



Role of Regional Rural Banks in Ameliorating the Economic Condition of Rural Odisha: A Study

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ABSTRACT

Regional Rural Banks plays an important role towards the economic development particularly in Rural India. According to M K Gandhi, “real India lies in village” and hence it can be said that village economy is the backbone of Indian economy. The objective of planning of economy cannot be achieved without the development of the rural economy. Financial Institutions along with banks plays an important role for the development of rural economy in our country. The role of these institutions in economic development is critically analyzed, policies framed and suggestions are given on the process of improvement and upliftment of the weaker sections of society.

In the present study and attempt has been made to assess and examine how Regional Rural Banks have been trying to satisfy the needs of the rural citizens of India in general and in Odisha in particular. The study is also based on discussion on the rural credit structure and the role played by RRBs in the development of rural economy. In Odisha, the different financial institutions including RRBs are continuously been trying to fulfill the credit needs of small and marginal farmers and other small businessmen. The present research paper is exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD). The study is confined only to the specific area like loan and advance made by the RRBs especially priority and non-priority sectors for the six years period starting for 2012-18. In order to analyze the data and draw conclusion in these study Mathematical tools like percentage and growth rate were used.

Keywords: *Banking Reforms, Regional Rural Banks, Agriculture, Economic Condition, Poverty, Sariaaya Committee*

Introduction

India is a land of villages and at present more than 65 percent of its population is depending either directly or indirectly on agriculture. Nearly three fourths (74.28 per cent) population lives in rural areas. Agriculture is a means of living and way of life. Even today, the rural people in India do not consider agriculture as a business but they consider it as a way of life.

Rural population face problems due to their poverty and inability to subsist on agriculture. Particularly the small and marginal farmers, agricultural labourers and rural artisans unable to find a livelihood in their own villages had to migrate to big cities in search of jobs. The position of agriculture, infrastructure and rural industries is also not very encouraging. But it is an established fact that agriculture plays an important role in the development of the country where majority live on agriculture.

A substantial number of cultivators in India produce foodgrains for their own consumption. They cultivate tiny pieces of land and many of them work as tenants on lands belonging to other. Needless to say that Indian agriculture suffers from a number of weaknesses which tend to become more in the absence of proper credit system.

Review of Literature

Agarawal Meenu (ed) (2009)¹ in a book titled *Regional Rural Banks in India* has compiled a collection of 18 scholarly papers which deal with rural institutional finance. This book mentions that the banks which were started in 1975 were aimed to cater the needs of the rural economy of India. The credit requirements of small farmers, artisans and agricultural workers have been met with these banks. The working of these banks is concentrated at the district level. The papers in this book deal with almost every aspect of the functioning of the RRBs including the geographical coverage.

Charan D Wadhva (1980)² was perhaps the first author to make research on the working of RRBs during 1978. He has presented his finding of research study in the working of RRBs in general and two RRBs (of the first live RRBs in the country) in particular.

Das, Rao and Rao (2001)³ conducted a study in their book titled *Rural Banks and Rural credit*. The authors have made a critical analysis of the performance of RRBs in the country. They are of the opinion that the state government concerned should provide adequate facilities to RRBs to step up their operations.

Patel and Shete (1980)⁴ have made a comparative analysis on the performance and prospects of the RRBs in different parts of the country. The authors throw light on the comparative picture of the performance in terms of some indicators like the cooperatives and commercial banks operating within the jurisdiction of the RRBs.

Paul Mosey (1996)⁵ in his article has tried to highlight the role played by the RRBs in India in general with respect to mobilization of deposits, disbursal of credit to various sectors along with the over-dues of RRBs from 1976 to 1992.

Ram Jitendra Kumar (2015)⁶ in his book titled *Regional Rural banks of India: Evolution, Performance and Management* has discussed the total history of RRBs covering the evolution of the banks. Then he discussed the Performance and management of the banks. This book also comprehensively examines the development of modern banking in India since the ancient period to 2013. The operational structure like the financial management, deposits, advances, NPA management, ALM and risk management etc are discussed at length in this book.

Shete and Karkal (1989)⁷ conducted a study on the problems and perspectives of rural credit in the context of Regional Rural Banks. The authors studied the purpose and logic of the existing credit institutions providing rural credit, the desirability of and the changing circumstances that necessitated for the setting up of RRBs. The study also contained an analysis of the business, financial and profitability performance of RRBs in India for the period from 1975 to 1987.

Varde and Singh (1982)⁸ conducted a study on the profitability performance of the RRBs. The authors developed their own framework for this purpose using ten indicators.

Objectives and Methodology

The primary aim of the paper is to draw a timeline of the growth of RRBs and their functioning with particular reference to the post amalgamation period. The specific objectives include:

- Study the genesis of RRBs
- Study the functioning of the RRBS
- Achievements of the RRBs in ameliorating the poverty of the rural people
- Credits facilities of the RRBs.
- Study of Loans provided by RRBs under different heads.

This is a descriptive study basing on the performance of the RRBs over the years. A comprehensive study is made on the working of the RRBs taking into consideration the pre-amalgamation and post-amalgamation statistics. The study made extensive use of the details provided by RBI and also the states through different reports and statistical information to gather the material necessary for the study and then the conclusions are drawn basing on the study made.

Establishment of Rural Banks: A Brief History

The foundation of the institutional credit structure in rural India was first laid in the cooperative credit societies in 1904. With the enactment of the co-operative societies Act 1912, a number of co-operative societies were formed throughout the country to meet the varieties of credit needs of the rural poor, in general and farmers in particular. The co-operative structure became three tier namely: The State co-operative Bank (SCB), Central co-operative Bank (CCB) and Primary Agricultural Co-operative Societies (PACS) In addition, there are Land Development Banks (LDBs) Large Area Multi-purpose Co-operative Societies (LAMPS) etc. These co-operative societies played a significant role in rural credit.

A number of committees, study groups, study teams were appointed by the Government of India and the Reserve Bank of India (RBI) to study and recommend suitable measures to meet the rural credit requirements.⁹ The following committees among those are worth-mentioning:

- (a) Gadgil Committee to study the credit gaps.
- (b) Talwar Committee to study the customer services.
- (c) Hazri Committee to study the lending norms.
- (d) Tandon Committee to study the differential rates of interest.
- (e) Kamat Committee to study the multi-agency approach of lending, and
- (f) Dessi Committee to study the services area approach.

Though the above committees expressed divergent views, there is one point in common, that most of them have expressed, repeatedly the need of rural institutional credit system for rural development. In 1972, Sariaa Committee felt that changing the organizational pattern too often is undesirable. In this resort, the committee recommended for the creation of new credit agency namely Rural Banks, to meet exclusively the credit needs of the rural poor. It had also suggested three methods for the creation of such rural banks. According to Sariaa, such rural banks may be created either:

- I. By converting viable PACS into Rural Co-operative Banks, or
- II. By restructuring the good PACS which function as subsidiaries of commercial banks, or
- III. By promoting own subsidiary institutions by the commercial banks in rural areas.

In the year 1975 with Mrs. India Gandhi the then prime minister announcing the economic programme for the development of the country some changes took place in the credit system for the benefit of the poor. The aim of this programme was “devising alternative agencies to provide intuitional credit to landless labourers, rural artisans and small & marginal farmers, in the context of steps being indicated, also to liquidate rural indebtedness of those classes of people”¹⁰

With a view to ascertain the feasibility of such rural banking institutional system and their functioning, the Government of India appointed a working group under the Chairmanship of M. Narashimham (popularly known as Narshimham Committee) to have an in-depth study. This Committee, in its report strongly recommended for setting up of such rural banks, which should be rural-oriented, regionally based yet fully owned by the Government. These banks are to work as supplementary credit agencies to the existing ones.¹¹

Basing on this report an ordinance was promulgated by the President of India for the establishment of Regional Rural Banks(RRBs) on September 26, 1975 which was later replaced by the Regional Rural banks Act 1976 on February 9, 1976.

The RRBs combine the advantages of both the commercial banks and the co-operatives in the sense that they are like the commercial banks as they are empowered to mobilize rural savings through deposit mobilization from within the areas of their operation; and like that of the co-operatives as they are rural-oriented with local feel and familiar with the local problems of the rural poor. These RRBs are to meet exclusively the credit needs of rural poor, they comprise small farmers, marginal farmers, agricultural labourers, rural artisans, small entrepreneurs, etc. They are to be provided with necessary credit at liberal terms and conditions in order to have an all round growth and development of agriculture, trade, commerce, industry and other productive activities in rural areas.

The important objective of the RRbs include the development of rural economy, providing credit and other facilities to the weaker section of the society particularly small and marginal farmers, agricultural labourers, rural artisan and small entrepreneurs etc.¹²

Reform Phase: 1991-2005

If the period from 1975-1990 is considered as establishment and growth phase for the Regional Rural Banks, the period from 1991-2005 can be termed as stagnation and reform phase. The following table shows the details of RRBs during this period.

Table - 1: No. of Branches and Districts covered by RRBs (1991-2005)

Year	No. of RRBs	No. of Branches	No. of Districts covered
1991	196	14527	381
1992	196	14539	392
1993	196	14543	398
1994	196	14542	408
1995	196	14509	425
1996	196	14497	427
1997	196	14461	427
1998	196	14475	451
1999	196	14499	454
2000	196	14301	457
2001	196	14311	476
2002	196	14350	487
2003	196	14311	495
2004	196	14446	518
2005	196	1446	523

Source: Report of NABARD and RBI.

The above table shows that no new Regional Rural bank as set up during this period of 15 years, number of branches declined from 14527 in 1991 to 14446 in 2005. Though there was increase in the number of districts covered in total by the RRBs, it was not because of expansion of Regional Rural Banks but it was owing to the creation of new districts by division of the existing districts. Hence the RRBs System has been reviewed about with emphasis on the functioning of the RRBs. Meanwhile the policy measures were initiation to allow RRBs to lend for Non-Target Groups(NTG) beneficiaries to the extent of 40 percent of their fresh advances which was increased to 60 percent by 1994. The period 1994-2005 has seen constitution of many more committees. Finally the Advisory Committee on Flow of Credit to Agriculture and related activities (Vyas Committee) in 2004 made suggestions to amalgamate the Regional Rural Banks to get rid of their small size which was considered to be a major road block in their way of profitability.¹³

Post-Amalgamation Phase:

Chalapathy Rao Committee (2002) was the first official committee to propose the merger of Regional Rural Banks. According to its suggestion the total number of banks should come down from 196 to 40. The Internal Working Group on Regional Rural Banks constituted by the Reserve bank of India under Chairmanship of A.V. Sardesai (2005) revisited the restructuring of RRBs. The recommendations of the committee were accepted and at the instructions of the government of India the first phases of Amalgamation process was initiated in September 2005 and was completed by 2009-10, bringing down the number of RRBs working in India from 196 to 82. All the RRBs having the same sponsor bank and operating in the same state were amalgamated.

The following table gives a description of RRBs from 2006-2012

Table 2: Expansion of RRBs: 2006-2012

Year	No. of RRBs	No. of Branches	No. of Districts covered
2006	133	14446	524
2007	96	14526	534
2008	91	14761	594
2009	86	15158	617
2010	82	15480	618
2011	82	16001	620
2012	82	16914	638

Source: Report of NABARD and RBI.

The number of branches of RRBs remained almost the same during the period 195-2005 but there is an increase from 14446 in the 2006 to 16914 in the period 2006-2012. During the same period the number of districts covered by the RRBs grew from 524 in 2006 to 638 in the year 2012.

RRBs in Odisha

In Odisha, on the initiation of Government of India, Cuttack Gramya Bank and Balasore Gramya bank were amalgamated in January 2006; Bolangir Anchalik Gramya Bank, Kalahandi Anchalika Gramya Bank and Koraput Panchabati Gramya bank were amalgamated in July 2006 and Puri Gramya Bank and Dhenkanal Gramya Bank were amalgamated in August, 2007 to form Kalinga Gramya Bank, Utkal Gramya Bank and Neelachal Gramya Bank respectively. The following is a comprehensive list of RRBs from 1998-2017.

The following table gives the details of No. of RRBs in Odisha from 1998-2017.

Table No. 3: No. of RRBs in Odisha

Year	No. of RRBs
2000	839
2001	829
2002	832
2003	827
2004	832
2005	829
2006	825
2006	837
2008	844
2009	870
2010	872
2011	874
2012	875
2013	884
2014	884
2015	934
2016	961
2017	990
2018	999

Source: Annual Reports RBI.

Since very little study had been made on the RRBs of Odisha after the amalgamation an attempt has been made here to find out the working of the RRBs in Odisha in the recent years.

Table 4: Deposits of RRBs during the period 2012-18 (Rs. In Billions)

Year	Deposits
2012	97
2013	101
2014	111
2015	117
2016	131
2017	151
2018	162

Source: Annual Reports RBI.

Table No. 4 gives us details of deposits in the RRBs during the study period. It shows that there is steady growth in the deposits. From the year 2012 to 2018 there is more than Rs. 50bn growth. By the year 2018 the total deposits have grown from Rs. 97bn to Rs 167bn.

Table 5: Credits of RRBs during the period 2012-18 (Rs. In Billions)

Year	Credits
2012	56
2013	61
2014	66
2015	70
2016	74
2017	75
2018	78

Source: RBI Annual Report 2018

Table 5 gives us the details of RRBs during the study period. Here also we see that there is a steady growth. From the year 2012 to 2018 the RRBs in Odisha have recorded a growth of Rs. 22bn rupees in credits. The main objective of RRBs is to give loans to the rural poor and hence we can say that there is considerable development in this aspect.

Table 6: Credit Deposit Ratio

Year	Deposits
2012	58.2
2013	61.1
2014	59.8
2015	59.8
2016	56.2
2017	49.6
2018	48.1

Source: RBI Annual Report 2018.

Table 6 gives us details of the Credit-Deposit ratio. This table shows that the ratio remained almost constant. During the years 2012 to 2016 it is between the ratios 59.2 to 56.2 except the year 2013 where it was 61.1. The last two year the ratio is 49.6 and 48.1.

Table 7: Target and Achievement of RRBs during the period 2018-2019

Name of the Bank	Priority Sector		
	Target	Achievement	%
Regional Rural Banks	4205.52	3950.18	93.93

Source: 155th-SLBC-Agenda.

Table 7 is to show the achievement of the RRBs in the financial year 2018-2019. Out of the Target 4205.52 RRB could achieve 3950.18 which is 93.93 percent achievement. This clearly shows that RRBs are performing well in achieving their objective.

Table 8: Share of RRBs in Agriculture Credit Outstanding during the year 2018-19

Name of the Bank	Amount outstanding (Rs. in Crores)	Share in %
Public Sector banks	13054.18	34.59
Private Sector Banks	7930.06	21.01
RRBs	3743.01	9.92
OSCB	12639.47	33.49
Small Finance Bank	374.73	0.99
Total	37741.46	100

Source: 155th-SLBC-Agenda,

Table 8 is a comparative analysis of other banks with RRBs in the Agriculture Credit Outstanding during the year 2018-19. This table shows that RRBS is having 9.92% credit outstanding while the total about is 3743.01. Public sector banks have the largest percent share with 34.59 while OSCB is next in order with 33.49%.

Table 9: Progress of Pradhan Mantri MUDRA Yojana (PMMY) in Odisha for the period 01.04.2018 to 31.03.2019 for the Regional Rural Banks

No of Accounts	25873
Share in %	0.62
Disbursed Amount	270.33
Share in %	1.77

Source: 155th-SLBC-Agenda.

Table 9 gives the details of the Pradhan Mantri Mudra Yojana in Odisha which was carried out through RRBs. Here the no. of accounts were 25,873 and the amount disbursed was 270.33 crores.

Table 10. Financing Under Kissan Credit Card Scheme up to 31.03.2019 under RRBs

Details	A/c	Amount
No. Of KCCs Issued	168765	873.03
Total Amount disbursed in KCC	243839	1225.88
Balance of O/s is on 31.3.2019	490114	2380.85

Source: 155th-SLBC-Agenda.

The above table gives details of the amount disbursed through Kisan Credit cards. The above details show that there has been considerable amount distributed among the farmers through this scheme

Table 11: Financing under various Allied Agriculture Schemes as on 31.3.2019

Details	Disbursement		Balance Outstanding	
	A/c	Amt.	A/c	Amt.
Dairy	192	1.00	29768	169.71
Poultry	56	2.47	8168	202.13
Fishery	62	1.21	2978	41.46
Others	25540	196.01	41450	383.69

Source: 155th-SLBC-Agenda.

The above table gives details of disbursement of loans and the Balance Outstanding under various heads. Under the dairy head the disbursement amount was 1.00crore while the balance outstanding was 169.71 crores. Under the Poultry head the disbursed amount was 2.47 while the balance outstanding was 202.13. Under the head Fishery the amount disbursed is 196.01 and the balance outstanding is 383.69 crores.

Conclusion

The RRBs since their inception have been trying to cater to the needs of the rural population of India. In Odisha also the banks have been trying to meet the credit needs of innumerable number of small and marginal farmers and other small village workers with a helping hand. After the amalgamation of the banks the streamlined work shows that there is considerable growth in the total working of the banks. However the outstanding amounts show that they are a little more could be decreased with proper management.

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