



Problems & Suggestions for the Success of Regional Rural Banks

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ABSTRACT

Problems of RRBs can be served by implementing following suggestions and banks can further improve their functioning in the rural areas.

KEYWORDS

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It is clear from the evaluation of RRBs that they have not been fully successful to fulfil their objectives. They have failed to prove themselves as a true friend and well-wisher of the rural poor and weaker sections of the community. RRBs exhibited following vital problems :

Problem of Multi-agency Control : Each RRB is sponsored by a commercial bank. The Central Government and the concerned State Government also contribute to its share capital. Thus, there is a multi- agency control of RRBs. This has created the problem of uniformity in their functioning. It has resulted in lack of support from State Government and lack of proper monitoring by Sponsor Banks. Multi- agency control also created many organisational problems.

Problems of Recovery : The recovery position of RRBs is bad and overdues are increasing continuously. The high incidence of overdues is attributable to a number of internal and external factors. The internal factors include defective loaning policies, weak monitoring and supervision, apathy towards recovery, failure to bank lending with development and to ensure proper end use of the loan. Among the external factors, mention may be made of political interference, wilful default, droughts and floods, lack of legal and administrative support from the State Government regarding recovery of loans.

Mounting Losses : It is observed that many RRBs are incurring losses year after year. Many had completely wiped out their equity and reserves and in some the losses wear eating into their deposits. The main reasons of incurring losses are to confine their lending to weaker sections where interest rate is lowest, low margins coupled with high cost of servicing, absence of loans which could yield higher returns, opening of non-viable branches added to the overhead costs and non-availability of competent and trained staff, poor recovery of loans, increasing salaries etc.

Lack of Adequate Staff : Non-availability of competent and trained staff posed serious problems in the operation of RRBs. The process of recruitment and training of RRB staff has not received adequate attention. The urban and pro-rich bias seems to prevail in the RRB staff, and this has not evoked confidence in the rural poor.

Non-viable Branches : The problems of RRBs got commanded by the unplanned and unyieldy growth of these banks and branches opened under pressure of the State Government. This created numerous problems in the control and management of RRBs. Opening of non-viable branches leads to increasing losses of RRBs.

Management Problems : Since the RRBs are small banking units, the sponsor banks have been deputing only middle management staff to run them. Such staff finds it difficult to take independent decisions in a new environment. In addition meetings of the Board of Director of RRBs do not held regularly and a large number of non-official directors do not show much interest in the working of the banks.

Lack of Deposits : It is expected from the RRBs, that each and every branch should mobilise at least Rs. 5 lakhs in a year as deposits. But this target look to be unrealistic and over ambitious. These banks are located in areas belonging to poor and economically weak people. Their income and saving are almost nil. So, it is not expected from such people that they will deposit money in RRBs. This seriously hampers their business and ultimately the RRBs have to depend upon the external financial institutions for funds.

Vested Interests : The RRBs are primarily required to provide credit to the poor sections of the community. It is often found that the influenced persons of the area have managed to procure a sizeable amount of loan from the RRBs. The actual needy does not get benefited due to lack of education, awareness and political maturity. Thus, these banks failed to fulfil their objectives.

Rate of Interest : The darkest aspect of the lending of RRBs is that they are charging higher rate of interest from the poor people. This is not suitable for the weaker section. Thus, RRBs had failed to provide credit facilities to the rural poor at a cheaper interest rate.

Unproductive Loans : The basic object of the establishment and expansion of RRBs was to provide credit facilities to the rural poor, so that they can be made free from the clutches of the money-lenders. The weaker section of society required productive as well as non productive loans. If RRBs will not provide nonproductive loans, as loans for marriages, medical treatment etc., they cannot make poor free from the clutches of money lenders. On the same time non recovery of unproductive loans creates serious problems for RRBs.

Inadequacy of Training Facilities : Although, RRBs are expanding their branches in rural areas, but adequate staff is not available accordingly. The staff available to these banks lack adequate training and guidance.

Suggestions for the Success of RRBs

The above discussion emphasizes that the RRBs are facing

many serious problems. The economic condition is weakening day by day and they are facing the problem of their existence: In order to ensure success of these banks following steps should be taken :

Uniform Policies : Loan policy and credit procedure of all the RRBs should be unified (uniform). The loan procedure should be simple or flexible and according to the requirement of the borrowers. Beside credit, they should provide a package of other facilities and services like marketing, storage, distribution of agriculture inputs, tools and implements etc. to the customers.

Strong Recovery System : In order to solve overdues problem, RRBs should develop a strong, quick and prompt loan recovery system. For this they should see the repaying capacity of the borrower at the time of granting loans. Personal contracts and regular monitoring of the borrowers will help in loan recovery and thus they will be able to serve the areas for long time.

Increase in Deposits : In order to maintain their strong position and economic viability, they should give more attention on deposit mobilisation. So, that they can rise their own financial resources. In order to improve or mobilise deposits, personal relations should be developed and new attractive deposit scheme should be launched.

Government Assistance : State Government should support RRBs in different ways. The RRBs cannot be run without Government support. Therefore, State Government should help RRBs in various ways such as providing infrastructure facilities, transport and communication network, regulated markets, providing office premises etc. Then only they can run in a better way.

Latest Information : Most of the branches of RRBs are opened in the backward and tribal areas. Bank lacks adequate information about these areas and they failed to formulate proper policy for a particular area. Therefore, RRBs should be well equipped with latest information of the area, so that they may plan adequate credit policy and fulfil the aspirations of the locality. Due to lack of adequate information related to the village economy, the RRBs find it very difficult to plan their credit policies.

Liberal Credit Policy : In order to make RRBs economically viable units, their credit policy should be liberalised. As they have to provide credit to different type of persons such as small farmers, rural artisans, landless labourers, marginal farmers, small traders, self employed persons, cottage industries etc. In order to promote balanced rural development and to fulfil total credit requirements of the areas, their credit policy should be liberalised according to the requirements, so that their business may increase and they will become economically viable.

Coordination : There is need for proper coordination between RRBs and other rural financial agencies such as cooperative banks and commercial banks, so that they can be prevented from the unnecessary competition. They should also coordinate with other Government agencies such as District Rural Development Agency (DRDA), Block Development Officer, and other quasi-Government organisations operating at the grass-root level.