

ROLE OF REGIONAL RURAL BANKS IN GROWTH, EMPLOYEMENT, INCOME AND DEVELOPMENT OF RURAL POPULATION

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ABSTRACT

Evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. Commercial banks have little interest in rural areas, these banks concentrated on deposits rather than credits. The nationalization of major commercial banks also did not improve the situation to any great extent. Less than 1% villages availed financial facilities from commercial banks. So there was strong need for the establishment of Regional Rural Banks. The rapid expansion of Regional Rural Banks has helped in reducing substantially the regional disparities in respect of banking facilities in India. Generation of additional sources of income and employment in rural population has been the main objective of Regional Rural Banks. Regional Rural Banks are setup to take banking to door steps of rural households, to avail easy and cheaper credit to weaker rural section and to generate employment in rural areas. The banks are striving hard to provide best banking service in its command area. Government should take some effective remedial steps to make Gramin Banks viable.

Keywords: Growth; employment; income; development.

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INTRODUCTION

Evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. The reserve bank of India has policy of institutionalization of rural credit in India. All India rural credit survey report recommended the three tier cooperative credit system, viz. state cooperative bank, district central cooperative bank, and primary cooperative societies, at state, district, and village level respectively. The cooperative credit societies, over a period of time, emerged as the main stay of rural credit structure and made substantial progress in terms of volume loan advanced and territorial coverage. The subsequent nationalization of 14 major commercial banks in June 1969 carried the process further. The nationalization of major commercial banks also did not improve the situation to any great extent. Less than 1% villages availed financial facilities from commercial banks. The cooperative movement suffers from a number of weaknesses and inadequacies. Due to inadequate working of Primary Agricultural Cooperative Societies suffers from over dues, limited coverage of rural areas, less mobility of resources, improper management, biased interests, poor progress, inadequate coverage to the small and marginal farmers and limited access to weaker sections of rural and remote areas. Commercial banks have little interest in rural areas, these banks concentrated on deposits rather than credits. Thus they provide for the flight of funds from the rural to the urban. So there was strong need for the establishment of Regional Rural Banks. The government had stipulated that public sector banks should strive to achieve a credit deposit ratio of at least sixty percent in their rural and semi urban branches. In 1975 government of India appointed a working group under the chairmanship of Shri M. Narasimham to review the flow of institutional credit especially to the weaker sections of the rural community. M. Narasimham commission recommended the setting up of state sponsored, regionally based and rural oriented "Regional Rural Banks". The government established by ordinance & then legislation rural financial institutions called Regional Rural Banks. RRBs are setup under the **REGIONAL RURAL BANKS ACT OF 1976**. Out of which 50% capital share owned by government of India, 35% owned by sponsored commercial bank 15% owned by state govt.

OBJECTIVES

To take banking to door steps of rural house holds particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders,

to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas.

GROWTH PERFORMANCE

The number of branches has been substantial increase during last few years. The reason for slow expansion of branches Gramin Bank can be traced to the better banking facilities provided by commercial Banks. The progress of deposit mobilization can be attributed to the pace of branch expansion. A comparatively better indicator of deposit mobilization is deposits per branch as deposits can simply be increased by opening more branches in rural areas. Moreover, promotion of the culture of good customer services will help in mobilizing the deposits. The high rates of growth in credit deployment are due to rapid growth in its branches. Moreover, much of the lending by the Gramin Bank is confined to the I.R.D.P. schemes which highlight its involvement in rural development programme. Decline in Credit-Deposit Ratio can be attributed to the unfavorable environment created by political parties by announcing the waiving of loans. This has created an environment of uncertainty for the financial institutions due to which their lending operations have declined. Performance of the Gramin Bank clearly reveals that they have made satisfactory progress in carrying out their social objectives i.e., to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Pattern of expenditure comprise of interest paid on deposits and borrowings, salary, provident fund and gratuity contribution and other establishment expenses, comprising of rent, taxes, insurance, electricity, stationery, allowances, law charges, postages, telegram and stamps, telephone and internet bills, repair, auditor fees, depreciation etc. total income is divided into three components viz. interest and discount, commission, exchange and brokerage and other receipt. The main source of income is the interest earned on loans and advances and on deposits kept with the sponsoring and other banks. Share capital and reserve fund form part of the owned resources of the Gramin banks and depend upon the adequacy of the net profits earned by these banks. This is the important source of finance available to the RRBs. The higher the percentage of savings and current deposits in total deposits, the better will be the impact on banks profitability. Most cheapest source of funds are current deposits but require high liquidity whereas fixed deposits are costly source of finance as the highest rate of interest is required to be paid on them.

Borrowing is obtained from the financial institutions like NABARD, IDBI and from sponsoring banks. Productivity could be augmented by controlled branch expansion, proper man power planning, exercising control over operating costs and through improving the quality of credit business.

EVALUATION

Misutilisation of Credit:

Three major type of Misutilisation:

- No purchase of asset
- Resale of the asset
- Sanction of loan on borrower's own asset

Participation Cost: Participation cost consists of payment made or expenses incurred at various stages of filling of application form to the stage of formally joining into the scheme. Each and every beneficiary has to pay participation costs in one or the other. The form and cost varied from scheme to scheme and beneficiary to beneficiary.

Factor Responsible for Non-repayment:

Inadequacy of income, unwillingness to repay, higher family consumption, prefer repayment of private borrowing over repayment of bank loans, lack of efforts by Bank staff has been found to be the basic reason for non-repayment of the loan, death of animals, borrower's illness and dispute with bank staff respectively. Nowadays political announcements become major reason for non-repayment.

Impact on income: Thus supply of bank finance has proved to be a means of increasing income in the post loan period as compared with that of pre loan period.

Impact on employment: Generation of additional sources of income and employment has been the main objective of RRB. The various schemes financed by bank help in providing employment to the beneficiaries either for the full year or seasonal.

SUGGESTIONS

- Government should encourage & support banks to take appropriate steps in rural development.
- Involvement of panchayats, SHG, NGO and other local bodies.
- Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
- Policy should be made by government for opening more branches in weaker and remote areas of state.

- The interest paid ratio can also be reduced by changing the composition of deposits in favour of the savings and current deposits.
- Productivity can be improved by controlling the costs and increasing the income.
- To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.
- Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

CONCLUSION

To conclude, the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. The banks are striving hard to provide best banking service in its command area. Government should take some effective remedial steps to make Gramin Banks viable.

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