

# “ Role of Regional Rural Banks in Rural Development of Karnataka State.”

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**Abstract:** In Karnataka the credit needs of the rural people by the way Regional Rural Bank to facilitate rural development. The amalgamated RRBs also benefit from larger area of operation, in terms of branch expansion with different economies of scale enhanced credit exposure of small and marginal farmers credit limits for high value and diverse modern banking services. As a result of amalgamation, number of the RRBs has been reduced from 196 to 45 as on 31 March 2020, in terms of branches the numbers has been increased. The main aim of establishing Regional Rural Banks in India is to provide credit to the rural people small and marginal farmers rural artisans who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labours and even small entrepreneurs Therefore 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. 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 objective of this paper is to analyse the rural credit and the role played by the RRBs in the priority and non-priority sector landings. The study finds and concludes that RRBs contributed in significantly improved rural economy of Karnataka.

**Keywords:** RRBs, Rural credit, Agriculture, Farmers, Rural development.

## Introduction

Rural development is considered to be of noticeable importance in the State of Karnataka, today than in the olden days in the process of the evolution of the nation also lies in rural development. RRBs are incorporated with a view to developing the rural economy. RRBs are covered under the type of Scheduled Commercial Banks (Government Banks). According to J.K. Galbraith, credit system can be an instrument of progress and of Stagnation and repression. India's Endeavour through a series of experiments over the years has been to convert her Stagnated rural credit system into a progressive with a new tool to provide some relief to agriculturists in matters of agriculture finance through thrift and mutual help then only rural development is possible. Particularly in the name of, marginal and small farmers, agricultural laborers and rural artisans are more dependent on non-institutional agency for their credit needs., The Government of India also felt that it was necessary to establish new institutions which are mainly focusing on the basis of attitudinal and operational ethos entirely different from the present one. With this background, RRBs are established RRBs has a strategy that tries to obtain an improved and productivity, higher socio-economic equality and ambition, and stability in social and economic development of the rural areas.

Regional Rural Banks in Karnataka are an integral part of the rural credit structure of in the state. The Regional Rural Banks were owned by the Central Government, the State Government and the Sponsor Bank. The recommendations of the working Group under the chairmanship of Shri. M. Narasimhan, a senior civil servant of India. The Group submitted its report in a record period of one month. The committee observed that “in a country of the size and regional diversity as ours, no single pattern, be it commercial banks or cooperative credit, can be expected to meet all the emerging requirements in all the areas, keeping this in the mind to give importance to the rural credit, the Government of India promulgated the RRBs Ordinance on September 26, 1975, and the first five RRBs were established on October 2, 1975, the Gandhi Jayanti Day. The ordinance was later replaced by the Regional Rural Banks Act of 1976 for the operational structure of RRBs. According to the RRBs Act, the RRBs were set up mainly,” with a view to developing rural economy by providing for the purpose of development of agriculture, trade commerce, including other productive activities in the rural areas, credit and other facilities, particularly to the rural artisans, small entrepreneurs and for matters connected therewith and incidental thereto”. The jurisdiction of each RRBs is to be within the specified districts in a state and that of its branches within the district. Each RRBs is to be sponsored by a scheduled commercial bank (mainly by public sector and lead bank of the district). It has to be started at the initiative taken by the sponsor bank, in consultation with the State Government and the Central Government. In the ratio of 50:35:15. The management of each RRBs will be through a nine-member board of directors, headed by chairman. The RRBs are entitled to get concessional refinance from the National Bank for Agriculture and Rural Development (NABARD). The functioning method of the RRBs are covered under Deposit Insurance and Credit Guarantee Corporation (DICGC) scheme and they also required observing the RBI stipulations for Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) from time to time. Since RRBs as an economic institution the bank is expected to be more directly and more positively related to the performance of the economy than most non-economic institutions. Banks are considered to be the mart of the world.

### **Statement of Problem**

In the process of rural development to it is very important to address the issues and challenges of the 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 people. 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.

**Research Questions:**

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

**Objectives of the study.**

The present study is focused on the following objectives

1. Highlight the Role of RRBS on Rural development.
2. Enlist challenges and issues of Rural Credit by 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.

**Review of literature on regional rural Banks.**

Rural Development is the process of improving the quality of life and economic well-being of people living in rural areas, often relatively isolated and sparsely populated areas. Rural Development has traditionally centered on the exploitation of land-intensive natural resources such as agriculture and forestry. In this connection different studies conducted on How regional rural banks helping rural development NABARD(1986) A study on RRB viability indicated that, resource mobility and implementation in rural area is must in this connection different studies are Kalkundrickars (1990) in his study on “Performance and Growth of regional Rural Banks in Karnataka” found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans. Kumar Raj (1993) carried out a study on the topic “Growth and Performance of RRBs in Haryana”. On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries A. K. Jai Prakash (1996) 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 disbursement 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. L.K Naidu (1998) conducted a study on RRBs taking a sample of 48 beneficiaries of rural artisans in Cuddapah district of Andhra Pradesh state under Rayale Seen Gramin Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank. According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular. Chavan and Pallavi (2004) 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. Prasath (2015) Financial performance evaluation of Regional rural banks in Karnataka with reference to Pragathi Gramin Bank Post amalgamation indicated through economies of scale they can achieve more profitability. These are studies made an effort to understand the role of RRBs in rural development.

### Analysis of the Role of RRBs

In the state of Karnataka, rural development is important not only for the majority of the population residing for their lively hood in rural areas, but also for the overall sustainable economic development of the state. It is considered to be of noticeable importance in the state. It is a strategy that tries to obtain an agricultural improved productivity, better socio-economic equality and ambition, and stability in social and economic development, we can achieve only when a balanced financial institutional, agriculture and rural development achieved. The primary objective must be to decrease the famine that exists in roughly about 70 percent of the rural population, and to make sufficient and healthy food available in the current pandemic situation. The secondary task is to ensure the availability of clothing and footwear, a clean environment and house, medical attention, recreational provision, education, transport, and communication. To meet an efficient Rural credit system needs to be addressed in a proper manner. An efficient system of purveying institutional credit in rural and semi-urban areas is an essential ingredient of any viable strategy for the removal of poverty and modernization of state economy at base level. In addition, the majority of the state 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. In this connection RRBs has to play significant role by proving loan facilities to different projects. Of the state govt. and implementing Govt.Schemes in an effective manner. RRBs has play the important role in the reduction of poverty by the way of implementing poverty eradication programmes. This is important because rural areas have the maximum people are living below poverty line, about 30% of the population is below the poverty line. There is a serious need of taking steps for the alleviation of poverty to implement govt. programmes through RRBs. Rural areas lack proper health facilities. 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



be developed to enhance employment opportunities. For the sustainable development. 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. These are the important steps are key drivers in the rural development space. ieEducation, Public health and Sanitation, Women empowerment, Infrastructure development (electricity, irrigation, etc.), Facilities for agriculture extension and research, Availability of credit, poverty eradication and Employment opportunities it the state of rural Karnataka.

### **Performance of RRBs**

The performance of RRBs as in 2020 compared to those in 1998 has showed contrasting features due to intensive competition in banking space itself. On the one hand, RRBs registered a tremendous growth in their number of accounts geographical coverage, deposit mobilization, implementation of Govt schemes and deployment of credit to the target group in rural areas. A disturbing feature of their operations has been that a number of RRBs have shown poor financial viability even after several years of existence due to NPA and competition from the other financial institutions. As a result. RRB amalgamated to have the benefit of Economies of scale. Even if access to formal banking is provided to rural customers, there is no guarantee that these services will be used. According to a study conducted by the World Bank, Rural people many households, even in developed countries, choose not to have a bank account as they do not engage in many financial transactions, they collect wages in cash, spend in cash and do not wish to be burdened by a bank account because they feel it is to be the services charges and accountability. So, in this connection govt of India introduced different schemes to keep small and marginal farmers cultivate saving habit. To compound the situation many customers in rural India, who have access bank account to loan and would otherwise choose to use formal financial services, do not do so because the product and service mixes do not meet their needs. In the rural Karnataka the financial service needs of rural customers are not confined to just savings and credit, as is usually assumed. Their financial needs are linked to their life cycle needs, ranging from savings to credit to insurance to remittances. In fact, even the savings and credit products currently offered to rural customers do not entirely meet their needs. The savings and investment facilities are critical for the poor of rural areas. The two critical needs for the rural poor are micro-savings and frequent withdrawals. In RRBS These kinds of needs facilitate a customer in building capital over the long term at the rural areas, if there are finding any credit shortage in the near term RRBs paly very important role by providing, loan facilities. However, banks do not offer adequate services to address these needs. The lack of services, therefore, leaves the rural poor with little option than to transact with the informal banking. Karnataka Grameen bank crosses 50000 crore Total business, 28435 crore deposits with the net profit 19 crore of as on March 2020. RRBs will be helpful

accept small amounts, provide doorstep service, and ensure ease of enrolment. Rural customers need loans not only for productive purposes but also for consumption needs by Karnataka Grameen bank. RRBs a part from agricultural support, rural customers need micro credit for consumption, education and emergencies. Though banks offer purpose free loans (personal loans and credit cards) in urban areas quite liberally, in rural areas sanction of such loans is significantly restricted since they do not have regular income to access credit cards. Therefore, the poor raise these loans through the informal financial system so has to RRBs paly significant in encouraging micro credit space.

### **Finding of the study.**

It is to be noted that the RRBs are expected not only to achieve their socioeconomic objectives but also to earn profits to sustain their continued operations in rural areas. The profit depends upon the judicious deployment of internal resources and borrowings. The olden banking system, the systems and procedures of which are actually worked for the urban industrial and business financing oriented, has limitations in reaching out to the last mile of agriculture and rural areas. That is the gap that the rural banking system of agriculture oriented and industry oriented. The principal stated objective of rural banks in Karnataka is to reach timely credit small and marginal farmers, at terms dictated by social considerations rather than economic ones, to needy rural arcticians, so that they do not fall victim to the schemes of unscrupulous moneylenders who are exploiting at the maximum extent by higher rate of interest. The importance of the rural banking in the economic development of the state cannot be overlooked that to particularly after RRBs. As Gandhiji said "Real India lies in villages," and village economy is the backbone of the economic development. The Non-Performing assets Banks have higher non-performing loans in rural areas because rural households have irregular income of the farmers due to uneven distribution monsoon and low-income level of the farmers. NPAs from the agriculture sector are 7.9%, compared to 3.7% across non- agriculture sectors. The co-operative banking system was constrained by dominance of vested interests, managerial weakness and high overdoes and the commercial banking system was handicapped on account of high-cost structure and disinclination of its employees for rural service only alternative is RRBs in the Karnataka rural development space.

### **Conclusion**

The regional rural banks can perform efficiently in rural areas by sending bank representatives to different villages before crop season to provide loans and other information, Providing token system. Funds, should be provided by Govt. for opening branches in remote areas. In this method RRBs in the enhancement of rural arctician industry, agriculture productivity, to encourage livestock, expansion of rural credit and poverty eradication assumes high priority. Despite decades of efforts and experimentation in banking, the organised financial sector is still not able to meet the credit gap in the rural sector because of banks are not showing the much interest in rural areas. The lower levels of per capita income caused again low level of saving, lack of infrastructure in the rural areas caused access banking, focus in the urban sector and lack of proper connectivity were the main hindrances for banks to venture into rural areas. in the present scenario the trend has be reversed then only there is possibility of balanced development is possible.

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