

REGIONAL RURAL BANKS AND AGRICULTURAL DEVELOPMENT (A CASE STUDY OF BARODA RAJASTHAN KSHETRIYA GRAMIN BANK)

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ABSTRACT

Agriculture is an important avocation of people of India from time immemorial and its contribution to Indian economy has been phenomenal over the years. Agriculture is also a major employment provider to a large chunk of population in India both in rural areas as well as through agro-based industries spread in other areas. The problems affecting the agriculture are reflected in the poor progress in rural areas. The strength of agriculture determines the well being of the rural society. Although a large number of programmes have been undertaken to hasten the progress in the field of agriculture, there are many more issues adversely affecting the agriculture remain unattended. Many households in rural areas are not in a position to take their share of governmental support, because of their low asset base (poor nutrition, low education, marginal/non-existent fix assets). This research paper assess current problems hampering the progress of agriculture and measures to address those problems and evaluates performance of Regional Rural Banks in providing agricultural finance through sample respondents and evolve a package of measures for effective and efficient performance of Baroda Rajasthan Kshetriya Gramin Bank.

KEYWORDS: *Agriculture, Employment, Economy, Kshetriya Gramin Bank, Agricultural Credit.*

Introduction

Agriculture is the dominant sector in Indian economy. No survey of the Indian economy can afford to neglect the agricultural sector. It is the most vital occupation of the population of India and dates back to the time of Indus valley civilization. Agriculture provides food, raw material and employment to a very large section of the rural population. There is hardly any economic activity which is not affected by change in agriculture development. The major aim of the development of agriculture is to improve the quality of life and living conditions of the people who depend on agriculture areas. Agricultural development is a continuous and dynamic process involving constant changes in the structure and behavior of the agriculture. Agricultural development begins about social and cultural development due to increase in per capita income. There is an overall improvement in the quality of life which gets expression in the level of education, health, care, better housing and so on. Moreover, an increase in food grain production results in an increase in income. The cultivators are able to make use of technology and go for the improved method of farming. The development of agriculture contributes much to the development of a nation in many ways such as meets the problem of growing demand for food, earns foreign exchange, provides labour-force to manufacturing sector and stimulates capital formation and industrial expansion. But, the most important way by which agriculture can contribute to overall economic development is through increased agricultural

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production and productivity. Agricultural productivity primarily depends on the quantity and quality of the inputs that are used and the way they are used. Among the inputs required for cultivation, the important ones are land, labour and capital. Increase in irrigation plays a crucial role in the agricultural development. In addition, agriculture has to provide employment for growing labour-force in rural areas. Technical progress in agriculture gives labour surplus which helps in industry development. Further agriculture development not only gives the transfer of labour but also transfer of food. This ability is a basic characteristic of economic development. However there is need for rising agricultural output per man per acre which is required substantial investment like public investment in transportation, irrigation facilities, fertilizer factories, agriculture research and development, private investors in agriculture field and government for making policy of agriculture development.

Review of Literature

A good number of studies have been carried out to study the supply response in agriculture both in India and abroad. An attempt has been made to the findings of some important studies which bear a direct relevance to the present study. Over the years, there had been carried out a number of researches on the agricultural credit. A detailed analysis of the models, underlying assumptions and variables included in the specific studies are not attempted in this discussion. Instead, a brief and general review of the major developments in this field is discussed. The present review takes note of the works on the role of Regional Rural Banks in agricultural development done independently but which have relevance to the proposed work. The first important work on problems and prospects of agricultural development in India, is the report of the Royal Commission on agriculture which provides an exhaustive report on many problems which were responsible for the agriculture backwardness in India, suggestions for the improvement of agricultural situation have also been given. The related reviews are as follows:

Satyanarayana¹ studied the problem of supply response in relation to acreage under sugarcane. He analyzed an important feature in his study, that is, in addition to the usual variables of relative prices he included the installed capacity of the sugar factories and gur prices. He found that the installed capacities of the factories had significant results on the acreage under sugarcane. Another important feature observed was that the influence of other variables varied from state to state.

The inferences drawn by Dayanatha Jha² were equally relevant to Mellor who had mentioned that the agriculture price policy was not a direct stimuli of output. He opined that the increase or the stimulant of output would be the acreage responsiveness. But during the times of modernization and technological change, it is accepted that the price policy may have a direct response to the yield.

Robert Herdt³ made an attempt to estimate aggregate supply function for agriculture. He employed a disaggregate method. In his estimation, he took individual crop supply function for area under different crops and yields per acre individually both for irrigated and un irrigated areas. He used the lagged prices of competing crops to get own price elasticities and crop elasticities.

Singh R. A.⁴ reported that farmers borrowed for fertilizers and also for hiring labour, but not for seeds, implements and irrigation. Credit has a positive influence on farm return of the sampled farmers.

R. V. Dabihavi⁵ has conducted a micro-level study of the problems of agricultural development of backward regions and calls for urgency in re-channelizing the institutional credit flows to micro generating activities in the low per capita income regions.

Chhoteylal, Chaplot & Vashist⁶ have studied the credit policy and pattern of the institutional credit to agricultural. Vashist recommended that there must be scale of finance which must be decided by the agricultural experts and crop loan should also rid itself be beneficial and political influences. While Sen has suggested that every farmer should be given a passbook by the block authorities who should contain details of his land holdings, irrigation cropping pattern, assets and liabilities credit requirements etc.

¹ Satyanarayana, Y., "Factors Affecting Acreage Under Sugarcane in India," Indian Journal of Agricultural Economics. Vol. 22, No. 2, April – June 1967, pp.79–87.

² Jha, D., "Acreage Response of Sugarcane in Factory Areas of North Bihar," Indian Journal of Agricultural Economics. Vol. 25, No. 1, Jan. – Mar. 1970, pp.79 – 91.

³ Robert W. Herdt, "A Disaggregate Approach to Aggregate Supply," American Journal of Agricultural Economics, Vol. 52, No. 2, November 1970, pp. 512 – 520.

⁴ Singh R. A. "Financing of Agriculture Sector", Agriculture Situation in India, 1969, p. 251.

⁵ Dabihavi, R. V. "Why these interstate disparities", Yojana, Vol. 31, No. 11, 1987, p. 4.

⁶ Chhoteylal, "Financing of Agriculture in Eastern U. P., unpublished thesis.

Galbraith¹ supports Dales findings by contending that at a certain stage in agricultural development, credit clearly becomes a necessary and sufficient condition for transformation.

Profile of Baroda Rajasthan Kshetriya Gramin Bank

Baroda Rajasthan Kshetriya Gramin Bank (BRKGB) formed on 1st January, 2013, sponsored by Bank of Baroda on amalgamation of Haroti Kshetriya Gramin Bank, Baroda Rajasthan Gramin Bank and Rajasthan Gramin Bank - all Regional Rural Banks sponsored by Central Bank of India, Bank of Baroda and Punjab National Bank respectively. The objective of amalgamation is to strengthen the Bank so that it can better cater the needs of the clientele in the farm and non-farm sector more effectively. Efficiently and contribute more for the economic development of the area. Consequent upon amalgamation, the operational area of the Bank spreads to 21 Eastern-Northern districts of Rajasthan state.

The Bank is having its Central Office in Ajmer City and has 9 Regional Offices for operational convenience and effective control, duly decentralizing, sanctioning and monitoring of the loans to the needy and to solve operational gaps and customer grievances in an accelerated and effective way. In the area operation, the Bank is a forerunner catering the needs and aspirations of farming community, business class, professional and self employed persons, rural artisans engaged in cottage and tinny industries and other sections of the society, almost covering 1/3rd of geographical area of Rajasthan state. All our 731 branches are fully computerized and functioning under Core Banking Solutions platform with 3158 dedicated staff members rendering effective, timely and needy services to our clientele. The Bank has identified the wishes and aspirations of our customers and number of innovative products to suit their fund based and non-fund based financial needs.

Statement of the Problem

The Indian government has made several attempts to promote agricultural development with an effort to increase the standard of living of the people who reside in rural areas. These efforts have failed for several reasons, including the high cost of living for farmers and the lack of coordination between government and various agencies. This research therefore looked at the impact of these regional rural banks on farmers in the rural areas.

Objectives of the Study

The objective of bank nationalization was stated to include the utilization of resources for economic growth the development of agricultural and industry in neglected regions as well as making institutional finance available to major sector which were neglected. Main objectives of this study are given below:

- To find out the role played by the agriculture in the economy.
- To find out the role played by the regional rural banks in the agricultural development.
- To find out changes in the policy of financing by the regional rural banks for agricultural development to be considered by policy makers in future.
- Finally, to provide suggestions and recommendations on the basis of analysis.

Framework of the Study

Before the nationalization, banks were privately owned, urban biased and purely profit oriented. Such set of banking industry was actually responsible for the concentration of wealth and economic prosperity in the hands of a few. During the renationalization period key sector of the economy including agriculture remained thoroughly neglected, in terms of availability of institutional credit. Lending to major priority sector emerged after the nationalization of banks. The study covers in general, a period of five years from 2012 to 2017.

The Research Design

The present evaluation relied basically on two methods: most of the evaluation and research done by scholars in the area of rural banking scheme (including annuals and monthly reports). Secondly, an exhaustive questionnaire was prepared and administered to large number of randomly selected farmers. Interviews were also conducted to augment the questionnaire information. The objective of this method was to draw out qualitative and quantitative information on long term issues and test them statistically. The questionnaire was administrated to 220 randomly selected farmers.

¹ Galbraith, J. K., "Role of Agricultural Credit in Agricultural Development", 1962, University of California, Berkeley.

In the study, the farmers output is measured by their ability to obtain adequate credit. Field level investigation lasting about two weeks was conducted by the scholar. Hardly any difficulties were encountered during the field investigation.

Data Analysis and Interpretation

Loan use is regarded as a satisfactory basis for assessing the impact of bank loans on agriculture. Since raw materials obtained on credit are riot generally regarded as loans, the sample borrowers covered were asked to report the size of the working capital received as loan from formal institutions and how these loans have enabled them to improve agricultural output. The effect of the bank loan can be better assessed from Table 1 which presents the finding of the survey in the project. The majority of the samples received credits as indicated by respondents indicated were not adequate to purchase farm inputs. However, farmers who achieved increased agricultural output are the more educated and big time rural farmers who were able to receive large amounts of credit. The finding is very important and interesting as education is now a determinant of output and ability to get bank loan.

Furthermore, Table 2 shows loan size against improved agricultural output. About 54.6 % of farmers that received bank loans indicated that the loan did not improve their output, while only 45.4 % indicated the contrary. The Table also depicts the dependence of the small farmer on institutional loans as agent to improving output. The dependence was lower compared to large scale farms.

Table 1: Result of Statistical Analysis Relating Loans, farm size Productivity and Rural Banks

Farm Size	Adequate	%	Fairly Adequate	%	Not Adequate	%	Total	% Total
Small Scale	15	6.8	55	25.0	90	40.9	160	72.7
Large Scale	10	4.6	20	9.1	30	13.6	60	27.3
Total	25	11.4	75	34.1	120	54.5	220	100%

Source: Survey of 220 Farmers

χ^2 (critical value of Chi – square) = 5.99

df (Degree of Freedom) = 2

P (Probability) = 0.05

Calculated value of χ^2 (Loans granted to farmers) = 10.19

The Chi–Square co–efficient is not significant. Thus showing that the establishment of rural banks has not contributed much to agricultural development as anticipated by government. Possible reasons have been proffered earlier in this subsection. Survey data depicts that loan size make no major contribution to agricultural development particularly to the small farmers. The effect of collateral on rural credit market can be better assessed from Table 3. About 41.8 % of the farmers reported that collateral requirements limited their ability to obtain loan. 13 % of the sample attributed their inability to obtain credit to no factor, while proximity of bank to farm location was also a significant constraint accounting for about 26.4%. Fear of default and No factor accounted for 18.2 % and 13.6% respectively.

Table 2: Result of Statistical Analysis Relating Loan Size to Agricultural Development

Farm Size	Yes	%	No	%	Total	%
Small Scale	65	29.5	95	43.2	160	72.7
Large Scale	35	15.9	25	11.4	60	27.3
Total	100	45.4	120	54.6	220	100.00

Source: Survey of 220 Farmers.

χ^2 (critical value of Chi – square) = 3.84

df (Degree of Freedom) = 1

P (Probability) = 0.05

Calculated value of χ^2 (Loans granted to farmers) = 1.99

Table 3: Economic and Non–Economic Factors Impacting Credit

Factor	Number	% of Total
Fear of default	40	18.2
Non – proximity of Bank	58	26.4
Collateral	92	41.8
No Factor	30	13.6
Total	220	100.00

Source: Survey of 220 farmers.

This result supporting other studies concluded that collateral should not be a condition for banks to give loans to rural small scale farmers. Banks should be able to move their services to the rural areas rather than rural clients coming to them. Finally, the study supports the importance of credit on agricultural development and indicates that collateral generates a negative feedback effect on agricultural productivity through credit constraints.

Conclusion

The study asserts and concludes the negative impact of rural banks on agricultural output and development. Rural banks have been able to satisfy the monetization of the rural areas. On the other hand, they failed to provide adequate credit for the rural farmers to buy needed implements, seeds and accumulate capital. Therefore, this work concludes that funds have been flowing from rural to urban areas, thereby the failed in mobilizing the share of rural savings that should be retained in the rural communities, for agricultural transformation. Credit was identified as a significant factor for agricultural development. It is concluded that no significant relationship exists between agricultural development and credit probably as a result of the present character, mode of operation and attitude of the rural banks. Finally, the study detailed out that expansion or opening more of the same banks as suggested by the Central Bank is not a plausible solution; rather prototypes of Grameen Bank or non – institutional organization with relaxed rate of interest are the new type of credit institutions suited for the rural environment. Having considered all factors, summarize by stating that agricultural under – development is a result of inadequate credit facilities and banks' mode of operation and factors that discriminate against and alienate the rural small scale farmers.

Recommendations

Having identified the constraints to agricultural development, possible solutions that will assist in alleviating the constraints are as follows:

- A new banking mode and organization with the responsibility to become an integral part of the development process of a defined territory. This bank will help generate income, create new economic activities, provide special assistance to the rural poor farmer, extricating them from the bondage of the money lender.
- The scholar believe that collaterals which is a negating agent to rural credits are discriminatory factors used by banks as a “screening device” to segment individuals into low and high risk customers. Rather, banks should develop its own tailor – made system to replace the represent cumbersome and discriminating system.
- Information on the operation and location and accessibility of banks should be provided to clients. Banks should carry their services to the client rather than clients going to the banks.
- Government should provide farm inputs such as fertilizers, improved seeds and agricultural research results to farmer. Such inputs should be provided to farmers through community based and localized setups in respective rural areas at subsidized rates.
- Bank objectives should be to eliminate poverty and not just to provide credits. Banks should provide assistance to the economically poor farmers through rurally mobilized savings, by banks going to the clients.

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