CHAPTER- IV
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PROBLEMS AND PROSPECTS OF REGIONAL RURAL BANKS

India basically is land of villages. Rural economy dominates the economic scene of the country even after speedy urbanization in recent past. Regional Rural Banks 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. Regional Rural Banks combine in good point of cooperative and commercial bank both eliminating the weakness of the both. The rural bank have the local base and 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 have not delivered goods up to the satisfaction of academicians. There are many constraints and impediments in the working of rural banking system of the country.

The credit system of countryside has not bettered. This is true that there are many limiting factors to it. And these factors have both deposit and mobilization and credit authorization and disbursement. The Regional rural banks cannot reach the optimum level unless a proper solution to the problem 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.
1. Lack of Banking Habits among 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 town 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 subsequent nationalization 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 nationalization of the major scheduled commercial banks, India’s 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 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 there 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 inspite of implementing various plans and programmes for the development of banking and banking habits among poor rural masses by RBI and the government of India.

Besides being illiterate, Indian villagers are conservative and do not want to make any improvement in their routine function. No doubt, a majority of them have been coming towards banks especially after the development of regional rural banks in the rural and neglected areas, but the position is still much far from satisfactory. This is the major problems which has an adverse effect upon the working of the regional rural banks in India.

2. Lack of Local Participation:
Regional Rural Banks have not received sufficient local participation. The regional rural banks 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 needs to be associated with the management of regional rural banks. Rural people need to be persuaded to subscribe to share capital of regional rural banks which is at present confined to central government.
3. **Difficulties in Recovery of Loans and Problem of over dues:**

Performance of commercial banks were viewed as a whole cannot be considered as satisfactory in respect of recovery of Loans.

It is found that recovery performance varied from bank to bank, being anywhere from 33 to 79% of demand during 1981-87 and from 32 to 78 percent during 1991-97.

It was observed that not all over dues were of the nature of bad debts. It was also pointed out that it was not the over dues of agricultural loans that worried Regional Rural Banks as much as over dues in respect of advances to small scale industry. This was so because in the case of over dues of small scale industrial units in rural areas the troubles are chronic.

Main causes of poor recovery of agricultural loans and over dues, as reported by a number of banks are as follows:

a) Natural calamities like floods, drought hits and epidemics resulting in death of cattle etc.

b) Delay 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 etc.
d) Unsatisfactory marketing arrangements resulting in agriculturist borrowers getting lower than expected prices.

e) Unforeseen expenses of borrowers due to sickness, litigations 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 troubles.

g) Willful default on the part of certain agriculturists.

4. More Losses and less Profits:

It is observed that many regional rural banks are incurring losses. Only a few of them are earning profits. It is estimated that regional rural banks in the present set up incur losses. Of about Rs. 50 lakhs per day. The regional rural banks incur losses due to hike in salaries of staff, poor recovery of loans, exclusively lending to weaker section borrowers etc. In this connection, therefore it is suggested that regional rural banks need not exclusively confine their operations 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 regional rural banks are deliberately required to cater to the needs of all categories of borrowers. However, it is suggested that the regional rural banks need to provide 60% of credit to target beneficiaries and 40% to non-target beneficiaries.
Out of 196 regional rural banks as many as 150 have shown losses continuously for the last six years and many have completely wiped out their equity and reserve and in some regional rural banks, 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 of loans and the like have been the major reasons for the huge losses of regional rural banks. In fact viability of many regional rural banks. Moreover, the regional rural banks 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 regional rural banks 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 regional rural banks step by step. However no action yet been taken in this regard.

**Lack of Infrastructural Facilities and Marketing Arrangements:**

Inadequate 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). Obviously 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.

**Inadequate Deposit Mobilization:**

The deposit mobilization of regional rural banks has remained at a very low level. The area of operation for each regional rural bank 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 regional rural banks are asked to touch the weaker section population in the rural areas who have very low saving capacity, the deposit mobilization stands at a lower level. This seriously hampers their business activities. Due to poor deposit mobilization the regional rural banks 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 become sick due to excessive dependence upon higher financing agencies for borrowing.
As at the March 1996, the total rural deposits mobilized by regional rural banks is Rs. 19187 crores which constitutes a mere 19.5% of the deposit mobilized by all scheduled commercial banks rural branches. On the other hand, the regional rural banks rural branch network constitute 49.2% of rural branches of all scheduled commercial banks. There is scope for substantial step up in deposits as regional rural bank branches mostly do not face any worthwhile competition in its area of operation, being the sole financing agency. The performance of regional rural banks in deposit mobilization is also not uniform with some of the banks recording excellent performance and the remaining banks showing average performance.

On account of poor deposit mobilization, they have depended heavily upon NABARD refinancing. It is therefore rightly said that, “only when an regional rural bank 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.”

**Rate of vested Interest Groups:**

The regional rural banks 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 regional rural banks. At times, they have utilized 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 sensitive actively in money landing business. This leads to serious diversion of resources from usefulness to unproductive channels.3

**Lack of Demand for Agricultural credit:**

A few rural banks complained that in some regions 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, a position to take only one crop per year. In some parts of area 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 traders lending money to small farmers for carrying on their agricultural operations rural bank have little to do.

**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 lender 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.

v) Poor progress in the implementation of Land reforms in most of the states.

**Uncertain Future of Regional Rural Banks:**

Due to poor deposit mobilization, high mounting of over dues, increased losses in regional rural banks, 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 regional rural banks altogether or merging them with the rural branches of commercial banks. The balance of opinion is in favour of merging the bank with rural branches of sponsor banks.  

**Poor attitude and behaviour:**

Many poor people often complain about the kind of behaviour that they receive while interacting with service agencies like banks or health centres. 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. Problem of attitude and behaviour of the staff become a major hindrance for institutions engaged in public service in reaching the poor clientele and other socially deprived.

**Absence of Suitable Staff:**

The regional rural banks 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 regional rural banks themselves. Most of the staff recruited by regional rural banks lack proper training and guidance. It is really regrettable that regional rural banks 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 fulfill the objective of timely recovery of loans and is now saddled with huge over dues for lack of effective follow up. Visits to village have become infrequent and inspection of assets are conducted in a perfunctory manner.

**Organization Constraints:**

Organizational 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 in still largely illiterate, making provision for security of funds have been and continue to pose various problems which will have to be tackled successfully.

There is another organizational 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 institution on agriculturally prosperous areas and on big and well-to-do agriculturists in such areas, comparative neglect by these institution agriculturally backward areas and of small marginal farmers in general.

**Personnel Constraints:** The case studies of rural banks reveals that the orientation of the staff of the regional rural banks 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). 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 regional rural banks. Justifications for opening the new rural banks would in fact not remain valid. One wonders why regional rural banks necessarily should have been staffed by graduates. The working group an regional rural banks perhaps did not sufficiently realize 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 has 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 regional rural banks 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 regional rural banks 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 regional rural banks to retain them for a long time at salaries much lower then 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 regional rural bank Act. There are indications of the formation of ‘staff association’ in some of the regional rural banks (For example among some of the regional rural banks 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 there problems leading to the setting up of the regional rural banks 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.
Lack of Political maneuvering:

The political maneuvering of institutional borrowing cannot be neglected. On many occasions, people borrow from the regional rural banks 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 regional rural banks. 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 politicized to a large extent for the benefit of the party in center. As a result of the variety of experiments with giving subsidized 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 creating and enlarging their vote bank. All poverty alleviation programme have resulted in getting rich to the so called regional rural leaders. Regional rural banks have to dance according to the tunes set by regional rural bosses.

IRDP, novel banking scheme has resulted into pointed political policy resolution and the management of regional rural banks also that of other commercial bank have to honour the list of beneficiaries submitted by chhubhiya leader in the name of IRDP.

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% of land get 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 income 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 rates 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.

**Procedural Problems:**

The regional rural banks have not been able to expand their direct lending 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 standardization of the loaning procedure of the regional rural banks. 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 regional rural banks for verification of land holdings and avoiding over-financing by different credit agencies on the basis of the same assets of the borrower. The regional rural banks 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 cooperatives and of the commercial banks and minimizing combining their worst features the regional rural banks 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.

**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 gouts. (For e.g. in the case of minor irrigation, ground water 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 centre 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 under taken by commercial loans and minor irrigation
schemes came in for sharp criticism by some regional rural banks.

**Prospects: Role and Viability:** The various role expectations of regional
rural banks 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.

**Dantawala Committee:**

The Review Committee on Regional Rural Bank (1978) under the Chairmanship of Prof. M.L. Dantwala was the first to evaluate the performance of regional rural banks and has come out with the fact that the existing credit institutions even after necessary restructuring and modification cannot be expected to meet the Committee justified the establishment of regional rural banks with certain modification.

**CRAFICARD:**

The Committee to Review the Arrangements for Institutional credit for agriculture and rural development (CRAFI CARD) appointed by the Reserve Bank which in its report submitted in 1981 examined the role of regional rural banks 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 licensing of branches in the rural areas;

b) The losses in the initial years should be made good by the shareholders;
c) The various facilities provided by the sponsor banks should continue for a period of 10 years, and
d) The control, regulation and promotional responsibility of regional rural banks should be transferred to the newly proposed (NABARD) from the government of India and the Reserve Bank.

Reserve Bank of India Study:

In the meantime, the Reserve Bank in 1980 conducted a study on the viability of regional rural banks and found that the regional rural banks were capable of breaking even at an outstanding loan business of Rupees 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 regional rural bank 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 cooperatives; and

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

Kelkar Working Group:

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

Khusro Committee:

Considering the serious organization of problems that are build into the regional rural banks, the Agricultural Credit Review Committee (1989) under the chairmanship of Dr. A.M. Khusro recommended the merger of regional rural banks with their sponsor banks. These critical deficiencies related to the steep decline in profitability, poor recoveries and problems relating to management staff. The accumulated losses in respect of 157 regional rural banks at the end of December 1986 was estimated to be Rs.9,431 lakh which had wiped off the entire share capital of 117 regional rural banks. 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 regional rural banks. As against a gross margin requirement of 8.65%, regional rural banks
had a gross margin of 3.2% with an average transaction cost of 6.90%. The recovery performance was also found to be very low, leading to the choking out of the credit recycling channel, willful defaults, misuse of loans, lack of follow up, wrong identification of beneficiaries, advancing benami loans, employee unrest were also rampant. The Committee expressed that the logic and rationale, which justified or perhaps even necessitated the setting up of regional rural banks do no longer exists. The Khusro Committee recommended that the “Regional rural banks would stand abolished as legal entities”.

**Narasimham Committee:**

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 SBI) which could become international in character;

b) Eight to ten national banks with a net work 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 regional rural banks) 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 regional rural banks and the sponsor banks to decide whether the regional rural banks should retain their identity or go for the merger. Those regional rural banks 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.

The Basu Committee:

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

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

Also, the Committee has decided that Rs. 27 crore would be the maximum amount for infusion of capital for any single regional rural bank. In view of this gap, four regional rural banks---Nagarjima Gramin Bank, Sri Jisakha 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 equidity component be provided for selected regional rural banks 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 government 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 sheet in view of the capital adequacy norms prescribed. State government had also expressed their concern about making large budgetary provisions.
The Committee has also suggested that it was not in favour of recommending any regional rural bank based merely on the basis of geographical considerations. It kept in view the main intention of the government to select those regional rural banks which have the best possibility of a turn around, the report say.10

Other Measures to Improve the Working of Regional Rural Banks:

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 regional rural banks 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-SLD categories, cost of fund return on resources etc. The measures have emphasized the principle of good banking. Some additional points on rural banking are discussed below.

In order to develop the banking habits among these population 'personal approach in the only remedy. The concept of Personal approach refers that the field officer’s/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 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 organizations (NGOs) and self help groups (SHGs) in the process and utilize 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 centres 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 every one 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, work load 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 rationalization 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 regional rural banks 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 regional rural banks. 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 regional rural banks in procuring funds from sponsor banks and through these banks from NABARD.

State government need to support the regional rural banks 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 regional rural banks then only can function in a better manner.

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

One major problem faced by the regional rural banks in 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 regional rural banks find it extremely difficult to plan their banking plans. In fact, banking plans at the village and block lend 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 regional rural banks, the government of India has come out with a proposed 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 in so far as providing institutional credit is concerned. It can provide all types of services to its rural clientele which is not the case with regional rural banks. Employees of regional rural banks 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 set up due to better promotional opportunities and job satisfaction.

It is further suggested that the regional rural banks need to supply credit uniformly to benefit all the sector of the rural economy. It is observed that regional rural banks 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 regional rural banks. In order to promote balance rural development it is necessary that regional rural banks need to supply credit to benefit all the sections of the rural economy.

There is need for proper coordination between regional rural banks and other institutional financing agencies operating in the rural areas like commercial banks and cooperative banks. Besides, there is need for active coordination between regional rural banks and other developmental agencies like Block development Agency, District Rural development Agency, District statistical office and other quasi-government organizations operating at the grass root level. If these following steps were adopted, regional rural banks 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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