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Development of RRBs in Haryana : Pre- and Post-Merger Scenario

Abstract

F. Max Muller a great European Philosopher says that there are two different India-ancient and modern. The modern India has again two India. One is the India of big towns and other is the India of small villages. Village economy is the backbone of Indian Economy. The Indian Economy is mainly dominated by agricultural and rural bases. Around seventy five percent Indians live in the rural areas and within this rural base around sixty four cent are dependent on agriculture as a major source of livelihood, either through self employment in agriculture or as agriculture labour.

Julius Nyererasyas, "A policy of rural development is a policy of national development".

In contrast to the earlier concept, rural development in 1980's encompassed the improvement of economic and social life of the rural poor. But now a days it also involves the environment aspects of economic growth. Rural development must involve increased employment, higher income, food shelter, education of health for target groups.

The study suggests that the policies adopted by RRBs in wake of financial sectors reforms contributed immensely to improve their performance on almost all chosen indicators but also strengthened their role in rural development of State and financial inclusion of the downtrodden segments of the rural population.

The objective of this paper is to investigates and compare the pre-and post- merger period from 2000-2001 to 2009-10.

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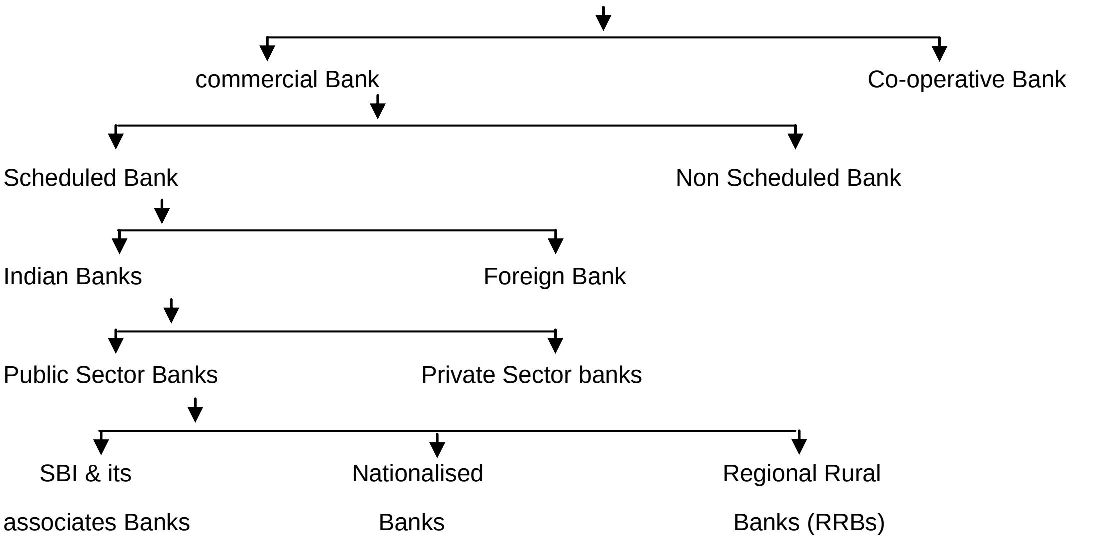
Introduction

The main objective of Indian Economy should be upliftment of rural people. Rural development aims at poverty alleviation, improved living standards and infrastructure facilities. However the government is empowering Panchayati Raj institutions at all the levels. To improve the living standards of rural people, the Government is implementing a number of schemes. Government schemes which aim at the growth rate and its equal distribution demand a greater interaction between modern and traditional sector. Rural indebtedness is a prime cause of rural backwardness. Private money lenders inflict invariability on the rural people through our government is trying hard to minimize it. Whether the banking system makes a positive contribution in igniting the process of development depends upon how credit policies are pursed. The traditional source of credit viz. the private money lenders with the type of credit policies they pursued, had instead of being helpful to the agriculturist, became invariable upon them. "The power which stands in the way of India's economic developments is the power of evil finance, the want of a banking system for the rural people. The land has money bankers but no banks."

Banks in India can be divided into two categories namely (a) commercial Banks (b) Co-operative Bank.

Flow chart of various categories of Bank



Scheduled Banks in India constitute those Banks which have been included in the second schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42(6) (a) of the Act**.**

The Private sector Indian banks included those who are established before 1990 and new private sector Indian Banks which came into existence after the recommendations of Narasimham Committee.

“Non-Scheduled Banks” are those banks whose total capital is less than Rs. 5 lacs. These are not included in the second schedule of Reserve bank and it has no specific control upon these banks. Non Scheduled Banks have to send details of their business to the Reserve bank every month.

A working group under the chairmanship of Sri. M. Narasimham was setup in 1975 to review the flow institutional credit, especially to the weaker sections of the rural community. The group identified certain deficiencies in the role of two-tier credit structure of the co-operative and schedule commercial banks and suggested establishment of ‘Regional Rural Banks’ (RRBs) as the third tier credit structure and as a means to provide low cost credit to rural artisans, landless laborers, and small and marginal farmers. The RRBs ordinance was promulgated by the President on 26 September, 1975 which come into force with immediate effect.

Thus RRBs came to form with the following objectives as outlined by the working group on Regional Rural Banks.

1. To develop rural economy.
2. To provide credit for agriculture and allied activities.
3. To encourage village industries, artisans, carpenters, craftsmen etc.
4. To make backward and tribal areas economically better by opening new branches.
5. To identify a specific and functional gap in the present institutional structure.

RRB Act of 1976 to review the flow of institutional credit, especially to the weaker sections of the rural community. The authorized share capital of each RRB evolved in the ratio of 50:15:35 with the central government holding the majority share, the sponsored bank holding the second highest stake, and rest by the respective state governments that housed the RRBs.

How ever within almost a decade of their establishment, most of the RRBs performed poorly on recovery of loans resulting in accumulated loses and non performing assets.

The main objective of the study is to examine the impact of amalgamation on the performance of RRBs by comparing the pre-merger performance of RRBs in HaryanaState with their performance during the post – merger period.

Review of Literature

As per the Provisions of the RRB Act, 1976, Reserve bank of India represents the Government of India on the boards of RRBs. Recently RBI has constituted empowered committees for RRBs on a state wise basis.

The loans which are eligible for refinance by NABARD are as under:

- advances for agricultural purposes and allied activities.
- Advances granted for the consumption, loans against security of fixed deposits, loans to staff.
- Other productive loans and advances to artisans, hand loom, weavers, small enterpreneurs and including persons of small means engaged in Repetion of words means

engaged in trade, commerce and industry. NABARD assists the central government is relation to all its functions pertaining to RRBs and provides concessional refinance support to augment the resource base of RRBs for lending to the desired sectors as also to enhance liquidity.

- Vason (1988) elaborates in his study that the weaker sections were availed finance to a low extent as compared to the upper caste people . However , resercher pointed out various reasons of non performing assets (NPAs) such as the availability of the margin between the cost of borrowing and cost of lending , low volume of business, law rate of recyling of funds and mounting overdues.

Gadgil (1994) studies the parable impact of financial sector reforms on the formal agricultural credit system in India. Movement of interest rates on agricultural loan over the period 1980-94 are analyzed. It was revealed that the new ratio on crop loans to farmers were not adequate enough to meet the financial transaction and risk costs, necessitating continued subsidization by national bank for agriculture and Rural Development (NABARD)/Reserve Bank of India.The researcher then suggested a change in structure of RRBs and rural branches of commercial Banks and future role of NABARD under the situation of total deregulation of interest rates.

- **Sabnani (1999)** Conducted a study on loan system for delivering of bank credit and concentrated on the cash credit loan system and its merits and demerits , loan component and cash credit component and how to resort to loan system for delivering the bank credit.

  Malik and Mittal (1991) Covered the performance of RRBs in Haryana, by giving special focus to their contribution to rural development Since 1976, Branch expansion deposit mobilization and credit development were analyzed. It was found that RRBs incurred losses dueto over dues and defaulters however, they made considerable progress in the above mentioned areas.

  Balaji (1985) Made an attempt to evaluate the working of sreeAnanthaGramin Bank (SAGB) in his study. He mainly dealt with problems encountered by the beneficiaries, credit development and outstanding loans.

Data and Methodology

Performance of RRBs in Haryana during the pre-and post-merger periods was on loan priority sector. Data on these indicators was collected from various annual publications of the Reserve Bank of India and returns of the Regional Rural Banks. The data have been converted at constant prices on the base year of 1990-91. The period from 2001-04 was taken as pre-merger period where as that from 2005-06 to 2009-10 as post merger period. Annual compound growth rates (CAGR) have been estimated using the following semi Logarithmic trend line to assess the performance of RRBs

$Y = a ß t$

or $logy = \log a + t \log ß$

Simple ordinary leastsquares method was used to estimate parameters a and β in the equation , consequently , compound annual growth rate was estimated as

$CAGR = Antilog(logß)-1) \times 100$

Mean and growth rates of the chosen indicators were estimated and compared for pre-Merger and post- merger period. Both t-test and Z-test were used to test the difference in pre-post period means for statistical significance of difference in two periods.

Result and Discussion

“All progress is born of inquiry. Doubt is better than over confidence, for it leads to inquiry and inquiry leads to invention is a famous Hudson Maxim in context of which the significance of research can well be understood. This study is intended to result in suitable change that have to be made for the effective functioning of the RRBs. The government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a state. As a result of amalgamation process, the number of RRBs has been reduced from 196 as on 31st March 2005 to 133 as on 31st August 2006 and further to 96 as on 30th April 2007. Now there are 82 RRBs (46 amalgamated and 36 standalone) with a branch network of 154756 branches covering 619 district, 26 State and 01 Union territory (Pondicherry). The term priority sector itself suggests that certain sectors of economy are needed to be taken up on a priority basis for rapid economic development. Prior to the revision in the priority sector guideline form April 30, 2007, all banks were required to achieve the target were also, specified for lending to agriculture and the weaker sections with in the priority sector.

Priority sector can be classified in the following categories.

Agriculture (Direct and Indirect Finance)

Direct finance to agriculture includes short, medium, long term loans given for agriculture and allide activities (dairy, fishery, piggery, poultry, bee keeping etc) directly to individual farmers, SelfHelp groups(SHGs) or joint liability groups (JLGs) of individual farmers without limit and Others to up the limits for taking up agriculture/allied activities Indirect finance to agriculture and allied activities.

Small Enterprises (Direct and indirect finance)

Direct finance to small enterprises include all the loans given to micro and small (manufacturing) enterprises engaged in manufacture/production, processing or preservation of goods. Indirect finance to small enterprises includes finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms.

Retail Trade

Retail Trade includes retail traders/private retail traders dealing in essential commodities.

Education Loans

Education loans include loans and advances granted to only individuals for educational purposes up toRs. 10 lacs for studies is India andRs. 20 lacs for studies abroad and do not include those granted to institution.

The calculated value of T-test in case of share of priority sector and non-priority sector in the aggregate advance is 5.843 and 1.377 respectively The former value is greater than its tabulated values and latter is less than its table value. so there is significant difference in pre-merging and post merging performance of RRBs in priority sector (i.e Ho is rejected) But in case of non-priority sector it is not a significant difference(i.e Ho is accepted)

Conclusion

The study suggests that the policies adopted by RRBs in wake of financial sectors reforms contributed immensely to strengthen their contribution in rural development and financial inclusion of the downtrodden segments of the rural population Generation of non-farm employment, alleviation of poverty and self-employment of rural population are some of the important tasks being assigned to these institutions. With stronger financial indicators these institutions not only assisting to meet the planning target of poverty alleviation and diversification to non-form activities but are also playing more important role in overall economic development of Haryana.

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Year															
	Total	Priority Sector	Non Priority Sector	Total	Priority Sector	Non Priority Sector	Total	Priority Sector	Non Priority Sector	Total	Priority Sector	Non Priority Sector	Total	Priority Sector	Non Priority Sector
2000-01	10743	5937	4806	5997	5126	871	3416	2810	606	3029	2569	460	23185	16442	6743
2001-02	10777	5978	4800	7151	6135	1016	4159	3382	778	3515	3042	473	25603	18537	7066
2002-03	11395	5766	5629	8325	7290	1035	4639	3736	902	3900	3389	511	28258	20181	8077
2003-04	13119	8731	4388	10304	9187	1117	5387	4423	965	4284	3829	455	33094	26169	6925
2004-05	15736	11014	4721	12669	11650	1019	6556	5513	1043	4802	4365	436	39762	32543	7219
Average	**12354**	**7485**	**4869**	**8889**	**7878**	**1011**	**4831**	**3973**	**`859**	**3906**	**3439**	**467**	**29981**	**22774**	**7206**
				Haryana Gramin Bank											
				Total			**Priority Sector**			**Non Priority Sector**					
2005-06	16688	12712	3976	31050			25530			5520			47738	38242	9496
2006-07	23151	17535	5616	31300			27856			3443			54451	45391	9059
2007-08	31994	24749	7245	38478			35025			3455			70472	59774	10700
2008-09	42152	32744	9407	48770			41397			7374			90922	74141	16781
2009-10	47548	39073	8475	109954			51430			58524			157502	90503	66999
Average	**32307**	**25363**	**6944**	**51910**			**36248**			**15663**			**84217**	**61610**	**22607**

Compiled form – Annual Reports of RRBs in Haryana

Best Curve Fit : Exponential Trend of RRB (Pre- Merging)

Dependent	**Mean**	**S.D**	**Cor.**	**rsq**	**d.f**	**T**	**Sig.**	**b_1**	**CAGR**
Total	29980	6589	0.978	0.9790	4	3.208	0.003	1.1429	14.29
Priority Sector	22774	6552	0.981	0.9590	4	5.843	0.004	1.1865	18.65
Non Priority Sector	7206	517	0.004	0.0690	4	1.377	0.241	1.0120	1.20

Best Curve Fit : Exponential Trend of RRB (Pre- Merging)

Dependent	**Mean**	**S.D**	**Cor.**	**rsq**	**d.f**	**T**	**Sig.**	**b_1**	**CAGR**
Total	84217	44219	0.978	0.939	4	3.208	0.003	1.3364	33.64
Priority Sector	61610	21239	0.981	0.996	4	5.843	0.004	1.2478	24.78
Non Priority Sector	22607	25009	0.004	0.728	4	1.377	0.241	1.5721	57.21