International Journal of Humanities and Social Science Invention
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org || Volume 3|| Issue 6 || June. 2014 || PP.09-11

Role of Regional Rural Banks in Jammu and Kashmir

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ABSTRACT: *The establishment of the Regional Rural Banks has been the landmark in the history of rural banking. This research is based on the role of banks in providing facilities and sources to India backwardness and its farmers. Prior to Regional RuralBanks, commercial banks and co-operatives were active in the disbursement of rural credit. But they were not able to meet the credit requirements in the rural areas. Economic Development of our country can be achieved only through uplift of the village folk. Among the various institutional agencies engaged in rural finance, Regional Rural Banks (RRBs) play a significant role in financing the target groups in rural sector.*

I. INTRODUCTION

India is basically Rural India and Rural India virtually includes the cultivators, the village craftsmen and agricultural laborers. The institutional structure of rural banking today consists of a set of multi-agency institutiuions, namely commercial banks, Regional Rural Banks (RRBs) and land development banks. It is clear that until and unless some spectacular changes occur, the rural sector might continue to remain backward. There is greater need today to make rural areas more vibrant through diversification process.

Rapid expansion of the banking system had a positive effect on rural farm and non farm output, income and employment, especially after green revolution. It helped farmers to avail services and credit facilities and a variety of loans for meeting their production needs.However, all is not well with our banking system. With the possible exception of the commercial banks, other formal institutions have failed to develop a culture of deposit mobilization-lending to worthwhile borrowers and effective loan recovery. Thus the expansion and the promotion of the rural banking sector have taken a back seat after reforms. To improve the situation, banks need to change their approach from just being lenders to building up relationship banking with the browwers.

Thus to strengthen the institutional rural credit, the regional Rural Banks were introduced in 1975.Till 1968 the official policy were in favor of developing cooperative system. In 1969 All India Rural Credit Review committee found the over large parts of the country, small farmers have been lacking in their access to cooperative credit. Apart from this, the Govt.has also realized that co-operative are not adequately meeting the credit requirements of agriculture. Thus, keeping all the short comings in view, Banking Commission 1972 recommended that a chain of rural branches of commercial banks and this gave birth to **Regional Rural Banks** in 1975 mainly to overcome the gap left unfilled due to the failure of co-operative banks on the one hand and commercial banks on the other. Thus the Regional Rural Banks ordinance was promulgated by the president of 26th September 1975, which came into force with the immediate effect .The Regional Rural Banks have the following certain objectives :

1. To identify a specific and functional gap in the present institutional structure.
2. To supplement the other institutional agencies.
3. To fill the gap within a reasonable period of time.

Need of Rural Credit in India:

The financial requirements of the India farmers can be classified into three types depending upon the period and the purpose for which they are required:

a). Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. For example they want to buy seeds, fertilizers, fooder for cattle, etc. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose. Such short terms loans are normally repaid after the harvest.

b). The farmers required finance for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle ,agricultural implements,etc. These loans are repaid over longer period of time.

c). The farmers require for long periods of more than 5 years for the purpose of buying additional land, to make permanent improvement on land, to pay off old debts and to purchase costly agricultural machinery.

Credit requirements of farmers can further be classified into two types –Productive and Unproductive loans. The farmers include loans to buy seeds, fertilizers, to pay tax to the Government and to make permanent improvements on land such as digging and deepening of wells, fencing of land, etc. All these forms of credit help the farmers in their agricultural operations or in improving their land. Besides these, the Indian farmers often borrow for unproductive purpose too such as for celebration of marriage, births and deaths etc. Unproductive loans raised at exorbitant rates of interest are highly improper and unjustified. The need for institutional credit arises because of the weakness or inadequacy of private agencies to supply credit to farmers.

Rural Finance in India:

Rural Credit system must be compatible with the goals of higher growth with better equity.

Rural finance is a matter of concern in a developing economy like India where 70 percent of the population depends upon agriculture for its livelihood .40 percent of our GDP is contributed by the rural sector .Economic development of our country can be achieved only through uplift of the village folk consisting of farmers, agricultural labourers, artisans, village craftsmen etc. Finance being the life blood of every commercial venture, availability of adequate funds at reseaonable terms is a must to ensure speedy economic development of a village. One of the serious and unrelenting problems faced by the Indian farmers' household has been indebtedness. Despite substantial improvement in agricultural output and distribution of credit, still majority of the farmers are suffering from economic malaise called indebtedness along with lack of timely and adequate farm credit agricultural distress witnessed in the country occasionally takes the form of suicides by farmers.

Since the inception of central economic planning in 1950, the government indentified the credit needs of the rural people and framed policies conducive for the flow of institutional credit for the farm sector. There has been substantial improvement in the flow of in institutional credit in India for the past three decades. But agricultural credit started growing after bank nationalization and has increased manifold since then the overall performance of Indian banking system is 15 percent as against the norms of 18 percent of net banking credit. A remarkable feature of agriculture credit extension in India was the widespread network of rural financial institutions. Among the various institutional agencies engaged in rural finance, Regional Rural Banks play a significant role in financing the target in the rural sector .They are specially designed financial institutions working under the guidance of NABARD and the parent commercial banks, spread in rural areas with a close network of branches serving a particular district or region. It has been explicitly mentioned in Regional Rural Banks Act that such banks shall, in particular extend financial assistance to small and marginal farmers and agricultural laborers whether individually or in groups and to co-operative societies or for other purposes connected therewith. There is a need for legal and institutional changes relating to governance, regulation and functioning of rural cooperative structures who have to be critical institutions for rural credit in future. Rural credit system must be compatible with the goals of higher growth with better equity. Concerned over the slower growth of agriculture credit, the government announced a policy with envisages a 30 percent increase in credit to agriculture sector in 2004-2005 over an estimated credit flow of Rs. 80,000 crores in 2003-2004. The implementation of the policy has been entrusted to PSBs, private sector banks, Regional Rural Banks and co-operative banks.

During 2004-2005 .with an aggregate disbursement of Rs.1, 25,309 crores to the agricultural sector, the target of Rs.1, 05,000 crores was exceeded by 19.3 percent. The union budget 2005-2006 proposed to increase the flow of credit by commercial banks; Regional Rural Banks and co-operative banks by another 30 percent.

Progress of Regional Rural Banks in J&K:

There are only three Regional Rural Banks working in Jammu and Kashmir, namely Jammu Rural Bank (JRB),Kamraj Rural Bank (KRB) and Ellaquai Dehati Bank (RDB). As on 30.03.2007 total number of districts covered in JRB,KRB and EDB are four, two and seven respectively.

Objectives of the Study:

The objectives of the study are discussed as under:

1. To present the working of Regional Rural Banks in India.
2. To explore the development trend to Regional Rural Banks.
3. To identify the constraints of RRBs .
4. To make suggestions for improving the performance of RRBs.

Hypothesis:

1. RRbs are the main source of institutional credit in rural areas of J&K.
2. Credit extended and recovered in the real basis for judging the performance of Regional Rural Banks (RRBs).
3. The challenge before RRBs is spotting their Non-Performing Assets (NPAs).

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