

## Status of Rural Financial Institutions in India

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### **Abstract:**

Agriculture and rural development has been the key mantra for a sustained and long term economic growth in India. Credit is a basic infrastructure for any development programme. Institutional finance for agriculture and rural development has been on the priority agenda of policy makers since Independence. Co-operative banks and Regional Rural Banks play a very crucial role in financial intermediation in agriculture and rural development but are vulnerable to disruption created by economic shocks. National Bank for Agriculture and Rural Development endeavours to strengthen the capacity of these institutions through various developmental and supervisory initiatives to enable them withstands such shocks effectively.

**Keywords:** Agriculture, Rural Development, NABARD, Cooperative Bank, Regional Rural Bank.

## **Introduction**

Agriculture plays a vital role in India's economy. 54.6 percent of the population is engaged in agriculture and allied activities (census 2011) and it contributes 17.4 percent to the countries Gross Value Added (current price 2014-15, 2011-12 series). Given the importance of agriculture sector, Government of India took several steps for its sustainable development. Steps have been taken to improve soil fertility on a sustainable basis through the soil health card scheme, to provide improved access to irrigation and enhanced water efficiency through 'Pradhanmantri Gram Sinchai Yojana', to support organic farming through 'Paramparagat Krishi Vikas Yojana' (PKVY) and to support for creation of a unified national agriculture market to boost the incomes of farmers.

This is particularly true for rural development which as its goal, the improvement of the standard of living of ruralises as well as the increase in higher agricultural productivity. Rural development programme should undertake measures to free the villagers from the burden of debt, which deprive them of all avenues of saving and keeps them in perpetual bondage of their creditors. This can be done if banks and co-operatives take a more active participation in the development of the country side.

As per the land use statistics 2012-13, the total geographical area of the country is 328.7 million hectares, of which 139.9 million hectares is the reported net sown area and 194.4 million hectares is the gross cropped area with a cropping intensity of 138.9 percent. The net irrigated area is 66.1 million hectares.

The co-operative bank has a history of almost 100 years. Their important constituent of the Indian Financial System, judging by the role assigned, the expectations they are supposed to fulfil, their number of offices they operate. This role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary cooperative banks. The Co-operative Banks in India are registered under the Co-operative Act. The Reserve Bank of India also regulates the Cooperative bank. They are governed by the Banking Regulation Act 1949 and Banking Laws (Cooperative Societies) Act, 1965.

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks on the ground that they would be much better suited than the commercial banks or cooperative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the government passed the Regional Rural Banks Act, 1976. The objective of Regional Rural Banks is to provide credit and other facilities particularly to the small and marginal farmers. The progress of Regional Rural Banks now 196 in 23 states of the country with 14,200 branches.

## **Objectives**

The main purpose of this paper is to analyse the status of rural financial institutions. The specific objectives are;

- 1) To analyse the organisational, functional and operational method of rural financial institutions
- 2) To examine the financial performance of rural credit institutions in India

## **Methodology**

The proposed research paper status of rural financial institutions in India is on the basis of secondary data. Data is collected from the books, journals, governmental records etc. Where the study will be covering the major indications related to rural finance institutions in relation to lending functions, operational trends and performance of organisational methods in respect to Indian rural credit lending institutions. Where, the data has been collected through annual reports of agricultural credit organisation, to analyse their contribution to the agricultural growth viz., availability of credit distribution in agriculture sector.

## **The organisational, functional and operational method of rural financial institutions**

The main function of rural financial institutions is to provide short, medium and long term credit to members and their operational policies and techniques include mainly the lending policies and procedures, recoveries and over dues and supervision and utilisation of credit.

As on 31 March 2016, the Short Term Cooperative Credit Structure (STCCS) comprised 92,789 Primary Agriculture Credit Society, 370 District Central Cooperative Banks and 33 State Cooperative Banks. Primary Agricultural Credit Society, the credit institutions at the grassroots level, deal directly with individual borrowers and grant short, medium and long term loans. As on 31 March 2015, there were 92789 Primary Agriculture Credit Society with a total membership of 12.11 crore, of which, borrowing members were 4.98 crore (41 per cent). As compared to the previous year, while the total membership decreased by 6.9 per cent, the borrowing membership of Primary Agriculture Credit Society increased by 3.5 per cent. The deposits mobilised and total loans issued by Primary Agriculture Credit Society as on 31 March 2015 stood at Rs. 84616 crore and Rs. 159050 crore, respectively. During 2014-15, as per available data in respect of 81093 Primary Agriculture Credit Society, 43653 Primary Agriculture Credit Society earned profit of Rs. 2829 crore, the remaining 37,440 Primary Agriculture Credit Society incurred loss of Rs. 4378 crore.

**Table – 1: Performance of Primary Agriculture Credit Society (including FSS and LAMPS) as on 31 March**

(Amount in ₹ crore)

Particulars	2014	2015	Growth (%)
Number	93042	92789	0
Membership (number in lakh)	1301	1211	-6.92
Borrowing Members (number in lakh)	481	498	3.53
Owned Funds	18923	21675	14.54
Deposits	81895	84616	3.32
Borrowings	95835	99980	4.33
Loans Issued	171419	159050	-7.22
Loans Outstanding	130053	147225	13.20

Source: NAFSCOB- PACS data for 2014 and 2015

The aggregate share capital of State Cooperative Banks stood at Rs. 5646 crore as on 31 March 2016 as against Rs. 5376 crore as on 31 March 2015, registering an increase of 5.00 percent. The share capital of District Central Cooperative Banks was Rs. 16008 crore as on 31 March 2016 as against Rs. 13,514 crore as on 31 March 2015, reflecting an increase of 18.5 percent. The deposits of State Cooperative Banks at Rs. 109257 crore as on 31 March 2016 reflected a growth of 6.00 percent, while the deposits of District Central Cooperative Banks (figures available in respect of 363 out of 370 DCCBs) at Rs. 291599 crore reflected a growth of 11.00 percent over 31 March 2015 position.

The borrowing of State Cooperative Banks as on 31 March 2016 was Rs. 68774 crore, indicating an increase of 0.07 percent over 31 March 2015. The borrowings of District Central Cooperative Banks at Rs. 81891 crore as on 31 March 2016 indicated an increase of around 1.00 percent over the previous year. Loans outstanding of State Cooperative Banks was Rs. 122854 crore and that of District Central Cooperative Banks was Rs. 236852 crore as on 31 March 2016, indicating an increase of 7.25 percent and 6.22 percent, respectively over the previous year.

**Table – 2: Growth of Short-Term Cooperative Credit Structure** (as on 31 March)

Particulars	(Amount in ₹ crore)					
	StCBs			DCCBs		
	2015	2016	Growth (%)	2015	2016	(%)
Total number of banks	32	33	3.12	370	370	0
Share capital	5376.19	5646.57	5.02	13514.20	16007.88	18.45
Reserves	6959.42	7333.58	5.37	13513.71	14356.05	6.23
Deposits	102808.85	109257.39	6.27	262114.20	291599.39	11.25
Borrowings	68725.43	68774.83	0.07	81154.82	81891.21	0.91
Loans Outstanding	114545.55	122854.23	7.25	222977.15	236852.20	6.22

Note: \* Data available in respect of 363 DCCBs

As on 31 March 2016, the Long Term Cooperative Credit Structure (LTCCS), comprised 18 State Cooperative Agriculture and Rural Development Banks, of which 13 are fully functional with a network of 616 branches of State Cooperative Agriculture and Rural Development Banks at ground level. There are 627 Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) having 784 branches. The share capital of State Cooperative Agriculture and Rural Development Banks stood at Rs. 908.40 crore and that of Primary Cooperative Agriculture and Rural Development Banks stood at Rs. 1093.27 crore as on 31 March 2016. The borrowings by State Cooperative Agriculture and Rural Development Banks at Rs. 14594 crore as on 31 March 2016 showed a decrease of 9.27 percent whereas the borrowings by Primary Cooperative Agriculture and Rural Development Banks at Rs. 14265 crore showed a decrease of 12.84 percent, respectively during 2015-2016.

**Table - 3: Growth of Long- Term Cooperative Credit Structure (As on 31 March)**  
(Amount in ₹ crore)

Particulars	SCARDBs			PCARDBs		
	2015	2016	Growth (%)	2015	2016*	Growth (%)
Total number of banks	18	13	-	589	601	-
Share Capital	976.12	908.40	-6.93	1329.53	1093.27	-17.77
Reserves	6434.59	4325.75	-32.77	4024.03	2611.38	-35.10
Deposits	1953.03	2349.92	20.32	1015.70	1353.06	33.21
Borrowings	16085.42	14593.81	-9.27	16367.21	14265.15	-12.84
Loan Outstanding	21218.32	20409.05	-3.81	14812.01	12682.35	-14.37

Note: \* Data Provisional

Post amalgamation, the number of Regional Rural banks in the country as on 31 March 2016 stood at 56, with a network of 20920 branches covering 644 notified districts in 27 states and the Union Territory of Pondicherry. At the aggregate level, deposits, advances and investments as on 31 March 2016 registered a growth of 14.83 percent, 14.14 percent and 4.18 percent, respectively, while borrowings declined by 19.41 percent.

**Table - 4: Indicators of Performance of Regional Rural Banks (as on 31 March)**

(Amount in ₹ crore)

Particulars	2015	2016	Growth (%)
No. of RRBs	56	56	0.00
Branch Network (No.)	20024	20920	4.47
Share Capital	197	6387*	3142.13
Share Capital Deposit	6175	-	-100.00
Tier II bonds	-	97	0.00
Reserves	18712	20665	10.44
Deposits	273018	313499	14.83
Borrowings	59422	47888	-19.41
Investments	162781	169592	4.18
Gross Loans and Advanced Outstanding	180955	206538	14.14

Note: \* post RRB Act Amendment, 2015 Share Capital Deposit has been converted into Share Capital by the RRBs

### The Financial Performance of Rural Credit Institutions

During 2015-16, 28 out of 33 State Cooperative Banks earned profit aggregating Rs. 714.32 crore while the remaining 5 State Cooperative Banks incurred loss aggregating Rs. 113.83 crore. Thus, the State Cooperative Banks as a whole posted profit of Rs. 600.49 crore. As regards District Central Cooperative Banks, while 310 out of 359 District Central Cooperative Banks for which data are available, earned profit of Rs. 1627.24 crore, 49 District Central Cooperative Banks incurred loss to the extent of Rs. 553.68 crore resulting in overall profit of Rs. 1073.56 crore, for the year 2015-16.

Under the Long Term Cooperative Credit Structure, 8 State Cooperative Agriculture and Rural Development Banks earned an aggregate profit of Rs. 97.57 crore whereas 5 State Cooperative Agriculture and Rural Development Banks incurred an aggregate loss of Rs. 36.12 crore during 2015-16, resulting in the State Cooperative Agriculture and Rural Development Banks registering a net profit of Rs. 61.45 crore at the aggregate level. At present, only 13 State Cooperative Agriculture and Rural Development Banks are fully functional. Hence, compared to previous year, data for five State Cooperative Agriculture and Rural Development Banks is no longer included. Primary Cooperative Agriculture and Rural Development Banks, on the other hand, reported a net loss position of Rs. 226.18 crore at aggregate level.

**Table – 5: Working Results of Cooperative Banks (as on 31 March)**

(Amount in ₹ crore)

Agency	Year	Total (No.)	In Profit (No.)	Profit Amount	In Loss (No.)	Loss Amount	Net Profit Amount
StCBs	2014-15	32	28	1106.9	4	24.94	1082
	2015-16	33	28	714.32	5	113.83	600.49
DCCBs	2014-15	370	308	1748.6	62	1103.7	644.83
	2015-16 #	370	310	1627.2	49	553.68	1073.6
SCARDBs	2015	18	8	108.46	10	497.91	-389.5
	2016 ^#	13^	8	97.57	5	36.12	61.45
PCARDBs	2015	714	319	175.76	381	557.89	-382.1
	2016	NA	NA	118.53	NA	344.7	-226.2

Note: # the profitability figures of 359 DCCBs out of 370 DCCBs have been reported for the year 2015-2016

^ At present, only 13 SCARDBs are fully functional

NA: Not Available

The accumulated losses of the State Cooperative Banks increased from Rs. 663 crore as on 31 March 2015 to Rs. 697 crore as on 31 March 2016. The accumulated losses of District Central Cooperative Banks increased from Rs. 4652 crore to Rs. 4751 crore during the period. The figures pertaining to State Cooperative Agriculture and Rural Development Banks show a huge decline in accumulated losses from Rs. 2546 crore as on 31 March 2015 to Rs. 212 crore as on 31 March 2016. This is because the State Cooperative Agriculture and Rural Development Banks that contributed the most to accumulated losses (Maharashtra and Madhya Pradesh) are under liquidation and hence are no longer functioning. The accumulated losses of Primary Cooperative Agriculture and Rural

Development Banks declined from Rs. 5245 crore as on 31 March 2015 to Rs. 2987 crore as on 31 March 2016 due to the same reason as well.

**Table – 6: Accumulated Losses (as on 31 March)**

(Amount in ₹ crore)

Year	StCBs	DCCBs	SCARDBs	PCARDBs
2015	663.25	4651.58	2545.74	5245.47
2016	697.30	4750.52	211.92 <sup>^</sup>	2987.36

Note: <sup>^</sup> Huge reduction visible in accumulated losses as Maharashtra and Madhya Pradesh. SCARDBs are under liquidation.

**Non – Performing Assets and Recovery Performance**

At the aggregate level, the percentage of Non-Performing Assets to loans outstanding in respect of State Cooperative Banks reduced to 4.5 percent as on 31 March 2016, as against 5.00 percent as on 31 March 2015. Region- wise analysis showed that the Non-Performing Assets levels in percentage terms of the State Cooperative Banks in the eastern, north eastern and western regions were higher than the all- India level. As on 30 June 2016, the recovery of State Cooperative Banks stood at 91.7 percent.

At the aggregate level, the percentage of Non-Performing Assets to loan outstanding in respect of District Central Cooperative Banks decreased from 9.9 percent as on 31 March 2015 to 9.4 percent as on 31 March 2016. As in the case of State Cooperative Banks, the Non-Performing Assets levels in percentage terms of the District Central Cooperative Banks in the eastern, north- eastern and western regions were higher than the all- India level.

At the aggregate level, the percentage of Non-Performing Assets to loan outstanding in respect of State Cooperative Agriculture and Rural Development Banks as on 31 March 2016 was 22.26 percent, which was lower than that of the previous year. While in percentage terms the State Cooperative Agriculture and Rural Development Banks in the southern region reported Non Performing Asset levels lower than that of the all- India average, those in the north eastern and eastern regions showed higher Non Performance Assets. As on 30 June 2015, the recovery of State Cooperative Agriculture and Rural Development Banks stood at 51.05 percent.

At the aggregate level, the percentage of Non-Performing Assets to loan outstanding in respect of Primary Cooperative Agriculture and Rural Development Banks as on 31 March 2016 was 37.03 percent, which was higher than that of the previous year (36.20 percent). However, the total Nonperforming Asset level declined from Rs. 5361 crores. This is because of non-functioning of Primary Cooperative Agriculture and Rural Development Banks in the central and western regions. As on 30 June 2015, the recovery of Primary Cooperative Agriculture and Rural Development Banks stood at 55.47 percent. The consolidated Non Performing Asset position of cooperatives as on 31 March 2016 is indicated in below table:

**Table – 7: Compositions of Gross NPAs of Cooperative Banks** (as on 31 March 2016)

Assets Classification	(Amount in ₹ crore)			
	StCBs	DCCBs #	SCARDBs*	PCARDBs*
Sub-Standard	1887.16	9387.63	2559.00	2563.61
	(33.9 %) ^	(42 %)	(50.54 %)	(52.77 %)
Doubtful	2489.22	10673.04	4061.00	2657.59
	(44.7 %)	(47.7 %)	(48.22 %)	(46.61 %)
Loss Assets	1187.72	2313.11	60.00	34.13
	(21.3 %)	(10.3 %)	(1.22 %)	(0.16 %)
Total NPAs	5564.10	22373.78	6680	5255.33

Note: \* Provisional

^ Figures in brackets indicate the % of NPAs under the category as a % of total NPAs

\*Data available in respect of 363 DCCBs out of 370 DCCBs.

**Table – 8: Indicators of Performance of Regional Rural Banks** (as on 31 March)

(Amount in ₹ crore)

Particulars	2015	2016	Growth (%)
RRBs earning profit (NO.)	51	50	-1.96
Amount of profit (A)	2921	2206	-24.48
RRBs incurring losses (No.)	5	6	20.00
Amount of losses (B)	176	188	6.82
Net profit of RRBs (A-B)	2745	2018	-26.48
Accumulated losses	1072	1050	-2.05
RRB with accumulated losses (No.)	8	8	0.00
Recovery (%) (As on 30 June)	79.5	82.55	3.84
NPA to loans outstanding (%)	6.15	6.8	10.57
Net worth	24011	26099	8.70

Note: \* post RRB Act Amendment, 2015 Share Capital Deposit has been converted into Share Capital by the RRBs

Fifty Regional Rural Banks were in profit and 6 were in loss during 2015-16. The aggregate profit earned which stood at Rs. 2921 crore during 2014-15, declined to Rs. 2206 crore during 2015-16. The aggregate losses reported increased from Rs. 176 crore during 2014-15 to Rs. 188 crore during 2015-16. The overall net profit of Regional Rural Banks declined from Rs. 2745 crore as on 31 March 2015 to Rs. 2018 crore as on 31 March 2016. The proportion of Regional Rural Banks that are sustainably viable that is those earning profits and carrying no accumulated losses had decreased from 84 percent (47 out of 56) as on 31 March 2015, to 82 percent (45 out of 56) as on 31 March 2016.

**Table – 9: Frequency Distribution of states according to Levels of Recovery of RRBs (as on 30 June 2015)**

<b>Recovery (%)</b>	<b>States</b>
All India average	82.55
<60	Nagaland
>60 and < 82.55	Andhra Pradesh (3), Arunachal Pradesh (1), Assam (2), Bihar (1), Chhattisgarh (1), Gujarat (1), Himachal Pradesh (1), Jammu and Kashmir (2), Jharkhand (2), Karnataka (2), Maharashtra (2), Madhya Pradesh (2), Manipur (1), Meghalaya (1), Mizoram (1), Odisha (2), Tripura (1), Uttarakhand (1), Uttar Pradesh (4), West Bengal (3)
82.55 to 90	Andhra Pradesh (1), Gujarat (2), Haryana (1), Karnataka (1), Madhya Pradesh (1), Rajasthan (2), Telangana (1), Uttar Pradesh (3)
>90	Bihar (2), Kerala (1), Puducherry (1), Punjab (3), Tamil Nadu (2)

The recovery performance of Regional Rural Banks increased from 79.50 percent as on 30 June 2014 to 82.55 percent as on 30 June 2015. Also, 21 out of 56 Regional Rural Banks had recovery level above the all- India average, with nine Regional Rural Banks having recovery level above 90 percent. Further, 35 Regional Rural Banks had recovery levels less than the all- India average, with one Regional Rural Banks having recovery of less than 60 percent. The gross Non Performing Asset of all Regional Rural Banks increased from 6.15 percent, as on 31 March 2015 to 6.80 percent as on 31 March 2016. While 32 Regional Rural Banks reported Gross Non Performing Assets less than 5.00 percent as on 31 March 2015, 26 Regional Rural Banks had reported Gross Non Performing Assets less than 5.00 percent as on 31 March 2016.

## **Conclusion**

In this paper we have drawn attention to the future of Indian rural finance, while staying clear of the issues that have been discussed mainly provision of credit to farmer pertaining to a policy that supports rural financial services and rural financial markets and system development. It adequate the credit provision, an encouragement of competition between loan services providers to lower the costs and risks of lending.

NABARD has played a key role as an apex level development finance institution committed to rural prosperity. Its performance has been satisfactory in all areas of its operations. It has introduced new schemes and strategies for better achievements in future. While analysing the organisational and operational functions the performance of agriculture credit the membership has fallen low subsequently outstanding loan increased while even there is no change in number of banking operation. Where comparatively short term credit outstanding increased high where as long term credit decreased subsequently.

Indication of performance of Regional Rural Banks has playing a vital role not only in credit aspects even in their branch networking capital investment, borrowing recovery aspect equally to cooperative credit.

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