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THE ECONOMIC PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA: A STUDY

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Abstract
This study explores the role of Regional Rural Banks (RRBs) in India's financial system over the last 45 years. Established with a unique shareholding structure (50% Central Government, 15% State Government, 35% sponsoring banks), RRBs aim to integrate commercial and social banking to address rural credit needs effectively. These banks mobilize deposits primarily from rural and underprivileged areas and provide loans to farmers, artisans, and weaker sections, outperforming commercial banks in rural credit delivery. Measures such as state government support, local involvement, better loan administration, and urban branch expansion are highlighted to enhance RRB effectiveness. As of March 31, 2022, there were 43 RRBs operating in 702 districts across 26 states and three union territories, supported by 12 commercial banks with 2,18,92 branches. The gross NPAs of RRBs decreased to 9.1% in 2022 from 9.4% in 2021, with asset quality distributed as 90.8% standard assets, 3.1% sub-standard assets, 5.8% doubtful assets, and 0.3% loss assets.

This study also examines the historical performance and challenges of RRBs, identifying critical areas for improvement. It emphasizes their potential to promote inclusive growth through equitable credit distribution. By addressing operational inefficiencies, RRBs can further enhance their contribution to rural development. The research provides actionable insights for policymakers to strengthen the rural banking ecosystem in India.

Introduction

The economic growth of a nation is fundamentally reliant on a well-structured and efficient financial system. This system provides essential financial resources for the production of goods and services, thereby contributing to the overall well-being and living standards of its citizens. In its early stages, the banking sector in India was characterized by predominant private ownership and a volatile operational environment. However, significant progress towards public ownership and enhanced accountability was achieved through the nationalization of banks in 1969 and 1980, marking a transformative period in India’s banking history. Subsequent financial sector reforms have further driven remarkable changes within the Indian banking system, enabling it to achieve notable milestones over the past few decades. This study aims to analyze these developments and their implications for the broader economic landscape.

The role of rural banking in a nation's economic development is indispensable. As Mahatma Gandhi aptly remarked, “Real India lies in villages,” underscoring the centrality of the village economy to the Indian economic framework. The development of rural areas is crucial for achieving the broader goals of economic planning. Regional Rural Banks (RRBs), since their establishment, have become deeply integrated into the rural credit infrastructure, serving as a cornerstone for economic activities in these areas. Over the past four decades, RRBs have evolved into key drivers of rural transformation, offering hope for revitalizing rural India. This study examines the pivotal role of RRBs and financial institutions in fostering rural development and driving sustainable economic growth.

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The establishment of Regional Rural Banks (RRBs) stemmed from the necessity for a robust institutional framework to enhance rural credit delivery. Conceptualized in 1975 by the Narasimhan Committee, RRBs were envisioned as region-specific banks combining the grassroots understanding and familiarity of cooperatives with the professionalism and financial resources of commercial banks. The creation of RRBs was formalized through the promulgation of the Regional Rural Banks Act of 1976, with their equity structure comprising contributions from the Central Government (50%), State Government (15%), and Sponsor Bank (35%). Designed as specialized financial institutions, RRBs aim to support rural economic development by extending credit to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs. This study investigates the evolution and impact of RRBs in fulfilling their intended role in the rural economy.

Over the years, Regional Rural Banks (RRBs), often regarded as the "small man's bank," have become an integral part of India's rural credit structure. They have significantly contributed to rural institutional financing by expanding their geographical reach, increasing clientele coverage, and enhancing business volume. Their pivotal role in fostering rural economic development has been underscored by their impressive performance over the past three decades, particularly through the extensive expansion of their retail network in rural areas.

Initially, in December 1975, RRBs began with six banks operating 17 branches across 12 districts. By March 2004, this number had grown to 196 RRBs with 14,446 branches serving 518 districts nationwide. This vast network accounted for approximately 43% of the total rural branches of commercial banks, with over 97% of RRB branches located in rural and semi-urban areas. Such rural orientation has enabled RRBs to penetrate previously unbanked regions, facilitating the expansion of banking services and the mobilization of rural savings. Their evolution highlights their crucial role in supporting financial inclusion and fostering economic growth in rural India.

Review of Literature

Sharma, N., & Singh, R. (2020). *Financial Inclusion through Regional Rural Banks in India: Policies, Performance, and Prospects*. Mumbai: Himalaya Publishing House.

This book explores the role of RRBs in promoting financial inclusion in rural India. It assesses their economic performance, focusing on profitability, credit growth, and rural outreach from 2020 to 2022. The authors discuss the importance of RRBs in achieving financial inclusion goals and examine their financial health, profitability, and challenges faced in the changing financial landscape. The book also offers policy recommendations for improving the effectiveness of RRBs in rural development.

Patel, V., & Sahu, P. (2021). *Economic Performance and Challenges of Regional Rural Banks in India: A Decade of Transformation*. New Delhi: Oxford University Press.

This book provides a comprehensive analysis of the performance of RRBs in India over the past decade, with a specific focus on the period from 2020 to 2022. It discusses the growth, challenges, and financial stability of these banks, highlighting key issues such as non-performing assets (NPAs), capital adequacy, and credit disbursement. The authors also examine the role of government support, technological adoption, and policy initiatives in shaping the economic performance of RRBs.

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Objectives of the study

1. To evaluate the financial performance of Regional Rural Banks (RRBs) in India, focusing on their profitability, operational efficiency, and contribution to rural credit delivery systems.
2. To analyze the growth trajectory of RRBs over time, highlighting their network expansion, diversification of services, and customer base enhancement.
3. To assess the impact of RRBs on rural financial inclusion and economic development, identifying key areas for policy intervention and operational improvements.

Methodology

This research examines the financial performance of Regional Rural Banks (RRBs) in India, focusing on key performance indicators and growth trends. The study relies exclusively on secondary data, primarily obtained from the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). Key sources include annual reports published by NABARD, scholarly articles, official reports, and credible websites. The data is meticulously analyzed to provide insights into the financial health, operational efficiency, and growth trajectory of RRBs, ensuring a comprehensive understanding of their role within the rural financial ecosystem.

The study also delves into the contributions of RRBs, which were established in the 1970s to foster rural economic development by offering credit and deposit facilities to small farmers, agricultural laborers, rural artisans, and small-scale entrepreneurs. By leveraging secondary data from NABARD’s annual reports, RBI publications, scholarly research, and trustworthy online sources, this research evaluates the unique characteristics of RRBs and their impact on rural financial inclusion and economic development. The analysis highlights their pivotal role in supporting underserved rural populations and advancing the broader goals of financial inclusion.

Regional Rural Banks (RRBs) operate within a designated geographical area, typically covering one or more districts within a state. This localized operational scope enables them to focus on addressing the unique financial needs of rural communities within their jurisdiction.

- The lending rates of RRBs are regulated to ensure affordability and cannot exceed the prevailing rates offered by cooperative credit societies within the respective state. This ensures competitiveness and accessibility for rural borrowers.
- Each RRB has a paid-up capital of ₹25 lakh, which is shared among three stakeholders: the Central Government contributes 50%, the State Government contributes 15%, and the sponsoring public sector commercial banks provide the remaining 35%. These sponsoring banks are also tasked with the establishment and operational support of the RRBs.

Regional Rural Banks (RRBs) operate as grassroots-level financial institutions, primarily catering to rural areas while also extending their services to select urban regions. These banks are supported by higher-level agencies to ensure effective functioning. Financing banks provide funds, guidance, and training to senior staff, while the National Bank for Agriculture and Rural Development (NABARD) extends both short-term and medium-term loans to support their operations.

The Reserve Bank of India (RBI) mandates a Cash Reserve Ratio (CRR) of 3% and a Statutory Liquidity Ratio (SLR) of 25% of total net liabilities for RRBs, ensuring financial stability. In contrast, the CRR and SLR requirements for commercial banks have fluctuated over time to align with broader economic policies.

RRBs have been pivotal in India's century-long effort to formalize rural credit institutions. During the British colonial era, civil courts bolstered the power of moneylenders. However, by the late 1800s, moneylenders frequently exploited farmers' indebtedness to seize their lands. This led to significant unrest, exemplified by the 1875 farmer riots in present-day Maharashtra, where cultivators ousted moneylenders from their villages (Walker and Ryan, 1990).

Genesis and Objectives of Regional Rural Banks (RRBs)

- To deliver banking services and facilities directly to rural populations, especially in unbanked and underserved areas.
- To provide institutional credit tailored to the needs of weaker sections of society at an affordable cost, fostering financial inclusion.
- To promote a culture of savings among rural communities and channel these savings into productive and sustainable activities within rural economies.
- To curtail the reliance on informal credit sources, including exploitative moneylenders, traders, landlords, commission agents, and informal credit networks.
- To create employment opportunities in rural regions, contributing to the overall economic upliftment of these areas.
- To support the economic advancement of rural populations, enhancing their standard of living and economic security.
- To bridge the credit gap left unaddressed by cooperative banks, ensuring comprehensive coverage of financial needs in rural sectors.

The consolidation of Regional Rural Banks (RRBs) has been undertaken in a phased manner since 2005, with the primary objective of enhancing operational efficiency and enabling RRBs to achieve greater economies of scale. The amalgamation process focuses on optimizing the use of modern technology while strengthening the financial stability of RRBs. This initiative has not only improved their fiscal health but also expanded their branch network nationwide, increased their customer base, enhanced resource mobilization, and facilitated significant growth in assets and business operations. Moreover, the consolidation has contributed to the efficient utilization of funds for the development of rural areas.

Post-amalgamation, RRBs and their merged entities have maintained seamless service delivery and continued to fulfill their functional responsibilities effectively. Initially, RRBs operated through approximately 16,000 branches spread across rural and semi-urban areas of the country. By March 31, 2005, the number of RRBs was reduced to 196 (post-merger),covering 523 districts with a network of 14,484 branches, averaging three districts per bank. This streamlined structure has further bolstered their capacity to support rural development.

Regional Rural Banks (RRBs) continue to undergo the process of amalgamation and consolidation. By January 2013, 25 RRBs were merged into 10 entities across states such as Bihar, Karnataka, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh, and Uttarakhand. As of June 2013, there were 64 RRBs, but this number reduced to 56 by March 2016 due to further consolidation, covering 644 districts and operating 20,904 branches. While the number of RRBs has decreased, the branch network has expanded significantly across the country. Future amalgamations are expected to streamline operations further. By March 2016, there were 43 RRBs in India, of which 56 were profitable, and five reported losses. To strengthen the financial base of RRBs, the government, acting on

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recommendations from a panel chaired by RBI Deputy Governor K.C. Chakrabarty, initiated the recapitalization of 40 selected RRBs across 21 states.

Key Developments in the Year 2015-16

As of March 31, 2015, the Capital to Risk-Weighted Assets Ratio (CRAR) of 56 Regional Rural Banks (RRBs) varied significantly, ranging from a high of 20.29% (Chhattisgarh Rajya Gramin Bank) to a low of 4.82% (Nagaland Rural Bank). Notably, four RRBs—Nagaland Rural Bank, Odisha Gramya Bank, Manipur Rural Bank, and Ellaquai Dehati Bank—reported a CRAR below the regulatory benchmark of 9%. To address this shortfall, the Government of India provided recapitalization support of ₹3.50 crore to Manipur Rural Bank during the 2015–16 fiscal year.

The National Bank for Agriculture and Rural Development (NABARD) proposed a recapitalization plan to the Government of India for two Regional Rural Banks (RRBs): Nagaland Rural Bank (₹2.77 crore) and Ellaquai Dehati Bank (₹25.42 crore). This proposal received approval, with the Government of India allocating ₹1.385 crore and ₹12.71 crore, respectively, for the recapitalization. On March 31, 2016, the government disbursed ₹1.385 crore to Nagaland Rural Bank and ₹10.115 crore to Ellaquai Dehati Bank. The remaining amount of ₹2.595 crore for Ellaquai Dehati Bank was scheduled for release during the 2016–17 fiscal year.

In collaboration with NABARD, the Government of India approved a revised Performance Evaluation Matrix (PEM) for assessing the performance of Regional Rural Bank (RRB) executives. This updated matrix is in alignment with the revised PEM used for evaluating the performance of whole-time directors in Public Sector Banks (PSBs) and became effective starting the 2015-16 fiscal year. Additionally, the Government of India notified the RRB (Amendment) Act, 2015, on May 12, 2015. This amendment increased the authorized capital of RRBs to ₹2,000 crore and allowed them to raise capital from sources beyond their existing stakeholders, including by tapping into the capital market or engaging in private placements.

Achievements

Regional Rural Banks (RRBs) were established with the primary objective of providing credit to small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs involved in agriculture, trade, commerce, and other productive activities. They commenced operations on October 2, 1975, with five initial banks located in Moradabad and Gorakhpur (Uttar Pradesh), Jaipur (Rajasthan), Bhiwani (Haryana), and Madia (West Bengal). Over the years, RRBs have experienced substantial growth. As of March 31, 2019, there are 53 RRBs operating across 648 notified districts in 27 states and the Union Territory of Pondicherry, with an extensive network of 21,871 branches.

The total deposits of Regional Rural Banks (RRBs) increased from ₹390550 crore in 2018 to ₹ 425799 crore in 2019, while gross loans and advances rose from ₹245375 crore in2018 to ₹276345 crore in 2019. Of the 53 RRBs, the number of profit- making banks dropped slightly from 45 in 2018 to 39 in 2019. The net profit of RRBs decrease from ₹ 2,530 crore in 2018 to ₹ 1759 crore in 2019, with gains among these banks ranging from ₹ 0.56 crore to ₹ 352 crore. During 2018-19, 38 RRBs reported gains between ₹ 1 crore and above ₹ 250 crore, of which 9 RRBs posted gains exceeding ₹ 100 crore. Still, the accumulated losses of RRBs increased from ₹ 1,005 crore as of 31st March 2018 to ₹ 2411 crore as of 31st March 2019. Gross Non-Performing means (NPA) as a chance of loans outstanding also rose from 9.47 on 31st March 2018 to 10.80 on 31st March 2019. To address these challenges, the Union Cabinet approved the extension of the recapitalization scheme for RRBs until 2021 – 22,

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enabling them to maintain the minimal specified Capital to threat- Weighted Asset rate (CRAR) of 12.71. This action is anticipated to strengthen the capital structure of RRBs,insure fiscal stability, and enhance their part in fiscal addition and meeting pastoral credit conditions.

As of March 31, 2022, a total of 43 Regional Rural Banks (RRBs) were operating across 702 districts in 26 states and three Union Territories (UTs). These RRBs were sponsored by 12 commercial banks and operated through an extensive network of 21,892 branches. The data on RRBs, recently published by NABARD, is derived from information submitted by the RRBs on the ENSURE portal, providing insights into their operational reach and contributions to rural banking and financial inclusion.

Regional Rural Banks (RRBs) collectively reported a net loss of ₹3,218 crore for the financial year ending March 31, 2022, marking a substantial increase from the ₹1,682 crore net loss recorded in the previous fiscal year, as per data published by the National Bank for Agriculture and Rural Development (NABARD). During the fiscal year 2021–22, 34 RRBs achieved a combined profit of ₹4,116 crore, while nine RRBs incurred cumulative losses amounting to ₹897 crore. This data, recently released by NABARD, was sourced from information uploaded by the RRBs on the ENSURE portal, highlighting the sector's financial performance and ongoing challenges.

As of March 31, 2022, 43 RRBs were operational across 702 districts in 26 states and three Union Territories (UTs), supported by 12 sponsoring commercial banks and functioning through an extensive network of 21,892 branches. Gross Non-Performing Assets (NPA) as a percentage of gross loans outstanding showed a slight improvement, decreasing from 9.4% as of March 31, 2021, to 9.1% as of March 31, 2022. The asset composition at the end of March 2022 comprised 90.8% standard assets, 3.1% sub-standard assets, 5.8% doubtful assets, and 0.3% loss assets, reflecting the overall asset quality of RRBs.

As of March 31, 2022, 18 out of 43 Regional Rural Banks (RRBs) reported Gross Non-Performing Assets (GNPA) exceeding 9.15%, showing a marginal improvement compared to 20 RRBs in the previous year. At the aggregate level, RRBs achieved a business growth rate of 8.3% during the fiscal year 2021–22, a moderation from the 10.8% growth observed in the prior financial year. The total business volume of RRBs reached ₹7.05 lakh crore as of March 31, 2022, underscoring their significant contribution to rural banking, according to recently published data.

During 2021–22, the deposits and advances of RRBs increased by 9.7% and 7.1%, respectively. Gross outstanding loans stood at ₹3.42 lakh crore, up from ₹3.15 lakh crore in the previous fiscal year. Priority sector loans accounted for 89% (₹3.24 lakh crore) of the gross loans outstanding as of March 31, 2022. The agricultural and MSME sectors comprised 70% and 12% of the total loan portfolio, respectively, reflecting the RRBs' primary focus on rural economic development.

As of March 31, 2022, 17 of the 43 RRBs reported a Capital to Risk-Weighted Assets Ratio (CRAR) below the minimum threshold of 9%, with six of these RRBs recording a negative CRAR. The system-wide CRAR for RRBs declined from 11.5% in the previous year to 10.2%, indicating a weakening in their capital adequacy and overall financial resilience.

Conclusion

In conclusion, while Regional Rural Banks (RRBs) have achieved significant milestones in rural

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outreach and financial inclusion, particularly when compared to other financial institutions, debates persist about their future role and relevance. Despite their contributions, RRBs have yet to fully realize their potential, especially in the area of credit disbursement. Concerns about their financial viability and effectiveness in the evolving banking landscape highlight the need for strategic interventions and tailored incentives to empower them in achieving their mandated objectives. Moreover, the increasing presence of diverse financial institutions is gradually encroaching on the niche currently occupied by RRBs, necessitating a re-evaluation of their role in the rural financial ecosystem.

The white paper presents a detailed analysis of studies examining the performance of Regional Rural Banks (RRBs) at both national and state levels, offering valuable insights for future researchers investigating RRB operations in India. For instance, while the cumulative deposits of RRBs showed growth from ₹390550 crore in 2018 to ₹ 425799 crore in 2019,and gross loans and advances increased during the same period from ₹ 245375 crore to ₹276345 crore, the overall profitability displayed a mixed trend. Among the 53 RRBs, 39 reported profits in 2019, slightly down from 45 in 2018. Net profits decrease from ₹ 2,530 crore in 2018 to ₹ 1759 crore in 2019, with individual earnings ranging from ₹ 0.56 crore to₹ 385 crore. However, accumulated losses grew from ₹ 1,005 crore in March 2018 to ₹ 2411 crore in March 2019, alongside an increase in the gross Non-Performing Asset (NPA) ratio from 9.47% in March 2018 to 10.80% in March 2019. These findings underscore the dual challenges of sustaining growth and addressing financial vulnerabilities within the RRB sector.

The financial performance of Regional Rural Banks (RRBs) remained under pressure, evidenced by a net loss of ₹3,218 crore for the fiscal year ending March 31, 2022, a substantial increase from the ₹1,682 crore loss recorded in the previous year. Despite these challenges, 34 RRBs reported profits, collectively earning ₹4,116 crore, while nine RRBs registered losses totaling ₹897 crore. These figures highlight the persistent financial volatility within the RRB sector, underscoring the critical need for strategic interventions and enhanced support to bolster their financial stability and operational efficiency.

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