



Structural Growth Of Regional Rural Banks In India

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Abstract: *The Banking Commission-1972 recommended establishing an alternative institution for rural credit and ultimately Government of India established RRBs, a separate institution basically for rural credit on the basis of the recommendation of the Working Group under the chairmanship of Sh. M. Narashimham that gave birth to RRBs in the year 1975. Initially five RRBs were set up on 2nd October 1975 under a Presidential Ordinance, which followed the promulgation of Regional Rural Banks Act in April 1976. The RRBs have been identified as scheduled commercial banks under the Reserve Bank of India Act-1934 and are authorized to transact banking business as defined in the Banking Regulation Act-1949. The RRBs were required, in particular, to under the business of providing credit facilities to the poorer sections of rural society, generally referred to as the Target Group.*

Key Words: Tourism, Country, Fosters, Mutual Sympathy, Numerous, Exchequer, Modernity.

The first five RRBs were set up in five states in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks. These banks covered 11 districts of five states.

After the establishment of RRBs, another source for providing banking facilities in rural areas on a large scale came into existence with the underlying objectives as given in the preamble of RRBs Act of 1976, ".....to develop the rural economy in 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 the small and marginal farmers, agricultural labourers, artisan and small entrepreneurs and for matter connected therewith and incidental thereto."

Since their inception in 1975, the RRBs have grown rapidly in structure and strength. From a modest beginning with five banks covering 11 districts of five states with 17 branches, as many as 196 RRBs are operating in 518 districts of 26 states with a branch network of 14446 as on 31st March 2004. The rural branch network of RRBs accounts for nearly 37 percent of the total branch network of schedule commercial banks in India. The growth

of RRBs in terms of structure since 1975. It is clear that after the first year of its inception in 1975, a sharp increase has been recorded during the next year in which the number of bank were went up to 40, covering 84 districts with a branch network of 489. It is also clear that each successive year the number of RRBs, district covered and number of branches had significantly increased.

BUSINESS PERFORMANCE AND CREDIT DISTRIBUTION: The business performance of RRBs in terms of deposit mobilization and credit extension has also been presented in Table 3 along with the analysis of growth trend since the birth of the bank. The bank mobilized a total deposit of Rs. 0.20 crore and extend an advance of Rs. 0.10 crore with 50 percent credit-deposit ratio in the initial year of its establishment in 1975 which increased to Rs. 7.72 crore and Rs. 7.02 crore in the next year registering an increase of more than 37 times and 69 times than the preceding year with 91 percent credit-deposit ratio. During the operation of three decades, the RRBs in India have recorded a significant growth in mobilization of deposits and disbursement of credit of Rs. 62143 crore and Rs. 31817 crore respectively till the end of 331st March 2005. In terms of credit-



deposit ratio, it increased from 50 percent in 1975 to, as high as, 165 percent in 1978. But after The C/D ratio trend shows that it was sharp increase before liberalization ear of Indian economy but after 1987 it was on decline trends, which take marginal increase in the year 2005. However, there is no significant correlation between the C/D ratio of RRBs and Overall Banking Industry that, it shows declining trend, which came down to 51.2 percent in 2005.

GEOGRAPHICAL DISTRIBUTION

OF RRBs: It is clear from Table 4 that there is 196 RRBs in India, which covers 26 states with 14446-branch network and 70396 employees as on 31st March 2005. However, the services of RRBs are not available in the states like Delhi, Goa, Sikkim and in all the Union Territories. Out of the 26 states, Uttar Pradesh has the highest number of 36 RRBs followed by Madhya Pradesh with 19, and Bihar with 16 RRBs, and these three states constitute 36 percent of the total RRBs in India. All the states in North-East Region, except Assam, have one RRB each. In terms of branch network, Uttar Pradesh is again at top with 2850 branches followed by Bihar with 1487 and Andhra Pradesh with 1124 branches, which has recorded 20 percent, 10 percent and eight percent respectively in total branch network of the country.

Depending on the context and applications, the term performance may have different connotations. Keeping in consideration the varied activities being performed by rural regional banks, any appraisal of their performance may become meaningful with its underlying objectives. In the present study, for the performance of Regional Rural Banks an attempt has been made in terms of certain defined, parameters, like growth pattern of RRBs; the credit distribution of RRBs; and the geographical distribution of RRBs. Till the birth of RRBs in India, branches of commercial banks and co-operative banks in thousand numbers were operating in the rural areas. But despite of such large network of bank branches, the credit needs of rural India was

quite inadequate.

As a constituent extensive of commercial banking network, the RRBs have achieved tremendous growth in term of number of bank and its branches. It has extended its service to every nook and corner of the country covering 487 districts in 26 states. Out of the 26 states, Uttar Pradesh has the highest number of 36 RRBs followed by Madhya Pradesh with 19, and Bihar with 16 RRBs, and these three states constitute 36 percent of the total RRBs in India However, the distribution of bank is not same in different states.

The highest bank number of are in Uttar Pradesh with 36 banks and the RRBs are yet to its activities in Delhi, Goa, Sikkim and all Union Territories. Moreover, the overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making big dent on the desired functioning of RRBs. Since the RRB is a bank for poor people, it's presence in all the states of country especially in underdeveloped states and Union Territories is strongly realized. The government should spread the branches of RRBs to grass root level to provide banking and credit service to the needy people in rural India. Moreover, it is the responsibility of the bank management and the sponsored bank to take the change for corrective majors to raise the credit-deposit ratio of the bank. The gap between C-D ratio of commercial banks and RRBs need to be minimized and with the result the rural India tends to gain benefit of credit policy in the rural.

Area of Functioning of Regional Rural

Banks: The Regional Rural Banks are required to function within a limited area for which they are established. Usually the functional area of Each RRB is confined to a few districts of the state in which they are set up. The area of functioning of RRBs is decided by central government in consultation with NABARD and the Sponsor Banks by way of a notification issued in this regard.

It is therefore necessary for RRBs to establish their Head Office in central place of their



notified area of functioning because they are also authorized to open their branches or appoint agency within their specified areas.

Functions of Regional Rural Banks:

(1) Granting of loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups, and to co-operative societies, agricultural processing societies, co-operative farming societies, primarily for agricultural purposes or for agricultural operations and other related purposes;

(2) Granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce and industry or other productive activities within its area of co-operation; and

(3) Accepting deposits.

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. 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.

3. 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.

4. 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.

5. 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.

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