

A CONCEPTUAL STUDY ON THE ROLE OF REGIONAL RURAL BANKS IN INDIA

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Abstract: Regional Rural Banks in India are an integral part of the rural credit structure of the country. Since the very beginning, when the Regional Rural Banks in India (RRBs) were established in October 2, 1975, these banks played a pivotal role in the economic development of the rural India. The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labourers, and even small entrepreneurs. This paper is small attempt to conceptual study about the role of Regional Rural Bank in India and its performance indicators for last nine years from 2007 to 2015.

Key Words: NABARD, Regional Rural Banks, Key Performance Indicator

Introduction:

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural or semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by government of India covering one or more districts in the state.

The Conception and the Brief history:

Regional Rural Banks were established under the provisions of an Ordinance passed on September 1975 and the RRB Act. 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set up on the recommendations of The M. Narasimham Working Group. During the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2 October 1975 with the forming of the first RRB, the Prathama Bank with authorised capital of Rs. 5 crore at its starting. Also on 2 October 1976 five regional rural banks were set up with a total authorised capital Rs. 100 crore (\$10 Million) which later augmented to 500 crore (\$50 Million). There were five commercial banks, viz. Punjab National Bank, State Bank of India, Syndicate Bank, United Bank of India and United Commercial Bank, which sponsored the regional rural banks. 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 obligation of these financial institutional was:

- To generate employment opportunities in rural areas.
- To mobilize rural savings and channelize them to support productive activities in rural areas.
- To take banking to the doorsteps of the rural masses, particularly in areas without banking facilities.
- To bring down the cost of providing credit in rural areas.

Objectives of Regional Rural Banks:

1. To provide cheap and liberal credit facilities to small and marginal farmers, agri-culture labourers, artisans, small entrepreneurs and other weaker sections.
2. To save the rural poor from the moneylenders.
3. To act as a catalyst element and thereby accelerate the economic growth in the particular region.
4. To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
5. To increase employment opportunities by encouraging trade and commerce in rural areas.
6. To encourage entrepreneurship in rural areas.
7. To develop underdeveloped regions and thereby strive to remove economic disparity between regions.

Review of Literature:

The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of report of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists, and the comments of economic analyst and news in briefly reviewed in this part.

- IN THE YEAR 1989 for the first time, the conceptualization of the entire structure of Regional Rural Banks was challenged by the Agriculture Credit Review Committee (Khusro Committee), which argued that these banks have no justifiable cause for continuance and recommended their mergers with sponsor banks. The committee was of the view 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 efficiently could be achieved only by self-sustaining credit institutions”
- KAYE, TASI in his book role of regional rural banks in economic development give a modest attempt to make an appraisal of the credit needs of the rural people and the way regional rural bank, i.e., Arunachal Pradesh rural bank, has been extending its service to meet the same in the state of Arunachal Pradesh. It deals with the performance evaluation of Arunachal Pradesh Rural bank (APRB) for the economic development of the state. Further, an attempt has also been made to study the growth and performance of scheduled commercial banks with special emphasis on regional rural banks (RRBs) in Indian and north-east region.
- The committee on financial systems, 1991 (Narasimhan Committee) stressed the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June-1993). The low equity base of these banks (paid up capital (Rs. 25 Lakhs) didn't cover for the loan losses of most RRBs. In the case of few RRBs, there had also been an erosion of public deposits, besides capital. In order to important viability to the operations of RRBs, the Narasimhan Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a

proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

- A.K.Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economical Development and revealed that RRBs have been playing vital role in the field of rural development. Moreover, RRBs were more efficient 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.

Objectives of the study:

1. To analyze the key performance indicators of RRBs in India.
2. To study various theoretical aspects of Regional Rural Banks.
3. To study the problem being encountered in Regional Rural Banks.
4. to derive conclusions and suggest ways for improve the regional rural banks.

Problems of RRBs:

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems:

1. Very limited area of operations
2. Public perception that RRBs are poor man's banks.
3. Heavy Reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.
4. Inadequate skills in treasury management for profit orientation.
5. Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets.

PERFORMANCE INDICATORS OF RRB:

(Rupees in Crores)

Particulars	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of RRBs	96	91	86	82	82	82	64	57	56
Branch Network (No.)	14520	14761	15181	15480	16001	16,909	17,861	19,082	20,059
Share capital	196	197	197	197	197	197	197	197	197
Share capital deposit	2188.43	2832.53	3959.3	3984.9	4076.34	5,002.01	6,001	6,170	6,173
Reserves	4901.54	5703.06	6753.99	8065.26	9565.58	11,262.99	13,247	15,805	18,462
Deposits	83143.6	99093.5	120190	145035	166232.3 4	1,86,336.0 7	2,11,488	2,39,49 4	2,71,329
Borrowings	9775.8	11494	12734.7	18770.06	26490.8	30,288.84	38,073	50,230	58,824
Investments	45666.1	48559.3	65909.9	79379.16	86510.44	95,974.93	1,08,548	1,39,63 1	1,06,780
Loans & Advances outstanding	48492.6	58984.3	67802.1	82819.1	98917.43	1,16,384.9 7	1,37,078	1,59,40 6	1,84,843
RRBs earning Profit (No.)	81	82	80	79	75	79	63	57	51
Amount of profit	926.4	1383.69	1823.55	2514.83	2420.75	1,886.15	2,275	2,694	2,958

RRBs incurring losses (No.)	15	8	6	3	7	3	1	0	5
Amount of losses	301.25	55.58	35.91	5.65	71.32	28.87	2.07	0	177
Accumulated losses	2759.49	2624.22	2299.98	1775.06	1532.39	1,332.57	1,091	948	1,069
Net Worth	4526.48	6107.37	8610.31	10472.1	12306.53	15,129.41	18,355	21,224	23,763

(Source: Annual Report, NABARD)

Net worth of RRBs increased from Rs. 4526.48 crore in 2007 to Rs. 23763 crore by 2015, owing mainly their business volume and wide expansion. The deposits of RRBs increased from Rs.83143.55 crore in 2007 to Rs. 271329 crore by 2015, owing mainly to their geographical spread and the opening of new branches in unbanked areas.

RRBs have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume as also contribution to the development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. From a modest beginning of six RRBs with 17 branches covering 12 districts in December 1975, today there are 197 RRBs with 15938 branches across the country.

Recommendations for improvement of RRBs:

1. Government should encourage and support banks to take appropriate steps in rural development.
2. Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
3. Policy should be made by government for opening more branches in weaker and remote areas of state.
4. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of RRBs.
5. Productivity can be improved by controlling the costs and increasing the income.
6. Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

Conclusions:

To conclude, the swift expansion of RRB has helped in reducing substantially the Regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to rural section who are dependent on private lenders, to encourage for rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing strongest banking network. Government should take some effective remedial steps to make Rural Banks viable.

Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with 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 improve lack of transparency in their operation which leads to unequal

relationship with banker and customer. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers. The RRBs, set up with the intention of extending credit to the rural poor, have succeeded in the objective of taking banking services to the villages, but have failed to make clear dent on credit to the rural poor during the past years of their existence.

Limitation of the Study:

1. The entire study is more emphasis on secondary data of the regional rural banks in India and collected from published annual reports, websites and etc.
2. The period of study is nine years only.

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