The analysis of the working of Regional Rural Banks clearly indicates that Regional Rural Banks suffer from a number of problems and drawbacks which have created a number of difficulties too, albeit their performance has been quite significant in the field of rural credit and rural development. Some of the areas, where problems and drawbacks have been noticed are enumerated as under:

1. **Organisational And Managerial Problems**
2. **Branch Expansion**
3. **Advancing of Loans**
4. **Recovery of Loans**
5. **Procedural Problems**

**ORGANISATIONAL AND MANAGERIAL PROBLEMS**

The agricultural population of India is spread over 5.6 Lakhs villages of which more than half have a population of less than 500. To keep constant touch with all these villages by establishing a comprehensive network of branches has really been a herculean task. Again, the paucity of suitable and adequately trained staff poses the biggest problem. The staff would have to be such as knowing local language and different local backgrounds, traditions and culture of
the local people who may comprehend problems involved and treat them sympathetically. Finding Suitable accommodation, preparing suitable and simplified forms and documents keeping in view that vast agricultural population is still illiterate, making provision for security of funds have been and will continue to be most serious administrative problem.

**Urban Orientation of Bank's Staff**

The orientation of staff of the Regional Rural Banks educated in the college of the cities is still essentially an urban one. The staff members of officers level or above look for a higher salary allowances and perks. They have not adapted themselves sufficiently to become an integral part of the socio-economic environment in which they function. Given a choice, many of them would prefer to shift to commercial banks and to settle down in cities. This tendency has posed problems for the Regional Rural Banks.

**Gap in Pay Scales**

The presumed lower operating costs in Regional Rural Banks at present, as compared to that of the rural branches of the Commercial Banks (which had been advanced as one of the
major arguments justifying the establishment of the Regional Rural Banks), may not remain valid in the coming years. It would become difficult for the Regional Rural Banks to retain its staff for a longer period at salaries much lower than those provided by the commercial Banks in rural as well as urban areas.

Even though it is believed that trade unions can not be legally organised by the staff of the Regional Rural Banks under the Regional Rural Banks Act, there are indications of the formation of "STAFF ASSOCIATIONS" in some of the Regional Rural Banks with the objective of impressing upon the management the need to increase their salaries etc. Bhabatosh Datta had recently warned about the inevitability of these problems leading to the erosion of the lower cost justifications of the setting up of the Regional Rural Banks. It will be difficult to maintain for a long time two types of pay-scales in each area for similar work.

**Overlapping in Financing Activities**

There is still another organisational problem requiring immediate attention. At present a number of financial institutions such as Co-operative Credit Societies, Commercial Banks and Regional Rural Banks are seen operating in the rural areas of the
country. Naturally, this has given rise to problems such as overlapping of operational areas double or multiple financing, unhealthy competition among competing financial institutions, concentration by these institutions on agriculturally prosperous areas and on big and well-to-do agriculturists in such areas, neglect of agriculturally backward areas and of small and marginal farmers in general. Top officials of some Regional Rural Banks have also complained that in the matter of implementing their agricultural credit schemes, they were handicapped by non-availability of adequate and competent staff, particularly field staff, at some of their branches.

**BRANCH EXPANSION**

The Working Group on Rural Banks had suggested the setting up of five pilot Regional Rural Banks in the first year at carefully selected places on an experimental basis, which could be extended after reviewing the results of their working. Organising new Regional Rural Banks at this fast pace in a relatively short period of time generated problems for the concerned Regional Rural Banks and their sponsoring banks. The pace of activities relating to the Regional Rural Banks appeared to have been forced from above, which the sponsoring commercial Banks, State Governments and even the Co-operatives
had to accept regardless of any reservations which they might have had in this matter. At first, the selection of location for branches in various districts has not been done in a co-ordinated manner at the State level demarcating the areas of operations of the existing institutional credit agencies as was suggested by Working Group on Rural Banks. It has not always been possible to ensure that the branches of the Regional Rural Banks would be opened at locations where neither a co-operative agency nor a branch of any Commercial Banks exists. Apart from the aggregate number, the other and perhaps the more crucial test of the performance of the Regional Rural Banks in branch expansion would be the number of branches opened in relation to the number which was expected to be opened within a prescribed period and the proportion of branches opened at the unbanked centres. Though there does not appear to be any uniform directive from the government in this regard, the understanding was that each Regional Rural Bank would open 20 to 30 branches within the first year of its operation and another 20-30 in the second year of its working to reach ultimately the target of having 50 to 60 branches to cover all relatively "underbanked" or "unbanked" centres in the area of its operation. Actually this did not happen.
The Regional Rural Banks have failed to achieve their branch expansion target on the lines planned for the location. Presently there are 22 branches of MKG Bank, 25 branches of HG Bank, 40 branches of VG Bank operating for around 18-20 years. During all these years MKG Bank and HG Bank could not make any expansion whereas the VG Bank and Prathama Bank has expanded the number only by 2 during the year 2001-02. They have been operating in areas where commercial banks and co-operative banks already exist. Originally it was expected that they would cover the unbanked or underbanked areas. However, this has not happened.

ADVANCING OF LOANS

Identification of Small Borrowers

The shortfall in meeting the expected level of loans advanced can also be explained by several factors. Some of them may be enumerated as under — Most of the Regional Rural Banks have been lending directly only to the specified weaker sections of rural society quite in tune with the objective for which these have been established. The scope for direct lending by the Regional Rural Banks in their areas of operation is very limited. The staff of Regional
Rural Banks has to make special efforts to identify potential 'small' borrowers, who would possess the capacity to repay loans at the relatively high rate of interest per annum from farming, small industry and small trading activities, in which the borrowed funds were to be deployed. Yet, another but very basic problem at the time of considering the application of the prospective borrower for loan relates to the verification of the genuineness of the borrower as a person of 'small means', such as the small and marginal farmers. The so called 'small' or 'marginal' farmer may have a substantial amount of income from non-farming sources. Similarly, a 'small' artisan or a self-employed person of apparently small means may not in reality be poor. Such persons should not, deprive another genuine borrower. This state of affairs is motivated by the desire of the borrower to obtain credit at cheaper terms. Under Indian conditions, following the enactment of land reforms, several farmers sub-divided their land holding which would justify the new legal ownership of the sub-divided land as a 'small' or 'marginal' farmer. Under these conditions, it is possible for a person to borrow from the Regional Rural Banks and to lend his personal funds to others at a higher rate of interest.
Complicated Procedural Formalities

The dealings between the poor and illiterate borrowers and a Regional Rural Bank may not always be direct through the employees of such a bank. The complicated procedural aspect of advances by the Regional Rural Bank would leave a lot of room for intermediates to emerge. Some such intermediaries could make it their profession to exploit the borrowers for helping them to get loans from the Regional Rural Banks with certainty and within the minimum time.

Lack of Co-ordination Between Financing Agencies

Yet, there is another problem of ascertaining any prior lien on the property of the borrower which can be sorted by bringing co-ordination among all the institutional credit agencies in the specified area to avoid multiple lending by various agencies. This can be solved by issuing a pass book for loans in which each credit agency must record all the details of the loans granted and assets pledged by the borrower.

The main reason for the lower rate of growth of advances by the Regional Rural Banks has been the absence of their effective links with the multi-purpose primary co-operative credit societies
PACS) and the Farmers' Service Societies (FSSs). Such linkages were expanding the loaning activities of the Regional Rural Banks over time. The absence of these linkages is explained to a greater degree by the relative apathy of the concerned State Government for the Regional Rural Bank and relative sympathy for the co-operatives which come under the administration of the State. Despite the fact the several State Governments have publicly announced their intention to phase out weak co-operative societies in selected blocks in favour of the Regional Rural Banks, yet, not much action has actually been taken by the former in implementing their pronouncements. The weaker primary agricultural credit societies have, of course, vested interests to preserve their identities.

**Reliance on Informal Sources of Credit**

It is also equally true that the majority of the 'small' borrowers still continue to depend heavily upon the informal and non-institutional source of credit. The decision process of the borrower regarding his choice for the supply of credit from among the formal and the informal sources of credit under local conditions prevailing in the village deserves to be studied more closely. Such studies will be useful in the drive of the Regional Rural Banks to
cover more of such borrowers who are continuing to rely heavily on the informal sources of credit.

**Lack of Co-ordination Between DICs & RRBs**

The Government of India has emphasised programmes of rural industrialisation. It has formulated plans to set up District Industries Centres (DICs) to cover ultimately all districts in the country. The District Industries Centres have been designed to promote local entrepreneurship in rural areas for setting up small and cottage industries. So far, there does not appear to have been much contact between District Industries Centres and the Regional Rural Banks. The links between these two institutions need to be fully developed in furtherance of the objective of rural development.

**RECOVERY OF LOANS**

Performance of Regional Rural Banks viewed as a whole can not be considered as satisfactory in respect of recovery of loans. Main causes of poor recovery of agricultural loans by a number of Regional Rural Banks are — (i) Natural calamites like floods, droughts and epidemics resulting in the death of cattle, (ii) Delay in disbursement of loans due to factors beyond the control of bank and bank officials, (iii) Defective appraisal of loan applications of
agriculturists in terms of assumptions made regarding prospective yield, inputs, costs and output prices, (iv) Unsatisfactory marketing arrangements resulting in agricultural borrowers getting lower than expected prices and returns for their agricultural produce, (v) Unforeseen expenses of borrowers due to sickness, religious and social ceremonies, litigation and such other developments in the family, (vi) Lack of earnest efforts on the part of staff of the Regional Rural Banks to recover agricultural loans, (vii) Wilful default on the part of certain agriculturists.

**Lengthy Legal Process**

A Regional Rural Bank has to resort to lengthy court procedures for recovering overdues which have been standing for an alarming amount of time. The risk involved in lending to the weaker sections of the rural society coupled with the costly and time-consuming procedures for recovering 'small' loans restricts the capacity of the Regional Rural Bank to lend more in its area.

**PROCEDURAL PROBLEMS**

The RRBs have not been able to expand their direct lendings to persons from the weaker sections of rural society partly because of the strict and inflexible procedure adopted by them for
loaning. In the matter of procedures for deposits as well as loaning, they operate very much like the scheduled commercial banks. Despite efforts made by a committee set up by the Reserve Bank of India for simplification and standardisation of the loaning procedure of the RRBs. These procedures in our judgement still remain sufficiently complicated and time-consuming. Not all the states have issued books to all cultivators which could also be used by the RRBs for verifications of land holdings and avoiding over-financing by different credit agencies on the basis of the same assets of the borrower.

Lack of Adequate Support From Development Programmes

Successful implementation of a scheme like minor irrigation, dairy development, poultry and fisheries crucially depends on development programmes of the State Governments. For example, in the case of minor irrigation, groundwater surveys, rural electrification and creation of drainage facilities are considered crucial. In the case of dairy development, animal breeding programmes, veterinary services and establishment of chilling plants and centres and processing unit are required for the viability of the loans for the purchase of animals. Similarly, vertically integrated activities are also critical for the poultry and fisheries credit schemes. Delays in
implementation of the developmental programmes by State Governments have often adversely affected agricultural credit schemes undertaken by commercial loans and minor irrigation schemes came in for sharp criticism by some Regional Rural Banks.

Lack of Co-ordination

Lack of sharing of credit information at the district level and overlapping command areas of different credit institutions have been particularly stressed. It has also been pointed out by most RRBs that the various committees established at the district and State levels to co-ordinate the activities of different financial, credit and other institutions have been ineffective because of infrequent meetings, unwieldy composition and lack of problem solving approach in the deliberations.

SUGGESTIONS

To improve the performance of RRBs suggestions can be divided into four following categories — (A) Suggestions regarding policy and procedure of financing, (B) Suggestions regarding recovery of loans, (C) Suggestions regarding organisation and (D) Other suggestions.
SUGGESTIONS REGARDING POLICY AND PROCEDURE OF FINANCING

1. **Simplification & Standardisation of Loan Application** — Regional Rural Banks should simplify and standardize their loan applications and documentation formalities with a view to reducing the number of required documents as also to make the 'life' of the documents longer.

2. **Professional Approach Towards Loan -Processing** — The Concept of project Lending though invites certain risk, if systematically under taken by means of appropriate selection of activities, appropriate matching between the activities, and beneficiaries and ensuring technical feasibility and economic viability of the project, the situation of poor recovery should not arise at all. The problem of poor recovery can be over come by adopting systematic, methodical and professional practices at the lending stage. This calls for a change in the attitude of bankers to prepare themselves in advance to respond effectively to the expected problems in rural lending.

3. **Reduction in Processing Time** — The RRBs take extraordinary time in processing the loan applications of the
borrowers. They lack trained staff with modern outlook. This requires a change of mindset of the RRBs staff. Such procedural delays defeat the very purpose of the borrowers when they fail to get the help at the critical time.

4. **More Emphasis on Personal Security Rather Than Physical**

— As regards advances to weaker sections, it is suggested that the weaker sections of rural society or poor borrowers (like artisans, craftman, Adivasis, Harijans, small trader, small entrepreneurs) should not be required to furnish any security except personal security nor should they be confronted with complicated forms and procedures. The Regional Rural Bank should ensure that the borrower is a genuine person and that the loan given to him would be used for productive purpose.

5. **Increased Attention Towards Financing of Non-Farm Activities** — Proportion of non-farm sector loans to total loans disbursed has gone down in these five years very sharply. As shown in Table 5.6 on page 177, Non-Farm Sector received only 13.0%, 10.1%, 16.0% & 9.9% of total loans disbursed from MKG Bank, HG Bank, VG Bank and Prathama Bank respectively in the year 2001-2002 while it was 39.1%, 20.1%, 29.1% and 24.8% respectively in 1997-98.
Besides agriculture, supplementary activities such as animal husbandry, fisheries, poultry, village industries and services also have an important place in the village economy. Modern industry is capital intensive and offers limited scope for employment. Migration of villagers to the cities has been rising, slums have been proliferating and urban crime is on the rise. Special efforts are necessary to create employment opportunities by promoting these non-farm activities at the rural level. Traditional village industries like handlooms, coir manufacturing, sericulture and handicrafts can help in generating employment opportunities.

6. **Issue of Kisan Pass-Books** — It is also suggested that all the State Governments should take immediate steps to issue Revenue Pass Book or say Agricultural Pass Book and also ensure that they are kept up-to-date. Regional Rural Banks should take these Revenue Pass Books as prime evidence of rights in land and use them as the starting point in processing loan application of agriculturist.

**SUGGESTIONS REGARDING RECOVERY OF LOANS**

7. **Revamping The Legal System** — The high level of NPA is
assuming frightening proportions. The RRBs are advised to be guided only by commercial motives in granting and recovering the loans made by them to their customers. The legal system should be amended so as to reduce the long drawn legal battle for making recoveries. Enabling legislation is required to be enacted and allow the banks to foreclose the loans. Foreclosure provisions in India are inadequate under which the mortgagor is absolutely debarred of his right to redeem the property. A court decree is required for getting the foreclosure right against the mortgagor which is a lengthy and time consuming process.

8. **Establishment of DRTs** — The number of Debt Recovery Tribunals (DRTs) should be increased to fasten the debt recovery. The DRTs should straight away be given the powers to issue certificate of recovery on the basis of decree. The banks should be vested with the powers of taking possession and sale of securities without intervention of the courts.

9. **Compromise & Settlement Scheme** — The Reserve Bank of India should recommend a compromise and settlement scheme for the RRBs so that the RRBs may make compromise
and settlement instead of resorting to the long drawn legal battle. Lok Adalats may also be of help to settle the bank dues.

10. **Strict Adherence to Prudential Income Recognition Norms --**

--During the course of chatting with the staff of the RRBs and some Chartered Accountants it has come to notice that the RRBs are not meticulous in following the prudential income recognition norms. In order to paint a rosy picture they do not make adequate provision for bad debts and also misclassify their accounts so that the non-performing accounts are understated. The parent bank should look into this menace.

**SUGGESTIONS REGARDING ORGANISATION**

11. **Restructuring of the Capital Base —** Local participation in the share capital of Regional Rural Banks should also be permitted. A guaranteed dividend equivalent to the interest paid by the commercial banks on one year's fixed deposit as suggested by the working Group will be desirable to encourage such local participation. Such shareholding should be open to co-operatives, other local institutions and individuals within the jurisdiction of Regional Rural Bank. It is also suggested that the share of Sponsoring Banks should be raised from the present
35 percent to 40 percent to make it commensurate with their responsibilities in setting up the Regional Rural Banks. This recommendation of local participation requires changes in the existing pattern of equity holding of the Regional Rural Banks. We recommend the following structure of ownership of share capital for Regional Rural Banks — (a) RBI 40%, (b) Sponsoring Bank 30%, (c) State Government 15% and (d) Local Participation 15%.

12. **Development of Human Resources (Staff Training)** — The staff of RRBs should be trained for the art of effective needling for prompt recovery of loans. They should be provided training of behavioural sciences. The staff should be customer friendly and conversant with the local environment. Human resource i.e. collective man power is the most important asset of commercial organisation more so in case of banks which is a highly personalised service industry. Unfortunately the quality of banking services has been poor and unsatisfactory, the main reason being poor human resource. Human resource development is the prime need in case of RRBs. Various subsystems of HRD viz.
performance appraisal training, career planning, employees counselling, personnel audit, personnel research, potential appraisal etc. should be adopted to give maximum job satisfaction to the employees. This will inculcate the atmosphere of mutual trust, proactivity and faithfulness among the bank personnel.

13. **Staff Compensation** — The compensation package for the staff of RRBs should be brought at par with the other banks. The staff of the RRBs should be adequately trained and remunerated. It will be difficult to maintain two types of pay-scale in the same area for a long time.

14. **Faster Branch Expansion** — The Moradabad commissionery of Western U.P. has adequate number of RRBs Branches which is 206 as on 31.03.2002. The commissionery of Saharanpur has 25 such branches whereas the commissionery of Meerut which is three times larger than the commissionery of Saharanpur has only 22 branches of RRBs. The Meerut commissionery should be given attention for spread of RRBs network. Recently the Prathama Bank operating in Moradabad commissionery has been licenced to open its branches in the Districts of Meerut and Baghpat of Meerut Commissionery.
OTHER SUGGESTIONS

15. **Co-ordination Among Different Financing Agencies** — There is lack of co-ordination between the RRBs, the Scheduled Commercial Bank, and the Co-operative Sector in providing finance to the rural India. In some areas they are playing a competitive role rather than a complimentary role. This phenomena needs to be looked into by the Central Bank i.e. the Reserve Bank of India.

16. **Introduction of Information Technology** — The technological revolution in the banking sector could not make headway in the regional RRBs except that the urban branches have been computerised. The business base of these banks is still very low as compared to the scheduled commercial banks. Rural areas are power deficient. Because of these two reasons information technology can not be adopted by these banks. The different branches of a RRB should be interlinked with each other through a computer network and at a later stage ATMs may also be installed at headquarters level.

17. **Informality With The Rural Folk** — A continuous personal involvement of the bankers and other developmental agencies
with the various stages of operation of any developmental activity in rural areas is a must to win the confidence of local people which will go a long way in accelerating the process of acceptability of new ideas and thus resulting in a successful implementation of various developmental schemes in totality in rural areas.

A professional approach in the pre-lending appraisal system and post lending supervision techniques together with strengthening of the organisational structure, especially at the field level will go a long way in improving the recovery of agriculture.

18. **Staff (Expert) Assistance To Bank Officers** — Building an effective credit delivery system for dealing with the vast number of small farmers and entrepreneurs is a difficult task. Demands on the banking sector are extremely high and the capacity of bank managers for handling mass banking involving massive number of accounts is severely strained. Generally, managers are trained in banking procedures and practices and their knowledge about the needs of farmers and the schemes intended for their welfare is rather limited. It would, be ideal if rural branches could be staffed with bank managers as well as agricultural specialists who can play a direct role in formulating local schemes in consultation with the intended beneficiaries.
19. **Speeding-up of Economic Reforms Process** — It has been observed that the grant and disbursement of loans to the rural cottage, tiny and the small scale units has declined in the recent years. Pace of recovery is also poor in respect of this class of borrowers. The Government should speed up the economic reforms process so that these industries may survive and grow.

20. **Monetising The Rural Economy** — It was found that the Business Per Employee in the RRBs is much lower than in the Scheduled Public and Private Sector Banks. It is so even when there has been no increase in number of employees in the RRBs for the last 5 years. The reason can be attributed to the rural base of the RRBs where the velocity of commercial transactions is very low. The RRBs even pay 1/2% higher interest on deposits in comparison to the scheduled commercial banks. It is suggested that this 1/2% **extra interest** should be done away to increase the profitability of the RRBs. This incentive has not been of much help in attracting the deposits towards the RRBs.

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