Chapter 1
Introduction
“INDIA lives in villages; and without the villager being in its focus, no programme of country’s development, however comprehensive, will have a chance of success”

-Mahatma Gandhi

In a country like India, where nearly three-fourth of its population lives in villages, the all round development of rural areas is of great importance. What Gandhi ji said about half a century back that India lives in village, holds true even today. The rural people have been living in an atmosphere of absolute poverty, illiteracy, unemployment, and underemployment. In spite of rapid scientific and technological advancement, there does not seem to be any decline in the incidence of poverty. In all the developing countries including India, the number of poor remained constantly increasing. In the past, no attempt was made by the Britishers to ameliorate the socio-economic conditions of rural poor rather they exploited them and their selfish policies further deteriorated the plight of toiling Indian masses.

It was realized that, without the development of entire rural sector, the all round development of the country was not possible. Keeping it in view, the Government of India accorded top priority to rural development in its policies and programmes. Number of measures were planned and introduced in the field of rural development. Thus in the post independence era, the development of rural sector is a matter of great concern and of utmost importance. Since rural development intends to improve the living condition of millions people suffering under the yoke of extreme poverty. Actually rural development implies a process to provide an opportunity for decent living to the masses of low income population residing in rural areas on self sustaining basis. It embraces all those programmes that touch all levels of human living i.e. agriculture and allied activities, irrigation, health communication, supplementary employment through village and small scale industries, housing and social welfare. To sum up, rural development means complete transformation of rural society from traditional way of living to modern way of living. Rural economy in India has been the mute
witness to a large number of experiments in rural development imposed on it during the last half a century of planned development. Many of them were well intended programmes, but poorly executed, while a few could make an impact on the living conditions of the rural society, despite the bureaucratic and political hindrances.

Rural finance was considered as a crucial input in rural reconstruction and institutional finance is an important pre-requisite in rural finance for rural development. In the existing credit delivery system, there are four channels for institutional credit in rural areas. They are (i) Commercial Banks (ii) Regional Rural Banks (iii) Short terms Cooperative Institutions, namely Primary Agricultural Credit Societies (PACs) and their apex body at the district level, namely District Central Cooperative Bank and (iv) Long term Cooperative Credit Organizations. Institutional credit entered in the rural areas long ago in the form of cooperatives in 1904 and later in the form of commercial banks after their nationalization in 1969. But these Institutions failed to penetrate the rural areas as the benefit of the institutional credit continued to corner the influence economically and politically powerful sections of the society. Hence, the need was felt for establishing financial institutions specialized to cater to the needs of the rural poor in order to fill-up the regional and functional gap in the financial credit available to rural areas. Poverty and unemployment are the two crucial problems which attract the attention of every one. It is very deplorable and distressing that millions of people in rural and urban areas are poverty stricken, without two square meals a day, a little house to stay. The eradication of rural poverty depends largely on the availability of credit. Agriculturists, rural artisans, self employed persons and retail traders are heavily dependent on additional monetary resources to get their income level raised. Hence, credit plays a pivotal role in the development of the rural sector.
1.1. History of Banking in India

Evidence regarding the existence of money-lending operation in India is found in the literature of Vedic times, which shows that the banking system in India is very old and was presented in almost all parts of the country in different forms. The very first joint stock bank was started in India under European auspices named “Bank of Hindustan” in the year 1770 but in 1832 this bank was liquidated. The next bank that came into existence was “The Bengal Bank” in the year 1790. The another group of banks was established by the Act of Indian legislature further divided into two groups. One group comprised three presidency banks named Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) respectively and the other group of Indian joint stock bank was called the “Imperial Bank of India”.

The Swadeshi movement that began in 1906 gave much stimulus to banking and number of banks established during that period. Some of prosperous Indian banks of the present time viz; Central Bank of India, Bank of India, Bank of Baroda and Bank of Mysore were established during that period. But this boom was followed by banking crisis during 1913-1917 and about 87 banks failed. These failure did much to weaken public confidence in Indian joint stock banking.

But 1949 marks the beginning of a new era in the history of Indian banking. In this year, Reserve Bank of India was nationalized and was given wide powers of control and supervision of the activities of commercial banks. Banking institutions today is the heart of the financial structure of any country whether it is developed or developing. In a developing economy, the role of bank is more challenging than in developed economy. Banks are making special efforts to assist the weaker section to enable them to undertake self-employment venture or to acquire income generating capital assets characteristics. To ameliorate the situation, the Government of India, immediately after gaining political freedom, decided to enlarge the role of institutional credit agencies and correspondingly to
reduce the role of the money lender as a source of rural credit. Keeping in view the huge amount of credit needed and the vastness of the area and population to be covered, the Government of India conceded that no single rural credit agency could meet the ever expanding requirements. Accordingly, a multi agency approach to rural credit has been adopted.

1.2 Structure of Banking in India

Banking system is an important constituent of overall economic system. It plays a crucial role in the attainment of macro-economic objectives. It acts as a vehicle for socio-economic transformation and also as a catalyst to economic growth. It plays an important role in mobilising the nation's savings and in channelising them into high investment priorities and better utilization of available resources. Hence, banking can better be described as the Kingpin of the Chariot of economic progress. In India too, banking is an important segment of tertiary sector. It acts as a backbone of our economic progress and prosperity. It plays an all pervasive role of a catalyst in development. The Indian banking has undergone major transformations during the past and has been made more socially relevant and development oriented. At present under the Reserve Bank of India Act 1934, the entire system of banking has been classified into two categories scheduled and non scheduled. Further scheduled banks can be classified into those which are incorporated in India called the Indian Scheduled banks and those incorporated abroad, called the foreign banks. Indian scheduled banks can further be divided into nationalized and non-nationalized. The commercial banks as a group form the preponderant part of the organized banking system.
1.3 Role of Financial Institutions in the Establishment of Regional Rural Banks

The existence of strong and efficient credit institution is very important in the developing countries and the success of credit oriented development projects significantly depends upon the soundness of credit structure and the credit system. Although a wide variety of institutional development programmes have been launched for organization of agricultural credit yet, non institutional credit agencies also play an important role in the provision of rural credit. In order to meet the expanding credit needs in agriculture and allied activities, institutional sources of credit have been strengthened. As a first step, the cooperatives came into existence and were suitably re-oriented to meet the changing needs. To supplement the efforts of cooperative credit structure, fourteen commercial banks were also nationalized in 1969. Cooperative societies and commercial banks were the two institutional agencies providing credit to the rural people before the RRBs came into being. Whatever banking activities and services commercial banks provided for rural people, it was limited to big farmers only and there was no role of banks in extending financial services to small and marginal farmers. However, various schemes were introduced to enable the grass root level credit agency to play its assigned role effectively. But it was realized that commercial banks have been basically urban oriented, their methods, procedure, training, orientation need to be shifted to rural environment which is not likely to be achieved easily and quickly. The cost of operation of commercial bank due to their high salary structure, staffing pattern and high establishment costs are not able to provide credit at lower rates of interest to weaker section of rural areas. However, in order to encourage the commercial banks and other institution to grant loans to various categories of small borrowers and upliftment of the weaker sections of the bank promoted the establishment of the Credit Guarantee Corporation of India Ltd. But, commercial banks lacked the ability to tackle the vast expanding credit requirements of rural poor mainly because of their high cost structure and inadequate local involvement. The objective of bank nationalization in 1969 was to remove ownership and control of a few industries over the commercial bank to
prevent concentration and to prevent use of bank funds for anti social activities to open more branches in unbanked and rural areas and above all development of credit to the priority sector and neglected areas.

Vital changes in government policies took place in the post nationalization era of commercial banks. Various schemes were launched and numerous measures were taken to uplift the poor farmers. In spite of rapid growth of cooperation and commercial banks after nationalization of banking sector in the supply of credit to the rural regions, the non-institutional agency credit is provided only two third of the total agricultural credit in India. Demand for rural credit has been increasing enormously after the introduction of modern high yielding technology. As a result, commercial banks and cooperative banks were unable to meet the entire needs of the rural areas leading to large fulfilled credit gap.

The commercial banks are involved closely in the setting up of and provision of capital grant of financial accommodations and extension of organizational support to the Regional Rural Banks established by them. Since the early 1970’s there was a growing realization that attitude of the public sector banks were not conducive to meet credit needs of the rural population especially those of the weaker sections. Therefore, the Government of India appointed in July 1975 a working group to study in depth the problem of devising alternative agencies to provide institutional credit to the rural people. The working group identified the various weaknesses of the cooperative credit agencies and the commercial banks and felt that these institutions would not be able to fill in regional and functional gaps in the rural credit system with in a reasonable period of time even if they were restructured and adopted to meet the needs. No doubt the contribution of institutional credit agencies in rural as well as agricultural credit advances was enough but not sufficient. That is why in 1972, Banking Commission recommended that a chain of rural banks should be started for compact groups of villages. This would be mostly autonomous in character and managed by the local leadership to ensure local response and participation. The
Commission called it a “multi-pronged programme where cooperative societies, branches of commercial banks and specially sponsored Rural Banks were to play their role.

1.4 Regional Rural Banks and Rural Credit

Rural India has a vast potential for increased banking activity. Only 30 percent of the rural households have so far availed of banking facilities and remaining 70 percent of the families do not know what is banking. At least half of them can be given finance for self employment schemes, housing and other non farm activities. Rural finance is a matter of great concern in an agrarian economy like India where 70 percent of the population depends upon agriculture for their livelihood. Moreover, 40 percent of our GDP is contributed by the rural sector. Economic development of any country can be achieved only with the upliftment of the village folk consisting of artisans, agricultural labourers, farmers, rural industry workers etc. Finance being the life line of every commercial venture, availability of adequate funds at reasonable terms is a must to ensure speedy economic development in the village. Among the various institutional agencies engaged in rural finance, Regional Rural Banks play a significant role in financing the target group in the rural sector. They are specially designed financial institutions working under the guidance of NABARD and the parent commercial banks spread in rural areas with a close network of branches serving a particular district of region.

The existence of strong and efficient credit institution is very important in the developing countries and the success of credit oriented development projects significantly depend upon the soundness of credit structure and the credit system. Agricultural credit structure in the developing countries is characterized by dualism i.e. the co-existence of institutional (Formal) and non-institutional (Informal) credit agencies. Although a wide variety of institutional development programmes have been launched for organization of agricultural credit, but owing
to the imperfections in rural capital market, non institutional credit agencies play an important role in the provision of agricultural credit. Institutional credit agencies in the early fifty’s contributed to only 4 percent to total agricultural credit, which has now increased to 65 percent. In order to meet the expanding credit needs in agriculture and allied activities, institutional sources of credit have been strengthened. As a first step, the cooperative came into existence and were suitably re-oriented to meet the changing needs. To supplement the efforts of cooperative credit structure, fourteen commercial banks were nationalized in July 1969. Regional Rural Banks (RRBs) were advocated as low cost institution combining “local feel” of the cooperative and “professional”, acumen of the commercial banks. This multi-agency approach has been prevalent for quite sometime in the country.

Regional Rural Banks were established in 1975 RRBs with the notion of augmenting the outreach of the institutional channel of credit in the remotest corner of rural India. The RRBs were setup under the Regional Rural Bank Ordinance 1975 promulgated by the President of India, on Sep. 26, 1975. This was subsequently replaced by the Regional Rural Bank Act. 1976 on Feb. 9, 1976. According to this Act, the RRBs were established mainly. “With a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities particularly to the small and marginal farmers, agricultural laborers artisans and small entrepreneurs and for matters connected therewith and incidental thereto”. The Act provides that each RRB will function within the specified district in the state and operates branches within local limits. Generally, a RRB for its area of operation will have a compact area of one to five districts with homogeneity in agro-climatic conditions and rural clienteles. Its branch office will generally cover one to three blocks and be in position to finance five to ten farmers service societies.

The Narasimham Committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be
much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the government passed the Regional Rural Banks Act, 1976. The main objective of banks provide credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and to develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

1.4.1 Objectives and Functions of Regional Rural Banks

RRBs were established with the explicit objective of:

* Bridging the credit gap in rural areas;
* Check the outflow of rural deposits to urban areas;
* Reduce regional imbalances and increase rural employment generation

The aim of rural banks is to bridge the credit gap existing in rural areas and they are effective instruments of economic development in rural India. Over the years the rural development has emerged as a strategy designed to improve the economic and social life of a group of people living in rural areas. It involves extending the benefits of developments to farmers, landless labourers and artisans who constitute the bulk of rural population. RRBs have been set up to promote the rural economy by granting loans and advances to agriculture, trade and industry and other productive activities in rural areas particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. The main function of the Regional Rural Banks is to provide credit and banking facilities to the rural people. It also provides some non-banking facilities to the rural population such as; constructing and maintaining godowns on their own, supplying agricultural inputs and acquiring of agricultural and other equipments of leasing it out, providing assistance in the marketing of agricultural and other
products. The various functions of the Regional Rural Banks may be listed as follows:

- To mobilize local savings by means of the various types of deposits.
- To provide short and medium term credit for agriculture and other purposes to rural producers and long term loans to agriculturists.
- To implement programme of the supervised credit tailored to the needs of individual farms.
- To provide various ancillary banking services to local people such as remittance of funds, acceptance of insurance, premium, safe deposits, locker etc.
- To set up and maintain godown.
- To undertake supply of inputs and agricultural and retail equipment to farmers as agent and in appropriate cases equipment leasing.
- To provide assistance in the marketing of agricultural and other products through marketing organization.

1.4.2 Special Features of Regional Rural Banks

The RRBs have some distinct features, which are different from both the commercial banks and the cooperative banks. The area of RRBs is limited to a specific region comprising one or more districts of a state. The branches of a RRB are established in those areas of the region, where commercial and cooperative bank credit supply is inadequate, where the weaker section of rural population is large and where there is sufficient potential for agricultural development. RRBs provide credit both directly and indirectly. The RRBs grant direct loans and advances only to small and marginal farmers, rural artisans and agricultural labourers for productive purposes. Indirect loans are given through cooperative societies operating with in RRBs area. Like commercial banks, they are empowered to mobilize rural saving through deposits. Like co-operatives they provide credit at cheaper rates of interest. The lending rates of RRBs should not be higher than the prevailing lending rates of cooperative societies in any
particular state. RRBs enjoy some concessions in regard to requirement of cash reserves, liquidity, interest rates on deposits. The RRBs are allowed to offer one and half percent additional rate of interest on its deposits over the rate offered by scheduled commercial banks. Thus the sponsoring banks and the RBI provide many subsidies and concessions to RRBs to enable the latter to function effectively. The financial resources of the RRBs are utilized in the district where they operate. In other words, RRBs resources are not diverted to the outside of the area of operation.

Thus, RRBs have some features of cooperative and some features of commercial banks. Like cooperative, they are rural oriented and are familiar with rural problems. The cost of management is also low since local people are recruited at a lower salary. Side by side, like commercial banks, they operate as business organizations. They are empowered to mobilize deposits and have access to central money market. Their outlook is also more modernized in comparison to cooperative part of the organization. In other words, RRBs work as a hybrid of cooperatives and commercial banks in rural sector of our economy.

1.4.3 Regional Rural Banks in India

India has about 5 lakh villages. As the scheduled banks have already diverted their attention to urban and metro cities resulting in closure of many rural branches, the only alternative is Regional Rural Banks, barring the cooperatives. It is essential that all these villages, panchayats and blocks must come under these banks. A close network of the branches situated on a regional basis would plug undue competition, complacency and duplication of efforts and promote competence. Hence, it is essential to multiply the number of branches to cover the entire rural area. Regional Rural Banks were established in India under the Regional Rural Banks Act 1976. In terms of recommendations of the working group on Rural Banks, the first five RRBs were established on 2nd October 1975 under a presidential ordinance, which followed the promulgation of the Act in April 1976. The RRBs have been identified as scheduled banks under the Reserve Bank of India Act 1934 and are
authorized to transact banking business as defined in the Banking Regulation Act, 1949. The RRBs were required in particular to undertake the business of providing credit facilities to the poorer sections of rural society generally referred to as 'Target Group'.

The area of RRBs is limited to a specified region comprising one or more districts of a State. The branches of RRBs are established in those areas of the region, where commercial and cooperative bank’s credit supply is inadequate, where the weaker section rural population is large and where, there is sufficient potential for agriculture development. The basic purpose of setting up of RRBs was provision of credit facilities for crop production and allied purposes to the rural poor of every district who had a very limited access to the formal credit system as it existed in early seventies. The RRBs have been in sharp focus over the last few years with several measures initiated towards strengthening them and making them vibrant channels of credit delivery, particularly for the rural sector. The most prominent of these has been the process of state-wise amalgamation of RRBs sponsored by the same sponsor bank. The process of amalgamation, initiated in 2005, is now nearing completion. As a result of the amalgamation process, the number of RRBs in the country declined from 196 to 96 at the end of March, 2008 and further to 88 at the end of June 2009.

The structural consolidation of RRBs has resulted in formation of new RRBs, which are financially stronger and bigger in size in terms of business volume and outreach and will thus be able to take advantages of the economies of scale and reduce their operational costs. With the advantages of local feel and familiarity acquired by the RRBs. RRBs would now be in a better position to achieve the objectives of rural development and financial institutions. The process of recapitalization has already commenced and its completion would make all RRBs comply with the necessary prescribed minimum capital requirements. As a first step to bring RRBs to international capital adequacy standards, all RRBs have been advised to disclose their Capital to Risk Weighted Assets Ratio (CRAR) as on March 31, 2008 in their balance sheets. Following this disclosure,
a road-map for achieving the desired CRAR norms would be drawn up. Further, measures have been taken to provide greater autonomy to RRBs and enlarge their business activities. A majority of the recommendations of the Task Force on Empowering RRB Boards for Operational Efficiency (Chairman: Dr. K.G. Karmakar) have already been implemented. RRBs have also been allowed to open currency chests, conduct State Government business as sub-agents of sponsor banks, take up corporate agency business without risk participation for distribution of all types of insurance products and open NRO/FCNR accounts, subject to certain conditions.

1.5 Growth and Performance of RRBs in India

Over the years, the RRBs which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. From a modest beginning of 6 RRBs with 189 branches covering 12 districts in December 1975, the number have grown into 196 RRBs with 14485 branches working in 523 districts across the country in March, 2007, though during 2007-08, the number of RRBs reduced to 96 yet number of branches increased to 14520 covering 586 districts. RRBs have a large branch network in the rural area forming around 43 percent of the total branches of commercial banks. The rural orientation of RRBs is foundable with rural and semi urban branches constituting over 97 percent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilize rural savings and cover almost every nook and corner of the country except a
few districts mainly in the state of Meghalaya, Nagaland, Arunachal Pradesh and Kerala.

Table 1.1
Growth of RRBs in India

<table>
<thead>
<tr>
<th>Years</th>
<th>No. of RRBs</th>
<th>No. of Districts Covered</th>
<th>No. of Branches</th>
<th>Total Deposits (Rs. in Crores)</th>
<th>Total Advances (Rs. in Crores)</th>
<th>C.D.</th>
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<td>2008</td>
<td>96</td>
<td>586</td>
<td>14520</td>
<td>83147</td>
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<td>49</td>
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Source: NABARD, Statistical Reports, Institutional Development Department, (RRBs Division).

The performance of RRBs right from its inception indicating the key elements of growth such as; number of banks branches, districts covered, deposits and advances over a period ranging from 1975 to 2008 are given in table 1.1. The number of RRBs which were 196 in the year 1990 remained the same till 2006 before it dropped down to 96 in 2008. A steady growth is seen in the number of branches from 189 to 14527 during first 15 years between 1975 and 1990, thereafter it shows a downward trend as the number of branches dropped down from 14527 in 1991 to 14461 in 1997 and after showing mixed trend it finally
reached to 14520 in 2008. The total number of districts covered under RRBs in India has also experienced a steady growth as it increased from 12 district in 1975 to 586 in 2008 thus showing an increase of more than 48 times.

Mobilization of deposits is one of the major tasks of the RRBs. It depends upon the saving capacity, saving habit of the people and area in which the bank is located. The RRBs have performed well in respect of deposits mobilization. Table further shows that the deposits of the banks increased from Rs. 20 crores in 1975 to 1285.82 crore in 1985, and Rs. 11,150.01 crore in 1995 and Rs. 83147 crores in 2007 which shows that during the period between 1996 to 2008, deposits of RRBs has increased more than 65 times.

The advances are crucial component of the business plan of the bank. RRBs had tried to touch the doors of each and every neglected sections of the society by paying special attention to the weaker section and target groups in order to enable them to participate in the activities and shared the benefits of rural development. There was a continuous increase in the aggregate advances of RRBs in India over the years as it increased from Rs. 0.10 crore in 1975 to Rs. 1407.67 crore in 1985. The total advances of RRBs increased from Rs. 6290.96 crores in 1996 to Rs. 47326 crore in 2008, which shows that during the period between 1996 to 2008, advances of RRBs has increased nearby seven times.

1.6 Regional Rural Banks in Himachal Pradesh

With the merger of thirty princely States, Himachal Pradesh came into existence on April 15, 1948 as an Union Territory. With the reorganization of Punjab on November 1, 1966, certain areas were included in Himachal Pradesh. On January 25, 1971 Himachal Pradesh was accorded the status of full-fledged state. The State is bordered on the north by Jammu and Kashmir, Punjab on West, Haryana on South, Uttarakhand on South-East and China on the East. It is a small mountainous State in the
western Himalayas. The geographical area of the State is 55,673 sq.km. with an altitude ranging from 350 metres to 6975 metres above the mean sea level. Nature has bestowed Himachal Pradesh with unique beauty and splendor with its lush green valley, snow clad Himalayan ranges, a scene of peaceful, hospitable and comfortable environment. The State has rich cultural heritage.

The economy of Himachal Pradesh is predominantly agrarian in nature wherein horticulture dominates. The terrain of the State being hilly, tourism also plays a significant role in its economy. The climate of the State is very conducive for growing high value fruits and vegetables. The State has a potential of about 20,000 MW hydroelectric power out of which only 6353 MW has been harnessed so far. Himachal Pradesh, despite having unique topography and associated constraints has been an equal partner in the growth process at the national level. Since the second half of 1990s, average growth rate in both State Gross Domestic Product and State Net Domestic Product at 6.7 percent have surpassed the national average growth rate of 6.4 percent and 6.6 percent respectively in Gross Domestic Product and Net National Product. Though the agriculture and allied activities continues to have a significant share in the State's economy, the industrial activities have now accelerated significantly after the announcement of a package of concessions to the industries by Government of India in the year 2003 supplemented by State incentive schemes.

The first Regional Rural Bank in Himachal Pradesh was established on 23rd December, 1976, with its head office at Mandi district, as Himachal Gramin Bank (HGB). This Bank is the lead bank of the district. The second regional Rural Bank in Himachal Pradesh, sponsored by the State Bank of India opened at Chamba district on 2nd November, 1985 namely "Parvatiya Gramin Bank" with the venture of Central and State Government under RRBs Act 1976. The main objective of RRBs in
Himachal Pradesh is to provide financial assistance to landless labourers, rural artisans, small and marginal farmers, village and cottage industries and to promote the productive activities and also to foster banking habits among the rural masses.

Table 1.2
Growth of RRBs in Himachal Pradesh

<table>
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<tr>
<th>Years</th>
<th>No. of RRBs</th>
<th>No. of Districts Covered</th>
<th>No. of Branches</th>
<th>Total Deposits (Rs. in Crores)</th>
<th>Total Advances (Rs. in Crores)</th>
<th>C.D. Ratio</th>
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Source: Annual Reports of Himachal Gramin Bank and Parvatiya Gramin Bank and Parvitya Gramin Bank : Various Issues

RRBs in Himachal Pradesh are playing pivotal role in the economic development of rural masses. Out of 12 districts, the number of districts covered under RRBs in Himachal Pradesh has increased from 4 in 1997 to 7 in 2008, however, the number of RRBs in Himachal Pradesh remained same i.e. two over the study period. Growth is seen in number of branches of RRBs as it increased from 127 in 1996-97 to 140 in 2007-08. Mobilization of savings of the people both in the semi-urban as well as in rural areas has special significance as it provided funds for lending and other relevant activities of the bank. The deposit position of RRBs in Himachal Pradesh has shown improvement as it increased
from Rs. 1732750 thousand in 1996-97 to Rs. 8499115 thousand in 2007-08, showing an increase of almost 5 times. There is also a continuous increase in the aggregate of advances of RRBs in HP as it increased from Rs. 474824 thousand in 1996-97 to Rs. 3267120 thousand in 2007-08 showing an increase of 7 times, whereas credit deposit ratio of RRBs declined from 27.40 percent in 1996-97 to 22.24 percent in 1999-2000 and thereafter improved over the years and was found 38.44 percent in 2007-08.

1.7 Recent Development and Challenges to Indian Banking System

The expansion phase after nationalization, which was marked by geographical and numerical proliferation of bank branches, developed some weaknesses such as low profitability, poor customer service, mounting non-performing assets, and over staffing etc. For making the Indian banks competitive, profitable and vibrant in the long run, financial sector reforms were introduced in the early nineties of the last century based on the Narasimham Committee's Recommendations of 1991 and 1998. This phase witnessed the liberal entry of private and foreign banks, operational freedom to the banks, deregulation of the interest rates, reduction in the statutory reserve requirements of Statutory Liquidity Ratio and Cash Reserve Ratio (CRR). Introduction of international norms of accounting in terms of capital adequacy, income recognition, asset classification and provisioning etc. These changes brought competitiveness in the Indian Banking and profitability became the core business objective of the banking sector.

Liberalization, deregulation and global integration of banking activities have increased the risk of banking industry in depth and dimension. Banks being aware of the risk dimension of their business, are proactively devising their internal mechanism for anticipation, identification and management of these risks, which was more or less a neglected area before the introduction of financial sector reforms.
reforms. The nationalized banks have started nationalizing their branches network by shifting, merging and closing down the non-viable branches. The opening of new branches is based purely on business considerations. Indian banks are passing through the phase of mass computerization with the twin objectives of handling the increasing volumes of business effectively on one hand and improving the housekeeping and customer services on the other. Computerization will provide level playing field for nationalized banks in relation to foreign and private sector banks. Computerization has rendered the manpower surplus in the banking industry which led to introduction of voluntary retirement in the nationalized banks with a view to rationalization the manpower. The increasing competition among the banks with the entry of foreign and private sector banks has increased the customer's expectations on one hand and the nationalization of rates of interest and service charges has reduced the profit margins on the other because of the decreasing spreads. The increasing competition has made the banks more customers oriented. The increasing competition and shrinking profit margins led to the voluntary merger of the banks for gaining competitive edge.

We are still in the midst of the consolidation phase which has a long way to go. Legislative changes are taking place for making the banks more transparent and viable. International accounting standards are being introduced in a phased manner with a view to make the Indian banks internationally competitive with sound capital base. The banks are experiencing the pressure of competition in the form of changing customer requirements and customer retention. To cope with these pressures, the banks are becoming more and more customer friendly by introducing the tailor made products suiting to various segments of the population for coping up with the problem of profitability. Banks are adopting two pronged strategy by diversifying their activities to increase non-interest income on one hand and controlling the operational expenses by rationalizing their branch network and workforce on the other. The small and medium sized banks, including some of the nationalized banks are finding it difficult to survive in the long run because of the increasing competition and squeezing profit margins there by leading towards a phase of mergers and acquisitions in the final phase of the
consolidation. The emerging scenario after the consolidation phase will be dominated by existence of five and six nationalized banks having global presence and strong capital base with five private banks of all India character coupled with small regional banks suiting to local requirements.

The future banking, which is poised for reaping the full benefits of the developments in the field of knowledge and information technology, will be knowledge oriented and technology driven banking, thus metamorphosing the entire Indian banking scenario. Risk management activities will be more pronounced in future banking because of the liberalization, deregulation and global integration of financial market which will be adding depth and dimensions to the banking risks. The risk are correlated and exposure to one risk may in a proactive, efficient and integrated manner will be the strength of the successful banks. Thus, future banking can be compared with the hospitality industry thriving on the tailor made products suiting to the requirements of the individual customers where volumes will be of primary importance. Accordingly, the perceived theme of “Indian Banking Vision in Prospect” can best be described as “Technology driven Enlightened Employee with customer Delight” with the service objective of “Anywhere Anytime Banking”.

To sum up RRBs have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India. The RRBs have played a key role in rural institutions. Financing in terms of geographical coverage, clientele outreach, business volume and contribution to the development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. From of modest beginning of 1.7 branches covering 12 districts of the country in December 1975, they grew to 14520 branches in 586 districts of the country by the end of 2008. RRBs have a large branch network in the rural area forming around 43 percent of the total rural branches of commercial banks. The rural orientation of RRBs is formidable with rural and semi-urban branches constituting over 97 percent of their branch network. It is envisaged that with
their increasing strength and spread of RRBs would have to enlarge their client base and become the principal vehicles for financial inclusion and rural banking in the country. However, technological changes are sweeping the banking sector. In order to survive effectively in the present scenario, the RRBs would require to be adequately equipped in terms of technology to provide efficient customer service to their clientele. While the commercial banks have gone ahead in computerization of their operations and most banks are in an advanced stage of implementing total Core Banking Systems (CBS), the RRBs are lagging behind in this area.