



# **A Study on Credit Facilities of Regional Rural Banks to Agriculture - Sector In Karnataka**

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## **Abstract**

The rural sector affects directly or indirectly almost all the economic activities in the country and provides employment to the maximum number of people. A large part of their venue of the government is also generated from the rural necessity of rural finance was felt to provide protection & reliance to rural people like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. Including problem of finance they also suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural indebtedness. The regional rural banks Act of 1976 provide for the incorporation regulation and winding up RRB's According to this Act, the RRB's were to be set up mainly with a view to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matters connected therewith or incidental thereto.

Key words: Regional rural banks, Credit Facilities, Agricultural, NABARD

## **INTRODUCTION**

Rural development has to play a phenomenal role in the overall socio-economic development of a country like India, where the majority of the population lives in rural areas. The rural sector affects directly or indirectly almost all the economic activities in the country and provides employment to the maximum number of people. A large part of their venue of the government is also generated from the rural necessity of rural finance was felt to provide protection & reliance to rural people like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. Including problem of finance they also suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural indebtedness.

The Regional Rural banks were established on October, 2nd 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers, agricultural laborers, rural artisan and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas. The aim of rural banks is to bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economic development in rural India. They will extend productive credit to the rural community and they will have purely rural orientation in their activity and in the manner of extending their activity. The history of regional rural banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of regional rural banks in India. The committee felt the need of 'regionally oriented rural banks' that would address the problems and requirements of the rural people with local feel, yet with the same level of professionalism of commercial banks. Five regional rural banks were set up on October 2nd with a total authorized capital of Rs. 1 cores, which later augmented to Rs. 5crores's. There were five commercial banks, .Punjab National Bank, State Bank of India, Syndicate Bank, United Bank of India and United Commercial Bank, which sponsored the regional rural banks. The equities of rural banks were divided in a proportion of 50:35:15 among the Central Government, the Sponsor bank and the concerned State Government.

The proposal for setting up rural banks was first mooted by the banking Commission in its Report in 1972. It recommended that a chain of "Rural Banks" established in addition to the regular branches of commercial banks. Thus the regional Rural banks were born in October 1975 largely at the initiative of the then finance minister C.Subramaniam, backed by strong support of prime minister Mis.Indira Gandhi. Let us now understand the reasons of establishing regional Rural banks. Until 1968, the official policy was to develop the co-operative system as the sole agency for meeting agricultural credit requirements. But, the all India rural credit review committee (1969), pointed out that "over large parts of the country smaller farmer have been handicapped in having access to co-operative credit both for current inputs and viable investment" it was, however, felt at this that co-operatives are not adequately meeting the credit requirements of agriculture.

The regional rural banks Act of 1976 provide for the incorporation regulation and winding up RRB's According to this Act, the RRB's were to be set up mainly with a view to develop the rural economy by proving for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matters connected therewith or incidental thereto. The RBBs Act has made various provisions regarding the incorporation, regulation and working of RRBs. According to this Act, the RRBs are to be set-up mainly with a view to develop rural economy by providing credit facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas.

**Functions of RRB's:** Every RRB is authorized to carry on to transact the business of banking as defined in the Banking Regulation Act and may also engage in other business specified in Section 6 (1) of the said Act. In particular, a RRB is required to undertake the business of Granting loans and advances to small and marginal farmers and agricultural labourers whether individually or in groups, and to cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service societies, primary agricultural purposes or agricultural operations or other related purposes, and granting loans and advances to artisans, small entrepreneurs and persons of small

means engaged in trade, commerce, industry or other productive activities, within its area of operation. The Reserve Bank of India has brought RRB's under the ambit of priority sector lending on par with the commercial banks. They have to ensure that forty percent of their advances are accounted for the priority sector, within the 40% priority target, 25% should go to weaker section or 10% of their total advances to go to weaker Section

### **Area of operation:**

The RRB's are financial institutions with banking functions, namely, dealing in money through deposits and loaning. The area of operation of each RRB is specified, the jurisdiction of each RRB was to be within specified districts in a state and its branches within limits specified within the districts. Thus, the region served by a regional rural bank is normally a cluster of districts, (one to five) .its branch office will generally cover one to three blocks and be in a position to finance five to ten farmer's service societies(FSS's)

The area of operation of regional rural banks is selected very carefully. One criterion adopted is the absence of banking facilities, either co-operative or commercial in the region besides continuity of the area, areas having certain homogeneity in agro-climatic conditions and rural clientele is also taken into account while specifying the area of a RRB. The economic backwardness of some of the districts is also weighed favorably for locating a RRB. Each regional rural bank will be sponsored by a scheduled commercial bank(mainly by a public sector bank). It will be set up at the initiative taken by the sponsoring bank in consultation with the concerned state government and central government and under license from the Reserve Bank of India. The sponsoring bank will provide assistance to the RRB in several ways. It will assist the RRB by subscribing party to its capital and in its establishment, recruitment and training of the personnel, and in general provide such managerial and financial assistance and may be mutually agreed upon between the sponsor bank and RRB.

### **Capital structure**

The authorized capital of each RRB is placed at rupees one crore and the capital of rupees 25 lakhs. The issued capital would be subscribed by the Government of India, the sponsoring bank and, the concerned state Government in proportion of 50%, 35%, 15% respectively. The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank. The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at 19304 crore as on 31 March 2013 as against 16462 crore as on 31 March 2012; registering a growth of 17.26%. The increase in owned funds to the tune of 2842 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to 6174 crore of total owned fund while the balance amount of 13130 crore represented reserves

**Methodology of the study:** Present study is considered both primary and secondary data is collected through interviews and questionnaires from respondents of Sakaleshapura Taluk, and manager and staff of Kaverigramina bank branches.

- **Primary source:** In our study the primary sources was collected through the simple random sampling from the account holders of Kaverigramina bank of Sakaleshapura. The data was collected through the interview schedule, personal interview and manager and staff Interview was also conducted for the sake of our study and sample random size is 50 Account holders.

- **Secondary source** :The secondary data is collected from the government report, documents, research articles, journals, news papers and internet. Appropriate statistical tools are used for the analysis and interpretation of data.

### Objectives of the study:

- To study the financial support to the agricultural activities in the rural area of study region.
- To study about borrowing and lending credit system among the farmers and banks.
- To study about repayment and Non Performing A assets among the RRB's.

### Hypothesis of the study:

- RRBs lending required amount of credit to borrowers.
- RRBs given loan at minimum rate of interest.
- Borrowers repay the loan within stipulated time period.

**Kaveri Grameena Bank** is a Regional Rural Bank established under Regional Rural Banks' Act 1976, is a Scheduled Bank jointly owned by Government of India, State Bank of India (formerly by State Bank of Mysore) and Government of Karnataka (share capital contributed in the ratio of 50 :35:15 respectively), permitted to carry all kinds of banking business. The Bank is operating in 10 Districts of South Karnataka, having its Head Office at Mysore City with eight Regional Offices at Mysore, Mandya, Bangalore, Tumkur, Hassan, Chamarajanagar, Madikeri and Chikmagalur with 8 IT officers. The Bank came into existence on 1 November 2012 (Sponsored by State Bank Of Mysore) by Amalgamation of Cauvery Kalpatharu Grameena Bank, Chikmagalur Kodagu Grameena Bank and Vishvesvaraya Grameena Bank, Sponsored by State Bank of Mysore, Corporation Bank and Vijaya Bank respectively.

### PROFILE ABOUT KAVERI GRAMEENA BANK

Kaveri Grameena Bank (KGB), a Regional Rural Bank established under the Regional Rural Banks' Act 1976, is a Scheduled Bank jointly owned by the Government of India, State Bank of Mysore and Government of Karnataka (share capital contributed in the ratio of 50 :35:15 respectively), permitted to carry all kinds of banking business. The Bank operates in 10 districts of South Karnataka, having its Head Office at Mysuru City with eight Regional Offices at Mysur, Mandya, Bangalore, Tumakur, Hassan, Chamarajanagar, Madikeri and Chikmagalur. The Bank came into existence on 1st November, 2012 (sponsored by State Bank Of Mysore) by amalgamation of Cauvery Kalpatharu Grameena Bank, Chikmagalur Kodagu Grameena Bank and Vishvesvaraya Grameena Bank, sponsored by State Bank of Mysore, Corporation Bank and Vijaya Bank respectively. "Care and Concern for Customer is Our Motto" is their tag line.

**Branch Net work of Kaveri Gramina Bank in Karnataka**

Sl.No	District	Number of branches
1.	Mysuru	110
2.	Chamarajanagra	29
3.	Hassan	62
4.	Tumakuru	70
5.	Ramanagara	16
6.	Bengaluru Rural	21
7.	Bengaluru Urban	49
8.	Chikkamagaluru	57
9.	Kodagu	24
10.	Mandya	68
<b>Total</b>		<b>506</b>

**Information about gender of Family members of bank account holders**

Respondents	Frequency	Percentage
Male	106	51.45%
Female	100	48.54%
<b>Total</b>	<b>206</b>	<b>100%</b>

**Source: complete the primary data**

Above table explain about gender of family members Male is 106 members and female is 100 members respectively percentage is 51.45% and 48.54% .

**Age group of family members of account holders**

Age	Frequency	Percentage
1 to 15	28	13.6%
15 to 30	47	22.8%
30 to 60	115	55.8%
60 above	16	7.7%
<b>Total</b>	<b>206</b>	<b>100%</b>

**Source: complete the primary data**

Above table explain about age group , 28 members comes under 1 to15 age group, 47 members comes under 15 to 30 age group, 115 members comes under 30 to 60 age group and 16 members comes under 60 above age group, respectively percentage is 13.60%, 22.80%, 55.80%, and 7.70% , totally members is 206.

**Educational Status of the respondents**

Education level	Frequency	Percentage
Primary	15	34%
High school	12	27%
PUC	5	11.36%
Degree	7	15.9%
Job oriented	2	4.5%
Post graduate	3	6.8%
<b>total</b>	<b>44</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about Educational Status (present studding) primary education level frequency is 15, high school level frequency is 12, PUC level frequency is 5, degree level frequency is 7, job oriented education level frequency is 2 and post graduate level frequency is 3. And respectively percentage is 34%, 27%, 11.36%, 15.09%, 4.50% and 6.80% totally frequency is 44 is number of at present studding member.

**Source of income of account holder's**

Source of income	Frequency	Percentage
Only agriculture	18	36%
Agriculture and allied activities	32	64%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about Source of income of account holders family, 18 families income from only agriculture and 32 families income from Agriculture and allied activities .

**Information about PDS Card**

Respondents	Frequency	Percentage
BPL	33	66%
APL	17	34%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about having PDS Card , 33 families have BPL card and 17 families have APL car . respectively percentage is 66% and 34%.

**Information about size of land holding (in acres)**

Size of land (in acres)	frequency	Percentage
1 to 5	23	46%
5 to 10	12	24%
10 to 15	5	10%
15 to 25	6	12%
25 above	4	8%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about size of land holding, 23 families have 1 to 5 acres, 12 families have 5 to 10 acres land, 5 families have 10 to 15 acres, 6 families have 15 to 20 acres and 4 families have above 25 acres land.

**Information about annual income of bank account holders**

Income range	frequency	Percentage
0 to 5,000	21	42%
5,000 to 10,000	15	30%
10,000 to 20,000	6	12%
20,000 above	8	16%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about annual income of bank account holders, 21 families have 0 to 5,000 income range, 15 families have 5,000 to 10,000 income range, 6 families have 10,000 to 20,000 income range, and 8 families have above 20,000 income range.

**Information about loan borrowed from bank**

Loan amount range	frequency	Percentage
5,000 to 20,000	13	26%
20,000 to 50,000	18	36%
50,000 to 1lakhs	6	12%
1lakhs above	8	16%
Did not get the loan	5	10%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about How many account holders did get the loan?, 13 account holders did get loan of 5,000 to 20,000 amount range, 18 account holders did get loan of 20,000 to 50,000 amount range, 6 account holders did get loan of 50,000 to 1 lakhs amount range, 8 account holders did get loan of above 1 lakhs amount and 5 account holders did not get the loan.

**Information about utilization of loan for various purposes**

Particulars	frequency	Percentage
Agriculture	37	74%
Non- agriculture	13	26%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table and diagram explain about how many people get the loan for what purpose, 37 account holders did get loan for agriculture and 13 account holders did get loan for non-agriculture respectively percentage is 74% and 26%.

### Information about crop insurance

Response	Frequency	Percentage
Yes	27	54%
No	23	46%
<b>Total</b>	<b>50</b>	<b>100%</b>

**Source: complete the primary data**

Above table stated that regarding crop insurance covered by 27 account holders it is about 54percent and crop insurance does not have by 23 account holders that is the 46percentage in the study area.

### Hypothesis testing

The hypotheses were considered for the purpose of the study and same could be tested based on the simple statistical tools like mean value.

- The study assumed that banks are lending required amount of loan to the borrowers, therefore the hypotheses is accepted.
- The present study assumes that RRBs given loan at minimum rate of interest. RRB's provide the agriculture loan at 7% rate interest for one year and 14% for one year above, this is high rate of interest for agriculturists, bank should be reduce the rate of interest and should provide the various services, this hypothesis rejected
- The present study assumes that Borrowers repay the loan within particular duration period .66% borrowers did repay the loan within particular duration period (1 year) and 10% borrowers did not repay the loan within particular duration period and 24% borrowers did not repay the loan.

### Efforts for improving the efficiency of RRB's

In view of the unsatisfactory recovery position of RRB's NABARD has been monitoring their working in relation to important parameters such productivity, cash management, advances portfolio and recovery performance, and advising RRB's about remedial steps. A package of short-term measures of immediate relevance to RRB's was devised in 1993 implementation. These measures included :

- ✓ Freeing of RRB's (with disbursements less than Rs.2crore during 1992-93 from their service area obligation;
- ✓ Increasing their non-target group financing 40% of fresh lending to 60% with effect from 1January 1994;

- ✓ Relocation of some of loss making branches at agricultural produce centers, market yard, etc.;
- ✓ Freedom to open extension counters and
- ✓ Upgrading and deepening the range of their activities to non business such as remittance and discount facilities.

Further, RRBs have been allowed to provide loans for non-priority sector purposes like loans for consumer durable and for various purposes against the security of gold ornaments, national savings certificates, Indiravikaspatra, to both target and non target groups up to an extent not exceeding 10% of their fresh lending to be accounted for within the overall ceiling of 60% of fresh loans fixed non target group lending.

### **Improvement in the Working of RRBs**

- ✓ The unique role of RRB in providing credit facilities to weaker sections in the villages must be preserved. The RRB should exist as rural banks of the rural poor.
- ✓ The RRB may be permitted to lend up to 25% of their total advances to the richer section of the village society.
- ✓ The State Government should also take keen interest in the growth of RRB.
- ✓ Participation of local people in the equity share capital of the RRB should be allowed encouraged.
- ✓ Local staff may be appointed as far as possible.
- ✓ **6.** Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
- ✓ A uniform pattern of interest rate structure should be devised for the rural financial agencies.
- ✓ The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
- ✓ The credit policy of the RRB should be based on the group approach of financing rural activities.
- ✓ The RRBs may initiate certain new insurable policies like deposit-linked cattle and other animals insurance policy, crop insurance policy or the life insurance policy for the rural depositors.
- ✓ The RRB may relax their procedure for lending and make them easier for village borrowers.
- ✓ Co-ordination between district level development planning and district level credit planning is also required in order to chart out the specific role of the RRB as a development agency of the rural areas.

### **Conclusion**

Agriculture sector played an important role in Indian economics context still it is playing a magnitude role and in future also it is assured with continuous prominence in Indian economy. Majority of the country's population finds its livelihood in primary sector and allied activities, development of agriculture depends on availability of adequate agricultural inputs and other natural factors among the agricultural inputs credit is very vital input in the form that is institutional credit in this way institutional credit is the life-blood of the primary secondary and also service sector in these background commercial banks, Regional rural development banks ,

primary co-operative societies, primary co-operative agriculture and also other purposes, Among these banks regional rural development bank and primary co-operative bank are played a vital role in the providing, the long term loans is meant for the permanent improvements in the land and making capital investment in the form of creating assets and such others, which adds the assets to the real assets .

RRBs which were setup with the intention of extending credit to the rural poor have succeeded in the objective of taking banking services to the villages, but have however, failed to make a clear dent on credit to the rural poor during the past 30 years of their existence. This has to be viewed in the context of the policy framework for rural development adopted in India with focus on income and employment generation and poverty alleviation. The renewed emphasis on agricultural and rural development by the Government of India would lead to a growing demand for different types of financial services in the rural areas, as financial needs of the rural economy becomes diversified. The present structure of rural credit may not be able to cater to the same. RRBs would be called upon to play a greater role in providing such services due to their rural character and feel. RRBs have to take over a larger share of credit disbursements calling for much larger resource mobilization, as also greater efforts for their institutional strengthening. After an in-depth examination of the prevailing scenario in rural banking operations, expected role of RRBs, amalgamation of RRBs at state level, level of computerization in various RRBs, financial health of RRBs and also future challenges before RRBs as a one-stop entire banking service provider, the Task Force recommended the following:

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