



Review Article

The Role of Rural Banks in Socio-Economic Development of India-A Contemporary Insight

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Abstract

The important of the rural banking in the economic development of a country cannot be overlooked. As Gandhi said “real India lies in village” and village economy is the backbone of Indian economy. Without the development of the rural economy, the objective of economic planning cannot be achieved. Hens, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established in October 2, 1975 and are playing a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by RRBs in the development of rural economy. The objective of this paper is to analyses the rural credit and the role played by the RRBs in the priority and non-priority sector landings. The present research paper is exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD). The journals like the banker and the Journal of Indian Institute of Bankers have also have been referred. An attempt is made there in this paper to examine the rural credit structure of the India and Gujarat state in the role played by the RRBs. The study is confined only to the specific area like loan and advance made by the RRBs especially priority and none-priority sectors for the six years period starting for 2002-2003 to the year 2008-2009. In order to analyze the data and draw conclusion in this study Mathematical tools like percentage and growth rate.

KEYWORDS: Loans and advance, Priority and non-priority sectors, Rural credit

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Introduction

Activities of modern economy are significantly influenced by the functions and services of banks. Banking sector constitutes the core part of economic system. Indian economy is agricultural economy and real India lies in villages. Village economy is the backbone of Indian economy. Even after 60 years of independence, the rural economy in India

is still handicapped in terms of infrastructure and other chronic problems of cultivators. In fact, economic progress and industrial development are determined by the rural sector. More than 70% of Indians depend on agriculture; 60% of industries are agro based; 50% of national income is contributed by rural sector and the agricultural sector is the largest foreign exchange earner to India. Such an essential

and key sector is neglected by financial institutions and especially by the banks. Regional Rural Banks (RRBs) are constituted to meet the financial and banking needs of weaker sections of the rural areas with a special attention on small and marginal farmers, agricultural laborers, artisans, landless farmers, small traders, tint enterprises etc. Hence, RRBs were established in India in 1975 essentially for the purpose of taking banking service to the doorsteps of rural people, particularly in places where banking facilities are not available. In general, RRBs are commercial banks but they adopt some of the principles of cooperatives such as location in areas, work for rural population in a limited area etc. Thus, they are hybrid institutes. RRBs operate under the control of two institutions, the National Agricultural Bank and Rural Development (NABARD) and Reserve Bank of India (RBI). The primary objective of this study is to analyze the performance in terms of loans provided to the priority and non-priority sectors of the country and especially various types of loans such as crop loans, term loans, loans to rural artisans, retail trade, small scale industries and self-help groups etc.

Regional Rural Banks (RRBs) in India- An Overview

Rural people in India such as small and marginal farmers, landless agricultural laborers, artisans and socially and economically backward castes and classes, have been exploited in the name of credit facility by informal sectors. The rural credit market consists of both formal and informal financial institutions and agencies

that meet the credit needs of the rural masses in India. The informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and noneconomic conditions in the rural population of India. The supply of total formal credit is inadequate and rural credit markets are imperfect and fragmented. Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast and gender in the country side.

The history of Regional Rural Banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks' that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and

35% respectively. The objectives of RRBs can be summarized as follows:

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture
- Laborers, artisans, small entrepreneurs and other weaker sections.
- To save the rural poor from the moneylenders.
- To act as a catalyst element and thereby accelerate the economic growth in the particular region.
- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas.
- To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government?
- To develop underdeveloped regions and thereby strive to remove economic disparity between regions.

Review of Literature

According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.

Chavan and Pallavi (2004) have examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan's paper documents the gains made

by historical underprivileged region of east, northeast and central part of India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

Professor Dilip Khankhoje and Dr. Milind Sathye (2008) have analyzed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94 or not.

Dr. M. Syed Ibrahim (2010) carried out a study on the topic "Performance Evaluation of Regional Rural Banks in India". In this study, it was concluded that RRBs in India showed a remarkable performance in the post-merger period.

Structure and Organisation of RRB

The authorized capital of RRB is fixed at Rs. 1crore, and its issued capital at Rs. 2 lakhs. Of the issued capital, 50% is to be subscribed by the Central Government, 15% by the concerned State Government and the rest 35% by the sponsoring bank. The working and the affairs of the RRB are directed and managed by a Board of Directors. The Board of Directors consists of chairman, three directors to be nominated by the Central Government concerned, and not more than 3 directors to be nominated by the Central Government and his term of office does not exceed five years.

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RRB has an important role to play in our rural economy, as they have to act as alternative agencies to provide institutional credit in rural areas. In course of time it is necessary to remember that they have not been set up to replace cooperative credit societies but act as a supplement to them. RRB has always been active participant in

programmes designed to provide credit assistance to weaker sections.

Regional Rural Banks in India s mainly focused upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country.

No. of branches of Scheduled Commercial Banks as on 30th June, 2018

Bank Group	Rural	Urban	Semi-Urban	Metropolitan	Total
Public Sector	22,146	1,7803	14,223	13,231	67,403
Private Sector	1,555	4,660	3,580	3,621	13,416
Foreign Banks	7	9	61	247	324
RRBs	12,258	3,094	830	148	16,330
Total	35,966	25,566	18,694	17,247	97,473

Source: Dept. of Financial Services, Ministry of Finance, GoI

The above table analyse that there are 97,473 branches of scheduled commercial banks conducting banking transactions in the country, out of which 35,966 (36.9%) bank branches are in the rural areas, 25,566 (26.2%) branches in urban areas, 18,694 ((19.17%) in semi-urban areas. Constituting 63% of the total no.of branches in rural and urban areas of the country.

RBI has advised the banks to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account.

The Objectives of RRBS are as Follows

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture laborer's, artisans, small entrepreneurs and other weaker sections.

- To save the rural poor from the moneylenders.
- To act as a catalyst element and thereby accelerate the economic growth in the particular region.
- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas.
- To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government.
- To develop underdeveloped regions and thereby strive to remove economic disparity between regions. Identify the financial need especially in rural areas
- To enhance banking and financing facilities in backward or unbanked areas

- To provide finance to co-operative societies, primary credit societies, Agricultural marketing societies.
- Enhance & Improve banking facilities to semi urban, rural and other untapped market.

Role of Regional Rural Banks (RRB) In The Present Scenario

- To accept deposit
- To grant advances
- To provide ancillary banking services
- To supply inputs and equipments to farmers
- To provide assistance in the marketing of their products
- To maintain godowns

Sectorwise Loan Issued by RRB

RRBs occupy an important position in the rural credit market. Loans provided to the needy people have been categorized into two. One is priority sector and the other one is non-priority sector. Priority sector bank lending is an active instrument of Indian financial policy with an aim to

restore sectoral balance within credit disbursement and to channel credit to the weaker sections of the society. Priority Sector is a sector which is given priority in offering financial services by the banks. The concept of priority sector was first brought into the financial system in 1968, when the government imposed social control over the banks. Banks were directed to lend some percentage of loans to the sectors listed in the priority sector. In 1968 there were 3 sectors; agriculture, small industry and exports. Gradually, the list of segments under priority sector increased. At present it consists of agriculture, small scale industry, small transport operators, exports, small business housing, self-employed persons, professionals, education etc. Recently the micro finance through Self-Help Groups (SHG) is also included in priority sector.

Loans given to priority sectors by RRBs consists of short-term loans, term loans, loans to rural artisans, small scale industries, retail trade, and self-help groups' etc.

Table 1 Exhibits the sector-wise loans issued by the RRBs

Years	Priority Sector	% to Total Loans	Non- Priority Sector	% to Total Loans	Total Loans
2012-13	8,847	69.98	3,794	30.02	12,641 (100%)
2013-14	11,722	75.24	3,857	24.76	15,579 (100%)
2014-15	16,568	78.58	4,514	21.42	21,082 (100%)
2015-16	20,658	81.61	4,655	18.39	25,313 (100%)
2016-17	26,502	80.20	6,542	19.80	33,043 (100%)
2017-18	31,708	82.18	6,874	17.82	38,582 (100%)
2018-19	36,141	83.33	7,226	16.67	43,367 (100%)

Source: Central Statistical Information Department, NABARD, June-2019.

Table 1 reveals the year-wise loans issued to both priority and non-priority sectors in the country. It is important to observe from the table that the loans issued to priority

sector constitute more percentage than the loans provided to the non-priority sector.

Loans for Crops (Short-term Loans) and Agriculture and Allied Activities

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(Term - Loans) Agriculture is the mainstay of Indian economy. More than 70 % of the population depends on agriculture and its allied activities. The RRBs are

taking care of this sector by providing short- term and term-loans. Table 2 exhibits the year-wise loans provided for crops and agricultural activities.

Table 2 Disbursement of Short-Term and Term-Loans (Rs. in Crores)

Years	Amount of Short-Term Loans	% of Increase over Previous Year	Amount of Term Loans	% of Increase over Previous Year
2012-13	4,834	--	1,045	--
2013-14	6,133	26.87	1,042	26.87
2014-15	9,883	61.14	2,043	61.14
2015-16	12,575	27.23	2,144	27.23
2016-17	17,031	35.43	3,198	35.43
2017-18	20,377	19.64	3,461	19.64
2018-19	22,851	12.14	3,648	12.14

Source: Central Statistical Information Department, NABARD, June-2019.

In the table 2, it is exhibited that the short-term loans for crop has been increasing year after year. The disbursements of short-term loans were Rs. 4, 834 crores in 2012-13 which has gone up to Rs. 22,851 crores in 2018-19. The year 2016-17 registered a higher rate of percentage i.e., 35.43.

The disbursement of term-loans for agriculture and allied activities by the RRBs are not quite encouraging. It has been increased from Rs.1, 045 crores in 2012-13 to Rs.3, 648 crores in 2018-19. The increase over the period was 3.49 times.

Disbursement of Loans to Priority Sectors by RRBs (Rs. in Crores)

Rural credit policy in India envisaged the provision of a range of credit services, including long- term and short-term loans to rural community. During the operation of three decade, the RRBs in

India have recorded a significant growth in the disbursement of loans. Table 3 provides the loans issued to various groups apart from the short-term and term-loans in the priority sector.

Table 3 Disbursement of Loans to Various Groups in the Priority Sectors by RRBs (Rs. in Crores)

Years	Rural Artisans	SSI	Retail Trade	SHG	Other Priority Sector
2012-2013	238	138	1421	350	819
2013-2014	276	167	1653	510	1941
2014-2015	316	210	1967	858	1290
2015-2016	304	342	1841	1171	2282
2016-2017	320	342	1984	1406	2222

2017-2018	320	638	2024	2107	2275
2018-2019	552	670	2370	2388	3662

Source: Central Statistical Information Department, NABARD, June-2019.

It has been observed from the above table that the loans provided by the RRBs to various groups have been increasing year after year. The loans to rural artisans have been increased from Rs.238 crores in 2012-13 to Rs.552 crores in 2018-19. The increase over the period was 2.3 times. Likewise, all the groups have been provided loans by the RRBs in an increasing amount.

Disbursement of loans to Agriculture V/s Non-Agriculture (%)

RRBs are providing loans to agricultural sectors for their development in the country. In this context, the total loans provided by RRBs are categorized into two groups namely agriculture and non-agriculture. The year wise percentage of loans outstanding to agriculture and non-agriculture is furnished in table 4.

Table 4 Loans Outstanding to Agriculture V/s Non-Agriculture (%)

Years	Agriculture	Non-Agriculture
2012-13	46	54
2013-14	45	55
2014-15	51	49
2015-16	54	46
2016-17	57	43
2017-18	54	44
2018-19	64	36

Source: Central Statistical Information Department, NABARD, June-2019.

It is exhibited that the RRBs have been quite successful in its agricultural loans. During the period under reference, the banks have been able to mark a rising trend in its loans outstanding with 46% in the year 2012-13 to 64% in 2018-19.

Conclusion

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional Rural Banks were established by the Government of India to develop the rural economy. With the passage of three decades, the RRBs are now looked upon with hope for

rejuvenating the rural India. In the present study, the role of RRBs in the rural credits structure has been deeply analyzed. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors. The priority sector loans constituted higher in percentage throughout the study. RRBs have lent money to the agricultural sector through the short-term and term-loans for the development of the agriculture sectors in the economy. The disbursements of short-term loans for crops during the study period are encouraging and it constituted a higher rate than that of term-loans. Also, the loans provide by the RRBs to various

groups in the priority sector shows an increasing trend. The years 2017-18 and 2018-19 registered higher growth. When compared to the loans to non-agricultural activities, the highest share is recorded in the agriculture. However, it is the responsibility of the banks and the management to look into the matter of providing sufficient amount of loans to non-priority sector as well. The gap between short-term loans for crop and the term-loans for agricultural and allied activities need to be minimized. The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India.

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