



PROBLEMS AND CHALLENGES OF REGIONAL RURAL BANKING SECTOR IN INDIA

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ABSTRACT 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.Narsinham 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. 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 main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labours and even small entrepreneurs. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by RRBs in the development of rural economy. The objective of this paper is to analyze the rural credit and the role played by the RRBs in the priority and non-priority sector landings. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that RRBs in India has significantly improved rural economy.

KEYWORDS : Regional Rural Banks (RRBs), NABARD, Bank Economy, farmer and Agriculture sector

Introduction:

Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy. Even after 60 years of independence, the rural economy in India is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Since independence, it has been constant endower of our policy maker to give adequate trust to rural development as the sector is directly related to agriculture. Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused 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. SBI has 30 Regional Rural Banks in India known as RRBs. The rural bank of SBI is spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

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 finances rural crafts and other allied rural economic activities to promote integrated rural development. It helps in securing rural prosperity and its connected matters.

Review Of Literature

- Kalkundrickars (1990) in his study on "Performance and Growth of regional Rural Banks in Karnataka" found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans.
- Kumar Raj (1993) carried out a study on the topic "Growth and Performance of RRBs in Haryana". On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries.
- Professor Dilip Khankhoje and Dr. Milind Sathye (2008) have analysed 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.

- 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.

THE OBJECTIVES OF RRBS ARE AS FOLLOWS

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture laborers, 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 provide finance to co-operative societies, primary credit societies, Agricultural marketing societies.
- To Identify the financial need specially in rural areas

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 over dues 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.

A study conducted by Micro Save also concludes that the poor transact with the informal sector because it will accept small amounts, provide doorstep service, and ensure ease of enrolment. Rural customers need loans not only for productive purposes but also for consumption needs (Following Table). A part from agricultural support, rural customers need micro credit for consumption, education and emergencies. Though banks offer purpose free loans (personal loans and credit cards) in urban areas quite liberally, in rural areas sanction of such loans is significantly restricted. Therefore, the poor raise these loans through the informal financial system (it is worth noting that these loans taken from the informal system are almost always repaid or renewed¹²). In addition, larger households need occasional high value micro-enterprise loans for small capital investment. Though banks offer these loans, they require excessive documentation and time-consuming processes which discourage customer applications.

Purpose of borrowing

1. Rural Household Borrowing

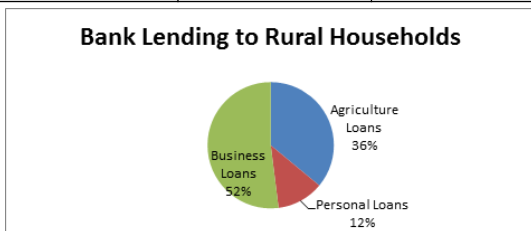
2. Bank Lending to Rural Households

Rural Household Borrowing

Agriculture Expenditure	Household Expenditure	Other Business Expenditure
38%	48%	14%

Bank Lending to Rural Households

Business loans	Personal loans	Agriculture loans
52%	12%	36%



Source: AIDIS, National Sample Survey Organization (NSSO); Diamond analysis.

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.

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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