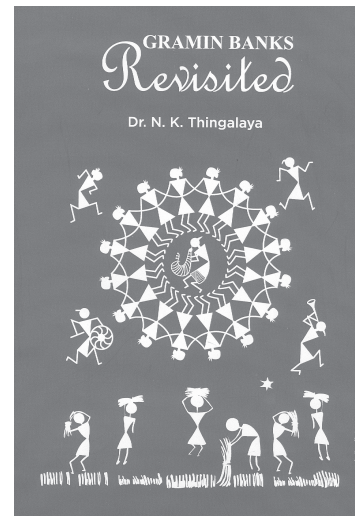


Gramin Banks - A Slowly Evolving Rural Financial Institution

Dr. Nilakantha Rath*

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Gramin Banks were started back in 1975, some 16 years after a large number of commercial banks were nationalised. The nationalised banks were required, amongst other things, to start lending to agriculture, small rural industries and rural households. The experience with that in one and half decades was not very encouraging and therefore this local level banking institution was thought of, as a local commercial bank with local staff with general knowledge of local agriculture as well as local level household conditions, to operate as the local arm of the sponsoring commercial banks. These rural banks had, by design, very small geographical areas of operation - one or two adjacent districts. By 1995 there were 196 Gramin Banks. These banks were required to advance loans to only the small and marginal farmers, landless agricultural labourers, and rural artisans, since the co-operative credit societies and the commercial banks' rural branches were providing credit to large and medium farmers. The interest rates had to be, by state directive, specially low. The interest rate on deposits was also low all along, about 3.5 per cent. It is not surprising that the bulk of these banks were, almost from the beginning, incurring loss. The banks were required to open branches in as many places as possible and were not permitted to close down loss making branches. Not only were their deposits of all types, taken together, low but also their credit-deposit ratio was abysmal. In some cases even the administrative cost of the banks could not be met from their earnings. In 1990-91, 152 of the 196 banks were incurring losses and their accumulated losses were more than 396 crore rupees. Since these were designed to function, not as profit making bodies but as low cost institutions to serve a special class of the



disadvantaged rural population, their financial difficulties were taken care of by the sponsoring central and state governments and the public sector banks.

These banks have been a subject of study by Dr N.K. Thingalaya, a trained agricultural economist and a very senior banker, with an abiding interest in rural financial institutions. Right in 1975, as the senior economist of the Syndicate Bank, he took personal interest in the starting of such banks by that bank in a few districts. By 1995, when he was the Chairman and Managing Director of the Syndicate Bank, the Reserve Bank of India appointed him as the Chairman of the Working Group on Regional Rural Banks to examine the major policy issues concerning the managerial and financial restructuring of the RRBs taken up during 1994-95 and continued during 1995-96, and to monitor the progress of the said exercise. Dr. Thingalaya recommended, amongst other things, the territorial expansion of the operational areas of the Gramin banks, on a selective basis. His interest continued: he prepared a study on these banks on the basis of the data contained in the annual reports of many of these banks he could collect. There was a basic change in the policy related to these banks in 2005, leading to the consolidation of a number

* Hon Fellow, Indian School of Political Economy, Pune.

of these banks in each state, often under the sponsorship of a single public sector bank. The present book is the result of the collection of data from the annual reports of the 58 consolidated Gramin Banks for the year 2012-13.

The strength of this book lies in the observations, based on the vast experience of Dr. Thingalaya, of the Gramin banks, both under the sponsorship of the Syndicate Bank and the others that he has visited and discussed at sometime or the other with concerned officers. But, for a systematic analysis of the various aspects of the operation of these banks one needs data for each bank, at least for a single year, say 2012-13. Dr Thingalaya does not have these for many banks from their annual reports, and the NABARD has also not been helpful in providing such data in its special report on such banks. In fact, the only set of information that he could collect from the annual reports of these 58 banks relates to their total business (advances plus deposits), their total net profits and the total number of branches and the number of districts covered by each. This gives an idea about the spread as well as the overall financial position of each bank. But, on many other matters of relevance for one's understanding of the role and functioning of these banks in rural India the source of data available to him is only illustratively scattered. For example, it is not possible in case of each bank or even each state to say how many branches are in rural areas and how many in urban, how much of the deposits are in rural branches, how much in urban, how much of the deposits are saving deposits and how much term deposits, how much of the advances during the year were to agriculture, how much to village industries, how much to medium and large industries and how much for household expenses. Even the number of depositors, separately or together, in rural and urban branches is not available for most banks. There is very little information on investment in the securities of commercial banks (investment), which do not feature as credit. And, there is no information on interests charged to different types of borrowers. Dr Thingalaya tries to discuss the relation of the rural self-help groups with the Gramin Banks; but it, per force, has to be for a few banks relating to which he has some information. This makes for an uneven

discussion of the issues he raises and could have raised. I have put the available data from the book in a tabular form in an appendix for the convenience of the readers. The gaps are due to non availability of information in the book.

The basic point on which he has information and which comes out strongly in his presentation is the effectiveness of the change in policy of the central government in 2005, when it was decided to merge the Gramin banks in a state under the sponsorship of a single public sector bank, and occasionally under more "psu" banks. Indeed, by end of 2013 there were 57 instead of 58 such banks, as both the consolidated Gramin Banks, associated with two different public sector banks, in Haryana, were further consolidated in to a single bank for the state as a whole.

By 2012-13 almost all the 58 Gramin Banks (except one) were free from current losses and only 11 of them had accumulated losses, though two of them had rather light ones. It was striking that all the Gramin Banks in the states of Bihar and Uttar Pradesh had no losses of any sort. The reasons were many. Amalgamation surely led to some economy in the administrative cost, though that was not the main reason. A number of changes in the policy regime accompanying amalgamation led to both considerable expansion as well as rationalisation of branches, drawing in depositors from unbanked areas. The very considerable relaxation of the scope of lending, earlier confined to only the poorest section of the rural households, accompanied later by freedom to fix interest rates on advances, led to better credit-deposit ratios and better earnings.

Outstanding deposits of all types per account have, over 15 years, by 2013, become almost three times and advances nearly six times - from Rs.5,890 to Rs.15,688 and Rs. 10.160 to Rs. 62,836, respectively. Unfortunately, Dr Thingalaya did not have data at bank level for these purposes, which could have shown differences amongst states and banks. Rural bank branches increased in number. Savings deposits of depositors also increased; by 2013, 54 per cent of total deposits were saving deposits. But, we have only cases reported. Relatively small loans dominated the

picture related to advances. Nearly 95 per cent of the borrowing accounts were of less than 2 lakh rupees; and a little less than half of these were small borrowers, up to 25 thousand rupees only. About 70 per cent of the advances were to priority sector borrowers. But, all this does not appear to have made an impact on the borrowings of the rural households from moneylenders: Dr Thingalaya quotes NSS figures to show that the share of money lenders in total rural borrowings has increased during the first decade of the current century.

A calculation, based on the data in an appendix relating to the total number of branches of such banks in a district, the total amount of deposits in and advances by such branches in all the districts in all states, reveals an interesting picture. The calculations show that in seven of the 19 large states (leaving aside the smaller ones, where the performance was understandably smaller) - i.e., Andhra Pradesh, Assam, Chhattishgarh, Himachal Pradesh, Madhya Pradesh, Odisha and TamilNadu the average outstanding deposits (of all types) per branch was between 11 and 12 crore rupees. It was less in Bihar and Rajasthan (10 crore or a little more), Jammu and Kashmir, Jharkhand, Maharashtra and Uttarakhand (9 crore or a little more). The comparatively larger deposits per branch were in Karnataka and Uttar Pradesh (12 crore or a little more), Kerala, Punjab and West Bengal (13 cr. or a little more) and Gujarat (16+ crore). It is interesting to note that in many of the states that were agriculturally comparatively less developed and where the co-operative credit movement was less advanced, the deposit performance was fair. In districts where the agricultural development was not poor and the traditional co-operative credit structure was relatively strong, particularly through the association of co-operative processing and marketing societies, the deposits as well as the advances are likely to be less. For example, in Anand and Kheda districts (less than 4 crore deposits) and Amreli, Porbandar and Surat districts (between 4 to 6 cr.s) of Gujarat the deposits were small. So was the case in Fatehabad, Kaithal, Karnal and Sonipat of Haryana, Bilaspur, Hamirpur, Lahul & Spiti, Sirmaur and Solan districts of Himachal

Pradesh, Anantnag, Badgam, Bandipora, Baramulla, Ganderbal, Kulgam and Pulwama districts of Jammu & Kashmir, Dhanbad, Khunti, Lohardagga, Paschim Singhbhum and Sindega districts of Jharkhand, Ahmednagar, Amaravati, Chandrapur, Dhule, Kolhapur, Nagpur, Nandurbar, Nasik, Pune, Raigarh, Sangli, Satara and Wardha districts of Maharashtra, Ludhiana and Moga districts of Punjab, Erode, Kancheepuram, Kanyakumari, Karur, Nagapattinam, Nilgiri, Perambalur, Thiruvarur and Vellore districts of TamilNadu, only Baghpat and Mathura districts of Uttar Pradesh, and Haridwar and Uttar Kashi districts of Uttarakhand.

The picture of differences in the level of advances was even wider. In the three southern states of TamilNadu, Kerala (more than 15 cr. each) and Andhra Pradesh (more than 13 cr.) not only the average advances per branch was high but it was much more than the deposits per branch (the credit/deposit ratio was much more than 100 per cent). The resources were available from the capital and the borrowings from the sponsoring banks. But, in most other states it varied from 3 to 6 crores per branch. In many districts of many states the branches had not been able to extend credit to the population in sufficient numbers and amounts. This not only limited their ability to increase their profit and wipe out accumulated losses but also inadequately meet the basic objective of such banks.

There are more than one reason for this. In the co-operatively organised districts a large part of the agricultural advances, particularly to the medium and large farmers, are met by the societies. During the last decade or so the rural co-operative credit structure has severely declined in most parts of the country. It is only in the districts in states like Maharashtra and Gujarat, where the co-operative credit structure is aligned to the milk and sugarcane processing societies that the co-operative credit structure still appears to survive. Elsewhere they appear to be on their death bed. (How serious is the developing situation can be visualised from the fact that since the beginning of this century the NABARD has failed to collect and publish the district-wise co-operative credit data from different states, a task that it had been carrying out till then every year without fail. What is more, the data

relating to some of the major states for the last decade of the last century were just repetitions of an earlier figure!) In such a situation, the Gramin banks can and should step in in a large measure to fill in the gap. To the extent there are rural branches of commercial banks, mainly state owned, they are meeting a part of this credit need. And, they are serious competitors to the Gramin banks. Furthermore, there are now competing micro-financial institutions which are also extending personal credit which formal credit institutions are rather reluctant to extend. They both compete and complement rural money lenders. While the existence of rural branches of reputed commercial banks restrict the scope of the Gramin banks in collecting savings and extending loans, the micro-finance institutions use methods that the Gramin banks are possibly not yet organised to adopt. Dr. Thingalaya discusses the efforts of the Gramin banks to establish links with female (and male) self-help groups in rural areas for accepting their deposits and extending them credit. But, this is not as widespread as they should be and as successful as with the micro-finance institutions. The Gramin banks can use methods, including attractive interest rates, to attract larger deposits of the self-help groups and simultaneously extend them credit at competing rates of interest against the security of their growing deposits. Similarly, these banks can think of extending personal credit to individuals, small and large, against the security of deposits of a small group of unrelated individual depositors, a method which the micro-finance bodies are using widely for the purpose. The Gramin banks can use this method successfully to extend personal credit, of course at a much lower interest rate than what the village moneylenders or their institutional equivalents - the micro-finance bodies, do.

And, finally, with the Gramin banks now not only enlarged by amalgamating all banks in a state, sponsored not only by a single public sector bank, but also by all PSU banks in a state or a large part of the state, the time has come to think of merging all *rural* branches of the public sector banks in a state (or, a large part of the state), thereby expanding the operational scope of the Gramin bank, leading to greater deposits and extension of credit. The rural

branches of commercial banks have had a very low credit/deposit ratio. Rural savings were being transferred to urban areas and needs. This had led the central government formulate a scheme of priority sector for lending operations by commercial banks. But, the commercial banks were not able to meet the target. As a result, the central government devised a scheme of loans to state governments for their rural development projects, from unused balance of these priority sector funds with banks, through NABARD. The banks deposit the sum with NABARD at a certain rate of interest. The NABARD extends loans to state government, at a comparable rate, for a period of time. There is little scrutiny of these projects by NABARD, since the return of this money is assured by the Reserve Bank of India from the state loans floated by the state governments. This is hardly serving the basic purpose of extension of credit to the priority sector. If the PSU banks are made to withdraw from the rural areas and the Gramin banks are allowed to fill the gap, there will be no need for a priority sector policy for commercial bank loans. The Gramin banks are designed and expected to extend credit to rural areas, for agriculture, industry and household needs. Their effort will be in this direction. To-day many of them are extending credit to the extent of seventy per cent towards purposes that are listed as priority sector. Extended scope of the Gramin banks will only extend this function, without unscrutinised direction of part of the funds, as is done now.

All this will require some training and orientation of the Gramin banks' personnel. This is another aspect to which Dr Thingalaya draws the readers' attention. When the Gramin Banks were started in 1975, they were not only visualised as institution to cater to the needs of only the poorest section of rural society; they were also designed to recruit their staff locally, for the simple reason that these persons were presumed to be the ones that had knowledge of local households and enterprises. They lacked everything else needed for the task of banking. There were no promotions of such staff to higher technical and supervisory positions and until very recently no recruitment of such higher level staff from outside was permitted. The result was noted above.

Now some of the restrictions have been done away with. But, as yet there is no freedom to these banks to recruit suitable staff for the various needs and provide for the suitable training of the staff and its supervision and promotion. If the staff was local recruits, it was thought that such staff for such banks should have low salaries. After a number of years the staff organised to demand salaries comparable to that of the sponsoring commercial banks. At one stage this was suddenly conceded, without any reference to the ability and performance. It is time the right in this matter is given to the Board of Directors of the Bank.

But, that brings one to the constitution of the Board of Directors of such banks. Since these banks are wholly owned by the central and the state governments and the sponsoring public sector bank, the Board of Directors consists of their nominees, who are officers of the government and a small proportion from the sponsoring bank. This has been a tragedy with all public sector undertakings. The bureaucrats and political nominees of the central and state governments are not, with rare accidental exceptions, people with knowledge and understanding of rural banking operations. The bureaucrats, even the very highly placed, often carry out the political instructions of their bosses, all of which go as considered opinion and decisions of the Board. It is time, the Boards are

statutorily reconstituted, in the manner suggested by Dr. Thingalaya. The nominees of the shareholder governments on the Board should be qualified technical persons with knowledge of agriculture, other aspects of rural economy, finance, management, etc. They should not have any local interests, in terms of land or business. The directions from the Government to the Bank should be conveyed to the Chairman of the Board in writing. The Board should have the freedom to express its opinion in writing to the government, if it holds a different view. The Government is free to change the personnel of the Board. But, the absence of professionals on the Board is a major cause of erratic and uninformed decisions that harm the interest of the bank as well as the community it is meant to serve. Starting with this type of Boards for the Gramin Banks would convince the powers that be that such boards are the suitable bodies for all types of public sector undertakings.

Dr. Thigalaya has written a very useful monograph on the evolving Gramin Banks, despite limitations of data. I wish that with help and assistance, which he will need later, the revised edition of this monograph will help students and the interested public as well as the governments at the state and central level in understanding and organising these banks that appear destined to serve rural India in the years to come.

Name of Bank	Districts	Branches	Rural Brs.	Total Bus. (crore Rs.)	T. deposit (crore)	Sav.dep. %	T. advance (Crore)	Nrt Profit. Crore Rs.	Cr/Dep ratio %	NPA ratio %	Cap. Adeq. ratio %	Pr. Sec. Adv.%
Andhra Pradesh Grameen Vikas bank	8	638		12,453				159	134	1.03	20.24	
Andhra Pragathi Grameena Bank	5	438		11,761				155.61				
Chaitanya Godavari Grameena Bank	3	128		2,548				20.3				
Deccan Grameena Bank	5	269	186	6,220				49.28				
Saptagiri Grameena Bank	2	157		4,841				48.08				
Karnataka Vikas Grameena Bank	9	524		13,015				194.58				
Kaveri Grameena Bank	10	334		6,859				32.77				
Pragathi Krishna Grameena Bank	11	602	464	13,956				78.92				
Pallavan Grama Bank	15	150		2,502				27.18				
Pandyan Grama Bank	16	224		6,703				61.26				
Kerala Gramin Bank	14	506		15,027				26.43				
Puduvai Bharathiar Grama Bank	4	30		451				4.11				
Maharashtra Gramin Bank	16	351		6,241				26.97				
Vidarbha Konkani Gramin Bank	17	295		4,578				24.01				
Baroda Gujarat Gamin Bank	12	151		2,668		47		5.8				
Dena Gujarat Gramin Bank	7	175		3,630		39		17.96				
Saurashtra Gramin Bank	7	203		3,130				30.93				
Baroda Rajasthan Gramin Bank	21	638		12,860		51		40.05				
Marudhara Gramin Bank	12	462		8,171				2.17				
Mewar Anchalik Gramin Bank	3	59		703				4.33				
Malwa Gramin Bank	5	62		1,471				13.57				
Punjab Gramin Bank	13	218		5,255				46.5				
Satlej Gramin Bank	6	31	23	469				1.72				
Gurgaon Gramin Bank	7	231		7,449		65		88.12				
Haryana Gramin Bank	16	276		6,579		41		64.56				

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Ellaquai ehati Bank	13	122		1,001				2.68				
J & K Gramenee Bank	11	201		3,022				12.92				
Himachal Pradesh Gramin Bank	12	188	178	3,999		35		11.35				
Uttarakhand Gramin Bank	13	237	191	3,471				18.24				
Madhyanchal Gramin Bank	12	396		6,503				40.43	38	5.92		
Narmada Jhabua Gramin Bank	13	313		5,764		81		33.78	73	5.84	13.91	
Central Madhya Pradesh Gramin Bank	25	423		7,275				3.1		7.78	7.73	
Chhattisgarh Rajya Gramin Bank	27	565		8,033				77.84				
Allahabad U.P. Gramin Bank	11	555		10,812	6,558		4,254	64.64	64	5.87	14	
Gramin Bank of Aryavart	15	651		14,307				30.36				88
Baroda Uttar Pradesh Gramin Bank	14	738		13,867		67		51.21	35	0.73		
Kashi Gomati Samyut Gramin Bank	7	401		8,086				41.95	30	19.53	18.08	
Prathama Bank	4	250		6,674				78.94			20.15	
Purvanchal Bank	11	571		9,358				27.62				
Sarva U.P. Gramin Bank	17	353		6,200		71		20.47	64	0.29		
Uttarakhand Gramin Bank	13	237		3,471				18.24				
Bihar Gramin Bank	9	269		3,641				29.56	51	2.38	15.78	83
Madhya Bihar Gramin Bank	11	474		7,800				65.31	42.33	1.67	12.06	
Uttar Bihar Gramin Bank	18	1001	865	12,732		68		50.01	52	1.99		
Jharkhand Gramin Bank	15	239		2,696				11.85				
Vananchal Gramin Bank	9	203		2,752		66		19.08				
Utkal Gramya Bank	17	426	360	6,588				10.6				
Odisha Gramya Bank	13	475		9,694				27.9				
Bangiya Gramin VikasBank	11	574		11,574				31.68				
Paschim Banga Gramin Bank	4	218		4,137				1.45				

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Name of Bank	Districts	Branches	Rural Brs.	Total Bus. (crore Rs.)	T. deposit (crore)	Sav.dep. %	T. advance (Crore)	Nrt Prof. Crore Rs.	Cr/Dep ratio %	NPA ratio %	Cap. Adeq. ratio %	Pr. Sec. Adv.%
Uttarbanga Kshetriya Gramin Bank	3	129		2,484				13.79				
Assam Gramin Vikas Bank	25	374	280	8,645	59		74.38					
Langpi Dehangi Rural Bank	2	53		537			6.69					
Tripura Gramin Bank	8	133	92	4,359			68.78					
Manipur Rural Bank	8	28		182			0.41					
Meghalay Rural bank	7	76		1,374			17.79					
Mizoram Rural Bank	8	71		1,695	57		7.17					
Nagaland Rural Bank	5	10		81	58		2.06					
Arunachal Pradesh Rural Bank	6	27		403			0.28					
