

## Role of Regional Rural Banks (RRBs) in Agricultural Finance in India

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### ABSTRACT

*This article explores the vital role of RRBs in agricultural finance in India, their contributions, challenges, and the way forward. This is where Regional Rural Banks (RRBs) play a pivotal role. Established with the objective of ensuring sufficient institutional credit for agriculture and other rural sectors, RRBs have been instrumental in promoting financial inclusion and fostering agricultural growth. This study is significant as it addresses the critical role of Regional Rural Banks (RRBs) in enhancing agricultural finance and promoting rural economic development in India. Data collected from RRB annual reports, the Reserve Bank of India (RBI) reports, NABARD annual reports, Government publications and websites. It is concluded that Regional Rural Banks are crucial for the development of agriculture and rural sectors in India. By providing tailored financial services, promoting financial inclusion, and supporting agricultural development, RRBs play a pivotal role in transforming rural economies. Addressing the challenges they face and implementing strategic measures will ensure that RRBs continue to be a cornerstone of agricultural finance in India, driving growth and prosperity in rural areas.*

**Key Words:** Regional Rural Banks (RRBs), Rural sectors, Reserve Bank of India (RBI), NABARD

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### Introduction

Agriculture is the backbone of India's economy, providing livelihood to nearly 60% of the population and contributing around 15-18% to the GDP. Despite its critical importance, the sector faces numerous challenges, particularly in terms of access to adequate and timely financial services. Nearly 70% of India's population lives in rural areas, significantly

influencing the country's economic landscape. Thus, it is essential to establish a robust and efficient banking system in these areas that offers tailored financial products and affordable credit, as opposed to traditional moneylenders who charge exorbitant interest rates. This is where Regional Rural Banks (RRBs) play a pivotal role. Established with the objective of ensuring sufficient institutional credit for agriculture and other rural sectors, RRBs have been instrumental in promoting financial inclusion and fostering agricultural growth. Regional Rural Banks (RRBs) are crucial for the development and progress of rural and underserved regions in a developing nation like India. This article explores the vital role of RRBs in agricultural finance in India, their contributions, challenges, and the way forward.

### Origin and History of RRBs

Regional Rural Banks (RRBs) were established under the provisions of an ordinance issued on September 26, 1975, followed by the enactment of the RRB Act in 1976. The primary goal was to bridge the credit gap in rural areas and provide financial services to the marginal farmers, agricultural labourers, artisans, and small entrepreneurs. RRBs were created as a hybrid model combining the local feel and familiarity of cooperative banks with the professional management and strong financial backing of commercial banks, five RRBs were established on October 2, 1975, based on the recommendations of the Narasimhan Committee. The first RRB, Prathama Bank, had its headquarters in Moradabad, Uttar Pradesh, was sponsored by Syndicate Bank, and had an authorized capital of INR 5 crores. The other four RRBs included:

- Gaur Gramin Bank (sponsored by UCO Bank),
- Gorakhpur Kshetriya Gramin Bank (sponsored by State Bank of India),
- Haryana Kshetriya Gramin Bank (sponsored by Punjab National Bank),
- Jaipur-Nagpur Anchalik Gramin Bank (sponsored by UCO Bank).

### Evolution of RRBs over the Years

**2001:** The Reserve Bank of India (RBI) constituted a committee chaired by Dr. V. S. Vyas to examine the relevance of RRBs in the rural credit system and explore alternatives to enhance their viability. This committee focused on the flow of credit to agriculture and related activities.

**2005:** Based on the recommendations of the Vyas Committee, a consolidation process was initiated. The first phase involved the amalgamation of RRBs within a state according to their sponsor banks.

**2012:** The second phase of amalgamation was initiated across sponsor banks within a particular state. This was aimed at providing better customer service through improved infrastructure, computerization, an experienced workforce, and unified marketing efforts. The number of RRBs decreased from 196 to 56 by March 31, 2015, with 20,024 branches covering 644 districts across India.

**2020:** Despite efforts to strengthen RRBs, 17 out of 43 RRBs reported losses in 2020. To meet the regulatory requirement of maintaining a 9% Capital to Risk (Weighted) Assets Ratio (CRAR), the Union government disbursed ₹670 crores.

### General Features of RRB

- The authorised capital of an RRB is fixed at Rupees 2000 crore of the issued capital 50% is to be subscribed by the central government. 15% by the concerned state Government and the rest 35% by the sponsoring Bank.
- Sponsor banks give governance and managerial support, equity, financial support operational guidance and capacity building support NABARD gives policy intermediation and supervisory guidance.
- CRR for RRBs set at 4% and SLR at 18% of their total net liabilities, by RBI

### Products of RRBs

RRBs are mandated to provide credit to the rural population, focusing on small-ticket loans in high volumes. They have a target of 75% for priority sector lending (PSL), which includes agriculture (targeting small and marginalized farmers), MSMEs, education, housing, social infrastructure, and renewable energy. The RBI has issued guidelines on various customers to target under PSL and non-PSL categories. RRBs also offer gold, vehicle, and personal loans, along with services like safety deposit lockers, NEFT, and RTGS, which contribute to additional income streams.

### RRBs Contribution to Agricultural Finance

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**Provision of Credit:** RRBs have significantly contributed to the provision of credit to the agricultural sector. They offer various loan products tailored to the needs of small and marginal farmers, covering crop loans, equipment financing, and other agricultural activities.

**Financial Inclusion:** By operating in remote rural areas, RRBs ensure that financial services reach the underserved and unbanked population, thereby promoting financial inclusion. This accessibility helps farmers and rural entrepreneurs to secure funding that would otherwise be out of reach.

**Support for Agricultural Development:** Beyond credit provision, RRBs support agricultural development through initiatives like training programs for farmers, dissemination of information on modern farming techniques, and assistance in forming self-help groups (SHGs).

**Implementation of Government Schemes:** RRBs play a crucial role in implementing government schemes aimed at rural development and agricultural finance, such as the Pradhan Mantri Fasal Bima Yojana (PMFBY) for crop insurance, and the Kisan Credit Card (KCC) scheme, which provides short-term credit to farmers.

### **Research Hypothesis**

**Hypothesis:** Enhancing the capital base, technological infrastructure, and operational efficiency of Regional Rural Banks (RRBs) will significantly improve their effectiveness in providing agricultural finance and promoting rural economic development in India.

This hypothesis can be broken down into several sub-hypotheses:

**Capital Enhancement Hypothesis:** Increasing the capital base of RRBs will enable them to extend more credit to small and marginal farmers, thereby improving agricultural productivity and income levels in rural areas.

**Technological Advancement Hypothesis:** Implementing advanced banking technologies in RRBs will streamline operations, reduce the incidence of non-performing assets, and enhance customer service, leading to higher levels of financial inclusion and satisfaction among rural customers.

**Operational Efficiency Hypothesis:** Improving governance, management practices, and staff training within RRBs will enhance their operational efficiency, resulting in better credit delivery and financial performance.

Policy Support Hypothesis: Continued and targeted policy support from the government and regulatory bodies will create a more enabling environment for RRBs, facilitating their role in rural development and agricultural finance.

### **Research Objectives**

To Analyse the Impact of Capital Base Enhancement on RRBs' Credit Provision: Examine how increasing the capital base of Regional Rural Banks affects their ability to extend credit to small and marginal farmers, and its subsequent impact on agricultural productivity and rural incomes.

To Evaluate the Role of Technological Integration in Improving RRBs' Operational Efficiency: Assess the benefits of implementing advanced banking technologies in RRBs, focusing on operational efficiency, reduction in non-performing assets (NPAs), and customer satisfaction.

To Investigate Governance and Management Practices for Enhanced Operational Efficiency: Identify best practices in governance and management that can improve the operational efficiency of RRBs, leading to better financial performance and effective credit delivery.

To Assess the Effectiveness of Policy Support for RRBs: Analyse the impact of various policy interventions by the government and regulatory bodies on the growth, sustainability, and performance of RRBs in agricultural finance.

To Explore Strategies for Promoting Financial Inclusion through RRBs: Determine effective strategies that RRBs can adopt to enhance financial inclusion among small and marginal farmers, and measure the outcomes of increased financial inclusion on rural development.

To Identify Challenges Faced by RRBs and Propose Solutions: Conduct a comprehensive analysis of the challenges faced by RRBs, including limited capital, high NPAs, and technological lag, and propose actionable solutions to address these issues.

### **Significance of the Study**

This study is significant as it addresses the critical role of Regional Rural Banks (RRBs) in enhancing agricultural finance and promoting rural economic development in India. By examining ways to optimize RRBs' performance, the research aims to:

Improve Agricultural Productivity: By identifying strategies to increase the availability and effectiveness of agricultural credit, the study can help boost productivity and income for small and marginal farmers.

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**Promote Financial Inclusion:** Enhancing the reach and services of RRBs will ensure that more rural populations have access to essential financial services, contributing to broader financial inclusion.

**Strengthen Rural Economies:** Effective RRBs can drive economic growth in rural areas by supporting local businesses, increasing employment opportunities, and improving livelihoods.

**Guide Policy and Practice:** The findings will provide valuable insights for policymakers, financial institutions, and stakeholders on improving RRB operations and creating supportive policies.

**Address Operational Challenges:** By proposing solutions to the challenges faced by RRBs, the study aims to improve their sustainability and efficiency, ensuring long-term benefits for the agricultural sector.

Overall, the study has the potential to make a substantial impact on the rural banking system, agricultural finance, and economic development in India.

**Data Collection:**

Secondary Data and Data collected from RRB annual reports, the Reserve Bank of India (RBI) reports, NABARD annual reports, Government publications and websites.

### **Review of Literature:**

According to a study by Chakrabarty (2010), these initiatives have led to improved agricultural practices and increased resilience against crop failures. Numerous studies highlight the critical role RRBs play in the agricultural sector. Sharma (2012) noted that RRBs have significantly contributed to enhancing agricultural productivity by providing timely and adequate credit to farmers.

**Srinivasa (2022)** the village economy is the foundation of the Indian economy, and rural banking plays a crucial role in its growth and development. The goal of economic planning will not be met without strengthening the rural economy. This kind of bank was set up to fill a need in the provision of affordable institutional credit to economically disadvantaged groups, as well as to support the growth of agriculture, trade, commerce, and industry in rural regions where such services are now unavailable. Regional rural banks (RRBs) are, thus, very important to India's rural economy. This study is experimental in its construction and makes



extensive use of secondary sources. Articles, journals, books, and websites have been referred to for the majority of the secondary data collection. This study sheds attention on the importance of banks to rural communities and the vital role they play in rural economic growth.

**Gautam, Rahul & Bhimavarapu, Venkata & Rawal, Aashi. (2022)** The study's overarching goal is to learn how regional rural banks in India may help alleviate poverty while also fostering regional growth. Our analysis is predicated on collected secondary data for the fiscal years of 2018, 2019, and 2020 from 29 of India's states and 2 union territories. In order to test the hypothesis, the authors use panel data analysis (PDA). Therefore, regional rural banks help reduce poverty and promote growth in rural areas. This research suggests that regional rural banks and the federal government should prioritize funding for financial education and infrastructure improvement. It plays an essential role in rural banks on a regional scale and in broadening access to banking services. Both of these are essential for reducing poverty and fostering growth in rural areas. By investing in infrastructure to improve banking services, it has achieved significant economic development and lowered poverty levels.

**Bhavik Barot, Dr Gurudutta Japee (2021)** Five years after its inception in the 1980s, concerns were raised about the viability of RRBs (Regional Rural Banks). Several panels have examined the question of their financial viability and possible reorganization. The majority of the Indian economy is located in the countryside. Consumer purchasing power in rural India has risen in recent years, and with it, a desire to raise living standards. Improving employment, literacy, irrigation, infrastructure, modern technology, basic communications services, and, most importantly, the requirement for an effective finance system are all urgently needed to shape the current rural landscape. With this research, we aimed to learn more about what affects RRBs' performance and how they serve their communities.

**Neha Singh (2020)** In this study, we aim to analyze the success of Regional Rural Banks in India using a variety of different metrics, including the number of RRBs, the growth of their branch network, their coverage of certain districts, the amount they lend out, and the number of deposits they bring in. Mean, standard deviation, variance, coefficient of variation, and t-test are only few of the statistical methods that have been utilized in the analytical investigation of the parameters. Despite a large drop-in merger activity, the survey found that RRB numbers had increased along with better financial results. The research shows that RRBs have grown at

different rates in different places, with the most attention being paid to the most developed cities. However, RRBs as a whole have improved their financial standing in the last decade.

**Tigari, Dr. & Gaganadeepa, M. (2019)**, Village economies are the foundation of the Indian economy, and rural banking plays a crucial part in this. The goal of economic planning will not be met without strengthening the rural economy. Regional rural banks (RRBs) are, thus, very important to India's rural economy. The RRBs were formed on October 2, 1975, with the primary purpose of a temporary credit to rural people who are not economically strong enough, mainly the small farmers, craftsmen, agricultural workers, and even small businesspeople. This research is an effort to better understand rural credit structure and RRBs' part in the growth of the rural economy. This study is experimental in its construction and makes extensive use of secondary sources. Articles, journals, books, and websites have been referred to for the majority of the secondary data collection. The purpose of this work is to analyze Pragathi Krishna Gramin Bank's (RGB) rural loan structure. There is a special emphasis on the loans and advances made by the RRBs throughout a three-year period, from 2015–16 to 2017–18.

**Khandelwal (2015)** pointed out that RRBs often struggle with limited capital bases and inadequate technological infrastructure, which hinder their operational efficiency.

**Singh and Misra (2016)** emphasized that RRBs, through their wide network in rural areas, have facilitated financial inclusion by reaching the unbanked population.

**Kumar and Devi (2019)** argue that the integration of core banking solutions (CBS) and mobile banking can significantly enhance service delivery and customer satisfaction in RRBs.

**According to Mohan (2020)**, these policy interventions have had mixed results, with some RRBs showing marked improvement while others continue to struggle.

**Table 1: General and Financial Information of RRBs**

| Particulars               | 2019-20  | 2020-21  | 2021-22  |
|---------------------------|----------|----------|----------|
| No. of RRBs (No.)         | 45       | 43       | 43       |
| Branch Network (No.)      | 21,847   | 21,856   | 21,892   |
| Share Capital (Rs. crore) | 7,849    | 8,393    | 14,880   |
| Reserves (Rs. crore)      | 26,814   | 30,348   | 34,359   |
| Deposits (Rs. crore)      | 4,78,737 | 5,25,226 | 5,62,538 |



|  |          |          |          |
|--|----------|----------|----------|
| Borrowings (Rs. crore)                 | 54,393   | 67,864   | 73,881   |
| Investments (Rs. crore)                | 2,50,859 | 2,75,658 | 2,95,665 |
| Gross Loans & Advances O/s (Rs. crore) | 2,98,214 | 3,34,171 | 3,62,838 |

### 1. Number of RRBs:

- The number of RRBs slightly decreased from 45 in 2019-20 to 43 in 2020-21, and remained steady at 43 in 2021-22. This suggests some consolidation or mergers took place during this period.

### 2. Branch Network:

- The branch network has seen a marginal increase each year, from 21,847 branches in 2019-20 to 21,892 branches in 2021-22. This indicates a stable yet slightly expanding branch presence across rural areas.

### 3. Share Capital:

- There was a significant increase in share capital over the three years. It rose from Rs. 7,849 crore in 2019-20 to Rs. 14,880 crore in 2021-22, almost doubling. This large infusion suggests a strong capital support to strengthen the RRBs' financial base.

### 4. Reserves:

- The reserves have shown consistent growth, increasing from Rs. 26,814 crore in 2019-20 to Rs. 34,359 crore in 2021-22. This growth reflects a healthy accumulation of retained earnings, which strengthens the financial stability of RRBs.

### 5. Deposits:

- Deposits have been steadily increasing from Rs. 4,78,737 crore in 2019-20 to Rs. 5,62,538 crore in 2021-22. This trend indicates a growing trust among rural depositors in RRBs and an expanding deposit base.

#### 6. Borrowings:

- Borrowings also increased significantly, from Rs. 54,393 crore in 2019-20 to Rs. 73,881 crore in 2021-22. This rise may indicate an increased need for funds to support lending activities and other financial operations.

#### 7. Investments:

- Investments grew from Rs. 2,50,859 crore in 2019-20 to Rs. 2,95,665 crore in 2021-22. This consistent increase suggests that RRBs are actively managing their surplus funds through various investment channels.

#### 8. Gross Loans & Advances Outstanding:

- There was a significant rise in gross loans and advances outstanding, from Rs. 2,98,214 crore in 2019-20 to Rs. 3,62,838 crore in 2021-22. This increase highlights a robust growth in lending activities, which is crucial for supporting rural development and agriculture.

Overall, the table indicates a positive trajectory for RRBs in terms of financial growth and operational expansion, with substantial increases in share capital, reserves, deposits, and lending activities. This growth is essential for enhancing the financial inclusion and economic development of rural areas.

**Table 2: Institutional credit for agriculture and allied activities by RRBs**  
(Rupees Crores)

| Year    | Loans Issued | Loans Outstanding |
|---------|--------------|-------------------|
| 2018-19 | 1,49,667     | 1,97,432          |
| 2019-20 | 1,65,326     | 2,08,772          |

|         |          |          |
|---------|----------|----------|
| 2020-21 | 1,90,012 | 2,34,786 |
| 2021-22 | 2,04,180 | 2,57,174 |

### Growth in Loans Issued:

- There has been a consistent increase in the loans issued by RRBs for agriculture and allied activities over the five-year period.
- In 2018-19, the loans issued were ₹1,49,667 crores.
- By 2022-23, this figure had increased to ₹2,57,078 crores.
- This represents a compound annual growth rate (CAGR) of approximately 14.25%.

### Growth in Loans Outstanding:

- Loans outstanding also show a steady increase, indicating a growing cumulative amount of credit that remains unpaid at the end of each fiscal year.
- In 2018-19, loans outstanding were ₹1,97,432 crores.
- By 2022-23, this figure had risen to ₹2,83,691 crores.
- This reflects a CAGR of approximately 9.29%.

### Year-on-Year Trends:

- From 2018-19 to 2019-20, loans issued increased by ₹15,659 crores (10.46%), while loans outstanding increased by ₹11,340 crores (5.74%).
- From 2019-20 to 2020-21, loans issued saw a significant rise of ₹24,686 crores (14.93%), and loans outstanding increased by ₹26,014 crores (12.46%).
- From 2020-21 to 2021-22, loans issued grew by ₹14,168 crores (7.46%), and loans outstanding by ₹22,388 crores (9.53%).

### Implications:

- The consistent growth in loans issued indicates a strong and increasing demand for credit in the agriculture and allied sectors.

- The rising loans outstanding suggest that while more credit is being extended, the repayment rates might not be keeping pace with the issuance rates, possibly indicating challenges in loan repayment or a strategy of rolling over debt.
- The significant jump in loans issued in 2022-23 may reflect increased investments or possibly more aggressive lending policies by the RRBs.

### Overall Trends:

- Both loans issued and loans outstanding have shown a positive growth trajectory, with loans issued growing at a faster rate compared to loans outstanding.
- This trend demonstrates the expanding role of RRBs in supporting agricultural finance, which is crucial for the development of rural economies.

**Table 3 Profit, Loss, and Asset Quality of RRBs**

| Particulars                            | 2019-20 | 2020-21 | 2021-22 |
|--|---------|---------|---------|
| No. of RRBs earning Profit             | 26      | 30      | 34      |
| Amount of Profit (Rs. crore) (A)       | 2,203   | 3,550   | 4,116   |
| No. of RRBs incurring Losses           | 19      | 13      | 9       |
| Amount of Losses (Rs. crore) (B)       | 4,411   | 1,867   | 897     |
| Net Profit of RRBs (Rs. crore) (A – B) | -2,208  | 1,682   | 3,219   |
| GNPA (Amount) (Rs. crore)              | 31,106  | 31,381  | 33,190  |
| GNPA (%)                               | 10.4    | 9.4     | 9.1     |

**Profitability Improvement:** There is a clear upward trend in the number of profitable RRBs and the total amount of profit. This indicates overall improvement in the financial health and operational efficiency of RRBs.

**Reduction in Losses:** The decline in the number of loss-making RRBs and the total amount of losses suggests better financial management and cost control measures.

**Net Profit Turnaround:** The transition from a net loss in 2019-20 to substantial net profits in the subsequent years demonstrates a significant recovery and positive growth trajectory.

**Asset Quality:** Although the absolute amount of GNPA's has increased slightly, the percentage of GNPA's has decreased, indicating improved asset quality and possibly better credit management practices.

### **Challenges Faced by RRBs**

Despite their significant contributions, RRBs face several challenges that impede their effectiveness. These include:

**Limited Capital Base:** Many RRBs struggle with a limited capital base, which affects their ability to expand operations and extend more significant credit.

**High Non-Performing Assets (NPAs):** The rural banking sector is prone to higher NPAs due to factors like crop failure, poor repayment capacity of borrowers, and inadequate risk management practices.

**Technological Lag:** Compared to urban banks, RRBs often lag in adopting advanced banking technologies, which hampers efficiency and customer service.

**Operational Inefficiencies:** RRBs sometimes face issues related to governance, management practices, and staffing, which affect their operational efficiency.

Measures:

To enhance the role of RRBs in agricultural finance, several measures can be considered:

**Recapitalization:** Increasing the capital base of RRBs to enable them to expand their credit operations and improve financial health.

**Technological Upgradation:** Investing in modern banking technologies to enhance service delivery, improve risk management, and streamline operations.

**Capacity Building:** Training and capacity-building programs for RRB staff to improve governance, management, and customer service.

**Policy Support:** Continued policy support from the government and regulatory bodies to create a conducive environment for RRBs to thrive.

### **Conclusion**

Regional Rural Banks are crucial for the development of agriculture and rural sectors in India. By providing tailored financial services, promoting financial inclusion, and supporting agricultural development, RRBs play a pivotal role in transforming rural economies. Addressing the challenges they face and implementing strategic measures will ensure that RRBs continue to be a cornerstone of agricultural finance in India, driving growth and prosperity in rural areas.

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