

Role of RRBs on Socio-economic development: A case study of Northern districts of Odisha Districts

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ABSTRACT

The RRB fulfills its goals by offering banking services to rural households, particularly in areas with restricted banking access, enabling affordable loans for economically disadvantaged rural communities, promoting savings for productive activities in rural regions, creating employment opportunities and reducing lending costs in agricultural sectors. The primary aim of the government policy is to provide fair access to banking and payment services for all residents. The RRB is designed to serve as a financial institution for the impoverished, and its establishment throughout various parts of the country, particularly in economically disadvantaged areas, might be beneficial. In order to meet the genuine demand for banking services in rural regions, the government should build RRB branches at the grassroots level. The study concentrates on the influence of RRBs on rural socioeconomic advancement in northern districts of Odisha.

Introduction

One part of rural development is changing rural populations into contemporary communities that can sustain themselves financially. The purpose of rural development in India is to improve the socioeconomic situations of rural inhabitants while also preserving their culture and traditions. The government wants to boost economic growth by improving productivity, employment, and living conditions in rural areas. This includes plans to build hospitals, schools, and transportation networks, as well as efforts to improve agricultural production, industrialization in rural regions, and rural employment. Due to the high interest rates and limited lending choices that are accessible to them, many individuals in rural India are in considerable debt and are at risk of being taken advantage of by the lending sector. People who live in rural regions might use finance to invest in agriculture and stabilize their income. Due to their low resources, the majority of families in rural areas depend on credit to pay for necessities like as food, housing, education, and domestic duties. If financial institutions provide loans at lower interest rates and with better conditions than traditional moneylenders, rural families in India may be able to avoid falling into debt traps. Regional Rural Banks have been an important organization that has helped rural communities thrive since 1975. As a result of their efforts, more individuals in rural regions have access to financial services, and those who are poor have better access to funding. Regional rural banks were established to help boost rural economies by offering finance and other services to subsistence farmers, agricultural workers, craftsmen, and business owners. RRBs, commercial and cooperative banks, and other local organizations were the main sources of loan distribution for rural and agricultural purposes (Soni, & Kapre, 2013).

The goal of financial inclusion has long been the emphasis of Indian policy makers. It was not until the 1970s that people recognized the fact that the old banking system was unable to meet the need for financial services. It became clear that the conventional banking system was unable to meet the needs of the agricultural and rural sectors (Shekhar, & Verma, 2018). As a result, RRBs were created in order to provide assistance for agricultural and rural financial operations. Before

the foundation of RRBs, informal sources of credit were the primary means of lending to the agricultural and rural sectors (RBI, 2019). We are aware that the RRBs have been providing assistance to meet the financial requirements of various sections of the rural population. However, we could not find any studies that examined the effect of RRBs on socio economic development of people of Northern districts of Odisha. In order to address this gap, we focus on the study topic of how various sectors of the socio economic development of rural people get affected by RRBs. Going forward, this article aims to examine the effects of several variables on the performance of RRBs by using SEM. The research has emphasized the role that RRBs play in agriculture, microenterprise, and the weaker segments of the rural population.

Review of Literatures

The heightened need for more resilient institutional frameworks to facilitate lending in rural regions led to the establishment of regional rural banks (RRBs). The development of RRBs may be seen as a unique experiment and a chance to enhance the efficacy of rural credit distribution in India (Misra, 2007; Balamuniswamy, & Erraiah, 2013). RRBs are an excellent avenue for economic and agricultural development due to the goods and services they offer. In 1975, in accordance with the Regional Rural Banks Act of 1976, RRBs were set up with the aim of connecting the rural economy to other productive sectors such as transportation, agriculture, commerce, and industry (Agarwal, & Reddy, 2019). The goal is to help small businesses, artists, and agricultural workers grow by providing them with loans and other resources and assisting them as they run their operations (Koner, 2017). RRBs serve as an excellent mechanism for alleviating poverty and fostering rural development. Regional rural banks and their financial literacy initiatives constitute the paramount digital financial services for individuals residing in rural regions. These banks provide essential social welfare microfinance and suitable development services, positively influencing rural development and digital literacy (Bhatt & Thorat 2001; Ahmed, 2015). There is now much more uniformity in banking services throughout India's regions thanks to RRBs. The RRB has done remarkable work in underserved rural regions by expanding its branches, mobilizing deposits, developing rural communities, and distributing loans (Gautam, et al. 2021). When it comes to distributing loans in rural areas, regional rural banks are crucial. These banks help small-scale farmers and other economically disadvantaged people grow their businesses and farms. To address the need for different forms of agricultural loans in rural regions, RRBs play a crucial role as rural finance institutions (Aditya, 2021; Tigari and Gaganadeepa 2019). The disparity in banking services between areas in India has significantly diminished due to the increased prevalence of RRBs. Loans for economically disadvantaged rural communities, including small and marginal farmers, artisans, agricultural workers, and small enterprises, are the primary objective of RRBs in India (Gautam, et al. 2022; Sharma, et al. 2019). The government is adopting many programs to address poverty and economic isolation, including the expansion of bank branches into rural areas and the provision of digital banking knowledge. Rural credit in India is significantly reliant on their financial stability (Bagachi, and Hadi 2006).

Although much research exists about the influence of RRBs on the socioeconomic development of rural people, there is a paucity of studies focused especially on Northern districts of Odisha. Thus, the authors have undertaken study on the influence of RRBs initiatives on the socioeconomic development of Northern districts of Odisha.

Objective

The study intends to find the effect of RRBs initiatives (IN) on Rural credit (RC), MSME development (EN) and Women empowerment (WE).

Hypothesis

IN has positive and significant effect on RC, EN and WE.

Methodology

The study used a random sampling method and developed a comprehensive questionnaire consisting of 30 items based on previous research. A sample size of 671 was determined for this research after analyzing the guidelines of Nunnally's (1967). The researcher sent 700 questionnaires to persons in designated locations to get primary data on how citizens of northern districts of Odisha attain socio-economic development through RRBs. After thorough assessment, 671 questionnaires were deemed valid for the final study. Thirty items were chosen from current research conducted by Tigari and Gaganadeepa (2019), Rathee and Yadav (2017), and Desogus and Venturi (2019). The researcher analyzed and reformulated each question to guarantee its pertinence and coherence with the study's principal objective. Participants were instructed to evaluate each of the 30 measurement items on a five-point scale ranging from "strongly agree" to "strongly disagree". The study aims to elucidate the socio-economic progress of the population and augment the existing literature about the impact of RRBS activities on the socio-economic development of residents in the northern districts of Odisha.

Data-analysis procedures

The complex relationships among the study's variables were analyzed using structural equation modeling (SEM), yielding in-depth insights for the theoretical model assessment. The model enables researchers to evaluate several nuanced hypotheses by examining various independent and dependent variables within a coherent framework (Byrne, 2010). SEM may assist researchers in comprehending the interconnections among various components, hence enhancing the analytical framework of the study by uncovering previously unrecognized processes.

Reliability and validity

To find out how well a scale measures the same underlying components, researchers use the coefficient alpha approach to evaluate the scale's internal consistency. If the Cronbach's coefficient alpha value (Table 1) for each instrument is more than or equal to 0.70, as proposed by researchers (Hair et al., 2010), then the scales are considered to have sufficient reliability in this study. Three measurements are used to establish validity: Factor loadings, Composite reliability (CR), and Average Variance Explained (AVE). Table 1 displays the computed AVE and CR values; these values are higher than the suggested cutoffs of 0.7 for CR and 0.5 for AVE; moreover, there are substantial factor loadings (C.R. > 1.96) that are greater than 0.50, as stated by Hair et al. (2010).

Table -1: Reliability and validity

			Estimate	AVE	CR
IN9	<---	RRBs_Initiatives	0.759	0.66	0.93
IN8	<---	RRBs_Initiatives	0.787		
IN7	<---	RRBs_Initiatives	0.788		
IN6	<---	RRBs_Initiatives	0.906		
IN5	<---	RRBs_Initiatives	0.888		
IN4	<---	RRBs_Initiatives	0.736		
IN3	<---	RRBs_Initiatives	0.894		
IN2	<---	RRBs_Initiatives	0.658		
IN1	<---	RRBs_Initiatives	0.945		
RC1	<---	Rural_Credit	0.886		
RC2	<---	Rural_Credit	0.883		
RC3	<---	Rural_Credit	0.875		
RC4	<---	Rural_Credit	0.875		
RC5	<---	Rural_Credit	0.946		

RC6	<---	Rural_Credit	0.656		
RC7	<---	Rural_Credit	0.765		
WE1	<---	Women_Empowerment	0.913	0.758	0.95
WE2	<---	Women_Empowerment	0.87		
WE3	<---	Women_Empowerment	0.883		
WE4	<---	Women_Empowerment	0.97		
WE5	<---	Women_Empowerment	0.982		
WE6	<---	Women_Empowerment	0.694		
WE7	<---	Women_Empowerment	0.751		
EN7	<---	MSMEs_Development	0.813	0.73	0.948
EN6	<---	MSMEs_Development	0.936		
EN5	<---	MSMEs_Development	0.971		
EN4	<---	MSMEs_Development	0.789		
EN3	<---	MSMEs_Development	0.985		
EN2	<---	MSMEs_Development	0.782		
EN1	<---	MSMEs_Development	0.668		

Source: Calculated and compiled from primary data

Measurement Model

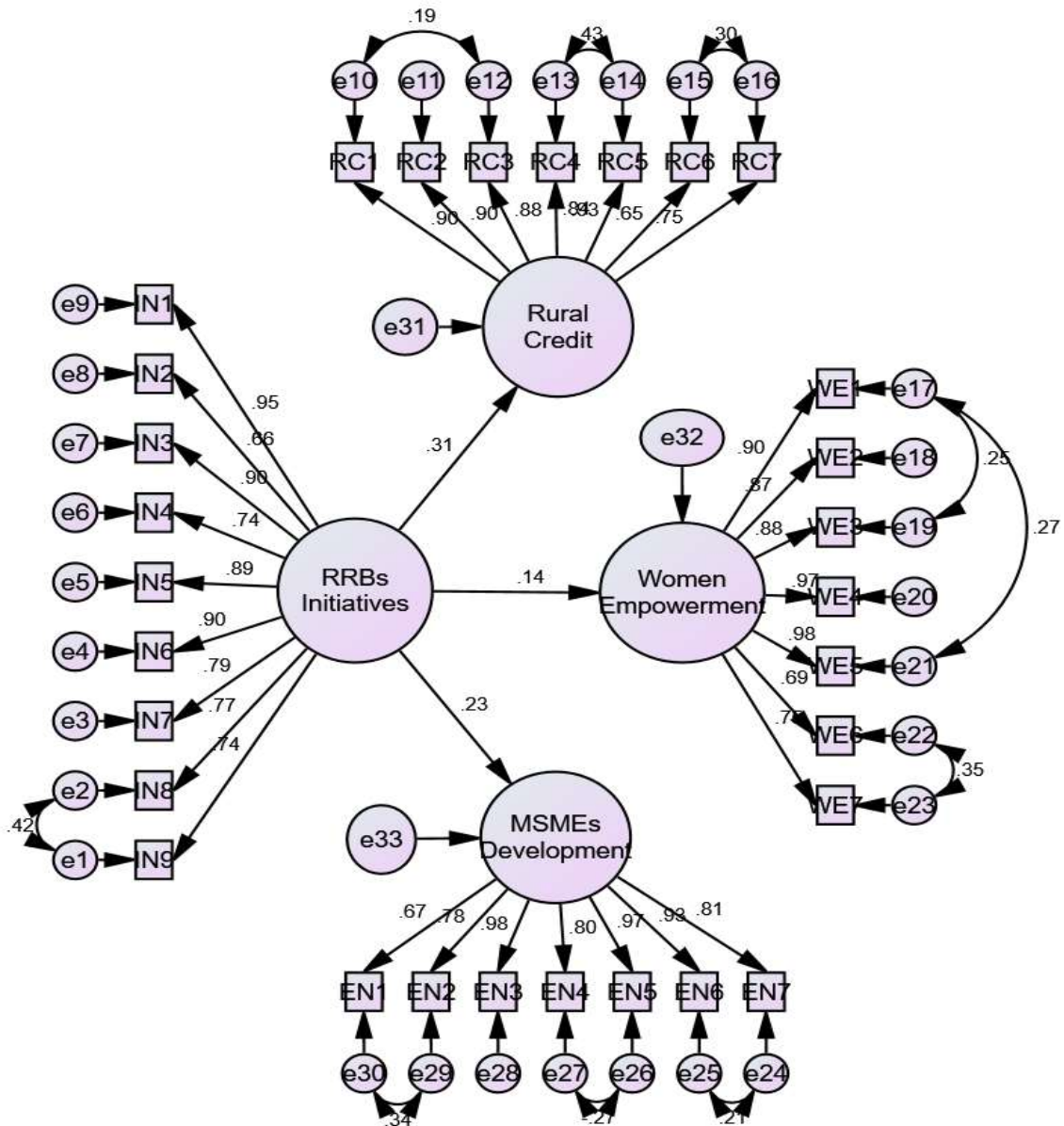
Following the recommendations made by Schreiber et al. (2006), the goodness-of-fit indices for each latent construct were calculated using different models. Table-2 shows the findings, which demonstrate that the model fit indices are adequate for suitable modifications of error terms.

Table-2: Model fit index

Indices	Value
CMIN/DF	2.947
RMR	0.146
GFI	0.896
AGFI	0.876
NFI	0.942
CFI	0.965
RMSEA	0.054

Source: Calculated and compiled from primary data

Fig.6.11: Path diagram-1 for Model-1



Results of Hypothesis Testing

Path analysis was used to examine the assumptions that were created (Figure 1). To help understand the significance of the relationships between the variables, Table 4 displays the critical ratio and regression weights. Rural Credit (RC), Women Empowerment (WE) and MSMEs development (EN) are positively and significantly affected by RRBs initiatives (**p < 0.05). So the hypothesis is accepted.

Table-3: Regression Weights

Construct		Construct	Estimate	S.E	C.R.	P
Rural_Credit	<---	RRBs_Initiatives	.355	.046	7.770	***
Women_Empowerment	<---	RRBs_Initiatives	.167	.046	3.639	***
MSMEs_Development	<---	RRBs_Initiatives	.252	.045	5.669	***
IN9	<---	RRBs_Initiatives	1.000			
IN8	<---	RRBs_Initiatives	1.040	.038	27.480	***
IN7	<---	RRBs_Initiatives	1.041	.049	21.324	***
IN6	<---	RRBs_Initiatives	1.209	.048	24.990	***
IN5	<---	RRBs_Initiatives	1.197	.049	24.423	***
IN4	<---	RRBs_Initiatives	1.014	.051	19.773	***
IN3	<---	RRBs_Initiatives	1.206	.049	24.700	***
IN2	<---	RRBs_Initiatives	.915	.052	17.568	***
IN1	<---	RRBs_Initiatives	1.279	.048	26.381	***
RC1	<---	Rural_Credit	1.000			
RC2	<---	Rural_Credit	1.035	.029	35.199	***
RC3	<---	Rural_Credit	.966	.026	37.327	***
RC4	<---	Rural_Credit	.972	.033	29.898	***
RC5	<---	Rural_Credit	1.039	.028	37.670	***
RC6	<---	Rural_Credit	.780	.040	19.469	***
RC7	<---	Rural_Credit	.868	.035	24.596	***
WE1	<---	Women_Empowerment	1.000			
WE2	<---	Women_Empowerment	.945	.028	34.153	***
WE3	<---	Women_Empowerment	.954	.024	39.946	***
WE4	<---	Women_Empowerment	1.048	.023	46.144	***
WE5	<---	Women_Empowerment	1.061	.020	52.627	***
WE6	<---	Women_Empowerment	.754	.034	22.054	***
WE7	<---	Women_Empowerment	.828	.033	25.114	***
EN7	<---	MSMEs_Development	1.000			
EN6	<---	MSMEs_Development	1.113	.033	34.070	***
EN5	<---	MSMEs_Development	1.184	.035	33.360	***
EN4	<---	MSMEs_Development	.975	.040	24.328	***
EN3	<---	MSMEs_Development	1.172	.035	33.869	***
EN2	<---	MSMEs_Development	.956	.040	23.710	***
EN1	<---	MSMEs_Development	.797	.042	19.196	***

Source: Calculated and compiled from primary data

Discussion

When the critical ratios (C.R.) are more than 1.96, the path is considered significant at a 95% confidence level. Consequently, since all of the observable variables in the study have statistically significant effects, it can be said that they all have high loadings on the corresponding constructs. The study proposed the hypothesis that there is a strong and positive relationship between RRBS initiatives (IN) and Rural credit (CR). The direct association between IN and RC was shown to

have a positive and statistically significant relationship, as supported and corroborated by the path co-efficient ($\beta = .355$, $t = 7.740$, $p < .05$), hence confirming the study's hypothesis. The path co-efficient of IN to WE ($\beta = .167$, $t = 3.629$, $p < .05$) was determined to be positive and statistically significant, hence confirming the study's hypothesis. The study proposed the hypothesis that there is a strong and positive relationship between IN and EN. The path coefficient of IN to EN ($\beta = .252$, $t = 5.669$, $p < .05$) was determined to be positive and statistically significant, hence confirming the study's hypothesis.

Conclusion

RRBs facilitate rural credit by providing farmers with accessible loans, adaptable repayment conditions, and support for agricultural and related enterprises, therefore enhancing their income and productivity. RRBs foster economic autonomy and development by facilitating investments in productive endeavors for rural populations. The produced funds assist families in improving their quality of life by means of improved education, healthcare, and housing. This financial empowerment reduces poverty and fosters resilient communities, highlighting the essential function of RRBs in promoting inclusive and sustainable rural development. RRBs seek to include a greater number of women into the formal banking sector by offering accessible and cost-effective banking services. Numerous rural women have obstacles in accessing conventional financial institutions, including poor literacy levels, insufficient collateral, and mobility constraints. RRBs aid women in overcoming these obstacles because of their doorstep services, streamlined banking processes, and programs that promote social and economic development in rural areas. These programs include microloans, savings accounts, and group lending methods, promoting economic growth and generating a ripple effect of development in rural regions.

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