years so many RRBs were amalgamated.

Sources: Various Reports of NABARD and RBI.

Progress of the Regional Rural Banks in Karnataka:

Agriculture and rural sector play an important role in India's overall development. Regional Rural Banks (RRBs) were formed through RBI Act of 1976 to provide the credit to the rural poor. RRBs were expected 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 (Sardesai Committee, 2005). **Dhananjaya (2005)** in his paper stated that RRBs have played a key role in India in enhancing financial services in rural areas. Apart from their focus on lending to the priority sector, these banks have also evolved different savings products to provide safe savings options in the rural areas. Over the years, RRBs emerged as a key rural financial institutions in terms of geographical coverage, clientele outreach and business volume. From a modest beginning of six RRBs with 17 branches covering 12 districts in December 1975, the number of RRBs has grown into 196 with 14,446 branches working in 518 districts across the country in March 2004 (just before the amalgamation process). As on March 2009, RRBs have a large branch network in the rural area forming around 37 per cent of the total rural branches of Commercial Banks. The rural orientation of RRBs is evident from the fact that their rural and semi-urban branches constituted over 95 per cent of their branch network.

Table-2 presents the performance of the RRBs in Karnataka State from the liberalization period i.e., 1990-91 to 2009-10. RRBs in Karnataka have achieved significant growth in terms of number of wide branches during the both regimes. Since 1990-91 there were 13 RRBs with 1075 branches working across the districts of Karnataka state. In addition to these compound growth rates were worked out to understand the progress of the RRBs in Karnataka State, the highest growth rate could be observed in case of deposits constituting about 22.92 per cent compared to the Advances of the RRBs during the liberalization regime. During the post liberalization regime the highest growth can be searched in case of Advances constituting about 20.29 per cent compared to the deposits. When the growth rate is observed it is the increase of RRBs constituting about 20.39 per cent compared to the advances. In this manner since from their inception the RRBs have rendered services to the rural people and play an important role along with other financial institutions.

Table-2: Performance of the RRBs in Karnataka State Over a Period of Time

Years	No.of Branches	Deposits (₹in Crore)	Advances (₹in Crore)
1990-91	1075	316	376
1991-92	1075	380	384
1992-93	1075	460	432
1993-94	1075	584	546
1994-95	1074	768	721
1995-96	1074	964	892
1996-97	1074	1118	1052
1997-98	1073	1325	1210
1998-99	1075	1592	1365
1999-2000	1085	1990	1639
CGR	0.04	22.92	19.55
2000-01	1096	2432	1979
2001-02	1103	2720	2256
2002-03	1107	3264	2594
2003-04	1120	4134	3650
2004-05	1124	4569	4177
2005-06	1127	5004	4705
2006-07	1128	6025	5893
2007-08	1153	7618	7082
2009-10	1184	9981	8788
2010-11	1201	11727	9781
CGR	0.94	19.01	20.29
OCGR	0.52	20.39	19.48

Source: NABARD Annual Reports.

Tungabhadra Grameena Bank (GB) was the first RRB to be established in Karnataka state. It had started functioning on January 27, 1976 with its head office at Bellary. Two more RRBs i.e., Malaprabha GB and Cauvery GB also started their operations in the same year. As on March

2005, there were 13 RRBs with 1124 branches operating in the 27 districts of Karnataka State (Table-3). Subsequent to the amalgamation process number of RRBs reduced to six while leaving the number of branches almost intact. Because of the downsizing process of the public sector organizations, the GOI in consultation with sponsor banks and the NABARD took a decision to amalgamate the RRBs. As on March 2010, there were 6 RRBs with 1184 branches working in 30 districts across the Karnataka State (Table-4).

Table-3: Status of the RRBs in Karnataka on March 27, 1985.

	Name of the Banks	Date of Establishment	Districts Covered
1	Tungabhadra Grameena Bank	20/01/1976	Raichur- Bellary
2	Malaprabha Grameena Bank	16/08/1976	Dharwad- Belgaum
3	Cauvery Grameena Bank	2/10/1976	Mysore- Hassan
4	Krishna Grameena Bank	1/12/1978	Bidar
5	Chitradurga Grameena Bank	5/8/1981	Chitradurga- Tumkur
6	Kalpatharu Grameena Bank	31/03/1982	Bangalore (Rural)
7	Kolar Grameena Bank	16/02/1983	Kolar
8	Bijapur Grameena Bank	31/03/1983	Bijapur
9	Chikkamagaluru-Grameena Bank	28/04/1984	Chikkamagaluru- Coorg
10	Sahayadri Grameena Bank	6/9/1984	Shimoga
11	Netravathi Grameena Bank	11/10/1984	South Kanara
12	Vardha Grameena Bank	12/10/1984	North Kanara
13	Vishveshwaraiah Grameena Bank	27-03-1985	Mandya

Sources: State Focus paper, Karnataka and NABARD Annual Reports.

Table-4: Status of the Regional Rural Banks in Karnataka as on May 24th 2006.

	Name of the Banks	Sponsor Banks	Date of Establishment	Number of Districts Covered	Number of Branches
1	Krishna Grameena Bank	State Bank of India	1-Dec-1978	2	109
2	Chikkamangalur and Kodagu Grameena Bank	Corporation Bank	28-Apr-1984	2	47
3	Vishveswaraiiah Grameena Bank	Vijaya Bank	27-Mar-1985	1	27
4	Karnataka Vikas Grameena Bank	Syndicate Bank	*12-Sep-2005	9	407
5	Pragathi Grameena Bank	Canara Bank	*12-Sep-2005	7	360
6	Cauvery Kalpatharu Grameena Bank	State Bank of Mysore	*24-May-2006	8	203

Note: * Date of Amalgamation

Sources: State Focus paper, Karnataka and NABARD Annual Reports.

CONCLUSION:

Indian banking has come a long way since from the British period. Since then the public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even during the privatisation era. They contribute about 75 per cent of the total deposits mobilised and total loans advanced by all the scheduled CBs. Though there are so many private banks who have been competing with the public sector banks, as we know whatever the better facilities provided by the private banks, one way or the other, the exploitation is more. Hence, we need to inject new policies and programmes to stabilize the existing public banking to achieve the maximum social welfare

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