

WWJMRD 2016; 2(7): 13-18
www.wwjmr.com
Impact Factor MJIF: 4.25
e-ISSN: 2454-6615

K. Sivaiah
Department of Econometrics,
S.V. University, Tirupati,
India

Performance evaluation of regional rural banks in India

K. Sivaiah

Abstract

Institutional credit system has been playing a vital role in the economic development of rural India particularly at this important juncture when we are entering 21st century. The Government of India accepted the recommendations of the Working Group. Accordingly, Regional Rural Bank Ordinance 1975 was promulgated which was later replaced by the Regional Rural Banks Act. On 2nd October, 1975 five RRBs were established. Main objectives of establishment of RRBs were to boost rural development; to provide credit facilities to small & marginal farmers, landless labourers and rural artisans; to inculcate banking habits in the rural masses; to help small entrepreneurs in the establishment of industries; to eradicate unemployment of rural areas. The Narasimhan committee conceptualized the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act of 1976. This paper attempts to analyze the financial performance of RRBs in India during the period 2001–02 to 2013–2014. The study is based on secondary data collected from annual reports of NABARD and RBI. An analytical research design of Key Performance Indicators such as number of bank branches, deposits, loans, investments and growth is taken for the present study. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that performance of RRBs has significantly improved.

Keywords: Regional Rural Banks, Farmers, Rural Development, Performance Indicator, RBI, NABARD

Introduction

Regional Rural Banks have been in existence for around 32 years in the Indian financial scene. Inception of Regional Rural Banks may be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. Keeping in view the local peculiarities, an effort was made to integrate commercial banking within the broad policy framework towards social banking through joint shareholding of Central Government, the Concerned State Governments and the Sponsoring Bank. The genesis of the Regional Rural Banks may be traced for the need for a stronger institutional arrangement for providing rural credit. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. The commercial banking sector join with the extensive policy framework concerning social banking through combining shareholding of central government, the state government also involved and subsidized bank. For production of rural credit availability the RRBs sketched out a strong institutional arrangement. It is developed for institutional credit in the rural region, and particularly in between economically and communally deficient section. The cooperative banks and commercial banks had fair records in terms of geographical area and payment of credit, yet in terms of federation of the population. The domination of rich people in rural areas is affecting the cooperative banks. But the commercial banks exhibited a clean predisposition. Regional Rural Banks are local level banking organizations operating in different States of India. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services. However, RRB's may have branches set up for urban operations and their area of operation may include urban areas too. Regional

Correspondence:
K. Sivaiah
Department of Econometrics,
S.V. University, Tirupati,
India

Rural Banks have been in existence for around three decades in the Indian financial scenario. Inception of Regional Rural Banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The Genesis of the Regional Rural Banks can be traced to the need for a stronger institutional arrangement for providing rural credit.

Structure of RRBs

The Regional Rural Banks Act contains various provisions regarding the incorporation, regulation, working and capital of the RRBs. According to the Act, 'the authorized capital of each Regional Rural Bank shall be one crore rupees, divided into one lakh of fully paid up shares of one hundred each'. The central Government may, however, increase or reduce the authorized capital in consultation with the Reserve Bank of India and the sponsoring bank subject to the minimum of Rs. 25 lakh and the share shall be, in all cases, fully paid up shares of hundred rupees each! The issued, subscribed and paid up capital for each RRB shall Rs. 25 lakhs, divided into 25000 fully paid up shares of Rs. 100. The capital issued by a RRB is subscribed in the following manner; fifty percent shall be subscribed by the Central Government, fifteen percent by the concerned State and thirty-five percent by the Sponsor Bank. The Board of Directors of RRBs may, after consultation with the Reserve Bank of India, the concerned State Government and Sponsor Bank and with the prior approval with the Central Government, from time to time increase the issued capital of the Regional Rural Bank and where additional capital is issued, such capital shall also be subscribed in the same proportion of 50:15:35 by the Central Govt., State Govt., and Sponsor Bank respectively.

Review of Literature

Dantwala Committee (1978) made a study entitled "Report of committee on Regional Rural Banks" after reviewing the performance and potential strength of the Regional Rural Banks. The committee recommended that the government of India should take steps to make RRBs an integral part of the rural credit structure and concluded that within a short period of two years, the Regional Rural Banks have demonstrated their capability to serve the purpose for which they were established.

Agricultural Credit Review Committee- Khusro Committee (1989)⁵ pointed out that Regional Rural Banks (RRBs) were facing certain problems as the financial health of Regional Rural Banks (RRBs) turned weak mainly due to its limited business flexibility with hardly any scope of expansion/diversification. The loan size was small with higher exposure to risk-prone advances and there was professional inefficiency in financial deployment. To strengthen Regional Rural Banks (RRBs) and improve their performance, the Reserve Bank allowed Regional Rural Banks (RRBs) to lend to non-target groups. Reserve Bank of India (RBI) deregulated their deposit and lending rates and permitted investment of their surplus funds into profitable avenues. Regional Rural Banks (RRBs) were allowed to finance non-target groups to the extent not

exceeding 40 percent of their incremental lending. This limit was subsequently enhanced to 60 percent in 1994.

K. Jai Prakash (1996)⁸ studied on "Role of RRBs in Economic Development" the author 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 disbursal 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.

Himansu Shekhar (1997)⁹ made study on "Analysis and interpretation of the working of Regional Rural Banks". The study was focus on the analysis and interpretation of the working of Regional Rural Banks in the domain of rural credit in India. Special attention has been paid to evaluate the economic development made by Regional Rural Banks in Bihar. The study also focused on various problems and prospects of Regional Rural Banks in India and particularly in Bihar. It covered the period of 1976 to 1985.

Ibrahim (2010)²⁷ made study on "Performance Evaluation of Regional Rural Banks in India". The main objective of the study is to analyze whether the merger /amalgamation of RRBs in India, undertaken in 2005-06 has helped improve their performance. The study was confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits and investments made by the Indian RRBs for period from 2001-02 to 2008-09. Various statistical tools like t test and ANOVA had been used in the study. The study observed that even though number of RRBs decreased, the branch network had increased and the performance of RRBs in India improved in the post amalgamation period.

Bhatia, Arpana(2013)³¹ made study on "Performance Evaluation of RRBs in India during Pre and Post merger period". The overall objective of the study was to assess whether the amalgamation process in the Indian rural banking sector has been successful in restructuring the banks. The specific objectives of this study were to evaluate the performance and growth pattern of RRBs in terms of spread, burden, profitability and productivity over the period under study and whether the performance of RRBs significantly differ from pre and post amalgamation period. The study concluded that overall there is an improvement in the efficiency of RRBs in post merger period. The spread ratio, productivity and profitability of RRBs shows upward trend in post merger period and burden ratios were continuously diminishing after amalgamation period. The present study aims at evaluating the working and performance of the RRBs, working in all Region and to make suitable policy recommendations concerning the future role of the Regional Rural Banks.

Research Methodology

Objectives of the study

The following are the main motives of the present research paper.

- To review the existing literature
- To examine growth and development of RRBs in India
- To assess performance of RRBs in India

Period of the study

For the performance evaluation of growth and development of RRBs, a moderate study period of 13 years was considered which commencing from 2001-02 to 2013-14.

Data

The present study has been obtained from the secondary data only. The data have been collected from the published and unpublished reports of the Reserve Bank of India (RBI), National Banks for Agricultural and Rural Development (NABARD), National Institution of Rural Development (NIRD), annual reports, district credit plans, journals and magazines were referred

Regional Rural Banks

The Narasimha Committee identified certain deficiencies in the role of the two major agencies in the rural credit field, the co-operatives and commercial banks. It also came to the

conclusion that the regional and functional gaps in the rural credit market cannot be met within a reasonable period by reorganizing or restructuring of the two systems. Hence RRBs are sponsored by scheduled banks usually by public sector banks. They are visualized as the rural area of the commercial banks. The lending operations of the RRBs in accordance with the declared objectives of their setting up are oriented towards meeting the needs of the weaker sections of the rural population, namely, the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. The RRBs with a large network of branches, more than 90 per cent of which are located in unbanked rural centres, have played a useful role in providing credit and banking services in rural areas. According to current policy, RRBs having one district each as their area of operations are allowed to open 100 branches each, and those having more than one district are permitted to open 75 branches per district.

Table 1: Growth of Regional Rural Banks (as at the end of December, 2014)

S.No	Item	2009	2010	2011	2012	2013	2014
1	No of RRBs	86	82	82	82	64	57
2	Number of branches	15,181	15,480	16,001	16,914	17,861	19,082
3	Deposits	1,20,188	1,45,034	1,68,232	1,87,351	2,11,488	2,39,504
4	Loans & Advances Outstanding	67,802	82,819	98,917	1,20,550	1,37,078	1,59,660
5	Recovery (%)	77.85	80.09	81.18	82.63	81.2	81.9

Source: NABARD, Statistics on RRBs, Bombay, 2013-14

In the field of branch expansion the performance of RRBs has been satisfactory. The total deposits of RRBs aggregating Rs. 2,39,504 crores were substantially higher as compared with Rs. 1,20,188 crores in 2009. With regard to the recovery performance there is no much change during the period 2010-2014.

Growth and Development in RRBs

A perusal of table reveal that the expansion of RRBs in India during the study period. The number of registered RRBs has gradually declining trend from 82 in the years 2009-10, to 57 in 2013-14; in detail, table shows that during the period of 2009-10 to 2011-12 the number of

RRBs 82 is constant and highly declined to 64 in 2012-13 and 57 in 2013-14 respectively; the number of branches established was increased from 15303 to 19082 in an continuous increasing manner during the study and it was gradually increases year by year; number of districts covered by RRBs in India are registered in 2009- 10 was 618 districts and it was progressively increased year by year and reached to 642 districts in the end year of the study 2013-14. The percentage of change in number of RRBs registered in India were not accounted during the years of 2009-10 to 2011-12 due to the number of RRBs are stable. The number of branches established was increased

Table 2: Evaluation of branch expansion of RRBs in India

Year	No. of RRBs	No. of Branches	No. of districts covered
2001-02	196	14486	511
2002-03	196	14462	516
2003-04	196	14484	518
2004-05	196	14433	523
2005-06	133	14372	525
2006-07	96	14422	534
2007-08	91	14558	594
2008-09	86	15010	616
2009-10	82	15303	618
2010-11	82	15658	620
2011-12	82	16170	620
2012-13	64	17856	635
2013-14	57	19082	642

Source: Annual reports of NABARD

Performance of RRBs

The growth and development of RRBs performance in India during the study period. The table revealed that the investment of RRBs in India are tremendously increased from Rs. 33,063.42 crore in 2002-03 to Rs. 1,10,514.00 crore in 2013-14 respectively. The performance loans and

advances of RRBs in India are aggressively increased year by year from Rs. 22,157.85 crore in 2002-03 to Rs. 1,59,660.00 crore in the end of the year 2013-14. The profitability performance of RRBs are also highly increased from Rs. 733.97 crore in 2002-03 to Rs. 2,833.00 crore in 2013-14.

Table 3: Performance evaluation of RRBs in India during 2001-02 to 2013-14

Year	Investment	Loans and Advances	Profit
2001-02	A	A	A
2002-03	33063.42	22157.85	733.97
2003-04	36135.40	26113.86	952.33
2004-05	36767.66	32870.03	902.60
2005-06	41182.45	39712.57	807.79
2006-07	45666.14	33043.49	926.40
2007-08	48559.54	38581.97	1383.69
2008-09	65909.92	43367.13	1787.64
2009-10	79379.16	56079.24	2509.18
2010-11	86510.44	71724.19	2349.43
2011-12	89145.79	78546.55	2443.41
2012-13	110683.47	139837.00	2382.52
2013-14	110514.00	159660.00	2833.00
CGR			14.475
SUM(Ei ²)			0.886
R ²			0.335

Source: Annual reports of NABARD

Overview

Regional Rural Banks (RRBs) were established in 1975 under the provisions of the Ordinance promulgated on the 26th September 1975 and followed by Regional Rural Banks Act, 1976 with a view to develop the rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' with a view to enlarge institutional credit for the rural and agriculture sector.

The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35%, respectively. The area of operation of the RRBs is limited to notified few districts in a State. The RRBs mobilise deposits primarily from rural/semi-urban areas and provide loans and advances mostly to small and marginal farmers, agricultural labourers, rural artisans and other segments of priority sector.

The RBI in 2001 constituted a Committee under the Chairmanship of Dr V S Vyas on "Flow of Credit to Agriculture and Related Activities from the Banking System" which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process thus was initiated in the year 2005 as an off-shoot of Dr Vyas Committee Recommendations. First phase of amalgamation was initiated Sponsor Bank-wise within a State in 2005 and the second phase was across the Sponsor banks within a State in 2012. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs has been reduced from 196 to 64 as on 31 March 2013. The number of branches of RRBs increased to 17856 as on 31 March 2013 covering 635 districts throughout the country.

Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank.

Owned Funds

The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at 19304 crore as on 31 March 2013 as against 16462 crore as on 31 March 2012; registering a growth of 17.26%. The increase in owned funds to the tune of 2842 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to 6174 crore of total owned fund while the balance amount of 13130 crore represented reserves.

Recapitalization of RRBs

- The Chakrabarty Committee reviewed the financial position of all RRBs in 2010 and recommended for recapitalisation of 40 out of 82 RRBs for strengthening their CRAR to the level of 9 per cent by 31 March 2012. According to the Committee, the remaining RRBs are in a position to achieve the desired level of CRAR on their own. Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalise the RRBs by infusing funds to the extent of 2200 Crore. The shareholder wise proportion (GOI/Sponsor Banks/State Governments) is 50:35:15 respectively.
- As on 31 March 2013, an amount of 2015.86 crore has been released to 37 RRBs in 20 States. The released amount includes GOI's contribution of 1003.92 crore, State Govt's contribution of 303.59 crore and Sponsor bank's contribution of 708.35 crore. The recapitalisation is complete in respect of 35 RRBs (5 in Odisha, 3 in MP, 2 in Uttarakhand, 2 in Jharkhand, 2 in Chhatisgarh, 2 in

Bihar, 2 in Maharashtra, 3 in West Bengal, 5 in Rajasthan and one each in Assam, Arunachal Pradesh, Nagaland, Tripura, J&K, Karnataka, Tamil Nadu, Gujarat & UT of Puducherry). GoI share 7.99 cr. is pending in respect of Manipur Rural Bank. Mizoram State Government has partially released 0.50 crore in respect of Mizoram Rural Bank and 2.80 crore is pending. Two State Govts. viz. UP(2 RRBs), & J&K (1 RRB) have not released any amount in respect of 3 RRBs operating in their states. Out of 35 fully recapitalised RRBs, 3 RRBs viz. Central Madhya Pradesh GB, Manipur Rural Bank and Mizoram GB have not achieved CRAR of 9 per cent as on 31.3.2013.

Deposits

Deposits of RRBs increased from 186336 crore to 211458 crore during the year registering growth rate of 13.48 %. There are Thirty three (33) RRBs having deposits of more than 3000 crore each.

Borrowings

Borrowings of RRBs increased from 30289 crore as on 31 March 2012 to 38268 crore as on 31 March 2013 registering an increase of 26.34%. Borrowings viz-a-viz the gross loan outstanding constituted 27.37% as against 26.02% in the previous year.

Uses of funds

Investments

The investment of RRBs increased from 95975 crore as on 31 March 2012 to 110683 crore as on 31 March 2013 registering an increase of 15.32%. SLR investments amounted to 49938 crore where as non-SLR investments stood at 60746 crore. The Investment Deposit Ratio (IDR) of RRBs progressively declined over the years from 72% as on 31.3.2001 to 52.34% as on 31 March 2013.

Loans & Advances

During the year the loans outstanding increased by 23452 crore to 139837 crore as on 31 March 2013 registering a growth rate of 20.15% over the previous year.

Loans Issued

Total loans issued by RRBs during the year increased to 102162 crore from 82538 crore during the previous year registering a growth of 23.78%.

Working Results

Profitability

63 RRBs (out of 64 RRBs) have earned profit (before tax) to the extent of 3281 crore during the year 2012-2013. The profit was higher than the previous year. After payment of Income Tax of 896 crore, the net profit aggregated to 2385 crore. One RRB viz. Nagaland Rural Bank incurred loss to the tune of 2.07 crore

Accumulated Losses

As on 31 March 2013, 11 of the 64 RRBs continued to have accumulated losses to the tune of 1012 crore as against 1333 crore (22 RRBs) as on 31 March 2012. The accumulated loss decreased by 321 crore during the year under review.

Non-performing Assets (NPA)

The Gross NPA of RRBs stood at 7907 crore as on 31.03.2013 (i.e.5.65%). The percentage of Net NPA of RRBs has shown an increase from 2.98% to 3.40% during the year. The data revealed that 10 RRBs had gross NPA percentage of less than 2%, whereas 32 RRBs had it above 5%.

Recovery Performance

There has been an improvement in the recovery percentage during 2011-12 from 81.60% as on 30 June 2011 to 81.32% as on 30 June 2012. The aggregate overdues, however, increased by 1802 crore to 13567 crore as on 30 June 2012.

Credit Deposit Ratio

The aggregate CDR of RRBs increased over the years from 41.83% as on 31 March 2002 to 66.13% as on 31 March 2013. Nine of the RRBs reported CDR of more than 100%.

Financial Inclusion

As envisaged by the Government of India, RRBs as a group have become a strong intermediary for financial inclusion in rural areas by opening a large number of "No frills" accounts and by financing under General Credit Card (GCC), as per RBI guidelines. As on 31 March 2013 there were 319.59 lakh No Frills accounts. The number of branches of RRBs increased to 17856 as on 31 March 2013 from 16909 as on 31 March 2012.

Problems with Regional Rural Banks

But the original assumptions were belied as within a very short time, most banks were making losses. The RRB concept was based upon the policy that they would lend only to the weaker sections of rural society, charging lower interest rates, opening branches in remote and rural areas and keep a low cost profile. But the commercial motivation was absent. Initially the banks expanded and by the end of year 1985 RRBS had opened 12606 branches. During this period their credit deposit Ratio (C.D.R) expanded very fast. In 1976 it was 165% and gradually declined to 104 % in December 1986. The Credit Deposit Ratio continuously declined thereafter. Later, the questions started being raised about the viability of these banks. The Khusrau Committee of 1989, noted that the weaknesses of RRBs are endemic to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions. RRBs were finding themselves unable to sustain because of the mounting losses due to imprudent commercial policy. Thus, Khusrau Committee (aka Agricultural Credit Review Committee) said that the RRBs have no justifiable cause for continuance and recommended their mergers with sponsor banks. But by that time, the branch network had expanded so large that it would be political unwise for the government to merge the RRBs with sponsor Banks.

Conclusion

The real growth of Indian economy lies on the emancipation of rural masses from poverty, unemployment and other socio-economic backwardness. Keeping this end in view, Regional Rural Banks were established by the Government of India to develop the rural economy. This is

concluded that the branch establishment of RRBs was declined during the study period due to reducing the loss by merging of RRBs branches in sponsoring banks and the number of branches and number of districts covered was registered an increasing trend during the study period. The amount of deposit mobilization was highly increased. Loans & advances and profitability performance of RRBs in India during the study period respectively. It shows the good growth performance of RRBs for providing better banking services to the rural people. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers. The objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry. But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

Reference

1. Dantwala Committee, Report of committee on Regional Rural Banks, 1978
2. Khusro Committee, Report of the Agricultural Credit Review Committee- 1989
3. A. K. Jai Prakash, "Role of RRBs in Economic Development", 1996.
4. Ibrahim, M. 'Performance Evaluation of Regional Rural Banks in India' International Business Research Vol. 3, No. 4; October 2010, Published by Canadian Center of Science and Education 203.
5. Bhatia, Aparna and Megha, 'Performance evaluation of regional rural banks (RRBS) in India during pre and post amalgamation period' Publication- Abhigyan, January1, 2013.
6. A.Sudarshana Reddy and Prof. A. Padmavathi (2013), Growth and Performance of Regional Rural Banks in India, international Journal of Scientific Research, volume 2, November 2013, pp. 119-120.
7. K.Venkata Lakshmi(2014), Growth and Development of Regional Rural Banks in India – A review, International Journal of Research in Management, Social Science & Technology, Vol-8 No.8 Oct.2014.
8. Second Narasimhan Committee, 1997. Committee on Banking Sector Reform, Gazette of India-Extraordinary Notification, Part II, Sec 3 (ii), Ministry of Finance, Government of India.
9. NABARD official websites
10. Syed Ibrahim, 2010. "Performance Evaluation of Regional Rural Banks in India", International Business Research-CCSE, Vol-3, No.4.October.
11. Thakur, S. 1990. Two Decades of Indian Banking: The Service Sector Scenario, Chanakya Publications New Delhi, India.
12. Government of India Report of the Committee on Rural Banks, (Chairman-M, Narasimhan), New Delhi, 1975.