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Performance of RRB in relation to agriculture

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Abstract

Regional Rural Banks (RRBs) were set up as state-sponsored, regionally based and rural oriented institutions under the Regional Rural Banks Act, 1976. The main aim or idea of establishing RRB is to meet credit needs of rural people. The objective to establish the RRB was To provide advances to small & marginal farmers, agricultural labourers & small entrepreneurs who are engaged in agricultural business. To provide loan facilities to Cooperative societies, which are engaged on services related to rural area including agriculture activities. To convert the rural savings (by accepting deposits) into the productive activities in rural areas by Using that money in agricultural activities. The share of the RRB in Ground level credit increases from 9.2 (2009-10) to 11.6 (2013-14). In relation to disburse the loan to small farmers and Marginal farmers the percentage share to total credit disbursed by RRB is 62.14.

Keywords: regional rural banks, agriculture

1. Introduction

Regional Rural Banks (RRBs) were set up as state-sponsored, regionally based and rural oriented institutions under the Regional Rural Banks Act, 1976.

In September, 2005, GoI initiated the first phase amalgamation of RRBs, sponsor bank-wise, at state level. By March, 2010, RRBs of the same sponsor banks within a State were amalgamated bringing down their number from 196 to 82. In the second and ongoing phase, starting from October, 2012, geographically contiguous RRBs within a State under different sponsor banks are being amalgamated to have just one RRB in medium-sized and two/three RRBs in large states. During the year 2013- 14, 13 RRBs have been amalgamated into 6 new RRBs in 5 States (Chhattisgarh, Uttar Pradesh, Kerala, Karnataka and Haryana). With this, the effective number of RRBs as on 31st March, 2014 stands at 57 playing a significant role in developing agriculture and rural economy.

The review of the performance of RRBs as on 31st March, 2014 reveals that the RRBs have responded well to the initiatives taken by GoI.

2. Objective

1. To study the credit flow to agriculture
2. To study the financial estimation of loan disburse to small/ marginal Farmers
3. To study about the purpose wise outstanding by RRB

3. Research Methodology

This paper is based on the secondary data and drained from annual reports of NABARD and from various articles, reports, and websites.

4. Objectives and Functions of Regional Rural Banks

The main aim or idea of establishing RRB is to meet credit needs of rural people. There are some other objectives of RRBs are

1. To provide advances to small & marginal farmers, agricultural labourers & small entrepreneurs who are engaged in agricultural business.
2. To provide banking facilities to rural areas specially unbanked area.
3. To provide loan facilities to Cooperative societies, which are engaged on services related to rural area including agriculture activities.
4. To increase the golden opportunities of employment in RRBs which creates employment at their door step for rural people.
5. Some other auxiliary functions of RRBs
 - To convert the rural savings (by accepting deposits) into the productive activities in rural areas by Using that money in agricultural activities.
 - Now a day's RRBs starts providing loans for purchasing durable goods against the security of gold, NSC etc.
 - *Another new facility provided by RRBs is to issue guarantee on the behalf of their customer #100% cash margin up to 20lakhs Above 20lakhs up to 40lakhs cash margin + collateral security of more than 50%

5. Credit Flow in Agriculture

The total credit flow to agriculture, agency-wise, during the last 5 year period by all agencies is as under:

Table 1: Total Agri. credit flow and share of agencies therein (Amount in ` crore)

| Year | 2009- 10 | 2010-11 | 2011-12 | 2012-13 | 2013-14* |
|------------------|----------|---------|---------|---------|----------|
| SCARDBs | 2056 | 2664 | 2410 | 1554 | 1869 |
| % share to total | 0.5 | 0.6 | 0.5 | 0.3 | 0.2 |
| StCBs | 61441 | 75457 | 85553 | 109649 | 118095 |
| % share to total | 16.0 | 16.1 | 16.7 | 18.1 | 16.6 |
| RRBs | 35218 | 44293 | 54450 | 63681 | 82653 |
| % share to total | 9.2 | 9.5 | 10.7 | 10.5 | 11.6 |
| Commercial Banks | 285800 | 345877 | 368616 | 432491 | 509005 |
| % share to total | 74.3 | 73.9 | 72.1 | 71.2 | 71.5 |
| Total | 384515 | 468291 | 511029 | 607376 | 711622 |

The share of the RRB in Ground level credit increases from 9.2 (2009-10) to 11.6 (2013-14)

Table 2: Loan Disbursed To Small Farmers / Marginal Farmers (No. in lakh and amount Rs. Crore)

| Sr. No. | Agency | No. of A/Cs | Disbursement | Of which A/Cs pertaining to SF/MF | % share to total number of A/Cs | Of which Credit disbursed to SF/MF | % share to total credit disbursed |
|---------|-------------|-------------|--------------|-----------------------------------|---------------------------------|------------------------------------|-----------------------------------|
| i. | Comm. Banks | 379.04 | 5,09,004.96 | 234.52 | 61.87 | 2,01,296.26 | 39.55 |
| ii. | Coop. Banks | 321.37 | 1,19,963.79 | 206.05 | 64.12 | 69,352.24 | 57.81 |
| iii. | RRBs | 99.27 | 82,652.72 | 66.62 | 67.11 | 51,358.81 | 62.14 |
| | Total | 799.68 | 7,11,621.47 | 507.19 | 63.42 | 3,22,007.31 | 45.25 |

In relation to disburse the loan to small farmers and Marginal farmers the percentage share to total credit disbursed by RRB is 62.14

Table 3: Purpose-wise Outstanding Advances by RRBs (₹ crore)

| Sr. | Purpose | As on 31 March | | |
|-----|----------------------------------|----------------|--------|--------|
| | | 2012 | 2013 | 2014* |
| | Total loans outstanding | 116385 | 139652 | 159302 |
| I | Agriculture | 63823 | 75200 | 90294 |
| (a) | Short term loans (crop loans) | 46580 | 55255 | 68267 |
| (b) | Term loans (for agri and allied) | 17244 | 19406 | 21952 |

6. Problems Of Regional Rural Banks

RRB's play the important role in developing the weaker section in rural areas, of our society along with this RRB's faced serious problems. The Dantwala committee, kelkar committee & khusro committee pointed out some weakness which is faced by RRB's.

1. Huge branch expansion As at the early stage of RRB's evaluation a large network of branches opened which creates problem of overhead cost without contributing the amt. of profit. In some areas where RRB's are required, they faced difficulty to get full accommodations or facilities for housing the branches.
2. Rigid norms Rules & regulation related with the RRB's are issued by RBI are rigid are nature and are based on all India being but it's not working because of disparity of India state by state not give the same result to another state.
3. Not viable RRB's are not able to get the same amount of profit ad other banks earns. Due to providing facility to weaker section (low interest rate & high operating cost in providing loans).
4. High cost of loan With comparison to the commercial bank, RRB's have the high long transitions costs than the commercial banks due to the low amount of loan.
5. Problem in deposit mobilisation As RRB's deals with the weaker section of rural area, there is no huge amount of funds in bank. The weaker section is the main target of RRB's are poor. So they don't save so much money in RRB's. It provides less amount of collection in banks.

6. No proper Recruitment policy As RRB's are rural oriented they are expected to recruit staff only locally. But with the transfer of recruitment on RRB's to banking services recruitment boards, all the candidate outside the area of cooperation of RRB's eligible for RRB's . This is against the concept of RRB's.

7. Suggestions To Improve Regional Rural Banks Working

1. To improve the RRB's some parties take initiative for this and provide some solutions to the problems. 1. The important thing for existence there is the requirement of feasibility and viability of the organisation. For this there is the recommendation that RRB's should be merged with commercial banks. It will help to reduce the accumulated losses of insolvency of the banks. This solution is helpful for some RRB's only.
2. Mobilisation of funds or converting the savings of rural people in productive activity can be removed by using the funds transfer from urban to rural area with the help of govt. policies. State govt. about permit the Panchayat & other quasi govt. to keep their funds with RRB's in that area.
3. To reduce the cost of RRB's state govt . either reorganize agricultural credit societies on establish other societies through which RRB's increase their production credit on large scale and use the economies of scale in efficient manner. Another way to reduce the cost of loan is to reduce transaction cost of providing loan to the rural people.

4. The recruitment process in RRB's should be streamlined. There should be preference to the local people and also provide proper training about the work to employees. And also there should be uniform pay scale for employees.
5. To handle with the problem of huge expansion of branches, there should be expansion of no. of employees to handle the work load. And for supervision on the RRB'S there should be the proper authority that manage and control the working of RRB'. One another method for effective working is to reduce the commercial bank branches in the rural area and hand over these branches to RRB's.
6. The main issue related with the banking system is rigid norms, there is less flexibility in the regulation system which can make the huge hindrance in the working of RRB's. To overcome with this problem there should be some free hand for RRB's. Some concession should be given to RRB's according to the area side or department wise according to the need of the RRB. Because at present rules are made by the authority for whole India without differentiation about the state.

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