

**WORKING OF REGIONAL RURAL BANKS
IN INDIA : PERFORMANCE AND PROBLEMS:
A REVIEW**

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**GOKHALE INSTITUTE OF POLITICS AND ECONOMICS
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RURAL BANKS IN INDIA :
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A REVIEW**

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INTRODUCTION

Agriculture has not so far been given the attention it deserves, though more than 72 per cent of the population depend on it for their livelihood and its neglect is reflected in the peasant's outlook. The holding being small, the average cultivator has to resort to intensive cultivation to secure maximum returns and that is possible only if adequate finance is available for investment in land improvement, irrigation work and productive finance. Development of nation largely depends upon the development of rural areas. Development means not only growth in production and productivity, but also change in income distribution, employment and providing social justice. There was the great discontentment among the peasant community due to rising indebtedness and unscrupulous practices of money-lenders who had acquired almost monopolistic control over agricultural finance, and had often reduced agriculturist debtors to the status of virtual serfdom. In India it is quite frequent that the tenant farmers are so heavily indebted to their landlords that even the full share of a harvest is absolutely inadequate to redeem all their debts. Thus indebtedness accumulates over time making interest liability extremely heavy. The single most feature in this sphere is that the same person plays the dual role of land owner and money-lender. Thus while the peasant

becomes more and more tied to his land owing money-lender in connection with his ever increasing debt he has the only avenue of employment with his money-lending land owner as a share-cropper in his farm. This phenomenon of economic relationship between the landless peasants and the land owing money-lenders works with full severity due to the inadequacy of proper banking facility in the rural areas. Even though some banking facilities are available, they are of use only to the land owners due to the fact that landless peasants are not usually credit worthy in any commercial banking, as they have no assets to borrow against. Moreover, consumption loans fall entirely outside the jurisdiction of any normal banking system. Due to the predominance of the land owners over the landless, relations between the owners of the farms and the actual cultivators were taking such a shape that it seemed to declare a permanent divorce of the rural sector from any possibility of future development. However, since growth of modern banking system some extent funds have been diverted to assist agricultural class of people. The main aim of the nationalisation was to cover those brackets of people, who were deprived of financial assistance from the banks. As still gap exists widely in country side to a considerable extent, to fill that gap the new agency is created.

In this dissertation a modest attempt has been made to cover progress and problems of recently created rural based

institution called Regional Rural Banks. The scope of the study includes review of literature on various aspects of RRBs since its inception. The study of the dissertation is based on secondary sources. In all, the dissertation comprises five chapters. First chapter opens with the rationale behind the establishment of RRBs. The second chapter brings out objectives and management of newly created banks. The third chapter includes the progress made by RRBs and also covers recommendations made by various committees to improve RRBs. In the fourth chapter some major operational problems faced by RRBs are presented. Finally, the fifth chapter concludes the study with some suggestions regarding further successful functioning of RRBs in India.

CHAPTER I

NEED FOR AN ESTABLISHMENT OF REGIONAL RURAL BANKS

According to J. K. Galbraith credit system can be an instrument of progress, and of stagnation and repression. India's endeavour through a series of experiments over the years has been to convert her stagnated rural credit system into a progressive one. Long back the cooperative movement made its appearance with a view to provide some relief to agriculturists in matters of agriculture finance through thrift and mutual help. The cooperative societies Act of 1904 gave an impetus to the formation of agricultural cooperative credit societies and the Act of 1912 made an attempt to extend the cooperative organisation to non-agricultural credit as well. In India the three tier system of cooperative credit still dominating the sphere of cooperative agricultural credit institutions. After five decades a committee reviewed the working of these cooperatives and paradoxically came into the conclusion that "cooperation has failed but cooperation must succeed".¹ This indicates their belief that only cooperatives can uplift the indigent.

¹ Reserve Bank of India. All India Rural Credit Survey, Vol.II, The General Report 1954, p. 372 (This committee was headed by A. D. Gorwala).

Commercial banks originated during the last century at major port centres supported by British agency houses, to finance trade in India and raw materials which were needed for British industries. Indian private enterprise entered into commercial banking during the first quarter of the present century, and it was primarily to finance the emerging commerce and industry. In the year 1955, State Bank of India was created by converting the earlier Imperial Bank of India, with a specific mandate to finance agriculture by opening rural and semi-urban branches.

Banks were nationalised in order to make them catalysts for a social change. To what extent the goals have been achieved is a moot point. In the year 1976, the National Commission on Agriculture reviewed the rural credit scene and noted. "The successive reviews of the working of the institutional credit system revealed several lacunae in the procedure and organisation of the system in the country."² Large part of the country's small farmers have been handicapped for want of access to cooperative credit. An important feature of the cooperative credit has been its tendency to flow mainly to large cultivators. Wolf Ladejinsky has observed "Events that have proved the high hopes reposed in the cooperatives as the main stay of institutionalised

2 K. P. Padmanabhan. Regional Rural Banks - An Indian Innovation in Bridging Cultural Gap, Rural Financial Inter-mediation Changing Perceptions, p. 53.

credit and as an answer to private money-lending have been exaggerated."³ He had quoted the then Vice-chairman of the Indian Planning Commission, "The more and more we have expanded the cooperative movement since independence less and less confidence it commands in the community."⁴ The inequalities of the rural socio-economic structure worked to exclude the rural poor, and place the rural rich in a dominant position in the movement, cooperative banks became a useful patronage bank of considerable utility to politicians.

On the other hand, main drawbacks of commercial banks in extending rural credit particularly to the small farmers were, their urban orientation, absence of local feel and high organisational cost. Well paid commercial staff wedded to urban comforts were unwilling for the sacrifices the rural banking entailed. Therefore the commercial banks in their present form are being considered unfit to serve the rural population. (/

With the nationalisation of the 14 major commercial banks in July 1969, credit to agriculture was hailed with great hopes as these banks were considered as one of the effective instruments of extending agriculture credit to the neglected sectors in the economy, such as agriculture,

3 Ibid.

4 Ibid.

small scale industries etc. The nationalised banks were considered as a very potent weapon in the hands of government to supplement the cooperative banks in the supply of farm credit. By the end of 1975 it was estimated that these banks have provided loans to the agricultural sector to the extent of Rs. 650 crores as direct finance and Rs. 300 crores as indirect finances.⁵ Although nationalised commercial banks associated with the financing of primary agricultural cooperative societies, Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers (MFAL), Drought Prone Area Programme (DPAP) and Commercial Area Development Programme (CADP) etc., it is sufficiently insufficient as far as the rural community is concerned. The expectations of the people is not carried out by the commercial banks because the loan procedure is not sufficiently flexible, and the banks are afraid of advancing loans to the small farmers because such loans are considered highly risky and the land which is offered as security is not welcomed because of its illiquidity and other problems related to it.

The Fourth and Fifth Five Year Plans which have been started after bank nationalisation embarked on giving subsidies, particularly to small and marginal farmers and agricultural and landless labourers in rural areas for promoting

⁵ J. S. Garg and K. N. Pandey. Problems and Prospects of Agricultural Credit Regional Rural Banks, p. 176. Edited by K. R. Gupta. Issues in Indian Agriculture.

investments in the agricultural sector. The nationalised commercial banks formulated various socio-economic schemes to achieve the objectives set-forth, but achievements were far from satisfactory. The small banks have been left out the purview of nationalisation. The purposes of the nationalisation is to promote rapid growth in agriculture, small industries and exports, to encourage new class of entrepreneurs and to develop the backward areas. The purpose of branch expansion in rural areas is defeated by the dangerous trend of diverting rural funds to urban areas. As we have 5,75,721 villages in the country, more than 90 per cent of these villages i.e. (5.35 lakhs) the average population is less than 1000.⁶ It would be ridiculous to expect any single credit agency to open and operate an entire country, for those who are in need of institutional credit at these centres. In India we have roughly 80 lakhs of rural households around, 60 per cent of these households live below the poverty line with less than Rs. 100 as family income (But recent figures indicate change in poverty line, and income held by family). No system of rural credit could be considered efficient, equitable and satisfactory in the absence of an effective arrangement for distribution of need-based credit to each such needy person in each village in the country.

⁶ S. S. A. Khader. "Role of Regional Rural Banks," Financial Express, February 20, 1978.

If we consider the case prior to the nationalisation of banks there were serious imbalances in the development of banking facilities in different regions of the country. The urgent need to expand banking facilities in the areas which are under-banked has seriously been felt. Even in the developed states, banking facilities are confined to the urban areas, specially to the metropolitan areas, to the comparative neglect of semi-urban and rural centres.

Cooperatives have a history of 75 years in this country. They have today very strong base, however, may be record of performance, from the point of the total requirements of rural India is rather disappointing. Even if performance improves significantly they may not be able to cover more than 40 per cent of the people and 20 per cent amount needed. Even at this peak performance level they may be able to cover only a limited percentage of small, marginal farmers, artisans and others who live below poverty line. Now in India stage has already reached when rural India has to be identified with small marginal farmers and artisans. In spite of the steps being undertaken during the past three decades to implement the recommendations of the various committees for agriculture credit appointed by the government, the ultimate result is that, on the one hand the commercial banks have had to halt the branch expansion programmes owing to their prohibitive operational costs. On the other hand, the cooperative movement has done precious little to help the rural poor. Even

though plans have been devoted much for the development of rural people, but they have not received the due share in the national development due to environmental blockade.

The fruits of the progress achieved so far have not touched the common man in spite of sincere efforts of Planning Commission. All the growth models and strategies have almost failed in the fulfilment of the poorest of the poor. The National Commission on Agriculture indicated that by the year 1985, the credit needs short, medium and long term of the small and marginal farmers was an order of Rs. 4,690 crores. The all-India debt and investment survey 1971-72 — indicated that the very poor namely marginal and small farmers, agricultural labourers and rural artisans are more dependent on non-institutional agencies for their credit needs.⁷ The credit gap in the rural areas continues to be large therefore this historical credit gap in the rural areas was thought to be corrected by a scheme of the co-operatives and the commercial banks in the country, it is estimated that even now, the non-institutional credit accounts for two-thirds of the total agricultural credit in the country. There are still many unbanked areas in the country. The cooperative and the commercial banks are not able to meet all the credit requirements of the rural areas and there would be "still a large unfilled gap". Having

⁷ Jagdish Prasad and Sunil Kumar. Role of Regional Rural Banks : A Study, Kurukshetra, May 1985, p. 31.

been shown the cold shoulders by the commercial and cooperative, in the absence of necessary security or surety the farmers have no option but to run after the money-lenders — howsoever harsh their terms and treatment and howsoever high interest may be. It happened many times that their calculations are upset because of unforeseen visitation of floods and droughts. It is an evident from the above that the commercial banks have not succeeded in providing advances to a large number of small and marginal farmers and agricultural labourers. It may be due to unrealistic approach of the bankers or poor interest of the farmers but the fact remains without contradiction that the small farmers accounting about 70 to 80 per cent in the country on whose prosperity, the prosperity of the country depends to large extent are still deprived of the facilities of agricultural credit to the extent they deserve.

Both the cooperative credit agencies and the commercial banks have several weaknesses in relation to the task of meeting the requirements of rural credit. These have been reviewed and indicated extensively in the literature both by the researchers and several official committees which have gone into their functioning. The major drawbacks of the cooperatives are as follows.

- 1) Cooperative credit societies have had a mixed record of success. Cooperative credit societies have been

successful in some areas not successful in some other parts and have miserably failed in some other areas.

2) There is sufficient evidence that the benefits of the cooperative credit have not been adequately passed on to the weaker sections of the society.

After about five years of bank nationalisation, it was realised that the commercial banks were also not in a position to meet the challenge and take credit and banking facilities to the door steps of every rural entrepreneur. They suffered from the organisational gaps and personnel deficiencies. As a result, the objectives of extension of rural banking could not be achieved. The disillusionment of policy-makers about the performance of nationalised banks and the immediate need for an institutional substitute for the private money-lenders after declaring moratorium on repayment and liquidation of private debts, compelled them to find out another alternative.

On July 1, 1975 the then Prime Minister Smt. Indira Gandhi gave to the nation 20 point economic programme laying an emphasis on several socio-economic programmes to increase the standard of living of hitherto neglected sections of the community. The 20 point programme raised new hopes among the weaker sections. The nationalised banks were called upon to shoulder more responsibilities in the implementation of the 20 point economic programme. There

was an accepted view that a more determined efforts was needed to speed up the flow of institutional credit especially to meet the needs of the weaker sections of the rural community. The Government of India also felt that it was necessary to establish new institution on the basis of attitudinal and operational ethos entirely different from the present one. With this background i.e. due to various shortcomings in the existing credit structure and dire need for rural credit the Government of India appointed on July 1 1975 a working group on rural banks under the chairmanship of Shri M. Narasimhan, a senior civil servant of India. The group submitted its report in a record period of one month.⁸ The group was asked to "examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people."⁹

According to the findings of the working group following are the weaknesses of the cooperative credit agencies and the commercial banks.

1) The cooperative credit structure is weak so far as the managerial talent and post-credit supervision and loan recovery are concerned. These institutions have not able to mobilise adequate resources and therefore depend upon Reserve Bank for refinance to a large extent.

8 D. J. Kanvinde. Regional Rural Banks, State Bank of India Monthly Review, 26:11, November 1987, p. 541.

9 Reserve Bank of India. Regional Rural Banks Report of the Review Committee (Headed by M. L. Dantwala).

2) The commercial banks basically urban-oriented if they have to play significant role in rural banking, their methods procedures training and orientation shall have to be adopted to the rural environment. This was not likely to be achieved easily and quickly. Moreover the cost of their operation is quite high due to high salary structure, staffing pattern and high establishment cost. Thus commercial banks are unable to provide credit at cheap rates to the weaker sections in the rural areas. It was therefore felt that the existing institutions, as they are presently structured would not be able to fill the regional and functional gap in the rural institutional system within a reasonable period of time even with adoption of reorganisation and restructuring as may be considered.

The group observed that "in a country of the size and regional diversity as ours, no single pattern be it commercial banks or cooperative credit can be expected to meet all the emerging requirements in all areas. A degree of adoption and improvisation is called for and the range of institutional alternatives widened. It is in this context group has come to conclusion that a new type of institution is necessary."¹⁰ It therefore recommended the setting up of the state sponsored, region based and rural oriented commercial banks called Regional Rural Banks (RRBs). While recommending the RRBs the

10 Ibid.

group noted that the major strength of the cooperative credit institutions lies in the local feel of the village society, that of commercial banks lies in the professional management of the business of the banking. It is therefore envisaged a new institution which combines the local feel and familiarity with rural problems which cooperative possess and degree of business organisation, ability to mobilise deposits access to central money markets and a modernised outlook which the commercial banks have." The group emphasised that the role of the new institution would be supplement and not supplant the other institutional agencies in the field.

Accepting the recommendations of the working group, the Government of India promulgated the RRBs ordinance on September 26, 1975 and the first five RRBs were established on October 2, 1975 Gandhi Jayanthi day. The ordinance was later replaced by the RRBs Act 1976. Thus, regional rural banks came into form the third component of multi-agency credit system for agriculture and rural development. From the very beginning, these banks were to adopt their modes of operations to the requirements of their rural clientele. They were not to emulate the slick decolam countes look of a typical commercial bank branch. The statute which was enacted to form those banks specified their main objectives as developing the rural economy by providing credit and other facilities to weaker sections for productive rural activities. The RRBs are more suitable for adopting

individual approach than the rural branch of a commercial bank in view of low cost profile, wide network of its branches in remote rural areas, the local feel of its staff and its image as a small man's institution.

According to the group instead of immediately making these RRBs a pattern for reorganisation of existing rural credit institutions in the country as a whole a few such banks may be set up in areas where the existing credit structure has not made much impact. The location for the new banks should be chosen as to avoid overlapping with credit institutions which are working satisfactorily and over financing of the same borrowers. It was suggested by the group that initially five such banks should be started in selected areas to serve as pilot institutions so as to provide guidelines in respect of size of operations, initial viability etc. for further developments. The new rural banks will therefore necessarily geared to subserve and strengthen the working of the new agricultural strategy. It may be remembered that the overriding anxiety at this stage is to stabilise the socio-economic system relying for this purpose on the viable and productive classes in both industry and agriculture.

CHAPTER II

OBJECTIVES AND MANAGEMENT OF REGIONAL RURAL BANKS

Regional Rural Banks are the youngest members of the family of rural credit institutions set up in India. They have been created specially to meet the credit requirements of the weaker sections of the rural society whose problems came into sharp focus after the state governments enacted legislation in the mid-seventies for discharging debt from the non-institutional sources of marginal farmers and scaling down the debts of the small farmers etc. The RRBs Act — provided for the incorporation, regulation and winding up of RRBs. According to this act the RRBs were set up mainly "with a view to developing rural economy by providing for the purpose of development of agriculture, trade, commerce including other productive activities in the rural areas credit and other facilities particularly to the small entrepreneurs and for matters connected therewith and incidental thereto."¹

One significant objective of channelising credit through government sponsored institution like the RRBs is to reduce the dependence on farmers in general and small farmers

¹ Charan D. Wadhava. Rural Banks for Rural Development the Indian Experiment, Indian Institute of Management, Ahmedabad, Working Paper 172, p. 16.

in particular on village money-lenders. In India the demand for credit for farm operations is so large that even if there are a few more institutions for providing credit, they will not be superfluous. The RRBs are expected to provide need-based credit to small farmers etc. in such a way that their employment position is improved while their productivity is also raised. (Every RRB has the status of a scheduled commercial bank and has been empowered to mobilise and grant short and term loans directly only (whether individually) to the small and marginal farmers agricultural labourers rural artisans small entrepreneurs and persons of small means engaged in any productive and also (indirectly) to all types of cooperative societies and the farmers service societies (FAS) operating within its area of operation. The Regional Rural Banks can also provide loans both for production and consumption purposes within specified limits. The committee was of the view that the major objective of the RRBs should be, to mobilise resources from the region and deploy these resources within the same region lending mainly for productive purposes. The major task to be tackled by the new type of bank will be working for generation of viability amongst these small borrowers. It is felt that even though RRBs should concentrate on the production, credit consumption loan could also be given by these banks to poorer sections of the rural clientele upto specified limit in genuine cases.

Banks should become proper perspective of promoting rural development and they should not be expected to remove rural poverty only. The committee suggested that in selected areas where neither the cooperative nor commercial banks have been able to make much impact and where there is considerable scope for mobilising deposits and for effecting meaningful rural development a few rural banks may be set up. It considered that about 50 per cent of the business of RRBs should consist of small loans and that they should also extend finance for rural industry and trade. One more objective of the rural banks would be, to attempt effective coverage of small and marginal farmers, landless labourers, rural artisans etc. and performance of these banks will be judged primarily by their success in coverage of such categories of borrowers towards meaningful productive activity and recovery of their advances rather than by the profits they make. On the viability it is further held that where the objective of the type of financial institution is socio-economic, an initial period of financial losses may be price worth paying for the achievement of the larger social objective of widening the area of institutional credit coverage. So RRBs would wipe out rural indebtedness and bridge the credit gap in the rural areas and the location of these organisation was to be based on a policy mix of an area and population. The area should be comparatively backward or a tribal area or where the coverage by commercial

banks and cooperatives is relatively poor. (Side by side the primary societies at the base level will continue to be strengthened.) //

Gradually RRBs should replace private money-lending and cover larger and larger sections of the rural population bringing them under the umbrella of institutional credit to cover all their credit requirements and essential inputs. A RRB is only a foster child of a particular commercial banks and cannot be expected to achieve a miracle in serving the rural population. At the most it can be considered as an extension or off-shoot of a commercial bank, started in partnership with the government.

The main features of the RRB act is briefly indicated below.²

1) Jurisdiction : The jurisdiction of each RRB was to be within specified districts in a state and that of its branches within the districts. So generally the RRBs was to have its area of operation a compact area of 1 to 5 districts within homogeneity in agro-climatic conditions and rural clientele.

2) Sponsorship : Each RRB was to be sponsored by a scheduled commercial bank (mainly by public sector). It will be started at the initiative taken by the sponsor bank in

² Reserve Bank of India. Regional Rural Banks Report of the Review Committee (Headed by Prof.M.L.Dantwala), Chap.2, pp.5-6.

consultation with the state government and central government. The sponsor bank will provide assistance to the RRB in several ways, these could subscription to its share capital, provision of managerial and other staff assistance to be mutually agreed upon for the period of five years of its existence and final assistance on terms mutually negotiable.

3) Capital Structure : The authorised capital of each RRB will be placed at rupees one crore and the issued capital at rupees 25 lakhs. The issued capital would be subscribed by the Government of India, the sponsoring banks and the concerned state governments in the proportion of 50:35:15 respectively.

4) Management : The management of each RRB will be through a nine member board of directors headed by a chairman. The chairman of the RRB will be appointed by the central government for a term not exceeding 5 years and hold the office during the pleasure of the central government. He is eligible for reappointment. The chairman is required to devote his whole time for the affairs of the RRB and subject to the superintendence control and direction of the board. The central government nominates three directors (in addition to the chairman) the state government nominates two directors, while the sponsoring bank nominates the rest of the three directors. A director will hold office for a period of two years and he is also eligible for renomination. The remuneration of the staff directly recruited by the RRBs is

prescribed by the government which lays down that the structure of the remuneration payable to the staff of the RRBs should be on par with the salary structure of the employees of the state government and local authorities of comparable level and status in the area of the RRB. The structure of remuneration is generally lower than that applicable to the staff of the sponsor banks.

Reserve Bank of India has granted certain concessions in regard to requirement of cash reserve, liquidity, interest rates on deposits etc. The Reserve Bank of India can pay interest on deposits at rates higher 1/2 per cent over the rates payable by the scheduled commercial banks for all periods of maturity upto five years. The Government of India has also prescribed that the rate of interest charged by the RRB on its direct loans to the persons belonging to the specified categories of the rural society would be on par with the rate charged by the PACS to its clients. RRBs are entitled to get concessional refinance from National Bank for Agriculture and Rural Development (NABARD). Such refinance is higher during the earlier years of their operation. Overall with these mandatory provisions coupled with several concessions, RRBs have emerged as a strong 'Third Plank' in the Indian multi-agency system of rural credit.³

³ K. P. Padmanabhan. Regional Rural Banks - An Indian Innovation in Bridging Cultural Gap, p. 57.

CHAPTER III

WORKING OF REGIONAL RURAL BANKS

Here an attempt has been made to assess the working of RRBs in India since its inception. Now that RRBs have completed more than a dozen years of its operation, so it is high time to review its performance in relation to the objectives set forth. The Government of India set up first five regional rural banks on October 2, 1975 (the birth day of Mahatma Gandhi) within a week in pursuance of a Presidential Ordinance promulgated on September 26, 1975 covering nine districts at Moradabad and Gorakhpur in Uttar Pradesh, at Bhiwani in Haryana, at Jaipur in Rajasthan and at Malda in West Bengal. From a modest beginning in 1975, RRBs have emerged as an integral part of the institutional credit delivery system. The large network of RRB branches, most of which have been established at hitherto unbanked rural centres, has served to reduce the disparity in per branch coverage of rural population particularly in backward and tribal regions. The Dantwala Committee¹ (RBI Committee for the evaluation of RRBs) in 1977, after a through evaluation, noted the favourable trend of the RRBs. So it is interesting

¹ Yashavantha Dongre, Focus on Rural Banking ... for Rural Growth, Yojana, January 1-15, 1986.

to study the progress of RRBs in the vital field of branch expansion, deposit mobilisation, credit development and the recovery of advances.

1. Network of Branch Expansion

Starting as an experimental measure in 1975, growth of RRBs over the years has been phenomenal. At the end of December 1986, 196 RRBs having 12,838 branches had covered 349 out of 424 districts in the country. RRBs have demonstrated their high potential in the area of branch expansion. For cooperatives it took some 65 years to reach this level of performance. It is said "cooperatives in India are a plant held in position with both hands by government, since its roots refuse to enter the soil."² RRBs by contrast have developed roots, but continue to be tended by all concerned to prevent their wilting. Initiation taken by different sponsor banks can be seen in Table 3.1. Each RRB is identified and sponsored by commercial bank called sponsor bank (SB) in consultation with the state and central governments. Growth of the RRB directly linked with an initiation taken by sponsor banks. The sponsor bank acts as a friend, philosopher and guide as also a financier to RRBs. Table 3.1 indicates that so far 29 different commercial banks have sponsored 196 RRBs. The single largest number of sponsorship

2 K. P. Padmanabhan, Regional Rural Banks - An Indian Innovation in Bridging Cultural Gaps, Rural Financial Intermediation Changing Perceptions, p.57.

**Table 3.1 : Distribution of RRBs According to Sponsor Banks
(As on December 1986)**

S.No.	Name of the sponsor bank	No. of RRBs
1.	State Bank of India	30
2.	Central Bank of India	23
3.	Bank of Baroda	19
4.	Punjab National Bank	18
5.	Bank of India	16
6.	United Bank of India	11
7.	United Commercial Bank	11
8.	Syndicate Bank	10
9.	Canara Bank	8
10.	Allahabad Bank	7
11.	State Bank of Hyderabad	4
12.	Dena Bank	4
13.	Indian Bank	4
14.	Union Bank of India	4
15.	State Bank of Bikaner and Jaipur	3
16.	State Bank of Saurashtra	3
17.	Andhra Bank	3
18.	Bank of Maharashtra	3
19.	Indian Overseas Bank	3
20.	State Bank of Mysore	2
21.	The Jammu & Kashmir Bank Ltd.	2
22.	State Bank of Patiala	1
23.	State Bank of Indore	1
24.	Corporation Bank	1
25.	New Bank of India	1
26.	Punjab and Sind Bank	1
27.	Vijaya Bank	1
28.	Bank of Rajasthan Ltd.	1
29.	The U.P.State Co-op.Bank Ltd.	1
Total		196

Source : Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 188.

has come from State Bank of India i.e. 30 and it is followed by Central Bank of India and Bank of Baroda. So it is the responsibility of sponsor banks to nurse and protect the RRBs in the early stage of their development.

Table 3.2 refers to the growth of RRBs and its branches in different states. In Table 3.2 (figures relating to number of RRBs and number of districts covered belong to same period where as number of branches reported belong to different one). At the end of December 1986 RRBs had the network of 12,838 branches. Among various states Uttar Pradesh had the largest number of branches (2,787) followed by Bihar (1,775), M.P. (1,440) and Andhra Pradesh (1,010). These four states alone accounted for about 55 per cent of the total branches.³ The number of branches varied between 700 and 1,000 in Karnataka, Orissa, Rajasthan and West Bengal and between 200 to 500 in Assam, Gujarat, Haryana, Jammu & Kashmir, Kerala and Maharashtra. It has been decided by Government of India to cover all the districts in the country by opening new RRBs by the end of the Seventh Plan. The branch expansion programme will continue on the basis of the new branch licensing policy for the five year period 1985-90 (co-terminus with the Seventh Plan) which envisages provision of banking facilities in deficient

³ Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 189.

Table 3.2 : Statewise Distribution of RRBs and its Branches in India

S. No.	State/Union territory	No. of RRBs as on 30.6.87	No. of districts covered as on 30.6.87	No. of branches as on 31.12.86
1.	Andhra Pradesh	16	22	1,010
2.	Assam	5	12	322
3.	Bihar	22	37	1,775
4.	Gujarat	9	16	307
5.	Haryana	4	9	220
6.	Himachal Pradesh	2	4	92
7.	Jammu & Kashmir	3	10	261
8.	Karnataka	13	20	980
9.	Kerala	2	5	262
10.	Madhya Pradesh	24	44	1,440
11.	Maharashtra	10	17	456
12.	Manipur	1	8	23
13.	Meghalaya	1	3	41
14.	Nagaland	1	7	8
15.	Orissa	9	13	778
16.	Punjab	5	10	115
17.	Rajasthan	14	27	962
18.	Tamil Nadu	3	6	156
19.	Tripura	1	3	77
20.	Uttar Pradesh	40	54	2,787
21.	West Bengal	9	15	718
22.	Arunachal Pradesh	1	4	15
23.	Mizoram	1	3	33
Total		196	349	12,838

Source : Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 189.

rural areas, especially where identifiable spatial gaps exist. The expansion will be allowed taking into account the need, spatial gaps and financial viability of the proposed branches. The notable achievement of the RRBs is coverage of the difficult and backward areas of the country. For instance, these banks have started opening more branches in backward states like Bihar, Uttar Pradesh, Orissa and Madhya Pradesh. Since inception, RRBs are able to cover about 94 districts with sizable tribal concentration in the country.

Another important feature of the progress of branch expansion is that, RRBs have maintained the momentum given to the establishment of new RRBs since 1980. Table 3.3 brings

Table 3.3 : Yearwise Break-up of RRBs in India

Year of establishment	No. of RRBs
1975	6
1976	34
1977	8
1978	3
1979	9
1980	25
1981	22
1982	17
1983	26
Jan to June 1984	12
Total	162

Source : NABARD. National Bank News Review, April 1985, Vol. I, No.2, p. 21.

out yearwise establishment of RRBs since 1975 to June 1984. (upto June 1984 there were 162 RRBs).

Many a time a question has been asked very seriously that how many branches to be opened by the RRB i.e. specified limit for opening up of branches. Table 3.4 will indicate the classification and growth of RRBs in between June 1983

Table 3.4 : Classification of RRBs on the Basis of Branches Opened

Cate- gory	Size of organi- sation	No. of RRBs as on 30.6.1983	No. of RRBs as on 30.6.1984
A	100 branches or more	20	24
B	75 branches or more but less than 100 branches	13	18
C	50 branches or more but less than 75 branches	26	33
D	25 branches or more but less than 50 branches	41	46
E	Less than 25 branches	42	41
Total		142	162

Source : NABARD. National Bank News Review, April 1985,
Vol.I, p. 21.

and June 1984. For the sake of better understanding, we have here five types of classification on the basis of their number of branches. Twenty-four RRBs were in 'A' category and had a total number of 3,074 branches accounting for about 35 per cent of the total number of branch offices of RRBs. Area of operation of RRBs having more than 100 branches (except one RRB) was more than one district.

2. Credit Advancement

The credit expansion and extension by regional rural banks is considered another important criterion to judge their performance. The aggregate credit extended by RRBs rose significantly from Rs. 10 lakhs in 1975 to Rs. 1,540 crores in 1986. At the end of December 1986 the RRBs as a group had a total loan outstanding Rs. 1,785 crores in 81.28 lakhs borrowal accounts. Average per account loan outstanding of Rs. 2,203 indicates a predominance of small borrowers.⁴ During the year RRBs, disbursed Rs. 672.71 crores in 25.72 lakh accounts to the target groups. Of the amount so disbursed Rs. 200.13 crores (29.77) was for IRDP, Rs. 6.55 crores (9 per cent) under DRI and Rs. 100.02 crores (15 per cent) for other government sponsored programmes. Direct advances for agriculture and allied activities, retail trade and self-employed etc. amounted to Rs. 1,748 crores at the

⁴ National Bank News Review, July 1987, Vol.3, No.5, p. 28.

end of June 1986. Table 3.5 indicates the purposewise amount granted during the year 1986. RRBs have taken necessary steps to cover all target groups mentioned in the objectives of the

Table 3.5 : Purposewise Distribution of Amount at the End of 1986

Purpose	Amount Rs. in crores	Percentage share
1. Short term (crop) loans	332	19.00
2. Term loans for agricultural activities	376	21.51
3. Allied activities	297	17.00
4. Rural artisans village and cottage industries	108	6.17
5. Retail trade and self-employed etc.	476	27.23
6. Consumption loans	16	0.91
7. Other purposes	143	8.18
Total	1,748	100.00

Source : Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 189.

bank. Table 3.5 indicates that how different categories have been benefited from RRBs. Retail traders and self-employed people have got greater share than other categories. Only small amount has been given to consumption purpose.

Except rural artisans other categories have shared more or less same percentage. The RRBs are small man's bank catering to the credit needs of weaker sections of rural community. Their advances are restricted to target group only. The RRBs have given massive support to self-employment generation in the rural areas particularly among the rural poor. The main policy of the RRBs is to help neglected class of the people. These brackets should be well increased to lead their smooth life. Since 1975 more money is diverted towards this end. Table 3.6 reveals advancement pattern of RRBs for the selected years from 1982 to 1984. Thus, Table 3.6 shows that from 1982 to 1984 percentage share of different categories more or less continued without any drastic changes.

Another notable work performed by the RRB is maintaining low cost of operation. One of the important consideration that weighted with the Narasimham Group, in recommending a new type of institution in the form of RRB was the fact that its operational cost worked out to be lower than the branches of commercial banks. As pointed out by the group "the appraisal of the banks working should be based both on the fulfilment of objectives and control of cost. In short, in achieving a favourable cost benefit ratio. Now RRB branches are generally 'modest' in terms of cost, size and decor as well as amenities for the staff. According to Kelkar Committee, which studied the working of the RRBs recently,

Table 3.6 : Advancement Pattern of RRBs from the Period 1982 to 1984

Category/ purpose	(Rs. in crores)		
	Loan and advances in different years		
	1982	1982	1984
Short term crop loan	108.64 (18.83)	151.03 (20.11)	208.09 (19.25)
Agriculture term loans	121.85 (21.11)	174.67 (23.26)	230.79 (21.35)
Allied agriculture activities	116.35 (20.16)	134.68 (17.94)	205.19 (19.00)
Rural artisans village & cottage industries	30.63 (5.31)	44.50 (5.93)	62.12 (5.75)
Retail trade, small business and self- employment	124.70 (21.61)	170.14 (22.66)	253.09 (23.42)
Consumption loans	2.62 (0.45)	3.19 (0.42)	9.30 (0.85)
Others	46.91 (8.13)	44.21 (5.89)	79.67 (7.37)
Indirect advances	25.41 (4.40)	28.42 (3.79)	32.52 (3.01)
Total	577.11	750.84	1,080.77

Note : Figures in brackets indicate percentage.

Source : State Bank of India Monthly Review, 26:11,
November 1987, p. 5.

indicated that average staff cost per branch of the RRB at Rs. 45,000 in 1984,⁵ which was much less than (nearly half) that of many commercial branches situated at comparable centres in the neighbourhood. The RRBs have thus been in a position to provide a low cost credit structure. However, some sections of the employees of RRBs and their unions have started demanding higher scales of pay and other allowances and facilities on par with the commercial banks or with that of Government of India. The Sivaraman Committee observed this demand is inconsistent with the basic concept of RRBs as a low cost operation. In order to maintain the efficiency of the staff of RRBs at the desired level, it is suggested that the staff from RRBs should be shifted annually to sponsor banks in some agreed proportion to inject new blood in the RRBs which would be good for their health.

The RRBs have been extending credit to the target group viz. small and marginal farmers, landless labourers rural artisans. They have been playing a valuable role in implementing IRDP. The IRDP which is meant for the upliftment of the poorest of the poor. Indirect advances amounted to Rs.37 crores, of which a sizeable portion was provided to the weaker sections. During the period January to December 1986, RRBs advances under the Integrated Rural Development Programme (IRDP) formed 11.4 per cent of the total direct

⁵ D. J. Kanvinde. Regional Rural Bank, State Bank of India Monthly Review, 26:11, November 1987, p. 545.

advances and amounted to Rs. 200 crores in 7,84,145 accounts as compared to Rs.181 crores in 7,92,961 accounts during the comparable period of 1985.⁶ Good amount has been disbursed through RRBs under IRDP. In the year 1984-85 disbursement amount under IRDP was Rs. 122 crores. 1985-86 Rs.135 crores, 1986-87 Rs. 165 crores and upto end of June 1987 it was Rs. 557 crores.⁷ So RRBs have fulfilled the target levels of IRDP. RRBs have been actively participating for the benefit of rural people particularly down-trodden. RRBs have helped for removal of rural indebtedness and credit facilities to weaker sections. Small farmers have been provided with adequate amount of credit, for working capital such as seeds, fertilizers, irrigation and pesticides etc. The RRBs have benefited a few landless labourers when a branch in the nearby village, they have started pesham udyog, piggeries animal husbandries with the help of credit of these banks. It has been observed that a large number of big farmers are also taking loans from the RRBs even though they are not legally entitled to secure loans. In the absence of other commercial banks purview of rural bank may be extended to big and other farmers with the limit of a certain amount.

Another area where RRBs have performed well is

6 Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 190.

7 Ibid., p. 232.

extending facilities to rural artisans. The rural artisans have been playing an important role in socio-economic development of the country. From June 1977 to March 1982 total number of accounts opened by rural artisans has been increased from 81 thousand accounts to 204 thousand accounts.⁸ This shows growth of rural artisans having benefited from RRBs. The RRBs are rural oriented and intended to bring a change in the rural world of India which will have significant spread over economic social and political arena and support rural - artisans to get employed themselves and earn livelihood. The RRBs have given massive support to self-employment generation in the rural areas particularly among the rural poor.

Another important field covered by RRB is creation of direct and indirect employment opportunities in the rural areas by extending credit support to small borrowers. At the end of 1986 the total number of staff employed in RRBs stood at 46,876. Out of the total staff employed in RRBs 79 per cent i.e. 37,238 were trained at the national level training set by the NABARD or by the sponsor banks.⁹ By and large RRBs have employed local persons as clerical staff, barring the few on deputation from sponsoring banks, are from within the area of operation or from adjoining districts, whereas officers are drawn from concerned states. This really helps

⁸ S. K. Mandal and Sunil Kumar. RRBs and Rural Artisans, Khadi Gramodyog, April 1983, p. 265.

⁹ National Bank News Review, July 1987, Vol.3, No.5, p. 28.

to ensure the local feel of the problems among the staff employed and also a sense of identification with the local people.

RRBs have inculcated banking habits among rural areas, as a result of which it could mobilise a sum of Rs. 1,715 crores in 196 lakh accounts by way of deposits from rural areas. The resources so raised have, by and large, been ploughed back in the same area for supporting developmental activities. The RRBs have been responsible in increasing agricultural output in the areas of their operation. The small and marginal farmers by and large increased their output as a result of RRBs lending activities. The small and marginal farmers have also created more assets in terms of land development, purchase of bullocks and agricultural implements. There has been an increase in the number of irrigation pumpsets in the areas where these RRBs are functioning. They are able to spread banking habits among the rural masses. Two committees, one headed by B. Sivaraman a senior civil servant and, another, headed by M. L. - Dantwala a distinguished economist, came to an unanimous conclusion that between commercial bank branches and RRBs experience as well as evidence, RRBs are more suitable for the task in hand. RRBs are able to introduce a new concept of 'borrower chasing banking' contrast to the conventional borrower awaiting banking. So RRBs in India could

foster rural confidence and by any reckoning this is their most notable achievement. The RRBs have begun to show some tangible results of the rural society. It is important to recognise the distinct role which the RRBs can play as a specialised institution for promoting the economic development of weaker sections of the society even in areas where other credit institutions exist at present.

A survey of ownership pattern of deposits of RRBs has been conducted recently by Reserve Bank of India, it has brought out some interesting aspects relating to the mobilisation of deposits by RRBs from different regions and various categories of deposits.¹⁰ A comparison of RRBs and Scheduled Commercial Banks (SCBs) in terms of deposit mobilisation especially in rural and semi-urban areas where RRBs have made considerable headway is now possible.

Comparison between scheduled commercial banks and RRBs categorywise ownership of deposits can be studied from Table 3.7.

In Table 3.7 it is shown that in rural areas the farmers account for a much larger share of total deposits in the case of RRBs (46 per cent). Other categories like artisans (19 per cent) show higher shares in RRBs. Among the institutional deposits the government patronage was

10 V. Sankaranarayanan, Deposits of RRBs and Scheduled Commercial Banks - Some Contrasts, National Bank News Review, September 1987, Vol.3, No.7.

Table 3.7 : Categorywise Ownership of Deposits (in Rural and Semi-urban Areas) in Respect of RRBs and SCBs

Category	Rural		Semi-urban	
	RRBs	SCBs	RRBs	SCBs
Agriculturists	46.6	32.6	15.9	16.2
Wage/salary earners	16.1	13.4	12.6	11.2
Artisans	19.9	6.8	21.2	7.8
Others	4.8	32.8	5.3	44.3
Individual sub-total	87.4	87.7*	55.0	83.2*
Government	9.0	2.3	41.3	3.6
Other institutions	3.6	10.0	3.7	13.2
Institutional sub-total	12.6	12.3	45.0	16.8
Total	100	100	100	100

* Includes non-residents.

Note : 1) The data for scheduled commercial banks relates to March 1982.

2) The data for regional rural banks relates to December 1983.

Source : National Bank News Review, September 1987, Vol.3, No.7, p. 27.

greater for RRBs (19 per cent) while SCBs had higher share of deposits from other institutions. The pattern of ownership of deposits in semi-urban areas showed a basic difference for RRBs with institutional deposits (especially government) claiming larger share (45). This may be attributed to the fact that the scope for mobilising these deposits is more and the controlling offices of RRBs which are located in these areas are able to exploit this potential.

Table 3.8 indicates the mixwise classification of deposits for some selected ownership categories. What strikes from this table most is that for RRBs, the savings deposits are dominant in all ownership categories including government (70 per cent) whereas in the case of SCBs it is the term deposits which is preferred by deposits - both individuals and institutions.

Huge amount of funds are coming from NABARD. During the year 1986-87 NABARD sanctioned short-term (ST) limits aggregating Rs. 226.94 crores to 145 RRBs and non-schematic medium term (MT) limits of Rs. 80.32 crores to 122 RRBs.¹¹ For the first time NABARD has sanctioned medium term (conversion) loans of Rs. 8.01 crores to 14 RRBs. Under the National Oilseeds Development Programme of Government of India, two RRBs were sanctioned separate short term limits amounting to Rs. 1.02 crores during the year under review. The RRBs also

¹¹ Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 191.

Table 3.8 : Mixwise Data for Some Category of Deposits of RRBs and SCBs

Ownership category		Current	Savings	Term	Total
Individual	RRBs	2.7	56.4	40.9	100
	SCBs	5.2	41.2	53.6	100
Wage and salary earners	RRBs	0.9	57.4	41.8	100
	SCBs	1.0	43.7	55.3	100
Agriculturists	RRBs	0.7	59.8	39.5	100
	SCBs	0.9	54.2	44.9	100
Institutions	RRBs	17.9	65.2	16.9	100
	SCBs	43.1	12.0	44.9	100
Government	RRBs	15.8	70.0	14.2	100
	SCBs	23.9	14.8	61.3	100

Note : The data for scheduled commercial banks relates to March 1982. The data for RRBs relates to December 1983.

Source : National Bank News Review, September 1987, Vol.3, No.7, p. 27.

availed of long term refinance from NABARD. As at the end of March 31, 1987 2,085 schemes involving NABARD's commitment of Rs. 726.14 crores were sanctioned to RRBs and the drawers amounted to Rs. 609.63 crores. The amount of refinance availed of by RRBs from the sponsor banks amounted to Rs.246.90 crores as at the end of December 1986.

In order to help the RRBs to engage trained staff as early as possible, the RBI has arranged to provide training to the chairman and branch managers in the Reserve Bank of India's College of Agricultural Banking, Pune. And training to that of accountants, field officers and clerks will be conducted at the training centre of the respective sponsor banks under the overall supervision of the College of Agricultural Banking. Now, NABARD has been extending training facilities to RRB staff and for that, purpose Bankers Institute for Rural Development (BIRD) has been set up at Lucknow in Uttar Pradesh, Regional Training Centres (RTC) at Bolpur and Mangalore.

Adoption of villages has become the main strategy of several organisations to bring about development in the rural areas. Now the village adoption scheme would appear to have emerged as a sequel to area approach. The scheme is one of the many innovations the banks have attempted to reach the villages. Adoption means taking up complete responsibility of the individual or institution adopted.

It would also mean giving assistance and meeting the needs of all the inhabitants of the village whether farmer or artisan or trader. RRBs have adopted various villages to help them in different ways.

In Table 3.9 consolidated account of regionwise/state-wise number of RRBs, their branches, deposits, advances (outstanding) and refinance from NABARD is given. At the end of 31.12.1986 there were 194 RRBs having covered 351 districts and able to mobilise amount worth of Rs. 17,14,993.66 lakhs and total advancement was Rs. 43,707.74 lakhs and NABARD has made refinance facility to the tune of Rs.6,947.18 lakhs. Branch expansion policy is such that they should be opened where cooperative movement is weak and area is backward.

So, in India Regional Rural Banks have been playing positive role to expand financial assistance to rural people. Reserve Bank of India appointed various committees time to time to assess the working of RRBs and suggest measures to improve effective operation of these banks. Highlights of the various committees are as follows.

1. Dantwala Committee

The Reserve Bank of India had set up a committee on June 23, 1977 under the chairmanship of Prof. M. L. Dantwala to review the working of the RRBs. The other members of the

Table 3.9 : Regionwise/Statewise Number of RRBs, their Branches, Deposits, Advances (Outstanding) Etc. (As at the end of December 1986)

		(Amount in lakhs of rupees)											
S. No.	Name of the state/ union territory	No. of RRBs	No. of dis- tricts covered	No. of bran- ches	Deposits	Advances (Outstanding)					WABARD refinance (Outstanding)		
						Agricul- tural	Non-agri- cultural	Total	Overdues	C.D. ratio (%)	Sche- matic*	Non-sche- matic*	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Northern Region													
1.	Haryana	4	11	220	3895.50	2872.32	1739.63	4611.95	1210.62	110	728.79	126.41	855.20
2.	Himachal Pradesh	2	4	92	2691.74	517.91	743.65	1261.56	202.44	40	174.18	-	174.18
3.	Jammu & Kashmir	3	10	261	3241.49	747.42	826.10	1573.52	302.86	40	445.39	105.93	551.32
4.	Punjab	5	8	115	1299.82	579.24	418.85	998.09	47.30	70	207.96	410.54	618.50
5.	Rajasthan	14	27	962	9952.44	7647.44	3274.48	10921.92	3252.39	100	2481.59	2391.23	4872.82
Total		28	60	1650	21080.99	12364.33	7002.71	19367.04	5015.61	90	4037.91	3034.11	7072.02
North Eastern Region													
6.	Arunachal Pradesh	1	4	15	60.30	8.96	4.10	13.06	2.09	20	-	-	-
7.	Assam	5	17	322	4472.59	1262.51	2144.94	3407.45	763.42	70	196.44	512.46	708.90
8.	Manipur	1	8	23	64.88	19.92	58.92	78.84	24.51	120	6.57	16.30	22.87
9.	Meghalaya	1	3	41	376.10	119.64	42.49	162.13	10.51	40	8.00	66.98	74.98
10.	Mizoram	1	3	33	275.76	94.86	119.31	214.17	16.03	70	22.51	35.00	57.51
11.	Nagaland	1	7	8	36.06	14.84	12.01	26.85	6.60	70	-	9.80	9.80
12.	Tripura	1	3	77	2204.80	981.38	1535.55	2516.93	1160.32	110	365.22	471.78	837.00
Total		11	45	519	7490.49	2502.11	3917.32	6419.43	1983.48	80	598.74	1112.32	1711.06

Contd...

Table 3.9 : (Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
<u>Eastern Region</u>													
13. Bihar		22	37	1775	26727.33	10041.56	11168.08	21209.64	5103.99	70	5274.48	4206.46	9480.94
14. Orissa		9	13	778	7380.45	7462.16	5538.91	13001.07	2078.89	170	2085.04	3175.47	5260.51
15. West Bengal		9	17	718	11732.06	4301.14	5254.69	9555.83	3474.72	80	1198.42	1764.73	2963.15
	Total	40	67	3271	45839.84	21804.86	21961.68	43766.54	10657.60	90	8557.94	9146.66	17704.60
<u>Central Region</u>													
16. Madhya Pradesh		24	44	1440	13167.40	7370.77	5587.86	12958.63	2951.16	90	5180.28	2456.92	7637.20
17. Uttar Pradesh		39	51	2787	43119.16	16384.57	16611.71	32996.28	8258.24	70	6074.22	6033.30	12157.52
	Total	63	95	4227	56286.56	23755.34	22199.57	45954.91	11209.40	80	11254.50	8540.22	19794.72
<u>Western Region</u>													
18. Gujarat		9	15	307	2421.53	1419.03	558.80	1977.83	308.57	80	297.55	491.81	789.36
19. Maharashtra		10	17	456	4312.72	3256.98	1775.47	5032.45	1010.19	110	470.94	1462.28	1933.22
	Total	19	32	763	6734.25	4676.01	2334.27	7010.28	1318.76	100	768.49	1954.09	2722.58
<u>Southern Region</u>													
20. Andhra Pradesh		15	21	1010	14543.81	15230.61	6927.02	22157.63	5925.10	150	1667.52	7637.55	9305.07
21. Karnataka		13	19	1980	11935.78	13554.96	6804.45	20359.41	4762.93	170	2027.45	4556.10	6583.55
22. Kerala		2	6	262	5542.49	5208.95	5186.86	10395.81	1722.35	180	547.00	3139.00	3686.00
23. Tamil Nadu		3	6	156	2039.45	1321.58	1731.43	3053.01	1112.51	140	97.14	793.44	890.58
	Total	33	52	2408	34061.53	35316.10	20649.76	55965.86	13522.89	160	4339.11	16126.09	20465.20

All India		194	351	12838	171493.66	100418.75	78065.31	178484.06	43707.74	104	29556.69	39913.49	69470.18

* As reported by RRBs

Source : National Bank News Review, July 1987, Vol.3, No.5, p. 29.

committee were Dr. K. Kanungo, Shri K. Gopal Rao and Dr. V.A. Pai Panandikar, Dr. H. B. Shivamaggi of the Reserve Bank of India acted as secretary of the committee. The terms and of reference of the committee were:

- 1) To evaluate the performance of RRBs in the light of the objectives with which they were set up.
- 2) To indicate their precise role in the rural structure.
- 3) To make recommendations on the scope, methods and procedures for their functioning and other related matters.

The conclusion or main findings of the committee on Regional Rural Banks may be summarised as follows.¹²

- 1) With some modifications in their organisation and functions, the regional rural banks can become a very useful component in the totality of rural credit structure.
- 2) Committee is convinced that with a short period of two years, RRBs have demonstrated their capability to serve the purpose for which they were established.
- 3) The RRBs have established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was hitherto not available.

12 S. S. M. Desai. Regional Rural Banks, Rural Banking in India, pp. 293-95; Reserve Bank of India, Regional Rural Banks Report of the Review Committee (Headed by Prof. M.L. Dantwala), p. 69.

4) Hence the committee does not approve the idea of scrapping the RRB structure.

5) RRBs are well suited for the purpose of "progressively filling up the gap" in the rural section.

6) In the committee's view, establishment of RRBs will not disturb the cooperative credit structure at the base level.

7) RRBs should function at the intermediate level.

8) As regards RRBs relationship with cooperative credit structure where the cooperative institutions at the intermediate level are weak and inadequate RRBs can fill the gap.

9) In the opinion of the committee the total replacement of rural branches of commercial banks branches over a period of time would be acceptable to commercial banks and be welcome by the rural clientele.

10) The committee has recommended that the Government of India and the Reserve Bank may take steps to initiate the process of making RRBs an integral part of the rural credit structure.

11) Committee is of the opinion that ideally, the jurisdiction of RRB should be confined to one district.

Since size and the state of economic development of district vary a great deal, it is advisable to retain some flexibility in this and other related matters. Naturally, one RRB should cover a population of 10 to 20 lakhs. From the angle

of financial viability and managerial efficiency the reasonable number of branches (per district) of each RRB will be between 50 and 60.

The committee has also observed that financial viability could be realised in three to four years. Committee further also felt that provision should be made for the inclusion of large farmers in the list. It would increase the deposit mobilisation.

2. CRAFICARD's Recommendations

The committee to review the arrangements for institutional credit for agriculture and rural development(CRAFICARD has examined the role of RRBs in the rural credit system at length and made a number of important recommendations.¹³

They include:

1) The RBI should take necessary steps to facilitate the transfer of eligible business of commercial banks rural branches to RRBs as and when proposed.

2) Losses made by RRBs should be made good by their shareholders and equity capital of RRBs should also be raised.

3) RRBs should continue to confine their operations to the weaker sections.

13 CRAFICARD. Reserve Bank of India, Bombay, January 1981 Chap.7, Regional Rural Banks, p. 170 and RRBs Role in Development, Bank of Baroda Weekly Review, February 19, 1982, Vol.20, No.8.

4) Emoluments of the RRB staff should continue to be determined with due regard to state government pay scales.

5) Facilities from sponsor banks to RRBs should continue for a period of 10 years in each case.

6) The experts connected with agricultural development may be nominated on the board of RRBs.

7) Since RRBs serve the weaker sections exclusively, facilities of concessional refinance from RBI should continue.

RRBs are expected to play a major part in the area of rural development considering that the gap between the demand for and the supply of rural credit to the weaker sections.

3. Kelkar Committee

The government having taken note of some problems and deteriorating conditions in RRBs, appointed a working group on August 1984 under the chairmanship of Shri V. K. Dar, Additional Secretary (Banking) to evaluate the functions of these banks and suggest appropriate steps to tone them up. Since August 1985 this group is being headed by Shri S. M. Kelkar, Additional Secretary (Banking) the other members of the working group include representatives of NABARD, RBI, state government and sponsor banks. This was constituted to review the various aspects of the working of RRBs for the

past few years, so as to identify appropriate measures for strengthening their organisational structure and other matters improving their overall capabilities.

The working group submitted its report on June 10, 1986. The group recommended the continuance of RRBs and emphasised greater involvement of sponsor banks in the functioning of RRBs.¹⁴ The recommendations of the committee regarding refinance facilities from NABARD, which are being implemented are as follows.

1) With effect from March 1, 1987 involvement of RRBs in ST and non-schematic MT loans should be 30 per cent and 20 per cent respectively.

2) Sponsor banks involvement in refinancing in the case of both ST and non-schematic MT loans should be 20 per cent and that of NABARD would be 50 per cent for ST and 60 per cent for non-schematic MT loans.

3) Interest rate charged on refinance by sponsor banks was reduced from 8.5 per cent to 7 per cent.

4) Restriction which required RRBs with a higher credit-deposit ratio to bring down the ratio to 100 has been removed. RRBs are now eligible for schematic refinance on the same terms and conditions as applicable to commercial banks.

Other major recommendations of the working group

¹⁴ Report on Currency and Finance 1986-87, Economic Review, Vol.I, p. 192. RBI Report on Trend and Progress of Banking 1986-87, Supplement to RBI Bulletin, October 1987, p. 73.

accepted by the government are:

1) Raising the authorised share capital of RRBs from Rs. 1 crore to Rs. 5 crores and issued capital from Rs. 25 lakhs to Rs. 1 crore with a view to improving their viability.

2) Sponsor banks should, on behalf of RRBs, invest in government securities the deposits kept by them in current account for LR requirements, so as to give them higher rate of return on such deposits.

3) While the restrictions on lending by RRBs to non-target groups may continue, they should be allowed to provide credit to selected institutions such as SC/ST corporations, local bodies, housing boards etc. NABARD has, however, suggested that such loans should be given only for productive purposes. Further, the loans should be exclusively for financing activities within jurisdiction of the concerned bank.

4) The staff deputed to RRBs by sponsor banks must continue till such time as RRBs feel they can stand on their own feet.

5) The sponsor banks must continue to bear the cost of training the staff of RRBs and also provide opportunities to be absorbed in the services of the sponsor banks.

6) More tiers should be created between the chairman and the field staff with higher pay scales which may be

equal to the grades offered to grade V and VI in the commercial bank.

7) For better supervision and control of branches it would be desirable to restrict the coverage of RRBs to two districts. At the same time it would be also advisable to merge small and uneconomic RRBs. Further, establishment of new RRBs should primarily be considered on the basis of genuine need to serve a neglected area, particularly, the tribal population, as also on the basis of well tested norms, so far applied and the prospects of viability.

CHAPTER IV

PROBLEMS OF REGIONAL RURAL BANKS

Regional Rural Banks have completed a decade of their existence. The first RRB was opened in 1975 on the basis of the Narasimham working group report. During the period RRBs have come to form an integral part of the Indian banking system. They have been successful in meeting the credit requirements of the target groups and have proved that RRBs can assume a larger role in providing credit to the weaker segments of the rural sector, particularly in areas where the cooperative structure is weak. During the seventh plan greater emphasis is being laid on poverty alleviation programmes like IRDP, even in the finance bill thrust is being given to anti-poverty programmes in which the role of the RRBs is very important. In pursuance of the Dantwala Committee recommendations government had intended to enlarge the operation of RRBs to cover all districts in the country. However, in spite of encouraging role played by RRBs, the system itself started showing inherent weakness on account of several factors. Though the progress achieved by RRBs is commendable in various fields still there are certain gaps in their functioning. With all the stress on the service motive of the RRBs, one should not forget that they must go

for a minimum percentage of profit at least to cover their operating expenses. The performance of RRBs in this vital field is rather bleak. Despite various concessions like re-financing at the rate of 3 per cent, maintaining a low reserve position of 25 per cent etc. hardly about 50 to 55 per cent of RRBs have managed to operate on or above the break-even. This should be also a matter of concern for the RRBs. A majority of the RRBs are working at losses. At the end of 1984 out of the 173 RRBs in operation as many as 130 showed losses.¹ In fact, the accumulated losses of 49 RRBs had eaten up their share capital and another 26 RRBs had eroded half or more than half of their share capital. The number of RRBs were, unable to comply with the statutory requirements in respect of liquidation and cash reserves or in other words the operations of the RRBs in the first decade of their working had created doubts about their long term viability. Now RRBs are in red and more on the brink of a major catastrophe should make any citizen sit and think. These banks are heading for a massive deficit in their operations. In the first seven years the total amount they lost was Rs. 5.61 crores. At the same time the number of banks showing deficit has been progressively increased from 14 in 1976 to 76 in 1982.² If this

1 D. T. Kanvinde. Regional Rural Banks, State Bank of India Monthly Review 26:11, November 1987, p. 545.

2 F. H. Khan. Regional Rural Banks in the Red - A Revamp on the Cards, Indian Cooperative Review, Vol.23, July 1985.

process is allowed to drag on further it most likely to tell upon the very existence of these banks which were connected with much fanfare 12 years ago and they cannot be a force to reckon within the development activity in the rural areas.

More than 12 years have been completed and various committees have submitted their reports about working of RRBs, yet RRBs face dilemma, the losses incurred by them which for 1985 stood at Rs. 2,989.87 lakhs increased to Rs. 3,246.25 lakhs by 1986. The accumulated losses of banks as at the end of 1986 amounted to Rs. 8,763.06 lakhs. The losses will continue to amount and unless some drastic steps are taken to stem the tide, the banks would prove a heavy drain on the public exchequer without any corresponding benefits. The rapid expansion of banks and branches have held to higher percentage increase in costs and lower percentage in earnings of the RRBs system as a whole. The growth of business was not enough to generate earnings necessary to cover interest costs as well as operating losses of RRBs. The regionwise distribution of RRBs reveals that the position of overdues in eastern and north-eastern region was in general worse than that in the northern and southern regions.

The studies and reports on the problems of overdues of financial institutions operating in the rural areas have identified a number of factors contributing to overdues. Some of them are endogenous, while others are exogenous to the institutions. The financial viability of RRBs is also linked

with their own age as well as the age of other branches. Other things remaining the same, RRBs of more than seven years old may be expected to attain viability. But this may not be possible if RRBs have a large number of young branches. These young branches may act as a drag on the profit of the other RRBs. Consequently the profit of the old RRBs and large number of young branches may be eroded. The profit and losses of various banks can be seen in Table 4.1.

Table 4.1 : Profit and Loss Making RRBs from December 1983 to December 1985

Year	No. of RRBs making profit	No. of RRBs making losses	Total number of RRBs
December 1983	50 (33.3)	100 (66.7)	150
December 1984	42 (24.3)	131 (75.7)	173 100
December 1985	34 (18.1)	154 (81.9)	188 100

Note : Figures in the brackets indicate percentage share in the total.

Source : Financial Express, 8th and 9th December 1987.

In Table 4.1 we can see that since December 1983 losses incurred by RRBs have been increasing. The losses were 66.7 per cent in 1983, and increased upto 75.7 per cent in the

year 1984 and went upto 81.9 per cent at the end of the year 1985. Rate of percentage of profit of RRBs have been declining along with expansion of branches. So increase of losses has resulted in decline of RRBs profit.

The financial institutions with weak financial base cannot continue for long and fulfil social banking objectives assigned to them. So the financial viability of institutions is one of the prerequisites for their sustained growth and shouldering social responsibility. At present RRBs have been placed in heavy losses. It has been further worsened on account of increase in overhead expenses consequence upon the revision of staff salary and other allowance. Reduction in margin available to the RRBs on account of upward revision in interest rates on deposits with effect from 21 October and reduction in lending rates from 1 April 1983.³

Though the RRBs were supposed to be low cost institutions, hopes have been belied with progress of the RRBs, now these banks are seeking permission to undertake normal banking activities like other banks. This would distract the banks from their primary objective of serving the rural poor. The idea of considering RRBs as a low cost venture will soon disappear. This even make some of the so-called viable RRBs into unviable. Further, if they start functioning like other

³ J. S. Varshneys. Regional Rural Banks, State Bank of India Monthly Review, November 1983, p. 466.

banks it would bring along with it a host of other problems similar to those faced by the commercial banks.

Another problem faced by the RRBs is availability of competent and trained staff to many RRBs operating in the backward and tribal districts. A large network of branches opened at a fast pace which was not contributed substantial income in business had added to overhead costs, without contributing to profits. It has been observed that the extent and availability of staff support provided by sponsor banks is inadequate particularly in the initial stages. Officers deputed by the sponsor banks may not always be the best available to hold the administrative positions in the RRBs. The staff recruited by the RRBs are generally inexperienced and the training is not sufficient to prepare them to shoulder managerial positions independently. Therefore they lack in experience and maturity required for heading the RRBs. Although various training centres have been started by various agencies at various stages still it is not possible to meet the needs of RRBs. In many states the staff turn over of RRB is quite high, they treat RRBs as stepping stone for other services or as stop-gap arrangement so long as they do not get employment elsewhere. If the demands of the RRBs are considered at par with the commercial banks, their viability would be jeopardised. Despite active support by sponsored banks and other staff problem has remained as unfinished and often haphazard task. As time went by even the existing

employees begun to show resistance to the lower pay structure. RRBs have found that different states offered different benefit packages. These young men had little prospects for professional advancement in RRBs as there are very few higher levels excluding chairman.

Therefore underlying assumption their establishment appeared to be proving incorrect. A number of operational problems have cropped up. The original concept that the rural bank will have radical departure from the orthodox methods of commercial banking can be run more economically with the help of moderately paid rural oriented staff and serve the masses with a spirit of dedication seems to be eluding now. It is found on the examination that the location of some of the rural banks is not in keeping with principles enunciated in this respect. So wrong location may create new problems of coordination. The assumption regarding moderate salary structure is also baffling the government since sponsoring banks have started demanding deputation allowance and assurance as regards their future prospects. Once demand is conceded, the cost structure will go up.

Another problem faced during the operation of this hybrid institution is lack of uniformity. Several decisions are delayed for want of clearance by one of the agencies like Government, Reserve Bank of India, state government, sponsor banks and NABARD. We have observed that there are several contradictions in the system. The low cost

philosophy and efficient management do not go hand in hand. RRBs are formed to cope with the comprehensive banking needs of the rural areas. But they are assumed to perform the act of calculating bank office population ratio, which is altogether a misleading exercise.

Another difficulty relates to mobilisation of deposits and profitability of rural banks. In case loaning is confined to weaker sections the affluent sections of farmers (not getting service) may not come forward to deposit their savings with the RRBs. Hence costlier funds will have to come from the sponsored banks. Added to this the low rate of lending will make it almost impossible to earn profits. Therefore the long run viability of these banks will be even doubtful. The problem of effectively reaching the masses, still, remains unsolved. Proper attitude towards and the cooperative leaders coupled with promotional work, adequate financial and managerial support and guidance may help rural banks to develop healthy relations with the cooperative structure and remove the even present gloom of suspicion from their (cooperators) mind.

Although organisational reforms even innovations in the structure, methods and operations of the rural credit agencies and their interrelationships will continue to be vital to ensure their viability and suitability the productivity of the clientele to be served and their potential viability cannot be ignored.

Thus the organisational reforms in the credit giving agencies and rationalisation of their interrelationships must go hand in hand with sustained programmes of total reconstruction of the poor man's economy lest objectives of eliminating rural indebtedness underlying the establishment of the rural RRBs cannot be realised. Ultimately success of RRBs will depend upon how successfully the credit gap is filled. The credit gap relates mostly to the nonviable segment of the rural economy.

Under the branch licensing policy of the Reserve Bank of India, priority is given to the RRBs in the districts covered by them in the matter of opening branches in rural and semi-urban areas. It is observed that in some cases a large number of authorisation have been issued in favour of some RRBs which have already set up more than 100 to 120 branches opening up of RRBs branches beyond certain limit is not sound for healthy growth of RRBs.

An outstanding problem faced in its operation by RRB is mounting overdues. The problem of overdues arises mostly in the case where the beneficiaries have diverted the fund for unproductive purposes and therefore their income position has not improved. The banks must ensure that loan is used only for the purpose for which it has been sanctioned. In the case of agricultural loans it is easy but, in the case of dairy loan, bullock loans, sheep and goat loans and loans for other non-agricultural purposes, frequent visits by bank

officers to the beneficiaries places would prevent possible diversion of funds. The monopolistic position they had enjoyed in earlier phases did not continue due to presence of the branches of commercial banks in their area of operations.

RRBs have also been experiencing their branch network in areas with limited infrastructure facilities. Some state governments who were wedded to cooperatives viewed RRBs as an arm of commercial banks and hence as a covert threat to their cooperative structure. The required support for identifying suitable buildings accommodation for staff and security arrangements was not readily forthcoming from some state governments. Rural elites looked at the poor man's bank in suspicion. So they anticipated a loosening of their hold on the poor and a consequent erosion of their power.

Another problem is default. The general repayment ethics among the rural clientele has been deteriorating and RRBs customers are not immune to this tide. Some feel that RRBs are over regulated with their multiple accountability to central government, state government, sponsor banks and national bank often with overlapping jurisdictions. Although regulation is imperative in the interest of efficient banking, over regulation often undermines the essential innovative elements and smothers initiatives, especially in rural banking which calls for continuous adoption and improvisation. Unless repayments are made no credit programme can

succeed. Sometimes vagaries of nature like drought, poor monsoon, cyclone and floods do adversely affected the recovery performance. Therefore, overdues in case of RRBs keep on mounting. Sometimes postponement of recovery of the dues of farmers or write off of over dues tends to have an adverse impact on the recovery performance of these banks. The main drawback is that such measures are unfair to borrowers who repay their loans promptly and if the recovery climate is vitiated, many honest borrowers may turn potential defaulters in anticipation of similar concessions. This would in the long run impair credit discipline and weaken the fabric of institutional credit structure. Hence instead of writing off overdues other steps should be taken to give relief to those farmers whose repaying capacity has been adversely affected by natural calamities.

On the other hand, rural indebtedness is not yet eliminated and credit given to weaker sections in relation to their demand is inadequate. Still RRBs have left uncovered inaccessible and under developed areas in hill and tribal regions and north eastern region. Even the areas where RRBs are functioning, the coverage of the relevant categories has so far been extremely inadequate. The basic problem of people of weaker section is not mere finance but underdevelopment and low incomes. Though RRB Act is precise to whom credit is to be granted still we see that there is denial

of adequate credit for consumption purposes inevitably compels the poor cultivators and others, again to run towards money-lenders nullifying all attempts at doing away with them.

Another important problem faced by RRBs in about 12 years of their operation is, the commercial banks have become competitor to rural banks which they themselves have sponsored. The idea of starting of RRBs should supplement cooperative banks and not supplant them. Evidently it was not anticipated that the public sector banks could compete with RRBs by charging lower rate of interest.⁴ The competition from this viable sector would certainly undermine the confidence of rural banks and defeat the purpose of setting up these banks.

The personnel of this bank should have background and rural bias. Though the RRBs have succeeded to some extent in disbursing agricultural credit to the weaker sections of rural society, yet their performance in making socio-economic changes in the rural areas was disappointing. The banks have not yet changed their attitude and outlook towards the problems of small and marginal farmers. They have failed in inspiring confidence and trust in local people. These banks have not reached into the interior part of the countryside. As RRBs are dealing with the rural poor, the often problem is,

⁴ J. S. Garg and K. N. Pandey. Problems and Prospects of Agricultural Credit Regional Rural Bank, Issues in Indian Agriculture edited by K. R. Gupta, p. 180.

how to make rural poor feel needed. The rural poor is a pessimistic man, he has no confidence in himself and no courage for new ventures.

It is noticed that attainment of this social goal has resulted in declining financial viability of RRBs. The problem associated with rapid development of RRBs have weakened significantly the financial viability as indicated by deterioration in profitability of profit making RRBs and accumulated loss of majority of RRBs. The financial institutions with weak financial base cannot continue for long and fulfil social banking objectives assigned to them. For the financial viability of the institutions is one of the prerequisites for their sustained growth and shouldering social responsibility. Kelkar Committee emphasis on low cost profile, high productivity, consolidating and strengthening the business and future expansion of RRBs branches based mainly on business potential is essential for improving financial viability of RRBs.

CHAPTER V

CONCLUSION AND SUGGESTIONS

In this concluding part of the dissertation an attempt has been made to draw the conclusions and make some suggestions regarding further role of RRBs. Foregoing part of the dissertation shows that RRBs are gradually moving towards achievement of objectives set forth. Despite the initial hurdles and problems, RRBs have become an integral part of the rural credit system of the country. Both state and union governments have been convinced about efficiency of the RRBs as the most powerful and useful component in the totality of the rural credit structure. The RRBs have already crossed the experimental stage within a short period of 12 years, and they have proved their capability to serve the purpose for which they were established. Now they have established their image as the unique type of institution catering to the credit needs of a class of borrowers to whom the institutional credit was hitherto not available.

It may be emphasised that in the complex economic conditions prevailing in rural areas, the RRBs are required to demonstrate to be useful component in the totality of rural credit and should not remain contented with the traditional role of lender alone. They should carry on their activities

in the wider context as a friend, philosopher and guide of the rural people, trying to understand problems in a sympathetic manner, as also in assuming the role of a catalytic agents in the process of rural welfare which ultimately must reflect in the maximum welfare of the maximum numbers. Vast neglected group of the people is watching towards this institution with high hopes, in such a situation, the rural banks have to play their dynamic role and effectiveness in meeting the credit needs of target groups.

There is no doubt that given the necessary aid, support and guidance in the initial years, RRBs will have to assume an increasingly important role as an integral element of the multi-agency system at the ground level. The RRBs are more suitable for adopting individual approach than the rural branch of a commercial bank in view of its low cost profile, wider network of its branches in remote rural areas, the local feel of its staff and its image as a small man's institution.

In the ultimate analysis it has to be borne in mind that the RRBs are expected to be not a transient or temporary structure but a permanent set up in the overall rural credit super structure of the country. Their financing and operations must be so organised as to ensure long term viability. Any measure to tackle the problem with short term solutions - is not likely to be much helpful. If the RRBs are to remain

small man oriented credit institutions and still retain long term viability and strength, a closer look at the policy of administered rates of interest would probably be inevitable. A viable and strong credit structure cannot be expected to develop on the crutches of permanent subsidies. Subsidies, at best, can be a temporary phenomenon. As pointed out by the Dantwala Committee the weaker sections need other services far more acutely than concessional interest rates.¹ If the income generating capacity of the activities financed is poor, no amount of concession in the rate of interest can really help.

Point to be noted after discussing working of RRBs is, there are at present PACS, lead bank scheme, commercial banks and farmers service societies working in rural areas. There appears to be no clear cut demarcation of the areas they are to cover or functions they are to perform. There is no clear conception as regards the future role which some of them are to play or place which will occupy in the future scheme of things.

Attempts should be made to enable the RRBs to provide adequate and timely credit with the maximum possibility of simplicity in procedure. At the same time, consumption loans at reasonable term should also be made available to check diversion of a large part of credit from productive purposes.

1 D. J. Kanvinde. Regional Rural Banks, State Bank of India Monthly Review, 26:11 November 1987, p. 553.

Credit provided by the RRBs and other financial agencies must be adequate to enable rural masses to be free from the clutches of the ruthless money-lenders. A proper credit plan and cooperation of efforts by the different agencies are required.

For the success of these banks it is necessary that not only the disbursement is made to the small and marginal farmers, but also it is made available timely and, the proper use of credit is ensured. If the credit is used for the purpose it is taken with the available technical knowledge, — it is bound to give incremental income from which not only the repayment of loan is possible but plough-back is also ascertained. The credit must form a part of the package to improve small farmers productivity and availability of required inputs. Whenever possible the credit should be given in kind also particularly for the purchase of inputs and this would relieve the small farmers of further transactions with which they are unfamiliar. The credit, specially credit in kind must be timely, if provided too early or too late, it leads to diversion and losses. Ultimately, the programme should be conceived as one making provision for continuing and increasing financial support to the farms for evolving process of modernisation. Credit should be flexible and timely with the appreciable lower rate of interest and easy repayment instalments.

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Deposits are the main source of RRBs from the long term point of view. RRBs should introduce special deposit schemes for the poor sections of the village community. Special efforts may be made to induce the savings habits among the borrowers of RRBs. The common deposit campaign should be through various mass media apart from newspapers, particular mention may be made in regard to film songs, drama, puppet shows, radio and T.V, etc. which have greater appeal particularly to illiterate people.

One more suggestion to be made here, pertains to that the credit plans of RRBs should take into account not only the scope available for financing various purposes but also more broadly the desired development. Mass power planning is the crucial aspect of the development of RRBs. In the recruitment process it may be ensured that youth hailing from rural areas are given full opportunity to enter into the service of the bank. Though sponsor banks and NABARD have created training facilities to the staff of the RRBs still it is inadequate. Steps should be taken as quickly as possible and staff should be well trained to serve rural customers.

Other steps which are to be taken by RRBs include:

- 1) For maintaining the efficiency the limit set by the various committees on the maximum number of branches must be strickly adhered to.

2) Prompt and effective recovery of loans is to be made by a proper follow up action by banks from production point to distribution.

3) Setting up of proper controls and a vigilance squads will reduce the maladministration of funds.

4) Conducting Gram-subhas in every village at least twice in a month will solve the problem of the selection of right borrowers as well as motivating them to repay the loan promptly.

5) In order to avoid the employment turn over, the employees of the banks must be motivated by announcing suitable incentives like rural working allowance, promotions and providing loans.

Further it may be suggested that RRBs should cover only one district instead of two or more. Otherwise various problems will come up in near future. As RRBs are expected to survey most backward pockets of the districts, and under privileged rural families, they have to pay undivided attention to convert the resources of the area and the families into productive endeavours.

The banks should necessarily confine its activity only to the weaker sections of society. This consideration should never be diluted or compromised for the sake of making it viable for rural operations. To achieve viability there are other methods or ways and means. It should be

noted that the size of the weaker sections of society is increasing at the alarming rate. Their needs of credit for production as well as consumption purpose make them vulnerable to exploitation by money-lenders and traders.

In the case of the RRBs the term viability is to be appreciated from the increased level of social gains accrued to those clientele whose socio-economic uplift and better standard of living should become the index for judging the states effort towards the commitment of growth of social justice.

Recently, M. Narasimham the doyen of Indian rural banks stated "In course of time the public sector banks should perhaps think in terms of transferring some of their rural business to the RRBs and in the mean time use these rural banks as agents for their own credit disbursement and post-credit supervision."² This has the far reaching implication.

To make RRBs more suitable and viable Reserve Bank of India has set up various committees from time to time to assess the working of RRBs in the country. In the early stage of RRBs M. L. Dantwala Committee was appointed to suggest suitable measures for further improvement of RRBs. That committee made an indepth study and recommended some steps for further improvement of RRBs. Again in 1979 the expert group was appointed to work out the viability of RRBs.

2 K. P. Padmanabhan. Financial Intermediation Changing Perceptions Regional Rural Banks - An Indian Innovation in Bridging Cultural Gap, p. 67.

In 1981 the committee headed by Sivaraman also made certain recommendations for the improvement of RRBs. The recent working group headed by S. M. Kelkar has emphasised the need for more effective involvement of sponsor banks in the functioning of RRBs.

The reports of various committees reveal that RRBs are needed for the requirement of rural people. These committees have succeeded in finding out loopholes and suggest measures to correct them.

The success of these banks will depend on the dedicated personnel appointed to run them and the organisational acumen and innovation which they bring to bear upon these problems so as to tackle them more effectively than the other agencies have done. In the final analysis the role of these banks will have to be that of money-lender minus exploitation and the role of the staff of the banks will have to be that of village teacher minus politics.

RRBs as they exist and administered today are neither a model of perfection nor a system of best virtues. But they have demonstrated their utility, if not inevitability already. RRBs will have to prove as one of the most useful instruments of rural credit. RRBs have a bright future if the central and state governments, Reserve Bank of India, commercial banks, cooperative banks and NABARD ensure for them a proper operational environment. They may perhaps be

the best answer to many of our present problems in the area of rural credit and development.

A period of 12 years may not be sufficient time to deliver expected result because it has to operate against serious constraints. With the keen interest of government as well as public in coming days it will become a strong institution to the people at grass root level.

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