



## EFFECTIVENESS OF REGIONAL RURAL BANKS IN INDIA – AN EVALUATION

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### **Abstract**

*The paper presents the performance of Regional Rural Banks (RRBs) in India with a view to understand the evolution, growth, performance and the significant achievements of the regional rural banks towards the rural development in India and as well as its contribution to the development of various sectors. The paper is based on secondary data sources collected from the select regional rural banks, Reserve Bank of India reports, NABARD reports and select internet sources. The study evaluate the performance of regional rural banks and its effectiveness in the welfare of India.*

**Keywords:** RBI, NABARD, CD- Ratio, Priority and Non-Priority Sectors.

### **1) Overview of Regional Rural Banks**

Indian economy is an under developed economy. There is no doubt that the bulk of the population lives in condition of unhappiness. India is land of villages and nearly 80 percentage of country's population resides in villages. As Gandhiji said real India lives in villages and rural economy is the back bone of Indian economy Therefore the economic development and growth of Indian means reconstruction and resurgence of rural communities. The Reserve Bank of India (RBI) appointed the Rural Credit Review Committee in 1966. The committee recommended that instead of a single agency approach, i.e. co-operative societies, the multi agency approach should be followed. The foundation of institutional credit structure in rural India was laid with the organization of co-operative credit societies, but it could not keep up speed with the growing demand for institutional credit. The benefits of the co-operative credit movement have not reached the small and marginal farmers, artisans, and other weaker sections of rural areas.

In 1959, other major state owned state associated banks operating in the princely states were taken over by the State Bank of India for further strengthening the infrastructure of institutional rural banking. Other commercial banks were also encouraged by the government to supply more credit to agriculture, small scale industries and other hither-to-neglected sectors of economy. The SBI and its subsidiaries started a network of branches in semi-urban and rural areas. But this lead was not followed by other commercial banks. To this effect, nationalization of 14 major Indian commercial banks in 1969 can be termed as a leap toward rural banking. Soon after nationalization, a rapid growth in branch banking in rural and semi-urban areas was started.

With this background, Government of India appointed a working group under the chairmanship of Sri. M. Narasmhan to examine in-depth the setting up of new Rural Banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. This working group was appointed in July 1975 and was asked to submit its report within the short period of one month. The report was submitted by the working group on 30<sup>th</sup> July 1975. The working group recommended the setting up of the state sponsored, regionally based and rural oriented banks to be known as Regional Rural Banks (RRB)."

The working group recommended the setting up of the state sponsored, regionally based and rural oriented banks to be known as Regional Rural Banks. Government of India accepted the recommendations of Narasimham Group and President of India promulgated an ordinance for establishment of Regional Rural Banks (RRBs) on 26<sup>th</sup> September 1975, which was later replaced by the Regional Rural banks Act, 1976 on 9<sup>th</sup> February 1976. The First 5 Regional Rural Banks were set up on 2<sup>nd</sup> October, 1975 in the states of Uttar Pradesh, Haryana, Rajasthan and West Bengal covering nine districts in India. These banks were sponsored by Syndicate Bank, State Bank of India, Punjab national Bank, United Commercial Bank and United Bank of India respectively.

According to the Regional Rural Banks Act, RRBs were set up mainly with a view to develop rural economy by providing financial assistance for the purpose of development of agriculture, trade, industry, commerce and other productive activities in rural areas, credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. Each RRB will operate within the limits specified by notification. If necessary an RRB might also establish branches or agencies at any place notified by the Government. Each RRB is sponsored by a public sector bank, which provides assistance in several ways, viz., subscription to its capital, provision of managerial and financial assistance and help in the recruitment and training of personnel during the initial period of its functioning. While Regional Rural Banks may accept all type of deposits from public, their lending operations are directed towards meeting the needs of the weaker sections



of the society. The committee made it clear that the task of these banks should be seen in the proper perspective promoting rural development. Regional Rural banks have various special features, which are different from commercial banks and co-operative societies regarding objectives, functions and management etc., they are briefly presented here under;

## 2) Growth and Progress of Regional Rural Banks in India

RRBs have carried banking to the door steps of the rural people by opening branches in remote villages which had no banking facilities. Initially started with 5 Regional Rural Banks at Murshidabad and Gorakhpur in Uttar Pradesh, Bhivani in Haryana, Jaipur in Rajasthan and Malda in West Bengal on 2<sup>nd</sup> October 1975, the RRBs achieved a phenomenal growth over the years. The RRBs established in 1975 on an experimental basis have significantly grown to 196 by April 1987. No RRB was established thereafter except Pudvai Bharathiar Grama Bank established in 2008. As per the recommendations of Vyas committee the 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. As a result of amalgamation, number of RRBs has been reduced from 196 to 64 as on 31<sup>st</sup> March 2013. The overall coverage of RRBs has increased on account of extension of geographical area and opening of new branches.

## 3) State-wise Distribution of Regional Rural Banks

Data presented in Table-1 reveals that 57 RRBs are operating in India as on 31-3-2016. Among them largest number of RRBs are in operation in the State of Uttar Pradesh, followed by 5 each in the states of Andhra Pradesh, Madhya Pradesh and Maharashtra. In Bihar and Rajasthan states four RRBs each are in operation and in the state of Gujarat, Karnataka and Orissa 3 RRBs each are in operation,. In Tamilnadu, Jharkhand and West Bengal State 2 RRBs in each state are in operation and the rest of the states represent 1 RRB .in each state such as Assam, Chhattisgarh, Hariyana, Jammu & Kashmir, Punjab and Uttaranchal.

**Table-1: State wide distribution of RRBs in India**

(as on 31<sup>st</sup> December, 2016)

S. No	Name of the State	Number of RRBs
1	Andhra Pradesh	5
2	Assam	1
3	Bihar	4
4	Chattisgarh	1
5	Tamilnadu	2
6	Gujarat	3
7	Haryana	1
8	Jammu & Kashmir	1
9	Jharkhand	2
10	Karnataka	3
11	Madhya Pradesh	5
12	Maharashtra	5
13	Orissa	3
14	Punjab	1
15	Rajasthan	4
16	Uttaranchal	1
17	Uttar Pradesh	13
18	West Bengal	2
	Total	57

Source: Reports of Rural Planning and Credit Department, Reserve Bank of India, 2016

## 4) State-wise Number of Branches of Regional Rural Banks

The reports of RRBs as prescribed in RBI reports reveals that during the year 2009, the numbers of branches of RRBs are 15010 and increased to 21057 in the year 2017. In the state of Andhra Pradesh the numbers of branches of RRBs operating are ranged between 1257 and 1153. Due to reorganization of State of Andhra Pradesh, the numbers of branches in operation were declined. Newly formed State of Telangana has 780 branches of RRBs in 2015 and increased to 850 in 2017.



### 5) Sources of Funds of RRBs

The own funds of RRBs has increased from Rs.7286 crores in the year 2006-07 to Rs.22103 crores in the year 2013-14. The percentage of own funds to total funds is in the range of 6.70 to 7.59. The growth in own funds varied between Rs 1337 crores and 2842 crores. With regard to borrowed funds, the borrowed funds have increased from Rs.9776 crores in 2006-07 to Rs.51208 crores during 2013-14. The percentage of borrowed funds to total funds varied between 1242 crores and 12940crores. The growth in borrowed funds varied between Rs 1337 crores and 2842 crores. With reference to deposit funds, the deposit funds have increased from Rs.83144 crores in the year 2006-07 to Rs.239504 crores in the year 2013-14. The percentage of deposit funds to total funds are in the range of 76.56 and 83.56 percent. The growth in deposit funds varied between Rs 15949 crores and 28046 crores. The total funds of the APGVB have increased from Rs.100206 crores to Rs.312815 crores during the period of the study. The growth in total funds varied between Rs 19114 crores and 43785 crores and the growth in terms percentage is varied between 12.84 percent22.4 percent.

### 6) Per Branch Business of RRBs

Data presented in Table-2 reveals that the total business done by RRBs in India and the total branches operated by RRBs in India for the period 2006-07 to 2012-13. An analysis of data reveals that the total business of RRBs has increased from Rs.131637 crores during 2006-07 to Rs.346381crores during 2012-13. The total branches of RRBs have increased from 14526 to 17856 during the period of study. Business per branch is calculated by taking the ratio of total burins to total branches. The business per branch varied between 9.06 and 19.49. In order to evaluate the patterns of total business and total branches of RRBs, statistical measures such as average, standard deviation and co-efficient of variation and compound annual growth is computed. The average total business the RRBs for the period under the study is Rs.231721.57 crores with a standard deviation of Rs.78404.21 crores. The average numbers of branches are 15813 during the period of study with a standard deviation of.1205.84. The value of co-efficient of variation for the total business and total branches are 33.83 and 7.62 respectively indicating more variation in total business compared to total branches of RRBs during the period 2006-07 to 2015-16. The growth in per branch business varied between Rs 1.41 crores and Rs.2.37 crores and growth in terms of percentage is varied between 7.84 percent and 19.11 percent during the period of study.

**Table 2: Per Branch Business of RRBs in India**

S. No	Year	Total Business (Crores)	Total Branches (Crores)	Business Per Branch (Crores)	Growth (Crores)	Growth Percentage
1	2006-07	131637	14526	9.06		
2	2007-08	158077	14761	10.71	1.65	18.21
3	2008-09	187991	15158	12.4	1.69	15.78
4	2009-10	228597	15480	14.77	2.37	19.11
5	2010-11	265140	16001	16.57	1.8	12.19
6	2011-12	304228	16914	17.99	1.42	8.57
7	2012-13	346381	17856	19.4	1.41	7.84
	Average	231721.57	15813.71	14.41		
	Standard deviation	78404.21	1205.84	3.84		
	Co-efficient of Variation (Percentage)	33.84	7.63	26.7		
	Compound Annual Growth Rate (Percentage)	17.49	3.49	13.53		

Source: Annual Reports of RBI and NABARD



### 7) Working Results of RRBs

Data presented in Table-3 reveals the statistics of profit making RRBs and loss making RRBs from 2006-07 to 2013-14. An analysis of data revealed that during the year 2006-07, the number of profit making RRBs are 81 and with a profit of Rs.1743.86 crores and by the year 2013-14, the number of profit making RRBs are decreased to 57 and with a profit of Rs.16.47 crores. During the same period, the number of loss making RRBs are 15 and with a loss of Rs.301.25 crores and by the year 2012-13, the number of loss making RRBs are decreased to 4 and with a loss of Rs.2.07 crores.

Further, the data reveals that the average numbers of profit making RRB are 74.37 with average profit of Rs 603.06 crores and standard deviation of Rs 749.85 crores. The values of co-efficient of variation for profit making RRBs and loss making RRBs are 124.34 percent and 144.63 percent respectively indicating more variation in loss making RRBs and the growth in terms of growth percentage of profit making and loss making RRBs, the growth percentage in profit and loss indicated negative growth during the period of the study.

**Table-3: Working Results of RRBs in India**

S. No	Year	Profit Making of RRBs		Loss Making RRBs	
		No. of RRBs	Profit (crores)	No. of RRBs	Loss (crores)
1	2006-07	81	1743.86	15	301.25
2	2007-08	82	616.56	08	55.58
3	2008-09	80	35.36	06	35.91
4	2009-10	78	16.47	04	8.44
5	2010-11	75	1743.86	07	71.32
6	2011-12	79	616.56	03	28.87
7	2012-13	63	35.36	04	2.07
8	2013-14	57	16.47	--	--
	Average	74.38	603.06	6.71	71.92
	Standard deviation	9.26	749.85	4.07	104.02
	Co-efficient of Variation (Percentage)	12.45	124.34	60.66	144.63
	Compound Annual Growth Rate (Percentage)	-0.05	-0.48	-0.19	-0.56

Source: Annual Reports of RBI and NABARD from 2006-07 to 2013-14

### 8) Credits to Deposits Ratio of RRBs in India

In an economy the penetration of credit could be measured in terms of credit deployed against the deposit received, technically it is denoted by C D Ratio. Credit-deposit ratio is the proportion of loan-assets created by banks from the deposits received. The higher the ratio, the higher the loan-assets created from deposits and vice-versa. Fairly, it is straightforward indicator of the performance of scheduled commercial banks. But in its own way, it sheds a lot of light on the type of society and economy we live in. The importance of disbursing credit out of mobilized saving for productive purpose is well documented in the studies of Finance, and Economic Growth.

**Table-4: Credits to Deposits Ratio of RRBs in India**

S. No	Year	Credit	Deposits	Credit to Deposits Ratio
1	2006-07	48420	83144	58.24
2	2007-08	57417	99093	57.94
3	2008-09	64011	120189	53.26
4	2009-10	79016	145035	54.48
5	2010-11	94545	166.23	56.88
6	2011-12	111082	186.34	59.61
7	2012-13	129936	211458	61.45
8	2013-14	152051	239504	63.49



	Average	92059.75	112346.9	
	Standard deviation	36767.61	87272.09	
	Co-efficient of Variation (Percentage)	39.94	77.68	
	Compound Annual Growth Rate (Percentage)	17.75	16.31	

Source: Annual reports of RBI and NABARD from 2006-07 to 2013-14

Data presented in Table-4 reveals that the credits of RRBs have increased from Rs.48420 crores during 2006-07 to Rs.152051 crores during 2013-14. The deposits of RRBs have increased from Rs.83144 crores to Rs.239504 crores during the period of study. Credits to deposits lie in the range of 53.26 to 63.40. In order to evaluate the pattern of credits and deposits of RRBs, statistical measures such as average, standard deviation co-efficient of variation and compound annual growth rate is computed and presented. The variation in the credit and deposits is explained in terms of standard deviation, the least variation Rs.36767.61 crores is found in credit and the highest variation is found in deposits which is equals to Rs.87272.09 crores. Further, analysis revealed that the co-efficient of variation of credit is 39.94 and highest co-efficient of variation is identified in deposits with a value of 77.68 percent in comparison with credits. The compound annual growth computed reveals that the growth rate in credit is 17.75 percent, whereas growth rate in deposits is 16.31 percent.

### 9) Agriculture Loan and Non-Agriculture Loans to Total Loan Outstanding of RRBs

Table-5 presents the total loan outstanding, agriculture loan and non-agriculture loan of RRBs during the period 2006-07 to 2013-14. Table-2.17 also presents the percentage of agriculture loans to total loan and percentage of non-agriculture loans to total loan for the period of the study. The total loan outstanding has been increased from Rs.48493 crores during 2006-07 to Rs. 159302 crores during 2013-14 period. The growth in total loan outstanding varied from Rs.10491 crores to Rs.23267 crores. The percentage growth lies in the range in between 14.07 to 21.63. With regard to Agriculture loan, it has been increased from Rs.27452 crores during 2006-07 period to Rs.90294 crores during 2013-14 period. The growth varied in between Rs.3250 crores and Rs.15094 cores. The percentage of agriculture loans to total loan outstanding lies in the range of 52.82 to 56.68 percentage. The Non-agriculture loan has increased from Rs.21041 crores during 2006-07 period to Rs.79008 crores during 2013-14 period. The growth varied in between Rs.3973 crores to Rs.14456 crores. The percentage of non-agriculture loans to total loan lies in the range of 43.76 percent to 49.59 percent. In order to understand, the pattern of total loan outstanding, agriculture loan and non-agriculture loan of RRBs, statistical measures such as average, standard deviation, coefficient of variation and compound annual growth rate for these funds are presented in Table-5.

The variation in the agriculture and non-agriculture RRBs is explained in terms of standard deviation, the least variation Rs.19857.73 crores is found in non-agriculture loans and the highest variation is found in total loan outstanding which is Rs.39404.17 crores. Further, analysis revealed that the co-efficient of variation of total loan outstanding is 40.68 and highest co-efficient of variation is identified in non-agriculture loan which is 44.67. The compound annual growth computed reveals that the growth rate in total loan outstanding is 18.52 percent, whereas growth rate in non-agriculture loan was 20.80 percent.

**Table-5: Agriculture and Non-agriculture RRBs**

S. No	Year	Total Loan outstanding (crores)	Agriculture Loan (crores)	Percentage of Agriculture loans to Total loan	Non-Agriculture Loan (crores)	Percentage of Agriculture loans to Total loan
1	2006-07	48493	27452	56.61023	21041	43.38977
2	2007-08	58984	33216	56.31358	25768	43.68642
3	2008-09	69030	36466	52.82631	32564	47.17369
4	2009-10	82819	46282	55.88331	36537	44.11669
5	2010-11	100298	55067	54.90339	43900	43.76957
6	2011-12	116385	63823	54.83782	52561	45.16132
7	2012-13	139652	75200	53.84814	64552	46.22347
8	2013-14	159302	90294	56.68102	79008	49.59636
	Average	96870.38	53475		44491.38	
	Standard deviation	39404.17	21928.13		19875.73	
	Co-efficient of Variation (Percentage)	40.68	41.01		44.67	



Compound Annual Growth Rate (Percentage)	18.52003	18.54119	20.80541
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Source: Annual Reports of RBI and NABARD from 2006-07 to 2013-14

#### 10) Priority Sector and Non-priority sector loans to Total Loan Outstanding of RRBs

The total loan outstanding has been increased from Rs.48493 crores during 2006-07 to Rs. 159302 crores during 2013-14 period. The growth varied in between Rs.10046 crores and Rs. 23267 crores. The percentage of priority sector lies in the range of 52.33 and 81.74 percent. With regard to Priority loan, the priority loan increased from Rs.27155 crores during 2006-07 period to Rs.130215 crores during 2013-14 period. The growth lies in the range of Rs.4141 crores to Rs.18403 crores. The percent growth varies in between 12.95 and 20.08 percent. The Non-priority loan has increased from Rs.5888 crores during 2006-07 period and it has increased to Rs.29087 crores during 2013-14 period. The growth varied in between Rs.710 crores and Rs.6530 crores. The percentage of non-priority sector loans to loan outstanding lies in the range of 12.06 percent and 87.93 percent. In order to understand, the pattern of total loan outstanding, agriculture loan and non-agriculture loan of RRBs, statistical measures such as average, standard deviation, coefficient of variation and compound annual growth rate for these funds are presented in Table-6.

**Table-6: Sector wise Loan Disbursement of RRBs**

S. No	Year	Priority Sector (crores)	Non-priority sector (crores)	Loans outstanding (crores)	Percentage of priority sector (crores)	Percentage of Non-priority Sector
1	2006-07	27155	5888	48493	55.99	12.14
2	2007-08	31984	6598	58984	54.22	11.18
3	2008-09	36125	7426	69030	52.33	10.75
4	2009-10	68823	13956	82819	83.10	16.85
5	2010-11	82643	16300	100298	82.39	16.25
6	2011-12	95542	20843	116385	82.09	17.90
7	2012-13	111812	25266	139652	80.06	18.09
8	2013-14	130215	29087	159302	81.74	18.25
	Average	73037.38	15670.5	96870.38		
	Standard deviation	38807.83	8849.1	39404.17		
	Co-efficient of Variation (Percentage)	53.13	56.47	40.68		
	Compound Annual Growth Rate (Percentage)	25.10041	25.63321	18.52003		

Source: Annual Reports of RBI and NABARD from 2006-07 to 2013-14

The variation in the priority, non-priority and loans outstanding RRBs is explained in terms of standard deviation, the least variation Rs.8849.1 crores is found in non-priority sector loans and the highest variation is found in loan outstanding which is Rs.39404.17crores. Further, analysis revealed that the co-efficient of variation of loan outstanding is 40.68 and highest co-efficient of variation is identified in non-priority sector loan which is 56.47. The compound annual growth computed reveals that the growth rate in total loan outstanding is 18.52 percent, whereas growth rate in non-priority sector was 25.63 percent.

#### 11) Conclusions

RRBs have carried banking to the door steps of the rural people by opening branches in remote villages which had no banking facilities. Initially started with 5 Regional Rural Banks during the year 2009, the numbers of branches of RRBs are 15010 and increased to 21057 in the year 2017. In the state of Andhra Pradesh the numbers of branches of RRBs operating are ranged between 1257 and 1153. Due to reorganization of State of Andhra Pradesh, the numbers of branches in operation were declined. Newly formed State of Telangana has 780 branches of RRBs in 2015 and increased to 850 in 2017. Highest numbers of branches. An analysis of data revealed that the total business of RRBs has increased from Rs.131637 crores during 2006-07 to Rs.346381crores during 2012-13. The total branches of RRBs have increased from 14526 to 17856 during the period of study.



An analysis of data revealed that during the year 2006-07, the number of profit making RRBs are 81 and with a profit of Rs.1743.86 crores and by the year 2013-14, the number of profit making RRBs are decreased to 57 and with a profit of Rs.16.47 crores. During the same period, the number of loss making RRBs are 15 and with a loss of Rs.301.25 crores and by the year 2012-13, the number of loss making RRBs are decreased to 4 and with a loss of Rs.2.07 crores. With regard to credits of RRBs have increased from Rs.48420 crores during 2006-07 to Rs.152051 crores during 2013-14. The deposits of RRBs have increased from Rs.83144 crores to Rs.239504 crores during the period of study. Credits to deposits lie in the range of 53.26 to 63.40. The variation in the credit and deposits is explained in terms of standard deviation, the least variation Rs.36767.61 crores is found in credit and the highest variation is found in deposits which is equals to Rs.87272.09 crores. With regard to priority sector loan of RRBs, the priority sector loan increased from Rs.27155 crores in 2006-07 to Rs.130215 crores in 2013-14. The growth lies in the range of Rs.4141 crores to Rs.18403 crores. The percent growth varies in between 12.95 and 20.08 percent. The Non-priority sector loan has increased from Rs.5888 crores in 2006-07 to Rs.29087 crores in 2013-14. The growth varied in between Rs.710 crores and Rs.6530 crores. The percentage of non-priority sector loans to loan outstanding lies in the range of 12.06 percent and 87.93 percent.

Regional Rural Banks have to make earnest efforts to promote the mobilization of rural deposits. Deposit campaigning can be organized by wide publicity at the appropriate times especially festivals, harvesting and marketing of crops and other occasions. The core banking system in the RRBs is not adequate at present. It is necessary to establish network computerization and online transactions in all branches. ATM system should be introduced in all RRBs. The borrowers should be educated on different types of credit facilities, eligibility norms, repayment schedule, rate of interest and they should be provided with necessary printed literature to avoid delay in getting loan. This approach would greatly facilitate decision making by the borrowers. The time period for credit sanction needs to be reduced to get customer satisfaction. Loan recovery camps should be organized by the Bank to collect overdues and the system of collecting the loan installments at the doorsteps of the borrowers may be encouraged.

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