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Research Paper

A STUDY ON INDIAN RURAL BANKING INDUSTRY-ISSUES AND CHALLENGES

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ABSTRACT

Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Today, commercial banks and Regional Rural Banks in India are penetrating every corner of the country are extending a helping hand in the growth process of the rural sector in the country.

1. Introduction

Rural development occupies a significant place in the overall economic development of the country. Ghandiji Said ―India lives in Villages‖. He stressed a rural character of economy and the need for re-generation of rural life. Since independence, it has been constant endower of our policy maker to give adequate trust to rural development as the sector is directly related to agriculture. Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country. SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI is spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBIs Regional Rural Banks in India branches is 2349 (16%). Till date in rural banking in India, there are 14,475 rural banks in the country of which 2126 (91%) are located in remote rural areas. Regional Rural Banks (RRB) were established under the provisions of an ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India (GoI) covering one or more districts in the State. RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks

(27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35%respectively.

Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Today, commercial banks and Regional rural banks in India are penetrating every corner of the country are extending a helping hand in the growth process of the rural sector in the country.

BANKS: FUNCTIONING FOR THE DEVELOPMENT OF RURAL AREAS

The area of operation of a majority of the RRBs is limited to a notified area comprising a few districts in a State.SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. Apart from SBI, there are other few banks which functions for the development of the rural areas in India. Few of them are as follows.

- Haryana State Cooperative Apex Bank Limited
- NABARD
- Sindhanur Urban Souharda Co-operative Bank
- United Bank of India
- Syndicate Bank
- Co-operative bank

CO-OPERATIVE BANKS AND RURAL CREDIT

The Co-operative bank has a history of almost 100 years. The Co-operative banks are an important constituent of the Indian Financial System, judging by the role assigned to them, the expectations they are supposed to fulfill, their number, and the number of offices they operate.

Their role in rural financing continues to be important even today, and their business in the urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks.

Co-operative Banks in India are registered under the Co-operative Societies Act. The RBI also regulates the cooperative bank. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

Co-operative banks in India finance rural areas under:

- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Institutional Arrangements for Rural Credit (Co-operatives)

- Short Term Co-operatives
- Long Term Co-operatives

Primary Agricultural Credit Societies (PACSs)

An agricultural credit society can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each

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share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally for the harvest season, for carrying on agricultural operation, and the rate of interest is fixed. There are now over 92,000 primary agricultural credit societies in the country with a membership of over 100 million.

The primary agricultural credit society was expected to attract deposits from among the well –to-do members and non-members of the village and thus promote thrift and self-help. It should give loans and advances to needy members mainly out of these deposits.

Central Co-operative Banks (CCBs)

The central co-operative banks are located at the district headquarters or some prominent town of the district. These banks have a few private individuals also who provide both finance and management. The central co-operative banks have three sources of funds,

- Their own share capital and reserves
- Deposits from the public and
- Loans from the state co-operative banks

Their main function is to lend to primary credit society apart from that, central cooperative banks have been undertaking normal commercial banking business also, such as attracting deposits from the general public and lending to the needy against proper securities. There are now 367 central co-operative banks.

State Co-operative Banks (SCBs)

The state Co-operative Banks, now 29 in number, they finance, co-ordinate and control the working of the central Co-operative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the central co-operative and primary societies on the other. They obtain their funds mainly from the general public by way of deposits, loans and advances from the Reserve Bank and they are own share capital and reserves.

COMMERCIAL BANKS AND RURAL CREDIT

The commercial banks at present provide short term crop loans account for nearly 45 to 47% of the total loans given and disbursed by the commercial banks. Term loans for varying periods are given for purchasing pump sets, tractors and other agricultural machinery, for construction of wells and tube well, for development of fruit and garden crops, for leveling and development of land, for purchase of ploughs, animals, etc. commercial banks also extend loans for allied activities viz., for dairying, poultry, piggery, bee keeping, fisheries and others. These loans come to 15 to 16%.

Commercial Banks and Small Farmers

The commercial banks identifying the small farmers through Small Farmers Development Agencies (SFDA) set up in various districts and group them into various categories for credit support so as to enable them to become bible cultivators. As regard small cultivators near urban areas and irrigation facilities, commercial banks can help them to go in for vegetable cultivation or combine it with small poultry farming and maintain of one or two milch cattle.

IRDP and commercial banks

Since October 1980, the Integrated Rural Development Programme (IRDP) has been extended to all the blocks in the country and the commercial banks have been asked by the government of India to finance IRDP. The lead banks have to prepare banking plans and allocate the responsibility of financing the identified beneficiaries among the participating banks. Commercial banks have been asked to finance all economically backward people identified by government agencies.

REGIONAL RURAL BANKS AND RURAL CREDIT

The Narasimham committee on rural credit recommended the establishment of Regional Rural Banks (RRBs) on the ground that they would be much better suited than the commercial banks or co-operative banks in meeting the needs of rural areas. Accepting the recommendations of the Narasimham committee, the government passed the Regional Rural Banks Act, 1976. The main objective of RRBs is to provide credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisians and small entrepreneurs and develop agriculture, trade, commerce, industry and other productive activities in the rural areas.

The progress of RRBs in the initial stage was quite rapid. For instance, the Sixth Five-year plan(1980-85) had envisaged the setting up of 170 RRBs covering 270 districts by the end of march 1985.The target was exceeded. There are now 196 RRBs in 23 states of the country with 14,200 branches.

Structure of regional rural bank

The establishment of the Regional Rural Banks (RRBs) was initiated in 1975 under the provisions of the ordinance promulgated on 26.9.1975 and thereafter Section 3(1) of the RRB Act, 1976. The issued capital of RRBs is shared by Central Government, sponsor bank and the State Government in the proportion of 50%, 35% and 15% respectively.

RRBs established with the explicit objective of:

- Bridging the credit gap in rural areas
- Check the outflow of rural deposits to urban areas
- Reduce regional imbalances and increase rural employment generation

ROLE OF RBI IN RURAL CREDIT

Since it was set up in 1934, RBI has been taking keen interest in expanding credit to the rural sector. After NABARD was set up as the apex bank for agriculture and rural development, RBI has been taking a series of steps for providing timely and adequate credit through NABARD.

Scheduled commercial banks excluding foreign banks have been forced to supplement NABARDs efforts-through the stipulation that 40percent of net bank credit should go to the priority sector, out of which at least 18 percent of net bank credit should flow to agriculture. Besides, it is mandatory that any shortfall in fulfilling the 40 percent target or the 18 percent sub-target would have to go to the corpus Rural Infrastructure Development Fund(RIDF).RBI has also taken steps in recent years to strengthen institutional mechanisms such as recapitalization of Regional Rural Banks (RRBs) and setting up of local area banks(LABs).

Micro-Finance

Micro-finance is a novel approach to "banking with poor "as they attempt to combine lower transaction costs and high degree of repayments. The major thrust of these micro-finance initiatives is through the setting up of Self Help Groups (SHGs),Non-Governmental organizations(NGOs),Credit Unions etc.

Kisan(Farmers') Credit Card

Another notable development in recent years is the introduction of Kisan Credit Cards(KCC) in 1998-99.The purpose of the Kisan Credit Cards(KCC) scheme is to facilities short term credit to farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, 187 RRBs and 334 Central cooperative banks.

Agricultural Insurance

As Agricultural is highly susceptible to risks such as drought, flood, pests etc.

It is necessary to protect the farmers from natural calamities and ensure their credit eligibility from the next season. Towards this purpose, the Government of India introduced a comprehensive crop insurance scheme through the country in 1985 covering major cereal crops, oilseeds and pulses. Among commercial crops, seven crops viz., sugarcane potato, cotton, ginger, onion, turmeric and chilies are presently covered.

MARKETING OF MUTUAL FUND UNITS - RRBS

With a view to expanding the scope of business of RRBs and considering that marketing of Mutual Fund (MF) units provides a profitable avenue for banks, it has been decided by RBI on 17th May 2006 to allow Regional Rural Banks (RRBs) to undertake marketing of units of Mutual Funds, as agents.

Accordingly, RRBs may, with approval of their Board of Directors, enter into agreements with Mutual Funds for marketing their units subject to the following terms and conditions:

•The bank should only act as an agent of the customers, forwarding applications of the investors for purchase / sale of MF units to the Mutual Fund / Registrar Transfer Agents.

•The purchase of MF units should be at the risk of customers and without the bank guaranteeing any assured return.

•The bank should not acquire such units of Mutual Fund from the secondary market.

•The bank should not buy back units of Mutual Funds from their customers.

•The bank holding custody of MF units on behalf of their customers should ensure that its own investment and investments belonging to their customers are kept distinct from each other.

•Retailing of units of Mutual Funds may be confined to some select branches of the bank to ensure better control.

•The bank should comply with the extant KYC/ AML guidelines in respect of the applicants.

The RRBs should put in place adequate and effective control mechanisms in consultation with their sponsor banks.

2. Literature review

RRBs though operate with a rural focus are primarily scheduled commercial banks with a commercial orientation. Beginning with the seminal contribution of Haslem (1968), the literature probing into factors influencing performance of banks recognizes two broad sets of factors, *i.e.*, internal factors and factors external to the bank. The internal determinants originate from the balance sheets and/or profit and loss accounts of the bank concerned and are often termed as micro or bank-specific determinants of profitability. The external determinants are systemic forces that reflect the economic environment which conditions the operation and performance of financial institutions. A number of explanatory variables have been suggested in the literature for both the internal and external determinants. The typical internal determinants employed are variables, such as, size and capital [Akhavein *et al.* (1997)]

The literature on RRBs recognizes a host of reasons responsible for their poor financial health. According to the Narasimham Committee, RRBs have low earning capacity. They have not been able to earn much profit in view of their policy of restricting their operations to target groups. The recovery position of RRBs is not satisfactory. There are a large number of defaulters. Their cost of operation has been high on account of the increase in the salary scales of the employees in line with the salary structure of the employees of commercial banks. In most cases, these banks followed the same methods of operation and procedures as followed by commercial banks. Therefore, these procedures have not found favor with the rural masses. In many cases, banks have not been located at the right place. For instance, the sponsoring banks are also running their branches in the same areas where RRBs are operating. The issue whether location matters for the performance has been addressed in some detail by Malhotra (2002). Considering 22 different parameters that impact on the functioning of RRBs for the year 2000, Malhotra asserts that geographical location of RRBs is not the limiting factor for their performance. He further finds that ‗it is the specific nourishment which each RRB receives from its sponsor bank, is cardinal to its performance‘. In other words, the umbilical cord had its effect on the performance of RRBs.

3. Issues and Challenges

The RRBs, in most cases, seemingly have a mixed record of 'successes' on some fronts and 'failures' on some others in their business and attainment of goals.

Their failure in achieving their targets may be attributed to several problems they encounter in practice. Following Professor Charan Wadhva, we may pinpoint some of the major problems faced by the RRBs as under.

3.1 Haste and Lack of Co-ordination in Branch Expansion:

Haste in branch expansion programme in many cases has resulted in lopsidedness due to lack of co-ordination. In several cases, it could not be ensured that the branches of the RRBs are opened at centers where no commercial or co-operative banking facilities were provided.

3.2 Difficulties in Deposit Mobilization:

The RRBs encountered a number of practical difficulties in deposit mobilization. On account of their restrictive lending policy which excludes richer sections of the village society, these potential depositors show least interest in depositing their money with these banks.

3.3 Constraints in Deposit Mobilization:

The RRBs exclude the richer sections of the village society in providing direct financial assistance. These sections have potential savings to deposit. But, they are least interested in depositing them with the RRBs in view of the restrictive credit policy of these banks. Further, state and local governments and their agencies also have not co-operated much by maintaining their deposit accounts with the RRBs.

In short, the RRBs have failed to mobilize accounts within themselves.

3.4 Slow Progress in Lending Activity:

The RRBs' pace of growth in loan business is slow. For this the following reasons may be given: (i) There have been limited scope for direct lending by RRBs in their fields of operations; (ii) It is always difficult to identify the potential small borrowers and the bank staff have been required to make special and sincere efforts in this regard; (iii)

Most of the small borrowers do not like the bank formalities and prefer to borrow from the informal/indigenous sources of finance, such as money-lenders; (iv) The anomalies in the Differential Interest Rate (DIR) Scheme also posed a special problem to the RRBs. While the RRBs charge 14 per cent interest, the commercial banks charge only 4 per cent under the DIR Scheme in rural areas.

Thus, no borrower would go to RRBs or co-operative societies in the area when a loan from the commercial bank is available under the DIR Scheme; (v) There is no effective link between the RRBs and PACS and the farmers' service societies; (vi) There is lack of co-ordination between officials of the district credit planning committees and the RRBs.

3.5 Urban-Orientation of Staff:

A crucial practical difficulty experienced in their working by the RRBs is the urban orientation of their staff which is rarely inclined to serve in rural areas. There is no true local involvement of the bank staff in the village where they serve.

3.6 Procedural Rigidities:

The RRBs follow the procedures of the scheduled commercial banks in the matter of deposits and advancing loans which are highly complicated and time-consuming from the villagers' point of view. The rural borrowers always appreciate informal ways and simple procedures as have been followed by the money-lenders and the indigenous bankers.

3.7 High Non-Performing Loans (NPL) Banks have higher non-performing loans in rural areas because rural households have irregular income and expenditure patterns. The issue is compounded by the dependence of the rural economy on monsoons, and loan waivers driven by political agendas. NPLs from the agriculture sector are 7.7%, compared to 3.5% across non-agriculture sectors. In order for banks to view rural India as a growth opportunity, rather than a regulatory requirement, a combination of these issues must be addressed. Increasing financial access to rural areas is contingent upon basic conditions such as proper infrastructure and an enabling regulatory framework, as well as innovative thinking on the part of commercial banks. Access issues, however, explain only one part of the problem. Usage is an equally important issue for rural customers.

3.8 Low Ticket Size: The average ticket size of both a deposit transaction and a credit transaction in rural areas is small. This means that banks need more customers per branch or channel to break even. Considering the small catchments area of a branch in rural areas, generating a customer base with critical mass is challenging.

3.9 High cost to serve: Branches are the most used channel in rural areas. This is because many rural people are

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not literate and are not comfortable using technology-driven channels such as ATMs, phone banking or internet banking. On the other hand, a branch is an expensive channel for banks. In addition, rural people, whenever they have access to banks, have frequent low ticket and cash-based transactions, which increase the overall transaction cost for their bank.

3.10 Higher risk of credit: Rural households may have highly irregular and volatile income streams. Irregular wage labor and the sale of agricultural products are the two main sources of income for rural households. The poor rural households (landless and marginal farmers) are particularly dependent on irregular wage employment. Rural households also have irregular expenditure patterns. The typical expenditure profile of rural households is small, with daily or irregular expenses incurred through the month. Furthermore, a majority of households incur at least one unscheduled expenditure per year, with the most frequent reasons being medical or social emergency. In short, the rural customer is generally considered to be a risky one.

3.11 Information Asymmetry: Since many rural people do not have bank accounts, there is a lack of information on customer behavior in rural India. Absence of a Credit Information Bureau also complicates the problem as banks have to rely on informal sources to learn the credit history of rural customers. A lack of reliable information can result in either missed opportunities in not approving otherwise eligible loan candidates, or nonperforming loans.

3.12 Diffused customer loyalty: Attractive offers by MNC and other nationalized banks, customers have become more demanding and the loyalties are diffused. Value added offerings bound customers to change their preferences and perspective. These are multiple choices; the wallet share is reduced per bank with demand on flexibility and customization. Given the relatively low switching costs; customer retention calls for customized service and hassle free, flawless service delivery.

3.13 Misaligned mindset: These changes are creating challenges, as employees are made to adapt to changing conditions. The employees are resisting to change and the seller market mindset is yet to be changed. These problems coupled with fear of uncertainty and control orientation. Moreover banking industry is accepting the latest technology but utilization is far below from satisfactory level.

3.14 Competency gap: The competency gap needs to be addressed simultaneously otherwise there will be missed opportunities. Placing the right skill at the right place will determine success. The focus of people will be doing work but not providing solutions, on escalating problems rather than solving them and on disposing customers instead of using the opportunity to cross sell.

Strategic options to cope with the challenges: Dominant players in the industry have embarked on a series of strategic and tactical initiatives to sustain leadership. The major initiatives incorporate:

a) Focus on ensuring reliable service delivery through Investing on and implementing right technology..

b) Leveraging the branch networks and sales structure to mobilize low cost current and savings deposits.

c) Making aggressive forays in the retail advances segments of home and personal loans.

d) Implementing initiatives involving people, process and technology to reduce the fixed costs and the cost per transaction.

e) Focusing on fee based income to compensate foe squeezed spread.

f) Innovating products to capture customer 'mind share' to begin with and later the wallet share.

g) Improving the asset quality as Basel II norms.

3.15 Priority sector lending

The definition of priority sectors has evolved over a period of time and at present, priority sectors are broadly taken as those sectors of the economy which in the absence of inclusion in the priority sector categories would not get timely and adequate finance. Typically, these are small loans to small and marginal farmers for agriculture and allied activities, loans to Micro and Small Enterprises, loans for small housing projects, education loans and other small loans to people with low income levels.

Presently, the target for aggregate advances to the priority sector is 40 per cent of the Adjusted Net Bank Credit ANBC or the credit equivalent of Off Balance sheet Exposure (OBE), whichever is higher for domestic banks. Foreign banks with 20 or more branches in the country are being brought on par with domestic banks for priority sector targets in a phased manner over a five year period starting from April 1, 2013. For foreign banks with less than 20 branches the overall target is fixed at 32 per cent. The domestic banks, i.e., public and private sector, could not achieve the target of 40 percent for the year 2012 as can be evidenced from the table below. As per 59th NSS Survey, households with 2 hectare or less land accounted for 84% of all farmer households. The percentages of such small and marginal famers who have access to credit is only 46.3%.

A large section of farmers is still dependent on moneylenders for their financial needs. The major challenge is to bring all farmers into the institutional credit framework. To boost the credit to agriculture sector, apart from a host of initiatives, the Kisan Credit Card (KCC) Scheme was introduced in the year 1998–99 to enable farmers to purchase agricultural inputs and draw cash for their production needs. In 2004, NABARD revised the Model KCC Scheme to provide adequate and timely finance for meeting the comprehensive credit requirements of farmers under single window, with flexible and simplified procedure, adopting whole farm approach. The scheme now covers term credit as also working capital for agriculture and allied activities and a reasonable component for consumption needs. During 2011–12, public sector banks have issued 68,03,051 KCCs with sanctioned limits aggregating to Rs. 69,51,768.45 lakh.

Since inception of the scheme, the number of KCCs issued by public sector banks stood at 5,47,49,373.00 till March 2012 with sanctioned limits aggregating to Rs. 3,53,14,527.11 lakh. We have recently revised the guidelines on Kisan Credit Card scheme. Margin /security norms are waived for loans up to Rs.1 lakh to enhance the flow and easy delivery of bank loans to small agricultural borrowers.

3.16 Regional rural banks Regional Rural Banks (RRBs) were established in the year 1976 as a low cost financial intermediation structure in the rural areas to ensure sufficient flow of institutional credit for agriculture and other rural sectors. RRBs were expected to have the local feel and familiarity of the cooperative banks with the managerial expertise of the commercial banks. RRBs are jointly owned by GoI, the concerned State Government and Sponsor Banks, the issued capital of a RRB is shared by the owners in the proportion of 50 percent, 15 percent and 35 percent respectively.

In practice they borrowed the politicization in lending, rampant in cooperative Banks, with the worst form of unionism replicated from the commercial banks. The low cost structure was also washed away after the Obul Reddy report which brought parity of pay scales with Commercial Banks. Several RRBs suffered humongous losses. Government of India and RBI initiated several measures to improve the financial health of RRBs. During a review carried out by GOI in the year 2009 it was found that the Capital Risk Weighted Assets Ratio (CRAR) of the RRBs were too low. Dr. K.C Chakrabarty committee suggested bringing the CRAR of RRBs to at least 9 percent in a sustainable manner. The Committee inter-alia recommended recapitalization support to the extent of Rs. 2,200 crore, to 40 RRBs in 21 States, out of which Rs.1,100 crore was to be contributed by Central Government. The recapitalization process which started in 2010–11 has been extended till 2013–14.

Several Committees looked into issues of viability finally amalgamation of

RRBS on grounds of contiguity in a particular region was adopted. Initially, there were 196 RRBs working in the country. After the second phase of amalgamation, which started w.e.f. October 1, 2012, 34 RRBs have been amalgamated to form 14 new RRBs. After a massive consolidation and merger exercise to strengthen the RRBs, the number of RRBs operating in the country today has come down to 62. The number of sustainably viable RRBs (i.e. RRBs making net current profit and having no accumulated losses) has increased to 60 as on March 31, 2012 as compared to 58 as on March 31, 2011.

3.17 Financial Inclusion

We advised banks in November 2009 to draw up a roadmap to provide banking services through a banking outlet in every village with a population of more than 2000 and the target date was March 2012. Banks were advised that such banking services need not necessarily be extended through a brick and mortar branch but could be provided through any of the various forms of ICT-based models including through BCs. Under the roadmap for providing banking outlets in villages with population above 2000, banking outlets have been opened in hitherto 74199 unbanked villages comprising 2493 branches, 69374 Business Correspondents (BCs) and 2332 through other modes like ATMs, mobile van, etc.

Now, we may well ask; How do we plan to provide banking services to villages having population less than 2000?

As per the announcement in the Annual policy Statement 2012–13, State Level Bankers' Committees (SLBCs) were advised by RBI to prepare a roadmap covering all unbanked villages of population less than 2000 and notionally allot these villages to banks for providing banking services in a time bound manner, especially, to start with, EBT services. The objective is to provide a bank account to every household/person throughout the country. To start with, banks have been advised to provide door step services to EBT beneficiaries to facilitate transfer of all State benefits including MGNREGA wages and various cash subsidies to beneficiaries by direct credit to the bank accounts, through regular visits of BCs to the allocated villages and over a period of time, provide all kinds of banking services viz. remittances, recurring deposit, entrepreneurial credit in the form of KCC and GCC, insurance (life and non-life) and other banking services to all the residents of the village through a mix of brick and mortar branch and BC network.

We have also emphasized planning of sufficient number of brick and mortar branches so that there is a brick and mortar branch to provide support to a cluster of BC units, i.e., about 8–10 BC units at a reasonable distance of 3–4 kilometers. As per the Roadmap drawn about 484000 villages with population less than 2000 have been allotted to various banks for provision of banking services in next 3 years.

4. Conclusion

RRBs' performance in respect of some important indicators was certainly better than that of commercial banks or even cooperatives. RRBs have also performed better in terms of providing loans to small and retail traders and petty non-farm rural activities. In recent years, they have taken a leading role in financing Self-Help Groups (SHGs) and other micro-credit institutions and linking such groups with the formal credit sector.

RRBs should really be strengthened and provided with more resources with which they can undertake more of these important activities. And most certainly they should be kept apart from a profit-oriented corporate motivation that would reduce their capacity to provide much needed financial services to the rural areas, including to agriculture. Ideally, the best use of the resources raised by RRBs through deposits would be through extensive cross-subsidization. This, in turn, really requires an apex body that would cover and oversee all the RRBs, something like a National Rural Bank of India (NRBI).

The number of rural branches should be increased rather than reduced; they should be encouraged to develop more sophisticated methods of credit delivery to meet the changing needs of farming; and most of all, there should be greater coordination between district planning authorities, panchayati raj institutions and the banks operating in rural areas. Only then will the RRBs fulfill the promise that is so essential for rural development.

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