

REGIONAL RURAL BANKS – A STUDY ON ITS PERFORMANCE
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ABSTRACT: This research paper lay emphasis on measuring performance of regional rural banks of India. Regional Rural Banks are being operated in different states of India. They have been created to serve the rural areas with banking and financial services. This research aim was to analyze the financial performance of RRBs and to suggest improvement in the working of RRB's. This study has gathered information from secondary sources that are from the published annual reports of RBI and NABARD for the financial year ended 2007- 2017. Finally analyzed financial performance of RRBs based on the percentage of credit given by RRB's, No. of branches operating in various states, the profitability and losses of RRB's over the year and the amount of advances given by RRB's from 2007 to 2017. The financial indicators of RRBs, branches, district coverage, deposits and advances have shown growth but it was not significant growth.

KEY WORDS: Regional Rural Banks, Banking, Financial Service, NABARD.

"The future of India lies in its villages" Mahatma Gandhi

Rural development in the country is designed to increase the socio-economic living conditions of rural people while conserving their culture and rich tradition. The Government pays attention to achieve higher targets related to rural production, employment and higher living standards which will pave the way for all round economic development of the country. This includes setting up basic infrastructure and facilities such as medical facilities, schools, and transport facilities, apart from scheme implementation related to improving rural employment, agricultural productivity and rural industrialization. Due to poor living conditions the rural population in India suffers from indebtedness and is being exploited by money lenders and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the

traditional money-lender and thereby help them avoid debt-traps that are common in rural India.

Regional Rural Banks have been in existence for more than 4 decades in the Indian financial system. The main aim of Regional Rural Banks was to improve the rural credit delivery mechanism India. Inception of regional rural banks (RRBs) can be seen as a unique experiment. With joint share holding by Central Government, the concerned State Government and the sponsored banks. The Banking Commission (1972) recommended establish an alternative institution for rural credit and ultimately Government of India passed an ordinance on 26th September, 1975 to establish Regional rural Banks in India as a separate institution basically for rural credit on the basis of the recommendations of the Working Group under the Chairmanship of Shri M. Narashimham. The first Regional Rural bank came into existence on 02, October (Gandhi Jayanti), 1975. The name of First RRB was Prathma with its sponsored bank as Syndicate Bank and its head office at Muradabad (U.P.) Later this ordinance was replaced by RRB Act, 1976. Thus RRB's were governed by Indian Banking Regulation Act, 1949 & Regional Rural Bank 1976. These banks were also required to maintain Cash Reserve Ratio (CRR) and Statutory Liquidity ratio (SLR) like other commercial banks, and for any financial help they can approach NABARD for Loan.

- (1) The following was the holding pattern of RRB's as per the RRB Act 1976

Sl. No.	Holding	Percentage
1	Central Government	50 percent
2	State Government	15 percent
3	Sponsored Bank	35 percent

- (2) Authorised capital should be 500 crore as per RRB Act, 1976.

This act was later amended in 2015 as RRB amendment act, 2014 and following changes were made.

- (1) Authorised capital of RRB's to be increased to Rs. 2,000.00 crore.

(2) To improve the liquidity of RRB's the holding pattern was also changed as follows

Sl. No.	Holding	Percentage
1	Central Government & Sponsored bank	51 percent
2	State Government	15 percent
3	Private Share holders	34 percent

The primary objective to introduce RRBs was to attain the rural development through the improvement in financing to the weaker section of the society. The main aim of rural credit was to provide finance and other facilities in the development of agriculture, agriculture allied and connected activities to upgrade the rural economy. These institutions serve as addition to the existing institutional credit infrastructure and also to reduce participation of informal credit agencies, especially the unscrupulous money lenders. The Regional rural Banks have become fundamental part of the rural credit delivery system and considering significant steps in attaining banking services and mobilizing the rural savings of the weaker sections in the villages even in small amounts and to hammer in them for supporting production activities through refinancing.

These banks were established under the Regional Rural Banks Act of 1976 with the aim of developing the rural economy and financing for the development of agriculture, commerce, industry and other productive activities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas. Regional rural Banks are specially designed financial institutions run under the guidance of

NABARD and the sponsor commercial banks, spread in rural areas with the close network of branches serving a various districts of the country

In this way, this study makes an effort to evaluate the performance of Regional rural Banks in India and give suggestions to improve the performance of Regional rural Banks.

The various services RBI in assistance with the commercial banks offers under RRB's in the rural areas:

- (i) Loans
- (ii) Savings
- (iii) Pensions
- (iv) Remittance of funds
- (v) Insurance
- (vi) Credit cards
- (vii) Financial counselling
- (viii) Risk mitigation products

The share of rural credit of RRB's was 11 percent in 2013-14 and was 12 percent in till FY 2017-18. Shows that the rural credit was dominated by Scheduled commercial banks, followed by Cooperative banks and RRB's.

Table- 1: Share of Rural Credit during the year- 2013-14 – 2017-18

Bank	13-14	14-15	15-16	16-17	17-18
Schedule Commercial Banks	72	72	70	75	75
Regional Rural Banks	11	12	13	12	12
Cooperative Banks	17	16	17	13	13
Total	100	100	100	100	100

Source: Nabard Annual Report 2017-18

The table-2 below shows that the number of RRB's continued to decline from 91 in 2007 to 56 in 2017. This was due to the policy measures taken by Government of India towards amalgamation of RRBs in sponsored banks at state level to provide more

freedom and to improve the efficiency of RRB's. RRB's of same sponsored banks within the state were amalgamated from FY 2008 09 to FY 2013-14 bringing down their number from 91 to 56, and their number as on 31st March, 2017 remains the same

Table- 2: Growth and progress of Regional Rural Banks during the year- 2013-14 – 2017-18

Growth of Regional Rural Banks Year	No of RRBs	Growth Rate	No of Branches of RRBs	Growth Rate	No. of District	Growth Rate
2007-08	91	-6.2	14761	1.31	594	11.23
2008-09	86	-6.49	15181	2.84	617	3.87
2009-10	82	-5.65	15480	1.96	618	0.16
2010-11	82	0	16001	3.36	620	0.32
2011-12	82	0	16909	5.67	638	2.9
2012-13	64	-22.97	17861	5.63	635	0.47
2013-14	57	-11.84	19082	6.84	642	1.1
2014-15	56	-1.7	19964	4.6	642	0
2015-16	56	0	20342	1.84	648	0.93
2016-17	56	0	20924	2.86	648	0
Mean	80	-13.02	16927.15	3.12	606.38	2.7

Source: NABARD, Key Indicators of RRBs for the Year-2016-17

State-wise network of Rural banks : The main aim of setting up Regional Rural Banks was to provide credit to the unbanked location and to open new branches in these areas so that people of these areas may be socially and financially uplifted. The information related to state wise network of RRB's is given in Table 2. The table shows that Uttar Pradesh has the largest number of RRB's(8) making its presence in 81 districts having 3518 branches, followed by Andhra Pradesh number of RRBs (5) number of branches (1630) and number of district covered (23), Karnataka number of RRBs (4), Number of branches (1460) and number of district covered (30), Bihar number of RRBs (3) number of branches 1718 and number of district covered (38),

Madhya Pradesh (number of RRBs 3, number of branches (1132) and number of district covered (50) Rajasthan number of RRBs (3) number of branches (1157) and number of district covered (36).It clearly shows that state of Uttar Pradesh, Andhra Pradesh, Karnataka, Bihar Madhya Pradesh & Rajasthan have maximum number of branches and more number of districts covered, but the state of North Eastern states Manipur, Mizoram Nagaland, Tripura and Arunachal Pradesh have only one RRB with least number of branches, whereas the state of Nagaland has only 10 branches. It clearly shows that the growth of RRB's is not evenly spread and more branches are required to be open in these north eastern states.

Table- 3: State-wise Regional Rural Banks their Network and Coverage as on 31st March, 2017

Sl. No.	Name of state	No. of RRB's	No. of Branches	District covered
1	Andhra Pradesh	4	1642	23
2	Arunachal Pradesh	1	30	8
3	Assam	2	428	27
4	Bihar	3	1718	38
5	Chhattisgarh	3	555	28
6	Gujarat	3	529	26
7	Haryana	2	507	23
8	Himachal Pradesh	2	188	12
9	Jammu and Kashmir	2	323	26
10	Jharkhand	2	442	24
11	Karnataka	3	1460	30
12	Kerala	2	506	15
13	Madhya Pradesh	3	1132	50
14	Maharashtra	2	645	33
15	Manipur	1	28	9
16	Meghalaya	1	76	7
17	Mizoram	1	71	8
18	Telangana	2	92	7
19	Hyderabad	3	121	12
20	Nagaland	1	10	5
21	Orissa	2	901	30
22	Pondicherry	1	30	2
23	Punjab	3	311	24
24	Rajasthan	3	1157	36
25	Tamilnadu	2	374	31
26	Tripura	1	133	8
27	Uttar Pradesh	8	3518	81
28	Uttaranchal	1	237	13
29	West Bengal	3	921	18
	Total	56	17856	635

Profitability of RRB's in India

Table-4 shows that the Net profit of RRBs increased from 1328.11 in 2007-08 to 2217 crore i.e. an increase of 88.89 crore (66.92 percent increase) from 2007-08 to 2016-17. In the year 2013-14 the total profit earned by RRBs was 264 crore with not a single branch

suffered a loss. Though the profit has increased in 2016-17 but the no. Of RRB's suffered losses also increased from 7 in 2016-17.

Table -4: Profitability of RRBs in India during the year-2016-17

No. of RRBs	No. of RRB's	RRB's in profit	Amt. of profit	RRBs in Loss	Amount of loss	Net Profit (Rs)
2007-08	91	83	1383.69	8	55.58	1328.11
2008-09	86	80	1823.55	6	35.91	1787.64
2009-10	82	79	2514.83	3	5.65	2509.18
2010-11	82	75	2420.75	7	71.32	2349.43
2011-12	82	79	1886.15	3	28.87	1857.28
2012-13	64	63	2275	1	2.07	2272.93
2013-14	57	57	2694	0	0	2694.00
2014-15	56	51	2921	5	176	2459.43
2015-16	56	50	2206	6	188.00	2018.00
2016-17	56	49	2604	7	387.0	2217.00

Table-5: Advances given by RRB's during the year-2016-17

Sl. No.	Year	Advances	Growth Rate
1	2007-08	48492.6	21.64
2	2008-09	58984.30	14.95
3	2009-10	67802.1	21.27
4	2010-11	98917.4	20.31
5	2011-12	116385	17.66
6	2012-13	137078	17.78
7	2013-14	159660	16.47
8	2014-15	178420	17.44
9	2015-16	194785	19.43
10	2016-17	223562	18.52

Source: The annual Reports of NABARD from 2007-2017 Note: Amounts in Crores

The advances given by RRB's shows an increasing trend and increased from 48492.6 crores in 2007-08 to 223562 crore in 2016-17 i.e. an increase of Rs. 175069.4 crore(361.02 percent)., but the growth rate of RRB's had slow down from 21.64 percent in 2007-08 to 18.52 percent in 2016-17.

Conclusions:

1. Growth rate of RRB's has shown a negative trend due to amalgamation of RRB's(Table 1)
2. Number of branches of RRB's have increased from 14761 in 2007-08 to 20924 in 2016-17, an overall increase of 41.75%(From FY 2007-08 to FY 2016-17)
3. Number of districts under RRB's have also increased from 594 in 2007-08 to 648 in 2016-17, an overall increase of 9%(From FY 2007-08 to FY 2016-17)
4. Uttar Pradesh has the maximum number of RRB's (8) and maximum number of branches.
5. North Eastern states i.e. Manipur, Meghalaya, Nagaland, Mizoram and Tripura have only one RRB with limited number of branches, only 10 branches in Nagaland
6. Profitability of RRB's have increased from 1328.11 crore in 2007-08 to 2217 crore in FY 2016-17. An overall increase of 66.92 percent(From FY 2007-08 to FY2016-17) The profit is calculated after taken into account the losses of sick RRB's
7. Advance given by RRB's has also increased from 48492.6 crores in 2007-08 to 223562

crores in 2016-17 an overall increase of 361.02 percent(From 207-08 to FY 2016-17)

Suggestions

1. Number of Districts covered by RRB's should be increased as still small cities are required to be covered by RRB's to serve the needs of rural and economically weaker section of the society.
2. Credit circulation should be increased through Village Cooperative societies and Self Help Groups
3. Use of Technology should be enhanced and people should be made aware about the various schemes of RRB's
4. Efforts should be made BY RRB's to reach the unbanked areas for the overall development of the country, especially the north eastern state of Mizoram, Meghalaya, Manipur, Tripura & Nagaland where there is only one RRB in every state with limited number of branches.
5. RRB's should develop good relations with its customers and should provide all relevant information to them and should ensure that the role of middlemen is eliminated or reduced
6. RRB's are just providing 12 per cent credit of the total credit given to Rural sector by SCB's, Cooperative Banks and RRB's in FY 2017-18 ,efforts should be made to increase the share of loans given by RRB's to these sectors as their primary objective is to serve the rural masses.

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