CHAPTER - VII

PROBLEMS AND PROSPECTS OF RRBs

8.1 Introduction

India basically is land of villages. Rural economy dominates the economic scene of the country even after speedy urbanisation in recent past. Regional rural bank were established in the country to give lift to the rural based economy of the country. Transformation (Socio-economic) of India's rural folk will usher an era of prosperity of the country. RRBs combine in good point of co-operative and commercial bank both eliminating the weakness of the both. The rural bank have the local base and the rural strength of the commercial banking system. The institution of rural banking in the country was started with a view of having a sound banking system in rural sector but things have not delivered goods upto the satisfaction of academicians and theoicticians. There are many constraints and impediments in the working of rural banking system of the country.

The credit system of country side has not bettered. This is true that there are many limiting factors to it. And these factors have both deposit and mobilisation and credit authorisation and disbursement. The Regional Rural Banks cannot reach the optimum level unless a proper
solution to the problems being faced by it, is sought. Some of the important problems affecting the working of the Regional Rural Banks have been highlighted as under along with suitable remedial measures.

8.2 Lack of Banking Habits among the Rural Population

Traditionally, banking in India has been a commercial endeavour with an ultimate object to earn as much profits as possible. Consequently, their operations were confined to the metropolitan and port-towns specially for trade, industry and commerce. In such circumstances ignorance of rural population about banking and complete absence of banking habits among them was quite natural. It is after social control over banks in December 1968 and subsequent nationalisation of the major scheduled commercial banks in July 1969 that the policy of these banks was diverted from commercial aspects to developmental aspects. These banks were given the responsibility to reach the rural segments and accelerate the pace of economic development by providing banking facilities in the rural, neglected and remote areas.

Till nationalisation of the major scheduled commercial banks, Indian rural masses, who are generally illiterate were totally unaware of banks and the facilities being provided by them. Though the policy of the Government
of India and the Reserve Bank of India has been to develop banking in rural areas at an ever increasing rate and a number of new schemes have been enforced for this purpose, the rural public has not so far become properly aware of the banking facilities. Since decades, these villagers have been under the clutches of the village money-lenders and indigenous bankers. Neither these money-lenders and indigenous bankers leave the poor borrowers nor they themselves want to get rid of them. This is all because of the lack of banking habits among these people who are not being adequately developed in spite of implementing various plans and programmes for the development of banking and banking habits among poor rural masses by the Reserve Bank of India and the Government of India.

Besides, being illiterate Indian villagers, specially poor and belonging to the poor sections of the community, are conservative and do not want to make any improvement in their routine functioning. No doubt, a majority of them have been coming towards banks especially after the development of the Regional Rural Banks in the rural and neglected areas, but the position is still much far from satisfactory. Still poor and illiterate villagers totally lack in banking habits and go to the village money-lenders, if they need credit. This is the major problem which has an adverse effect upon the working of the Regional Rural Banks in India.
8.3 Lack of Local Participation

RRBs have not received sufficient local participation. The RRBs have been thrust upon the rural people from above without involving local people in its operation and management. In this connection, it is suggested that knowledgeable persons in the rural areas need to be associated with the management of RRBs. Often it is voiced that the representatives of weaker sections like scheduled castes and scheduled tribes be included in the board of management. Besides, rural people need to be persuaded to subscribe to the share capital of RRBs which is at present confined to central government.

8.4 Lack of Political manoeuvring

The political manoeuvring of institutional borrowing cannot be neglected. On many occasions, people borrow from the RRBs expecting it to be a kind of one time grant by some politician who might try to appease them by writing off the loans. This has happened several times in the past and has eroded the credibility of the banking system including the RRBs. It has also adversely affected the willingness of many borrowers to repay such loans.

This is most unfortunate that the regional rural bank also other commercial bank in rural sector have to work under heavy political pressures and tensions. This can not
be denied that much has been done since independence to improve the rural credit system. As a result substantial infrastructure has been built up but a sad part of the story is that it has been politicised to a large extent for the benefit of the party in centre. This has also contributed to a stunted growth of cooperative credit structure which found it difficult to survive along with centrally subsidised credit structure. As a result of the variety of experiments with giving subsidised loans or forgiving debts etc. the rural credit system is in shambles today. The Finance Minister himself has conceded that the entire rural credit system is in deep trouble but to ascribe it mainly to the "disastrous scheme of loan Waiver" is only partially true.

Politicians have used rather abused and misused the rural banking system for their political ends. To the utter surprises of economists the politicians have used the banks for creatiner enlarging their vote bank. All poverty alleviation programme have resulted in getting rich to the so called regional rural leaders. RRBs (Regional Rural Banks) have to dance according to the tunes set by RRBs (Regional rural bosses).

IRDP novel banking scheme has resulted into pointed political policy resolution and the management of RRBs also that of other commercial bank have to honour the list of beneficialies submitted by Chhutbhiya leader in the name of IRDP.
8.5 Inadequate Deposit Mobilisation

The deposit mobilisation of RRBs has remained at a very low level. The area of operation for each RRB is confined to a district only. In some districts again, the number of poor persons is so large that they are unable to save anything in the bank due to poverty and low per capita income. So when the RRBs are asked to touch the weaker section population in the rural areas who have very low saving capacity, the deposit mobilisation stands at a lower level. This seriously hampers their business activities. Due to poor deposit mobilisation the RRBs have heavily depended upon external financing agencies like sponsor banks and NABARD for borrowing purposes. This is however, not a healthy sign for any institution that makes a beginning to grow and develop. The PACs in the past faced the same problem and consequently most of them became sick due to excessive dependence upon higher financing agencies for borrowing.

As at the March 1996, the total rural deposits mobilised by RRBs is ₹. 19187 crores which constitutes a mere 19.5 per cent of the deposit mobilised by all scheduled commercial banks' rural branches. On the other hand, the RRB's rural branch network constitute 49.2 per cent of Rural branches of all scheduled commercial banks.⁴ There is scope for substantial stepup in deposits as RRB branches mostly
do not face any worthwhile competition in its area of operation, being the sole financing agency. The performance of RRBs in deposit mobilisation is also not uniform with some of the banks recording excellent performance and the remaining banks showing average performance.

On account of poor deposit mobilisation, they have depended heavily upon NABARD refinancing. It is therefore rightly said that, "only when an RRB is able to exploit the potential available for deposits in its area of operation and avail refinance to the maximum extent of eligibility, then only its performance can be considered satisfactory."

8.6 Difficulties in Recovery of Loans, and Problem of Overdues

Performance of commercial banks viewed as a whole cannot be considered as satisfactory in respect of recovery of loans. For example, about half of the direct loans which were due for repayment were not paid during the due period and about one-fourth of direct loans outstanding were in nature of overdues at the end of each corresponding year.

It is found that recovery performance varied from bank to bank, being anywhere from 33 to 79 per cent of demand during 1987-96 and from 32 to 78 per cent during 1991-97.
It was observed that not all overdues were of the nature of bad debts. It was also pointed out that it was not the overdues of agricultural loans that worried regional rural banks as much as overdues in respect of advances to small-scale industry. This was so because in the case of agricultural advances, 'there is high probability of recovery in the subsequent years', but in the case of overdues of small-scale industrial units in rural areas, the troubles are chronic.

Main causes of poor recovery of agricultural loans and overdues, as reported by a number of banks, are as follows: (a) Natural calamities like floods, droughts, and epidemics resulting in death of cattle, etc. (b) Delay in disbursement of loans due to factors beyond the control of bank and bank officials (such as delay in completion of documents and other formalities, etc.). (c) Defective appraisal of loan applications of agriculturists in terms of assumptions made regarding prospective yield, inputs, costs and output-prices, etc. (d) Unsatisfactory marketing arrangements resulting in agriculturist borrowers getting lower than expected prices and returns for their agricultural produce. (e) Unforeseen expenses of borrowers due to sickness, religious and social ceremonies, litigation and such other developments in the family. (f) Lack of efforts to recover agricultural loans on the part of staff
of rural banks loans by undertaking the necessary efforts and trouble. (g) Wilful default on the part of certain agriculturists.

8.7 More Losses and Less Profit

It is observed that many RRBs are incurring losses. Only a few of them are earning profits. It is estimated that RRBs in the present setup incur losses of about ₹.50 lakhs per day. The RRBs incur losses due to hike in salaries of staff, poor recovery of loans, exclusively lending to weaker section borrowers and low productivity of staff etc. In this connection, therefore it is suggested that RRBs need not exclusively confine their operation with target oriented beneficiaries. They can very well extend their loan activities to benefit non-target groups. In the 'Service Area Approach' where a block is considered as an operational unit, these RRBs are deliberately required to cater to the needs of all categories of borrowers. However, its suggested that the RRBs need to provide 60 per cent of credit to target beneficiaries and 40 per cent to non-target beneficiaries.

Out of 196 RRBs, as many as 150 have shown losses continuously for the last six years and many have completely wiped out their equity and reserves, and in some RRBs, the losses are eating into their deposits. The confinement of
lending to weaker sections at low interest rates, low margins with high cost of servicing large number of small accounts, absence of high yielding loans and the like have been the major reasons for the huge loses of RRBs. In fact, the diseconomies of small-scale operation have led to non-viability of many RRBs. Moreover, the RRBs being district-level small institutions and run by middle-management staff are often unable to take independent decisions in the unfamiliar rural environment. The Union Finance Minister in his 1994-95 budget speech announced the proposal of taking up a total of 50 RRBs for comprehensive restructuring including clearing up of their balance sheets and infusion of fresh capital in them. It was also decided to extend the process to other RRBs step by step. However, no action has yet been taken in this regard.

8.8 Absence of Suitable Staff

The RRBs are not manned by adequate staff. The managers and field officers belong to the rank of deputed staff of the sponsor bank. Other officials belonging to the category of subordinate staff are recruited by RRBs themselves. Most of the staff recruited by RRBs lack proper training and guidance. It is really regrettable that RRBs which came into existence on the premise of employing rural educated youth who are properly oriented to look after the needs of rural folk due to their local feel and familiarity
with rural problems could not fulfil the objective of timely recovery of loans and is now saddled with huge overdues for lack of effective follow up. Visits to village have become infrequent and inspection of assets are conducted in a perfunctory manner.

8.9 Organisation Constraints

Organisational problems are posing a number of difficulties. The agricultural population of India is spread over 5.73 lakh villages of which more than half have a population of less than 500. Keeping constant touch with of a comprehensive network of branches is a herculean task. Among other things paucity of adequately trained staff poses the biggest problem. The staff will have to be such as knows local languages and different local background, traditions and culture of the people and who would comprehend problems involved and treat them sympathetically. Finding suitable accommodation, preparing suitable and simplified forms keeping in view that vast agricultural population is still largely illiterate, making provision for security of funds have been and continue to pose serious problems which will have to be tackled successfully.

There is another organisational problem which also needs immediate attention, (If the country's financial resources are to maximum use of for the benefit of agriculture) and give this problems relates to coordination.
At present a number of financial institutions such as cooperative credit societies, commercial banks and regional rural banks are seen operating in rural areas of the country. Naturally this has given rise to problems such as overlapping of operational areas (both geographically and functionally), double or multiple financing, unhealthy competition by these institutions on agriculturally prosperous areas and on big and well-to-do agriculturists in such areas, comparative neglect by these institutions agriculturally backward areas and of small marginal farmers in general.

8.10 **Personnel Constraints**

The case studies of the regional rural banks reveal that the orientation of the staff of the RRBs educated in the colleges in cities is still essentially an urban one. The staff members of officer level or above look for a higher salary (including dearness allowance) and more perquisites, such as the availability of a house and a motor-cycle. They have not adapted themselves sufficiently to become an integral part of the socio-economic milieu in which they function. They cannot be completely identified with the inhabitants of the village where their branches are situated. Given a choice, many of them would prefer to shift to commercial banks and to settle down in cities. This tendency poses some problems for the RRBs. Justifications
for opening the new rural banks would in fact not remain valid. One wonders why RRBs necessarily should have been staffed by graduates. The working group on regional rural banks perhaps did not sufficiently realise that the setting up of the new regional rural banks with the kind of staffing pattern recommended by the group may not by itself assure the true local involvement of the staff members in the villages where they serve. As some economist had warned: "Merely bringing down the pay-scales of the bank-functionaries of having non-decolam" look-desirable that these are - do not ensure a cultural affinity with the rural people.

The presumed lower cost structure of the RRBs at present compared to that of the rural branches of the commercial banks which is advances as one of major arguments justifying holds at present, may not remain strong in the coming years. One view (allegedly subscribed by the officials of India) is that the salary structures of the RRBs even at present are not too much lower that those of commercial banks and may become comparable with them over time with a staff of graduates who have been given training by the sponsoring commercial bank in some of the banks, it could become difficult for the RRBs to retain them for a long time 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 cannot go beyond the
RRB Act. There are indications of the formation of 'staff association' in some of the RRBs (for example, among some of the RRBs sponsored by the Punjab National Bank) 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 setting up of the RRBs to quote.

The argument about the cost-structure involving pay-scales and staffing pattern, is not really very strong. It will be difficult to maintain for a long time two types of pay-scales in each area for the similar work. It will not be possible to get the work done only through local recruits and there will have to be a regular and free flow of personnel between the parent offices and direct branches or subsidiaries. As has been experienced in other spheres, there will emerge soon a strong pressure for merging the cadres. 6

8.11 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 states have issued books to all cultivators which could also be used by the RRBs for verification of land holdings and avoiding over-financing by different credit agencies on the basis of the same assets of the borrower. The RRBs have not been given the facilities like exemption from stamp duties on loan applications, procedure for 'out of court' settlement of cases for recovery from the borrowers in chronic defaults, etc. which are available to the cooperative credit agencies. Thus, instead of combining the best features of the co-operatives and of the commercial banks and minimising combining their worst features, the RRBs seem to have acquired, in practice, a number of weaknesses of the commercial banks and are currently deprived of some of the good features of the loans administration of the cooperative credit agencies. Any other are still nowhere near adopting the better parts of procedures money-lenders which are still preferred by the rural borrowers.

8.12 Environmental Constraints

Commercial banking in rural areas of India often faces some serious environmental problems. By and large the major part of Indian agriculture is greatly dependent upon
monsoon which is precarious; only about 25 per cent of land gets a regular supply of water from irrigational projects. There is dry farming over vast areas in most of the states. This results in wide fluctuations in productivity, agricultural prices and level of incomes of agriculturists. There is also by and large absence of allied activities which even where they exist are in extremely unsatisfactory condition. Most of the cultivators' families have hardly any assets in fact quite a few of them are already burdened with debts. All this has resulted in low rate of saving and investment on land which therefore suffers from low productivity. Under such circumstances and in such a situation carrying on successfully commercial banking operations poses vast problems.

8.13 Lack of Infrastructural Facilities and Marketing Arrangements

In adequate development of infrastructural facilities, particularly roads, was a handicap in implementing agricultural credit schemes, particularly in the interior regions and hilly and tribal areas.

Marketing facilities were also often inadequate in terms of availability of marketing yards, godowns and cold storages (for perishable commodities). Naturally this comes in the way of developing marketing tie-ups considered crucial by commercial banks for recovery of loans. Due to
unsatisfactory marketing arrangements, prices received by agricultural borrowers were often low and uncertain, all this naturally adversely affects the recovery of loans by commercial banks to agriculturists.

8.14 Lack of Adequate Support From Development Programmes

According to a number of commercial successful implementation of credit schemes for certain purpose 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 units 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).

In all these matters, displays 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.
8.15 Lack of Coordination

In this context, 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 coordinate 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.

8.16 Rate of Vested Interest Groups

The RRBs are primarily required to provide credit to the weaker sections. It is often found that the well-to-do persons in the locality through their influence have managed to procure a sizeable amount of credit from the RRBs. At times, they have utilised weaker section borrowers to procure funds from the Regional Rural Banks under DRI and later persuade them to relent the same at a higher rate of interest. After procuring these funds the vested interest class engage themselves actively in money lending business. This leads to serious diversion of resources from useful lines to unproductive channels.
8.17 Lack of Demand for Agricultural Credit

A few rural banks complained that in some regions (as for example in Eastern part of Western Zone), the effective demand for agricultural credit is much lower than the expected demand. This is because the new agricultural technology has not yet become widespread in these regions; or because farms are very small and many cultivators are in a position to take only one crop per year. In some parts of area of study, on the other hand, there is not much demand for agricultural credit as many cultivators are in a position to meet the needed expenditure at their own. Because of severe competition among commercial banks, big agriculturists and trades lendings money to small farmers for carrying on their agricultural operations, rural bank have little to do.

8.18 Special Difficulties in Providing Credit to Weaker Sections in Rural Areas

Some regional rural banks pointed out some difficulties in matters of providing credit to the weaker sections of people in rural areas in a big way. Some of the important difficulties coming in the way in this matter are: (i) unsatisfactory state of land records, (ii) inability of borrowers to provide margin money and sureties, (iii) competition from money-lenders (big landowners and traders) to
whom these people from weaker sections of the community are indebted to and are closely dependent on for such things as consumption credit, marketing of agricultural produce and employment, (iv) very small and fragmented holdings and small size of marketable agricultural surplus, and (v) poor progress in the implementation of land reforms in most of the States.

8.19 Uncertain Future of RRBs

Due to poor deposit mobilisation, high mounting of overdues, increased losses in RRBs, lack of viability and poor morale of the staff of the bank etc. have resulted in the propagation of the idea of either winding up the RRBs altogether or merging them with the rural branches of commercial banks. The balance of opinion is in favour of merging the banks with rural branches of sponsor banks.

8.20 Poor Attitudes and Behaviour

On many occasions, a major problem faced by the poor in approaching RRBs is that of the attitudes and behaviour of bank staff. Many poor people often complain about the kind of behaviour that they receive while interacting with service agencies like banks or health centres. They are not treated properly because of our inherent attitudes, where many of us care less for those who are weak and deprived, while caring more for the rich and the powerful. No wonder,
few poor people, both men and women, can gather the confidence to approach RRBs and secure loans from them. Disregard for public service and disregard for the poor makes the problem of the approaching poor more complicated. Many staff of the bank are not properly sensitized even when some of them are from the rural areas. Many rural poor feel reluctant to approach the banks and do not have enough courage because of their lowly livelihood, their clothes and their educational level. Problems of attitudes and behaviour of the staff become a major hindrance for institutions engaged in public service, in reaching the poor clientele and others socially deprived.

8.21 Prospects: role and viability

The various role expectations of RRBs have undergone change over a period of less than two decades, as is evidenced by the reports of the various committees appointed by the Reserve Bank.

8.21.1 Dantwala Committee: The Review Committee on Regional Rural Banks (1978) under the Chairmanship of Prof. M.L. Dantwala was the first to evaluate the performance of RRBs and has come out with the fact that the existing credit institutions even after necessary restructuring and modifications cannot be expected to meet the varied and growing needs for rural credit. Hence, the Committee justified the establishment of RRBs with certain modifications.
8.21.2 CRAFICARD: The Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) appointed by the Reserve Bank which in its report submitted in 1981 examined the role of RRBs in the rural credit system, and made some observations. The important among them accepted by the Government of India for its far-reaching consequences are:

(a) As these banks were more suitable for rural development work, preference should be given to them with regard to licencing of branches in the rural areas;

(b) The Reserve Bank may take necessary steps to facilitate the transfer of eligible business of rural commercial bank branches to the RRBs when such proposals were presented;

(c) The losses in the initial years should be made good by the shareholders;

(d) The various facilities provided by the sponsor banks should continue for a period of 10 years; and

(e) The control, regulation and promotional responsibility of RRBs should be transferred to the newly proposed National Bank for Agriculture and Rural Development (NABARD) from the Government of India and the Reserve Bank.
8.21.3 RBI Study: In the meantime, the Reserve Bank in 1980 conducted a study on the viability of RRBs and found that the RRBs were capable of breaking even at an outstanding loan business of Rs. eight crore with a margin of about five per cent between their average borrowings and lending rates. But the following factors were found to limit the RRB branches from being viable:

(i) Location of branches at centres where business potential is limited.

(ii) Difficulty in expanding the volume of business due to keen competition from commercial banks and co-operatives; and

(iii) The target group which is historically weak and unenterprising clientele.

8.21.4 Kelkar Working Group: The Kelkar Working Group appointed by the Reserve Bank in 1985 recommended, inter alia, the provision of amalgamation of RRBs in consultation with NABARD, State government concerned and sponsor bank after taking into consideration public interest, development of the area and interest of RRBs concerned. This provision was incorporated into the RRB Act 1976 by the Regional Rural Bank (Amendment) Act, 1987. Thus the Dantwala Committee (1978), CRAFICARD (1981) and the Kelkar Working Group (1986) were of the view that in spite of serious
organizational deficiencies and loss of viability. RRBs should continue their existence as the third arm of multi-agency approach and cater exclusively to the weaker sections.

8.21.5 Khusro Committee: Considering the serious organisational problems that are built into the RRBs, the Agricultural Credit Review Committee (1989) under the chairmanship of Dr. A.M. Khusro recommended the merger of RRBs with their sponsor banks. These critical deficiencies related to the steep decline in profitability, poor recoveries, and problems relating to management and staff. The accumulated losses in respect of 157 RRBs at the end of December 1986 was estimated to be ₹9,431 lakh which had wiped off the entire share capital of 117 RRBs. The Committee observed that the insistence on lending exclusively to weaker sections with low interest rate margins, lack of cross-subsidization possibilities and high operating cost of handling small loans were the major reasons for the erosion of profitability of RRBs. As against a gross margin requirement of 8.65 per cent, RRBs had a gross margin of 3.20 per cent with an average transaction cost of 6.90 per cent. The recovery performance was also found to be abysmally low, leading to the choking out of the credit recycling channel. Wilful defaults, misuse of loans, lack of follow-up, wrong identification of
beneficiaries, advancing benami loans, employee unrest were also rampant. The Committee unequivocally expressed that the logic and rationale, which justified or perhaps even necessitated the setting up of RRBs do no longer exist. The Khusro Committee recommended that the "RRBs would stand abolished as legal entities".

8.21.6 Narasimham Committee: The report of the Committee on the Financial System (1991) under the chairmanship of M. Narasimham was less outright in its comments. Even though the Committee is more often identified for redefining the concept of priority sector and for recommending the scaling down of priority sector lending from 40 per cent to a mere 10 per cent, it had some changed perceptions on the role of RRBs in the future. Viewing that easy and timely access to credit is far more important than its cost, the Narasimham Committee proposed the following broad structural organization for the banking industry during the nineties:

(a) Three or four large banks (including the State Bank of India) which could become international in character;

(b) Eight to ten national banks with a network of branches throughout the country engaged in general/universal banking;
(c) Local banks whose operations would generally be confirmed to a specific region; and

(d) Rural banks (including RRBs) whose operation would be confined to the rural areas and whose business would be predominantly engaged in financing of agriculture and allied activities.

The Committee had left the option open to the RRBs and the sponsor banks to decide whether the RRBs should retain their identity or go for the merger. Those RRBs that wish to retain their identity were to be allowed to be engaged in all types of banking business by retaining the target group approach to lending.

8.21.7 The Basu Committee on restructuring of regional rural banks (RRBs) has recommended that ₹558.71 crore will be needed to cleanse the balance sheets of the 68 RRBs that have been selected for the purpose in the second phase (1995-96). The Central government has already allocated its share of ₹300 crore out of the total amount of ₹600 crore for the exercise. The state governments and sponsor banks will have to foot the remaining amount in the ratio of 15:35.

Uttar Pradesh, which has the largest number of RRBs (22) selected under the second phase, will require ₹208.9 crore, while Bank of Baroda (BoB), which is sponsoring 8 RRBs, will require funds to the tune of ₹86 crore, says the report.
The committee observed that the aggregate amount required for cleansing the balance sheets of 146 RRBs under consideration worked out to ₹1,962.86 crore, with an average of ₹13.4 crore per RRB. While the minimum amount required for infusion was ₹43.12 lakh, the maximum sum stood at ₹59.05 crore.

Also, the committee has decided that ₹27 crore would be the maximum amount for infusion of capital for any single RRB. In view of this gap, four RRBs - Nagarjuna Gramin Bank, Sri Visakha Gramin Bank, Mallabhum Gramin Bank and Pandyan Gramin Bank - were excluded from the list even though they were eligible under the norms prescribed for selection.

It has also been decided that no liquidity component be provided for the selected RRBs apart from the amounts required for cleansing the balance sheets.

The panel has also requested that the Central government obtain the concurrence of the state governments and sponsor banks for releasing their respective shares before releasing its own. This was because, the report stated, that some sponsor banks had expressed apprehensions about no being able to meet their share towards cleaning the balance sheets in view of the capital adequacy norms prescribed. State governments had also expressed their concern about making large budgetary provisions.
The committee has also suggested that it was not in favour of recommending any RRB based merely on the basis of geographical considerations. It kept in view the main intention of the government to select those RRBs which have the best possibility of a turnaround, the report says.10

8.22 Other Measures to Improve the Working of RRBs:

Based on the mentioned constraints, a number of measures were taken to restructure the rural credit delivery system and improve credit flow to agriculture. Such measures laid emphasis on the performance of RRBs by way of growth of deposits, mix of various types of deposits, disbursement to forget and non-target groups, recovery targets, investment in SLR and non-SLR categories, cost of fund, return on resources, etc. The measures have emphasized the principles of good banking. Some additional points on rural banking are discussed below.

In order to develop the banking habits among these population 'personal approach' is the only remedy. The concept of personal approach refers that the field officers/inspectors of the Bank should approach personally the poor and weaker sections of the community in the rural areas and assess their requirements themselves. They could investigate these persons to come to the bank branches and take loans at easy and cheap terms for the respective purposes. This all
will require a polite and sympathetic attitude of the bank staff, otherwise even the personal approach will serve no purpose.

The rural credit system should strive for greater people's participation in the development process from the stage of credit planning up to the stage of recovery of loans. This would enable proper identification of credit needs, establish viability of credit schemes and lead to adequate participation, banks should also associate themselves with reputed non-governmental organisations (NGOs) and self-help groups (SHGs) in the process and utilise their services for successfully implementing the credit programme. Besides these, banks should also participate in extension education programmes for the rural people so as to provide them information about the new technology and the banking facilities offered by them.

The staff in the rural centers be posted at their early stage of career before they get involved in family problems etc. It is also worthwhile to mention that rural posting be made compulsory for everyone and a definite tenure should be fixed for such posting, which should be strictly adhered to. For arriving at the adequacy of the staff, nature and volume of business, workload and topography of the area be taken care of. Steps should also be taken to make the system cost-effective by improving staff
productivity through rationalisation of staff deployment and proper manpower development.

The loan policies and credit procedures of Regional Rural Banks should be uniform, simple and flexible. Besides credit, the RRBs should provide a package of services like marketing and distribution of inputs, storage and godown facilities and tools and implements.

There is need for quick and prompt recovery of loans by RRBs. For this they should have adequate trained and expert field staff to undertake field supervision and end use of credit. Personal contacts and regular monitoring of the activities of the borrowers will help for speedy recovery of loan. Besides recovery of loans need be tagged with the ability of RRBs in procuring funds from sponsor banks and through these banks from NABARD.

State Government need to support the RRBs in a big way. It is the responsibility of state government to provide infrastructural facilities, transport and communication network, regulated markets, schools and medical facilities in the rural areas. When rural development in all its manifestations make a headway, the RRBs then only can function in a better manner.

In order to increase the viability of RRBs, it is necessary that they should further gearup their efforts towards deposit mobilisation. Besides, their loaning activities need not be confined to weaker section borrowers.
The RRBs need to be encouraged to provide even to borrowers other than small borrower. This would increase the profitability of the banks.

One major problem faced by the RRBs is that they do not have adequate data relating to rural economy. Rarely economic surveys have been conducted in the countryside. In the absence of adequate data relating to block or village economy, the RRBs find it extremely difficult to plan their banking plans. Infact, banking plans at the village and block level are conspicuous by its absence. This is further aggravated due to absence of any reliable data relating to block or village economy.

With a view to tone up the working of RRBs, the Government of India has come out with a proposal for establishing a "National Rural Bank". The new bank will continue to preserve its distinct identity primarily concerned with providing credit to rural poor. The proposed bank will have the advantages of economic life, unity of command and single point control. Once the new bank comes into existence it will be a major agency with its strong presence being felt in the rural areas insofar as providing institutional credit is concerned. It can provide all types of services to its rural clientele which is not the case with RRBs. Employees of RRBs can also proudly look forward for being a part of the biggest bank with nearly 15,000 branches. Staff morale is expected to improve in the
proposed setup due to better promotional opportunities and job satisfaction.

It is further suggested that the RRBs need to supply credit uniformly to benefit all the sector of the rural economy. It is observed that RRBs mainly concentrate their loan operations in agriculture. Sectors like village and cottage industries, retail traders and professionally self-employed workers get very little credit from RRBs. In order to promote balanced rural development it is necessary that RRBs need to supply credit to benefit all the sections of the rural economy.

There is need for proper co-ordination between RRBs and other institutional financing agencies operating in the rural areas like commercial banks and co-operative banks. Besides, there is need for active co-ordination between RRBs and other developmental agencies like Block Development Agency, District Rural Development Agency, District Statistical Office and other quasi-government organisations operating at the grass-root level. If these following steps are adopted, RRBs are likely to improve their functioning in the rural centres, where there is inadequate economic activities due to poor institutional effort.
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