



THE PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS IN INDIA

Dr. Nagendra Kumar¹

Department of Economics,
Faculty of Social Sciences,
Banaras Hindu University,
Varanasi-05

ABSTRACT

In my research paper measuring performance of regional rural banks over all India. Regional Rural Banks are the banking organizations being operated in different states of India. They have been created to serve the rural areas with banking and financial services. This research aim is that to analyze the financial performance of pre-amalgamation period and post-amalgamation of India.

In my study are deals from secondary sources that are from the published annual reports of RBI for the financial period from 1985-86 to 2015-16. Analyzing the financial performance of RRBs at post and pre merger scenario measuring on the basis of deposit and credit ratio. The other financial indicators such as no. of RRBs, branches, district coverage, deposits and credit disbursement have shown growth throughout the analysis period.

INTRODUCTION

The banking system in India plays a crucial role in the accomplishment of basic objectives of our national policy such as growth, modernization, self-reliance and social justice through its carefully designed credit development policy. Banks are the purveyors of money and credit; thus they help in the acceleration of growth. It plays a strategic role in increasing the savings rate, in canalizing the available saving for financing investment and better utilization of available resources in all sectors of economy through adequate supply of credit.

Finance is the life-blood of every economic activity of developing economy. The flow of credit is very much like the circulation of blood in the body. The circulation of blood should be smooth and uniform throughout all the organs of the human body. Similarly, credit should flow steadily and equally through credit structure of the country.

There are financial institutions in both the organized and unorganized sectors of the money and capital markets in India that meet the credit needs of the various sectors of the economy. The organized sector comprising the moneylenders and indigenous bankers cater to the country side. The organized sector of the

money market consists of the Reserve Banks of India at apex level and the Co-operative Banks, Commercial Banks and Regional Rural Banks in India.

Although some form of banking such as money lending types has been in existence in India since as ancient times. The earliest institutions that undertook banking business under the British regime where 'Agency House' that carried on banking business in addition to their trading activities.

The first bank managed by Indians was 'Oudh Commercial Bank' founded in 1881, subsequently the 'Punjab National Bank' was established in 1894 and 'People's Bank of India' established in the year 1901. The Swadeshi Movement of 1906 provided a great fillip and stimulus to the starting of several commercial banks in India. But this Indian banking system experienced a series of crisis and as a consequence it witnessed a number of bank failures. Hence in spite of the establishment of considerable number of commercial banks in India, the growth of banking industry in terms of deposits, advances and to a certain extent, branch expansion was quite slow and unstable during the first half of the twentieth century.

For the improvement of the banking sector the three Presidency Banks, Bank of Bengal, Bank of



Bombay and Bank of Madras were amalgamated into the Imperial Bank of India in 1920 but this bank was not charged with Central Banking functions. The Reserve Bank of India was established in 1934 and started functioning on April 1, 1935 as Central Bank of India. This was followed by the nationalization of the Imperial Bank. In 1955 the State Bank of India Act was passed to transform the Imperial bank of India into State owned bank name as 'State Bank of India'. The State Bank of India (Subsidiary Bank) Act was passed in 1959, empowering the State Bank of India to take over 8 State-associated banks as its subsidiaries.

In term of Regional Rural Banks is the banking organizations being operate over all Indian State. They have been created to serve the rural areas with banking and financial services. However, RRB's may have branches set up for urban area as well as rural area. Regional Rural Banks were established under the provisions of an Ordinance passed on 26 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 Narasimham Working Group during the tenure of Indira Gandhi's government in a vision to include rural areas to deal about 70% of the rural population operated.

The present paper discusses role of several sources and agencies engaged in extending credit to rural people, mostly Regional Rural Banks gives adequate credit to the farmers. In this paper analyses the growth pattern and performance of RRBs in India.

REVIEW OF LITERATURE

A number of studies are carried out regarding to performance, viability, profitability, trend and operational efficiency of Regional Rural Banks in India. Here, as a part of my research paper an attempt has been made to review the literature pertaining to RRBs. Some of the main selected studies have been discussed below.

Co-operative banks at various levels were supported by their respective state governments and RBI. Much was expected from the cooperative banks but because of not having the adequate financial resources it couldn't meet the credit requirement of rural sector according to the needs of farmer's movements. According to the survey in 1969 of The All India Rural Credit Survey Committee, recommended a multi agency approach to funding the rural sector.

Verma and Reddy (2000): conducted a study analyzing the causes of overdues in Cooperatives under SWOOD, to assess recovery and NPAs position in these banks. Policy distortions in liberalized economy and inefficient management were identified as main reasons

for poor recovery. Utilization of credit, political interference at every level, successive crop failures, non-remunerative prices of agriculture produce, inadequate income and natural calamities, were some other factors, which affect the working culture of co-operative banks considerably. To improve the working of these banks, the study suggested that available credit size should be need based and production-oriented. Effective supervision of loans to minimize utilization and close social relations with debaters were two other suggestions to improve the profitability and productivity of these banks [1].

Nathan (2002): the current policies of the financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector lending and preferential lending to the poor in particular.

Khankhoje and Sathye (2008) in his study attempted to measure the variation in the performance in terms of productivity efficiency of RRBs in India.

Dr. B.K. Jha (2008): found that the effective banking services helps to promote rural entrepreneurship and improve the picture of rural India.

Robson William B. P., Bergevin Philippe (2012): This study argues that Canada's federal government, which began issuing real-return bonds (RRBs) in 1991, should issue more RRBs of more types than it currently plans to do. Issuing more RRBs would not only better satisfy existing demand from investors; it has the potential to spur the development of other price-indexed instruments. Experience elsewhere suggests that more federal RRBs could encourage other entities to issue price-indexed debt, and would let intermediaries provide such products as inflation-linked annuities, thus providing more Canadian savers with protection against intentional or accidental inflation [2].

Kanika and Nancy (2013): jagged out that RRBs have successfully achieved the objectives of taking bank services to the door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section of the society [3].

Raghavendra and Chaya (2014): expose that credit borrowing, loan & advances, branches, and credit deposit ratios continue to be unsatisfactory and the RRBs are still hesitant to purvey credit to small and marginalized farm sector.

OBJECTIVE OF THE STUDY

1. To analysis the financial performance of RRBs in India during the period from 1985-86 to 2015-16.



2. To evaluate the performance of RRBs in term of India during post amalgamation and pre merger periods.
3. To study the growth pattern of Regional Rural Banks in India.

RESEARCH METHODOLOGY

The present study is based on the availability of secondary data, available in the R.B.I. publication, particularly Reports on Currency and Finance, Bulletins, NABARD's publications Reports of several studies by the Government and RBI.

Further it is found that there is glaring increase in the data for various variables under study over the period of time. To regulate these scattered absolute data, percentage change has been used for each variable over the given time period and other tests have been used. The study also shows the three decade financial performance from 1985-86 to 1995-96, from 1996-97 to 2005-06 and from 2006-07 to 2015-16. In my study, statistical and econometric tools are applied for analyzing the data and getting the results to derive logical conclusion. Besides simple statistics like mean, standard deviation, and correlation coefficients are used.

HYPOTHESIS

H₀: The flow credit pattern have not changed from 1989-90 to 2017-18.

H₁: There is no major difference in performance between pre-amalgamation period and post-amalgamation period in spread ratio.

REGIONAL RURAL BANKS (RRBs)

On the recommendation of the 'working group of rural banks' the Government of India initially had established six Regional Rural Banks [4] in the country with the objective of spreading banking facilities in rural areas where even co-operatives are not in a position to cater to the credit needs of the rural society and to provide credit facilities at lower rate of interest, especially to the target group, which consisted of small and marginal farmers, rural artisans and small traders, and, to inculcate the habit of thrift and savings. In addition to this RRBs were established to supplement commercial banks as (i) in spite of the impressive progress of the rural branches of commercial banks, there was no hope of their spreading to all the unbanked pockets, even in the course of a decade. (ii) Commercial banks suffered from two deficiencies in relation to rural credit i.e. (a) lack of rural background, and (b) high cost structure of operations. The main aim was that, the farmers as well as the rural poor could be saved from

the clutches of private moneylenders [5], who charge a very high rate of interest.

Generally, the Regional Rural Banks (RRBs) are sponsored by scheduled commercial banks. Each Regional Rural Banks has on authorized capital of Rs. One crore issued and paid up capital of Rs. 25 lakhs. The 50 percent share capital of Regional Rural Banks (RRBs), is subscribed by the central government, 35 percent by commercial banks and 15 percent by state government. As in march 1997, there were 196 Regional Rural Banks (RRBs), by 27 SCBs and one State Co-operative Bank were operating in the country with a network of 14,484 branches spread over 523 districts as on March 31, 2005 [6]. Consequent upon the amalgamation, the number of RRBs declined to 56 operating in 28 states and in one union territory covering 525 districts with a network of 21747 branches as on March 31, 2018.

PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS (RRBs)

Regional rural banks (RRBs) form an integral part of the Indian banking system with focus on service to rural areas. RRBs were created with the objective of combining the good features of co-operatives and commercial banks to provide regionally-oriented institutions that could direct credit to the under-privileged sections of the rural population. The Government of India promoted the formation of RRBs under the RRB Act, 1976, with a goal of formation of a new set of regionally-oriented rural banks which would combine the co-operatives' local feel and familiarity with problems and the commercial banks business acumen i.e. ability to mobilize deposits, access to central money market and modern outlook [10]. Therefore, the RRB Act mandates the RRBs to "develop rural economy by providing credit and other facilities" [11].

Thus, RRBs can be regarded as an ideal institution for achieving financial inclusion in rural areas. With the onset of financial sector reforms, a number of changes were brought about in the policy framework relating to RRBs to impart operational freedom to these institutions and improve their weakening financial health. These changes were primarily reflected in the restructuring, amalgamation and recapitalization of RRBs along with the application of prudential regulatory framework to these institutions. The process of amalgamation of the RRBs was initiated by Government of India in September 2005 in a phased manner. Prior to the process of amalgamation, 196 RRBs sponsored by 27 SCBs and one State Co-operative Bank were operating in the country with a network of 14,494 branches spread over 525 districts as



on March 31, 2017. Consequent upon the amalgamation, the number of RRBs declined to 82 operating in 26 states and in one union territory covering 619 districts with a network of 15,475 branches as on March 31, 2010. Additionally the role of RRBs in financial inclusion, priority sectors, which have generally constituted a major portion of the total advances of RRBs, occupied a share of about 82 percent in their total advances at end March 2010 [11]. However, the share of agricultural credit in total credit from RRBs is on a declining trend in the recent years.

Hence, it is significant to analyze whether the RRBs performance was up to the level of the mandate with which they were established. The performance of

credit and number of RRBs has been analyzed over the period from 1988-89 to 20017-18 P.

Among the main objectives of establishing the RRBs, the mobilization of rural savings and channelizing them for supporting productive activities in the rural areas is important one. Table-1 gives a clear look on number of banks and Deposit of RRBs in India. The number of banks from 1988-99 to 2003-04 was 196 and after amalgamation period become only 134. Further the first and second decade constant number banks over period but last few years decrease the number of banks and it was only 56 banks in the country. The average mean of banks about 140.63, standard deviation (SD) is 61.99 and coefficient of variation (CV) is 27.81 percent.

Table-1

No. Banks and Deposit of Regional Rural Banks (1988-2018 Provisionally)

(Rs. Crores)

Year	No. of Banks	Index	AGR	Deposits	Index	AGR
1988-89	196	100	0	NA	NA	NA
1989-90	196	126.19	26.19	3815	100	0
1990-91	196	147.62	21.43	4560	119.53	19.53
1981-82	196	178.57	30.95	5271	138.17	18.64
1992-93	196	205.95	27.38	6370	166.97	28.81
1993-94	196	223.81	17.86	8045	210.88	43.91
1994-95	196	230.95	7.14	10848	284.35	73.47
1995-96	196	233.33	2.38	13370	350.46	66.11
1996-97	196	233.33	0.00	16971	444.85	94.39
1997-98	196	233.33	0.00	20977	549.86	105.01
1998-99	196	233.33	0.00	25428	666.53	116.67
1999-00	196	233.33	0.00	30051	787.71	121.18
2000-01	196	233.33	0.00	35995	943.51	155.81
2001-02	196	233.33	0.00	42494	1113.87	170.35
2002-03	196	233.33	0.00	47644	1248.86	134.99
2003-04	196	233.33	0.00	53390	1399.48	150.62
2004-05	134	233.33	0.00	58286	1527.81	128.34
2005-06	94	233.33	0.00	64195	1682.70	154.89
2006-07	90	233.33	0.00	83143	2179.37	496.67
2007-08	90	233.33	0.00	99093	2597.46	418.09
2008-09	84	233.33	0.00	120189	3150.43	552.98
2009-10	82	233.33	0.00	145036	3801.73	651.30
2010-11	82	233.33	0.00	166232	4357.33	555.60
2011-12	82	233.33	0.00	186336	4884.30	526.97
2012-13	64	158.33	-75.00	211488	5543.59	659.29
2013-14	57	111.90	-46.43	239494	6277.69	734.10
2014-15	56	107.14	-4.76	273018	7156.44	878.74



2015-16	56	107.14	0.00	315048	8258.14	1101.70
2016-17	56	100.14	0.00	371900	9748.36	1490.22
2017-18P	56	100.14	0.00	371900	9748.36	0.00
mean=	140.63			mean=	104503	
SD=	61.99			SD=	114773.42	
CV=	44.08			CV=	109.83	

Source: 1. Handbook of Statistics, 2009-10, Reserve Bank of India., 2. Annual Reports, NABARD, Various issues.

Table-1 gives a clear look on deposits of RRBs. The amount of deposits mobilized by the RRBs increased from Rs. 3815 crores in 1989-90 to Rs. 25428 crores in 1998-99 i.e. the year of first decade. It retained on increasing and reached to Rs. 120189 crores in 2008-09 the year of second decade, further it increased to Rs. 371900 crores in 2017-18

The study of the annual growth rate of deposit mobilization by the RRBs shows that while the annual growth rate was 19.53 percent in 1990-91, increased

sharply to 170.35 percent in 2001-02. But it decreased thereafter except in the year of 2002-03 with percentage change of 134.99. Further the deposit mobilization managed to grow with an annual growth rate of 154.89 percent in 2005-06. In 2016-17 the annual growth rate of deposit mobilization of the RRBs was 1490.22 percent. The average deposit over the analysis periods is calculated as Rs. 104503 crores, SD is 114773.42 and CV is 109.83 percent.

Graph-1 deposits

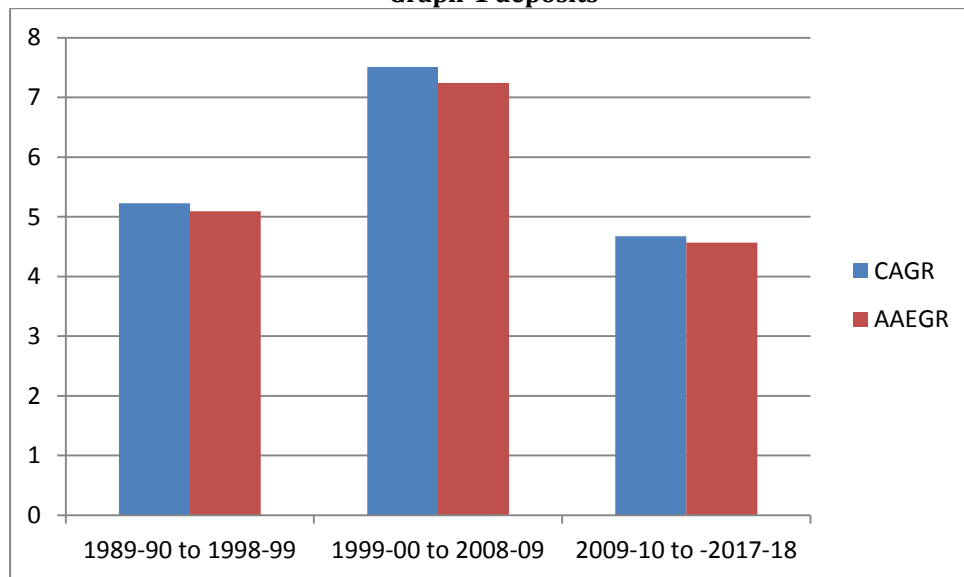


Table-3 reveals that the compound annual growth rate and average annual exponential growth rate is sharply decline from 8.59 percent in 1989-99 to 4.65 percent in last decade 2009-18 and further from 8.24 percent to 4.54 percent in the similar over analysis period.

From table-2, credits disbursement through RRBs has shown growing trend in annual growth rate

in first analysis year reached minimum about 2.58 percent and further it has continuously been increasing. After first period it improved somewhat but again declined in the year 1995-96 is only 31.92 Percent and another second time decreased the annual growth rate in the years 1997-98 was only 33.53 percent.



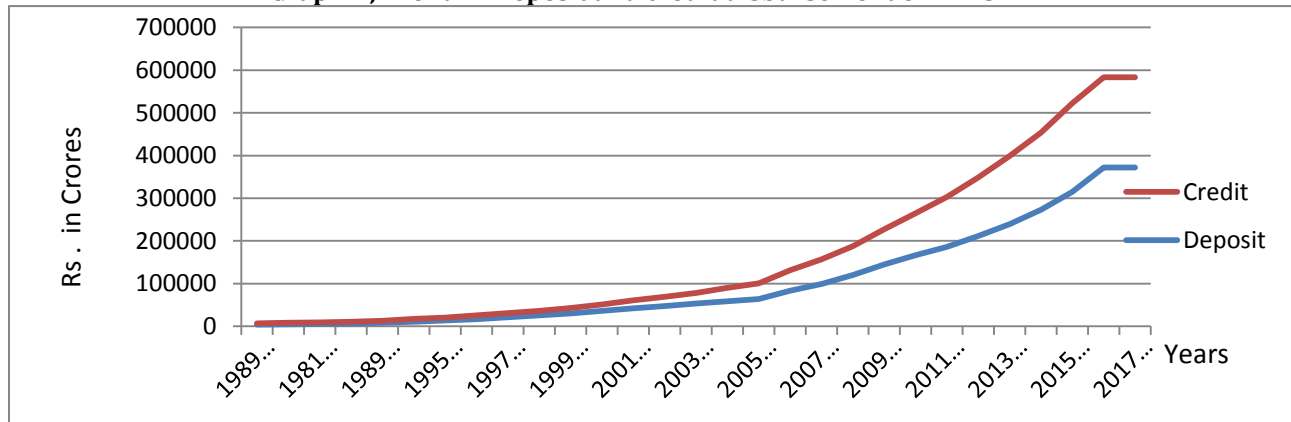
Table-2
Annual Growth Rate of Credit Disbursement of RRBs and Deposit /Credit Ratio

Rs . In Crores					
Year	Credit	Index	Annual	Deposit	Deposit/Credit Ratio
1989-90	3409	100	0	3815	1.12
1990-91	3497	102.58	2.58	4560	1.30
1981-82	3951	115.90	13.32	5271	1.33
1992-93	4451	130.57	14.67	6370	1.43
19893-94	5024	147.37	16.81	8045	1.60
1994-95	6201	181.90	34.53	10848	1.75
1995-96	7289	213.82	31.92	13370	1.83
1996-97	8544	250.63	36.81	16971	1.99
1997-98	9687	284.16	33.53	20977	2.17
1998-99	11016	323.14	38.99	25428	2.31
1999-00	12663	371.46	48.31	30051	2.37
2000-01	15211	446.20	74.74	35995	2.37
2001-02	18033	528.98	82.78	42494	2.36
2002-03	21359	626.55	97.57	47644	2.23
2003-04	25057	735.02	108.48	53390	2.13
2041-05	31651	928.45	193.43	58286	1.84
2005-06	36050	1057.49	129.04	64195	1.78
2006-07	48420	1420.36	362.86	83143	1.72
2007-08	57417	1684.28	263.92	99093	1.73
2008-09	67096	1968.20	283.92	120189	1.79
2009-10	82119	2408.89	440.69	145036	1.77
2010-11	98917	2901.64	492.75	166232	1.68
2011-12	116385	3414.05	512.41	186336	1.60
2012-13	137078	4021.06	607.01	211488	1.54
2013-14	159406	4676.03	654.97	239494	1.50
2014-15	180955	5308.15	632.12	273018	1.51
2015-16	207279	6080.35	772.19	315048	1.52
2016-17	211534	6205.16	124.82	371900	1.76
2017-18P	211565	6206.07	0.91	371900	1.76
Mean=	62112.55				
SD=	71293.79				
CV=	114.78				

Source: 1. Handbook of Statistics, 2009-10, Reserve Bank of India., 2. Annual Reports, NABARD, Various issues.



Graph-2, Trend in Deposit and credit disbursement of RRBs



Source: Figure from Table-1 and 2.

Table-3

Time Period	Credit		Deposit	
	CAGR	AAEGR	CAGR	AAEGR
1989-90 to 1998-99	5.22	5.09	8.59	8.24
1999-00 to 2008-09	7.51	7.24	6.21	6.02
2009-10 to 2017-18	4.67	4.57	4.65	4.54

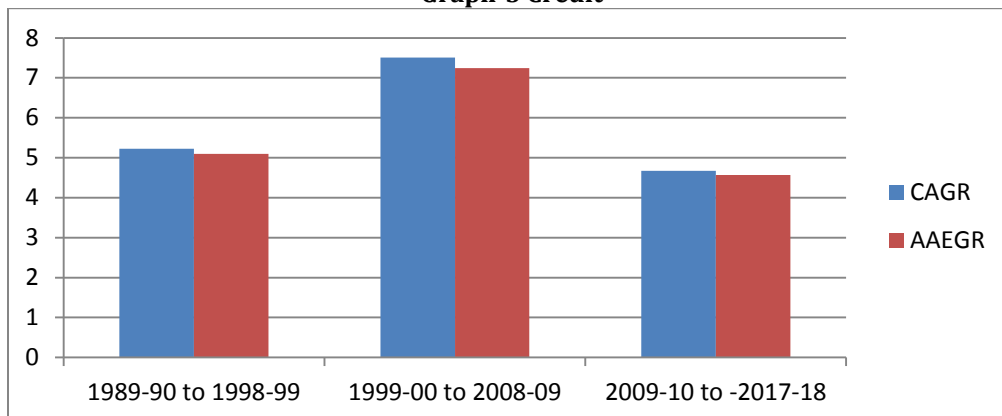
Source: Calculated from Table-1, 2.

Over the period of analysis was increasing trend can be seen in the percentage change figures but it shows instabilities. The annual credits growth rate disbursement increased from 38.99 percent in 1998-99 to 772.19 percent in 2015-16 but again declined to 124.82 percent in 2016-17 and 0.91 percent in 2017-18 (P). The average credit disbursement for the entire study

period is calculated as Rs. 62112.55 crores, SD is 71293.79 and CV is 114.78 percent.

HO: There is no major difference in the performance of Amount of deposits and credit Amount over the period from 1989-90 to 2017-18, so therefore the first hypothesis has been tested true.

Graph-3 Credit



In Table-3 reveal that CAGR and AAAGR of credit disbursement is 5.22 percent and 5.09 in 1989-90 to 1998-99 and rose in second decade and become 7.51 percent and 7.24 percent respectively. Further last

decade it has decaling again become 4.67 and 4.57 percent in 2009-10 to 2017-18.

H1: There are no significant differences in the ratio of deposit and credit ratio, thus second hypothesis also tested and proved true.



CONCLUSION

From the above analysis, the expansion of RRB at a rapid rate of growth has helped in reducing significantly the regional disparities in respect of banking facilities in India. The efforts made by RRB in deposit mobilization, number of banks in respect to pre-amalgamation period and post-amalgamation, branch expansion, and credit disbursement mostly in rural area. RRB successfully achieve its main objectives like to take banking facilities and services to door steps particularly in banking poor rural areas, to avail easy and cheaper credit to poor rural area who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of providing credit in rural areas.

REFERENCES

1. .Verma, Ravi; and Reddy Bhagwan (2000), "Analysis of Causes of Overdues in Cooperatives under SWOOD", *Co-operative Perspective*, Vol.35, No.1 (April- June), Pune
2. Kumar Satish, *Performance evaluation of RRBs in India*, *International Journal of management, IT and Eng.*
3. Patel Taral, Nisarg Shah, *A study on performance evaluation of RRBs of India.*
4. *Government of India (1975), Report of the Working Group on Rural Banks, Ministry of Finance, New Delhi.*
5. Kumar Nagendra, *Role of Co-operative Bank in the Rural Development of Uttar Pradesh.*
6. Reserve Bank of India (2004), *Report of the advisory committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Chairman, V.S. Vyas), June, Mumbai.*
7. *Handbook of Statistics, Reserve Bank of India.*
8. <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/88980.pdf>
9. <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/32622.pdf>
10. <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/40092.pdf>
11. <http://www.wikipedia.com/rrbs/nabard>