

## 6. Rural Banking Scheme on the Development of Rural Areas (MP Region)

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### **Abstract:**

*There have been questions regarding the long-term financial stability of RRBs (Regional Rural Banks) since the 1980s, only five years after the banks were established. Several groups have looked at the issue of their financial stability and the possibility of reorganizing. When it comes to India's economy, agriculture takes the cake. Customers in rural India have more disposable income now than in previous years, and they're using it to improve their level of living. To change the current rural landscape, we urgently need to invest in employment opportunities, education, irrigation, infrastructure, modern technology, fundamental communication services, and a reliable financial system. Our goal in doing this study was to better understand the factors that contribute to RRB success.*

**Keywords:** *Regional Rural Banks (RRBs), Rural Development, economic growth, functions of RRBs, agriculture, NABARD, branches, rural finance, economy etc.*

### **6.1 Introduction:**

Living in a village is a typical way of life in India. Nearly two-thirds of the population was born here. Under the guise of offering a loan facility, small and marginal farmers, agricultural laborers, craftsmen, and the socially and economically destitute population in rural India have been exploited. The rural credit market in India is made up of a wide variety of formal and informal financial organizations that serve the credit needs of rural residents.

[1]

Madhya Pradesh is one of India's most populous states, with a total of 7.26 crore people calling it home (Census 2011). Presently, this group constitutes more than 37% of the total

population. Poverty rates in the tribal regions are significantly higher than in other parts of the state, which shows that there are significant differences across the areas of the state. Scheduled Tribes (ST) and Scheduled Castes (SC) in the state had poverty rates of 59 and 43%, respectively. [2]

At least as far back as the early national plans of independent India in the 1950s, Indian governments have stressed the importance of increased access to credit in their efforts to alleviate poverty.

The decision taken by the Indian government has sent shockwaves throughout the international community. To meet the growing need for financial services among the country's poor, the majority of whom live in rural regions, India's commercial banks were nationalized in the late 1960s, and a determined effort was made throughout the 1970s and 1980s to expand rural banking. Along with these reforms came policies mandating low-interest loans for rural residents from financial institutions.

In the 1990s, the government began reducing its stake in commercial banks and relaxing some of the controls on interest rates in order to promote healthy competition.

However, the requirement of political involvement has always kept the government active in rural banking. Banking in rural areas is still largely controlled by the government. The risk-return signals in rural finance are still being distorted, despite the fact that the amount of "directed" loans and subsidies has dropped.

### **The Importance of Rural Banking to Regional Growth:**

In recent years, rural banks have played a crucial role in fostering economic growth and development in rural areas. Banks play an important role in rural communities, facilitating saving, capital formation, investment, and economic activity. The various functions performed by RRBs can be discussed using the following categories: [3]

- Giving people in unserved and underserved communities access to banking options. Distribution of pensions, salaries, etc. for government employees under the "MGNREGA" plan.

- Services like debit and credit cards, lockers, online and mobile banking, UPI, etc., are made possible by enabling para-banking.
- Tiny versions of full-size banks.

### **Role of Regional Rural Banks in Economic Growth of India:**

Since unemployment, poverty, and other forms of social and economic backwardness are concentrated in rural areas, it is there that India's real economic success can be found. With this in mind, the government of India established RRBs to stimulate development in rural areas.

There would have been significant economic and monetary stagnation in India without the contributions of local community banks. Rural banks encourage business in rural regions, providing a clear answer to the growing unemployment challenge.

Entrepreneurship in rural areas has the potential to bridge the pay gap between rural and urban residents. Communities with lower incomes are encouraged to save at rural banks, which helps to pool resources for more productive purposes. This money can be used for a wide range of rural revitalization initiatives, including those that increase trade, cultivate new land, and build up the local manufacturing sector. Rural development helps the Indian economy grow through fostering capital formation, higher savings, access to government loans, and a strong labor force.

### **Functions of the RRBs:**

The RRBs serve the following purposes:[4]

- Loans and advances extended to small and marginal farmers, agricultural laborers, cooperative societies, agricultural processing organizations, and cooperative farming societies for the primary purpose of agriculture, or for agricultural operations and other objectives associated to agriculture.
- Loans and advances are available to small enterprises, artists, and persons with low incomes in the organization's area of cooperation.

## **6.2 Review of Literature:**

Reddy (2006) [5] examined the development in productivity in RRBs from 1996 to 2002 by examining the impact of technological factors and shifts in scale efficiency on RRB production. RRB efficiency was higher in economically and socially developed districts during the time period analyzed. It also showed that rural banks gain a lot from economies of scale when it comes to assets and locations. It has been demonstrated that improved technical efficiency leads to increased RRB productivity, and that this increases in production benefits rural banks financially more than does the provision of services. Khankhoje Sathye (2008) [6] looked into the topic of RRB restructuring. The period of time used for the purpose of this study is from 1990 to 2002. Based on a comparison of rural banks' average efficiency scores from before and after the reorganization, the authors concluded that production efficiency improved after the adjustment. Also, between 2001 and 2009, Ibrahim (2010) [7] examined how RRB mergers impacted RRB efficiency in India. Results from his study suggest that RRB productivity shot up significantly once the new structure was put in place. Both the ratio of capital funds and the ratio of credit deposits have increased since the merger.

RRBs' financial difficulties can be traced back to a variety of factors that have been documented in the aforementioned literature. Based on their findings, the Narasimham Committee concluded that RRBs have a very low chance of breaking even. Since they cater to a very small subset of the population, they have struggled to turn a profit.

Unfortunately, RRBs are not in a good enough spot to rebound. Many people have quit paying. Cost of operations growth is attributable to salary increases that bring employees up to par with those at commercial banks. The operational structures and processes of these banks were frequently the same as those of conventional commercial banks.

Therefore, people living in rural areas generally disapprove of such practices. Numerous cases exist where banks were placed in an unsuitable area. For example, sponsoring banks frequently maintain physical locations in the same neighborhoods as RRBs. The subject of whether or not the performance's setting matters is thoroughly examined by Malhotra (2002) [8].

In India, the RRB is owned by the central government (50%), the sponsor bank (35%), and the various state governments (10%). Approximately 15%. The sponsor bank, however, stands out as the entity with the most at stake and the most experience in directing and bolstering RRB activities. The role of the sponsor bank will be crucial in determining the RRB's success or failure within the operational framework established for RRBs.

It has been argued that an RRB's success depends on the amount of supervision, resources, and backing it receives from its parent bank. The "umbilical chord" relationship between an RRB and its sponsor bank has been connected to the RRB's success (Malhotra, 2002). After considering 22 criteria related to RRB effectiveness in 2000, Malhotra concluded that "the specific sustenance which the RRB receives from its sponsor bank is vital to its performance," rather than the RRB's physical location.

From 2003 to 2004, Misra (2006) [9] looked at all RRBs and discovered that the previous year's performance of the sponsor banks had a considerable impact on the current year's performance of both profitable and unprofitable RRBs. Misra concurred that RRBs that did well profit from their association with their sponsor bank, whereas RRBs that did poorly were impeded by their connection to the bank.

Malhotra determined a number of factors that contribute to this phenomenon. Some of the problems arose from the sponsor bank and the RRB competing for customers in the same territory, while others were caused by the sponsor bank's lack of involvement in fiscal topics like hiring policies, training requirements, investment management, etc. Misra found that operational and sponsored bank inputs are critical to the success of an RRB, lending credence to the 'umbilical cord' concept.

K. Jai Prakash (1996) [10] set out to investigate the value of rural development banks and found that they play a significant role in promoting economic growth in rural areas. Furthermore, RRBs were more efficient than commercial banks in lending money to people in rural areas.

It was proposed that RRBs could function more efficiently with the assistance of state governments, with local involvement, with tighter lending control, and with the opening of branches in metropolitan areas.

Ibrahim (2010) [11] examined the efficiency of rural banks in India's rural regions. The primary objective of this study is to evaluate if the 2005–06 RRB mergers and consolidations in India resulted in a significant increase in efficiency. The only indicators considered were the total number of branches, district coverage, deposits mobilized, credits extended, and investments made by Indian RRBs between fiscal years 2001-02 and 2008-09. Several various kinds of statistical analysis were used in the study, including the t test and the analysis of variance. The study discovered that following RRB mergers in India, branch networks grew and RRBs became more successful.

Arpana Bhatia compared the pre- and post-merger performance of RRBs in India (2013[12]). The purpose of the research was to ascertain if bank mergers have improved the organizational structures of rural banks in India. Specifically, this study aimed to make inferences about the future development of RRBs by comparing their pre- and post-amalgamation performance in terms of reach, workload, profitability, and productivity.

When RRBs combine their resources, they become more efficient, according to the research. This study aims to evaluate the operations and performance of Regional Rural Banks worldwide in order to inform future policy decisions.

### **6.3 Objectives:**

- One primary goal is to evaluate the health of rural regional banks.
- Assess the development and expansion of rural regional banks.
- Checking the deposits made in rural areas at banks in urban areas
- Increasing rural employment and reducing regional disparities are four goals.
- Five, to look into how RRBs in India have evolved over time.
- Sixth, to improve the economic and social standing of all low-income rural families through strengthening their community institutions.

### **6.4 Research Methodology:**

Our analysis here is entirely based on secondary sources. The Reserve Bank of India (RBI), the National Banks for Agricultural and Rural Development (NABARD), and the National

Institution for Rural Development (NIRD) have all contributed to the data collection through their annual reports, district credit programs, journals, and magazines.

## **6.5 Result and Discussion:**

RRBs are tasked with providing the credit services needed by the unbanked population of the designated nation. Therefore, a significant number of branches must be opened in underbanked areas to facilitate a level expansion of credit activities across geographic regions and socioeconomic strata. As seen in Table1, the regional rural bank has a wide reach across the country.[13]

**Table 6.1: State-wise Spread of Regional Rural Banks and their Network**

<b>Sr. No.</b>	<b>Name of the State</b>	<b>Number of RRBs</b>	<b>Number of Branches</b>	<b>Number of Districts Covered</b>
1	Andhra Pradesh	4	1642	23
2	Arunachal Pradesh	1	30	8
3	Assam	2	428	27
4	Bihar	3	1718	38
5	Chhattisgarh	3	555	28
6	Gujarat	3	529	26
7	Haryana	2	507	23
8	Himachal Pradesh	2	188	12
9	Jammu and Kashmir	2	323	26
10	Jharkhand	2	442	24
11	Karnataka	3	1460	30
12	Kerala	2	506	15

Sr. No.	Name of the State	Number of RRBs	Number of Branches	Number of Districts Covered
13	Madhya Pradesh	3	1132	50
14	Maharashtra	2	645	33
15	Manipur	1	28	9
16	Meghalaya	1	76	7
17	Mizoram	1	71	8
18	Telangana	2	92	7
19	Nagaland	1	10	5
20	Orissa	2	901	30
21	Pondicherry	1	30	2
22	Punjab	3	311	24
23	Rajasthan	3	1157	36
24	Tamil nadu	2	374	31
25	Tripura	1	133	8
26	Uttar Pradesh	8	3518	81
27	Uttaranchal	1	237	13
28	West Bengal	3	921	18
28	Total	56	17856	635

**Table 6.2: Districts, Towns, Villages, Divisions, Municipalities & Panchayats in MP**

Category	Number	Category	Number
Commissioner Divisions	10	Districts	51
Community Development Blocks	224}	Sub-Districts (Tehsils)	343 (272)
Tribal Development Blocks	89} 313	Villages	54,903
Towns	476	Inhabited villages	52, 117

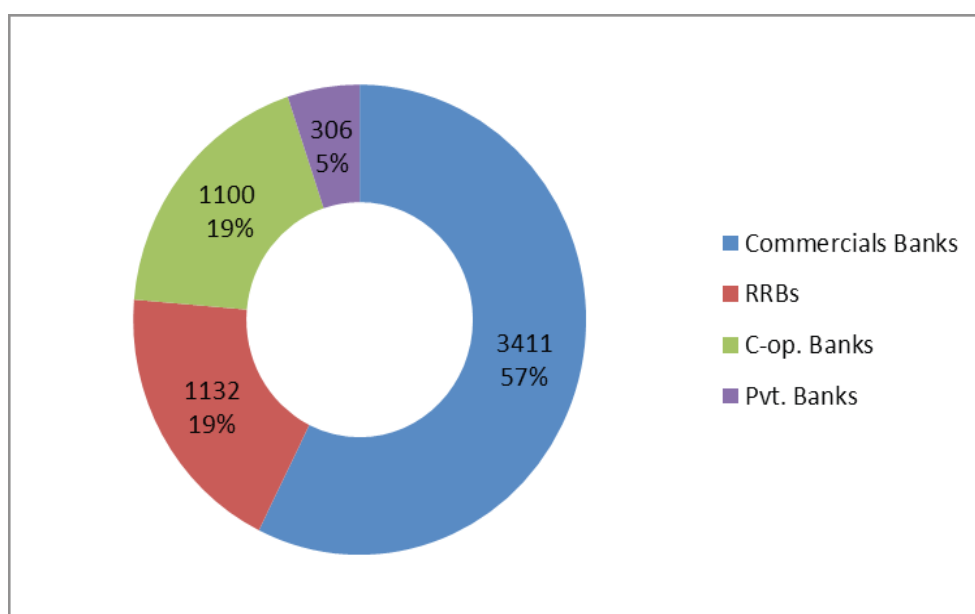


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Category	Number	Category	Number
Zila Panchayats	51	Villages panchayats	23, 012
Janpad Panchayats	313	Municipal Corporations	14
Nagar Panchayats (Parishads)	258	Municipalities	97

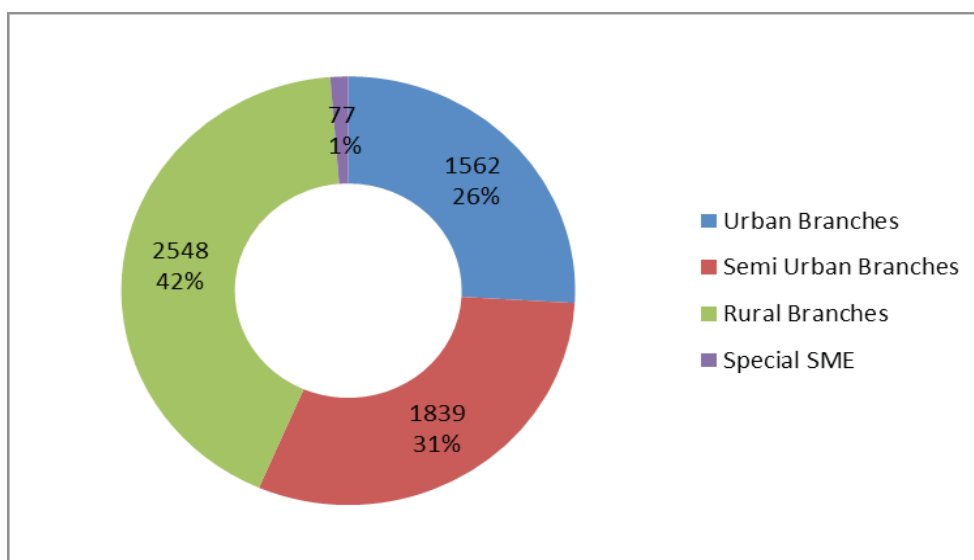
**Table 6.3: Branches of Banks in MP (as of 31-03-2013)**

Sr. No.	Bank Type	No. of Banks (SLBC)	Branches
1.	Public Sector Banks	26	3,411
2.	Private Sector Banks	12	303
3.	Regional Rural Banks (RRBs)	3	1,132
4.	M.P. Cooperative bank	1	832
5.	M.P. State Agriculture and rural Development Bank	1	268
Total		43	5,949



**Figure 6.1: Bank-wise Branches: 5949**

**Figure 6.1** shows that commercial banks make up 57% of the bank branches in the State, while cooperative banks and RRBs each make up 19%, and private sector banks make up 5%. As seen in Figure 6.2, can be found all over the world. [14]



**Figure 6.2: Region-wise Bank Branches**

Across the State, over 42% of all branches are situated in rural areas, 31% in semi-urban areas, and 26% in metropolitan areas.

### 6.6 Conclusion:

The disparity in the availability of banking services across India has been greatly reduced thanks to the rapid growth of RRB. Visible are RRB's attempts to expand its branch network, collect deposits, encourage rural development, and disburse loans to economically challenged areas of rural America. The RRB was successful in its mission to increase access to banking services in rural areas, especially those that were previously underserved, lower the cost of credit for low-income borrowers in rural areas who had to turn to expensive private lenders, increase confidence in rural savings as a means of funding economic development, and reduce the cost of credit for large purchases. To that end, RRB has the safest banking options. For Rural Banks to become financially stable again, the government should take effective corrective action.

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