



## Asian Journal of Management and Commerce

E-ISSN: 2708-4523

P-ISSN: 2708-4515

AJMC 2023; 4(1): 230-234

© 2023 AJMC

[www.allcommercejournal.com](http://www.allcommercejournal.com)

Received: 18-02-2023

Accepted: 30-03-2023

### Sanjib Das

Research Scholar, Department of Commerce, Himalayan University, Itanagar, Arunachal Pradesh, India

### Dr. Ashok Kumar Purohit

Professor, Department of Commerce, Himalayan University, Itanagar, Arunachal Pradesh, India

## The role of India's regional rural banks in rural economic development

**Sanjib Das and Dr. Ashok Kumar Purohit**

### Abstract

It is impossible to emphasize the importance of Regional Rural Banks to the development of India's rural economy. M.K. Since, as Gandhi said, "real India lives in the village," it stands to reason that India's rural communities play a significant role in the country's economy. This research was conducted to evaluate how well RRBs in rural India have met the tasks set forth for them. This research uses secondary sources because of its exploratory nature; they include rural credit aims and successes, direct and indirect credit in agricultural and associated businesses, and the credit deposit ratio. The Reserve Bank of India (RBI) and the National Bank of Agriculture and Rural Development (NABARD) provided the bulk of the supplementary information used in this study (NABARD). Notable journals included include Banker and the Journal of the Indian Institute of Bankers. The purpose of this study is to examine rural development banks in India and the state of Gujarat in terms of their roles in the rural credit infrastructures of both countries. Loans and advances made by RRBs to priority and non-priority sectors for the six-year period 2011-2012-2017-2018 are the exclusive subject of this study. The analysis and conclusions drawn from this study made use of quantitative tools like percentages and growth rates.

**Keywords:** Banking reforms, regional rural banks, agriculture, economic condition, poverty

### Introduction

The impact of Regional Rural Banks in India's economic growth, especially in rural areas, cannot be overstated. M.K. Gandhi once observed, "true India lives in the village," hence it follows that rural areas in India are crucial to the country's economy. If economic planning is to succeed, the rural economy must be fostered. Financial institutions, including banks, are crucial to the growth of the country's rural economy. Economic growth via these institutions is studied critically, and strategies and proposals for improving and elevating society's disadvantaged are proposed.

Throughout the course of this research, we have endeavored to evaluate and analyze the efforts made by Regional Rural Banks to meet the demands of rural residents in India. Rural credit structure and RRBs' contribution to the growth of the rural economy are also discussed. Banks and other lenders, including RRBs, have been working hard to meet the credit requirements of micro and small enterprises and farmers. This study makes use of secondary sources since it is exploratory in character. Useful secondary information has been gathered mostly from the databases of the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). Research is limited to a select subset of RRB activities throughout a six-year time frame (2012-2018), such as loans and advances granted to priority and non-priority industries. Mathematical methods like percentages and growth rates were employed for analysis and inference in this research.

India is mostly rural, with over 65% of the people engaged in agriculture in some capacity. There are still quite a few people (74.28%) who call the country their home. Agriculture is not just a profession but also a way of life. Even now, agriculture is not seen as a business by India's rural population; rather, it is a way of life.

Poverty and the inability to make a living from farming compound the difficulties experienced by the rural people. In particular, subsistence farmers, agricultural laborers, and rural craftsmen who couldn't make ends meet in their home communities were forced to move to larger cities in search of work. Even less optimistic is the state of agriculture, rural infrastructure, and the rural economy. However, it is well-accepted that the agricultural sector plays a vital role in the economic growth of countries where the bulk of the population depends on farming for a living.

### Corresponding Author:

#### Sanjib Das

Research Scholar, Department of Commerce, Himalayan University, Itanagar, Arunachal Pradesh, India

Many farmers in India grow crops specifically for their families' needs. They tend to little plots of land, and many of them are tenants on larger farms. It goes without saying that the lack of a reliable lending system has exacerbated the problems plaguing India's agricultural sector.

### Literature review

Mr. Srinivasa (2022) <sup>[1]</sup> the village economy is the foundation of the Indian economy, and rural banking plays a crucial role in its growth and development. The goal of economic planning will not be met without strengthening the rural economy. This kind of bank was set up to fill a need in the provision of affordable institutional credit to economically disadvantaged groups, as well as to support the growth of agriculture, trade, commerce, and industry in rural regions where such services are now unavailable. Regional rural banks (RRBs) are, thus, very important to India's rural economy. This study is experimental in its construction and makes extensive use of secondary sources. Articles, journals, books, and websites have been referred to for the majority of the secondary data collection. This study sheds attention on the importance of banks to rural communities and the vital role they play in rural economic growth.

Gautam, Rahul & Bhimavarapu, Venkata & Rawal, Aashi. (2022) <sup>[2]</sup>. The study's overarching goal is to learn how regional rural banks in India may help alleviate poverty while also fostering regional growth. Our analysis is predicated on collected secondary data for the fiscal years of 2018, 2019, and 2020 from 29 of India's states and 2 union territories. In order to test the hypothesis, the authors use panel data analysis (PDA). Therefore, regional rural banks help reduce poverty and promote growth in rural areas. This research suggests that regional rural banks and the federal government should prioritize funding for financial education and infrastructure improvement. It plays an essential role in rural banks on a regional scale and in broadening access to banking services. Both of these are essential for reducing poverty and fostering growth in rural areas. By investing in infrastructure to improve banking services, it has achieved significant economic development and lowered poverty levels.

Mr Bhavik Barot, Dr Gurudutta Japee (2021) <sup>[3]</sup> Five years after its inception in the 1980s, concerns were raised about the viability of RRBs (Regional Rural Banks). Several panels have examined the question of their financial viability and possible reorganization. The majority of the Indian economy is located in the countryside. Consumer purchasing power in rural India has risen in recent years, and with it, a desire to raise living standards. Improving employment, literacy, irrigation, infrastructure, modern technology, basic communications services, and, most importantly, the requirement for an effective finance system are all urgently needed to shape the current rural landscape. With this research, we aimed to learn more about what affects RRBs' performance and how they serve their communities.

Neha Singh (2022) <sup>[4]</sup> In this study, we aim to analyze the success of Regional Rural Banks in India using a variety of different metrics, including the number of RRBs, the growth of their branch network, their coverage of certain districts, the amount they lend out, and the number of deposits they bring in. Mean, standard deviation, variance, coefficient of variation, and t-test are only few of the statistical methods that have been utilized in the analytical investigation of the parameters. Despite a large drop-in merger activity, the

survey found that RRB numbers had increased along with better financial results. The research shows that RRBs have grown at different rates in different places, with the most attention being paid to the most developed cities. However, RRBs as a whole have improved their financial standing in the last decade.

Tigari, Dr. & Gaganadeepa, M. (2019) <sup>[5]</sup>. Village economies are the foundation of the Indian economy, and rural banking plays a crucial part in this. The goal of economic planning will not be met without strengthening the rural economy. Regional rural banks (RRBs) are, thus, very important to India's rural economy. The RRBs were formed on October 2, 1975, with the primary purpose of a temporary credit to rural people who are not economically strong enough, mainly the small farmers, craftsmen, agricultural workers, and even small businesspeople. This research is an effort to better understand rural credit structure and RRBs' part in the growth of the rural economy. This study is experimental in its construction and makes extensive use of secondary sources. Articles, journals, books, and websites have been referred to for the majority of the secondary data collection. The purpose of this work is to analyze Pragathi Krishna Gramin Bank's (RGB) rural loan structure. There is a special emphasis on the loans and advances made by the RRBs throughout a three-year period, from 2015–16 to 2017–18.

### Research methodology

The research is descriptive as well as analytical, making use of secondary sources. Statistics have been compiled from a variety of sources, including the websites of the Reserve Bank of India and the National Bank for Agricultural and Rural Development (NABARD), as well as the RBI's and NABARD's annual reports, the Economic Survey published by the Indian Ministry of Finance, a number of scholarly journals, the World Wide Web, and other online resources. Using Microsoft Excel, we look at data to see how RRBs are trending in the lending industry.

This study uses secondary sources for its diagnostic and exploratory purposes. Reserve Bank of India (RBI) National Bank for Agriculture and Rural Development databases have been mined for secondary information (NABARD). The present study is diagnostic and exploratory in nature and makes use of secondary data for last four years starting from 2015-16 to 2017-18. This study makes an effort to analyze the rural credit system in India and the function of the RRBs. The scope of this research is limited to loans and advances made by RRBs between 2011 and 2018, with a focus on the priority and non-priority sectors. In this research, we use a wide range of Sector-wise Loans provided by RRBs as a data point from which to derive analyses and conclusions.

The role of RRBs in the rural lending sector is crucial. Those who help the poor by lending them money might do it in one of two ways. There are two types of economic sectors: priority and non-priority. Restoring sectoral balance within credit distribution and channeling credit to the poorer parts of society are primary goals of India's financial policy, for which priority sector bank lending is an active tool. When it comes to providing banking services, some industries are considered "priority sectors." Priority sector was first implemented in the financial system in 1968, when the government instituted social control over the banking industry. Financial institutions were urged to provide a portion of their lending portfolios to the priority sector. The economy was divided into three distinct areas in 1968:

agriculture, light industry, and international trade. In time, more and more sub-sectors were added to the "priority sector" list. Currently, it is made up of farms, factories, transport companies, exporters, importers, entrepreneurs, professionals, teachers, and students. These days, microfinancing via SHGs is considered a priority as well.

### Data analysis

The establishment of RRBs is both a novel experiment and valuable experience for the purpose of making India's rural credit delivery system more effective. Since the little man's bank has taken hold and become an integral element of the rural credit network, RRBs have come to be widely anticipated. RRBs play an important role as an institutional source of credit market with the goal of facilitating credit to priority sector involved in agriculture, commerce, and other productive activities to increase banking in rural regions and provide job opportunities. India's agricultural credit as a whole now officially recognizes the vast majority of rural loans. The gaps in access to banking services throughout India were significantly narrowed because to the RRB system's fast growth. The reasons for RRBs' increased loan availability over the last four years are listed in Table 1. This display charts the development of RRBs over the last several decades. Using just the data that is currently accessible in relation to RRBs, the records of goal and attainment show that RRBs make moderate but consistent progress towards minimizing the gaps between the two. Evidence from the last four years shows that the common

man's bank has made steady progress in providing for the credit requirements of the rural poor.

**Table 1:** Targets and Achievements for Agricultural Credit of RRBs (Rs. in billion)

Year	Target	Achievement
2013-14	1000	827
2014-15	1200	1025
2015-16	1200	1193
2016-17*	1250	1232

RRBs often serve rural and peri-urban communities. Loans, both short and long term (crop loans) (for Agri and allied activities). Major goals of RRBs include facilitating access to banking services for underserved populations and facilitating institutional lending for farmers. It may come as a surprise to learn that commercial banks are not as eager or able to assist the lowest segments of the community as they seem to be, especially in rural locations. In addition to direct loans, RRBs operate as a source of indirect credit for a wide variety of semi-government organizations. Outstanding debt is a serious barrier for rural credit financing in agriculture and associated sectors. On the other hand, RRBs show substantial variations. Most of your current and future clients have economic insecurity, thus the proportion of your total credit that is still outstanding has been growing steadily over time. Short-term and long-term trends of direct institutional lending for agriculture and related industries are shown in Table 2.

**Table 2:** Direct and Indirect Institutional Credit for Agricultural and allied activities of RRBs

Year	(Total short term and long term)		(Rs. in billion)	
	Loan Issued		Loan outstanding	
	Direct	Indirect	Direct	Indirect
1979-80	-	-	1.68	0.13
1984-85	3.10	0.8	6.96	0.30
1989-90	6.47	0.10	18.38	0.48
1994-95	10.83	-	30.09	0.33
1999-00	29.85	0.07	59.91	0.29
2004-05	119.27	-	167.09	-
2009-10	346.40	-	462.82	-
2014-15	1024.82	-	1126.03	-
2016-17	1232.16	-	1534.16	-

The proportion of loans still outstanding to new loans has been declining recently. The loan balance in 1989–90 and 1994–95 was three times the original loan amount. As a consequence, loan repayment performance was low throughout this time frame. However, the number of overdue loans was automatically decreased once non-institutional entities were put into place and began

collecting on overdue accounts in a timely manner. However, the ratio of loans provided to loans disbursed is almost constant at 1:1 when using indirect loans. Short-term loans, term loans, loans to rural artisans, small-scale companies, retail, and self-help organizations etc. are all examples of the types of loans handed out by RRBs to priority sectors.

**Table 3:** Exhibits the sector-wise loans issued by the RRBs

Years	Priority Sector	% To Total Loans	Non- Priority Sector	% To Total Loans	Total Loans
2011-12	8,847	69.98	3,794	30.02	12,641 (100%)
2012-13	11,722	75.24	3,857	24.76	15,579 (100%)
2013-14	16,568	78.58	4,514	21.42	21,082 (100%)
2014-15	20,658	81.61	4,655	18.39	25,313 (100%)
2015-16	26,502	80.20	6,542	19.80	33,043 (100%)
2016-17	31,708	82.18	6,874	17.82	38,582 (100%)
2017-18	36,141	83.33	7,226	16.67	43,367 (100%)

Loans to both priority and non-priority industries are listed by year in Table 3. From the data in the table, it is clear that the percentage of total loans that went to the priority sector

was higher than the percentage of total loans that went to the non-priority sector.

### Loans for Crops (Short-term Loans) and Agriculture and Allied Activities (Term-Loans)

India's economy relies heavily on agriculture. Seventy percent or more of the population relies on farming and

related industries for their livelihood. RRBs are assisting this industry by making both short-term and long-term loans available. Data on agricultural loans is shown in Table 4 below by year.

**Table 4:** Disbursement of Short-Term and Term-Loans (Rs. in Crores)

Years	Amount of short-term loans	% of increase over previous year	Amount of term loans	% of increase over previous year
2011-12	4,834	--	1,045	--
2012-13	6,133	26.87	1,042	26.87
2013-14	9,883	61.14	2,043	61.14
2014-15	12,575	27.23	2,144	27.23
2015-16	17,031	35.43	3,198	35.43
2016-17	20,377	19.64	3,461	19.64
2017-18	22,851	12.14	3,648	12.14

Table 4 shows that agricultural short-term loans have grown steadily over time. Short-term loan disbursements increased from Rs. 22,851 crores in 2008-09 to Rs. 4,834 crores in 2011-12. The highest annual rate ever recorded was 35.43 percent in 2006-07.

The RRBs' track record of providing term loans to the agricultural sector and related businesses is not very promising. The 2011-12 budget of Rs.1, 045 crores has been raised to the 2017-18 budget of Rs.3, 648 crores. An

astounding 3.49-fold growth was seen over the time frame.

### Disbursement of Loans to Priority Sectors by RRBs (Rs. in Crores)

The Indian government's plan for rural lending included the distribution of both long-term and short-term loans. Loans disbursed by RRBs in India have increased dramatically throughout their three decades of existence. Outside of the priority sector's short-term and long-term loans, table 5 displays the loans made to other organizations.

**Table 5:** Disbursement of Loans to Various Groups in the Priority Sectors by RRBs (Rs. in Crores)

Years	Rural Artisans	SSI	Retail Trade	SHG	Other Priority Sector
2011-12	238	138	1421	350	819
2012-13	276	167	1653	510	1941
2013-14	316	210	1967	858	1290
2014-15	304	342	1841	1171	2282
2015-16	320	342	1984	1406	2222
2016-17	320	638	2024	2107	2275
2017-18	552	670	2370	2388	3662

The following table shows that the total amount of loans made by RRBs to all categories of borrowers has increased over time. There has been a rise from Rs.238 c. to Rs.552 c. in the amount lent to rural craftsmen between 2011-12 and 2017-18. Over that time frame, it rose by 2.3 times. The RRBs have increased the loan amounts given to each category.

### Disbursement of loans to Agriculture V/s non-Agriculture (%)

**Table 6:** Loans Outstanding to Agriculture V/s non-Agriculture (%)

Years	Agriculture	Non-Agriculture
2011-12	46	54
2012-13	45	55
2013-14	51	49
2014-15	54	46
2015-16	57	43
2016-17	54	44
2017-18	64	36

For the sake of national growth, RRBs are financing the agricultural sector with loans. In this context, RRBs divide their overall loan volume into two sections: loans for agricultural purposes, and loans for non-agricultural purposes. Table 6 displays the annual proportion of total loans between agricultural and non-agriculture.

In the table 6, it is displayed that the RRBs have been fairly effective in providing agricultural loans. During the period

under reference, the banks have been able to mark a rising trend in its loans outstanding with 46% in the year 2011-12 to 64% in 2017-18.

### Conclusion

Freedom from poverty, unemployment, and other socioeconomic setbacks in rural areas is crucial to India's economic progress. The role of RRBs in the rural credits system has been investigated in this study. There are two types of borrowers in the rural lending structure: priority and non-priority. RRBs, although experiencing a number of difficulties, should support the provision of non-interest cost of credit to small borrowers at the lowest feasible cost. It's time to put a stop to news stories like "we're forgiving your debt" and start taking real action against loan defaulters. Co-ops, commercial banks, or both should support or co-sponsor RRB establishment to ensure that the small credit facilitation mechanism continues to function normally. The rate at which loans are being dispersed to both businesses has increased significantly. Loans to priority industries made up a larger fraction of the total throughout the inquiry. For the agricultural sector to expand, RRBs have lent money in the form of both short-term and long-term loans. Since RRBs are an integral part of India's rural credit system, this study may prove useful to rural banking institutions and policymakers in developing the appropriate loan structure.

### Reference

1. Srinivasa. Regional Rural Banks and Rural Economic

- Development, © August 2022| IJIRT| ISSN: 2349-6002. 2022;9(3).
2. Gautam R, Bhimavarapu V, Rawal A. Study on Regional Rural Banks and their Impact on Poverty Reduction in India. 2022;5:221-229.
  3. Bhavik B, Gurudutta J. Indian Rural Banking–Role of Regional Rural Banks, Gap Gyan A Global Journal of Social Sciences (ISSN–2581-5830) Impact Factor–SJIF–4.998, IIFS-4.375 Globally peer-reviewed and open access journal; c2021.
  4. Singh N. Regional Rural Banks in India: Case Study of Lucknow District, © 2020 IJRTI | ISSN: 2456-3315. 2022;5(8).
  5. Tigari DR, Gaganadeepa M. Regional Rural Banks and Rural Development: A Case of Pragathi Krishna Gramin Bank. Shanlax International Journal of Economics. 7. 68-74. 10.34293/economics. 2019;7(2):315.
  6. Agarwal P, Reddy BB. Performance of Regional Rural Banks in India. In Special Proceeding of the 21st Annual Conference of SSCA held at SV Agricultural College (ANGRAU), Tirupati; c2019. p. 1-11.
  7. Ahmed JUD. Performance evaluation of regional rural banks: Evidence from Indian rural banks. Global business review. 2015;16(5\_suppl):125S-139S.
  8. Athaley C, Rastogi S, Goel A, Bhimavarapu VM. Factors impacting bank's performance: A literature review. Test Engineering and Management. 2020;83:7389-98.
  9. Barot MB, Japee G. Indian Rural Banking–Role of Regional Rural Banks. A Global Journal of Social Sciences. 2021;4(2):56-59.
  10. Bhatt N, Thorat YSP. India's regional rural banks: The institutional dimension of reforms. Journal of Microfinance/ESR Review. 2001;3(1):66-94.
  11. Bhimavarapu VM, Rastogi S. Dividend and Bank Performance in India: Evidence using Panel Data Analysis. International Journal of Management and Humanities. 2021;6(1):1-4.
  12. Das S. A Comparative Study on the Performance of the Two Regional Banks of West Bengal in Post-Merger Scenario. IJNCRDM. 2015;1(3-4):16-33.
  13. Datta B. Planning for rural banks. Economic and Political Weekly. 1977;12(35):1545-1550.
  14. Gautam RS, Bhimavarapu VM, Rastogi S. Impact of Digitalization on the Farmers in India: Evidence Using Panel Data Analysis. International Journal of Management and Humanities (IJMH). 2021;6(1):5-12.