Regional rural banks still play an insignificant role in agricultural credit delivery.

Source: Business Standard

The establishment of regional rural banks (RRBs) was initiated in 1976 for the development of agriculture, trade, commerce, industry and other productive activities in rural areas and also to offer credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Each RRB has a sponsor bank and its capital is shared by the central government, the state government and the sponsor bank in the ratio of 50:15:35. Even as the number of RRBs grew to 196 in the initial 12 years, the government began a process of consolidation and amalgamation in 2005, bringing the number down to 82 in 2010.

There is, reportedly, another round of amalgamation on the cards that will aim to make these banks financially stronger with greater business volume. There has been a steady increase in the branch network to around 16,000 branches in 2010. And RRBs have been directed to increase their branch network by 10 per cent every year till March 2013 as part of the Financial Inclusion Plan. The two states with the highest rural population – Uttar Pradesh and Bihar – lead in the number of branches. However, West Bengal and Maharashtra, the next two states with large rural populations, have proportionately lower branch networks. Andhra Pradesh and Karnataka perform relatively better on this parameter.

According to Reserve Bank of India (RBI) data, a large segment of credit provided by RRBs goes towards agriculture (about 54 per cent in 2010) as direct finance. About 16 per cent of the total RRB credit goes towards loans for personal purposes, like housing, consumer durables,

vehicles, education and so on, while nine per cent is used for wholesale- and retail-trade activities. Overall, although agricultural credit of RRBs has been on the rise since 2006, it contributes only 11 per cent to the total agricultural credit disbursed by Scheduled Commercial Banks. (Click here for chart)

CREDIT NOTE

A large segment of credit provided by RRBs goes towards agriculture

	2006	2008	2010
No of RRBs per thousand population	33	33	34
% of agricultural credit to total credit by RRBs	51	56	54
% of agricultural credit provided by RRBs out of total agricultural credit from SCBs	11	12	11

Source: Statistical Tables Relating to Banks of India, RBI

There are state-wide variations in the role played by RRBs in agricultural credit. On the one hand, in Bihar, about 31 per cent of the total agricultural credit is provided by RRBs, but on the other, their involvement in Manipur and Nagaland has been almost insignificant — one per cent of the institutional agricultural credit. The latter two states have only one RRB, yet interestingly, in Mizoram, the lone rural bank accounts for about 27 per cent of the total agricultural credit disbursed in the state. A significant RRB dominance is also seen in Uttar Pradesh, Tripura and Rajasthan, where these banks provided more than 20 per cent of the total agricultural credit in 2010. At the other end of the table, just above Manipur and Nagaland, are Tamil Nadu, Maharashtra and West Bengal, where RRBs accounted for less than five per cent of the total institutional agricultural credit.

RBI has been working on improving RRBs' financial health through amalgamation and recapitalisation. At the same time, efforts are being made to increase the efficiency of services through computerisation and linking to the National Electronic Fund Transfer system. Despite the uneven performance of RRBs, they continue to be an important tool for the government in its financial-inclusion drive.

Indian States Development Scorecard, a weekly feature by Indicus Analytics, focuses on the progress in India and across the states across various socio-economic parameters.