

AGRICULTURAL CREDIT BY REGIONAL RURAL BANKS: AN EMPIRICAL STUDY

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Abstract Agriculture is the backbone of our economy and its prosperity can largely be responsible for the well being of the entire economy. Farm finance has a place of pride in the agro-socio-economic development of the country both at micro and macro levels. Its catalytic role strengthens the farming business and augments the productivity of scarce resources. Application of new technological inputs obtained through farm finance helps boost of agricultural productivity. It is brought to notice by many studies on agricultural credit that among all the agencies involved in agricultural credit, the individual moneylenders as non-institutional agencies till recently, have been most important both from the point of view of number of loans and the volume of business. The institutional sources comprise the Co-operatives, Scheduled Commercial Banks and Regional Rural Banks (RRBs).

The study evaluates performance of RRB's in deploying agricultural credit and evolve a package of measures for effective and efficient performance of RRBs.

The objectives of the study are to review the historical performance of institutional agencies in deploying agricultural credit, to examine the progress made by RRBs in Agricultural Credit, to assess the Agricultural Credit performance through sample respondents and lastly, to evolve a package of measures for making RRBs effective in agricultural credit deploying.

Keyword: Agricultural Credit, Regional Rural Banks, Andhra Pragathi Grameena Bank, Recovery Performance, Technological Inputs

INTRODUCTION

Agriculture is the core sector of the Indian economy. It accounts for 21 per cent of GDP and about two-thirds of the population is dependent on this sector. It is thus rightly said that agriculture is the backbone of our economy and its prosperity can largely be responsible for the well being of the entire economy. The vigorous growth of agriculture sector demands adequate flow of finance.

Farm finance has a place of pride in the agro-socio-economic development of the country both at micro and macro levels. Its catalytic role strengthens the farming business and augments the productivity of scarce resources. Application of new technological inputs obtained through farm finance helps boost of agricultural productivity. Farm finance can also contribute to reduction in regional economic imbalances. Thus, the role of farm finance in strengthening and development of both input and output markets in agriculture is crucial and significant.

INSTITUTIONAL AGENCIES FOR AGRICULTURAL CREDIT

It is brought to notice by many studies on agricultural credit that among all the agencies involved in agricultural credit,

the individual moneylenders as non-institutional agencies till recently, have been most important both from the point of view of number of loans and the volume of business. The institutional sources comprise the Co-operatives, Scheduled Commercial Banks and Regional Rural Banks (RRBs). The co-operatives provide mainly short and medium term loans to the farmers. The commercial banks including RRBs provide both short and medium term loans for agriculture and allied activities. The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agricultural credit and provides refinance assistance to the agencies mentioned above. The Reserve Bank of India as the Central Bank of the country plays a crucial role in the sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

Progress in Agriculture Credit – An Assessment

The most important move to free the agriculturists from the clutches of the moneylenders was the expansion of institutional credit to agriculture. For this purpose the government has helped co-operatives in a number of ways to expand their operations. In an important move, 14 major

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commercial banks were nationalised in 1969 and this was followed by the nationalisation of 6 more banks in 1980. One of the important objectives of this measure was the expansion of rural credit. In 1975, the government established an institution to meet specifically the requirements of rural credit – Regional Rural Banks (RRBs). This was followed by setting up of NABARD in 1982. India now has a wide network of Rural Finance Institutions (RFI). There are more than 30,000 commercial bank branches, 14000 RRBs and about 100000 rural credit co-operatives. Agricultural credit vividly started to grow after bank nationalisation and it has been growing continuously. Table-1 indicates the total credit deployed by the institutional agencies for agriculture development in the country.

Table 1: Institutional Credit to Agriculture

Year	Share in Total (Per cent)			Total (Rs. in Crores)
	Co-operatives	Scheduled Commercial Banks	RRBs	
1970-71	100.00	-	-	744
1980-81	61.60	38.40	-	3292
1990-91	49.00	47.60	3.40	9830
2001-02	44.00	45.00	11.00	41386
2002-03	34.00	57.30	8.70	69480
2003-04	30.90	60.40	8.70	86897
2004-05	24.92	65.02	10.05	125309
2005-06	24.55	65.99	9.45	117899
2006-07	22.63	67.26	10.10	150156
2007-08	19.63	70.53	9.84	182738
2008-09	19.21	71.52	10.27	188251
2009-10	18.39	69.19	13.42	178734

Source: Hand book of Statistics on the Indian Economy, RBI, Annual Reports of various issues, NABARD, Mumbai

The total credit flow to agriculture during the year 1970-71 was a little over Rs.744 crores, which substantially increased, especially after nationalisation of commercial banks and inception of RRBs. The total amount advanced to agriculture sector stood at Rs.178734 crores by the end of the year 2009-10. When compared with the share of other institutional agencies, the commercial banks share was at higher level followed by Co-operatives and RRBs. During the year 2009-10, the share of commercial banks recorded at 69 per cent; Co-operatives 18 per cent; and RRBs 13 per cent.

It is evident from the table that institutional agencies have increased their participation in rural credit considerably. Millions of first generation depositors and borrowers have been introduced to the banking systems and they have shifted loyalties from the non-institutional moneylenders and pawn brokers to banking institutions and co-operatives. But

Agricultural Credit Review Committee (ACRC) reported that “the dual economy’ has melted substantially, but the moneylender has not gone away”. Especially in the field of consumption credit and loans for unproductive purposes, moneylenders continue to play a major role as institutional agencies generally grant loans only for productive purposes.

Agricultural Credit – The Role of RRBs

The working Group on Rural Banks (1975) recommended the establishment of Regional Rural Banks (RRBs) to supplement the efforts of the commercial banks and co-operatives in extending credit to rural community – small and marginal farmers, landless labourers and the rural residents of small means. The RRBs and Commercial Banks started with the basic objective of providing commercial banking in the rural areas of the country, particularly in those areas and to those sections of rural society where commercial banking facilities have not been available hitherto. The RRBs have now become an integral part of the rural banking of the country and are playing a commendable role in providing credit and banking services to the rural areas in the country.

The particulars relating to the deployment of total credit and share of agriculture in total credit by RRBs in the country are furnished in table –2.

Table 2: Credit Deployment by RRBs and Share of Agriculture (Rs. in Crores)

Year	Agriculture	Non-Agriculture	Total
2002	8405 (45.12)	10224 (54.88)	18629 (100)
2003	10261 (46.31)	11897 (53.69)	22158 (100)
2004	12320 (47.18)	13794 (52.82)	26114 (100)
2005	12597 (38.32)	20273 (61.68)	32870 (100)
2006	18820 (47.39)	20892 (52.61)	39712 (100)
2007	15170 (32.05)	32156 (67.95)	47326 (100)
2008	17987 (30.50)	40997 (69.50)	58984 (100)
2009	19325 (28.50)	48477 (71.50)	68802 (100)
2010	23984 (29.17)	58237 (69.83)	82221 (100)

Source: Compiled from the Reports of NABARD, Mumbai

Note: Figures in parentheses represent percentage to total.

The share of agriculture in the total credit deployed by RRBs ranged between 29 to 47 per cent during the period from 2002 to 2010.

Recovery Performance

The recovery performance of RRBs in the country is always poor. Table-3 is given as a token for evidence in this regard.

During the year 2002, RRBs had recovered only 71.52 per cent of the total demand. Afterwards the percentage of recovery slowly increased to 80.89 per cent in the year 2007; 80.84 per cent in 2008; there is a slight decrease in the year 2009 to 77.85 per cent and increased to 80.09 per cent in 2010. The recovery performance during the study period is ranged between 71.52 and 80.84 per cent. It may be inferred from the table that the recovery performance of RRBs in respect of agricultural loans is not upto the mark.

The correlation between Demand and Collection is 0.97 (upto 2006), it is concluded that there is high correlation between two variables.

Objectives

The rationale of the study is to make an assessment of the performance of RRB's in deploying agricultural credit and evolve a package of measures for effective and efficient performance of RRBs. Precisely, the objectives of the study are:

- To review the historical performance of institutional agencies in deploying agricultural credit before and after inception of RRBs.
- To examine the progress made by RRBs in Agricultural Credit in terms of Credit Deployment to agriculture and Recovery Performance in general and Andhra Pragathi Grameena Bank in Particular.

- To assess the Agricultural Credit performance through sample respondents.
- To evolve a package of measures for making RRBs effective in agricultural credit deployment.

Methodology

To achieve the objectives set-forth the study is based on both primary and secondary data.

- Primary data are collected from sample respondents with pre-tested schedules.
- Secondary data are obtained from the published Annual Reports of RBI, NABARD and journals like Yojana, Kurukshetra etc.,

Andhra Pragathi Grameena Bank (APGB) – A Profile

Andhra Pragathi Grameena Bank (**APGB**) (the erstwhile Rayalaseema Grameena Bank) was established on 6th August, 1976 with its head office at Kadapa in the State of Andhra Pradesh under the RRBs Act, 1976. It is one among the 10 RRBs sponsored by Syndicate Bank, the lead bank of RGB. The area of operation of the bank covers three districts viz., Kadapa, Kurnool and Markapur Revenue Division of Prakasam District.

The Central Government by notification bearing F.No.1/4/2006 – RRB (iii) dated 01-06-06 have amalgamated Rayalaseema Grameena Bank, Sri Anantha Grameena Bank (Functioning in Ananthapur District) and Pinakini Grameena Bank (functioning in Nellore District) merged in to a single Regional Rural Bank called Andhra Pragathi Grameena Bank (APGB) with its head office at Kadapa. The APGB is covering five districts namely; Kadapa, Kurnool, Ananthapur, Nellore and Prakasam Districts. These five districts covers

Table 3: Recovery Performance of RRBs

(Rs. in Crores)

Year	Demand	Collection	Balance	% of recovery to Demand
2002	11569.82	8274.34	3295.48	71.52
2003	12622.52	6162.12	3440.40	72.59
2004	13675.22	10049.91	3625.30	73.49
2005	19370.17	15755.18	3974.99	79.85
2006	24071.58	19209.67	4861.91	79.80
2007	29527.04	23765.25	5761.25	80.49
2008	NA	NA	NA	80.84
2009	NA	NA	NA	77.85
2010	NA	NA	NA	80.09

Source: Figures Compiled from the Reports of NABARD, Mumbai.

the major area of Rayalaseema region which was drought prone backward area in the State of Andhra Pradesh.

Deployment of Credit to Agriculture by APGB

APGB plays a predominant role in financing agriculture. More than 50 per cent of its credit is deployed towards agriculture as reflected by table-4.

Table 4: Deployment of Credit by APGB and share of Agriculture

(Rs. in Crores)

Year	Agriculture	Non-Agriculture	Total Bank Credit
2002	216.91 (57.09)	163.03 (42.91)	379.94 (100)
2003	251.15 (55.67)	200.03 (44.33)	451.18 (100)
2004	291.26 (51.15)	278.16 (48.85)	569.42 (100)
2005	486.78 (55.30)	393.52 (44.70)	880.30 (100)
2006	709.57 (68.61)	331.44 (31.83)	1041.01 (100)
2007	1548.06 (80.95)	364.19 (19.05)	1912.25 (100)
2008	2005.99 (80.49)	486.22 (19.50)	2492.21 (100)
2009	2274.33 (87.52)	324.27 (12.48)	2598.60 (100)
2010	2860.93 (92.21)	240.67 (07.79)	3108.60 (100)

Source: Annual Reports of APGB, Kadapa.

As observed from the table the share of agriculture in the total credit deployed by APGB recorded at 57.09 per cent during the year 2002 and declined to 55.67 per cent in 2003 and gradually rose to 92.21 per cent in 2010. The percentage share once again declined to 55.67 per cent and 51.15 per cent during the years 2003 and 2004 respectively. The overall analysis reveals that the percentage share of agriculture in the total bank credit ranged between 51.15 per cent to 92.21 per cent as against 29 per cent to 47 per cent at national level during the period from 2002 to 2010.

Recovery Performance of APGB

Repayment of loans together with interest thereon by the borrower contributes to the smooth functioning of the institutional credit. The timely recovery of loans is a pre-requisite for any credit institution particularly for RRBs with

their limited funds for sustained growth and existence. As revealed by the table, the recovery performance of RRBs in the country is not satisfactory. It is true in case of APGB also. To illustrate the fact, table-5 is presented.

Table 5: Recovery Performance of APGB

(Rs. in Crores)

Year	Demand	Collection	Balance	%age of recovering to demand
2002	213.69	143.84	69.85	67
2003	304.89	199.93	104.96	66
2004	402.10	326.35	75.75	81
2005	517.51	389.86	127.65	75
2006	113.55	91.57	21.98	81
2007	980.73	773.99	206.74	79
2008	1139.85	873.34	266.51	77
2009	1605.17	1106.85	498.32	69
2010	1536.88	1021.75	515.13	66

Source: Annual Reports of APGB, Kadapa

It is observed that during the period of analysis there has been gradual increase and fluctuating trend has been observed in recovery of loans by APGB. The percentage of recovery which was 67 per cent in 2002 increased gradually to 81 per cent by the end of the year 2006 afterwards it started to decline gradually to 66 per cent by the end of the year 2010. However, on the whole, the performance of APGB in recovery of loans is far from satisfactory. If the loans were not properly recovered, the survival and sustenance of the bank would be questionable. Hence, the field study has been undertaken to understand the problems of borrowers in repayment of loans.

Table 6: Percentage of Recovery of Advances by APGB
(In Percentage)

Year	Agriculture	Non-Agriculture	Total Recovery
2002	67	74	67
2003	66	80	60
2004	81	87	78
2005	75	90	75
2006	81	86	80
2007	79	81	81
2008	77	79	80
2009	69	77	74
2010	66	72	88

Source: Figures compiled from the Records of APGB, Kadapa

The correlation between Demand and Collection is 0.986 (upto 2006), it is concluded that there is high correlation between two variables.

Sector wise Recovery Performance of APGB

Table 6 is to flash on recovery performance of APGB in respect of agriculture and non-agriculture advances.

A cursory look at the table 6 reveals that the percentage of recovery in case of agriculture loans by APGB is said to be poor when compared with the percentage of recovery in case of non-agricultural loans. It may be noted from the table that the recovery of loans by APGB during the year 2002 was 67 per cent which gradually rose to 78 per cent in 2004; and 81 per cent in 2006. After showing some fluctuations it reached to 88 per cent by the end of 2010. On the other hand the percentage of recovery of loans by RRBs at national level ranged between 71.52 per cent and 80.84 per cent during the period.

Field Study

The prosperity of a banking industry depends on effective credit deployment and especially recovery performance. Recycling of funds is most important to the industry. Hence, the recovery of overdues should always be at 100 per cent. But it is not so in case of RRBs in general and APGB in particular. Hence, there is a dire need to identify the major problems involved in repayment of loans. In order to project empirical evidences, a field study was conducted. So as to arrive at meaningful inferences, the researchers have selected 50 respondents at random. The sample respondents were selected from the list of borrowers supplied by the bank officials. The total sample respondents belong to pure agriculture category.

In addition, bank employees' and officials have been consulted to draw their opinions on credit deployment and recovery performance. The field study has been undertaken during the year 2009-10 with the help of pre-tested schedules. Certain indicators like socio-economic background, family size and annual income have been considered as the major factors affecting the procurement and repayment of loans. Hence, tables 7, 8 and 9 have been provided to focus on these indicators.

Socio Economic Background

It is proposed to review the socio economic background of the sample respondents in terms of caste, size of the family etc.,

Table 7: Social Strata of Respondents

Sl. No.	Caste	No. of Respondents
1.	OC	18 (36)
2.	BC	15 (30)
3.	SC	11 (22)
4.	ST	06 (12)
	Total	50 (100)

Source: Field Survey.

Note : Figures in parentheses represent percentage to total.

It is deduced from the table that majority of the respondents 18 (36 per cent) belong to OC community, 15 (30 per cent) respondents to BC, 11 (22 per cent) to SC community and 6 (12 per cent) to ST Community. It is perceived that more loans were sanctioned to OC and BC rather than SC and ST category.

Family Size of Respondents

The size of the family can influence the capacity of repaying loans. Table 8 depicts the family size of the respondents.

It is observed that majority of the respondents 27 (54 per cent) belong to the large sized family group ranging 6 and above followed by 15 (30 per cent) ranging between 4 to 6 members. Two members in a family are meager in number i.e.2 (4 per cent). The main drawback in large repayment of loans is large families. In long families the loans are diverted to non-productive activities. Hence, it is apparent that the size of the family affects the repaying capacity of the borrower.

Table 8: Family size of Respondents

Sl. No.	No. of Members	No. of Respondents
1.	0-2	2 (4)
2.	2-4	6 (12)
3.	4-6	15 (30)
4.	6 and above	27 (54)
	Total	50 (100)

Source: Field Survey.

Note : Figures in parentheses represent percentage to total.

Annual Net Income

Annual Net Income is also viewed as one of the most significant indicators influencing the repayment capacity of the borrower.

It is obvious from table 9 that majority of the respondents 27 (54 per cent) were in the income group ranging between Rs.20,001 to Rs.40,000 followed by 8 respondents (16 per cent) in the income group of Rs.60001 to Rs.80000. More than Rs.100000 per annum earning respondents are too meager in number i.e., 1 (2 per cent). Now-a-days cost of living is so high and increasing day by day. This is also one of the causes of defaulting repayment.

Table 9: Average Net Income of Respondents

Sl. No.	Net Income (in Rupees)	No. of Respondents
1.	Less than 20000	4 (8)
2.	20001 to 40000	27 (54)
3.	40001 to 60000	5 (10)
4.	60001 to 80000	8 (16)
5.	80001 to 100000	5 (10)
6.	More than 100000	1 (2)
	Total	50 (100)

Source: Field Survey.

Note : Figures in parentheses represent percentage to total.

Reasons for Delay in Repayment

It is quite oftenly complained that the loans granted under agriculture sector would not be repaid within stipulated time. A plethora of reasons could be traced out for delays in repayment.

Table 10 is presented to focus on the reasons for delay in repayment of loans.

A closer look at the table 10 reveals that number of sample borrowers 26 (52 per cent) expressed that frequent failure of crops and consequent loss thereon is mainly responsible for delay in repayment. Further 13 (26 per cent) respondents expressed hard-pressed domestic problems as the most important reason and low remunerative price due to lack of marketing network as another reason by 10 respondents (20 per cent).

Table 10: Problems Reported by Respondents

Sl. No.	Problem	No. of Respondents
1.	Failure of Crop	26 (52)
2.	Hard Pressed Domestic Problems	13 (26)
3.	Lack of Marketing Net Work	10 (20)
4.	Others	04 (08)
	Total	50 (100)

Source: Field Survey.

Note : Figures in parentheses represent percentage to total.

During the field work, it is observed that the respondents are facing plethora of problems such as failure of crops due to climatic conditions, domestic problems due to marriage of female, ill health of the family member, high cost of seeds, labour, fertilizers, pesticides, crop failures, etc.

Findings

The findings that emerge from the study are discussed briefly;

- RRBs play a meagre role when compared to Scheduled Commercial Banks and Co-operatives in extending institutional credit to agriculture.
- Credit deployment by RRBs to agriculture ranged between 29 per cent to 47 per cent during the study period. It is very low when compared with non-agriculture credit.
- Recovery performance of RRBs is also not satisfactory which ranged between 71.52 per cent to 80.84 per cent during the study period.
- Credit deployment to agriculture by APGB ranged between 51.15 per cent to 92.91 per cent during the study period. The performance of APGB is far better when compared with RRBs at all India level.
- Majority of respondents of family size are in between 6 and above in family size.
- Majority of the respondents' income level falls between Rs.20000 and Rs.40000 per annum.
- Majority of the respondents reported that crop failure is the major constraint in repayment of loans.

Suggestions

In the light of the above findings, the following suggestions are offered to improve credit deployment to agriculture as well as to improve recovery performance of RRBs.

- The Government of India has to provide some schemes to improve the share of RRBs in agriculture credit by institutional agencies.
- Refinancing facility to RRBs should be made available at subsidiary interest rates by sponsoring bank and NABARD to improve agricultural credit deployment.
- The local leaders should not be permitted to act as intermediaries for the identification of applicants or to pressurise the bank officials for sanctioning of loans. They may be allowed to guide the people but in no way they should be allowed to force the bank officials to extend loans to unworthy applicants.
- For increasing the loan recovery, the bank authorities should encourage the managers to work hard with sincerity and honesty.
- Loans have to be sanctioned only to genuine cases after analysing the viability of the projects to avoid willfull defaulters.
- Crop insurance has to be provided by the bank with the help of the Assurance Companies/Government to all agricultural borrowers. Crop insurance could improve recovery performance.
- The bankers/government has to establish marketing stalls and retail outlets for agricultural products.
- The income sources of the villagers have to be improved by providing good irrigation facilities and fair rate to the agricultural products by the Government.
- In the event of natural calamity, if a farmer loses the crop, the entire interest portion is to be waived off and the principal amount alone be rescheduled for payment in 3 to 5 years without charging interest.
- Timely credit especially to the small and marginal farmers should be ensured. For this, the banks have to make use of information and communication technologies.
- There is an urgent need to modernize agriculture and improve productivity. Farmers have to be empowered with education on farm training and guidance to employ modern cultivation practices.

- There should be proper supervision by the bank's trained staff over the use of credit.

To sum up, the agricultural credit not only strengthens the farming business but also augments the productivity of scarce resources which in turn contribute to agro-socio-economic development of the country. However, the performance of agricultural credit in India reveals that though the overall flow of institutional credit has increased over the years, there are several gaps in the system which include inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending, limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors.

As pointed out by the Agricultural Credit Review Committee, "the dual economy" has melted substantially, but the money lender has not gone away". The non-institutional sources of agricultural credit still remain and they offer credit at higher rates of interest. The intensity of dependence on these sources is particularly more in case of consumption and unproductive loans. To overcome this, the farmers should be made more bankable. The loans to farmers need to be adequate without any stringent rules and regulations. Special packages have to be designed to ensure timely recovery of loans.

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