

Problems and Prospects of Regional Rural Banks in India

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Abstract: *Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRBS have more reached to the rural area of India, through their huge network. The success of rural credit in India is largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas. At present, most of the regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. The first recommendation for the establishment of regional rural banks was made by Banking Commission in 1972. As the result of this recommendation a working group headed by Mr.M.Narsimham Rao, RRB's came into existence in 26th September, 1975 and RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors.*

RRBs were established to mobilize rural areas small saving and provide other banking facilities to the small and backward areas. RRB's are usually sponsored by public sector banks thus they keep their deposit with these bank & are also dependent for their loan operations & finance on sponsor bank and NABARD.

The main objective of RRB's is also to promote saving investment hands which helps to collect adequate deposits that enable them to work at low cost as compared to commercial banks.

Keywords: *Regional Rural Banks, NABARD, RBI, Rural Credit*

1. INTRODUCTION

Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in adequate supply of credit. The major source of credit to rural households, has been the informal sector.

Rural banking is the process of conducting banking transactions out in the country where bank branches are too far away to be of use. Rural banking is popular for very small towns and farmers who live far away from areas of larger population and cannot make the drive to these locations whenever they need to use banking services. Typically, an agent of the bank will visit these rural locations and offer to make transactions in an official capacity.

2. NABARD

National Bank for Agriculture and Rural Development (NABARD) is a development bank in the sector of Regional Rural Banks in India. It provides and regulates credit and gives service for the promotion and development of rural sectors mainly agriculture, small scale industries, cottage and village industries, handicrafts. It also finance rural crafts and other allied rural economic activities to promote integrated rural development. It helps in securing rural prosperity and its connected matters.

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The Narasimham Committee on rural credit recommended the establishment of Regional Rural Banks (RRB) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. They would combine the local feel and familiarity with rural problems which cooperative possess and the degree of business organization, ability to mobilize deposit, access to central money markets and modernized outlook which the commercial banks have.

On Narasimham Committees recommendation, the Government passed the Regional Rural Banks Act, 1976. The main objective of RRB is to provide credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisan and small entrepreneurs and develop agriculture, trade, commerce, industry, and other productive activities in the rural areas.

3. STRUCTURE AND ORGANISATION OF RRB

The authorized capital of RRB is fixed at Rs. 1crore, and its issued capital at Rs. 2 lakhs. 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. The working and the affairs of the RRB are directed and managed by a Board of Directors. The Board of Directors consists of chairman, three directors to be nominated by the Central Government concerned, and not more than 3 directors to be nominated by the Central Government and his term of office does not exceed five years.

RRB has an important role to play in our rural economy, as they have to act as alternative agencies to provide institutional credit in rural areas. In course of time it is necessary to remember that they have not been set up to replace cooperative credit societies but act as a supplement to them. RRB has always been active participant in programmes designed to provide credit assistance to weaker sections.

Regional Rural Banks in India s mainly focussed upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country.

No.of branches of Scheduled Commercial Banks as on 30th June, 2012

Bank Group	Rural	Urban	Semi-Urban	Metropolitan	Total
Public Sector	22,146	1,7803	14,223	13,231	67,403
Private Sector	1,555	4,660	3,580	3,621	13,416
Foreign Banks	7	9	61	247	324
RRBs	12,258	3,094	830	148	16,330
Total	35,966	25,566	18,694	17,247	97,473

Source:Dept. of Financial Services, Ministry of Finance, GoI

The above table analyse that there are 97,473 branches of scheduled commercial banks conducting banking transactions in the country, out of which 35,966 (36.9%) bank branches are in the rural areas, 25,566 (26.2%) branches in urban areas, 18,694 ((19.17%) in semi-urban areas. Constituting 63% of the total no.of branches in rural and urban areas of the country.

RBI has advised the banks to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has atleast one bank account.

4. THE OBJECTIVES OF RRBS ARE AS FOLLOWS

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture labourers, artisans, small entrepreneurs and other weaker sections.
- To save the rural poor from the moneylenders.
- To act as a catalyst element and thereby accelerate the economic growth in the particular region.

- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas.
- To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government.
- To develop underdeveloped regions and thereby strive to remove economic disparity between regions.
- Identify the financial need specially in rural areas
- To enhance banking and financing facilities in backward or unbanked areas
- To provide finance to co-operative societies, primary credit societies, Agricultural marketing societies.
- Enhance & Improve banking facilities to semi urban, rural and other untapped market.

5. ROLE OF REGIONAL RURAL BANKS (RRB) IN THE PRESENT SCENARIO

- To accept deposit
- To grant advances
- To provide ancillary banking services
- To supply inputs and equipments to farmers
- To provide assistance in the marketing of their products
- To maintain godowns

6. PROBLEMS & CHALLENGES OF RRB

1. RRB's are facing the problem of inadequate finance. They are dependent on NABARD to collect finance for their further operation. Poor rural people are unable to save anything due to poverty and low per capita income. The low level of saving of these customer create obstacle for RRB's to collect sufficient deposits.
2. High overdues and poor recovery of loan is one of the biggest concern affecting the functioning of RRB's. Reasons being poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system.
3. There is also a problem of regional imbalance in banking facilities provided by RRB's. They are creating this problem by concentrating their branches in some specific states and districts & loose other prospective group of customers.
4. Many RRB's are suffering from the problem of heavy loans because of low repaying capacity of their customer, untrained staff, low level of deposits and heavy sanction of loan without checking the creditworthiness of their customers.
5. These banks have still not played a significant role in poverty alleviation of the country. Although various efforts have been made in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for RRB's.
6. Lack of proper co-ordination between RRB's and other financial institution like commercial banks, NABARD and other co-operative bank has badly affected the performance of these banks.

7. IMPROVEMENT IN THE WORKING OF RRB

1. The unique role of RRB in providing credit facilities to weaker sections in the villages must be preserved. The RRB should exist as rural banks of the rural poor.
2. The RRB may be permitted to lend up to 25% of their total advances to the richer section of the village society.
3. The State Government should also take keen interest in the growth of RRB.

4. Participation of local people in the equity share capital of the RRB should be allowed encouraged.
5. Local staff may be appointed as far as possible.
6. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
7. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
8. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
9. The credit policy of the RRB should be based on the group approach of financing rural activities.
10. The RRB may initiate certain new insurable policies like deposit-linked cattle and other animals insurance policy, crop insurance policy or the life insurance policy for the rural depositors.
11. The RRB may relax their procedure for lending and make them more easy for village borrowers.
12. Co-ordination between district level development planning and district level credit planning is also required in order to chart out the specific role of the RRB as a development agency of the rural areas.

8. CONCLUSION

RRBs should not confine their operations only in agriculture sector but also provides benefits to small entrepreneurs, village and cottage industries and small farmers. And they should establish proper co-ordination with other institutional financing agencies, co-operative banks, commercial banks and local participants to enhance their capability and exploit untapped rural market. Rural banks need to remove lack of transparency in their operation which lead to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities due to underdeveloped transport and communication facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

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