

# Regional Rural Banks and Rural Economic Development

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**Abstract - The rural banking is one of the important roles in rural economic development of our country, and the village economy it and is the backbone of the Indian economy. Without the development of the rural economy, the objective of economic planning cannot be achieved. The main objective behind the establishment of these banks is the encouragement small and marginal farmers and development of agriculture, trade, commerce, industry and other productive activities in the rural areas particularly in those areas where banking services does not exist and make available cheaper institutional credit to the weaker sections of the society. Hence the Regional rural banks (RRBs) are playing a vital role in the rural development for the economy in India. The present research paper is designed in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the articles, journals, books, and websites have been referred. This research paper throws light on the need of banking system in rural areas and significant role played by banking system in the development of rural areas.**

**Index Terms - RRBs Rural Economic Development, Agricultural development, Rural economy, small scale industries.**

## INTRODUCTION

The rural development of India in the light of different case studies of RRBs regarding Poverty Alleviation Programme Regional rural banks & co-operative banks with a large network of more than 153,000 retail credit outlets (one for every 4100 population). Yet reaching the poorest, whose credit requirements are very small, frequent and unpredictable, is still a difficult task and "Sahukars" continues to be the main agency. Further the systems and lengthy procedures of the banking institution with emphasis on complicated qualifying requirements, tangible collateral margin etc. also kept them away from these formal agencies. Banks too experience certain problems like poor repayment, lack of supervision and monitoring high proportion of nonperforming assets. The RRBs were established on October 2, 1975, with the main

objective of a provisional credit to rural people who are not economically strong enough, especially the small farmers, artisans, agricultural laborers, and even small entrepreneurs. the credit needs of Therefore rural people are fulfilled by RRBs. In addition, the majority of the county's population, more so marginal and disadvantaged sections of society, stay in villages. There is a lack of infrastructure in Villages. Infrastructure development like electricity, irrigation, credit, marketing, transport facilities, etc., needs to be addressed here RRBs has to play significant role by proving loan facilities to different projects. To alleviate the sufferings of the Indian rural masses and get them out from the clutches of money lenders, rural credit should be properly channeled. To channel rural credit both in terms of adequacy and timeliness, the first and foremost step would be institutionalization of rural credit. Developing a strong and sound institutional system for surveying credit to agricultural sector has been a major objective of the Indian banking policy. Replacement of moneylender credit by institutional credit has been accepted as an essential pre- condition for technological transformation of agriculture in the country. RRBs has play the important role in the reduction of poverty is important because rural areas have the maximum people are living below poverty line, about 30% of the population is below the poverty line. 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. The present study is a modest attempt to rural credit structure and the role played by RRBs in the development of rural economic development. Regional rural banks are basically, banking organisation for local level operations across the States in India. They are created with a mandate to provide essential or basic banking and financial services to the rural areas. While Regional Rural Banks are meant for rural areas, they can operate in urban areas also. RBI mandates that all domestic

Banks must ensure that 40% of their loans and advances are given to the priority sector. Priority sector comprises the areas of economy that require banking assistance but gets neglected by banks due to various reasons. The Reserve Bank of India categorizes agriculture, retail trade, education, housing and small business as Priority sector. Presently the total number of RRBs in India is 57.

#### STATEMENT OF PROBLEM

In the process of rural development to it is very important to address rural economic development by effective role of RRBs, the first question raised in this study is for what purpose is the RRBs are functioning? In the process of effective functioning of ideal asset management needed. When they function through the different services of RRBs can interact among all stakeholders this will enhances the quality of asset, easy to reach and they can also increase efficiently and effectively with different types of the account holders. Thus, the objective of this research is to explore the role and responsibilities of RRBs in the process of Rural development. The main purpose of this research is to expand on existing rural development research literature and create greater scope for further research, this study also explores the relationship between the effects of good benefits and reach people at village level according to their local credit requirement by the RRBS.

#### RESEARCH QUESTIONS

1. Which is the most important role in RRBs at rural level? 2. Why Govt. is taking more serious about Rural economic development through RRBs?

Objectives of the study the present study is focused on the following objectives

1. Highlight the Role of RRBS on economic Rural development.

2. Enlist steps taken by RBI towards RRBs.

#### METHODOLOGY

Interpretative phenomenological analysis (IPA) of qualitative, Net income as a percentage to total assets (NITA) is taken to be the indicator of financial performance of the RRBs. and percentage method of research methodology has been used in this research. The study was conducted among the different district

of Karnataka and income to understand issues and Challenges faced by RRBS on Rural Credit. Semi-structured in-depth interviews were conducted among with general public and Account holders to collect data regarding the changes Credit trends across rural and semiurban areas to understand rural economic development.

#### ANALYSIS OF THE STUDY

The role of banks in the process of development is absolute, because they provide one of the important inputs, namely, credit. In a developing country like ours, financial resources are scarce and this scarcity acts as a severe constraint in accelerating the pace of economic growth. Since India has adopted a system of planning which seeks attain social justice and equitable distribution of wealth along with economic development, judicious allocation of financial resources is one of the means by which social justice can be attained. Rural banking is one of India 's fastest-growing industries, and it is critical to the country 's economic growth and development. Despite the fact that agriculture now accounts for just 13.7 percent of GDP, it still feeds 3/4 of India 's population and is a key driver of economic growth, in addition to providing the country's highest incomes. It demonstrates that as agriculture becomes more diverse, there is a greater demand for agricultural credit than there is availability. The timely availability of adequate agricultural funds has a huge effect on India's economic growth. Agriculture's rapid expansion is critical for everyone 's inclusion. Since the 1950s, India's planned development has emphasised proportional growth and stability. The Five-Year Strategic Plan also emphasizes the "rapid and inclusive growth" that can be achieved through sound banking policies. Weak sections, farmers, agricultural workers and professionals who run small businesses and want to work for themselves are not very organized so prioritizing part of the total bank debt is important. Debt in the priority sector is emphasized to cater to those small-scale producers who are set aside or under-supply to date, since small and marginal farmers are rural areas to encourage rural development

As per the RBI 's advice/guidelines, Rural Regional Banks have initiated a number of steps to secure greater investment. Some of these steps are:

1. Opening of no-frills accounts: For rural people A simple bank account with no frills, a zero or very low balance, and no bank fees, making it accessible to a significant portion of the rural population. Small overdrafts are available from RRBs on such accounts in the rural areas.

2. Relaxation on know-your-customer (KYC) norms (KYC): in rural areas since people not well educated KYC conditions for opening bank accounts have been reduced to smaller accounts since August 2005. RRBs are now permitted to accept all proof of a customer 's identity and address with satisfaction. It is now easier to enter documents provided by the Unique Identification Authority of India (UIDAI) that contain information about the name, address, and Aadhaar number.

3. General Credit Cards (GCCs): for small and marginal arcticians With the aim of helping the poor and the rural poor access easy credit, RRBs are launching a target of obtaining up to 15,000 credit cards at their local and urban branches. The purpose of this program is to provide customers with a secure credit-based credit rating without compromising on security, intent or use of credit by the farmers.

4. Engaging business correspondents (BCs): with the intention of branchless banking In January 2006, the RBI allowed organized commercial banks to engage business facilitators (BFs) and business books (BCs) as mediators in the provision of financial and banking services. The BC model allows banks to provide door-to-door service delivery, especially cash withdrawals, thus addressing the issue of mileage storage. The list of eligible people and organizations that can be held as BCs is expanded from time to time which as helped RRBS in a larger scale.

Therefore, banking system is required to subordinate the commercial approach and to encourage the development approach. In the right of this banks have changed their attitude form security oriented to production-oriented loans. The role of banks in the process of development is mainly savings promotion and savings collection. In the backward countries large gap exists between planned investment and realized savings. The banks should fill up this gap by mobilizing savings. The adoption of technology in farm and non-farm sectors is biased towards machinery and therefore more funds are needed and in such a context the role of banks becomes more important. Rural society is seized with traditional

outlook. The people are generally not ready to take advantage of banking facilities. They prefer to keep cash with them or build up their resources in the form of assets. In view of such circumstances, they have to be convinced about the security in banking system and the facility of withdrawals as and when need money. The bankers are required to spread the banking habit and encourage thrifty habits among the rural people. The investment and re-investment facilities and opportunities are to be given wide publicity in different sectors of the rural economy in order to realize the goal of rural development. There is a lack of infrastructure in Villages. Infrastructure development like electricity, irrigation, credit, marketing, transport facilities, etc., needs to be addressed. In this connection RRBs has to play significant role by proving loan facilities to different projects. Of the state govt. and implementing Gottschee's in an effective manner. RRBs has play the important role in the reduction of poverty by the way of implementing poverty eradication programs. The rural development is mainly concerned with increasing the income of the low-income groups in rural society. The developing countries are usually surplus in labour force. Uneconomic holdings provide insufficient income. The survival of the households would depend upon the non-farm activates. The non-farm sector absorbed the unemployed and underemployed rural labour forces and segments the income and employment of the rural households. Further, if the labor-intensive farm strategy is designed to increase employment opportunities, the rural low-income groups are not in a position to get sufficient employment opportunities particularly in slack season. Therefore, the non-farm sector becomes an important employment potential sector in these countries. The non-farm sector is contributing various benefits to rural development. Firstly, rural development is a multi-sect oral concept. Agriculture would often be the starting point for rural development and the agricultural sector has already constrained in some of the developing countries by lack of additional acreage for cultivation. Raising production and income from agricultural sector is to increase the yield per acre and also to increase labour productivity. Thus, the labour absorptive capacity of agriculture ids limited in developing countries. In such circumstances the rural industries construction would generate subsea tail opportunities for productive employment

and augment the income of the rural people. All these activities are and strengthening the agricultural sector. The people were motivated to raise their standard of living, health conditions, education and water supplies etc. but for various reasons, the program failed to realize these objectives. As a result, alternative strategies like agricultural development, area development, integrated rural development etc., came to be established. The strategies emphasized about the participation of the rural population in the process of economic growth so as to reduce unemployment and poverty in rural areas. But the programs. But experience of the program has again been largely shared more by the rich than by the poor. The institutional agencies (banks) are engaging in promoting economic development of the poor as well as the rich countries. Banks and bankers have played and have been playing a crucial role in the development of these countries. They are more efficient in mobilizing and allocating resources. They are pursuing developmental activities through the network of business. The credit worthiness of the people will be decided, and use of credit will be pursued properly. the non-farm activities like craft, processing service activities and manufacturing industries are linked to other industrial markets and help to mobilize rural labour force through the provision of additional employment opportunities. The manufacturing of goods will meet the basic needs of the markets and makes an important contribution to raise the income and living standards of the rural people. Judicious allocations of the scarce financial resources between the various segments of the economy are one of the means, by which social justice can be attained, and hence the banking system in our country is required to subordinate the 'commercial approach' in its lending policies particularly to subserve the national priorities set by government"<sup>30</sup>. RRBS has play to help in diversification of production activities with a view of finding an alternative means other than crop cultivation to sustain life. Any development along with natural resources human resources are also paying important role RRBs has paly to improve the quality of human resources in rural areas indirectly. It can be done by improving the literacy rate by the way of education loan (especially female literacy), skill development, industrial training therefore RRBs has played an important role in the education space by proving loan facilities. RRBs can

achieve Rural development is a term that concentrates on the actions taken for the development of rural areas to improve the overall system. The rural agrarian society is plagued with mass poverty, illiteracy, conservative and fatalistic outlook; deposit mobilization is the main problem in agrarian society in this prevailing condition. A small percentage of rural population will have surplus liquid funds. They are not in a position to part with cash easily until they have been thoroughly convinced about the banking safety and facility of withdrawal as and when they are in need of money. The rural economy is thus a potential market for deposits; therefore, they are to be carefully and diligently habit widely and encourage thirty habits to the rural people. The investment and re-investment opportunities are widened in farm and non-farm sectors of the rural economy. The process of economic development, the banks are to play an innovation role by introducing newness in delivery and recovery system. It is impossible for the farmers and other target groups in rural areas to save first a certain amount of deposits and then undertake investment in land or allied activities or service sector. It would be more realistic first to help them with a loan to invest in their familiar sector, so as to enable them to raise their productivity and income. The banks should then recover loans from the increase income. Pose the banks mostly credit for productive purposes and it will further increase income beyond subsistence level and contribute something more to the savings. This scheme of savings mobilization will have a fruitful result. Because increased income from the increased investment will increase the saving capacity of the rural people and consequently increase the deposit potentiality of the banks enables rural development.

#### LIMITATIONS OF THE STUDY

An obvious limitation of the study in that it is confined to the Rural Areas of Karnataka State and thus, the conclusion drawn may not be helpful to reflect the general picture for the regional rural bank sector as a whole however, the inferences drawn empirically are of an immense value for regional development based on bank finances made available through RRBs.

#### CONCLUSION

There is a serious need of taking steps for the alleviation of poverty to implement govt. programs through RRBs. Rural areas lack proper health facilities. The repayment capacity of small farmer's reviewed that the paper is based on a study of problems of low repayment capacity among the small farmers in India who have obtained crop loan from the nationalized banks. The specific problems confronting the bank in regard to their lending activates of farm borrowers are highlighted to show the prevailing investment climate in the farm sectors. Better health facilities are necessary for physical growth of individuals that particularly current pandemic needs entire community participation in to bring stability in the health space. Productive resources of each locality need to the developed to enhance employment opportunities. For the sustainable development. The role of banks in the process of development is absolute, because of the fact that they provide one of the most essential inputs, namely credit, in a developing country like ours, scarcity of financial resources is admittedly one of the constraints for accelerating the pace of economic growth. An efficient and responsive banking system is of utmost importance. "Further, our country has adopted a system of planning which seeks to attain social justice and equitable distribution of wealth along with economic development.it has been encouraged through the Regional rural banks in the process of rural economic development through the small and marginal farmers.

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