

ROLE OF REGIONAL RURAL BANKS IN THE SUSTAINABLE DEVELOPMENT OF INDIAN RURAL ECONOMY

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Abstract

In India's ambitious pursuit of attaining developed nation status by 2047, the imperative for sustainable rural economic development stands as a cornerstone, given the country's predominantly rural demographic. With seventy percent of the population residing in rural areas, the advancement of this sector is not just desirable but essential for India's overarching developmental goals and societal well-being. However, rural communities face a significant obstacle in the form of limited access to capital, constraining their ability to engage in agriculture and allied activities. To address this challenge, Regional Rural Banks (RRBs) were established in 1975. This study delves into the deposit mobilization and loan disbursement patterns of RRBs from 2012-13 to 2021-22, using data extracted from NABARD reports. Employing curve estimation through SPSS, the study observes a consistent upward trajectory in both deposits ($P < 0.001$) and loans ($P < 0.001$), albeit with fluctuations in credit-deposit ratios ($P > 0.05$). Notably, loans directed towards the priority sector outstrip ($P < 0.001$) those towards non-priority sectors ($P > 0.05$), aligning with directives from the Reserve Bank of India (RBI). These findings underscore the vital role played by RRBs in facilitating rural economic development and emphasize the significance of prioritizing access to credit in fostering sustainable growth in rural communities.

Keywords: Banking, Credit, Economic Development, Rural Communities.

Introduction

India, presently ranking as the fifth-largest economy globally in 2024, is a developing nation with ambitions to attain developed status by 2047. Central to this objective is the recognition of the critical role played by the rural economy, considering a substantial proportion of the population resides in rural regions. Nevertheless, a considerable challenge hindering economic activities in these areas is the difficulty in accessing affordable credit, impeding sustainable growth. Addressing this issue is pivotal for fostering financial inclusion, ensuring equitable access

to financial services at reasonable costs, and driving rapid economic development while combating income inequality and poverty. The inadequacy of development in this realm not only constrains India's global competitiveness but also perpetuates rural-urban disparities. Financial institutions, particularly banks, are instrumental in meeting the credit needs of rural communities. Regional Rural Banks (RRBs), established on October 2, 1975, under the RRB Act of 1976, serve as vital channels for banking services in rural regions where traditional facilities are lacking. Given India's reliance on its rural economy, the development of rural infrastructure assumes paramount importance for the nation's overall advancement. Despite seventy-four years of independence, rural areas continue to grapple with infrastructure deficits and agricultural productivity challenges. Historically, the rural sector has been pivotal in India's economic and industrial growth, with agriculture serving as the primary livelihood source for around 70% of the populace. However, a significant hurdle faced by rural communities is the scarcity of capital, severely limiting their credit access. Consequently, informal financial sectors have exploited rural populations, offering loans with exorbitant interest rates and unfavourable terms, exacerbating economic hardships for rural masses.

Literature Review

Numerous studies have delved into the role of Regional Rural Banks (RRBs) in Indian rural economic development, yet a comprehensive analysis specifically addressing their contribution to sustainable development remains notably absent. Uddin (2003) examined RRB performance in the Uttarakhand region, focusing on parameters such as deposit mobilization and profitability. Mathur (2005) detailed loan assets held by various financial institutions, emphasizing strategies to manage non-performing assets. Kaye (2006) conducted a study in Arunachal Pradesh, appraising rural credit needs and RRB performance in contributing to economic development. Roy (2007) investigated RRB operations in West Bengal, aligning with their objectives. Chakrabarti (2011) provided a historical overview of rural banking, including RRB development and performance analysis by region. Singh (2013) evaluated Manipur Rural Bank's performance, while Kher (2013) focused on RRBs' role in Gujarat's rural credit system. Taral and Nisarg (2016) assessed RRB financial performance pre- and post-amalgamation, while Muthumeena and Lylin (2019) analysed sector-wise lending trends and NPAs in public sector banks. Rehman (2020) summarised the innovative methods applied by the employees of the banks in deposit mobilisations, credit expansion and recovery of loans. Juber Md. (2021) traced NPAs in Indian public sector banks, emphasizing regulatory measures. Jaggi (2022) analysed key performance indicators of RRBs like number of RRBs and branches, share capital, deposits, loans and advances, investment, reserves and surplus and profitability in the reference periods. Singh, Maurya and Singh (2023) seeks to disclose the causes of the occurrence of NPAs and examines the strategies for improving assets quality for eliminating NPAs. Despite the breadth of research, none directly explores the role of RRBs in sustainable rural development. Thus, this study aims to fill this gap by examining the contribution of RRBs to India's rural economy sustainability.

Significance of the Study

This research aims to underscore the significance of Regional Rural Banks (RRBs) in fostering rural economic development, assess their performance in India, and offer actionable insights for stakeholders, policymakers, and academia to improve RRB effectiveness.

Objectives: The main objectives include analysing RRB performance in the following areas:

1. Expansion of branches and district coverage.
2. Mobilization of deposits, outstanding loans, and advances.
3. Disbursement of outstanding loans and advances to priority and non-priority sectors.

Materials and Methods

This study exclusively focuses on RRBs and their role in rural economic development. To address this challenge, Regional Rural Banks (RRBs) were established in 1975. This study delves into the deposit mobilization and loan disbursement patterns of RRBs, using data extracted from NABARD reports. Employing curve estimation through SPSS, the study observes a consistent upward trajectory in both deposits and loans, albeit with fluctuations in credit-deposit ratios. The significance levels (P-value) of the growth coefficient (b) are defined by statistically insignificant as $P > 0.05$, significant growth $P < 0.05$ and highly significant growth as $P < 0.01$ and $P < 0.001$. The study spans a decade from 2012-13 to 2021-22, aligning with banks' accounting periods, typically running from April 1st to March 31st of the subsequent year.

Analysis and Interpretation

The growth and expansion of RRBs and their branch networks play a crucial role in promoting financial inclusion and improving performance. Branch expansion is essential to reach underserved areas, providing access to credit facilities, banking services, and financial literacy for rural communities. Table - 1 presents data on the growth of RRBs in India from 2012-13 to 2021-22.

Table - 1: Growth of RRBs in India

Years	No. of RRBs	No. of branches	Growth rate of branches	Districts covered	No. of mergers RRBs	No. of RRBs standing alone
2012-13	64	17,861	-	635	43	21
2013-14	57	19,082	6.40	640	42	15
2014-15	56	20,024	4.70	644	42	14
2015-16	56	20,920	4.28	658	42	14
2016-17	56	21,422	2.34	662	42	14

2017-18		56	21,747	1.50	669	42	14
2018-19		53	21,871	0.57	648	41	12
2019-20		45	21,847	-0.11	685	36	9
2020-21		43	21,856	0.04	696	34	9
2021-22		43	21,892	0.16	NA	0	9
Growth	b	-0.041	0.020		0.158	0.031	-0.084
Statistics	P-value	<0.001	<0.01		>0.05	>0.05	<0.001

Table - 1 illustrates the highly significant negative growth in the number of RRBs ($b = -0.041$, $P < 0.001$), significant growth in the number of branches ($b = 0.020$, $P < 0.01$) and also significantly declining in the number of stand-alone RRBs over the specified period ($b = -0.084$, $P < 0.001$). However, the changes in the number of districts covered and the number of mergers RRBs are observed to be statistically insignificant ($P > 0.05$). Despite a decrease in the number of RRBs due to amalgamation, the number of branches has steadily increased. District coverage by RRBs has also expanded, indicating progress in financial inclusion. The decline in stand-alone RRBs reflects ongoing consolidation efforts.

Table - 2: Performance of RRBs in India (Amt. in Rs. crore)

Years		Total deposits	Outstanding loans & advances	Credit deposit ratio in %
2012-13		211,488	137,078	65
2013-14		239,494	159,407	67
2014-15		273,018	180,955	66
2015-16		313,499	206,538	66
2016-17		371,910	226,175	61
2017-18		400,459	253,978	63
2018-19		434,444	280,755	65
2019-20		478,737	295,214	62
2020-21		525,226	334,171	64
2021-22		562,538	362,838	65
Growth	b	0.110	0.106	-0.004
Statistics	P-value	<0.001	<0.001	>0.05

The Credit Deposit Ratio (C.D. ratio) is a crucial indicator of a bank's performance, reflecting its utilization of deposits for lending purposes. Table - 2 presents the C.D. ratio of RRBs from 2012-13 to 2021-22. Here the findings depict the trend in the total deposits ($b = 0.110$, $P < 0.001$), outstanding loans and advances ($b = 0.106$, $P < 0.001$) and C.D. ratio of RRBs over the specified period ($P > 0.05$). While both deposits and loans have increased consistently, the C.D. ratio has fluctuated between 61% and 68%. This indicates variations in the utilization of deposits for lending activities by RRBs.

Table - 3: Disbursement of outstanding loans and advances (Amt. in Rs. crore)

Years		Total loan amounts	Priority Sector		Non-Priority Sector	
			Priority sector loan amounts	% of priority sector to total loan amounts	Non-priority sector loan amounts	% of non-priority sector to total loan amounts
2012-13		137,078	111,812	81.57	25,266	18.43
2013-14		159,302	130,215	81.74	29,087	18.26
2014-15		187,843	156,310	83.21	31,533	16.79
2015-16		180,955	151,364	83.65	29,591	16.35
2016-17		206,538	171,373	82.97	35,165	17.03
2017-18		226,175	183,533	81.15	42,642	18.85
2018-19		280,755	255,022	90.83	25,733	9.17
2019-20		298,214	270,182	90.60	28,032	9.40
2020-21		334,171	300,962	90.06	33,209	9.94
2021-22		362,838	324,207	89.35	38,631	10.65
Growth	b	0.107	0.120	0.013	0.024	-0.083
Statistics	P-value	<0.001	<0.001	<0.01	>0.05	<0.01

The disbursement of outstanding loans and advances to priority and non-priority sectors are also revealed in Table - 3. It also illustrates their trends during the period from 2012 -13 to 2021-22. The total loan amounts of RRBs show a consistent upward trend over the years ($b=0.107$, $P<0.001$) increasing from Rs. 137,078 crores in 2012-13 to Rs. 362,838 crores in 2021-22 with slight fluctuations in between. Priority sector loans have also shown a steady increase ($b=0.120$, $P<0.001$) ranging from Rs. 111,812 crore (81.57% of total loan amounts) in 2012-13 to Rs. 324,207 crore (89.35% of total loan amounts) in 2021-22. Despite, the dissimilar growth is witnessed in non-priority sector loans ($P>0.05$) with a slower pace, from Rs. 25,266 crore (18.43% of total loan amounts) in 2012-13 to Rs. 38,631 crore (10.65% of total loan amounts) in 2021-22.

Implications

1. The declining trend in the number of RRBs from 64 in 2012-13 to 43 in 2021-22, alongside an increase in the number of branches, indicates a concerted effort to expand banking services in rural areas. However, more RRBs are needed to cover the remaining uncovered districts and ensure equitable access to banking facilities.
2. While total deposits and loans have grown steadily, the fluctuating credit deposit ratio highlights the need for increased awareness programs on financial literacy to encourage higher deposit mobilization.

3. The increase in total loan amounts reflects RRBs' commitment to providing credit to rural communities. However, careful selection and monitoring of beneficiaries are essential to prevent an increase in non-performing assets.
4. RRBs have demonstrated a commendable effort in disbursing loans to the priority sector, exceeding RBI guidelines. However, greater focus on the non-priority sector is necessary to maintain sustainable development.
5. Despite fluctuations, the percentage of loans to non-priority sectors remains below RBI guidelines, indicating room for improvement. Increased lending to this sector would contribute to overall rural development and enhance the financial position of RRBs.

Conclusion

India's journey to becoming a developed country by 2047 hinges on addressing economic and social challenges, particularly in rural areas. RRBs play a vital role in this transformation by providing financial assistance to rural communities. While priority sector lending has been substantial, efforts to balance lending between priority and non-priority sectors are necessary to ensure sustainable rural development. By adhering to RBI guidelines and focusing on inclusive growth, RRBs can continue to drive economic progress in rural India.

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