ROLE OF REGIONAL RURAL BANKS IN RURAL DEVELOPMENT OF INDIA

Arvinder Kaur

Asstt. Professor, Deptt. Of Commerce

Post Graduate Government College, Sector 46,

Chandigarh

Abstract

Regional rural Banks play a vital role in the agriculture and rural development of India. The RRBs were setup in 1975 as the 'low cost banks' to supplement the efforts of cooperative and commercial banks. RRBs came into existence with an objective to ensure sufficient institutional credit for agriculture and other rural sectors.. 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. RRBs 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 objective of my paper is to study the role and working of RRBs in rural development of India. The paper also attempts to study the role of RBI, Nabard and Central Government in successful working of RRBs for rural development in India. The financial sector reforms that were introduced aimed at transforming the financial institutions including RRBs into organizationally strong, financially viable and operationally efficient units.

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 establishment of regional rural banks in India marks another important landmark in the banking history of the country. These banks were established under the provision of the Regional Rural Banks Ordinance, 1975, promulgated by the government on September 27, 1975. The main objective of establishing the regional rural banks is to provide credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas. Each RRB operates within the local limits specified by a notification. Each RRB is sponsored by a public sector bank which provides assistance by subscribing to its share capital, providing such managerial and financial assistance as may be mutually agreed upon .The authorized capital of each RRB is Rs. 1 crore and the issued capital is Rs. 25 lakh. Of the issued capital, 50 percent is subscribed by the Government of India, 15 percent by the concerned state government and the balance 35 percent by the sponsor bank. The management of each RRB is vested in a nine member Board of Directors headed by a chairman who is appointed by the Government of India. In discharging its functions, the Boards of Directors is required to act on business principles and in accordance with the directives issued by the Government of India, after consultations with the Reserve Bank of India. All the RRBs established in the country have been included in the second schedule to the Reserve Bank of India Act, 1934. The Reserve Bank of India is authorized to grant assistance to RRBs in the form of loans and advances from the National Agricultural Credit Fund under sections 46A and 46B of the Reserve Bank of India Act, 1934. The co-operative banks have criticized the establishment of the RRBs. It is argued by the cooperatives banks spokesman that the extension of the RRBs in the country would adversely affect of structure of the apex banks and the cooperative credit structure of the base level.. The RRBs have not replaced the district central cooperative banks but both play an important role in the rural development of India. Role of Government of India, NABARD, RBI and State Governments play an important role in the functioning of the regional rural banks. The Government of India is the major shareholder (50%) and invested with the powers to issue instructions / directives to RRBs. After the establishment of the NABARD in July 1982, certain functions such as statutory inspection of RRBs, have been transferred from RBI to NABARD by amending the banking Regulation Act, 1949. However, other statutory functions relating to scheduling, cash reserve and SLR requirements, branch licensing etc. remain with RBI. NABARD has also been overseeing functioning of the RRBs on behalf of Government of India and has also been issuing guidelines and instructions, whenever necessary, in consultation with Government of India.

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.

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 & NABARD.

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 labourers, artisian and small entrepreneurs and develop agriculture, trade, commerce, industry, and other productive activities in the rural areas.

STRUCTURE AND ORGANISATION OF RRB

The RRBs were setup in 1975 as the 'poor man's bank' or 'low cost banks' to supplement the efforts of cooperative and commercial banks. The RRBs since then have passed through various phases and now have been recognized as integral part of rural credit delivery system in the country. The working and the affairs of the RRB are directed and managed by Board of Directors. The Board of Directors consists of chairman, three directors to be nominated by the Central Government concerned, and two directors to be nominated by the state Government and his term of office does not exceed five years. . State governments are entitled to nominate two of its officials on the Board of Directors of the RRBs. It is through such nomination that the local aspirations of the people are made known to the RRBs. As the shareholder, the state government is also entitled to receive, within the stipulated period, the annual report and balance sheet of the RRB. It has been the practice of the Government of India to consult the respective state government in the matter of establishment of the new RRBs, their location and their names. 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.

Objectives of the Present Research Study

Following objectives are framed for present research study.

1) To discuss the role of RRBs and their responsibilities towards rural development in India.
2) To observe the role of central government in successful working of the regional rural banks towards rural development in India.
3) To study the role of NABARD in operations of regional rural banks towards rural development in India.
4) To overview the role of RBI in maintaining statutory obligations of regional rural banks in India.

Research Methodology and Collection of Data

The research paper is an attempt of exploratory research, based on the secondary data sourced from different types of books and records of the regional rural banks, journals magazines articles and media reports. Available secondary data was extensively used for the study. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type.

Scope and Limitations of the Study

This research study is taken on role of the regional rural banks in the development of rural India. The majority part of the research work is depends upon secondary data. Financial data is not applied in this research work.

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 farmers.
- To maintain godowns for farmers.

THE OBJECTIVES OF RRBS ARE AS FOLLOWS

Every RRB is authorized to carry on to transact the business of banking as defined in the Banking Regulation Act and may also engage in other business specified in Section 6 (1) of the said Act. In particular, a RRB is required to undertake the business of:

Granting loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups, and to cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service societies, primary agricultural purposes or agricultural operations or other related purposes, and ranting loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, industry or other productive activities, within its area of operation.

1. To provide cheap and liberal credit facilities to small and marginal farmers, agriculture labourers, 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
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 an commerce in rural areas.
6. To encourage entrepreneurship in rural areas.
7. To cater to the needs of the backward areas which are not covered by the other efforts of the Government
8. To develop underdeveloped regions and thereby strive to remove economic disparity between regions. Identify the financial need specially in rural areas
9. To enhance banking and financing facilities in backward or unbanked areas

Role of Regional Rural Banking for Rural Development:

Regional Rural Banks were established with the following responsibilities in mind:

1) Taking the banking services to the doorstep of rural masses particularly in hitherto unbanked rural areas.

2) Identify the financial need especially in rural areas.

3) Making available institutional credit to the weaker section of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders.

4) To enhance banking & financing facilities in backward areas.

5) Mobilize rural savings and channelize them for supporting productive activities in rural areas.

6) To provide finance to the weaker sections of society like small farmers, rural artisans, small producer, rural labourers' etc.

7) To create a supplementary channel for the flow the central money market to the rural areas through refinances.

8) To provide finance to co-operative societies, Primary Credit societies, Agricultural marketing societies.

9) Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.
10) Enhance & improve banking facilities to semi urban, rural & other untapped market. With these objectives in mind, knowledge of the local language by the staff is an important qualification

Role of the Central Government

The main role of the Government of India as per the provisions of the RRBs Act can be summarized as follows.

1) The Government of India subscribed 50 percent to the paid up share capital of the RRBs.
2) The establishment of RRB, location of its head office etc. is dcided by the Government of India in consultation with the sponsor bank. In practice, the state government is also consulted in this regard.
3) The Government of India can nominate three directors of the board of the RRBs. In practice, it appoints an officer each from NABARD and RBI as its nominee directors. The third director is a non-official person.
4) Chairman of the RRB is appointed by the Central Government (Section 11). Presently, the chairman is appointed from the panel of officers recommended by the sponsor bank for the purpose.
5) The remuneration of the officers and other employees appointed by RRBs is determined by the Central Government with due regard to the salary structure of the employees of the state government and local authorities of comparable level and status in the notified areas of the RRB.
6) The Central Government has to give the approval for the appointment of auditors for the statutory audit of the RRBs annual accounts. Prior approval of the Central Government is also required for remuneration to be given to the statutory auditors of RRBs.
7) The Central Government, after consultation with RBI and sponsor bank, and by notification in the official gazette, is empowered to make rules for carrying out the provisions of the RRBs Act, 1976.
8) The Central Government is empowered to give directions, after consultation with the Reserve Bank, to an RRB in regard to matters of policy involving public interest.
9) The regulations made by the Board of Directors, as per the provisions of the RRBs Act, require previous sanction of the Central Government before they are implemented

Role of NABARD

The RRBs Act was enacted in 1976 when NABARD was not in existence. As a result, in the RRBs Act, there is no mention of NABARD. Since RRBs deal with rural credit and since institutions dealing in rural credit are the concern of NABARD, the responsibility of overseeing the overall functioning of RRBs devolves on NABARD. The Government of India has recently issued instructions to RRBs that all matters pertaining their functioning interpretations relating the circulars earlier issued by Government of India etc. may be referred to NABARD and not to the Government of India. The newly constituted state level coordination committee (SLCC), has been constituted and NABARD has been made the convener instead of the oldest RRB in the state, which was the practice earlier. The committee would be reviewing the progress made by RRBs in the state so as to suggest remedial measures. NABARD has also been made the convener of the newly formed forum at the state level in each state to discuss and thrash out problems relating to RRB staff matters. With the convenorship of these two committees and the proposed legislation arming NABARD with statutory powers over RRBs, NABARD would be better equipped to play its role.

The main purpose of the National Bank for Agriculture and Rural Development is to provide credit for the development and publicity of small scaled industries, handicrafts, rural crafts, village industries, cottage industries agriculture, etc.The NABARD also supports all other related economic operations in the rural sector, promotion ofsustainable growth in the rural sector.The NABARD also plays the role of a contributor to the rural development by the means of promoting institutional development, facilitating refinance to loan providers in the rural sector,inspection, monitoring, and evaluation of client financial corporations. National Bank for Agriculture and Rural Development (NABARD) was established as the premiere rural development bank.

Role of RBI

The statutory powers regarding the maintenance of statutory Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), branch licensing are still vested with the RBI. The function regarding the scheduling of RRBs was also watching the obligations under section 42 of the RBI Act remains with RBI. It is empowered to call for returns from RRBs as laid-down in the Banking Regulation Act. It can give directions to the RRBs under the provisions of the B.R. Act, on rates of interest to be charged on loans and advances, on rates of interest payable on deposits and on regulation of advances.The RRBs Act, 1976, as it exists today, has also empowered the RBI in the following matters.

1) The head office of an RRB is notified by the central government after consultation with the RBI and the sponsor bank.
2) The authorized and paid-up capital of an RRB can be increased or reduced by the central government in consultation with the reserve bank, the concerned state government and the sponsor bank.
3) The Central Government is empowered to give directions to the RRB is regard to matters of policy involving public interest in consultation with the RBI.
4) The Central Government may, after consultation with RBI and sponsor bank, by notification in the official gazette, make rules for carrying out the provisions of the RRBs Act.
5) The Board of Directors of RRB may, after consultation with the sponsor bank and the reserve bank, and with the previous sanction of the central government, makeregulations to provide for matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of the RRBs Act.

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.

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 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. The financial sector reforms that were introduced aimed at transforming the financial institutions including RRBs into organizationally strong, financially viable and operationally efficient units. The various measures and policy initiatives like income recognition, asset classification, allowing non-target group financing, recapitalization and restructuring and linking of self help groups etc. have been taken in this respect. The impact of these measures on working operations of RRBs has shown positive results. 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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