

" A STUDY OF REGIONAL RURAL BANK SCHEME WITH
SPECIAL REFERENCE TO SOLAPUR GRAMIN BANK".

CHAPTER - I

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1.1

" A STUDY OF REGIONAL RURAL BANK SCHEME WITH
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INTRODUCTION :-

The Regional Rural Bank Scheme was introduced in Sept.1975. The primary objective of this scheme was to set up a seperate agency in the most under developed rural regions of the nation for extending the credit facilities to the small farmers and rural artisans. In fact the Scheme was devised to provide expert banking management available with the nationalised banks, to the non functioning or dormant credit co-operatives.

The present study makes an attempt to evaluate the role of regional rural banks with special reference to Solapur Gramin Bank. In this chapter the background of rural banking in India and the genesis of the regional rural bank Scheme are disscussed.

1.2

RURAL BANKING IN INDIA.

India have large majority of agricultural population. About 80% of the population depends upon agriculture. Due to very small size of operational holdings and fluctuations in the mansoons, the productivity of agriculture is very low. For financing the programmes for the development of irrigation, soil conservation, purchasing inputs like fertilisers and pesticides it requires substantial credit.



The Financial requirements of the Indian farmers can be classified into three types depending up on the period and the purpose for which they are required.

SHORT TERM CREDIT:-

The farmer needs short term credit for current agricultural operations e.g. purchasing seeds, fertilisers, paying wages to the labour etc. The period of short term credit is less than 15 months.

MEDIUM TERM CREDIT :-

The farmer needs medium term credit for the purpose of purchasing cattle, pumping sets, implements and making some improvements on land. The period of medium term credit ranges between 15 months to 5 Years.

LONG TERM CREDIT:-

The farmers require finances to make permanent improvement on land, to purchase additional land, to buy costly agricultural machinery, to pay off old debts etc. The period of long term credit ranges between the 5 years to 15 years.

The financial requirement of the Indian farmers' short term and medium term are met by money lenders, co-operative credit societies and by the government. For financing Long term requirements, they depend up on the Land Development Banks, money lenders and the government.

SOURCES OF CREDIT.I) NON INSTITUTIONAL SOURCES :-a) MONEY LENDERS :-

In our nation there are two types of money lenders. They are agriculturist money lenders and professional money lenders. According to All India Rural Debt and Investment Survey 1961-62, the share of money lenders in providing credit to rural areas amounted 69.7 % of the total credit. This percentages declined in 1961-62 it amounts for 49 % of total rural credit. In 1975-76 money lenders met 43 % of the credit requirements of the farmers. From the last 20 years the importance of money lenders in providing credit to farmers is declining. This trend shows that the use of institutional credit is growing rapidly.

b) TRADERS AND COMMISSION AGENTS :-

Traders and commission agents also met the credit requirement of the farmers. They supply funds before the crops mature. The share of traders and commission agents in providing agricultural finance is 5.5 % in 1951-52 of the rural credit it has increased to 8.8 % in 1961-62 . In 1971 this percentage of rural credit accounted 8.4 % . This is not convinient source of finance to rural farmer because they charge high rates of commission.

c) RELATIVES :-

Rural people generally borrow from their relatives, to overcome the temporary financial difficulty. The importance of relatives in providing rural credit is declining. In 1951-52 borrowing from relatives accounted for 14.2% but this percentage declined to 8.8 % in 1961-62.

d) LANDLORDS AND OTHERS :-

Specially small farmers and tenants depend upon landlords to overcome their financial difficulty. This source has many defects. The finance from this source amounted 3.3% in 1951-52, it has increased to 14.5% in 1961-62.

II) INSTITUTIONAL SOURCES :-

Due to the inadequacy of private agencies in providing credit to farmers the institutional credit agencies ^{are} established in nation. This institutional credit refers to funds made available by co-operative credit societies, commercial banks, Reserve Bank of India etc. The institutional agencies which provide rural credit are as follows.

1) CO-OPERATIVE CREDIT SOCIETIES :-

The Co-operative movement in India was started with a view to providing funds to farmers with low rate of interest. Loan from the primary co-operative societies is the most important and the cheapest source of rural credit. There is three tier co-operative credit system in India, which consists of Primary co-operative credit society at village level, District central co-operative Banks and the state Co-operative Banks. There are 28 state co-operative Banks, 340 Central Co-operative Banks, and 94,000 Primary Agricultural Co-operative Societies up to year ending 1982-83.

TABLE NO. 1.1

PRIMARY AGRICULTURAL CREDIT SOCIETIES.

	1950-51	1960-61	1970-71	1982-83
No. of Societies (Thousands.)	105	212	161	94
Loans advanced during the year (Cr.)	33	202	578	2,100
Loans overdue (Rs. Crores.)	6	44	322	1,500

Source - Report of the ministry of Agriculture,
Department of co-operation 1974-75 and 1984-85.

The above table shows that the growing importance of primary agricultural co-operative societies in providing rural credit.

CO-OPERATIVE CENTRAL BANKS :-

These banks are known as District Central Co-operative Banks, these are the federation of primary credit societies in the district.

TABLE NO. 1.2

CENTRAL CO-OPERATIVE BANKS

	1950-51	1960-61	1970-71	1982-83
Number	505	390	341	340
Loans advanced during the year (Rs. Cr)	83	350	890	850

Source - Same as Table No. 1.1

The above table indicates that the 340 district central co-operative banks advanced loans of Rs.850 Crores during the year 1982-83.

2) GOVERNMENT :-

Another source of agricultural credit is the government itself. Loans financed by the government are called as "Taccavi" loans. These loans are generally given in times of famine, flood etc. According to the Rural Credit Follow-up Survey the share of government in rural credit had dropped to 2.6% in 1961-62 from 3.3% in 1951-52. During 1977-78 the state government advanced Rs. 109 crores . Now a-days, the government has been playing an increasing part in agricultural credit.

3) COMMERCIAL BANKS :-

Before nationalisation of major commercial banks they were providing hardly 1% of the total rural credit. But after the nationalisation of 14 major commercial banks in 1969 and 6 more in 1980, the commercial banks have started giving farm finance on increasing scale.

Commercial Banks rural branches were 1883 in June 1969, they have increased to 30,944 at end of 1985. The agriculture sector advance of commercial banks amounted Rs.171 crores in June 1969, these advances increased to Rs.5240 crores in March 1983.

In recent years, significant role has been assigned to commercial banks in the provision of rural credit.

4) LAND DEVELOPMENT BANKS

These banks were formerly known as Land Mortgage Banks. These are established for meeting the long term financial needs of the farmers. These banks give loans for the period of 15 to 20 years. The interest rate charged by them is also low.

In 1950-51 there were 5 state land development banks in the nation, the number increased to 19 in 1983-84. In the same period primary banks increased from 286 to 1830. The amount of loans sanctioned in 1951 was Rs. 3 crores, which increased to Rs. 460 cr. in 1983.

5) REGIONAL RURAL BANKS :-

One of the important aspect of Twenty Point Economic Programme was the liquidation of rural indebtedness by stages and provide the provision for operational credit to small farmers, landless labourers and artisans in rural areas. For financing small farmers, landless labourers, artisans the RRBs have established. The first 5 RRBs in the nation were opened on 2nd Oct. 1976. By the end of Dec. 1986, 194 RRBs were functioning with 12,838 branches .

At the end of June 1987, deposits and advances of 194 reporting RRBs were Rs. 1,809 cr. and Rs. 1,897 cr. as compared with Rs. 1,431 cr. and Rs. 1,538 cr. respectively a year ago.¹

1.3 REGIONAL RURAL BANKS SCHEME :-

Both commercial and co-operative banks have not succeeded in evolving a suitable credit pattern in rural area.

1. Regional Rural Banks, RBI Bulletin, Report on Trend and Progress of Banking in India, 1986-87, Oct. 1987 P. 75.

At present the contribution of co-operative and commercial banking sectors lending together does not exceed 40 % of estimated requirements. Credit disbursed in rural areas comprises hardly 10 % of total advances, of commercial banks. In face the credit deposit ratio of rural branches of commercial banks reveals a reverse flow of funds from rural to urban areas. The working of the credit co-operative movement too is disquieting, only 29 % of its total advances were to marginal and small farmers. The credit gap therefore, has widened. To bridge the credit gap in our agricultural sector regional rural banks were introduced in the rural sector. [Which] were expected to meet the credit needs of the landless labourers, small farmers etc. ²

The regional rural bank scheme came into operation during the period of emergency in 1975. One of the important aspects of Twenty Point Economic Programme was the liquidation of rural indebtedness by stages and to provide the provisions for operational credit to small farmers, landless labourers and artisans in rural areas. A committee under the chairmanship of M. Narsinham was appointed to go into the problem of primary agricultural co-operative societies and their failure in agricultural finance. The banking commission report, had also highlighted some of the drawbacks of agricultural financing by commercial banks.

2. Balishter, Role of RRBs,
Co-operative perspective Oct/Dec.1985

In view of all these reports the Government of India issued an Ordinance in Sept.1975 which introduced the Regional Rural Bank Scheme. The first five RRBS were opened on 2nd Oct.1975. Then a number of RRBS have been established in the nation.

In the year 1984, there were 162 regional rural banks with 8727 branches covering 286 districts. These banks had deposits of Rs. 77434 lakhs and total outstanding advances of Rs. 85997 lakhs at the end of June 1984.

At the end of Dec. 1985. 194 RRBS were functioning with 12606 rural brances.

THE REGIONAL RURAL BANKS ORDINANCE 1975.

INTRODUCTORY-

The economic programmes announced by the Prime Minister on July 1, 1975 envisaged among other things, devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers in the context of steps being initiated also under the programmes to liquidate rural indebtedness of these classes of the people. Subsequently a working group set up by the government of India studied the question in depth. In pursuance of these, the president of India promulgated on Sept.26,1975 an ordinance viz "The Regional Rural Banks Ordinance,1975." which extends to the entire nation. The scheme of Regional Rural Banks (RRBs) which emerges from the provisions of the ordinance is briefly outlined below.

OBJECTIVES, ESTABLISHMENT AND CAPITAL.

The main objective of the ordinance is to provide for the establishment of RRB for provision of credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas. In terms of the ordinance, the Central Government is empowered on the request of any bank, called 'Sponsor Bank' to establish in a state or Union Territory one or more RRBs with such name as may be specified in the notification issued by it. Each RRB will operate within the local limits to be specified by notification. Every RRB will be a corporate body with perpetual succession and a common seal. If it is necessary a RRB might also establish branches or agencies at any place notified by the government. The Head Office of the RRB will be at such a place within the local limits as specified by the government after consultation with Reserve Bank of India and Sponsor Bank. A sponsor Bank. A sponsor Bank will assist the RRB sponsored by it in several ways. It will subscribe to the share capital of the RRB, assist in its establishment, recruitment, training of personnel during the initial period of functioning of RRB and in general, provide such managerial and financial assistance as may be mutually agreed upon between the Sponsor Bank and the RRB.

The authorised Capital of each RRB will be 1 Cr. Rs. which the Central Government may increase or decrease in consultation with the RBI and the Sponsor Bank, subject to a minimum of Rs. 25 lakhs. The issued capital of each RRB will be Rs. 25 lakhs. The Of the issued capital 50% will be

subscribed by the Central Government, 15 % by the concerned State Government and the balance 35% by the Sponsor Bank. There is a provision for increase in the issued capital by the Board of Directors of the RRB concerned after consultation with RBI and Sponser Bank and with the prior approval of the Central Govt. The shares of RRB shall be treated as trusted securities for the purposes of section 20 of the Indian Trust Act, 1882 and shall also be treated as approved securities for the purposes of Banking Regulation Act, 1949.

MANAGEMENT :-

The general Superintendance, direction and management of the affairs and business of a RRB is vested in a Board of Directors. In discharging its functions it has been specifically laid down in the ordinance that the Board should act on business principles and should have due regard to public interest. Further a RRB in the discharge of its functions will be guided by such directions in regard to matter of policy involving public interest as the Central government, may give after consultation with the Reserve Bank. Besides the Chairman, the Board of Directors will consist of not more than 3 directors to be nominated by the Central Government, not more than 2 Directors to be nominated by the Concerned state Government and not more than 3 Directors to be nominated by the Sponser Bank. The Central government is empowered to increase the number of members of the Boards subject to a maximum of 15 and also prescribe the manner in which the additional number may be filled in. The Chairman of a RRB will be appointed by the Central Government., for a term not exceeding 5 years and hold the office during the

tenure of the Central Governemnt. He is eligible for reappointment. The Chairman is required to devote his whole time for affairs of the RRB and subject to the superintendance, control and direction of the Board he will have the management of the whole of the affairs of the RRB. A Director will hold office for a period of 2 years and is also eligible for renomination.

A RRB is empowered to appoint such number of officers and other employees as it may consider necessary on terms and conditions as it may determine provided the remuneration of the officers and other employees appointed by it are such as may be prescribed by the Central Government. In prescribing such remuneration the Central Government, will have due regard to salary structure of the employees of the state government, and the local authorities of comparable level and status in the area of operation of the RRB. A provision has also been made for a RRB to have officers and other employees from the Sponser Bank on deputation during the initial stages. It should be noted that the ordinance specifically provides that not withstanding the provision in the Industrial Disputes Act, 1947 or any other law in the force, no award decree and decision or order of any industrial tribunal, court or other authority made before the commencement of this ordinance will apply to the terms and conditions determined by a RRB in relation to the persons appointed by it.

BUSINESS :-

Every RRB is authorised to carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 and may engage in one or more forms of business specified in such sub section (1) of section 6 of that Act.

In particular, a RRB is required to undertake the business of a Granting of loans and advance to small and marginal farmers and agricultural labourers, whether individually or in groups and to co-operative societies, including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers service societies for agricultural purpose of agricultural operations or for other related purposes.

b) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities, within its area of operation.

The books of every RRB shall be closed and balanced as on the 31st Dec. of each year and its accounts shall be audited by auditors appointed with the approval of the Central Government. Within sixty days from the date of closure of its accounting year, every RRB is required to send to each of its shareholders its annual report. After making provisions for bad and doubtful debts etc. a RRB may, out of the net profits declare a dividend. A RRB has to observe practices and usages customary among



particularly ~~the~~ obligations as to fidelity and secrecy. No provisions of law relating to the winding up on companies will apply to a RRB. A RRB will not be placed in liquidation save by order of the Central Government.

Provision of Assistance to RRB from RBI National Agricultural Credit (Long Term Operation) Fund, National Agricultural Credit (Stabilisation) fund, can be made.

Deposits with RRBs have been insured with the Deposit Insurance Corporation by a suitable amendment to the relevant Act.

TAX CONCESSIONS.

The ordinance has laid down that for the purpose on Income Tax Act 1961 or any other enactment for the time being in force relating to any tax on income, profits or gains a RRB will be deemed to be a co-operative society. Further a RRB is not liable to pay tax under the Interest Tax Act 1974. ^{3.}

The Ordinance, thus provided the legal foundation for the establishment of RRB.

3. Reserve Bank of India Bulletin - Jan.1976.
The Regional Rural Banks Ordinance.

1.4

COMMITTEE ON REGIONAL RURAL BANKS.DANTWALA COMMITTEE.

The RRB thus came into operation from 1975. The Government of India, wanted to review the working of RRBS and hence it appointed a committee under the chairmanship of Shri.M.L. Dantwala in June 1977. The main findings or conclusions of the committee may be summarised as follows.

- 1) With some modifications in their organisation and functions, the RRBS can become a very useful component in the totality of rural credit structure.
- 2) The Dantwala committee is convinced that within a short period of two years, RRBS have demonstrated their capability to serve the purpose for which they were established.
- 3) The RRBS have established " their image as a new type of institution catering to the credit needs of a class was hereto not available."
- 4) Hence the Dantwala committee does not approve of the idea of scrapping the RRB structure.
- 5) RRBS are well suited for the purpose of progressively filling up the gap in the rural section.
- 6) Hence the programme for the establishment of more RRBS deserves to be accelerated.
- 7) In the Dantwala committee's view establishment of RRBS "will not disturb the co-operative credit structure at the base level." It is assured that the reorganised primary Agricultural co-operative credit societies and farmers service societies, wherever they can be effectively organised will constitute "the base of the

rural credit structure."

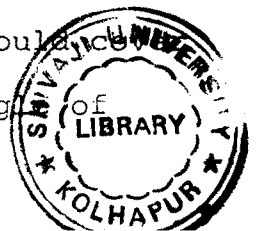
- 8) RRBS should " function at the intermediate level."
- 9) As regards RRBS relationship with the co-operative credit structure "where the co-operative institutions at the intermediate level (Central co-operative Bank, i.e. District central co-operative Banks.) and the retail level (i.e. PACCS and FSS) are weak and inadequate, RRBS can fill up the gap."
- 10) In the first instance, RRBS should be extended to such areas where the central co-operative Banks (i.e. DCC Banks) are not able to adequately service Primary Credit Societies within their jurisdiction. Where the co-operative structure at the intermediate level (DCC Banks) is fairly strong, the question arises as to whether RRBS and the co-operative pattern at the intermediate level (i.e. Banks) can co-exist.

The Dantwala committee is of the opinion that, "the credit gap, both quantitative and qualitative, is so large that given a spirit of understanding, both RRBS and DCCBs can function side by side without a clash of interest. This means that the most ~~relevant~~ relevant criterion for the selective extension of RRBS is the state of the co-operative credit structure at the district level."

In as many as 182 districts the CBS (i.e. DCC Banks) are weak. The 48 RRBS established so far cover 55 of these 182 districts. To start with the programme of establishing new RRBS should be jointly chalked out

by the Agricultural credit Department and the Department of Banking operations and Development of the RBI in consultation with the state Governments and commercial banks.

- 11) Commercial Banks operating the in "command area" of a RRB should be persuaded to " progressively entrust their rural credit business which their rural branches are currently doing, to RRB and its branches, keeping in view RRB's capability to shoulder the responsibility.
- 12) In the opinion of the Dantwala committee, "the total replacement of rural branches of CBS (i.e. commercial banks) by RRBs and their branches over a period of the time would be acceptable to commercial banks and be welcome by the rural clientele."
- 13) There has been since 1969 rapid expansion of rural branches of commercial banks. The Dantwala committee has suggested that the Reserve Bank may discuss with the commercial banks. "the policy of extension of their rural branches during the first phase of selective establishment of RRBs. The committee has recommended that the Government of India and the Reserve Bank may take steps to initiate the process of making RRBs an integral part of the rural credit structure."
- 14) The Dantwala committee is of the opinion that "Ideally, the jurisdiction of a rural bank, (RRB) should be confined to one district. Since the size and the state of economic development of districts vary a great deal, it is advisable to retain some flexibility in this and other related matters." Naturally one RRB should have as population of 10 to 20 lakhs. From the ang



financial viability and managerial efficiency, the reasonable number of branches (per district) of each RRB will be between 50-60. Each RRB would cover approximately a population of about 20,000.

The Review committee has analysed the question of viability of RRBs. The committee has indicated that with only the existing staff and salary scales, the average branches of the RRBs will have to do total business of Rs.4.74 lakhs to break even. But if the staff strength increases and with about 8 % dividend to local shareholders to be guaranteed (as is proposed.) a branch may have to do loan business of about Rs.6.50 lakhs to break even. This would mean that for a RRB with about 50 branch offices, the minimum loan business it will necessarily have to do just to break even would be around Rs. 3 crores. At present the average loan business of RRB is around to Rs. 47 lakhs only.

There is also another important aspect to be considered. How long will be RRBs continue to get staff on deputation from the sponsor commercial banks which at present bear their expenses on salary account ? It is thought that if RRBs pay fully their staff, their expenses will rise twofold or threefold. This would mean that the business conducted by RRBs will have to rise considerably for them just to break even and rise much more substantially. If they are to make profits out of their business. The question that arises is whether the cost should be so subsidised in the interest of rural areas. It is also observed that in the case of another rural financial institution, namely

co-operative societies also, their financial viability conceals many types of subsidies such as lower rates of interest charged by the Reserve Bank of India on loans given by it to the co-operative credit societies, tax relief and so on. They do not enter into formal accounting. Any way, if the cost of running the RRBS is to be subsidised for some years, say ten years or so, to promote the cause of social benefit to people in rural areas, care must be taken to see that the RRBS provide credit to right parties, in quantities which are adequate, and credit which is productive.

The Review Committee expressed satisfaction in regard to locational planning of ~~the-thought-these-are~~ RRBS thought there are critics who are not fully satisfied with locations of branches of the RRBS. The committee has also observed that financial viability could be realised in 3 to 4 years, but the critics pointed out that actual records do not bear out this prediction. The committee has also expressed satisfaction regarding overall recovery performance, though not all may accept this conclusion. The critics maintain that the available data regarding the working of the RRBS ranging just from 6 months to 20 months may not be adequate to judge properly the efficiency or otherwise of the RRBS. What however needs to be emphasised is the possible credit gap in rural areas ~~and~~ and inability to fill that gap by co-operative banks and branches of commercial banks and therefore the necessity of RRBS having a positive role in the rural credit system. If it is so, then it will not be helpful to make a fuss over the deficiencies and difficulties encountered by the RRBS in their functioning, what is necessary is to find out the conditions under which the RRBS will function more efficiently and be in a position

to fill the possible credit gap and become viable financial institutions as early as possible.

RRBS AND COMMERCIAL BANKS.

As regards relationship between RRBS and commercial banks functioning in rural areas in the opinion of the Dantwala Committee, commercial bank would prefer to meet the credit requirements of the rural areas through RRBS and their branches (wherever they are established.) The committee recommended that the Reserve Bank may discuss this issue with the commercial banks and take a decision regarding further licensing of rural branches of commercial banks. It is obvious that the two patterns. One of RRB and its branches and the other of a rural branch network of commercial banks, can not co-exist if duplication is to be avoided.

The Dantwala Committee recommended that where the RRBS are established, there should be definite understanding that all commercial banks, not only the sponsoring Bank- will hand over, in a phased manner, such of their rural credit business to the RRB as would fall within its jurisdiction or which it can effectively handle.

The Committee was appointed with/following objectives.

- i) To evaluate the performance of the RRBS in the light of the objectives for which they were established.
- ii) To indicate their precise role in the rural credit structure.
- iii) To make recommendations with regard to the scope, methods and procedures of their functioning and other matters germane to the enquiry.

CONCLUDING REMARKS.

There are at present working in rural areas PACs, RRBs, Lead Banks, Commercial Banks and Farmers Service Societies. There appears to be no clear demarcation of the areas they are to cover or functions they are to perform or clientele they are to cater to. There is no clear conception as regards the future role which some of them are to play or place which they will occupy in the future scheme of things. Seeing the confusion that persists even among the members of number of committees that are being set-up sort out all these problems arising out of the acceptance of the multi-agency approach to agricultural finance, one wonders as to how much confusion must be prevailing at the village level, both among the personnel running these various credit institutions and especially among illeterate rural population to whose needs all these credit institutions are meant to cater. ⁴.

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S.S.M.Desai - Rural Banking in India. page.293.

1.5 CONCLUSION.

This the first chapter thus discussed the introductory review of the RRB Scheme.

The Second chapter is devoted to the discussion of the methodological details of the present study, Objectives and hypothesis.

The Third chapter discusses the historical background of the Solapur Gramin Bank and the performance analysis of the bank on the basis of Secondary data.

The fourth chapter is mainly concerned with the results of the field survey undertaken for the purpose of evaluating the impact of Solapur Gramin Bank. The Chapter also discusses the problems in the working of Solapur Gramin Bank.

The Fifth chapter summarises the main findings of the study and suggests suitable modifications for the smooth and effective working of the RRB Scheme on the basis of the study of Solapur Gramin Bank.