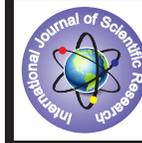


Role of Regional Rural Banks (RRBS) and National Bank of Agriculture and Rural Development (NABARD) in Rural Development in India



Finance

KEYWORDS : RRBS, NABARD, Rural Development

M. PRABAKARAN

Ph.D. Scholar of Political Science Department, Periyar Maniammai University, Thanjavur

ABSTRACT

Gandhiji said "real India lies in villages" and village economy is the backbone of Indian economy. The Government of India is developing rural areas through Five years Plans but it is not achieved target of enhancing rural development. The Regional Rural Banks (RRBs) were established in October 02, 1975 for economic development in the rural India and to provide credit to the rural people by the Government of India. National Bank of Agriculture and Rural Development (NABARD) was set up in July 1982 as apex institution to provide refinance facilities to rural financial institutions. This article explains the role of RRBs and NABARD in developing rural area in India and to analyze the achievement and overall performance of RRBs and NABARD.

INTRODUCTION

Agriculture is the back bone of Indian economy and nearly two third of the population is dependent on the sector. Indian agriculture suffers from poor productivity, falling water levels, expensive credit, distorted market, several intermediaries and poor infrastructure. The Government of India have been implemented various important plans and programmes for rural development through Five Year Plans since 1951 but much programmes failed to achieve the desired objectives due to the backward economic condition and lack of adequate finance to the poor people in the rural areas.

The Narasimham Committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the Commercial Banks or Co-operative Banks to meet out the needs of rural areas. Accepting the recommendations of the Narasimham Committee, the Government passed an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 and RRBs were established and started their development process on 2nd October 1975.

The RRBs were established "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto".

The RRBs are jointly owned by Government of India, the concerned State Government and sponsor Banks (27 Scheduled Commercial banks and one State Co-operative Bank) with the capital of 50%, 15% and 35% respectively.

The RBI has brought RRBs under the ambit with the Commercial Bank. They have to ensure that forty percent of their advances are accounted for the priority sector. Within the 40 percent priority target, 25 percent should go to weaker sector or 10 percent of their total advances to go to weaker section.

National Bank of Agriculture and Rural Development (NABARD) was set up an apex Development Bank on 12 July 1982 in the terms of the Preamble to the Act for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas.

OBJECTIVES

The main objective of setting of the Regional Rural Banks are to provide credit and other facilities, especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas. Further the RRBs are to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban area and grant loans and advances mostly to small and marginal

farmers, agricultural labourers and rural artisans. The area of operation RRBs are limited to the area as notified by GOI covering one or more district in the State.

NABARD is providing refinance, training and research facilities to lending institutions in rural areas and promoting institutional development and monitoring the client banks and assist to the Government and the Reserve Bank of India and other organizations in the matters relating to the agriculture and rural development. Further objectives are:

- To provide refinance to eligible institutions, viz., State Land Development Banks (SLDBs), State Cooperative Banks (SCBs), Scheduled Central Banks and Regional Rural Banks for supporting production and investment credit for developmental activities in rural areas.
- To improve the absorptive capacity of the credit delivery system through institution building by monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- To co-ordinate the activities of different agencies engaged in developmental work at the field level and to keep liaison with Government of India, State Governments and Reserve Bank of India and other national level institutions connected with policy formulation, and
- To undertake monitoring and evaluation of projects refinanced by it.

PURPOSE

NABARD was established as the premier Rural Development Bank and the main purpose is to provide credit for the development and publicity of small scale industries, handicrafts, rural crafts, village industries, cotton industries, agricultural etc.

The NABARD also supports all other related economic operations in the rural sector, promotion of sustainable growth in the rural sectors.

The NABARD also plays the role of a contribution to the rural development by the means of promoting institutional development, facilitating refinance to loan providers in the rural sector, inspection, monitoring, and evaluation of client corporations.

FUNCTIONS

The main functions of NABARD have been divided into three categories; (a) Credit Distribution; (b) Developmental and Regulatory as under:-

(a) Credit Distribution:-

It provides short-term credit to State Cooperative Banks (SCBs), Regional Rural Banks (RRBs), and other financial institutions approved by the RBI for (i) seasonal agricultural operations; (ii) marketing of agricultural produce; (iii) marketing and distribution of such inputs as pesticides, fertilizers etc; (iv) other activities related to rural / agricultural sector; (v) real commer-

cial trade activities; (vi) production and marketing of the handicrafts, small industries, village and cottage industries, artisans, silk industry etc. The duration of short-term loans for the above purposes is up to 15 months.

The NABARD provides medium-term credit to SCBs, RRBs, and other approved institutions for the period ranging from 18 months to 7 years. The medium-term loans are given for investment schemes relating to agriculture and rural sector.

The NABARD provides long-term credit to SLDBs, RRBs, Commercial Banks, SCBs and to any approved financial institutions for (i) minor irrigation, land development, soil conservation, dairy development, sheep rearing, poultry farming, pig rearing, farm mechanization, a forestation, fish farming, storage and market yard, agricultural operations through aero plane, bio-gas and other alternatives sources of energy, silk production, cattle and cattle driven carts, compost equipment pump set, and other agricultural and related activities. The duration of the loan is for a period of 25 years.

The NABARD provides refinance facilities to SCBs and RRBs in the event of changes and rearrangement of credit when there is drought, famine or other natural calamities, army operations, enemy operations, etc. Such facilities are also provided to loans given to artisans, small industries etc. The duration of such refinance facilities is not more than 7 years.

The NABARD provides refinancing facilities to all small, village and cottage industries in rural areas.

(b) Developmental Functions:-

- Co-ordinates the rural credit institutions;
- Takes measures towards institution building to improve the capacity of credit delivery system;
- Develops specialization to solve problems relating to agriculture and villages;
- Helps the Government, RBI, and other institutions in their rural development efforts;
- Acts as an agent of the Government and RBI for monitoring work in agricultural related areas;
- Provides facilities for research and training to the staff of RRBs, SCBs, LDBs etc., and promotes research in agricultural and rural development activities out of its Research and Development fund;
- Spreads information regarding rural banking and development;
- Helps the State Governments so that they may subscribe to the share capital of State Cooperative Banks;
- Provides direct credit in cases approved by the Central Government connected with agriculture and rural development; and
- Maintains and Easy Credit Aid fund out of its profits so that entrepreneurs getting refinance facilities for village, cottage and very small industries may be provided margin money. This help is given interest-free and is recovered in yearly installment after the loan is repaid.

(c) Regulatory Functions:

- It inspects the working of RRBs and cooperative banks of all types except the primary cooperative banks;
- It also inspects apex cooperative marketing federations, state handloom weaving societies, etc, which are financed on voluntary basis;
- All applications for opening of a branch by the RRB or a cooperative bank, other than a primary cooperative society, are required to be submitted to the RBI through the NABARD;
- All RRBs and cooperative banks submitting returns to the RBI are required to furnish a copy of returns to the NABARD;
- It is empowered to obtain any information or statement from the RRBs and cooperative banks.

Further functions are:

- **Policy Advocacy:** Advisor to Government of India, Reserve Bank of India, State Governments, Evolving of alternative

credit delivery models, Part of committees constituted by GOI, RBI.

- **Planning and Credit:** Monitoring rural credit, preparation of potential lined credit plans, production and investment credit, financing of rural infrastructure.
- **Development and Promotional:** Institutional development – Co-operatives and RRBs, capacity building of stakeholders, research.
- **Supervision:** Statutory inspection of RRBs and Co-operative Banks.
- **Consultancy:** Preparation of IPRs, IETFs, Evaluation of Projects, IVPs, CDRs, etc.

The main function of RRBs are 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 or in group and to co-operative societies, including agricultural marketing societies, agricultural processing societies, cooperative forming 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.

Government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank with a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity / marketing efforts etc., and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities.

SELF-HELP GROUPS

NABARD has been playing a catalytic role in micro-credit through the channel of Self-Help Groups (SHGs).

NABARD provides finance to State Governments for completion of rural infrastructure development projects such as major and minor irrigation projects, soil conservation, rural roads and bridges, SHGs through Panchayati Raj institutions (PRIs) etc., from the "Rural Infrastructure Development Fund" (RIDF) created for the purpose

RRBs have not only provided financial services to the SHG-Bank linkage programme, but have also played a significant role as Self Help Promotion Institutions (SHPs).

RURAL DEVELOPMENT PROJECTS

NABARD works in co-ordination with various Central/State Government agencies, and NGOs to implement projects like, watershed development, dry land farming, waste land development, forestry and other poverty alleviation programmes.

NABARD has also been providing promotional grants to NGOs for various programmes such as mother units, common facility centers, training including skill up-gradation, entrepreneurship development, marketing etc., under exclusive women and other schemes from it "Rural promotion Corpus Fund".

NABARD has established Research and Development (R&D) Fund to gain insights into the problems of agriculture and rural development through in-depth studies and applied research and experimenting innovative approaches backed by technical and economic studies.

NABARD has set up Soft Loan Assistance Fund for Margin Money to provide support to rural entrepreneurs with the required skills and aptitude but unable to provide margin money for availing bank loan.

NABARD has constituted a "Credit and Financial Services Fund" to support credit innovations to improve the outreach of credit to the un-reached rural poor.

RURAL INNOVATIONS

NABARD supports rural innovations from out of its Rural Innovation Fund (RIF) since 2005 to promote innovations across the country, having the rural poor in focus.

NABARD has facilitated 100% Core Banking Solution in 80 RRBs to integrate them with NEFT and RTGS and improve better customer service and operational efficiency.

A special allocation of Rs.2,000 crores was made to NABARD for warehouse financing under RIDF by the Government of India in the Union Budget for 2011-12 and 100 percent fund were utilized during the year by sanctioning warehousing projects to the State Governments and Private sector agencies through Banks. This is expected to create around 9 million metric ton of warehousing infrastructure, particularly for storage of food grains in the country and Government of India on March 19, 2013 approved the revised Food Security Bill to provide uniform 5 kg of food grains per month per person at a highly subsidized price of Rupees one to three per kg to two-third of the country's population.

CONCLUSIONS

NABARD introduced several policy measures for improving overall performance of RRBs and they are

- Quarterly / Half-yearly review of RRBs especially weak ones by the sponsor bank
- Merger of RRBs coming under a sponsor bank and operating in contiguous area
- Off-site surveillance
- Framing of Appointment and Promotion Rules (1998) for the staff of RRBs
- Introduction of Kissan Credit Cards for provision of credit to farmers

NABARD is providing rural India all round assistance and playing in the field of Co-ordination, Institutional development, Evaluation, Monitoring and Training etc., and is successfully achieving its objectives.

The performances of RRBs in respect of some important indicators are certainly better compared with commercial banks or even co-operative banks. RRBs have also performed better in terms of providing loan to the farmers in rural areas. In recent years, RRBs are leading role in financing Self-Help Groups (SHGs) and other micro-credit institutions.

The State Bank of India (SBI) is one of the major commercial banks having regional rural banks. There are thirty Regional Rural Banks in India under the SBI and it is spread in 13 states across India. The numbers of branches of the SBI Regional Rural Banks are more than 2000. Several other banks, apart from the SBI also functions as the promotions of rural development in India.

In Tamil Nadu, Indian Bank has sponsored two Regional Rural Banks viz. Saptagiri Grameena Bank and Pallavan Grama Bank. Pallavan Grama Bank with Head Quarters at Salem is operating 14 districts of Tamil Nadu viz. Salem, Namakkal, Krishnagiri, Dharmapuri, Villupuram, Cuddalore, Coimbatore, Karur, Erode, Nilgiris, Vellore, Tiruvannamalai, Kancheepuram and Tiruvallur.

REFERENCE

- 1) The National Bank for Agriculture and Rural Development Act, 1981 - No.61 of 1981 - 30th December 1981 | 2) www.nabard.org | 3) www.agritech.mau.ac.in |