CHAPTER IX

Conclusion
Regional rural banks were conceived and shaped in 1975 following the recommendations of the Narasimham Committee (1975) when the thrust of India's banking policy laid emphasis on three pillars of rural credit, namely, (i) expansion of branch banking structure, (ii) directed lending, and (iii) subsidized credit. For overall improvement in business and productivity, RRBs came into existence in seventies as a low cost credit delivery system, imbibing to rural character of co-operatives and professional expertise of commercial banks. Since their inception, RRBs have been playing an useful role in providing assistance to the weaker section of the rural population living in rural areas. The RRBs form an integral part of the rural credit system in India particularly in West Bengal. They are in line with the goal of socialistic pattern of society and redistributive justice. Low per capita deposits and advances of the RRBs prove that they are 'small man's bank'. As a supporting agent for the commercial banks and the co-operatives, these banks are serving a class of clientele belonging to the rural poor like rural artisans, petty shopkeepers, small traders, village entrepreneur and people engaged in service sector and also people belonging to the lower income group in these rural areas, physically handicapped persons and widows as well.

In the context of banking sector reforms under new liberalised economy in India, profitability and viability of RRBs, particularly in eastern region, became a major headache for the policy makers. Accumulated losses of RRBs in India, as a whole during 2005 stood at Rs.2,715.01 crore; of which contributions of the RRBs in eastern region and in West Bengal were 58 per cent and 10.86 per cent respectively. This huge accumulated loss already wiped out the entire share capital of some these banks. Thus there seemed a strong case for winding up of such financially weak banking institution because of structural defect non-viability built into it (Khusro Committee, 1989).
In our study, it is observed that the profitability and viability position of relatively old RRBs in West Bengal (like most of the old RRBs in eastern region) is very pathetic as compared to RRBs established after 1977, for example, Gaur GB, Mallabhum GB, Mayrakshi GB and UBKGB. In 2005, aggregate accumulated losses of these old RRBs constituted 90 per cent of the total in West Bengal. In this context, it is interesting to note here that most of the old RRBs in India, particularly in eastern region, are in the dire state of liquidation due to very huge amount of accumulated losses, namely, Tripura GB in Tripura district, Bolangir GB, Cuttack GB, Balasore GB in Orissa, Vaishali Kshetriya GB, Champaran GB in Bihar district. Actually, RRBs in eastern region are functioning in poorer parts of the country i.e., Orissa and Bihar. Since inception, policy makers utilised these institutions, as an instrument for up-liftment of the rural poor people through advancement of credit. Therefore, there was very little scope for these institutions to perform as a profitable commercial banking organization rather than providing services. Again, viability factor for the RRBs was completely overlooked for a long time until the introduction of the banking sector reforms in 1991. Under new liberalised economy, viability of these specialised institutions was seriously felt for social banking services. It was opined that in the absence of viability, rural development could not be possible through social banking.

However, it is encouraging to note that, most of the RRBs in West Bengal established after 1977, namely, Howrah GB, Bardhaman GB and Murshidabad GB are comparatively more viable than the others. At the end of 2005, these gramin banks have successfully wiped out their individual accumulated losses. Moreover, since 2000-2001, there has been a continuous trend in profit earning capacity in most of the RRBs in West Bengal. Again, performance of RRBs in this region seems comparatively better than its neighbouring states. Certain specific problems like, burden of huge accumulated losses, lack of broad based banking
services, low recovery rate, unskilled and ageing staff, lack of diversification in loan portfolio etc., are posing some serious problems on the smooth running of the RRBs in the state.

Performance of the RRBs and their branches revealed that most of the rural branches are working only on walk in business and are not making the requisite efforts to develop business through customer contact and customer need analysis. Further, it is also observed that the customer coverage is centered around to two to three villages for deposits and another two villages for their advances. Even in the villages, a part of the households (around 40 percent) may be reached. A study of their average transaction per day shows that most of the loss making branches of RRBs in West Bengal have on an average 30-40 cash transactions per day (viz., Raghunathpur branch of Gaur GB, Tamluk branch of Mallabhum GB) as against 75-100 per day in profit making branches (viz., Salkia branch of Howrah GB, Bardhaman town branch of Bardhaman GB). Again, according to the study another study of the advances portfolio of the RRBs in this region, most of the loss making branches of the banks are reluctant in providing working capital and term loans for agriculture. Instead they are satisfied with the easy to process loans for retail trade, small business, housing repairs, salary earners etc. Another phenomenon, according to the study, observed in the study is under reporting of NPAs in the branches income of the banks, which in turn inflates the non-existing profitability of the banks. One more dimension to the problems of loss making branches is the lack of basic banking discipline in adherence to the timings and procedures in customer service. The delay in provision of services and credit facilities together with the indifferent attitude of the staff is topping the list of problems to the customers. On account of operational as also attitudinal limitations in coverage and outreach, the customers are forced to approach the rural shylocks. Again, high operating costs in handling small loans result in erosion of RRBs margin. They also do not have much scope of cross subsidization in the absence
of loans that may yield high returns. Moreover, wilful defaults, misuse of loans, lack of follow up, wrong identification of borrowers, extension of benami loans, staff agitations etc., have aggravated the problems further. Skills up-gradation of the employees is also an area of concern. Lack of broad based banking services, lack of adequate support from the sponsor banks and the state governments, stiff competition among the rural banks etc., also have weakened the RRB culture in West Bengal.

Various working groups and committees have prescribed different measures as also models for restructuring the RRBs. Recent trends in the debate are referred to - skill up-gradation of the human resources in RRBs, nomination of the professionals such as agricultural experts, bankers, management experts in the Board of RRBs (Bhandari Committee 1994, Sardesai Committee 2005), strengthening of operational set up for investment management in RRBs (Misra Committee, 1995), broad based selection of Chairman of RRBs (Basu Committee, 1996), emphasis on opening branches in high business potential areas (Thingalaya Committee, 1997), rationalization and amendment of loaning policies and procedures (Narasimham Committee, 1998), conversion of viable RRBs into banking companies by suitable amendment in the Companies Act and for this purpose, strategic local partners in the private sector may be looked for (Vyas Committee, 2001).

**Recommendations**

The existence of the RRBs are unquestionable as they are in conformity with the socio-economic objectives of our national Five Year plans. These banks cater exclusively to the needs and requirements of the poor section of the rural society. This devout aim should never be lost sight or diluted or compromised. The distinctive role of RRBs as the ‘Rural bank for the Rural
Poor’ must be maintained. Since India is essentially rural India and majority of the people comprised of cultivators, craftsman, artisans and agriculture labourers, the rural banking institutions like RRBs, are using credit as a lever of transformation of the socio-economic life of the rural poor including these specific group of people. These banks are successful to a large extent in fulfilling the credit gap within the institutional credit system. In fact rural development is an important and urgent programme in our economy with rural sector being the most predominant feature of our economic structure where half of the population is reeling under poverty. Therefore, the regional rural banking culture should be nourished and properly maintained. In view of the large scope for further improvement in the performance of RRBs in India particularly in West Bengal, the three broad areas viz., statutory/regulatory obligations, operational aspects and functional aspects of the RRBs are to be frequently reviewed and suggestions or recommendations, if any, to be effectively implemented taking the growth and viability of RRBs in to consideration.

**Broad based Banking Facilities**

RRBs are gradually evolving as business entities capable of competing with other RFIIs. The traditional role of catering to the credit needs of target group clientele continues with them, but the expansion of business through NTG (non-target group) financing has opened up new vistas. Thus the RRBs, particularly those banks which have business presence in urban/semi-urban areas with more sophisticated clientele, need to upgrade the quality of services to meet their expectation. RRBs need to shed their earlier image of ‘narrow banking’, consider providing a range of products encompassing all financial needs and focus on ‘financial inclusion’ thorough progressive use of technologies and low cost alternative delivery channels. However,
improvement in performance of the RRB can be achieved not only by opening up of branches in
the uncovered areas of districts, but also by adopting different business models including the
‘business facilitators’ and ‘business correspondent’ models and involving intermediaries like
NGOs/ MFIs, post offices for expansion of outreach and thorough use of technology based
solutions. The RRBs may exercise the following broad based banking facilities to improve their
viability position-

(i) Savings products form the nucleus services provided by RRBs in this region. Next in order
of importance there are micro credit products like project finance, housing, education,
personal loans which are a part of the credit portfolio. The banks may develop savings,
credit and other products keeping in view the existing and potential requirements of the
clientele. The credit product must address the needs of all those who want to help
themselves through new ventures and improve/expand existing enterprises in all three
sectors which appreciate the needs of the customer in a supple way, depending upon the
project life style. The bank has to review the total credit needs of the venture and not
confine itself to certain components. A continuing relationship in banking will acts as a
collateral substitute. RRBs need to build up rural banking skills and recognize acceptable
banking risks in encompassing lending decisions.

(ii) The RRBs may concentrate on improvement in their income from other sources by way of
issuing bank guarantees, remittances services not only within the district/ state but also
across the country and in some cases to foreign countries, distribution of products of
mutual fund, consultancy services to farmers, issuing drafts, DD/TT facilities for quick
transfer of funds, life and non-life insurance including crop insurance, animal insurance
and health insurance, transacting in government securities, mutual funds and equities on
behalf of clients etc. Similarly capital gain deposit accounts, collection of taxes and other
government business and salary disbursements are other service products that can boost
RRBs income. A favourable policy environment to introduce broad-based banking
facilities in RRBs may be provided. RRBs may also been empowered to innovate all types
of products and services without any restrictions being placed on them by the sponsored
bank, RBI or NABARD.

(iii) The RRBs may be encouraged to play a credit–led leadership role by providing credit
across the supply chain including storage, processing, transportation, marketing and
retailing. That can result in overall advantage for all participants in the rural sector. An
important advantage of the approach is that credit disbursed to one segment will help in
recovery of loans from another link in the chain.

(iv) There may be occasions when the rural bank in this region would have opportunities to
finance in excess of the exposure limits under regulatory norms or self-imposed norms by
the Board of Directors. In such a case, the RRBs may join in consortium finance
arrangements on pari passu basis with public sector banks.

(v) Credit becomes an effective instrument of development for the farmers when it is coupled
with relevant knowledge inputs viz., technological inputs and commercial information.
Technological inputs are comprised of soil and water management, agronomical practices,
inputs management, organic farming, and precision approach etc. On the other hand
commercial information is about demand and supply projection, price discovery, crop
diversification, contract farming, organizing producer groups/ companies etc. The RRBs
may arrange both technical and commercial extension services with the help of
professional agencies and technology platform.
(vi) There is a need to empower socially and economically the farming community so that their credit absorption capacity may increase. The RRBs may therefore, establish strong links with NGOs, Government and other extension agencies, community based organizations, corporate, research institutions and socially and developmentally disposed individuals and organizations to build up people potential.

(vii) Aligarh gramin bank in Uttar Pradesh has taken steps to address the problems faced both by the rural banks and villages by forming Village Development Committees (VDCs) and Farmers Clubs with a view to increasing credit flow and recovery, disseminating information for increasing agricultural production and productivity and village development. Such committees are promoted after meeting the local villagers, creating awareness, providing entry point assistance for soil testing, animal health camps etc., with the participation of extension agencies. The RRBs in West Bengal may follow this model for improving their profitability and viability.

(viii) The banks should improve its position in financing self-help groups/ farmers association in line of the SHGs –Bank linkage model. This will help in creating scales as well as in building peer dynamics.

➢ Support from Sponsor bank

The sponsored banks should take the following into consideration

(i) Most of the sponsor banks are not paying optimum return on non-SLR deposits and current account deposits of RRBs, besides preventing them from investing such funds with other financial institutions. This result in low return on the non-SLR investments of such RRBs. In effect, RRBs, in some cases, end up as conduits for low cost deposit mobilization by the
sponsor bank. Even under the SLR investments, made by the sponsor banks, RRBs face a re-pricing risk since deposits are accepted for a maximum period of one year. Investing SLR in long term deposits with sponsor bank or other public sector banks should, therefore, be considered.

(ii) Since RRBs lack professional expertise in investment management, sponsor banks may devise suitable mechanism to provide necessary guidance and assistance for optimizing the yield and minimizing risks. Suitable mechanism to absorb the temporary or long term surplus of RRBs should also be considered. The sponsor bank may consider posting appropriate number of specialized staff to help the RRBs in professionalizing their advances portfolio, risk management etc.

(iii) The relationship between sponsor banks and RRBs need to be changed into a synergistic one, beneficial to both banks. Sponsor banks should be responsible for the poor performance of the RRBs sponsored by them. An MOU (i.e. memorandum of understanding) be executed between the sponsor bank and the GOI and between the RRBs with their respective sponsored banks with regard to the performance of the RRBs under various key parameters e.g., incremental growth in business, outreach, profitability, improvement in CD ratio, reduction in NPAs etc.

(iv) Allowing more freedom to RRBs that are doing well viz., Howrah GB, Bardhaman GB, Murshidabad GB, Nadia GB in West Bengal in terms of incremental growth in business and incremental reduction of NPAs and are in the process of wiping out accumulated losses. The areas in which more freedom should be given include all policy matters such as using intermediaries, relationship managers, post offices as agents and other IT based solutions for increasing outreach as also staffing. The Boards may be empowered to decide
the incentives on the basis of performance in cases where all accumulated losses are wiped out and business growth call for such incentives.

(v) It was envisaged that RRBs would issue demand drafts to their customers as agents of the sponsor banks, but at present many RRBs in India as well as in West Bengal are providing this facility to customers by purchasing the demand drafts from sponsor bank branches on behalf of their clients incurring additional cost. It also causes difficulty to staff during working hours. The RRBs with efficient control systems in place could be permitted to issue demand draft on their own. In other cases, a uniform system in collaboration with the sponsor bank should be worked out to enable RRBs to tap this non-fund based income.

(vi) Extending management support as required by RRBs.

(vii) Nominating its share of members in the Board of Directors to provide expert advice to RRBs.

(viii) Providing funds for which the RRBs may also have the freedom to choose from any bank/financial institutions.

(ix) Make available expert guidance/help in investment related issues for which RRBs may also have the freedom to choose from alternatives, if available from other banks/primary dealers.

(x) Conducting management audit till alternative arrangements are made by the RRBs themselves.

(xi) RRBs may be provided facilities for quick and cheaper transfer of funds. Security risk faced by RRB staffs who have to carry cash remittance to the sponsor bank is also a major issue to be addressed.
Support from State Governments

Government of West Bengal along with other state governments in India should provide their active support towards the RRBs in the following manner-

(i) RRBs are in the forefront of implementing subsidised schemes of the government for the farmers and the poor. However, when the question of financial assistance arises, the commercial banks get the preference. Again, commercial banks are enjoying free float funds in respect to remittances, handling of foreign exchange, insurance claims, subsidy funds, tax receipts, pension and other government payments etc. However, similar opportunities are almost non-existent for RRBs in India as well as in West Bengal. It is suggested that the Reserve Bank of India/ Government of India must take indicatives to ask the state governments to extend their supports to these specialised institutions.

(ii) RRBs should themselves frame strategies to strengthen their recovery mechanism with necessary support from the state governments.

Computerization and Technological Up gradation

Mechanization and computerization are considered very important in providing the operational efficiency especially to take up the challenges in this competitive environment. ‘Technology is likely to remain the growth engine in rural banking in the years to come’ (Karmakar Committee, 2006). Thus, in the situation of augmented and diversified loan or investment portfolio, introduction of new banking products or financial services, speedy data availability and computerization are vital and RRBs need to take up computerization in their major areas of operations. MIS (i.e. management information system) in branches in controlling offices and Head Office (HO) by adopting a suitable action plan are thought to be the need of the hour. As
such attempt are taken to introduce web site, on line banking, ATMs, networking of HO or branches, inter-branch system network, remote account transaction / access facility, debit/ credit card to the maximum extent.

Some RRBs have already taken initiatives in the computerization of HO and major branches, by seeking support from NABARD / SDC under SDC project. However, necessary funds were provided by NABARD/ BIRD (i.e. Bankers Institute of Rural Development) to 49 RRBs in India under Phase I of restructuring programme to purchase minimum computer hardware and for imparting training to staff.

It is observed that sponsor banks in West Bengal are too assisted their RRBs by providing computer hardware and incidental facilities. For example, Howrah GB in West Bengal has partially computerized its branches. The need to improve competitive services coupled with slender staff strength in some RRBs in this state also weighs in favour of computerization at least the front-end counters.

The financial implications, however, could discourage some RRBs in this region, particularly the loss making ones, from computerization. It must be recognized that computerization could help the loss making banks too in attracting good number of customers by enhancing efficiency besides improvement in NPA management, tracking of borrowers' accounts etc. Thus it may be found that the long-term benefits could far outweigh than the cost involved. RRBs in India particularly in West Bengal could therefore be considered for financial support for acquiring computer hardware, software and training facilities. A scheme to bring all the RRBs in West Bengal along with other RRBs in India to a standard level of computerization also needs to be formulated.
> **Legal Remedies for Recovery of Loans**

The prudential regulation norms have exuded strict responsibility and accountability on RRBs to maintain proper loan asset quality. Recovery through collateral realization is often a long drawn affair due to certain provisions in Acts such as, Indian Contract Act, Transfer of Property Act and Indian Stamp Act etc. GOI must take measures to review such relevant acts and instigate measures for quick legal remedies. Again, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act, 2002) which covers commercial banks, may also be extended to RRBs.

All RRBs in India including West Bengal may consider setting up a separate internal vigilance cell to carry out interventions in conformity with the directions and guidance of central vigilance cell (CVC). Apart from on time reporting of incidence of frauds to NABARD, the progress and trends in frauds and misappropriations may be periodically analysed and should be placed before the Board on an annual basis so that necessary steps for recovery of funds and internal disciplinary action, as well as police action (for following up criminal cases against erring staff/ fake customers) can be initiated.

> **Manpower Planning in RRBs**

Despite the insistence of NABARD to take up manpower planning exercise in RRBs, many RRBs in India as well as in West Bengal and their sponsor banks have not conferred desired awareness. For appropriate assessment of recruitment needs and deployment of staff, which is essential for accomplishing optimum productivity level, it is very important for the RRBs to take up a comprehensive manpower planning exercise.
Recruitment of Staff

The functioning of many RRBs in West Bengal is hampered by acute shortage of staff. One of the constraints in improving the performance of RRBs is the relatively unskilled and ageing staff. At present, RRBs are unable to recruit staff even against vacancies arising from regular exercises like retirements, resignations, deaths etc., due to embargo on recruitment by Government of India. The manpower requirements of RRBs have also undergone a change due to growth in business, computerization and other developments. The uniform treatment of all RRBs has resulted in an alarming situation due to severe shortage. RRBs are also required to approach GOI for prior permission, for sanction of vacancies as well as recruitment, which is generally a much delayed process.

Profit making RRBs with average staff strength of 4-5 staff per branch (including HO staff) may be given permission to recruit natural vacancies immediately and additional staff on drawing up realistic manpower estimation in accordance with staffing standard prescribed for the purpose. On the other hand, loss making RRBs also may be allowed very selectively to recruit the necessary staff subject to satisfactory manpower planning exercise. GOI may formulate uniform guidelines for manpower planning in RRBs. The powers for deciding matters concerning recruitment of staff may be entrusted with sponsor banks in order to prevent irresponsible recruitment by RRBs without regard to viability as experienced in many cases in the past. Staffing through BSRB (i.e. Banking Service Recruitment Board) may not be made compulsory in the cases of RRBs with smaller recruitment needs if the procedure for recruitment adopted by them is legal, transparent and crystal clear.
Training of RRB Employees

The Kelker Committee (1984) on RRBs had observed that lack of adequate training to the staff had affected the quality of business and efficiency. Bhandari Committee on Restructuring of RRBs (1994) also opined that “skill development of RRB personnel is crucial for the success of the restructuring process .... Training is considered to be one ingredient which can bring about a change in the mindset of concerned personnel and orient them to the task of restructuring their institutions”. Internal Working Group Report (A.V. Sardesai Committee, 2005) pointed out that “in order to improve the productivity and efficiency of the employees of RRBs, relevant training especially in areas like skill upgradation and information technology, may have to be provided with them. This would also enable them to take up new activities with the newly acquired skills”.

The present training scheme and programme catering to RRB system largely address to the training needs of officers. The needs of staff in clerical and sub-staff cadres, who also have a crucial role to play in fulfilling the organizational goals, are not paid adequate attention and continued to be neglected. In reaching higher levels of productivity and viability, negligence to the contribution of these staff, may become counterproductive.

The responsibility of training personnel of RRBs is assigned to sponsor banks in terms of section 3(b) of RRB Act, 1976; but only a limited facility are made available to RRBs through training institutes of sponsor banks in India as well as in West Bengal (Training institute of RRBs staff is situated at Bolpur in West Bengal). Actually, the number of personnel to be trained in RRBs is so large that sponsor banks are perhaps unable to cope with the responsibility on their own. Thus, in keeping with this responsibility, sponsor banks should think for funding of training budget of RRBs, besides extending liberal training facilities, if necessary, by setting aside
exclusive channel in their respective institutes for RRBs. The budget for training should be based on the training needs assessment (TNA) which may be modernized periodically. Personalized programmes in collaboration with institutes (e.g. BIRD) that have specialized in RRB system should be given preference. Need based in situ by external trainers may also be envisaged. Training may also include exposure visits to successful RRBs or institutions, participation in workshop, seminars etc., and also training in Commercial banks. In this respect, it is noted that BIRD, on its part, offers to train the sponsor bank trainers to enable them to design appropriate training programmes for their RRBs. They are continued to train senior and middle level personnel of RRBs and also offer on-location programme for them at their request.

> **Incentives for Better Performance**

It is observed that lack of adequate career opportunities and acknowledgment of the performers seems to be dampening staff morale and motivation in RRBs, which is the root cause of the low level of productivity of the RRBs in West Bengal. Some RRBs viz., Gaur GB, Howrah GB, Bardhaman GB have adopted non-financial incentives like issue of certificate of appreciation, publishing the names of good performers, which have produced limited results. Additional incentives such as deputation to outside training / exposures, transfer to choice centres, better weightage for promotion etc., could also be used to enthuse the personnel. Good performers can be considered for exposure in the sponsor bank/ other organizations on specialized functions by arranging deputation of such employees with other institutions.

The issue of productivity linked incentives for the branches in terms of added facilities like generators, coolers, note counting machines etc., could also be considered. A portion
of profits earned by RRBs could also be considered for introduction of welfare schemes for the employees, which could motivate them to improve their productivity.

➢ Organisational Development Initiative

Organisational Development Initiative (ODI) has played an important role in bringing about changes in the mindset in the 49 RRBs taken up for the first phase of revamping. This has to be continued on an ongoing basis and extended to all RRBs, including West Bengal.

➢ Recapitalisation of RRBs

The stakeholders of the gramin banks may consider recapitalization of the RRBs that have huge accumulated losses viz., Gaur GB, Mallabhum GB, Mayrakshi GB and UBKGB in West Bengal, since they have been working in economically backward regions of West Bengal. For this purpose strategic local partners in the private sector may be looked for. Employees of the concerned bank may also be considered as ‘strategic partner’. Share capital deposit so far provided by the stakeholders to RRBs may be converted to share capital of RRBs. Such Banks may also be allowed to access capital markets for initial public offerings (IPOs) of their shares particularly to meet capital adequacy requirements as well.

➢ Setting up of Committees

The RRBs Act, 1976 provides for setting up of committees within the bank or as sub-committee of the Board, as may be needed. The Board may think of constituting various committees as may be required by them for efficient operations of the respective banks e.g., Risk
Powers for Market Promotional Expenditure

RRBs do not have adequate freedom to decide various promotional strategies such as media publicity, promotional material etc., and the expenditure involved. The decisions taken at the level of Board are also not from review and censure by stakeholders. In the present situation, the power in this respect may be vested with the respective Boards with certain directive principles.

Converting into Banking Companies

RRBs which do not bagging any accumulated losses viz., Howrah GB, Bardhaman GB and Murshidabad GB in West Bengal as Local Area Banks (LABs), may be converted into banking companies and integrate them as such in the Companies Act.

Merger of the RRBs

Most of the committee on restructuring of RRBs is of the opinion that, merger whether it is vertical (i.e. merger with sponsor bank) or horizontal (i.e. merger between RRBs), is the only option of restructuring the RRBs. The central idea behind the merger is – (a) this will provide the RRBs with infrastructure of the branch and manpower, (b) the threat of closure of non-viable RRBs could be reduced, (c) the undesirable competition between commercial bank and RRBs can be minimized leading towards stable banking network in the countryside, and (d) merger by itself would moderate the purely commercial orientation of the sponsor bank; with huge
resources at their command, the sponsor bank should be able to provide cheap credit to the rural borrowers.

Conclusions

The seed of the RRBs, which was sown on 2nd October 1975, has transformed into a banyan tree in recent years with its multi-dimensional approach to serve the rural people all over India. Their rationale ‘local feel, low cost and low profile’ is highly relevant to rural banking in a developing country, like India and especially for the rural poor. The RRBs after much experimentation have ultimately emerged as an effective instrument to salvage the poorest among the poor from the mire of squalor. But in the wake of introduction of financial sector reforms in 1991-92, the profitability and financial viability of RRBs have emerged as the most crucial factors in deciding about their desired role and existence in the emerging economic scenario. After nearly three decades of existence, the RRBs are facing many constraints like, falling health, mounting losses and loss of viability, poor recoveries etc., warranting a rethinking by the policy makers for their strengthening. In order to reposition the RRBs as effective instruments within the existing legal framework, a number of options have been explored, which include merger and amalgamations, introduction of broad based banking facilities, support from the sponsor banks and state governments, computerization and technological upgradation, legal remedies, proper manpower planning and training of the staff and converting into banking companies as per the Companies Act. These are not mutually exclusive but complementary to each other.

The renewed emphasis on agricultural and rural development by the GOI would obviously lead to a growing demand for different types of financial services in the rural areas, as the financial needs of the rural economy become diversified. The present structure of rural credit is
not sufficient enough to satisfy the same to the fullest extent. The co-operative credit structure suffers from many infirmities and, hence RRB network will have to be leveraged for benefiting the people of the rural areas. Therefore in the context of the need to increase rural credit and to deliver better services in the rural areas, RRBs should be repositioned in the present financial system. Thus, on one hand the perception of RRB has to be pursued in the interest of the rural economy and on the other, the RRBs should avail themselves of the opportunities to cash in on the gap between demand and supply of banking services. “Planning without village, in India, are a myth; business without village a bad bargain and service without village, a mockery.” (Bhattacharya, 1986). To quote father of the nation, Sri Mahtma Gandhi – ‘...until the village economy of India was boosted, Swaraj would be meaningless (M.K. Gandhi – Harijan – 16th Nov. 1934). Dr. Vyas Committee opined in 2004, ‘Mandate of RRBs has to continue, even as they need to be restructured into viable financial institutes, simultaneously retaining their regional character and rural tours’. Therefore, RRB culture should be maintained in the context of necessity of formal rural credit system in India, particularly in West Bengal by taking measures in line with the recommendations mentioned above.