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Role of Regional Rural Banks in Developing Priority Sectors of India

Ajit, Asst. Professor
Deptt. of Commerce
CRA College, Sonipat(Haryana)

Abstract

The success of rural credit in India is largely depends on their financial strength. Regional rural Banks plays a vital role in the agriculture and rural development of India. the RRBS have more reached to the rural area of India, through their huge network. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs different types of agriculture credit in rural areas. AT present, most of regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. Therefore, it is necessary to study financial performance of RRBs in India. The study finds and concludes that performance of RRBs has significantly improved.

Key- Words: GDP Growth, Reforms in Regional Rural Banks, NABARD.

Introduction

The aim of tenth five year plan is to achieve GDP growth of 8% annum, which is not possible without strengthening our rural sector. As we all know that most of the Indian population still belongs to rural sectors. So, it is important to revitalize and revamp not only the agricultural sector but also rural financial institutions. The directed lending norms that require commercial banks to allocate 40 per cent of their lending to the 'priority sector ' have not generated the intended results, since most of the banks get around this requirement by subscribing to other eligible instruments. Even after 60 years of independence the wealthy farmers and agri-businesses seem to be able to obtain financial services from modern financial institutions but small and marginal farmers continue to depend, largely, on indigenous money-lender. This is mainly because of the illiteracy and lack of knowledge of the small farmers who rarely approach banking services.

The countryside inhabitants in India suffer from a great deal of indebtedness and are subject to exploitation in the credit market due to high interest rates and the lack of

convenient access to credit. Rural households requires 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 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 traidional money-lender and thereby help them avoid dept- traps that are common in rural India.

The government of India established Regional Rural Banks under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. Regional Rural Banks (RRBs) are constituted to met the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers, agricultural labourers, artisans ,landlessfarmers, small traders, tint enterprises etc. hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available. RRBs are jointly owned by Gol, the concerned state Government and Sponsor Banks (27 scheduled commercial banks and oneState Cooperative Bank); the issued Capital of A RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

Need for Reforms in Regional Rural Banks

RRBs Started their development process on 2nd October 1975 with formation of a single bank (Prathama GrameenBak). As on 31 March 2006, there were 133 RRBs (post-merger) covering 525 districts with a network of 14, 494 branches. RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied. When the reform process in the banking sctor was initiated, RRBs were taken up for a close look. The Gol in consultation with RBI and NABARD started the reform process thru' a comprehensive package for RRBs including clensing their balance sheets and recapitalizing them. Extant lending restrictions were removed and space and variety available for investment of their surplus funds was expanded.

At the same time, a number of human resource development and Organisational Development Initiatives (ODI) were taken up by NABARD with funding support of the Swiss Development Corporation (SDC) and with the tools of training and exposure visits, ODI, technology support, computerization and use of IT, system development, etc. for

business development and productivity improvement. by end March 2005, there was remarkable improvement in the financial performance of RRBS as compared to the position prevailing in 1994-95. The number of banks reporting profits went up to 166 of the 196 RRBs. As on 31 March 2006, of the total 133 RRBs (post merger), 111 posted profits and 75 of these RRBs were sustainably viable organisations having no accumulated losses as also posting current profits.

GoI initiated the process of structural consolidation of RRBS by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common puliccity/ marketing efforts, etc. and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March, 2006 ad to 96 as on 30 April 2007. thus, under the amalgamation process, 145 RRBS have been amalgamated to form 45 new RRBs.

Trends in Credit of Regional Rural Banks

In the initial years a substantial part of credit has been in the form of indirect advances, that is, not to individual farmers but to institutions and organisations serving the interest of farmers and the rural population directly or indirectly; growth in them has appeared in an erratic fashion. Second, increases in direct advances have occurred in the most recent period after the government introduced the policy of doubling farm credit a period of three years (2004-05 to 2006-07). In March 1997, only 16.7 per cent of agricultural any ((or Rs 4,556 crore) were above Rs. 2 lakh but by March 2005, This proportion had doubled to 33.3 per cent (or Rs. 31,3550 crore), that is, within period of 8 years. As against Rs 1,131 crore in March 1997, there were Rs7,104 core worth of loans for Rupee 1 crore and above in March 2005. the proportion of small loans of Rs. 25,000 cr less has dwindled from 54 per cent to 23 per cent in the total farm loan.

Finally, within farm credit, a growing proportion has been in favour of large-size loans, which is evident from the fact that while the number of loan accounts under direct finance has risen by merge percentages, the loan amount have risen quite significantly. Subsequent to review of the financial status of RRBs by the Union Finance Minister in August 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR). A committee was there-fore constituted in September, 2009 under the chairmanship of or K C Chakrabrty, Deputy Governor, RBI to Analyse the financials of the

RRBs and to suggest measurs including recapitalisation to bring the CRAR of RBS to at least 9% in a sustainable manner by 2012. The Committee submitted its report in May, 2010. The following points were recommended by the committee : RRBs to have CRAR of at last 7% as on 31st March 2011 and at least 9% from 31st March 2012 onwards. Recapitalisation requirement of Rs. 2,200.00 crorefore 40 of the 82 RRBs. This amount is to be released in two installments in 2010-11 and 2011-12. The remaining 42 RRBs will not require any capital and will be able to maintain CRAR of at least 9% ifs on 31st March 2012 and thereafter on their. A fund of Rs. 100 crore to be set up for training and capacity building of the RRB staff.

The Government of India recently approved the recapi-talization of Regional Rural Banks (RRBs) to improve their Capital to Risk Wighted Assests Ratio CRAR) in the following manner : (a) Share of Central Government i.e. Rs. 1, 100 core will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011-12. However, release of Government of India Share will be contingent on propor-tionate release of State Government and Sponsor Bank Share. (b) A capacity building fund with a corpus of Rs. 100 crore to be set up by Central Government with NABARD for training and capacity building of the RRB staff in the insti-tution of NABARD and other reputed institu-tions. The functioning of the Fund will be peri-odically reviewed by the Central Government. An action Plan will be prepared by NABARD in this regard and sent to Government for ap-proval. (c) Additional amount of Rs. 700 crore as contin-gency fund to meet the requirement of the weak RRBs, particularly those in North Eastern and Eastern Region, the necessary provision will be made in the Budget and when the need arises.

Policies of Government

Now a days the agriculture sector becomes more commercial, there would be a greater need for credit. Banks need to change their strategy towr5ds agriculture lending, from 'directed' credit to the one that business oportunity-led. A substantial jump in the credit flow to agriculture is envisaged in the Tenth Plan at Rs. 7,36,570 crore, which is more than three times of what was achieved during the Ninth Plan.

RRBs need to be provided with adequate capital support to enable them to have a net capital adequacy ratio (CAR) of per cent. The share of sponsoring institutions in the capital structure of RRBS also needs to be enlarged to make them majority shareholders.By acquiring the majority shareholding in RRB, the sponsor banks/ institutions can convert them into vibrant and professional subsidiaries and area-specific special business units (SBU). In the long run, they may merge all their agricultural and rural activities under the umbrella of

these SBU. The government should further amalgamae regional rural banks (RRBs) with the sponsor banks to increase the reach of PSBs in rural areas.

NABARD should thus become an apex development bank in the rural and agricultural sectors with direct equity participation in RRBs along with sponsoring institutions. With presence on the boards of all RRBs and Co-operatives, NABARD is fully equipped to emerge as a strong player in the rural credit system. NABARD's promotion of self-help group (SHGs) movements reflects its immense capability incapacity building and nurturing the rural credit delivery system.

In order to obviate the regional or urban/rural imbalances, the minimum benchamark CD ratio provided (for example 55%) should be envisaged in all districts of the country. The will assist broad-based and equitable credit expansion thereby contributing enhanced economic activity.

A different dispensation under CRR and SLR would help in making available more resources for rural credit deployment. the rate of interest paid on CRR balances held by these rural intitutions might also be marginally (100 basis points) above what is paid to commercial banks. Similarly, the Central Government and all State government need to park their rural developmental funds with RRB to ensure cheaper flow of demand deposits. Regulation with respect to banking has been designed for delivery in urban India and distribution required more manpower to be deployed in rural area.

The Agriculture insurance company of India (AIC) should further spread crop insurance awareness level among the Indian farming community, which is abysmally low. The Union and State Governments should give time-bound subsidy on premiums of crop insurance to increase the converge of the AIC.

Conclusion

Thus it can be concluded saying that for developing the priority sector in India, rural financing has to triggered at the high rate by rendering the loans at low rate of interest. The higher the interest rate, the lower the demand for loans. In addition, high interest rates cripple farming busineesses. That is, high interest rates tends to have an adverse effect on the development or growth of farming or businesses, since they depend very much on availability and accessibility to funds at reasonable or favourable interest rates. Additional financial institutions should be set up in the localities, Government should introduce measures to develop co-operations between the financial institutions and farmers. The Prime Rate charged by the banks should be minimised to allow the other financial institutions and farmers. The Prime Rate charged by the banks should be minimized to allow the other

financial institutions to also reduce their interest rates. Farmers should be educated about availability of loans and the benefit.

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