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Role of Regional Rural Bank (RRB's) in the Economic Development of India

Dr. Seema Rafique¹

Professor

Department of Management, NRI Group of Institutions
Bhopal - India

Satish Manwani²

Asst. Professor

Department of Management, NRI Group of Institutions
Bhopal - India

Abstract: In the near future, Rural India is going to become a biggest market of the world and it is transforming like anything. Rural development as an emerging trend is about to explore possibilities in the rural India. In our country about 70% of the population lives in rural areas in some 6, 30,000 villages. There are states like UP, MP, Bihar and Orissa where rural population varies from 80 to 90%. It is a visit to the 75 crores people residing in the villages of India where they have hope, aspirations, needs and potential.

India's economy is predominantly rural in character. Over the past few years rural India has witnessed an increase in the buying power of consumers, accompanied by their desire to upgrade their standard of living. In order to shape the present rural scenario there is an urgent need of upgrading various factors like employability, literacy, irrigation, infrastructure, advanced technologies, basic telecommunication facilities and above all need of efficient financial system.

The unorganized financial system opens up the potential for banking sector including private banks in rural areas. For the same, Reserve Bank of India and government in association with the various financial institutions has taken an initiative to introduce Regional Rural Banks. They have been created to serve the rural areas with effective banking and financial services. The main purpose of RRB's is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State.

The paper tries to focus the changing paradigm of the Indian rural economy and highlight how Regional Rural Banks can assist in restructuring the financial system in rural India. The study will be literature based and would try to explore the possible impact of Bank in rural India and especially challenges and opportunities would be highlighted. This paper is based on secondary data.

Keyword: RRB's, Rural India, Economic Development.

I. INTRODUCTION

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualized rate in the three decades after Independence. Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy.

India lives in its villages, and while the cities have grown immensely over the last 20 years, rural areas have not seen that kind of development. For India's economy to be strong, the rural economy needs to grow. Rural areas are still plagued by problems of malnourishment, illiteracy, unemployment and lack of basic infrastructure like schools, colleges, hospitals,

sanitation, etc. Our villages need to grow in tandem with cities and standard of life has to improve there for inclusive growth to happen. If rural India is poor, India is poor.

Rural development is not merely development of rural areas but also the development of the rural people into self-reliant and self-sustaining modern little communities. Rural development in the country is designed to enhance the socio-economic living conditions for the people living in rural India while conserving their culture and rich tradition. The Government seeks to achieve higher targets related to rural production, employment and higher living standards which will pave the way for all round economic development of the country. This includes setting up basic infrastructure and facilities such as medical facilities, schools, and transport facilities, apart from scheme implementation related to improving rural employment, agricultural productivity and rural industrialization.

The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India.

The Regional Rural Banks have been growing in importance since their inception in 1975 as special institutions playing a catalyst role in the development of rural areas. They have been playing a significant role in financing the weaker sections of the community in the rural areas and also in inculcating banking habit among rural masses. Regional Rural Banks were set up with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Being local level institutions, RRBs together with commercial and co-operative banks, were assigned a critical role to play in the delivery of agriculture and rural credit.

The RRBs' were established, "with a view to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto." (The RRB Act, 1996)

It can be affirmed that the RRBs were established as a new set of State sponsored, rural-oriented, region-based, low cost banks, having the ethos of cooperatives and business acumen of commercial banks for providing credit in rural areas, particularly to the relevant weaker sections of the society. It would be fair to say that RRBs have succeeded in spreading the banking services to far flung rural areas, mobilizing rural savings, opening up new avenues for rural poor through institutional credit and generating employment opportunities. However, the mandate of financing only their target group borrowers, coupled with an administered interest rate structure, poor recovery performance, increasing establishment cost, and low level of operational efficiency have resulted in RRBs incurring losses and losing their financial viability from their inception.

II. AIMS AND OBJECTIVES

This paper focuses on highlighting the unbeatable role of the Regional Rural Banks in the upliftment of the rural India. It aims to understand the invaluable contribution of these banks towards fulfilling the objectives of enrichment and betterment of the overall quality of the rural life through appropriate development of manpower resources, infrastructural facilities and provision of minimum needs and livelihood.

III. RATIONALE

The purpose of the research is to identify the challenges and constraints faced by the Indian Rural Economy, and how by integrating the notion of rural credit, through the channels of RRBs, these are overcome efficiently. Moreover to explore the challenges and opportunities that awaits these banks.

IV. RESEARCH METHODOLOGY

In order to achieve the research objectives the blend of deductive and inductive research approach is selected, whereas qualitative research method is utilized. The research is based on only publically available information which has been taken into account. In order to fulfill proposed objectives data on various facts related to the RRBs and Rural India is been presented with the help of literature review. The data is collected using secondary method to fulfill different issues related to research topic from the published articles, journals, reports, websites, blogs and academic literatures.

V. LITERATURE REVIEW

Institutional finance is the lifeblood of modern economic system without which no system can survive. In agricultural development also its role is crucial. Adequate institutional credit is considered to be the most important factor, which if suitably provided, will go a long way to put the economy of the farmers especially the small and marginal farmers on a sound footing (Selvaraj 1998). So agriculture and rural development has been on the priority agenda of our policy makers since independence and considerable efforts have been made to develop the rural credit system as means of rural development (Joshi 1997, Tyagi and Singh 1998).

The term rural development refers to a wide array of developmental programmes aimed at developing rural areas through the creation of infrastructure facilities to improve the condition of rural people. The very concept of rural development on the global level had its origin in the mid 17th century in England. A group of people called 'Quakers' or friends organized themselves on the principles of selfless sacrifice. They believed in the dignity of all human beings. This philosophy was propagated throughout the world.

Rural development is, therefore, the development of rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with the other component. Besides, rural development also encompassed structured changes in the socio-economic situation in the rural areas in order that human welfare, which is the primary goal of all development, is secured at the earliest. It has been the constant endeavor of the planners to give adequate thrust to rural development as the sector is directly related to agriculture.

VI. HOW INDIA LIVES IN VILLAGES?

Indian Rural Development Report 2012-13 released in October 2013 by rural development minister Jairam Ramesh highlights that the growth rate of rural per capita consumption rose exponentially in the last seven years. However, according to the report, rural India still battles with poverty and lack of basic infrastructure.

[A] Poverty concentrated in certain regions, social groups

- 30% population of the country lives Below Poverty Line (BPL)
- 80% of BPL population lives in rural areas
- In 1993-94, nearly 50% of the rural poor lived in seven states – Jharkhand, Bihar, Assam, Odissa, Chattisgarh, MP and UP
- This rose to 65% in 2011-12, though states like Bihar, Chattisgarh and Uttar Pradesh have reduced poverty significantly since 2009-10
- 44% of the rural poor in 2009-10 come under scheduled castes and scheduled tribes.

[B] Access to
electricity, water
and sanitation

- 18% of rural households have access to all three basic services – drinking water within premises, sanitation and electricity
- 45% of rural households lack electricity connections
- 70% of rural households lack sanitation facilities
- 20% have none of the three basic services

[C] Need to
develop new
strategies for
farm livelihood

- 18% of rural families rely on non-farm employment as major source of their livelihood
- Income from farm livelihood not sufficient for households
- Encourage new crop models, revive traditional crops like millet
- Various types of collective farming help small farmers overcome problems of scale, insecure land tenancy and poor access to credit, modern supply chains and storage

Regional Rural Banks (RRBs) were established in the year 1975 as a low cost financial intermediation structure in the rural areas to ensure sufficient flow of institutional credit for agriculture and other rural sectors. RRBs were expected to have the local feel and familiarity of the cooperative banks with the managerial expertise of the commercial banks.

The global financial crisis and the current Euro zone crisis have affected the banks in the advanced economies; the spill over is reflecting on banks in emerging economies including India. Issues of financial stability, economic growth and managing inflation are the major challenges confronting regulators in advanced economies and are equally important for emerging economies like ours. Global economic growth has slowed from 3.9% in 2011 to 3.2% in 2012. We are not unaffected by what happens in the rest of the world. Our economy too has slowed after 2010-11.

In the current year CSO has projected a growth estimation of 5% while the RBI has put it at 5.5%. As the Finance Minister, Mr. P. Chidambaram has rightly put it “Whatever be the final estimate it will be below India’s potential growth rate of 8%, getting back to that growth rate will be the challenge that faces the country”. This is clearly not feasible if large sections of society remain marginalized and people who lack access to financial services from Institutional service providers are not mainstreamed. The challenge of financial inclusion presents an inflexion point for Indian banking

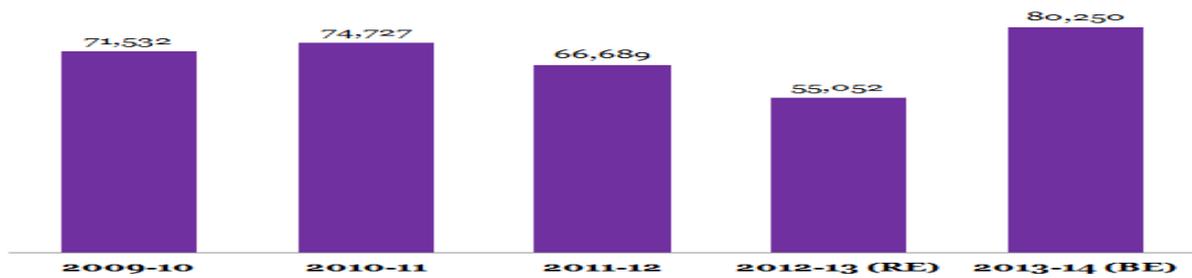
The biggest challenge for next decade or more to banks in the country is to capture the banking business of over 50% population of this country of over 120 billion people.

VII. RESEARCH ANALYSIS

69% of population of India lives in rural area. This population contributes significantly both as consumer and labour. Development of the country aims at developing all sectors and it aims at inclusive growth. Rural India is full of potential there is a need for development of this area and proper banking support from the RRB’s can help much. If the basic hurdles are overcome then definitely we can have a balanced growth of rural and urban India.

Rural financial system is a powerful instrument and a prerequisite in accelerating the developmental activities in rural areas. It operates through two sets of institutions in the organized and unorganized sectors. The unorganized sector consists of local money lenders, landlords, traders, merchants etc; in which case no effective control can be exercised by the government. They largely function in an autonomous fashion with its own norms and discipline. The agencies in the unorganized sector in our villages have still a dominating position in rural finance (Joshi 1997, Singh et. al; 2001, Jeromi 2002). They charge exorbitant rates of interest and they continue to exploit the poor rural masses. The situation resulted in the emergence of institutional agencies in rural credit under the control and direction of the government.

Ministry Of Rural Development Budgetary Allocations & Expenditure; 2009-10 To 2013-14



Figures In Rs cr; RE: Revised Estimates, BE: Budget Estimates
Source: Union Budget 2013-14

The various services RBI in assistance with the commercial banks offers under RRB's in the rural areas:

- Loans
- Savings
- Pensions
- Remittance of funds
- Insurance
- Credit cards
- Financial counselling
- Risk mitigation products

Offices of Commercial Banks in India – 2006 - 2012

As on March							
	2006	2007	2008	2009	2010	2011	2012
Bank Group	(1)	(2)	(3)	(4)	(5)	(6)	(7)
SBI and its associates	14313	14680	15859	16913	18240	19027	19787
Nationalised Banks	35866	37443	39283	41011	43654	46389	50527
Public Sector Banks	50179	52123	55142	57924	61894	65416	70314
Old private sector banks	4817	4828	4703	4926	5245	5061	5610
New private sector banks	2017	2598	3637	4335	5235	6984	8258
Private sector banks	6834	7426	8340	9261	10480	12045	13868
Foreign Banks	259	272	279	295	310	319	324
Regional Rural Banks	14787	14827	15065	13508	15790	16185	16698
Local area banks	41	48	48	48	49	54	57
All commercial banks	72100	74696	78874	83036	88523	94019	101261

Source: Master office file (latest updated) on commercial banks, Department of statistics and information management, RBI

VIII. ROLE OF RRB'S

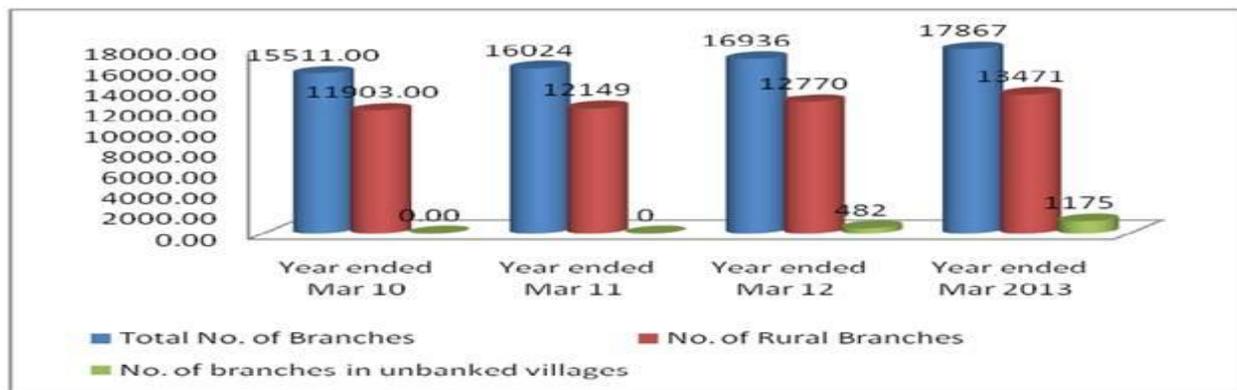
The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "Real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Reserve Bank of India in association with the other commercial banks has taken various initiatives to establish the equipped financial system in the rural India by offering various loans facilities for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans). In order to smoothen the system, RRB plays the key role by providing the following services:

1. Opening of no-frills accounts: Basic banking no-frills account with nil or very low minimum balance & banking charges that make such accounts accessible to vast sections of the rural population. RRBs are providing small overdrafts in such accounts.

2. Relaxation on know-your-customer (KYC) norms: Since August 2005, KYC requirements for opening bank accounts were relaxed for small accounts. RRBs are now permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3. General Credit Cards (GCCs): With a view to helping the poor and the disadvantaged rural people with access to easy credit, RRBs introduced general purpose credit card facility up to 15,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to the customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit.

4. Engaging business correspondents (BCs): In January 2006, RBI permitted scheduled commercial banks to engage business facilitators (BFs) and business correspondents (BCs) as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time.



IX. CHALLENGES FOR THE RRB'S

Slow progress: The progress of RRB's is not upto the expectation and is slow when compared with other types of banks because of many restrictions on their operations. For instance till 1996, RRB's were permitted to lend only under priority sector schemes.

- **Limited scope of investment:** The basic objective of RRB's was to provide credit facilities to poor and weaker sections of society. They were originally having limited scope to invest their surplus funds freely.
- **Delay in decision making:** The RRB's are controlled directly and indirectly by various agencies such as the sponsoring bank, NABARD, RBI, besides Central Government. Thus, it takes a long time to take decisions on some important issues. This in turn affects the progress of RRB's. However, since 1997, the operational responsibility of RRB's has been passed on to sponsor bank.
- **Lack of co-ordination:** Lack of co-ordination between the RRBs and sports or banks regarding branch expansion, policy making, etc., are also the important causes for the slow progress of RRBs.
- **Difficulties in deposit mobilization:** The RRBs are aiming at catering to the needs of poor and are not serving the needs of the rich. So, the RRBs are not able to attract the deposit from that potential sector.

- **Lack of training facilities:** Generally the staff of RRBs is urban-oriented and they may not know the problems and conditions of rural areas. Lack of training facility concerning these areas also affects the growth of RRBs.
- **Poor recovery rate:** The recovery performance of the RRBs is not up to the mark. The rate of recovery in respect of many RRBs is around 55 per cent only.
- **Capital inadequacy:** The capital adequacy is the very basis to financial soundness. There is capital inadequacy in RRBs as most of the RRBs have huge losses in their Balance Sheet eating away all the Capital of RRBs.

X. STEP FOR IMPROVEMENT

The Regional rural Banks in order to provide regularised services and to ensure the development of the rural India must take the following steps:

1. These banks must try to reach out to the needy through micro-credit and Self-Help Groups.
2. It shall provide easy and affordable services through the best use of technology.
3. Expand its reach in the rural areas through alternate channels.
4. Attention should be given to the financial inclusion of unbanked rural area.
5. Improvement in service levels in rural areas.

XI. CONCLUSION

Development of the rural economy is essential in order to ensure a balanced economic growth. The various problems faced by the rural sector such as: illiteracy, lack of access to basic services of electricity, sanitation, drinking water etc. can be overcome if adequate credit facilities are provided.

The initiative taken by the RBI to set-up the Regional Rural Banks and other such banks to promote banking in the rural India has come as a boom for these areas. In the present study, the role of RRBs in the rural credits structure has been deeply analysed. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors. Though the banks are not left untouched by the challenges, yet an ample amount of opportunity is waiting to be grasped by these banks.

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