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Regional Rural Banks and Financial Inclusion

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Keywords

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Abstract

The genesis of the Regional Rural Banks may be traced for the need for a stronger institutional arrangement for providing rural credit. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. One of the main challenges for banks aiming to provide accessible and cheap financial services to the rural poor is to come up with a sustainable business model. Financial inclusion is seen as one of the means for overall economic development of a country. The growth of the regional rural banks fosters financial inclusion by providing financial products and services to people in the farthest reaches of the country. The present article focused on the measures taken by the RRB for financial inclusion and to examine the difficulties involved in the adoption of financial inclusion by RRB. The RBBs Act has made various provisions regarding the incorporation, regulation and working of RRBs. According to this Act, the RRBs are to be set-up mainly with a view to develop rural economy by providing credit facilities for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas.

Introduction

Financial inclusion is the availability of banking services at an affordable cost to the disadvantaged and low income groups. In India, the basic concept of financial inclusion is having a saving or current account at any bank. In reality, it includes loans, insurance services and much more, for all members of an economy. An inclusive financial system has several merits. It facilitates efficient allocation of productive resources and thus can potentially reduce the cost of capital. In addition, access to appropriate financial services can significantly improve the day to day management of finance.

Regional Rural Banks (RRBs) In India it is an integral part of the rural credit structure. RRBs were established under the provisions of an ordinance promulgated on 26th Sept. 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 for rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by Govt. of India covering one or more districts in the state. RRBs are jointly owned by Govt. of India (GOI), the concerned State Government and sponsor banks.

Reform Process of RRBs

The GOI initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by same bank within a state as per the recommendations of the Vyas Committee in the year 2004. The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced workforce, publicity, marketing efforts and also derive the benefits of a large area of operation, enhanced credit exposure limits and diverse banking activities.

Importance of Financial inclusion through RRBs

Financial inclusion is a policy measure to address the issue of poverty which would ensure avenues for people. It is estimated that globally over two billion people are excluded from access to financial services, of which one third is in India. Access to various financial services enables the poor people to participate in the growth of the economy. Many banks are forced to adopt financial inclusion rather than their own interest. Only few banks are actively involved in financial inclusion to promote economic development. The banks have encountered various problems while adopting financial inclusion, Viz, Improper repayment, the need for additional workforce, more time consumption, heavy work load, high cost etc. Hence, many banks are not fostering fully fledged financial inclusion plan to accelerate the growth of the country.

Regional Rural Banks were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. Their equity is held by the Central Government, Concerned State Government and the Sponsor Bank in the proportion of 50:15:35 respectively. The mandates of these rural financial institutions were to: a) Take banking to the doorsteps of the rural masses, particularly in areas without banking facilities; b) Make available cheaper institutional credit to the weaker sections of society, who were to be the only clients of these banks; c) Mobilize rural savings and canalize them for supporting productive activities in the rural areas; d) Generate employment opportunities in the rural areas and bring down the cost of providing credit in rural areas. RB (Regional Rural Bank) is also known as 'Gramin Bank'. It was established in 26th September 1975 with the objective of the economic development of India. The ideology behind RRB is to focus on the upliftment of the rural economy because it is assumed that Real growth of Indian Economy lied in the freeing of rural masses from unemployment, acute poverty and socio-economic backwardness. RRBs works for fulfilling the needs of rural population comprised of - Agricultural laborers - Artisans - Small entrepreneurs - Small and marginal farmers - Mobilize deposits from rural households The authorized capital of an RRB is fixed at Rs. 1 crore and its issued capital at Rs. 2 lakhs. Of the issued capital, 50 per cent is to be subscribed by the

Central Government, 15 per cent by the concerned State Government and the rest 35 per cent by the sponsoring bank. The working and affairs of the RRB are directed and managed by a Board of Directors consists of a Chairman, three directors to be nominated by the Central Government, and not more than two directors to be nominated by the State Government concerned, and not more than 3 directors to be nominated by the sponsoring bank. The chairman is appointed by the Central Government and his term of office does not exceed five years. The RBBs Act has made various provisions regarding the incorporation, regulation and working of RRBs. According to this Act, the RRBs are to be set-up mainly with a view to develop rural economy by providing credit facilities

for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas.

RRBs and Financial Inclusion

RRBs have the potential to play a greater role in financial inclusion primarily because of their strategic geographical location in remote places in the country. In certain parts of the country, e.g. in the states of UP, Bihar and North Eastern regions, the banking system mainly exists in the form of RRBs. Recognizing the importance of achieving inclusive growth in the country, the RBI has permitted banks to utilize the services of non-governmental organizations (NGOs), self-help groups (SHGs), micro finance institutions (other than nonbanking financial companies) and other civil society organizations as intermediaries to provide financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash-in-cash-out' transactions at a location much closer to the rural population, thus addressing the last mile problem. However, customers in many parts of the country have to travel long distances, spend on transportation costs besides sacrificing their daily wages to visit the banks for doing their routine banking transactions and such inaccessibility contributes to the dormancy of many accounts in RRBs as well. The objective of financial inclusion would be fully achieved if RRBs are able to bring banking to the door step of the customers just as the commercial banks have started taking such initiatives. It is here that the large scale usage of information and communication technology (ICT) solutions lends support. RRB presence in rural areas leveraged by ICT would considerably enhance their reach, and delivery of banking services to the remote corners of the country. The Committee on Financial Inclusion (Chairman: C. Rangarajan), also emphasized the role of IT and banking correspondents on a larger scale for achieving financial inclusion. The Committee envisaged that RRBs may extend services to unbanked areas and increase their credit to deposit ratio. The need for setting target for microfinance and financial inclusion was also envisaged. The Committee also recommended 100 percent financial inclusion of the large number of hitherto excluded farm households in order to reduce their indebtedness to the unregulated/informal sector. The Committee estimated that 51.4 percent of the farm households do not get any credit from formal or informal sources. The North Eastern Region, Eastern Region and Central Region, taken together, account for 68 percent of the farm households having no access to credit. The reach of RRBs particularly in regions and across population groups facing the brunt of financial exclusion is impressive. In rural areas, RRBs account for a substantial 37 percent of total offices of all scheduled commercial banks. In semi-urban areas, their share comes to 15 percent. With the process of merger strengthening, to some extent, the viability of the RRBs and also because of the local feel and familiarity they command, RRBs are in a unique position to play a very useful role in financial inclusion.

Table-1

Distribution of branches

Bank Group	Rural	Semi-urban	Urban	Metropolitan	Total
2020					
SBI and its associates	7,898	6,539	4,639	4,489	**23,565**
Nationalised banks	21,055	18,284	14,450	15,462	**69,251**
Regional rural banks	15,344	4,819	1,652	448	**22,263**
Private sector banks	7,241	10,978	7,588	9,879	**35,686**
All commercial banks	**52,442**	**42,683**	**29,881**	**31,516**	**1,56,522**
2023					
SBI and its associates	8,089	7,237	5,293	4,467	**25,086**
Nationalised banks	21,013	16,977	13,515	13,854	**65,359**
Regional rural banks	15,485	4,849	1,658	455	**22,447**
Private sector banks	8,425	13,201	8,999	11,655	**42,280**
All commercial banks	**54,362**	**44,957**	**31,340**	**32,245**	**1,62,904**

[Source: RBI]

A number of innovations and experiments have been initiated to bridge the gap between the rural population and the formal retail banking system**.**

Lead Bank Scheme (LBS) was introduced in 1969, based on the recommendations of the Gadgil Study Group. The basic idea was to have an "area approach" for targeted and focused banking. The banker's committee, headed by Fali.Sam. Nariman , concluded that districts would be the units for area approach and each district could be allotted to a particular bank which will perform the role of a Lead Bank. Under the Scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning.

Local area banks (LABs) an initiative that attempted to mobilize rural savings by local institutions and make them available for investment locally. As of 2005, only four LABs were functioning in the country.[4]The major handicap in their business model was the lack of a re-financing facility that hindered their ability to lend at better rates.

Self-help groups (SHGs) with bank linkages was another indigenously developed banking model. Being a savings - first model, credit discipline is a norm of the group; besides joint liability and social collateral make such groups bankable in the eyes of bankers. The linkages are achieved through non-governmental organizations (NGOs) and other intermediaries, and this has formed the basis of the micro-finance movement in India. However, the absence of NGOs in states like Bihar, Uttar Pradesh and those in the north-east has been a stumbling block in spreading this model in these states.

- The alternative to the above model has been the **NGO/MFI bulk-lending** model where funds were placed at the disposal of NGOs or MFIs for lending to SHGs or other groups and even to individuals. However, this model was not able to scale-up due to the low capitalization of the NGO/MFIs and their inability to undertake financial intermediation. Also, this meant that the formal banks had a two-level exposure and this further reduced the potential for scaling-up.

- In the **partnership model,** the MFI evaluates, recommends, originates the loans, helps in disbursal and subsequently tracks and collects the loans. However, the loans sit on the books of the bank and not of the MFI. This model has overcome the constraints of capitalization of the MFI and the double exposure that the banks were subjected to.

- Other recent innovations include the **Kisan Credit Card (KCC)** that enables the farmer to get loans over a three to five year period as a revolving credit entitlement, thus, providing them control over their cash flows and reduced transaction costs for both the banks and the farmers. However, the biggest roadblock has been the creation of point of sale (POS) kiosks and acceptance of the cards.

- The **business facilitator** and the **business correspondent** models have been other innovations in this field. Institutions or persons, who interface between the rural poor and banks, are leveraged to provide support services under well-defined terms and conditions by way of contractual arrangements. In the case of the business facilitator model, as per the law, these agencies provide basic support services such as customer identification, collection of information/applications, credit appraisal, marketing etc. Under the business correspondent model, specific agencies e.g. MFIs, NBFCs etc. also provide disbursal of small value credit as pass through and agents for the parent bank.

Objectives

The main objectives of this study were:

- To study the measures taken by the RRB for financial inclusion.
- To examine the difficulties involved in the adoption of financial inclusion by RRB
- To enhance the extent of financial inclusion.

Methodology

The data required for the study was collected from both primary and secondary sources. The primary data was collected from the banks using structured questionnaire. The secondary data was collected from the published journals, books and various websites. The samples were selected by administering convenience sampling technique. The total numbers of samples were 50. The study was conducted among the regional rural banksin Mysore District. A pilot study was administered before going for data collection. From the pilot study, some necessary changes were made in the questionnaire. The various statistical tools used to analyse the primary data were percentage analysis, mean score analysis.

Table-2 Measures Taken for Financial Inclusion

Services	**Yes**	**No**
Relaxation on know-your-customer (KYC)	35 (70 %)	15 (30%)
Opening of no-frills accounts	40 (80%)	10 (20%)
Engaging business correspondents (BCs)	25 (50%)	25 (50%)
Use of technology	32 (64%)	18 (36%)
Adoption of EBT	35 (70%)	15 (30%)
GCC	30 (60%)	20 (40%)
Opening of branches in unbanked rural centres	30 (60%)	20 (40%)
Creating a platform for inculcating the habit to save money	43 (86%)	7 (14%)
Providing formal credit avenues	42 (84%)	8 (16%)
Plug gaps and leaks in public subsidies and welfare programmes	44 (88%)	6 (12%)

Table 3 Problems Involved in Financial Inclusion

Problems	HA	A	DA	HDA	Mean Score
Lack of capital	34	12	2	2	3.60
Lack of trained personnel:	40	8	1	1	3.58
High cost of operations	32	14	3	1	3.30
Dependence on Sponsor Banks	38	10	2	-----	3.10
Political interference	35	10	3	2	3.26
Slow Progress in Lending Activity	40	8	1	-----	3.16
Procedural Rigidities	41	7	2	-------	2.60

Source : Primary data

HA: Highly Agree **A: Agree**
DA: Disagree **HDA: Highly Disagree**

Table 3: shows the compliance of banks on various issues faced by them. As per the above table, it is noted that few problems were highly agreed and few were agreed by the banks. The banks highly agreed Lack of trained personnel(3.58), Lack of capital (3.60), High cost of operations(3.30), Dependence on Sponsor Banks(3.10), Political interference(3.26) and Slow Progress in Lending Activity (3.16). The banks also agreed on Procedural Rigidities (2.60). Hence, the main problem associated with financial inclusion is Procedural Rigidities, Lack of trained personnel and Slow Progress in Lending Activity.

Conclusion

These banks have still not played a significant role in poverty alleviation of the country. Although various efforts have been made in this regard but lack of economic infrastructure, poor marketing strategies, poor knowledge of customers, low production, low awareness about savings have created many hurdles for RRB's. Lack of proper co-ordination between RRB's and other financial institution like commercial banks, NABARD and other co-operative bank has badly affected the performance of these banks. Many RRB's are suffering from the problem of heavy loans because of low repaying capacity of their customer, untrained staff, low level of deposits and heavy sanction of loan without checking the creditworthiness of their customers. High overdue and poor recovery of loan is one of the biggest concerns affecting the functioning of RRB's. Reasons being poor access of granting loan, insufficient and untrained staff, unproductive or less productive use of credit, inadequate production, poor marketing facilities and improper channel of recovery system. The main problem associated with financial inclusion is Procedural Rigidities, Lack of trained personnel and Slow Progress in Lending Activity.

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