

Regional Rural Banks: A Way to Become a Developed Economy

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Abstract

Regional Rural banks were established in 1975 under the Regional Rural Banks (RRB) act. They are local level banking organizations operating in different states of India. They have been created with a view to serve the rural sector of India. They give financial service to the people. It performs various functions like providing banking facility to the rural people, distribution of wages as well as pension and other functions like locker facilities, debit and credit card. We need Regional Rural Banks in India because a major part of our population lives in rural area. As people live in these areas there are a lot of farmers who needs money for farming. We know that farming is the backbone of this country and if farming gets developed India would be on its way to become a developed economy but due to the exploitation done by the moneylenders Indian farmers are not able to progress. By the help of regional rural banks who will provide loans to farmers at very low rate of interest, India would be on its way to progress. The present paper highlights the factors which need to be addressed for their effective implementation for the contribution for a developed economy.

Key Words: *Regional Rural Banks, Developed Economy*

1. Introduction

Agricultural sector has been the backbone of India. Around 50% of its total workforce is involved in agriculture. Even today its total contribution is 13.7% in the GDP of India. India inherited a stagnant agriculture at the time of independence in 1947. The first task of Indian Government in the immediate post-independence period was, therefore, to initiate growth process in agriculture. Measure like green revolution brought a sudden and visible change in the agrarian system of the country, but it did not have lasting effects because the sector lacks the basic need i.e. Finance.

For permanent effects of such methods there is a need of modern methods of production which includes the use of HYV seeds, machines like harvesters, threshers etc. that could be relatively more productive and can give lasting effects. But these modern techniques need huge initial investments for acquiring the machines and setting up the proper irrigation system.

The need of finance is the main problem in the rural India, the fund could be arranged by two major sources viz. organized sector and unorganized sector. Organized sector includes private and public institutions like banks; co-operative societies etc. unorganized sector involves the local *landlords*, *zamindars* and other money lenders who charge a high rate of interest and slowly the poor peasants become the slaves of these money lenders. Indian farmers largely depend upon the unorganized sector to meet their financial requirements. Although the bank branches are increasing at a rapid rate but these commercial banks are not interested in granting loans for agricultural purposes or to these farmers because they do not have any assets to keep as collateral and there are chances of bad debt as the Indian agriculture is highly dependent on rain and the rains are uncertain in most of the areas. But the agricultural sector could not be ignored as it still feed the country and provides employment at a large scale.

The solution to this chronic problem lies in creating an agency that provides finance to agriculture sector at a subsidized rate and works with the motive of accelerating the growth of this sector.

Currently regional rural banks are local level banking organizations operating in different States of India to fight this problem of finance. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services.

2. Review of Literature

N.Sabitha Devi (2014) in her work, Problems and Prospects of Regional Rural Banks in India, tried to find out the problems faced by the regional rural banks and in her work she suggested more involvement of government to improve the status of RRBs.

Anil Kumar Soni and AbhayKapre, in their work PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS IN INDIA, evaluated progress of the RRBs during 2006-07 to 2010-11 and concluded that uniform pattern of interest rate structure should be devised for the rural financial agencies.

Dr. M.Syed Ibrahim (2010) carried out a study on the topic “Performance Evaluation of Regional Rural Banks in India”. In this study, it was concluded that RRBs in India showed a remarkable performance in the post-merger period.

Professor DilipKhankhoje and Dr. MilindSathye (2008) have analyzed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94 or not. According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.

A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

As none of the above study analyzed the reason of non-working of the RRBs in particular regions, there was a need of the present study.

2.1 Objective of the study

- To explore the regions where the RRBs are making profits.
- To know the reasons of their better performance.
- Find out the loss making regions in the working of RRBs.
- To highlight the causes of loss in these regions.
- To give a way ahead for the working of RRBs.

3. Methodology

The present study is diagnostic and exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD). The journals like Abhinav journal and International Management Journal have been referred. An attempt is made here in this paper to examine the causes of differential

performance of RRBs in some selected regions. The study tries to figure out all the reasons that lead to the loss or profit of the RRBs.

3.1 Relation of agriculture with the overall development

Economic development has historically been associated with structural changes in the national economies. Economic development is sometimes defined as a process combining economic growth with changing share of different sectors in the national product and labor force. The most common structural changes that have been observed historically have followed a sequence of shift from agriculture to industry and then to services. But during the shift the primary sector could not be ignored as it provides base to various types of industries and to the service sector also, and has a direct link with the overall development by helping in reducing the burden of import for food and raw material requirement.

3.2 Regional Rural Bank

Regional rural banks were conceived as institutions that combine the local feel and familiarity of cooperatives and the business organization ability of the commercial banks. In a multi-agency approach for agriculture and rural credit in India, Regional rural banks have a special place.

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 credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs so as to develop agricultural trade, commerce, industry and other productive activities in the rural areas.

The Government of India, 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 laborers, 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.

4. Objectives of RRBs

The RRBs Act has made various provisions regarding the incorporation, regulation and working of RRBs. According to this Act, the RRBs are to be set-up mainly with a view to develop rural economy by providing credit facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas. Such facility is provided particularly to the small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs and for other related matters.

The objectives of RRBs are as follows:

1. To provide cheap and liberal credit facilities to small and marginal farmers, agriculture laborers, artisans, small entrepreneurs and other weaker sections.
2. To save the rural poor from the moneylenders.
3. To act as a catalyst element and thereby accelerate the economic growth in the particular region.
4. To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
5. To increase employment opportunities by encouraging trade and commerce in rural areas.
6. To encourage entrepreneurship in rural areas.
7. To cater the needs of the backward areas which are not covered by the efforts of the government.
8. To develop underdeveloped regions and thereby strive to remove economic disparity between regions.

4.1 Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank. The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at ₹ 19304 crore as on 31 March 2013 as against ₹ 16462 crore as on 31 March 2012; registering a growth of 17.26%. The increase in owned funds to the tune of ₹ 2842 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to ₹ 6174 crore of total owned fund while the balance amount of ₹ 13130 crore represented reserves.

4.2 Recapitalization of RRBs

The Chakrabarty Committee reviewed the financial position of all RRBs in 2010 and recommended for recapitalization of 40 out of 82 RRBs for strengthening their CRAR to the level of 9 per cent by 31 March 2012. According to the Committee, the remaining RRBs are in a position to achieve the desired level of CRAR on their own. Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalize the RRBs by infusing funds to the extent of ₹ 2200 Crore.

As on 31 March 2013, an amount of ₹ 2015.86 crore has been released to 37 RRBs in 20 States. The released amount includes GoI's contribution of ₹ 1003.92 crore, State Govt's contribution of ₹ 303.59 crore and Sponsor bank's contribution of ₹ 708.35 crore. The recapitalization is complete in respect of 35 RRBs (5 in Odisha , 3 in MP, 2 in Uttarakhand, 2 in Jharkhand, 2 in Chhatisgarh, 2 in Bihar, 2 in Maharashtra, 3 in West Bengal, 5 in Rajasthan and one each in Assam, Arunachal Pradesh, Nagaland, Tripura, J&K, Karnataka, Tamil Nadu, Gujarat & UT of Puducherry). GoI share ₹ 7.99 cr. is pending in respect of Manipur Rural Bank. Mizoram State Government has partially released ₹ 0.50 crore in respect of Mizoram Rural Bank and ₹ 2.80 crore is pending. Two State Govts.viz. UP(2 RRBs), & J&K (1 RRB) have not released any amount in respect of 3 RRBs operating in their states. Out of 35 fully recapitalised RRBs, 3 RRBs viz. Central Madhya Pradesh GB, Manipur Rural Bank and Mizoram GB have not achieved CRAR of 9 per cent as on 31.3.2013.

Table 1: Evolution of RRBs since 180 to 2004 on selected indicators

Evolution of RRBs: Select Indicators													
(Rs. Crore)													
Parameter	1980	1985	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
No. of RRBs	85	188	196	196	196	196	196	196	196	196	196	196	196
Capital	21	46	91	166	358	705	1,118	1,380	1,959	2,049	2,143	2,141	2,221
Deposits	222	1,315	4,023	11,141	14,171	17,976	22,191	27,059	32,226	38,294	44,539	49,582	56,295
Investments	20	164	60	1,348	2,879	3,891	5,280	6,680	7,760	8,800	9,471	17,138	21,286
Advances	262	1,405	3,384	5,987	7,057	7,908	9,021	10,559	12,427	15,050	17,710	20,934	25,038
Total Assets	426	2,320	6,081	14,886	18,969	24,376	29,468	35,820	42,236	49,596	56,802	62,500	70,195
Interest Earned	NA	NA	480	1,158	1,421	2,033	2,624	3,281	3,938	4,619	5,191	5,391	5,535
Other income	NA	NA	113	72	89	103	136	151	207	240	370	430	697
Total Income	NA	NA	593	1,230	1,511	2,136	2,760	3,432	4,145	4,859	5,561	5,821	6,231

Interest expended	NA	NA	326	851	1,065	1,462	1,773	2,131	2,565	2,966	3,329	3,440	3,363
Operating expenses	NA	NA	254	657	726	804	845	982	1,056	1,165	1,459	1,667	1,825
Provisions and contingencies													
Total expenses	NA	NA	581	1,509	1,791	2,265	2,617	3,113	3,621	4,130	4,787	5,107	5,187
Operating Profit	NA	NA	12	-279	-280	-129	143	319	524	729	774	714	1,044

Note: Total expenses are excluding provisions and contingencies.
Source: Reserve Bank of India.

Table 2: State-wise list of the number of profit making RRBs

State wise Profit making RRBs		
Sr No	State	RRBs Profit Making
1	Andhra Pradesh	15
2	Arunachal Pradesh	0
3	Assam	4
4	Bihar	8
5	Chhattisgarh	3
6	Gujarat	8
7	Haryana	4
8	Himachal Pradesh	2
9	Jammu & Kashmir	1
10	Jharkhand	3
11	Karnataka	12
12	Kerala	2
13	Madhya Pradesh	14
14	Maharashtra	5
15	Manipur	0
16	Meghalaya	1
17	Mizoram	1
18	Nagaland	0
19	Orissa	3
20	Punjab	5
21	Rajasthan	10
22	Tamil Nadu	3
23	Tripura	0
24	Uttar Pradesh	34
25	Uttaranchal	4
26	West Bengal	8
	Total	150
Note :		
Based on three consecutive years performance beginning with the year 2000-01		
Source : Statistical Tables relating to banks in India (Various Issues)		

5. Profit Making Area for Regional Rural Banks

Regional rural banks has achieved a lot as in year 2005-2006 the profit was 617crores but now the profit of regional rural banks has raised to 2684 crore in the year 2012- 2013. The numbers of profit making regional rural banks are 63 in the year 2012-2013 out of 64 banks

which means that only bank is not able to perform properly. The states where regional rural banks are able to perform efficiently are Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Karnataka etc. The reasons behind these achievements are:-

5.1 Reasons

5.1.1 Less Pressure on land

Due to increase in urbanization and industrialization, the pressure on land reduced and as a result people started working in other sectors. Due to this farming became a profitable job and as a result farmers were able to pay back loans.

5.1.2 More variety of crops

Most of these regions saw a change in their cropping pattern as a result we saw a large variety of crops being grown on the same piece of land. This became an advantage to the farmer which gave him more earning capacity and a better standard of living.

5.1.3 Literacy

Education plays a very important role. In these regions the literacy rate increased as a result the farmers became much more aware of their surroundings and they were able to figure out things which were beneficial for them this led to betterment in farming which led to profit generation of RRBs.

5.1.4 Faster decision making

The RRBs are controlled directly and indirectly by various agencies, i.e., the sponsoring bank, NABARD, RBI, besides Central Government. Due to the increase in efficiency in decision making a lot of important issues were sorted out quickly.

5.1.5 Less dependence on monsoon

The introduction of green revolution in these places brought a relief to the farmers as because they were now less dependent on rain. They moved on from a traditional form of farming to the modern form of farming.

5.1.6 Government stability

It is observed that the regions like south and north India where there is a large number of profit-making RRBs there is a stable state government. Due to which the implementation and control of various plans becomes easy and a trace of prosperity is observed.

5.1.7 Socio-economic factors

These regions have the majority of people having same religious background, which indirectly affects the state of agriculture. This majority helps in a stable and harmonious growth of the agricultural sector.

Table 3: state-wise list of number of loss making RRBs

State wise loss making RRBs		
Sr No	State	RRBs Loss Making
1	Andhra Pradesh	1
2	Arunachal Pradesh	1
3	Assam	1
4	Bihar	8
5	Chhattisgarh	2
6	Gujarat	1
7	Haryana	0
8	Himachal Pradesh	0
9	Jammu & Kashmir	2
10	Jharkhand	3
11	Karnataka	1
12	Kerala	0
13	Madhya Pradesh	5
14	Maharashtra	5
15	Manipur	1
16	Meghalaya	0
17	Mizoram	0
18	Nagaland	1
19	Orissa	6
20	Punjab	0
21	Rajasthan	4
22	Tamil Nadu	0
23	Tripura	1
24	Uttar Pradesh	2
25	Uttaranchal	0
26	West Bengal	1
	Total	46
Note :		
Based on three consecutive years performance beginning with the year 2000-01		
Source : Statistical Tables relating to banks in India (Various Issues)		

6. Loss Making Area for Regional Rural Banks

There are some areas where the Regional Rural Banks were not able to attain profit. These areas include Madhya Pradesh, Rajasthan, Jharkhand, Maharashtra, Bihar, Uttar Pradesh etc. the reasons behind these are:-

6.1 Reasons

6.1.1 Pressure on land

Despite increase in urbanization and industrialization, about 50% of population is still directly or indirectly dependent on agriculture. This intense pressure lowers down the productivity and makes the repayment of loans a difficult task as the money earned is divided amongst too many people.

6.1.2 Less variation

In most of these unproductive regions there is observed a less variety of crops, which increase the dependency of farmers on a few limited crops leading to the increased risk of loss because if a crop fails then it would become too difficult for the farmers to repay the borrowed amount.

6.1.3 More food crops

In Madhya Pradesh, Uttar Pradesh, Jharkhand, and Bihar mostly there are production of food grains which have less sale value. But the expenditure of farmer's family remains unchanged leading to the use to money in unproductive means causing problem of repayment.

6.1.4 Soil Exhaustion

On one hand green revolution has played a positive role in reducing hunger from India. On the other hand it has also led to negative consequences. One of which is Soil exhaustion. Soil exhaustion means loss of nutrients in the soil from farming the same crop over and over again. This depletes the quality of soil affecting the production adversely and making the borrower unable to repay the loan

6.1.5 Depletion of Fresh Ground Water

The second major negative consequence of green revolution is depletion of fresh ground water. You would remember that areas where green revolution was successful, it was due to the use of chemical fertilizers and irrigation. Most of the irrigation in dry areas of Punjab, Haryana and Western Uttar Pradesh was carried out by excessive use of ground water. Today fresh ground water situation in these states is alarming. In the coming few years if this type of farming practice continues, these states are going to face water famine.

6.1.6 Previous bad debts

These banks have been facing losses since a long time because of the non-repayment of the loan amount. During 2001-02, out of 196 RRBs, 29 suffered losses amounting to Rs. 92.05 crore. The accumulated losses of all RRBs were Rs. 2792.59 crore as on March, 2001. These huge previous bad debts lower the capital of the RRBs and reduce the amount to be granted.

6.1.7 Delay in decision making

The RRBs are controlled directly and indirectly by various agencies, i.e., the sponsoring bank, NABARD, RBI, besides Central Government. Thus, it takes long time to take decisions on some important issues. This, in turn affects the progress of RRBs. However, since end 1997, the operational responsibility of RRBs has been passed on to sponsor bank.

6.1.8 Illiteracy

Around 33% of the rural population is illiterate and thus are unable to understand the formalities involved in the organized sector or are unaware of such financial institutes and depend upon the local moneylenders for their financial requirements.

6.1.9 Dependence on monsoon

Water is the prime requirement of any crop, under or over use of water is harmful for the crops. In India because of lack of irrigation facilities the farmers have to face the loss of crops due to the irregular water supply which leads to the crop failure and decelerates the rate of return.

6.1.10 Socio-economic issues

In-equality in land distribution and insecurity of tenure etc. are often at the bottom of many forms of social discrimination and domination based on gender, caste, minority and tribal affiliation. Social sector indicators of these regions show that while there is progress with time but they are lower than the level achieved by some of the states like Kerala, Tamil Nadu, and Punjab of the country. The employment situation in this sector presents a serious problem. There is a need to create the opportunities in off-farm and non-farm activities. The income data from the National Accounts shows that the per capita income growth is much less than average amongst the self-employed in the unorganized sector and actually negative amongst employees in agriculture.

6.2 Way ahead for Regional Rural Banks

- Government should encourage and support banks to participate in rural financing.
- Policies should be made for opening more branches in remote areas.
- Measures should be adopted to increase productivity in loss making areas.
- Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.
- The RRBs have to make an important change regarding their decision of selecting the target areas.
- The RRBs have to give due preference to the regions of the country that are relatively backward to demolish regional imbalance.

- Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
- The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
- The credit policy of RRBs should be concentrated on granting loans for only agricultural purposes.
- These banks must try to reach out to the needy through micro-credit and Self-Help Groups.
- Expand its reach in the rural areas through alternate channels to ensure adequate availability of funds.
- Improvement in service levels in rural areas.

7. Conclusion

To conclude, Indian banking has come a long way since from the British period. Since then the public sector banks continued to play a very prominent role in both deposit mobilization and credit disbursement even during the privatization era. The advent of RRBs has accelerated the economic growth in India, as it majorly concentrates on the key issue that is the fund requirement of the agricultural sector.

RRB has successfully achieved its objective of taking banking facility to the door step of every rural household. Government at both center and state and center level should take measures so that these banks become viable.

RRBs should involve self-help groups and cooperative society to ensure the reach every nook and corner so that the deep rooted unorganized sector is thrown out of the society.

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