

Management of Regional Rural Banks in India

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Introduction

Cooperatives have been encouraged since 1904 and the commercial banks were made to accept the responsibility of financing rural economic activities from 1968 under social control to relieve the poor peasants from the clutches of money lenders. Previously banks felt that financing agriculture was not their job and that his responsibility would be withdrawn soon. So the results of control and the working of cooperatives had not been significant. Hence, the government of India had nationalized the 14 major commercial banks with the objective to channelize the resources the resources of commercial banks to rural areas. The impact of bank nationalization on the growth of scheduled commercial banks in rural areas is clear: the share of rural bank offices in total bank offices jumped from 17.6 per cent in 1969 to 36 per cent in 1972. The share rose steadily thereafter, and attained a peak of 58.2 per cent in March 1990. Consequent to the adoption of intensive agricultural programmes under IADP and DPAP, Green Revolution etc. the demand for financial inputs has increased enormously in the rural areas. Therefore it was felt that cooperative and commercial banks alone would not be in a position to meet all the credit needs of the expanding rural economic sector. Between 1966 and 68 various committees suggested that the rural credit structure was weak, therefore some system of rural banks should be created to fill up the credit gap in rural areas. These banks should extension in the rural areas for rural people as such they must be located in rural areas and understand the rural economic environment. Thus Regional Rural Banks were a new type of institution, which combined

- a. Local feel and familiarity with rural possess problems which co-operative banks have.
- b. Degree of business organization ability to mobilize deposit, access to money market and modernized outlook which commercial banks have.

The Government of India promulgated the Regional Rural Banks Ordinance on 26th September 1975, which was later replaced by the Regional Rural Bank Act 1976. At the end of June 1985, 183 Regional Rural Banks with a network of 10,245 branches have been opened in the states of the Indian Union. The total number of Regional Rural banks functioning in the country as at the end of June 1999 was 196 covering 451 districts spread over 23 states with the network of 14,467 branches. These banks have been established by the Government of India in terms of the provisions of Regional Rural Banks Act, 1976. The distinctive feature of a rural bank is that though it is a separate body corporate with perpetual succession and common seal, it is closely linked with the commercial bank which has sponsored the proposal to establish it. The central Government, while establishing a rural bank at the request of a commercial bank, specifies the local limits within which it shall operate. The rural Bank may establish its branches or agencies at any place within the notified area.

Objectives of Regional Rural Banks

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

- i.) Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas.
- ii.) Making available institutional credit to the weaker sections of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders.
- iii.) Mobilize rural savings and channelize them for supporting productive activities in rural areas.
- iv.) To create a supplementary channel for the flow the central money market to the rural areas through refinance
- v.) Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas.

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With these objectives in mind, knowledge of the local language by the staff is an important qualification to make the bank accessible to the people.

Capital Structure

The authorized capital of each Regional Rural Bank is Rs.1crore, divided into 1 lakh fully paid up shares of Rs.100 each. The Central Government may, after consultation with the Reserve Bank and the sponsoring bank, increase or reduce such authorized capital, but it shall not be reduced below 25 lakhs. The issued capital of each Rural Bank is Rs.25lakh. Fifty percent of the capital issued by a Rural Bank is subscribed by the Central Government and thirty five percent by the sponsoring Bank. The Board of Directors of a Rural Bank may, after the consultation with the Reserve Bank and the sponsoring Bank and with the prior approval of the Central Government, increase the issued share capital from time to time. The additional capital shall be subscribed in the same proportion as is specified above. The shares if the Rural Bank shall be deemed to be included in the securities enumerated in Section 20 of the Indian Trusts Act, 1882 and shall be deemed to be approved securities for the purposes of the Banking Regulation Act, 1949.

Table 1.1 Financial Performance of RRBs for past three years

Particular	2005	2006	2007*
No. of RRBs	196	133*	96*
Branch Network (No.)	14,484	14,494	14,520
Share Capital	195.93	196.00	196.00
Share Capital deposit	2,166.82	2,180.03	2,188.43
Reserves	3,818.52	4,270.56	4,901.54
Deposits	62,143.00	71,328.83	83,143.55
Borrowings	5,524.32	7,302.59	9,775.80
Investments	36,767.66	41,182.45	45,666.14
Loans & Advances Outstanding	32,870.03	39,712.57	48,492.59
Loans Issued	21,082.47	25,426.97	33,043.49
RRBs earning Profit (No.)	166	111	81
Amount of Profit (A)\$	902.60	807.79	926.40
RRBs incurring Losses (No.)	30	22	15
Amount of Losses (B)	154.49	190.66	301.25
Net Profit (A – B)\$	748.11	617.13	625.15
Accumulated Losses	2,715.01	2,636.85	2,759.49
RRBs with accumulated losses (No.)	83	58	39
Recovery (%)	79.85	79.80	80.49
NPAs to loans Outstanding (%)	8.53	7.28	6.55
Net Worth	3,466.26	4,009.74	4,526.48

Source:-NABARD

Note: - : \$ Before Tax,*after amalgamation

Following the amalgamation of RRBs (2005-06 onwards), the number of RRBs has been reduced from 196 to 96 with an operating network of 14,520 branches covering 534 districts in 26 States as on 31 March 2007. Over a period of three years (2005-07), aggregate reserves of RRBs increased significantly (28%), while the deposits and investments increased by 34 and 24 per cent, respectively. During the same period, loans and advances outstanding increased by 47 per cent while loans issued increased by 57 per cent. During the year, 81 of 96 RRBs attained current viability and showed improvement by way of increase in profits, reduction in losses or by transcending from loss to profit by end-March 2007. The remaining 15 RRBs continued to be loss-making entities. The amount of net

profit posted by RRBs as a group increased to Rs.625.15 crore during 2006-07 as against Rs.617.13 crore in 2005-06. The aggregated reserves of 56 RRBs that had wiped off their accumulated losses and attained sustainable viability was Rs.4, 901.54 crore at end-March 2007. Net worth of RRBs as a whole stood at Rs.4, 526.48 crore as on 31 March 2007. The accumulated losses of RRBs increased by 5 per cent over the previous year. The performance of RRBs varied widely across the regions. While all RRBs were in profit in the southern region, 29 (out of 31), 14 (out of 16), 9 (out of 10), 9 (out of 16) and 5 (out of 8) RRBs in the central, northern, western, eastern and north-eastern regions, respectively, were in profit.

During the year, quantum of refinance to RRBs was restricted to 15 per cent of Realistic Lending Programme. Concessional refinance at 4.5 per cent p.a. was available only to those RRBs who agreed to provide loans at 7 per cent p.a. to farmers. RRBs were advised to increase lending to tenant farmers, oral lessees through the JLG scheme or otherwise.

During 2007-08 (April-March), 74 RRBs were sanctioned limits of Rs.2, 940.18 crore under ST-SAO against Rs.2, 497.23 crore sanctioned in 2006-07 (July-June) to 74 RRBs. These limits included Rs.207.64 crore for OPP, Rs.83.98 crore for DTP and Rs.1.80 crore for NPDP. Uttar Pradesh, with a sanction of Rs.594.93 crore had the largest share of sanctioned credit limits, followed by Andhra Pradesh (Rs.515.10 crore), Karnataka (Rs.364.86 crore) and Kerala (Rs.297.15crore). The maximum outstanding against sanctioned limit was Rs.2, 688.60 crore during 2007-08. The aggregate sanction of credit limit for ST-OSAO purposes to RRBs during 2007-08 (April-March) was Rs.151.42 crore, as against Rs.188.47 crore during 2006-07 (July-June). The utilization of the limit was to the tune of Rs.64.12 crore.

Table 1.2 Recovery performances of RRBs for past three years.

Year	Demand	Collection	Balance	Recovery (%)
2005	19,730.17	15755.18	3974.99	79.85
2006	24,071.58	19209.67	4861.91	79.80
2007	29,527.04	23,765.79	5761.25	80.49

Source:-NABARD

As on 30 June 2007, the recovery performance of RRBs (96) was 80.49 per cent that has improved from 79.80 per cent as on 30 June 2006. The RRBs in the northern (89.63%) and southern (83.30%) region improved their recovery performance above national average while those in the NER, had recovery of 64.73 per cent as at end-June 2007. RRBs in Punjab registered the highest recovery (94.93%), followed by Tamil Nadu (91.82%), Haryana (89.77%) and Himachal Pradesh (89.27%). Out of 96 RRBs as at end-June 2007, 45 had recovery above 80 per cent and two had recovery levels of below 40 per cent .All RRBs in Haryana, Himachal Pradesh, Punjab, Kerala, Tamil Nadu and Uttarakhand 2 (out of 5) each in Andhra Pradesh and Bihar, 1 (out of 2) in Assam, 2 (out of 3) in Gujarat, 1 (out of 3) in Jammu & Kashmir, 3 (out of 6) in Karnataka, 4 (out of 10) in Madhya Pradesh, 2 (out of 7) in Maharashtra, 1 (out of 6) in Orissa, 5 (out of 6) in Rajasthan and 9 (out of 16) in Uttar Pradesh had recovery performance above 80 percent.

Business of a Rural Bank

A Rural Bank carries on the normal banking business i.e. the business as defined in Section 5 (b) of the Banking Regulation Act, 1949 and engages in one or more forms of business specified in Section 6(1) of that Act. A rural bank may, in particular, undertake the following types of business, namely:

- The granting of loans and advances, particularly to small and marginal farmers and agricultural laborers, whether individual or in groups and to co-operatives societies (including agricultural marketing societies, agricultural processing societies, Co-operative farming societies, primary agricultural credit societies or farmers' service societies) for agricultural purposes or agricultural operations or for other connected purposes.
- The granting of loans and advances, particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities within the notified area of a Rural Bank.

Organization structure of Regional Rural Bank

The Organization structure of Regional Rural Banks is largely governed by the RBI's Act, 1976, Banking Regulation Act 1949 and the guidelines of RBI and NABARD and sponsor banks. The

general superintendence, direction and management of affairs and business of RRBs are vested in Board of Directors. They exercise the powers and discharge all the functions of the RRBs. In discharging its functions, the Board of Directors act on business principles and shall have due regard to public interest.

Banking Environment

Banking Organization is an open adaptive system. It has its own internal and external environments. Internal environments of RRBs consist of Banking, Personnel, and Public Relations etc. The external environment consists of uncontrollable economic, social, political and legal factor governing the success or otherwise of RRBs

RRBs external Environment comprises of:

1. Legal Environment dealing with rules, regulations and legislative measures such as General Laws, RRBs Act, Banking Regulation Act etc.
2. Economic environment consisting of change in economic activity such as competition, changes from other banks, financial markets and the prescriptions of the lead banks also effect the working of RRBs. Change in the economic environment will affect refinance from NABARD.
3. Political environment dealing with Regional and national Politics. RRBs activities are affected by monetary and fiscal policies of government.
4. Social Environment describing the religious activities, social attitudes, behavior, education and deep-rooted connections. This plays a major role in rural villages where due to illiteracy and poverty, social and cultural forces influence business patterns.

Problems in the working of Regional Rural Banks

There are certain characteristic features of the Indian Rural Economy and the rural borrower. Each of these features creates some hindrance in the effective functioning of rural banking.

✓ *The Indian rural socio-economic scene is still juvenil in nature largely still in the midst of illiteracy. Besides this, the Indian rural psyche is deeply entwined with the cultural ethos.*

Problem for banking system:

- There exists a traditional anti-loan psychosis and people prefer to avoid credit as far as possible. Even when they do borrow, moneylenders have a traditional stronghold on the minds of the rural borrowers.
- The availability of credit from banks is dependent on a number of formalities. Even literate rural customers prefer to avoid such complexities of documentation, restricted working hours, loan amount, proximity factors, purpose of loan .

✓ *Rural borrowing may be seasonal in nature due to the heavy dependence in these areas on agriculture and allied activities. Timely availability of funds is crucial.*

Problem for banking system:

- The procedures involved in availing bank finance sometimes delay the actual receipt of funds. The money if received late may be of no use to the borrower. The next time finance is required he will approach a source that guarantees timely delivery of money usually local moneylenders.
- In such situations the cost of borrowing may be immaterial. This can be seen from the fact that rural customers borrow heavily from moneylenders despite their astronomical rates of interest.

✓ *The economic profile of most rural borrowers is very weak. The average amount of credit required is relatively low and savings deposited may be as low as Rs. 10 or 20 per month.*

Problem for banking system:

- Banks may not find operations economical, as sometimes the transaction and follow up costs are more than the amount of credit. Rural banks and rural branches that are compelled to operate in this milieu do so unprofitably
- Repayment period of loans fixed by banks are shorter than required for the type of activity financed.
- Gestation period is not considered while fixing the due dates.
- Due dates of repayment of loan installments were not fixed according to income generation.

Other factors leading to non-viability of Regional Rural Banks:

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- Non availability of adequate infrastructure facilities, like pucca houses to locate branches, access roads to villages, police protection on the one hand and availability of staff to keep pace with needs, on the other hand, constitute the major handicaps of RRBs in making progress in branch expansion.
 - Natural calamities in successive years leading to loss of assets.

Thus, the problem of effectively reaching the masses still remains unsolved. In other words, rural banks as they are cannot be expected to become genuinely rural in the outlook and operations. For any meaningful participation in the overall national rural scene there need be set up at least 20,000 branches of RRBs. Compared to the present number of branches (about 8000) this only shows the magnitude of the task before RRBs and the others who have a stake in its success.

Conclusion & Suggestion

Some of the steps to make RRBs participation more effective in rural areas are:

- 1.Efforts for poverty eradication must comprise a package of appropriate technologies, development of skill, services and asset creation. The responsibilities of banks will be to provide financial support to the beneficiaries for creation of productive assets by involving themselves whole heartedly in borrowers, or organization of a system for supply of inputs or marketing of produce.
- 2.All the existing minor irrigation schemes should be passed on to the RRBs for implementation in proportion to their branch network.
- 3.With the shift in the lending policy from the credit worthiness of the borrower to the credit worthiness of the purpose, RBI directives that collateral security/third party guarantee need not be insisted upon in respect of small loans, should be effectively implemented to facilitate flow of credit to the poor.
- 4.The follow up of credit must be done and necessary arrangements should b made in case of entrepreneur faces problems of supply of raw materials and/or in the sale of his product.

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