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## *Performance of Regional Rural Banks in India A study on Andhra Pradesh Grameena Vikas Bank in Andhra Pradesh*

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*Abstract: The necessity of rural finance was felt to provide protection & reliance to rural people who rely highly on informal source of finance like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. The problems of finance suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural ineptness. Rural bank are providing finance to the weaker sections of society like small farmers, rural artisans, small producers, rural laborers etc, to provide finance to cooperative societies, primary credit societies, Agricultural marketing societies, Enhance & Improve banking facilities to semi urban, rural & other untapped market. The Regional Rural Banks help the rural people to come out from the financial problems and secured the financial assistance to agriculture in India. The study concentrated on Andhra Pradesh Grameena Vikas Bank is of utmost importance in Andhra Pradesh state to provide financial support to agriculture and performance of the bank in various Identified potential areas. The total Business crossed the land mark level of Rs.10680 crore- Highest among all RRBs in the state of Andhra Pradesh during the financial year 2011-12. This bank focused on the Continuous Rural Development, reaching the uncovered and being farmer friendly.*

*Key Words: Regional Rural Banks, Credit facilities to agriculture, Performance of APGVB, Economy.*

### I. INTRODUCTION

Agriculture is a major source of livelihood in India. The majority of poor people living in rural areas and the Indian economy depend from last 60 years. Agriculture financing is best done by financial Institutions that have the capacity to diversify across geographical regions, economic sectors and agriculture sub sector. Agriculture finance significance is to increase access to financial services for farmers and other enterprises in rural areas. In most of the cases, the Indian farmers are not able to meet the expenditure, because of low size of the holdings, low productivity, low income and high level of consumption for domestic want. In earlier days the agricultural finance is provided only by Co-operatives, land development banks and private money lenders. After nationalization of commercial Banks (1969) and establishment of Regional rural Banks in 1975 both banks are extending credit facilities for agricultural purpose. As agriculture sector contributes about 40% of worldwide employment and a 100% food production increase will be required in developing countries to feed the 2050 population. Technology plays an important role in the management of high yielding variety seeds has increased productivity of crops considerably.

Though the outreach and amount of agricultural credit have increased over the years, several weaknesses have crept which have affected the viability and sustainability of these institutions. Following the shifts in consumption and dietary patterns from cereals to non-cereal products, a silent transformation is taking place in rural areas calling for diversification in agricultural production and value addition processes in order to protect employment and incomes of the rural population. In the changed

scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure. The needed in agriculture now is a new mission mode akin to what was done in the 1970s with the green revolution. The difference now is that initiatives are needed in a disaggregated manner in many different segments of agriculture and agro-industry: horticulture, aquaculture, pisciculture, dairying, sericulture, poultry, vegetables, meat and food processing, other agro-processing. Reaching the poorest in rural India ensuring credit and financial services for small and marginal farmers.

## II. OBJECTIVES OF THE STUDY

1. To study the national agriculture policy and programmes in rural credit in India in general particularly in Andhra Pradesh.
2. To analyze institutionalization of credit, Commercialization of agriculture and adequacy of credit flow for production and consumption purpose.
3. To analyze the performance of Andhra Pradesh Grameena Vikas Bank.

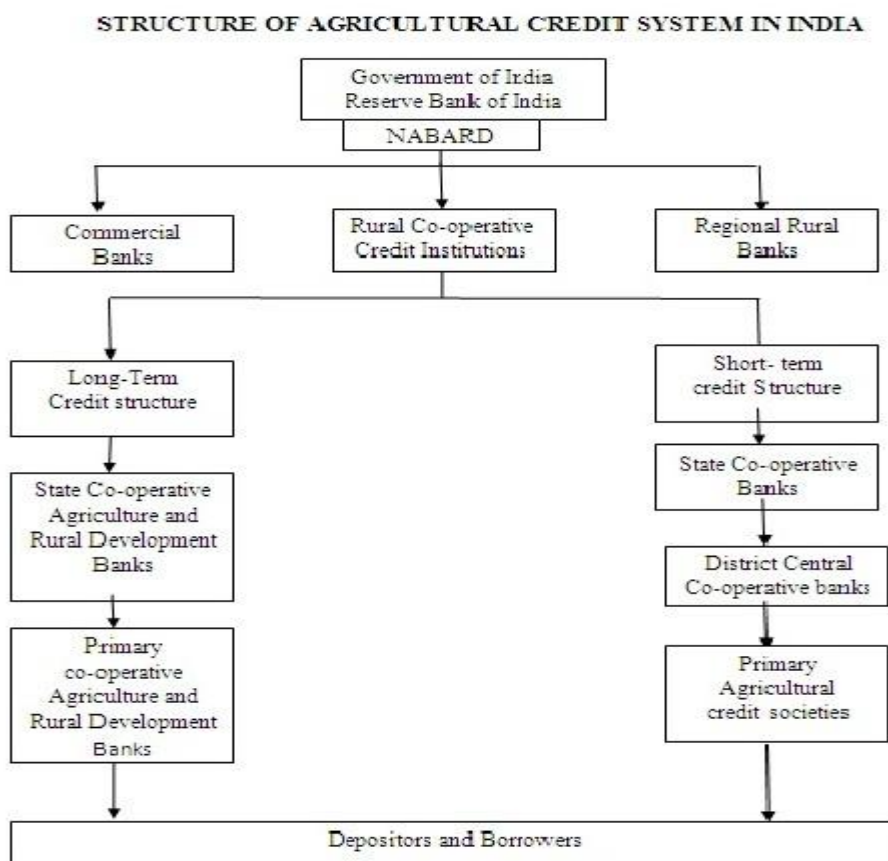
Keeping the above objectives in view the researchers made an attempt to study the financing of agriculture sector with reference to APGVB in AP.

## III. REGIONAL RURAL BANKS IN INDIA

Rural people in India such as small and marginal farmers, landless agricultural laborers, have been exploited in the name of credit facility by informal sectors. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the cultivators in India. The informal sector advances loans at very high rate of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of economic and non-economic conditions in the rural population of India. The supply of total formal credit is inadequate and rural credit is inadequate rural credit markets are imperfect and fragmented.

Regional Rural Banks in India dates back to the years 1975. It's the Narasimham Committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural bank's that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an ordinance promulgated on the 26<sup>th</sup> September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The objectives of RRB are summarized as to provide cheap and liberal credit facilities to small and marginal farmers, agriculture, to save the rural poor from the money lenders, to act as a catalyst element and there by accelerate the economic growth in the particular region. To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas. To cater to the needs of the backward areas which are not covered by the other efforts of the Government.

Exhibit:



Source: RBI

#### IV. AGRICULTURE CREDIT SYSTEM INDIA

Money lenders in India are as old as its villages, agricultural credit cooperatives go back a century, commercial banks have been involved in agricultural loans for nearly 50 years, the regional rural bank network is over 38 years old, and reforms in the banking system were triggered a decade back. Yet, credit flow to small farmers has remained far below needs, both for crop cultivation and for long term requirements such as land development, Irrigation and farm equipment as compared to the potential demand. The wide spread discontent among farmers has manifested itself in the form of mass voting against incumbent governments as also individual acts of despair such as farmers committing suicide, particularly in states like Andhra Pradesh and Maharashtra. The structure of agricultural credit system in India shows in exhibit, which is self explanatory.

#### V. REVIEWS OF THE TOPIC

The literature obtained by investigators in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve bank of India, the research studies, articles of researchers, bank officials , economists and the comments of economic analysts and news is briefly reviewed in this part.

Lakshmi Narayana (1984)<sup>1</sup> in a study on regional rural banks in west Bengal found that the recovery work of overdue loans together with the normal work of processing new credit proposals and enlisting new borrowers hardly allowed the bank officials any time for guiding them in adopting improved farming techniques and making better use of credit. Singh and Upadhyya conducted a study on the (1984)<sup>2</sup> conducted a study on the loan recovery aspect of regional rural bank in Bihar. Crop failure, expenditure on marriage and other social functions in the family were considered important factors of non-payment of loans.

1 Lakshmi Narayana V."Regional rural banks-problems and prospects A case study".Financing agriculture,14(2),April-June ,1984,New Delhi,pp54-56.

2 Singh P.K.and Upadhyya,K.M.,"A Study of loan recovery of Regional Rural Banks in Bihar"Financing Agriculture,16(2) April -June,1984 New delhi,pp37-39.

Inadequate follow up measures and lack of serious attitude of borrowers towards repayment were also explained as reasons. while, Jagadeesh Prasad and Sunil Kumar (1985)<sup>3</sup> in a study about regional rural bank in Bihar found that, the loans given to the poor were generally accepted as a dole or relief program, which was pointed out as the main reason for poor repayment.

Prasad(1985)<sup>4</sup> in a study about Sri Visakha Grameena Bank in Andhra Pradesh revealed that regional rural banks were catering to the needs of rural society, Creating banking consciousness, but also serving as corner stone to the building of rural development.

A Study by Nagi Reddy and Rathna kumar (1986)<sup>5</sup> found that low yield, low market price for produce, repayment of other debts and other domestic expenditure as the main reasons of non-repayment of loan. while ,better yield, desire to get future loans, persuasion by bank officials, etc. are the main reasons for prompt repayment. Rehman(1986)<sup>6</sup> in this paper assessed the impact of the Grameena Bank on the existing rural power structure of Bangladesh.

The findings of the study indicate that Grammena bank members, being conscious of their status as opposed to the rural elites, have already developed a countervailing force to ensure their participation in the development process Balishter (1986) undertook a study to evaluate the performance of the Jamuna Gramin Bank. On the basis of the working results of the bank, it was concluded that, in the event of future expansion of rural banking ,greater importance should be given to the extension and strengthening of the net work of regional rural banks along with the expansion of branches of commercial banks.

3 Jagadeesh Prasad and sunil Kumar, "Regional Rural Banks :A study "Kurukshestra,33(8),May 1985,New Delhi,pp31-33.

4Prasad B.V.S,"credit and Rural bank:A case study:published M.Phil,Dissertation submitted to S,V.University,Thirupathi,1985,pp89-91.

5 Nagi Reddy and Rtana kumar " credit Repayment performance of borrowers of Regional Rural Banks: A case study" Southern Economist, July 1986,New Delhi,pp.15-17.

Rehman,A ."Impact of Grameena Bank Intervention on the Rural power Structure"Research monograph,Bangladesh Institute of 6,pp76-79 Development studies,No.61, Bangladesh,198.

Another study by Rehman (1987)<sup>7</sup> highlights the factors which have contributed to the success of Grameena Bank Bangladesh, in reaching the poor through an innovative credit program. The design of the program, targeting the rural poor and women as clients, excellent implementation system, decentralized and participative management style and various other innovative polities were cited as the factors responsible for its success. An in depth household survey in five project villages and two control villages found that Grameena Bank members had incomes about 43 percent higher than the non-participations in the adopted project work village. this effect on the income was attributed to the increase in income from processing and manufacturing, trading and transport services financed by the bank.

Singh & kallkundrikar(1988)<sup>8</sup> in their study have come to the conclusion that regional rural banks have exclusively financed the weaker sections, showing the image of small man's bank. The study made it clear that, since the objectives of the regional rural banks had been the extension of credit to the rural poor and based on the profit motive. It is not justifiable to argue that the concept of the regional rural banks should be done away with, only because they are proved to be unprofitable. Dr. Ishwara P,(2010 )in his paper an attempt has been made to study the performance of the RRBs since 1980to 2009.In order to know the implications of transformation of RRBs in 2004,the study focused on financial results before and after amalgamation. Professor Dilip Khankhoje and Dr.Milind Sathye(2008) have analyzed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in1993-94or not. Dr.M.Syed Ibrahim (2010) carried out a study on the topic" performance evaluation of regional rural banks in India." In this study, it was concluded that RRBs in India showed a remarkable performance in the post merger period.

7 Rehman.A "Alleviation of rural poverty: Replicability of Grameena Bank Model"Grameena bank Evaluation project,Agriculture and Rural development studies,Economic and political weekly,Vol.7,November,1987.pp2934

## VI. OVERVIEW OF ANDHRA PRADESH VIKAS GRAMEEN BANK

The India's largest bank, the State Bank of India also focused on development of rural farm sector and rural non farm sector, with accent on the Rural poor, Rural ISB and Rural Crafts by merger of five banks in Andhra Pradesh in 2006 which include Sri Visakha Grameena bank, Nagarjuna Grameena Bank, Sangameswara Grameena bank, Manjira Grameena Bank Kakathiya Grameena bank and introducing as Andhra Pradesh Grameena Vikas Bank with head quarter at Warangal by giving various facilities like low rate of interests and best credit facilities etc. The Andhra Pradesh Grameena Vikas Bank is covering eight districts in AP, majority of them are backward Districts i.e. Mahabubnagar, Nalgonda, Medak, Warangal, Khammam, Visakhapatnam, Vizianagarm, Srikakulam. The ownership shares to be maintained are Government of India 50% and Government of Andhra Pradesh 15% and State Bank of India 35%.

The APGVB is growing with consistent performance from branch level to Regional level. During the year 2011-12, the focus of the bank has been spread across many areas in business development. The most significant of them are structural adjustment in deposits portfolio for sustainable business growth. The increased lending to SHGs and small farmers and data corrections in CBS to rectify Technical NPAs for implementation of system generated NPAS.

The vision is repositioning the bank in competitive rural market to accomplish the leadership spot in Rural Banking, Aspiring to realize the vision of excelling in rural Credit and SME, Pursuing the best Practices for delivering the value added service to the customers by transforming the key branches into profit and business centers.

The mission of the bank with efficiency and service to each one of us works in tandem to deliver quality rural services, no matter where our customers choose to experience it, With the advantages of a large network in the rural hinterland, the deprived and denied, retail and agriculture sectors through improved process, deployment of technology, with an emphasis on employment of rural youth, augmentation of agricultural production, up liftmen of the down trodden and unabated service to rural poor with commitment to the sacred task of rural development and women empowerment. The paper throws light in the various aspects of APGVB such as branch wise development, APGVB financial performance, classification of assets Recovery, Profitability etc.

## VII. BRANCHES PERFORMANCE

The table 1 contains the development of the branches across AP during the years 2005-06 to 2011-012. The performance indicator shows the branches' development in rural, semi urban, urban areas in eight districts of AP. On examination of data presented in table 1 most of the branches are clearly placed at rural areas with 77.57% (429) in the year 2010-2011 and maximum reached to 432 branches in the financial year 2011-2012. It has less focus on semi urban and urban areas because it is under RRB.

Table: 1

DEVELOPMENT OF BRANCHES IN APGVB DURING 2005-06 TO 2011-12

Performance indicator	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-2012
i) Rural	373(77.22)	373(77.22)	373(77.22)	408(77.41)	414(76.95)	429(77.57)	432(75.26)
ii) Semi Urban	82(16.97)	82(16.97)	82(16.97)	86(16.31)	88(16.35)	88(15.91)	104(18.11)
iii) Urban	28(5.79)	28(5.79)	28(5.79)	33(6.28)	36(6.69)	36(6.50)	38(6.62)
iv) Metropolitan	---	---	---	---	---	---	---
Total Number of branches	483(100)	483(100)	483(100)	527(100)	538(100)	553(100)	574(100)

Source: Compiled from the annual reports of APGVB Govt. of A.P.

From the financial years 2005-06 to 2007 -08 it is observed that the branches are stable at 483, since the year 2008-09, the bank zooming on branch expansion and slowly increased, by the end of the 2011-12 (574) with 18.84 percent during the period under study. It may be concluded from the analysis that APGVB will expand its branches all over the rural areas in AP to assist the farmers' financial needs.

### VIII. PERFORMANCE OF LOANS ISSUED

In the table 2, it is observed that the performance of loan issued to the public from the financial year 2005-06 to 2011-12. The performance indicator focus on loans issued to various sectors like Priority Sectors, Non-Target Group, Small Farmers, Medium Farmers, Agricultural labor.

An analysis of Table 2 reveals that fluctuations in growth of loan performance. In the year 2005-06 growth percentages is 44.48% and highest percentage in the year 2010-2011 growth percentage is 112.71%. The Priority sector has picked up its growth in the year 2010-2011 with 2.97 crores. The bank shows negative growth in the 2008-09 (-15.40%) followed by next financial year with (-13.41%) and in the financial year 2011-12 (-10.15%). The bank has given loan preference to priority sectors among other sectors.

Table: 2

#### PERFORMANCE OF APGVB IN THE FINANCIAL YEARS 2005-06 TO 2011-12 (LOANS ISSUED TO VARIOUS SECTORS)

Rs. in 000's

Performance indicator	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Loans Issued	17244200	20954000	24558600	20777800	17992000	38271901	34386800
Growth%	44.48	21.51	17.20	-15.40	-13.41	112.71	-10.15
Priority Sectors	13147700	15475500	17813800	16622240	15970200	29779956	23989900
Non-Target Group	3038800	5478500	6744800	8259700	3166100	8491945	10396900
SF/MF/AL	9051900	11297100	19446400	5882373	7049110	12309498	13912600

Source: compiled from the annual reports of APGVB Govt. of A.P.

The small and medium loans are also improved by observing the financial years from 0.90 crore to 1.39 crores 2005-2006 to 2011-2012. From the above analysis, it may be inferred that APGVB showing negative growth in the years 2008-2012 because the concentration of the bank more on expansions of the branches.

### IX. PERFORMANCE OF RECOVERY

Table 3 shows that the recovery performance of the APGVB for the financial years from 2005-06 to 2011-12. The recovery particulars focused on the demand, recovery, over dues and percentage of the recovery.

A closer observation of Table 3 the demand is increased as well as the over dues also increased and the percentage of recovery improved from the financial year 2005-06 to 2011-2012. The highest recovery can be seen in the year 2008-09 with 82.77% and the lowest recovery can be

Table: 3

RECOVERY PERFORMANCE OF THE APGVB FOR THE PERIOD  
2005-06 TO 2011-12

Rs. 000's

Recovery Particulars	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-2012
<b>Demand</b>	8804000	13080404	11534141	17965792	22137900	25472765	31646135
<b>Recovery</b>	6791200	9864033	9074368	14870454	18049100	20595069	25921335
<b>Over dues</b>	2012800	3216371	2459773	3095338	408880	4877696	5724800
<b>Recovery % (June Position)</b>	77.13	57.41	78.67	82.77	81.53	80.85	81.91

Source: compiled from the annual reports of APGVB Govt. of A.P.

Observed in the year 2006-07 with 57.41%. It shows the trend will be continued in future. This is a positive sign in the recovery performance of APGVB in rural agriculture sector.

**X. DEPOSITS AND BORROWINGS INTEREST PERFORMANCE**

Table 4 contains the deposits and borrowings interest performance of APGVB in the financial years 2005-06 to 2011-12. The particulars are given the interest paid on deposits and borrowings.

It shows that there is an improvement in growth of deposits and borrowings in the year 2005-06 it has the deposits of 50.67 percentage compared with the 2011-12 financial year. There is significant increase high deposits are observed in the years from 2009-2010 to 2010-11 there is an increase of 32.36 percentages. The borrowing also shows growth of 8.24% in the years from 2010-11 to 2011-12.

Hence, it may be concluded that bank provides best interest rates compared with the nationalized banks and it has expanded branches all over the eight districts in AP. The rural people are mostly interested to deposit in the nearest banks. There is every scope that may gain more deposits in future by maintaining its performance.

Table: 4

DEPOSITS AND BORROWING ANALYSIS OF APGVB DURING THE YEARS  
2005 -06 TO 2011-2012

Rs. 000's

Particulars Interest paid on	2005-06	2006-07	2007-08	2008-09	2009-2010	2010-11	2011-2012	Total
<b>Deposits</b>	966738 (1.54%)	1086724 (1.73%)	1293083 (2.06%)	1699395 (2.71%)	2126277 (3.96%)	22744695 (36.32%)	32692870 (52.21%)	62609782 (100%)
<b>Borrowings</b>	332111 (4.88%)	461111 (6.78%)	787563 (11.59%)	922423 (13.57%)	1133711 (16.68%)	1298240 (19.11%)	1858160 (27.35%)	6793319 (100%)

Source: compiled from the annual reports of APGVB Govt. of A.P.

**XI. PROFITABILITY PERFORMANCE**

Table 5 describe that the profitability performance of APGVB during the years 2005-06 to 2011-2012, and the particulars about Total Income, Total expenditure and Net profit of the bank.

It is observed from analysis of Table 5 the total income from the year 2006-07 to 2011-12 has been progressed from 337 Cr. to 862 Cr, an increase from 9.56 percentage to 24.46 percentage compared with overall percentage within six year period. The expenditure also increased from 322 Cr. to 695 Cr. from the financial years 2006-07 to 2011-12.

Table: 5

## PROFITABILITY ANALYSIS OF APGVB DURING THE YEARS

2006-07 TO 2011-2012

Rs.Crores

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-2012	Total
<b>Total Income</b>	337(9.56)	495(14.05)	489(13.88)	622(17.65)	718(20.38)	862(24.46)	3523(100)
<b>Total expenditure</b>	322(11.18)	441(15.31)	386(13.40)	474(16.45)	562(19.51)	695(24.13)	2880(100)
<b>Net Profit</b>	12(2.67)	37(8.24)	69(15.36)	103(22.93)	108(24.05)	120(26.72)	449(100)

Source: compiled from the annual reports of APGVB Govt. of A.P.

The expenditure is increased from 11.18 percentages to 24.13 percentages with in this six year period, ie, the study period. The Net profit is also increased by 12Cr. to 120 Cr. during the period under study. In other words it has increased from 2.67 percentage to 26.72 percentage compared with the total percentage within six year period.

It can be concluded from the analysis that the total Income increased by 525 cr. Showing a consistent improvement in total income. The total expenditure also increased progressively. An enormous growth of 108 cr. Is seen in the net profit within a span of six years.

**XII. CONCLUSION**

India is primary agricultural based and rural density populated country compared with urban areas, which needs the financial assistance as well as rural friendly, policies to develop rural areas. The RRBs are playing a vital role in the development of rural and needy agriculture poor people in all spheres. The APGVB is one of the growing banks in Andhra Pradesh to serve the poor agricultural farmers. The APGVB will expand its branches all over the rural areas in AP to assists the farmer's financial plight. There is a consistent improvement in all the thrust areas of the bank.

**XIII. SUGGESTIONS**

The growth of branches for the study period is meager which is not in tune with the population growth in absolute figures. Hence there is every need for APGVB to increase the number of branches in order to increases its network and also to facilitate the small and medium farmers.

By analyzing the performance of the APGVB the bank has to improve the credit facility system to agriculture farming communities.

It needs ATMs in the rural areas as well as urban areas to enhance their Services.

It has to expand its branches to other districts of AP.

Conducting farmers financial awareness programs in rural areas.

APGVB can expand its services through post offices for financial transactions in the rural areas.

In view of food security bill there is a need to increase the production of pulses and cereals under circumstances. The APGVB should come to the support of small and medium farmers who are the back bone of Indian agriculture and national economy.



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