



## RURAL BANKING IN TELANGANA STATE – AGRICULTURE AND PRIORITY SECTORS LENDING

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### ABSTRACT

*In this Paper I examine to what extent recent empirical evidence can collectively and systematically substantiate the claim that Rural Banking has plays an important role in the Agriculture and priority sectors lending in Telangana. This proposal is provided that answers to the various aspects such as the contribution of Rural Banking to the Agriculture segment comparison to commercial banking system.*

**Key Words:** *Telangana, Rural banks, Grameena Banks, Credit Societies and Co-Operative Societies.*

### 1. INTRODUCTION

Agriculture is the most important sector in the Indian economy. "Agriculture and allied activities constitute the single largest contributor to the Gross Domestic Product (G.D.P), accounting for almost 33 per cent of the total. They are vital to the national well-being as, besides providing the basic needs of the society and the raw materials for some of the important segments of Indian industry, they provide livelihood for almost two thirds of the work force. The share of the agricultural products in the total export earnings, both in primary and processed form, is very significant."

The National Commission on Agriculture (1976) emphasized that the agricultural sector has to grow at a much faster rate than before not only for its own sake, but for the sake of the economy as a whole. Hence the prosperity of the country entirely hangs on the prosperity of the agricultural sector. If agriculture stagnates, it will act as a break on industrial expansion and halt real growth. But it is obvious that there is hardly any possibility of substantial increase in the area of cultivation. Therefore, intensive cultivation appears to be the only way to boost agriculture. The All India Rural Credit Review Committee (1969) has stated "with arable land in the country forming about 52 per cent of the total geographical area it has generally been recognized that possibilities of the future development of agriculture lay more in increasing yield per unit of land already brought under cultivation.

And introduction of new agricultural technology in India, has converted the nature of agriculture. Due to these, the farmers tended towards the replacement of traditional methods of farming with scientific and developed methods. For instance, use of High Yield Variety (HYV) of seeds, fertilizers, pesticides, irrigation, machinery and equipment etc. requires huge amount of capital which is beyond the capacity of most of the farmers. Due to this the farmers compulsorily depend upon borrowed funds. This causes the increasing demand for credit. So, in respect of transformation of traditional or subsistence farming into commercial farming, the importance of agricultural credit has increased comparatively more.



The development of institutional credit is, thus, a basic condition for agricultural progress. The history of agricultural development in all advanced countries shows that an integrated system of institutional credit laid the foundation of agricultural prosperity. The objective of the institutional credit is to make a breakthrough in the vicious circle of poverty and debt, and to stimulate the farmer to boost agricultural productivity.

On the basis of period, credit needs of farmers may be classified as short-term, medium-term and long-term. Short-term loans are given for seasonal agricultural operations directed towards raising crops on land, including reasonable amount for the maintenance needs of the farmer and his family. These loans are given for a period of 9 to 12 months and are repayable after the crops are sold.

The medium-term loans are given for a period ranging from 12 months to 5 years for the purpose of purchasing cattle and farming implements. Long-term credit is given for a period ranging between 5 to 20 years for making permanent improvement in land. The purposes include digging and repairs of well, purchase of motors, agricultural machinery, construction of farm house and for plantations.

## **OBJECTIVES**

The objectives of the study are:-

1. To examine the funds management practices of the Primary Agricultural and Rural Development Banks in Telangana.
2. To evaluate the operational efficiency of these primary banks.
3. To study the factors affecting profitability and to examine its relation with the over dues.
4. To analyse the structure of over dues in these primary banks.
5. To identify the determinants influencing over dues.
6. To identify the operational and managerial problems of the Primary Agricultural and Rural Development Banks
7. There is an inverse relationship between profitability and cost of management of the Primary Agricultural and Rural Development Banks.
8. Quantum of over dues and the rates of profit are inversely related.
9. Willful default of the beneficiaries is the major reason responsible for mounting over dues.
10. Cost of management continuously increases due to the constant increase in the establishment charges.



## **METHODOLOGY**

The paper employs secondary data analysis as the major tool of research. Primary methods were used to supplement this analysis, by means of direct visits with Rural Banks and Agriculture co-operative societies from all the regions of Telangana State.

Overview of Rural Banking system in Telangana

Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on the 26th September 1975 and followed by Regional Rural Banks Act, 1976 with a view to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' with a view to enlarge institutional credit for the rural and agriculture sector.

The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35%, respectively. The area of operation of the RRBs is limited to notify few districts in a State. The RRBs mobilize deposits primarily from rural/semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural labourers, rural artisans and other segments of priority sector.

The RBI in 2001 constituted a Committee under the Chairmanship of Dr V S Vyas on "Flow of Credit to Agriculture and Related Activities from the Banking System" which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process thus was initiated in the year 2005 as an off-shoot of Dr Vyas Committee Recommendations. First phase of amalgamation was initiated Sponsor Bank-wise within a State in 2005 and the second phase was across the Sponsor banks within a State in 2012. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs has been reduced from 196 to 64 as on 31 March 2013. The number of branches of RRBs increased to 17856 as on 31 March 2013 covering 635 districts throughout the country.

## **ORGANIZATIONAL STRUCTURE**

The Organizational Structure for RRB's varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments.

The following is the decision making hierarchy of officials in a Regional Rural Bank.

- Board of Directors
- Chairman & Managing Director



- General Manager
- Chief Manager/Regional Managers
- Senior Manager
- Manager
- Officer / Assist

## **LEGAL EXISTENCE AND PROTECTION**

RRB's are recognized by the law and they have legal significance. The Regional Rural Banks Act, 1976 Act No. 21 of 1976 [9 February 1976.] reads

"For the incorporation, regulation and winding up of Regional Rural Banks 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 the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto".

RRBs in Telangana:-

Following is list of Regional Rural Banks in Telangana:-

- Andhra Pradesh Grameena Vikas Bank (APGVB)
- Deccan Grameena Bank (DGB)
- Telangana Gramin Bank

## **AGRICULTURE-AND-CO-OPERATION IN TELANGANA**

The Department of Agriculture has been created mainly to provide Agricultural Extension services to farmers and to transfer the latest technical knowledge to the farming community. The objectives of the Department are to assess requirements of agriculture inputs well in advance and to regulate their production and monitor timely supply of seeds, fertilizers and pesticides, implements, credit etc., to farmers. The Department also performs the statutory functions under various acts and regulations (i.e., quality control) to ensure supply of quality inputs i.e., Seeds, Fertilizers and Pesticides to farmers etc.

The Economy of Telangana is mainly supported by agriculture. Two important rivers of India, the Godavari and Krishna, flow through the state, providing irrigation. Farmers in Telangana mainly depend on rain-fed water sources for irrigation. Rice is the major food crop. Other important local crops are cotton, sugar cane, mango and tobacco. Recently, crops used for vegetable oil production, such as sunflower and peanuts, have gained favour. There are many multi-state irrigation projects in development, including Godavari River Basin Irrigation Projects and Nagarjuna Sagar Dam, the world's highest masonry dam.



The state has also started to focus on the fields of information technology and biotechnology. Telangana is one of top IT exporting states of India. There are 68 Special Economic Zones in the state.

Rice is the major food crop and staple food of the state. Other important crops are tobacco, mango, cotton, and sugar cane. Agriculture has been the chief source of income for the state's economy. Important rivers of India, the Godavari, Krishna flow through the state, providing irrigation. Apart from major rivers, there are small rivers as Tunga Bhadra, Bima, Dindi, Kinnerasani, Manjeera, Manair, Penganga, Pranahitha, peddavagu and Taliperu. There are many multi-state irrigation projects in development, including Godavari River Basin Irrigation Projects and Nagarjuna Sagar Dam, the world's highest masonry dam.

Agri Export Zones for the following produce are proposed at the places mentioned against them:

Gherkins – Mahaboobnagar, Rangareddy, Medak, Karimnagar, Warangal

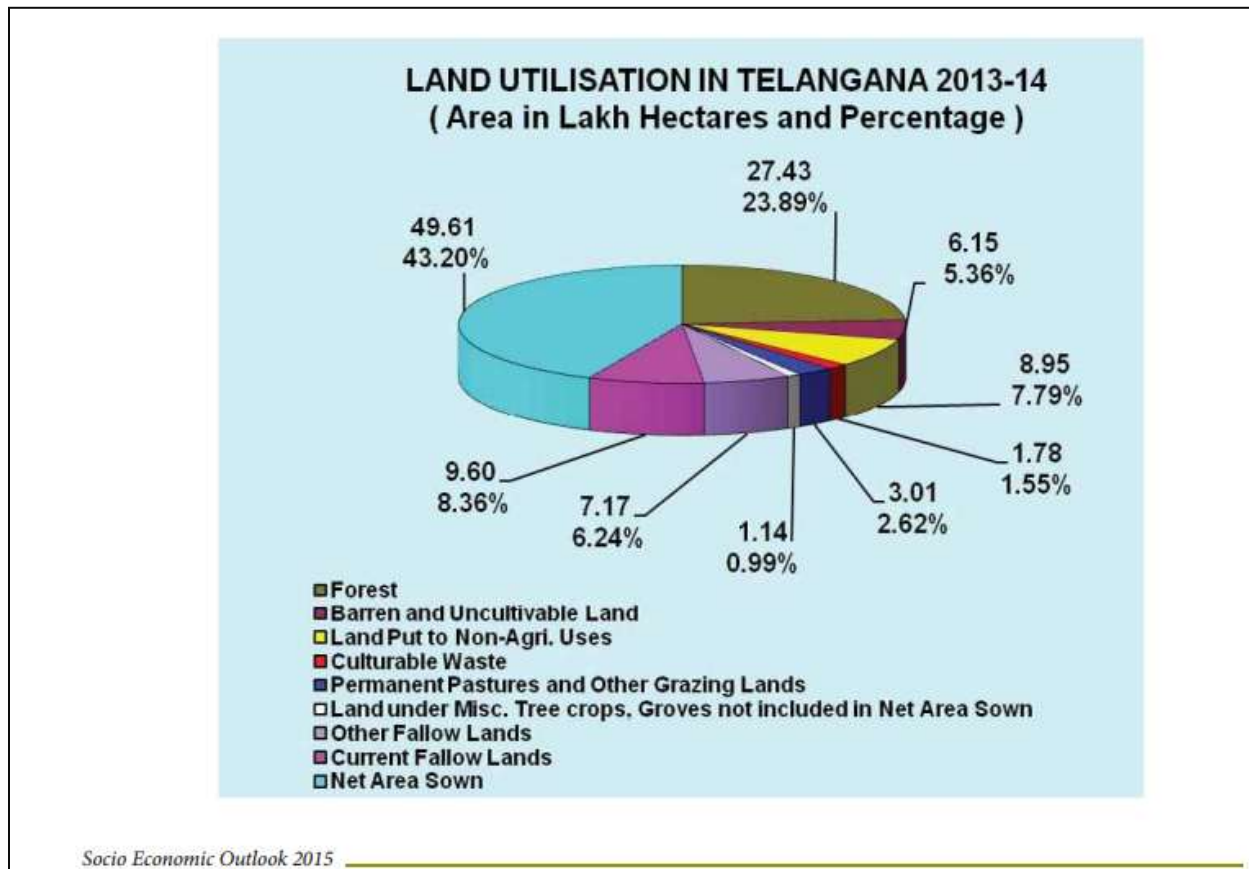
Mangoes and Grapes - Hyderabad, Rangareddy, Medak, Mahaboobnagar

### **AGRICULTURE- CHALLENGES AND OPPORTUNITIES**

“Agriculture is not crop production as popular belief holds - it's the production of food and fiber from the world's land and waters. Without agriculture it is not possible to have a city, stock market, banks, university, church or army. Agriculture is the foundation of civilization and any stable economy.” -Allan Savory

Sustainable growth in Agriculture continues to be core agenda for both the Central and State Governments. Agriculture sector is mainly rain fed and depends to a significant extent on the depleting ground water. As nearly 55.49 percent of the State's population is dependent on some form of farm activity for livelihoods, it is imperative to increase the farm incomes and ensuring sustainable growth in Telangana to reduce poverty. Highest priority is accorded to the Agriculture Sector in the State with the objective of shifting the excess labour force from this sector to other non-farm rural sectors such as rural industry through skill development. Ensuring food security and provision of gainful employment continues to be the essential premise of the socio economic development and employment guarantee schemes like MGNREGS and Rural livelihoods programmes. The share of agriculture to state GSDP in 2014-15 is 9.3 percent at current prices. Agriculture and allied sectors are constituted by crop husbandry (agriculture, horticulture), livestock, forestry and fisheries sectors. The share of crop husbandry sector in agriculture and allied sector GSDP is declining overtime. The share of livestock sector is around one third of total agriculture and allied sectors of GSDP during 2014-15. The growth of this sector is stable as compared to that of crop sector during the last decade. However, there has been a slowdown in its growth during the last two years. The growth of livestock sector gains significance in the light of the decline in the share of agriculture and allied activities share in GSDP.

Land use under various categories is indicated in the following chart.



### Agriculture Potential of Telangana:

- Soils of Telangana are well drained to moderately well drained and provide favorable environment for soil fertility management.
- Soils are suitable for wide range of crops including food grains, oil seeds, pulses, fruit crops, pastures, forestry etc. There are a number of agriculture-related-institutions of importance in Telangana, including ICAR Institutes viz. DRR, DOR, MANAGE, NIPHM and NAARM, NIRD, NFDB, CRIDA and NRCS
- Food grain production recorded a growth rate of 3.97% (CAGR) as against 2.43 % at all India level.
- 37.42 lakh quintals of seeds of various crops with an area of 3.22 lakh acres, HYV Paddy, Hybrid paddy, Maize, Cotton and Bengal gram etc .are produced. Constraints in Telangana Agriculture While there is lot of potential for growth in agriculture, there are constraints hampering the same.

The major constraints are as follows.





- Low and erratic rainfall leaves many areas under unprecedented drought, while some areas are subjected to floods
- Semi-arid climate restricts the growth of natural vegetation, due to which, scope of organic matter development in soils is limited and, therefore, the most soils are inherently poor in available Nitrogen, the chief nutrient for plant growth 63% of the agriculture is rain fed, which is exposed to the hostilities of climate • Among the farming community, about 85% of farmers are either marginal or small with poor socioeconomic condition High labour cost and low mechanization levels have increased the cost of cultivation.

Agricultural extension is devoid of enough strength and mobility to address each and every farmer at right time State's Agriculture Vision Despite the constraints, it is important to improve the agricultural situation in the state, duly harnessing the available agricultural potential and integrating it with technology and resources. Keeping in view the future requirements of agricultural production, a vision for Telangana is framed as put forth here under: Empowering the farmers in seed management, enabling them to acquiring good quality seed at the right time and at affordable cost

- Making farming a commercially viable endeavor
- Providing easy access to inputs, finance, technology and IT
- Increasing irrigated area by utilizing the available surface and groundwater potential
- Providing means for land development for efficient soil and water management
- Motivating for the farmers to adopt Integrated Nutrient Management (INM) and balanced fertilization with necessary demonstration and training support
- Providing short term weather forecasting for instant action

Seed Bowl Seed is a critical determinant in increasing the agricultural productivity. The performance and efficiency of other inputs depends on the quality of seed produced and supplied. Telangana Government is developing a strategy to make the State, as the "Seed Bowl" of the country, endowed as it is with congenial climatic conditions and soils suitable for quality seed production of various crops viz., Paddy, Maize, and Soybean Castor & Cotton. In view of the above, a five year plan has been prepared for production of breeder and certified seed by involving the technical expertise of Prof. Jayashankar Telangana State Agriculture University (PJTSAU) The seed production programme is planned to be taken up through Seed Village Programme and Seed Production in State Seed Farms and Government Agencies like Telangana State Seed Development Corporation (TSSDC), Oil fed, MARKFED and HACA.

Agricultural Credit The Annual Credit Plan for 2014-15 was Rs.27233.59 crores for the Telangana towards Agriculture Credit, nearly Rs.17636.44 crores (65%) was disbursed under Agricultural credit. An amount of Rs.13,561 crores (72%) was disbursed under crop loans as against the target of Rs.18,717.95 crores and an amount of Rs. 2794.15crores (45%) was



disbursed as against the target of Rs.6238.48 crores under Agriculture Term Loans and Rs.3,132.29 crore (137%) was disbursed as against the target of Rs.2,277.16 crore under Allied activities. Crop Loan Waiver Scheme 2014-15 Farmers in the Telangana state have faced severe financial crisis due to frequent crop failures, lack of adequate support price, steep hike in input costs etc. To mitigate the plight of the farmers, the Telangana Government has decided to waive crop loans taken by the farmers up to Rs.1.00 Lakh per farmer. Agricultural loans on gold mortgage have also been included along with the interest. Government of Telangana released an amount of Rs. 4250.00 crores as first installment under Loan waiver scheme and the amount was credited into the bank accounts of over 34 lakh farmers. Crop Insurance Three Crop Insurance schemes have been implemented in Telangana State during Kharif & Rabi 2014-15 viz. National Agriculture Insurance Scheme (NAIS) b) Weather Based Crop Insurance Scheme (WBCIS) c) Modified National Agriculture Insurance scheme (MNAIS)

### **CONCLUSION:**

The above provided information helps us to understand the overview of Rural Banking and its financial assistance to the agriculture sector in the Telangana.

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