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ROLE OF REGIONAL RURAL BANKS IN THE DEVELOPEMENT OF INDIA

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Abstract: - The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. Regional Rural Banks (RRBs) were established in October 2, 1975 and are playing a pivotal role in the economic development of the rural India. The main goal of establishing Regional Rural Banks in India is to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by RRBs in the development of rural economy.

1. Introduction

The establishment of regional rural banks in India marks another important landmark in the banking history of the country. These banks were established under the provision of the Regional Rural Banks Ordinance, 1975, promulgated by the government on September 27, 1975. The main objective of establishing the regional rural banks is to provide credit and other facilities especially to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs in the rural areas. Each RRB operates within the local limits specified by a notification. Each RRB is sponsored by a public sector bank which provides assistance by subscribing to its share capital, providing such managerial and financial assistance as my be mutually agreed upon and helping in the recruitment and training personnel during the initial period of its functioning. The authorized capital of each RRB is Rs. 1 crore and the issued capital is Rs. 25 lakh. Of the issued capital, 50 percent is subscribed by the Government of India, 15 percent by the concerned state government and the balance 35 percent by the sponsor bank. The management of each RRB is vested in a nine member Board of Directors headed by a chairman who is appointed by the Government of India. In discharging its functions, the Boards of Directors is required to act on business principles and in accordance with the directives issued by the Government of India, after consultations with the Reserve Bank of India.

All the RRBs established in the country have been included in the second schedule to the Reserve Bank of India Act, 1934. The Reserve Bank of India is authorized to grant assistance to RRBs in the form of loans and advances from the National Agricultural Credit Fund under sections 46A and 46B of the Reserve Bank of India Act, 1934.

The co-operative banks have criticized the establishment of the RRBs. It is argued by the cooperatives banks spokesman that the extension of the RRBs in the country would adversely affect of structure of the apex banks and the cooperative credit structure of the base level. The spread of the RRBs would scrap the cooperative credit structure. There is, however, little truth and weight in this argument, which cannot stand the test. Experience about the rural banks so far does not lend support to any such belief that the RRBs have replaced the district central cooperative banks.

Role of Government of India, NABARD, RBI and State Governments regarding to regional rural banks, each RRB has three shareholders, viz. Government of India, sponsor bank and state government. The Government of India is the major shareholder (50%) and invested with the powers to issue instructions / directives to RRBs. After the establishment of the NABARD in July 1982, certain functions such as statutory inspection of RRBs, have been transferred from RBI to NABARD by amending the Banking Regulation Act, 1949. However, other statutory functions relating to scheduling, cash reserve and SLR requirements, branch licensing etc. remain with RBI. NABARD has also been overseeing functioning of the RRBs on behalf of Government of India and has also been issuing guidelines and instructions, whenever necessary, in consultation with Government of India.

2 Literature Review

A number of studies have been conducted to see the functioning and performance of RRBs in the country. Some of the relevant studies are given here under.

2.1 Inception and growth phase (1976-1990)

Dantwala Committee (1978)1 made a study entitled “Report of committee on Regional Rural Banks” after reviewing the performance and potential strength of the Regional Rural Banks. The committee recommended that the government of India should take steps to make RRBs an integral part of the rural credit structure and concluded that within a short period of two years, the Regional Rural Banks have demonstrated their capability to serve the purpose for which they were established. **C.D. Wadhva (1980)2** made a noteworthy study, entitled “Rural Banks for Rural Development”. This study covered an analysis of the progress made by all Regional Rural Banks in India and offered valuable suggestions for the restructuring of the Regional Rural Banks. This study was conducted in 1977 when the Regional Rural Banks were in the initial stages and the assessment of their performance was premature.

The Kelkar Committee (1986)3 to strengthen RRBs further, Kelkar Committee made comprehensive recommendations covering both organizational and operational aspects. Several of these were incorporated as amendment the RRB Act, 1976 such as;

1. Enhancement of authorized capital of RRBs from Rs 1 crore to Rs 5 crore and paid up share capital from Rs 25 lakhs to Rs 1 crore;
2. Appointment of Chairman of RRBs by the concerned sponsor bank in consultation with NABARD; 32
3. Provision of assistance to RRBs in greater measure by sponsor banks in training
4. RRB staff and giving financial assistance to RRBs in their first five years of existence Provision for amalgamation of RRBs in consultation with all the concerned parties
5. Empowering the sponsor banks to monitor the progress of RRBs and also to arrange for their inspection, internal audit etc. Though the progress of implementation was tardy (the amended act came into force only by end-September- 1988), there was enough scope for improvement thereon.

NABARD (1986)4 published "A study on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

Agricultural Credit Review Committee-Khusro Committee (1989)5 pointed out that Regional Rural Banks (RRBs) were facing certain problems as the financial health of Regional Rural Banks (RRBs) turned weak mainly due to its limited business flexibility with hardly any scope of expansion/diversification. The loan size was small with higher exposure to risk-prone advances and there was professional inefficiency in financial deployment. To strengthen Regional Rural Banks (RRBs) and improve their performance, the Reserve Bank allowed Regional Rural Banks (RRBs) to lend to non-target groups. Reserve Bank of India (RBI) deregulated their deposit and lending rates and permitted investment of their surplus funds into profitable avenues. Regional Rural Banks (RRBs) were allowed to finance non-target groups to the extent not exceeding 40 percent of their incremental lending. This limit was subsequently enhanced to 60 percent in 199

Bapna (1989)6 made study entitled "Regional Rural Banks in Rajasthan". The study evaluated the working and growth of the 4 RRBs which were operating in Rajasthan in the year 1980. The aspects emphasized upon the organization, management, financial resources, loans and advances, credit deposit ratio, recovery performance 33 and profitability of RRBs. The study concluded that the RRBs suffered from many structural drawbacks and were economically unviable. It was found that the performance of RRBs with regard to branch expansion, deposit mobilization, building up of sizable trained human resources and meeting all commitments under the government sponsored programmes during the period under study had been satisfactory. The inherent weaknesses of the RRBs highlighted were mounting overdue and very low spread ratio and high burden ratio.

S.G.Hundekar (1995)7 made a study on "Productivity in banks". The study aimed at analyzing the productivity of the Bijapur Gramin Bank in Karnataka State from 1976 to 1990, in terms of its growth, its innovative ability, achievement of social objectives and its operational efficiency & profitability of working funds. The productivity of RRBs is analyzed with help of market share in branch expansion, deposit mobilizing, credit management, operational efficiency, profitability ratios.

A. K. Jai Prakash (1996)8 studied on "Role of RRBs in Economic Development" the author conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

Himansu Shekhar (1997)9 made study on "Analysis and interpretation of the working of Regional Rural Banks". The study was focus on the analysis and interpretation of the working of Regional Rural Banks in the domain of rural credit in India. Special attention has been paid to evaluate the economic development made by Regional Rural Banks in Bihar. The study also focused on various problems and prospects of Regional Rural Banks in India and particularly in Bihar. It covered the period of 1976 to 1985.

2.2 Reform phase (1991-2005)

Narasimham Committee (1991)10 The Committee on Financial Systems stressed the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBS were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs. 25 lakh) did not cover for the loan losses of most RRBs. 34 In the case of a few RRB there had also been an erosion of public deposits, besides capital. In order to impart viability the operations of RRBs, the Narasimham Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the function of RRBs.

Kaur (1999)11 studied the growth and performance of RRBs in Punjab during the period 1987-96. The study revealed that RRBs had the highest growth rate of 5.11 percent in the rural areas. Deposit per branch, credit deployment, growth of credit deployment in the rural areas and semi urban areas, credit per branch, priority sector advances were the highest for RRBs as compared to those of commercial banks and cooperative banks in the rural areas in Punjab during the study period. Credit-Deposit ratio remained below the national average for commercial banks and RRBs during the same period.

Chavan and Pallavi (2004)12 have examined the Growth and Regional distribution of Rural Banking over the period 1975-2002. Chavan's paper documents the gains made by historical underprivileged region of east, northeast and central part of India during the period of social and development banking. These gains were reversed in the 1990s cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

Vyas committee (2004)13 the advisory committee on Flow of Credit to Agriculture and Related activities in June 2004 recommended restructuring of RRBs. Following this, an internal working group on RRBs was set up in the RBI to examine various alternatives available within the existing legal frame work for strengthening RRBs. In order to improve the viability of RRBs and take advantage of the economies of scale, the route of merger /amalgamation of RRBs were suggested taking in to the views of various stake holders. A two phase restructuring was suggested by the committee, (i) merger between RRBs of the same sponsor bank in the same state; and (ii) merger of RRBs sponsored by different banks in the same state.

Pal and Sura (2006)14 made a study on "Efficacy of Regional Rural Banks in India: A Conventional Analysis". The study was based on 196 RRBs operating in India. The study made an attempt to assess the efficacy of RRBs in India for the period of 1975- 2005. An attempt had been made to assess the efficacy of Regional Rural Banks in 35 terms of certain defined parameters like growth pattern of RRBs; the credit distribution of RRBs; and the geographical distribution of RRBs and to recommend some workable suggestions to augment the performance of RRBs in India. The study concluded that the overall position of RRBs in India was not quite encouraging. The government should spread the branches of RRBs at grass root level to provide such banking services to the really needy rural people.

Chidambaram (2007)15 examined that RRBs in India made considerable progress in deposit mobilization, credit dispensation and profit making during the period 2002-03 to 2004-05. It was mentioned that as a result of amalgamation, RRBs were in a position to provide better customer services with better infrastructure and policies of experienced staff. It further stressed upon the need for a change in the attitude of branch managers of the RRBs. In the wake of introduction of financial sector reforms in 1991-92, the commercial viability of RRBs emerged as the most crucial factor in deciding about their desired role due to their limited business flexibility with hardly any scope of expansion/diversification, smaller size of loans with higher exposure to risk-prone advances and professional efficiency in financial deployment.

To strengthen RRBs and improve their performance many initiatives have been taken by the Government of India and the Reserve Bank of India (RBI). As part of the comprehensive restructuring programme, recapitalization of RRBs was initiated in the year 1994-95. The process continued till 1999-00 and covered 187 RRBs with aggregate financial support of Rs.2188.44 crore from the shareholders, viz., Government of India, State Governments and sponsor Banks in the ratio of 50:15:35. Further, the branch licensing policy for RRBs has been liberalized. Under the new norms empowered committees at the regional offices of RBI clear RRB application to open new branches. The branches of RRBs may undertake government business including conducting foreign exchange business with the prior approval of the concerned Government authority and RBI.

These banks have also been allowed to open extension counters at the premises of the institutions of which they are principal bankers after obtaining license from the concerned regional office of the RBI. The RRBs need not obtain permission of RBI for the installation of ATMs at the branches and extension counters for which they hold licenses issued by RBI. They are also permitted to open off-site ATMs after assessing the cost and benefit. As against the earlier policy of opening a large number of branches in far flung rural areas, RRBs 36 have been permitted to merge/close down their unviable branches and the branch licensing policy for RRBs is almost at par with that for commercial banks. Now RRBs compete with the commercial banks in rural credit market of India. RRBs give loans for agriculture and rural development while commercial banks also serve needs of commerce and industry in rural areas16. The reform phase supplanted this understanding with a singular focus on commercial profitability for the Regional Rural Banks.

In a sense, the reforms of the Regional Rural Banks were no different from the reforms of the commercial banks. The same set of policies was implemented and the same set of standards set to calibrate then performance. Not surprisingly then, the Regional Rural Banks started aping the commercial banks in their activities-banks relocated to more promising areas; investments in government securities and PSU bonds and debentures increased while banks were hesitant to increase their loan portfolios; credit was extended mainly under non-priority sector heads so that the proportion of priority sector loans declined despite the dilution of the priority sector definition in several ways; interest rates on lending were deregulated which resulted in high interest rates charged by the Regional Rural Banks; credit to deposit ratio became less than half of the pre-reform levels indicating increased net transfer of resources from the rural poor to the urban rich; regional imbalances aggravated; and the small borrowers, the Principal clients of the Regional Rural Banks were overwhelmingly sidelined. By the beginning of the present decade, the carefully built structure of rural development banking in India had all but collapsed.17

2.3 Reconstruction/ post merger phase (2005 onwards)

By the year end March 2005, there was a remarkable improvement in the financial performance of RRBs as compared to the position prevailing in 2000-01. The numbers of RRBs reporting profit 166 out of 196 in 2004-05 as against 170 out of 196 in 2000-01. It is only in the past few years that the unwanted effects of reform measures on rural banking have begun to be recognized in certain official quarters. That the improved performance of the RRBs- 163 out of 196 RRBs were earning profits in 2003- 04 was largely a result of the banks abrogating their credit intermediation role rather than a sign of their genuine health and vibrancy is pitifully obvious18. 37 Based on the recommendation Vyas Committee (2004) the government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a state. So the current phase (2005 onwards) is a third phase of reform known as post merger period. After the amalgamation, the numbers of RRBs were reduced from 196 to 133 as 31st March 2006 and it is further reduced to 64 as on 31st March 2013.

Measures to Improve Operational Efficiency

With a view to improving the performance of RRBs and giving more powers and flexibility to their Board in decision making the RBI had constituted the task force on empowering the RRBs Board for operational efficiency under the chairmanship of Dr. K.G. Karmakar in September 2006. The task force was constituted to deliberate and suggest areas where more autonomy could be given to the Boards, particularly in matter of investment, business development and staffing viz. determination of staff strength, fresh recruitment and promotions among other. In its report submitted in January 31, 2007 the task force made several recommendations relating to operational flexibility of RRBs while some of the recommendations of task force are implemented, others are under examination. Some of the key recommendations of the above task force were as under

1. The no of directors on the board of RRBs be raised up to 15 on a selective basis in the case of large size RRBs created after amalgamation.
2. Selection of chairman of RRBs is on merit from amongst a panel of qualifying officers.
3. Minimum tenure of board members be stipulated as two years, subject to a maximum of 5 years for the chairman.
4. The term of nominee directors should not exceed two terms of two years each.
5. Non-official directors on the Boards of RRBs need to be oriented towards the functions of RRBs and their responsibilities as nominee directors.
6. RRBs should be subjected to the same level of safeguards and regulatory norms regarding capital adequacy as and regulatory norms regarding capital adequacy as applicable to commercial banks after the process of amalgamation is over.
7. RRBs must have the following committees (i) Risk Management Committee; (ii) Management committee; (iii) Investments, Human resources and Information Technology Committee and (iv) Audit committee. 38
8. Chairmen of RRBs should also be appointed as a member of the Empowered Committee constituted by Reserve Bank.
9. Matters relating to categorization of branches, staffing norms and promotion policies and other HR matter's, may be studied in depth by a Committee/Task Force, set up for the purpose by the Reserve Bank/Government India.
10. RRBs need to take up computerization of major areas of operations, management information system (MIS) in branches, controlling offices and head office in the next 3 years by adopting an Action Plan.
11. RRBs may be allowed to deal in NRE/FCNR (B)/FCRA, certificates of deposits, among others. In consortium with sponsor bank and be given the freedom to place their money in term deposits with any bank.
12. RRBs may join in consortium finance with public sector banks' DFIs.
13. Securitization and Reconstruction of Financial assets and Enforcement of Security Interest Act, 2002 may be extended to RRBs.
14. Provisions under section 80(P) of the income tax act may be continued for a further of five years or till the restructuring process is completed, whichever is earlier
15. Independent of official deliberations, the all Indian RRBs employees association (AIRRBEA) proposed that the RRBs be amalgamated to form zonal or state level RRBs. They have cited two strong reasons to make the case “the RRBs must be structured in to zonal or state level RRBs under any public sector apex banking institution or NABARD, so as to ensure the unity of command and cross subsidization as in any banking institution, if the central balance sheet is prepared at the apex level, the losses of the few RRBs (in the Eastern, North-Eastern and Central regions) can easily be taken care of with the huge aggregate profit of a majority of the RRBs". Further, a national body like that of NABARD should monitor the activities of such RRBs. Opposing the demands of All-India RRB Officers Federation for amalgamation of RRBs

with the sponsor banks as the only route to sustainability, AIRRBEA has demanded de-linking of the RRBs from the sponsor banks so as to ensure functional autonomy for the rural banks, and to relieve the burden of 'sole' commercial orientation so that the rural credit activities can be pursued more freely.

16. The AIRRBEA statement clearly takes the issue of ownership beyond the current preoccupation with profitability and asserts that not only can viability issues be handled better by restructuring the RRBs along the lines suggested by them, but more 39 importantly it can enable improved performance vis-a-vis credit activities, which is the urgent need today.

The control of sponsor banks on the RRBs needs to be seriously revaluated. At a time when the sponsor banks are themselves constrained to make cuts in the manpower and credit to agriculture or the SSI sector, they are unable to extend the help to the RRBs on which their sponsorship was premised. In our view, it is necessary that along with the Vyas Committee recommendations, which have absolutely defined the post-merger banking structure in terms of state-level banks, the policy makers also take into consideration the legitimate demand for functional autonomy and to rid the RRBs of the 'sole' commercial orientation such that the present decline of rural banking might be reversed.

17. As rightly said by Singh et al. (2009) the recent phase is about some repositioning to strike a balance in the conundrum of viability versus outreach. We have argued that the first phase while more focused on outreach was not devoid of a blueprint for viability, though the notion of viability for the RRBs was much more nuanced than what it denoted under the neo-liberal reform era. It is true that the commercial principles of banking were put under stress especially in the later part of the 1980s, which needed corrective steps and indeed many of the recommendations of that time were geared to improve recovery and reduce losses incurred by these banks.

However, it was generally held that these improvements could be done (and had to be done) within the parameters set for the RRBs, which in turn were determined by the overall vision of rural banking. The reform phase supplanted this understanding with a singular focus on commercial profitability for the RRBs. In a sense, the reforms of the RRBs were no different from the reforms of the commercial banks.

The same set of policies was implemented, and the same set of standards set to calibrate their performance. Not surprisingly then, the RRBs started aping the commercial banks in their activities-banks relocated to more promising areas; investments in government securities and PSU bonds and debentures increased while banks were hesitant to increase their loan portfolios; credit was extended mainly under non-priority sector heads so that the proportion of priority sector loans22. Declined despite the dilution of the priority sector definition in several ways; interest rates on lending were deregulated which resulted in high interest rates charged by the RRBs; credit to deposit ratio became less than half of the pre-reform levels indicating increased net transfer of resources from the rural poor to the urban rich; regional imbalances aggravated; and the small borrowers, the principal clients of the RRBs 40 were overwhelmingly sidelined.

By the beginning of the present decade, the carefully built structure of rural development banking in India had all but collapsed23. In the past couple of years which we delineate as the third phase of Regional Rural Banking, there have been one or two hesitant moves towards correcting the gross excesses of reforms, such as the upward revision of the priority sector lending target to 60 percent of the total advances. Clearly, there is need for a much bolder approach. The minimum that needs to be done, immediately, is to implement the recommendations of the government’s own Estimates Committee (2002-03) fully so that both the volume of credit and the terms of credit to the rural areas and to the targeted population can begin to improve. More generally, the incentive environment currently in place, which forces banks to respect commercial viability 'only' without any obligation toward RRBs primary banking activities has to be urgently replaced. this doesn't mean a return to the pre-reform era of banking, but rather moving towards a sensible blend of the 'RRB innovation' while pursuing a 'nuanced' criteria of viability, which must necessarily be different from the present benchmark of banking performance2 K.G. Karmakar (2007)25 the Reserve Bank constituted the Task Force on Empowering the RRB boards for Operational Efficiency (chairman Dr. K.G. Karmakar) in September 2006.

The Task Force was constituted to deliberate and suggest areas where more autonomy could be given to the board, particularly in matter of investment, business development and staffing. The Task Force submitted its report in January 2007. The Task Force recommended that the number of directors on the boards of RRBs be raised up to 15 on selective basis, selection of chairman should be on merit base, the term of nominee directors should not exceed two terms of two years each, RRBs should be subjected to the same level of safeguards and regulatory norms regarding capital adequacy as applicable to commercial banks after the process of amalgamation is over, chairman of RRBs should also be appointed as member of the Empowered Committee, RRBs need to take up computerization of major areas of operations within three years. **Hemlata & Poonamsing (2009)26** studied on "Financial inclusion through Regional Rural Banks". The paper deals with role of Regional Rural Banks in financing, role in financial inclusion, mobilization of savings, micro finance, and self help promotion institutions. The study recommends that RRBs should extend their services in to unbanked areas and increase their credit deposit ratio. As RRBs with branch in 41 remote, interior and tribal-dominated areas, they have a special role to play financial inclusion.

Ibrahim (2010)27 made study on "Performance Evaluation of Regional Rural Banks in India". The main objective of the study is to analyze whether the merger /amalgamation of RRBs in India, undertaken in 2005-06 has helped improve their performance. The study was confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits and investments made by the Indian RRBs for period from 2001-02 to 2008-09.

3. Objectives of the Present Research Study

Following objectives are framed for present research study.

1) To study role of the regional rural banks in rural development of India.
2) The overview the working of the regional rural banks in rural development of India.
3) To observe the role of central government in successful working of the regional rural banks in India.
4) To study the role of NABARD in operations of regional rural banks in India.
5) To overview the role of RBI in maintaining statutory obligations of regional rural banks in India.

4. Research Methodology and Collection of Data

The present research study is depending upon primary and secondary data. The primary data collected through personal discussion with official staff of the regional rural banks in Solapur district. The secondary data is gathered through different types of books and records of the regional rural banks. The previous research articles, reference books also used for collection of secondary data.

5. Scope and Limitations of the Study

This research study is taken on role of the regional rural banks in the development of rural India. The majority part of the research work is depends upon secondary data. Financial data is not applied in this research work.

6. Role of RRB

The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "Real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Reserve Bank of India in association with the other commercial banks has taken various initiatives to establish the equipped financial system in the rural India by offering various loans facilities for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans). In order to smoothen the system, RRB plays the key role by providing the following services:

1. Opening of no-frills accounts: Basic banking no-frills account with nil or very low minimum balance & banking charges that make such accounts accessible to vast sections of the rural population. RRBs are providing small overdrafts in such accounts.

2. Relaxation on know-your-customer (KYC) norms: Since August 2005, KYC requirements for opening bank accounts were relaxed for small accounts. RRBs are now permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3. General Credit Cards (GCCs): With a view to helping the poor and the disadvantaged rural people with access to easy credit, RRBs introduced general purpose credit card facility up to 15,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to the customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit.

4. Engaging business correspondents (BCs): In January 2006, RBI permitted scheduled commercial banks to engage business facilitators (BFs) and business correspondents (BCs) as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time.

6.1 Role of the Central Government

The main role of the Government of India as per the provisions of the RRBs Act can be summarized as follows.

1) The Government of India subscribed 50 percent to the paid up share capital of the RRBs.

2) The establishment of RRB, location of its head office etc. is decided by the Government of India in consultation with the sponsor bank. In practice, the state government is also consulted in this regard.

3) The Government of India can nominate three directors of the board of the RRBs. In practice, it appoints an officer each from NABARD and RBI as its nominee directors. The third director is a non-official person.

4) Chairman of the RRB is appointed by the Central Government (Section 11). Presently, the chairman is appointed from the panel of officers recommended by the sponsor bank for the purpose.

5) The remuneration of the officers and other employees appointed by RRBs is determined by the Central Government with due regard to the salary structure of the employees of the state government and local authorities of comparable level and status in the notified areas of the RRB.

6) The Central Government has to give the approval for the appointment of auditors for the statutory audit of the RRBs annual accounts. Prior approval of the Central Government is also required for remuneration to be given to the statutory auditors of RRBs.\

7) The Central Government, after consultation with RBI and sponsor bank, and by notification in the official gazette, is empowered to make

rules for carrying out the provisions of the RRBs Act, 1976.
8) The Central Government is empowered to give directions, after consultation with the Reserve Bank, to an RRB in regard to matters of policy involving public interest.
9) The regulations made by the Board of Directors, as per the provisions of the RRBs Act, require previous sanction of the Central Government before they are implemented.

6.2 Role of NABARD

The RRBs Act was enacted in 1976 when NABARD was not in existence. As a result, in the RRBs Act, there is no mention of NABARD. Since RRBs deal with rural credit and since institutions dealing in rural credit are the concern of NABARD, the responsibility of overseeing the overall functioning of RRBs devolves on NABARD. The Government of India has recently issued instructions to RRBs that all matters pertaining their functioning interpretations relating the circulars earlier issued by Government of India etc. may be referred to NABARD and not to the Government NABARD has been made the convener instead of the oldest RRB in the state, which was the practice earlier. The committee would be reviewing the progress made by RRBs in the state so as to suggest remedial measures. NABARD has also been made the convener of the newly formed forum at the state level in each state to discuss and thrash out problems relating to RRB staff matters. With the convenorship of these two committees and the proposed legislation arming NABARD with statutory powers over RRBs, NABARD would be better equipped to play its role.

6.3 Role of RBI

The statutory powers regarding the maintenance of statutory Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR), branch licensing are still vested with the RBI. The function regarding the scheduling of RRBs was also watching the obligations under section 42 of the RBI Act remains with RBI. It is empowered to call for returns from RRBs as laid-down in the Banking Regulation Act. It can give directions to the RRBs under the provisions of the B.R. Act, on rates of interest to be charged on loans and advances, on rates of interest payable on deposits and on regulation of advances. The RRBs Act, 1976, as it exists today, has also empowered the RBI in the following matters.
1) The head office of an RRB is notified by the central government after consultation with the RBI and the sponsor bank.
2) The authorized and paid-up capital of an RRB can be increased or reduced by the central government in consultation with the reserve bank, the concerned state government and the sponsor bank.
3) The Central Government is empowered to give directions to the RRB is regard to matters of policy involving public interest in consultation with the RBI.
4) The Central Government may, after consultation with RBI and sponsor bank, by notification in the official gazette, make rules for carrying out the provisions of the RRBs Act.
5) The Board of Directors of RRB may, after consultation with the sponsor bank and the reserve bank, and with the previous sanction of the central government, make regulations to provide for matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of the RRBs Act.

7. Challenges for the RRB'S

Slow progress: The progress of RRB's is not up to the expectation and is slow when compared with other types of banks because of many restrictions on their operations. For instance till 1996, RRB's were permitted to lend only under priority sector schemes.

•**Limited scope of investment:** The basic objective of RRB's was to provide credit facilities to poor and weaker sections of society. They were originally having limited scope to invest their surplus funds freely.

•**Delay in decision making:** The RRB's are controlled directly and indirectly by various agencies such as the sponsoring bank, NABARD, RBI, besides Central Government. Thus, it takes a long time to take decisions on some important issues. This in turn affects the progress of RRB's. However, since 1997, the operational responsibility of RRB's has been passed on to sponsor bank.

•**Lack of co-ordination:** Lack of co-ordination between the RRBs and sports or banks regarding branch expansion, policy making, etc., are also the important causes for the slow progress of RRBs.

•**Difficulties in deposit mobilization:** The RRBs are aiming at catering to the needs of poor and are not serving the needs of the rich. So, the RRBs are not able to attract the deposit from that potential sector.

•**Lack of training facilities:** Generally the staff of RRBs is urban-oriented and they may not know the problems and conditions of rural areas. Lack of training facility concerning these areas also affects the growth of RRBs.

•**Poor recovery rate:** The recovery performance of the RRBs is not up to the mark. The rate of recovery in respect of many RRBs is around 55 per cent only.

•**Capital inadequacy:** The capital adequacy is the very basis to financial soundness. There is capital inadequacy in RRBs as most of the RRBs have huge losses in their 3alance Sheet eating away all the Capital of RRBs.

8. STEP FOR IMPROVEMENT

The Regional rural Banks in order to provide regularized services and to ensure the development of the rural India must take the following steps:

1. These banks must try to reach out to the needy through micro-credit and Self-Help Groups.
2. It shall provide easy and affordable services through the best use of technology.
3. Expand its reach in the rural areas through alternate channels.
4. Attention should be given to the financial inclusion of unbanked rural area.
5. Improvement in service levels in rural areas.

9. Conclusion

The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India. The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said "real India lies in villages," and village economy is the backbone of Indian economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions
are considered to be a vital role for the development of the rural economy in India. The main goal of establishing Regional Rural Banks in India is to provide
credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural laborers and even small entrepreneurs.

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