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*The views expressed in this study are of the authors and not the institution to which they belong.*

**Abstract:**

This study analyse the trends in deposits and credit deployments of Regional Rural Banks (RRBs) in the State of Karnataka during the post reform period (March 1992- March 2008).

Basic data for this study were collected from the various issues of Basic Statistical Returns of Scheduled Commercial Banks in India published by Reserve Bank of India. Deposits, advances (outstanding) and credit-deposit ratios were three important parameters used to assess the performance of RRBs. Kendall's coefficient of concordance (W) was computed to study whether there were any changes in the pattern of the flow of sectoral credit lending by the RRBs over the study period.

In the area of deposit mobilisation and credit disbursements, the RRBs had made a notable progress during the post reform period. C-D ratios of RRBs were fluctuating throughout the study period. It was found that RRBs continued to focus on agriculture credit disbursements in the Sate of Karnataka. At the same time, RRBs had favored credit to personal loans in place of rural artisan industries credit and "other small scale industries" credit.

## **Introduction:**

Agriculture and rural sector play important role in India's overall development strategy in terms of poverty alleviation by generating income and employment. Regional Rural Banks (RRBs) were formed through RBI Act of 1976 to bridge the gap in the flow of credit to the rural poor. RRBs were expected to evolve as specialized rural financial institution for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs (Sardesai Committee, 2005).

Over the years, RRBs emerged as a key rural financial institution in terms of geographical coverage, clientele outreach and business volume. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the number of RRBs has grown into 196 RRBs 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 percent 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 percent of their branch network.

The high-powered Committee on the Financial System was constituted by GOI to examine all the aspects relating to the structure, organisation, functions and procedure of the financial system (Narasimham Committee, 1998) underscored the commendable progress made by the Indian banking sector in extending its geographical spread and its function/operations and thereby promoting financial intermediation and growth in the

economy. However, the committee cautioned that unless the deterioration in the financial system was treated quickly, it could further erode the real value of and end return on the savings entrusted to it and even have an adverse impact on depositor's and investor's confidence. In addition, possibly, financial repression involving state-owned banks was not in harmony with agenda of real sector reforms that the GOI unleashed in the aftermath of the balance of payment crises of 1991(Mohan, 2006). Reserve Bank of India (RBI), therefore, initiated reform of the banking sectors in 1992 based on the recommendations of Narasimham Committee I (Ram Mohan, 2007).

As a part of the downsizing process of the public sector organisations, the GOI in consultation with sponsor banks and the National Bank for Agriculture and Rural Development (NABARD) took a decision to amalgamate the 196 RRBs (Kumar VA, 2008). The process of amalgamation resulted into reduction in number of RRBs from 196 RRBs to 89 RRBs in March 2008. As a result of amalgamation of RRBs, as on March 2008, there were 89 RRBs with 14,825 braches working in 518 districts across the country (BSR 2008).

Tungabhadra Grameena Bank (GB) was the first RRB to be established in Karnataka. 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 1112 branches operating in the 27 districts of Karnataka. Subsequent to the amalgamation process number of RRBs reduced

to 6 while leaving the number of branches almost intact. As on March 2008, there were 6 RRBs with 1153 branches working in 29 districts across the Karnataka.

In the present study, an attempt was made to analyse the trend in some selected banking indicators of RRBs after the post reform period. These banking parameters are branch network, credit and deposit growth, credit-deposit ratio (C-D ratio) and sectoral deployment of credit.

### **Methodology:**

Data for this study period (i.e., March 1992 to March 2008) were collected from various issues on Basic Statistical Returns of Scheduled Commercial Banks in India published by Reserve Bank of India. Deposits, advances (outstanding) and Credit-Deposit ratio were the three important parameters used to assess the performance of RRBs. Kendall's coefficient of concordance (W) (Zar, 2007) was computed to study whether there were any changes in the pattern of the flow of sectoral credit lending by the RRBs over the study period(i.e., March 1992 to March 2007).

## **Results:**

### **Trends in Rural Banking Indicators in Karnataka (March 1992- March 2007):**

#### **1. Branch expansion:**

Since the inception of first RRB in 1976, RRBs saw rapid branch expansion upto 1992. During the pre-reform period, number of branches grew to 1097 branches (as on March 1992) in 16 years. While during the post-reform period, there were only 69 branches added in the next 16 years. Details of branches of six RRBs in Karnataka as on March 2008 is given in Table 1.

#### **2. Trends in Deposits and Credit:**

Number of deposit accounts rose sharply from 32 lakhs in 1992 to 62 lakhs in 2008 which represent 94% growth in the deposit accounts of the RRBs over the period of 16 years. Similarly, number of credit accounts rose sharply from 8,86,171 in 1992 to 13,10,895 in 2008 registering the 48% growth in the credit accounts of the RRBs in the same period (Figure 1).

RRBs mobilised a total deposit of Rs 38,234 lakh in the year 1992 which significantly increase to Rs 7,51,371 lakhs in year 2008. This shows 1865% increment in the total deposits of the RRBs over the study period March 1992- March 2008 (Figure 2). In addition, average deposit per branch had increased from Rs 34.8 lakhs in year 1992 to Rs 644.4 lakhs in year 2008. Further, during the last 17 years, average growth in bank deposits has been 19.4% per annum.

As regards to disbursement of credit, RRBs registered significant growth from Rs 38, 741 lakh in year 1992 to Rs 6,87,365 lakhs in year 2008. This implies 1674% increment in the credit disbursement of RRBs over the study period of 17 years (Figure 2). Further, average credit disbursement per branch had increased from Rs 35.3 lakh in year 1992 to Rs 589.5 lakh in year 2008. The average growth of gross bank credit has been 19.2% per annum during the last 17 years.

### **3. C-D Ratio:**

C-D ratio indicates the extent of investment of bank deposits by way of credit. At the State level, C-D ratio of RRBs as on March 1992 stood at 101.3 per cent which dropped to 78.8 in the year 2000. The C-D ratio increased gradually to 91.4 % in year 2005 (Figure 3) after that it started to decline sharply to 69.4% during year 2006. Subsequently, the C-D ratio was recovered to 91.5% in year 2008.

### **4. Sectoral Deployment of Credit:**

From Table 2, it was observed that during the study period average advances towards agriculture loans (59.5%) dominated among all the occupation-wise credit disbursements followed by credit towards personal loans (12.2%), trade (9.7%) and all others (8.3%). The credit disbursements was least to finance sector (0.1%) followed by advances to small industries (1.1%), and rural artisans industries sector (1.8%). The highest share of agriculture credit as a percentage of total bank credit was disbursed in year 2007 (65.9%) while lowest was in year 2002 (55.5%). On the other hand, share of personal loans increased from 4.0 % in year 1992 to 17.8% in year 2002, but it declined to 13.2% in year



2007. The share of trade credit dipped significantly from 12.3% in year 1992 to 6.2% in year 2007 (Figure 4). Similarly, there has been a decline in share of rural artisans industries credit, and “other small scale industries” (village & cottage industries) credit as a percentage of total bank credit from 2.2% in year 1992 to 1.0 % in year 2007 and 1.0 % in year 1992 to 0.7 % in year 2007 respectively (Figure 5.). Further, advances to professional & other services also showed declining trend during the study period.

The year to year variation was seen in the credit disbursement across the sector which was evident from the values of coefficient of variation (Table 2). The variation was observed to be highest in the case of loans to financial purpose (114.6 %), followed by transport operations loans (54.5%) and personal loans (40.7%). The list variation was seen in the case of advances to industries (12.2%), followed by trade sector (15.3%).

The Kendall’s coefficient was worked out to be 0.948 which is significant at 1% level of significance. This implied that there was agreement among the rankings (in years) and thus there was no change in the pattern of sector-wise credit distribution/flow by the RRBs over the study period.

## **Discussion:**

The banking sector plays an important role in financial intermediation by mobilising deposits and disbursing credit to various sectors of economy. Therefore, the quality of the functioning of the banking sector affects the performance and productivity of all sectors of the economy. In this respect, banking sector reforms were initiated in India along with economic reforms. The objective of the banking sector reforms was to promote a diversified, efficient and competitive financial system with the ultimate objective of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening (Mohan R, 2006).

RRBs have evolved into a major institution towards credit dispensation in rural areas of Karnataka State over the years since their inception in 1976. The RRBs made entry into remote rural areas with the fundamental objectives to expand expands their network to the interior rural areas of the country. Out of the 1153 RRBs branches in Karnataka as on March 2008, as many as 891 branches (77.3%) were situated in the interior rural areas (NABARD, 2009). Therefore, it can be seen that RRBs had committed themselves for the development of rural areas by opening rural branches in the unbanked areas in order to provide credit facilities to the rural population of the State.

The RRBs has built up a good image distinction in the deposit mobilisation and credit disbursement in the State. The deposit and credit accounts increased over the year due to massive initiative taken by the RRBs towards deposits and credit deployment programme. The deposit accounts per branch also displayed a similar trend as that of the

deposits of the RRBs. Further, the advance accounts per branch also showed an increasing trend over the years on accounts of the greater increase in the advances by the RRBs.

The performance of the financial recourses of RRBs could be judged by examining the trend of various financial indicators such as deposit mobilisation, credit disbursement, C-D ratio, etc. In the area of deposit mobilisation, the RRBs had made a notable progress as evident from the figure 1 and 2. This achievement was possible probably due to RRBs tried their best to reach a large number of households in their service areas. Further, it seems that the expansion of branches to cover the unbanked area and population might have contributed towards significant growth in deposits. The total advances increased continuously over the years, except in 2006 wherein the advances declined compared to preceding year possibly because of the amalgamation process.

C-D ratio of the banks indicates the measure of creation of credit out of deposit mobilised. The C-D ratio is one of the indicators to assess the strength of banking development. The C-D ratio of RRBs was fluctuating throughout the study period. It was around 100% during the first two years (i.e., during year 1992, 1993) and then started declining and reached to 78.9% in 2000. But after year 2000, C-D ratio was increasing and reached to 91% in 2008. A C-D ratio lower than 100% means lower advances compared to the deposits were mobilised by the RRBs. On other hand, C-D ratio of more than 100% indicated that the RRBs were advancing more than deposits mobilised and it was not sustainable in the long run. In these situations, the RRBs may have to depend more on borrowings i.e., call money market at higher rate of interest that might affect adversely the

profitability of the bank under the situation of increasing non-performing assets and low recovery.

The share of credit towards agriculture to total bank credit of RRBs remained more than 55% during the study period March 1992-2007. In addition average credit distributed towards agriculture to total bank credit of RRBs stands to 59.5% in the same period. This clearly showed the efforts of Regional rural banks in favor of agriculture development in Karnataka. The advances to personal loans seem to be more preferred sector after agriculture sector by the RRBs. This has been a national trend for most of the commercial banks in India and constitutes one of the important sectors in the utilisation of bank credit (Sahoo and Khundrakpam 2006). In our study, it has been observed that credit towards rural artisan industries and “other small scale industries” had showed the declining trend. One of the recently published study also pointed out that the share of credit to “other small scale industries” has declined from 14.0% in 1996-97 to 7.8% in 2004-05 (Roy, 2006). The decline in the share of rural artisan industries credit and “other small scale industries” credit is the issue of serious concern. Since RRBs are the only channel through which these rural population can have access to the hassle-free credit. It seems that due to liberalization in the lending policy as the consequence of banking reforms, like commercial banks RRBs also shifting their focus on personal advances from village industries credit.

**Conclusion:**

In the area of deposit mobilisation and credit disbursements, the RRBs had made a notable progress during the post reform period. C-D ratios of RRBs were fluctuating throughout the study period. It was found that RRBs continued to focus on agriculture credit disbursements in the State of Karnataka. At the same time, RRBs had favored credit to personal loans in place of rural artisan industries credit and “other small scale industries” credit.

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**Table 1: Regional Rural Banks in Karnataka as on March 31, 2008.**

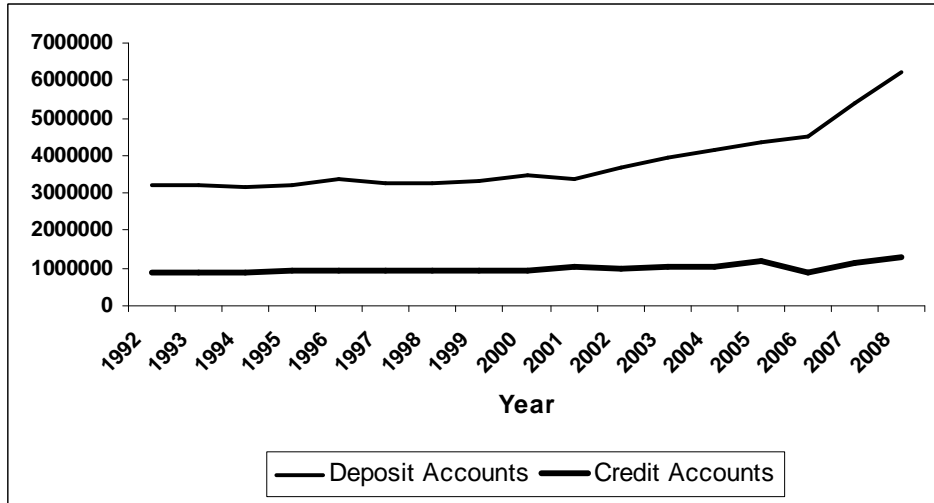
| <b>Sr No.</b> | <b>Name of the RRB</b>                | <b>Sponsor Bank</b>  | <b>Date of establishment/ Amalgamation</b> | <b>Number of Districts covered</b> | <b>Number of Branches</b> |
|---------------|---------------------------------------|----------------------|--|------------------------------------|---------------------------|
| 1             | Karnataka Vikas Grameena Bank         | Syndicate Bank       | *September 12, 2005                        | 9                                  | 407                       |
| 2.            | Pragathi Grameena Bank                | Canara Bank          | *September 12, 2005                        | 7                                  | 360                       |
| 3.            | Cauvery Kalpatharu Grameena Bank      | State Bank of Mysore | *May 24 , 2006                             | 8                                  | 203                       |
| 4.            | Visveswaraiah Grameena Bank           | Vijaya Bank          | March 27, 1985                             | 1                                  | 27                        |
| 5.            | Krishna Grameena Bank                 | State Bank of India  | December 1, 1978                           | 2                                  | 109                       |
| 6.            | Chikmangalur and Kodagu Grameena Bank | Corporation Bank     | April 28, 1984                             | 2                                  | 47                        |

- *\*Date of amalgamation*
- *Source- State Focus paper, Karnataka, 2009-10, NABARD and Annual report of the Banks.*

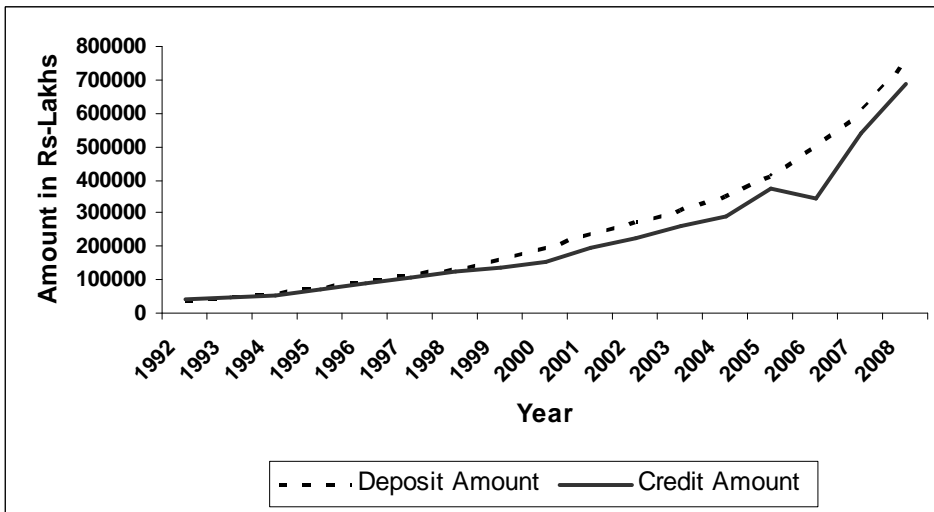
**Table 2: Occupation wise flow of credit as a percentage of total credit of Regional Rural Banks in Karnataka (March 1992 to March 2007)**

| Sr No | Sector/Occupation             | Mean (%) | Coefficient of Variation (%) |
|-------|-------------------------------|----------|------------------------------|
| 1     | Agriculture                   | 59.5     | 4.7                          |
| 2     | Industry                      | 4.4      | 13.0                         |
| 3     | Transport Operations          | 2.6      | 56.5                         |
| 4     | Professional & Other Services | 3.4      | 18.8                         |
| 5     | Personal Loans                | 12.2     | 40.7                         |
| 6     | Trade                         | 9.7      | 15.3                         |
| 7     | Finance                       | 0.1      | 114.6                        |
| 8     | All Others                    | 8.3      | 35.0                         |
| 9     | Rural Artisans Industries     | 1.8      | 25.4                         |
| 10    | Other Small Scale Industries  | 1.1      | 21.8                         |

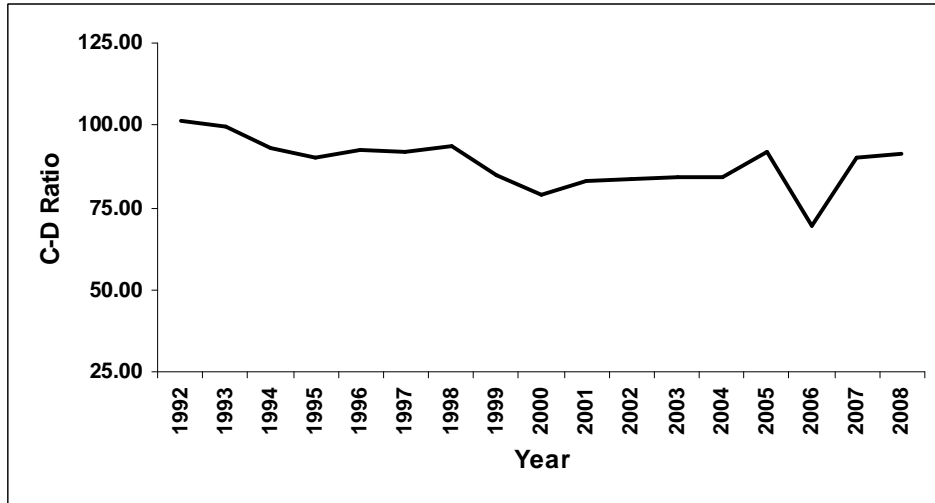




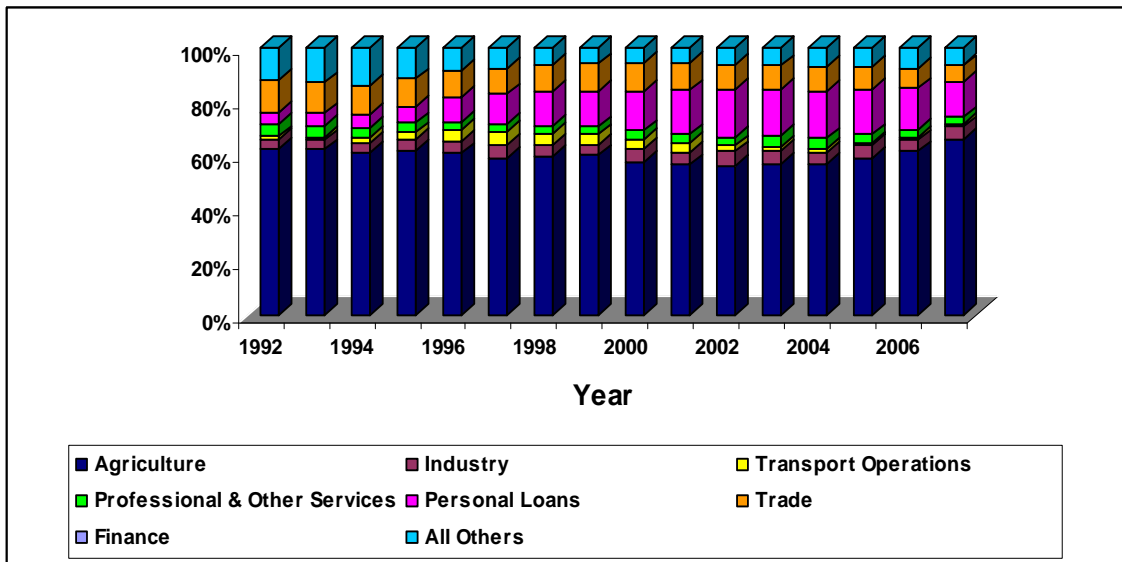
**Figure 1: Trends in deposit and credit accounts of RRBs in Karnataka.**



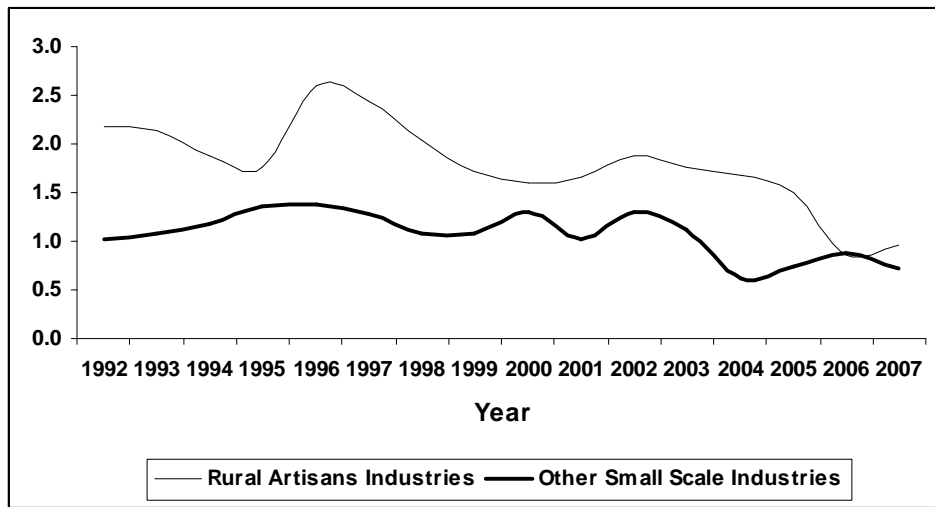
**Figure 2: Trends in deposit and credit amounts of RRBs in Karnataka.**



**Figure 3: Trends in Credit-Deposit ratio of RRBs in Karnataka.**



**Figure 4: Sectoral composition of credit disbursement of RRBs in Karnataka.**



**Figure 5: Trends in credit to Rural Artisans Industries and “Other Small Scale Industries” of RRBs in Karnataka.**

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