PRIORITY SECTOR LENDING IN INDIA: THE ROLE OF REGIONAL RURAL BANKS

Pooja Saxena
Research Scholar, Commerce Department, MATS University, Raipur

Umesh Gupta
Professor and Head, School of Business & Management Studies
MATS University, Raipur

ABSTRACT

Introduction: The primary focus of the Indian economy is on agricultural production. About two-thirds of the population is reliant on this industry, which contributes for 21 percent of the country's gross domestic product.

Aim of the study: the main aim of the study is Priority sector lending in India: the role of regional rural banks

Material and method: The data in this research was analyzed using several statistical methods performed in EXCEL and SPSS, including the Descriptive Statistics, t-test, correlation, and analysis of variance.

Conclusion: The liberation of rural people from poverty, unemployment, and other socio-economic backwardness is the key to the true development of India's economy.

1. INTRODUCTION

1.1 OVERVIEW

The primary focus of the Indian economy is on agricultural production. About two-thirds of the population is reliant on this industry, which contributes for 21 percent of the country's gross domestic product. It is thus correct to say that agriculture is the foundation of our economy, and that the success of the agricultural sector may be held significantly accountable for the success of the economy. A sufficient infusion of capital is required in order to support the robust expansion of the agricultural industry. Both on a local and a macro scale, the field of farm finance has a prominent position in the agro-social and economic growth of the nation. The agricultural industry is given a boost thanks to its catalytic function, and the productivity of already limited resources is increased. The use of innovative technology inputs, which may be acquired via agricultural financing, contributes to an increase in agricultural production. Farm financing may also play a role in reducing the economic disparities that exist across regions. Therefore, the function that farm financing plays in the consolidation and growth of both the input and output markets in the agricultural sector is one that is vital and essential.

1.2 REGIONAL RURAL BANKS AND RURAL BANKING IN INDIA

People living in rural areas of India, such as small and marginal farmers, landless agricultural workers, craftsmen, and members of socially and economically disadvantaged castes and classes, have been exploited by informal sectors under the guise of providing loan facilities. The rural credit market in India is made up of many financial institutions and organizations, both legal and informal, that cater to the requirements of the country's rural populace in terms of credit. The informal sector provides loans at very high rates of interest; the terms and circumstances related to such loans have given birth to a complex network of intimidation of both the economic and noneconomic situations among the rural people of India. The overall amount of formal credit available is insufficient, and the credit markets in rural areas are weak and fragmented. In addition, the allocation of credit in the formal sector has been uneven, especially about geography and class, caste, and gender in rural areas. This is particularly the case in the country side. The Regional Rural Banks in India may trace their origins all the way back to the year 1975. The Narasimham committee is responsible for the conception of the Regional Rural Banks in India that were later established. The committee concluded that India's rural population need the establishment of regionally focused rural banks that can provide solutions to their challenges and meet their needs. In accordance with the requirements of an Ordinance enacted on the 26th of September 1975 and the RRB Act, 1975, Regional Rural Banks were founded with the intention of ensuring that agriculture and other rural sectors had access to adequate amounts of institutional credit. The RRBs are responsible for the collection of financial resources from rural and semi-urban regions and the distribution of loans and advances, mostly to agricultural workers, rural craftsmen, and small and marginal farmers. A rural region is one that has a population of fewer than 10,000 people, according to the definition provided by the Reserve Bank of India, which is used for the purpose of classifying bank branches. RRBs are held jointly by the government of India, the government of the state in which the RRB is located, and sponsor banks. The issued capital of an RRB is split between the three owners in the following proportions: 50%, 15%, and 35%.

1.3 FLOW OF COMMERCIAL BANKS' CREDIT TO AGRICULTURE IN INDIA

Agriculture and its related industries play a significant role in the Indian economy, particularly about the provision of food security to the general populace, the supply of raw materials to agro-based industries, and the creation of job possibilities for rural populations, particularly unskilled laborers. In 2010-11, agriculture and its related activities accounted for 14.5% of the gross domestic product (GDP) at prices from 2004-2005. This is a decrease from the 14.7% share that agriculture had in 2009-10 and the 46.3% share that agriculture held in 1970-1971. Credit is an essential element that must be obtained before the agriculture industry can be brought up to date and made more competitive. Since the country's independence, the Government of India (GOI) has implemented a variety of reforms in order to institutionalize the agricultural loan system. The bank offers the agriculture industry not one but two distinct kinds of credit: short term and long term. In comparison to the 1980s and the 1990s, the average annual growth rate of direct bank credit was much larger in the 1970s. However, throughout the 1990s, growth rates fell across the board for rural financial institutions. Commercial banks saw shrinkage in terms of both short-term and long-term lending. To increase agricultural credit specifically by commercial banks, the Government of India (GOI) has taken various initiatives since the country's independence, such as nationalization of banks (1969 & 1984), mandatory priority lending, Special Agricultural Credit Plans (SACP), Doubling of Agricultural credit (2004), and others etc., so that the credit supply from commercial banks to the agricultural sector has increased from a lower amount of Rs. 405 crores in 1975-1976 to a huge increased of Rs. 5400 crores in 1993-1994 and again extended After all that has happened up to this point, we can say that throughout the second decade of economic reforms, which spans the years 2001-2002 to 2010-2011, there have been a few difficulties that have been reason for worry about the flow of credit from commercial banks to the agricultural sector. In this study paper, an effort has been made to bring out concerns in the flow of credit that is provided by commercial banks to the agricultural sector.

2. LITERATURE REVIEW

Arhin, Solomon (2023) Rural banks have developed into a dynamic and expanding sector of Ghana's overall banking industry as well as the country's overall economy. In the context of what the researcher referred to as a triangle model (AHE), which included Agriculture, Education, and Health, the purpose of this study was to evaluate the operations of rural banks and their contribution to the economic growth of Ghana. 339 workers, including senior members, hailing from 15 different rural banks were included in the sample. A questionnaire was used to obtain the information required for the investigation. According to the results of the study, rural banks have been successful in terms of the triangle model (AHE) both in the communities where they have been founded and throughout the nation since they were first established. According to the findings of the research, officials should exercise close supervision over rural banks in order to provide customers with the most possible advantage.

Arijit, Kumar & Dabral, Vivek & Purohit, Prof. (2023) The purpose of this research is to determine whether there is a connection between the effectiveness of regional rural banks in India and the growth of regional economies. For the purpose of this research, secondary data on the financial characteristics of regional rural banks and regional macroeconomic indicators of states have been used. In order to determine the nature of the link that exists between bank variables and macroeconomic indicators, a correlation study was carried out. In addition, the Fixed Effects In order to determine the influence of qualitative and quantitative features of regional rural banks on regional development, regression analysis was carried out. The Data Envelopment Analysis is a method that is used to determine how efficient banks are. According to the findings of a correlation investigation, regional rural banks contribute more to the development of less developed areas. However, as the economy of the area continues to expand, the level of competition from large commercial banks causes their contribution to the expansion of the regional economy to decline. According to the findings of regression analysis, the expansion of regional economies may be helped along by an increase in the productivity of regional banks. The findings of the present research lend credence to the hypothesis that regional banks are crucial to the growth of economies in less-developed regional areas. This study may serve as a guidance for policymakers to utilize when formulating policies for the development of banking structures in areas that are underdeveloped.

XiXi, Dai & Kok Loang, Ooi (2023) Using Guizhou Province as an example, this paper investigates the sustainable growth of rural regional finance in China based on the demand and supply of financing in rural regions. This inquiry made use of a survey as its primary technique of research and data collection. The use of a questionnaire was the primary method of research that was used for this study. Based on the supply and demand for rural finance, five independent factors were chosen to investigate their influence on the sustainable growth of regional finance in rural China. These variables include the cost of funds, credit demand, government rules, financial facilities, and accessibility to funds. There is a considerable correlation between the cost of money and the demand for credit and the ongoing sustainable growth of regional rural finance. On the other hand, the sustainable growth of regional rural finance is not strongly tied to the laws of the government, the facilities of the banking sector, or the accessibility of money. The findings of this research provide governments, financial practitioners, and ordinary individuals with a better understanding of the aspects that are strongly connected to the sustainable growth of regional rural finance in China, as well as the sustainable development of regional rural finance itself.

Kesarwani, Sandeep & Satish (2023) Agriculture is the foundation upon which the Indian economy is built, and even today, 65 percent of the population makes their living in this sector. The farmers and landowners in rural India faced their greatest obstacle, which was the acquisition of funds necessary for their agricultural endeavors. The purpose of this study is to provide a summary of the historical and theoretical development of agricultural financing provided by various organizations, mostly after the independence of India. This article tries to reflect both the old method of organizing agricultural financing and its progression into the contemporary era. Additionally, this article seeks to represent some of the challenges that face Indian agriculture. The results of the research provide conclusions on agricultural financing as well as the expansion of its institutional structure and development in India. In addition to this, it focuses on the difficulties that arose in the agricultural financing sector following independence. This study is one of a kind since it is the first of its kind to attempt to draw a connection between the changing face of agricultural financing and the expansion and maturation of agricultural economics in India after the country gained its independence.

Shetty, Megha & Bhat, Sudhindra (2023) The country's rural and under-banked areas were served through the establishment of regional rural banks, which were designed to provide banking services to such regions. Sadly, despite having been in business for more than forty years, these banks have been able to have some substantial influence on the economy of rural communities, but there is still room for development in many different areas. An investigation will be carried out to compare the performance of various RRBs in the state of Karnataka so that it can be determined which aspects of RRB operations in Karnataka need improvement. This investigation, using the CAMELS model, evaluates the achievements and developments of regional rural banks in Karnataka based on the research that has been published over the course of the last twenty years. The purpose of this article is to highlight the most important gaps that were found in the earlier research on regional rural banking in Karnataka and to propose specific issues that need to be researched further in order to fill those gaps. In the present investigation, a method known as systematic review of the literature was used to ascertain the research gap as well as the research agenda. Several other academic papers that have been evaluated by peers have investigated and thought about the theoretical foundations of this research. Most of the information included in this article was obtained from secondary sources. The official website of the government is the source of secondary data, while other publications, such as academic journal articles and official publications, were utilized as verified sources. The literature review touches on a wide range of important subjects, including investing psychology, monetary analysis, adequacy ratios, risk-return analyses, and financial adequacy, to name just a few. Next, using the ABCD technique, an examination of the research agenda and the research gap is carried out. The CAMELS model is a framework that is commonly used for assessing how banks and other financial institutions conduct their business. It considers the bank's capital, asset quality, management, profitability, liquidity, and susceptibility to market risk, which are the six most important characteristics of the bank's operations. Because they provide banking services to rural and underbanked areas, Regional Rural Banks (RRBs) play an essential role in India's present banking system. The purpose of this study is to investigate whether RRBs and the microfinance programs they provide are beneficial to people of rural areas.

3. METHODOLOGY

This investigation is diagnostic and exploratory, using secondary sources of information. Secondary information was gathered mostly from the databases of the Reserve Bank of India and the National Bank for Agriculture and Rural Development. Also included are periodicals such as the Banker and the Journal of the Indian Institute of Bankers. This article tries to analyze the country's rural credit system and the RRBs' part in it. Loans and advances issued by RRBs, both to priority and non-priority sectors, are the exclusive focus of this research, which spans seven years, from 2012-13 to 2018-19. The data in this research was analyzed using several statistical methods performed in EXCEL and SPSS, including the Descriptive Statistics, t-test, correlation, and analysis of variance.

4. RESULTS

4.1 Sector-wise Loans issued by RRBs

RRBs play a crucial role in the rural credit industry. There are two broad types of loans made available to those in need. There are two types of economic sectors: priority and non-priority. To redress the sectoral imbalance in credit distribution and to direct credit toward the economically disadvantaged, the Indian government actively employs priority sector bank lending as a policy tool. Banks often provide financial services to the Priority industry before any other industry. It wasn't until the government instituted social control over the banking system in 1968 that the priority sector became a part of the financial lexicon. Financial institutions were urged to provide a portion of their lending portfolios to the priority sector. Agriculture, minor industry, and exports were the three main economic activities in 1968. The number of categories falling under "priority sector" grew over time. Currently, it is made up of farms, factories, transport companies, exporters, importers, entrepreneurs, professionals, teachers, and students. Micro financing via SHGs has joined the list of priority sectors in recent years. Short-term loans, term loans, loans to rural artisans, small-scale companies, retail, and self-help organizations etc. are all examples of the types of loans handed out by RRBs to priority sectors. Table 4.1 displays RRB loan distribution by industry.

Table 4.1 Sector-wise Loans Issued by RRBs (Rs. in Crores)

Years	Priority Sector	% to Total Loans	Non- Priority Sector	% to Total Loans	Total Loans
2012-13	8,847	69.98	3,794	30.02	12,641 (100%)
2013-14	11,722	75.24	3,857	24.76	15,579 (100%)
2014-15	16,568	78.58	4,514	21.42	21,082 (100%)
2015-16	20,658	81.61	4,655	18.39	25,313 (100%)
2016-17	26,502	80.20	6,542	19.80	33,043 (100%)
2017-18	31,708	82.18	6,874	17.82	38,582 (100%)
2018-19	36,141	83.33	7,226	16.67	43,367 (100%)

In Table 4.1, you can see how much money the government has loaned to the country's most and least important industries each year. The table clearly shows that a larger share of the total loans disbursed went to the priority sector than to the non-priority sector. A two-sample 't'-test was run to see whether there was a statistically significant difference between the RRBs' loan disbursement to priority sectors and their loan disbursement to non-priority sectors. Here are the hypotheses that have been formulated:

Ho: There is no difference in performance between the Priority Sector Loans and the Non-Priority Sector Loans;

H1: There is difference in performance between the Priority Sector Loans and the Non-Priority Sector Loans.

Table 4.2 ‘t’-Test Results for the Priority Sector Loans and Non-Priority Sector Loans.

Mean	21735.14	5351.714
Variance	1.04E+08	2182484
Observations	7	7
Pooled Variance	53085941	
Hypothesized Mean Difference	0	
df	12	
t Stat	4.206773	

P(T<=t) one-tail	0.000609	
t Critical one-tail	1.782288	
P(T<=t) two-tail	0.001217	
t Critical two-tail	2.178813	

Tables 4.2 shows that there is substantial evidence against HO, showing that (t>2.187013). Thus, the RRBs' efficiency in distributing loans varies between the priority and non-priority sectors.

4.2 Loans for Crops (Interim Loans) and Long-Term Loans for Agriculture and Related Activities

India's economy relies heavily on agriculture. The agricultural sector and its related industries provide livelihoods for more than 70% of the people. RRBs are taking care of this industry by lending money over longer and shorter time periods. Loans made available for crops and agricultural endeavors are shown annually in Table 4.3.

Table 4.3 Disbursement of Short-Term and Term-Loans (Rs. in Crores)

Years	Amount of Short-Term Loans	% of Increase over Previous Year	Amount of Term Loans	% of Increase over Previous Year
2012-13	4,834	----	1,045	----
2013-14	6,133	26.87	1,042	26.87
2014-15	9,883	61.14	2,043	61.14
2015-16	12,575	27.23	2,144	27.23
2016-17	17,031	35.43	3,198	35.43
2017-18	20,377	19.64	3,461	19.64
2018-19	22,851	12.14	3,648	12.14

Table 4.3 displays an annual growth rate for crop-related short-term loans. There was a dramatic increase from 2012–13, when short-term loans totalled Rs. 4, 834 crores, to 2018–19, when they totalled Rs. 22,851 crores. A greater proportion, 35.43, was recorded in 2016–17 than in any previous year. The RRBs' record of providing term loans to the agricultural sector and related businesses is not very promising. It went grown from Rs. 1,045.9 billion in 2012–13 to Rs. 3,648.9 billion in 2018–19. The 3.49-fold rise occurred within the time frame. The CORRELATION method was used to examine whether or not the distribution of short-term loans is linearly related to the distribution of long-term loans. Table 4.4 displays the obtained data.

	Column 1	Column 2
Column 1	1	
Column 2	0.98576	1

There is a very significant positive association between the RRBs' distribution of short-term loans and their disbursement of term-loans. With a value of 0.98576, the linear correlation coefficient is quite close to 1. This indicates that the need for a short-term loan drives up interest on longer-term loans.

4.3 Disbursement of Loans to Priority Sectors by RRBs (Rs.in Crores)

The Indian government's plan for rural lending included the distribution of both long-term and short-term loans. Loans disbursed by RRBs in India have increased dramatically throughout their three decades of existence. Outside of the priority sector's short-term and term-loans, the table 4.5 details loans made to other organizations.

Table 4.5 Loans Extended by RRBs to Priority Sectors (in Indian Rupees, in Crores)

Years	Rural Artisans	SSI	Retail Trade	SHG	Other Priority Sector
2012-13	238	138	1,421	350	819
2013-14	276	167	1,653	510	1,941
2014-15	316	210	1,967	858	1,290
2015-16	304	342	1,841	1,171	2,282
2016-17	320	342	1,984	1,406	2,222
2017-18	326	638	2,024	2,107	2,775
2018-19	552	670	2,370	2,388	3,662

The following table shows that the total amount of loans made by RRBs to all categories of borrowers has increased over time. From Rs.238 crores in 2012-13 to Rs.552 crores in 2018-19, the amount loaned to rural craftsmen has more than doubled. The growth rate was 2.3 times as fast throughout the time frame. The RRBs have increased the size of the loans given to each category. Rural Artisans, SSI, Retail Trade, Self-Help Groups, and other Priority Sector all make up RRBs' priority sector loans, and their respective performances are evaluated. "ANOVA" is used to determine whether there is a significant difference in performance across groups. Here are the hypotheses that have been formulated:

HO: All the groups in the priority sector loans are equal

H1: All the groups in the priority sector loans are not equal

The test results are given in Table-6.

Table 4.6. The ANOVA results of various groups in the Priority Sector Loans.

Summary

Groups	Count	Sum	Average	Variance
Loans to RA	7	2332	333.1429	10263.81
Loans to SSI	7	2507	358.1429	47173.48
Loans to RT	7	13260	1894.286	90253.9

Loans to SHG	7	8790	1255.714	595184.2
Loans to OPS	7	14991	2141.571	875620.3

ANOVA

Source of Variation	SS	Df	MS	F	P-Value	F-Crit
Between Groups	19822596	4	4955649	15.30943	6.28E-07	2.689628
Within Groups	9710974	30	323699.1			
Total	29533571	34				

In comparison to Retail Trade (1994.286) and Self-Help Groups (1255.714), Other Priority Sector loans are much higher at 2141.571. The statistical analysis yielded a value of F= 15.30943. The crucial F=2.689628 at the.05 level. Since this value of F is larger than the crucial value, we cannot accept the null hypothesis that there is no difference between the groups receiving loans from the priority sector.

5. CONCLUSION

The liberation of rural people from poverty, unemployment, and other socio-economic backwardness is the key to the true development of India's economy. With this goal in mind, the government of India set up Regional Rural Banks to stimulate rural growth. After 30 years, the RRBs are seen as a beacon of hope for revitalizing India's rural areas. This research provides a comprehensive analysis of RRBs' function within the framework of rural lending. Two categories, priority and non-priority, make up rural credit. Loans to both industries have been disbursed with great success. The share of loans to the priority sector was consistently higher across the board. Short-term and long-term loans have been provided by RRBs to the agricultural sector in order to foster growth in this area of the economy. Short-term loan disbursements for agriculture throughout the study period are promising, and they represented a greater rate than term-loan disbursements. There is a rising pattern of RRBs lending money to several priority sectors. Increased expansion was seen in 2017–18 and 2018–19. Agriculture receives a disproportionately large amount of loans compared to other sectors. However, banks and their management need to look at whether or not they are lending enough to the non-priority industry. It is important to narrow the gap between crop loans and term-loans for agriculture and related businesses. Banks should increase the quantity of term loans they provide to the agriculture sector. The rural economy benefits from the non-agricultural sector in numerous ways that are not immediately apparent. With this in mind, RRBs may increase the share of loans made to this industry. Given the central role RRBs play in India's rural credit structure, this discovery might be very instructive for rural banking institutions and policymakers as they work to construct and shape the best possible credit architecture for the country's rural areas.

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