

## PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS: EVIDENCE FROM INDIA

**R.Kuzhandaivel**

*Manager Vijaya Bank, Thiruvendipuram Branch, Cuddalore.*

**Dr. M.Meganathan**

*Assistant Professor, Department of Commerce, Alagappa University Arts and Science College, Paramakudi.*

**M.Arumugam**

*Lecturer, Department of Commerce, Government Polytechnic College, Udthagamandalam.*

### ABSTRACT

*Mahatma Gandhiji said “Real India lies in Villages,” and village economy is the backbone of village economy is the backbone of Indian economy. Regional rural Banks plays a significance role in the agriculture and rural development of India. The RRBS have more reached to the rural area of India, through their huge network. The success of rural credit in India is largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas.*

*In order to strengthen RRBs and to improve their performance, various initiatives have been taken by the Government of India and Reserve Bank of India. The paper, therefore, is a synopsis on the evaluation of performance of RRBs in India with respect to glance of RRBs , deposit mobilization, credit channelization, credit deposit ratio, demand, recovery performance, priority and non-priority sectors outstanding advances etc. The study is mainly based on secondary data and the period of the study is 11 years from 2001-02 to 2011-12. The study can be concluded that after the amalgamation of Regional Rural Banks plays on important role in the economic upliftment of the weaker sections of the rural India.*

**Key Words:** *Deposit Mobilization, Loans and Advances, Recovery Performance, Priority Sectors and Non-Priority Sectors.*

### INTRODUCTION

The real growth of Indian economy lied in the freeing of rural masses from acute poverty, unemployment, and socio-economic backwardness. Mahatma Gandhiji said “Real India lies in Villages,” and village economy is the backbone of village economy is the backbone of Indian economy. Without the upliftment of the rural economy as well as the rural people of our country.

In 1975 government of India appointed a working group under the chairmanship of Shri M. Narasimham to review the flow of institutional credit especially to the weaker sections of the rural community. M. Narasimham commission recommended the setting up of state sponsored, regionally based and rural oriented “Regional Rural Banks”. The government established by ordinance & then legislation rural financial institutions called Regional Rural Banks. 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.

RRBs are jointly owned by Government of India (GOI), the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. RRBs started their development process with the formation of a single bank (Prathama Grameen Bank). As on 31 March 2006, there were 133 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. Since 2006-07 amalgamation of RRBs was gradually declining 133 to 64 RRBs with 14520 to 17856 branches working in 534 to 635 districts in country in 2012-13.

RBI Assistance With a view to facilitate RRBs operations, the RBI gave RRBs direct access to refinance assistance at a concessional rate of three per cent below the bank rate. Allowed to maintain a lower level of SLR than commercial banks allowed paying half per cent more interest on all deposits except those of three years and

above. Sponsor banks IDBI, NABARD, SIDBI, and other FIs are statutorily required under the RRBs Act to provide managerial and financial assistance to RRBs. The feasibility of RRBs emerged as the most crucial factors in deciding the desired role due to their limited business flexibility with hardly any scope of diversification, smaller size of loans with higher exposure to risk prone advances and professional inefficiency in financial deployment. In order to strengthen RRBs and to improve their performance, various initiatives have been taken by the Government of India and Reserve Bank of India. The paper, therefore, is a synopsis on the evaluation of performance of RRBs in India with respect to glance of RRBs , deposit mobilization, credit channelization, credit deposit ratio, demand, recovery performance, priority and non-priority sectors outstanding advances etc.

## **REVIEW OF LITERATURE**

The Kelkar Committee (1986) made comprehensive recommendations covering both the organizational and operational aspects. Several of these were incorporated as amendments to the RRB Act, 1976 such as enhancement of authorized capital of RRBs from Rs 1 crore to Rs 5 crore and paid- up share capital from Rs 25 lakhs to Rs 1 crore; Appointment of Chairman of RRBs by the concerned sponsor bank in consultation with NABARD, provision of assistance to RRBs in greater measure by sponsor banks in training RRB staff and giving financial assistance to RRBs in their first five years of their existence, and Provision for amalgamation of RRBs in consultation with all the concerned parties.

Ibrahim (2010) studied performance evaluation of RRBs in India and investigated whether the merger/amalgamation of RRBs in India, undertaken in 2005-06 has helped to improve their performance. Various committees have also emphasized the need to improve the performance of these banks which play an important role in the rural credit market in India. The study finds and concludes that performance of rural banks in India has significantly improved after amalgamation process which has been initiated by the Government of India.

Bhaskar (2011) found that RRBs have to be repositioned and to carry out their entrusted responsibility of meeting the credit requirements in rural sector. In order to repositioning of RRBs, loss making RRBs should take step for enhancing productive by improving the skill and performance of their employees by better and specialized training in the areas of banking and finance, IT, management etc.

## **STATEMENT OF THE PROBLEM**

The success of rural credit in India is largely depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas. At present, most of the regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. Therefore, it is necessary to study performance of RRBs in India.

## **OBJECTIVES OF THE STUDY**

**The main objective is to evaluate the Status of Regional Rural Banks in India.**

1. To know overview of Regional Rural banks in India.
2. To evaluate progress of deposit mobilization, credit and credit deposit ratio of RRBs during 2001-02 to 2011-12.
3. To study the demand, recovery and over-due performance of Regional Rural Banks in India.
4. To identify the various problems in RRBs in India.

## **RESEARCH DESIGN**

The present study is diagnostic and exploratory in nature and makes use of secondary data. The study is confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits, recovery, over dues, agri and allied loans, rural artisans, small scale industries loans and retail traders loans made by the Indian Regional Rural Banks (RRBs) for the 11 years period starting from 2001-02 to the year 2011-12.

## SOURCES OF DATA

The present study is empirical in character based on the analytical method. The study is mainly based on secondary data which is collected, compiled and calculated mainly from annual reports of the NABARD and RBI. Other related information collected from journals, magazines, conference proceedings and websites.

**Table No.1, Glance of Regional Rural Banks in India**

Year	No. of RRBs	No. of Branches	No. of Employee per Office	No. of District Covered	Population per Branch
2001-02	196	14390	4.86	511	84099.61
2002-03	196	14433	4.82	516	83849.06
2003-04	196	14446	4.79	518	83773.60
2004-05	133	14484	4.76	523	83553.81
2005-06	94	14494	4.73	525	83496.17
2006-07	90	14520	4.70	534	83346.65
2007-08	90	14761	4.60	594	81985.87
2008-09	86	15181	4.51	616	79717.64
2009-10	82	15475	4.22	619	78203.13
2010-11	82	15658	4.14	621	77289.14
2011-12	82	16909	4.39	638	-
2012-13	64	17856	4.26	635	-

Source: Various Statistical Reports on RRBs, NABARD, Mumbai.

RRBs were established in India in 1975 essentially for the propose of taking banking service to the door-steps of needy rural masses particularly in places without banking facilities. This is called for a wide net work of branches, district covered are spread over the nook and corner of the rural india. The table no.1 shows that number of branches has increased from 14390 in 2001-02 to 17856 in 2012-2013. Whereas the number of RRBs has decreased from 196 in 2001-02 to 64 in 2012-13. It is also observed that the number of district covered has increased considerably from 511 in 2001-02 to 525 in 2004-06. After amalgamation of RRBs the district covered from 534 in 2006-07 to 635 in 2012-13. There had been an impressive progress in the number of branches and the coverage of the districts.

**Table No.2, Deposit, Loans and Advances Performance of RRBs in India**

Year	Total Deposits (Rs. in Crores)	Total Deposits per Branch (Rs. In Crores)	Total Loans and Advances (Rs. In Crores)	Total Loans and Advances per Branch (Rs. In Crores)	Credit Deposit Ratio (%)
2001-02	43220	3.00	18629	1.29	41.8
2002-03	48346	3.35	22158	1.54	44.2
2003-04	57010	3.94	26115	1.81	46.3
2004-05	62143	4.29	32871	2.27	52.8
2005-06	71329	4.92	38520	2.66	55.6
2006-07	83144	5.73	47326	3.26	58.3
2007-08	99093	6.71	57568	3.90	59.4
2008-09	120189	7.92	65609	4.32	56.4
2009-10	145035	9.37	79157	5.12	57.6
2010-11	163928	10.47	98244	6.27	59.6
2011-12	186336	11.02	111170	6.57	62.46
2012-13	211457	11.84	139837	7.83	66.13

Source: Various Statistical Reports on RRBs, NABARD, Mumbai.

The resource mobilization is an integral part of banking activity and is a significant indicator of bank's performance. The government has directed the banks to make all possible efforts to access to new deposits that can only expedite the pace of lending activities. There has been a substantial rise of deposits of RRBs during the period under consideration as depicted in table no.2. The total amount of deposit in the year 2001-02 was Rs.43,220 crores and this figure has gone upto Rs.1,86,336 crores in 2011-12. Although there has been decrease in the total numbers of RRBs in the country, the quantum of deposit is increasing over the years. At the same time, deposit per branch has increased over the years. It could thus be inferred from the above analysis that the reform measures introduced following Narasimham Committee recommendations 1991 and 1998 have positive impact in mobilizing the rural deposits as reflected from the increase in deposit per branch of RRBs.

The bank credit is an important input factor in protection functions of agriculture, industry, commerce and allied productive activities for the socio-economic development of the backward region of the country. The loans and advances offered by the RRBs in the country are also increasing over the years in an continuous manner as observed from table no.2. The amount of loans and advances of RRBs in the country was Rs.18,629 crores in 2001-02; the amount has gone upto a total of 1,11,170 crores in 2011-12. It is clear that the total amount of loans and advances of RRBs in the country has increased by more than five times over the period. The per branch loans and advances was Rs.1.29 crores in 2001-02 which has increased to 6.57 crores in 2011-12.

The credit deposit ratio is considered as dependable indicator of efficiency of bank's participation in the developmental process. It indicates the extent of bank deposits advanced to multifarious activities in the area. The credit deposit of the RRBs in India has been increased over the years. The fact has been delineated in the table no.2. in 2001-02 the credit deposit ratio of the RRBs in the country was 41.8 per cent which has increased to 62.46 per cent in 2011-12. The reason of significantly low credit deposit ratio of RRBs may be attributed to nature of loans sanctioned, non-recovery of loans, stubborn cheaters, lack of direction of end use of bank credit, lack of implementation of bankable schemes and so on.

**Table No.3, Percentage of Recovery Performance of RRBs in India (Rs. In Lakhs)**

Year	Demand	Recovery	Over Dues	Percentage of Recovery
2001-02	871329	600433	270896	<b>68.91</b>
2002-03	961793	678953	282840	<b>70.59</b>
2003-04	1156982	827434	329548	<b>71.52</b>
2004-05	1324695	9733880	350815	<b>73.49</b>
2005-06	1765608	1371278	394330	<b>77.67</b>
2006-07	1973017	1575518	397499	<b>79.85</b>
2007-08	24074158	1920967	486191	<b>79.80</b>
2008-09	4336713	410715	229998	<b>77.85</b>
2009-10	5607924	5430418	177506	<b>80.09</b>
2010-11	7172416	7019180	153239	<b>81.18</b>
2011-12	7854655	744170	110485	<b>82.63</b>

*Source: Various Statistical Reports on RRBs, NABARD, Mumbai.*

As the report of committee of financial system observed in 1991, the end result is the disturbing growth in over dues, which hampers the recycling of scare resources of the banks. Moreover, the government sponsored schemes witnessed extremely poor recovery rates. The particulars relating to the demand, collection and balance and recovery performance are shown in the table. It is observed that the percentage of recovery result infers that the recovery performance of RRBs has progressively improved over the year from 2001-02 (68.91 per cent) to 2011-

12 (82.63 per cent). Even though in the limited areas operation, there is an impressive growth in the recovery performance of bank loans.

**Table No.4 ,Sector-wise Classification of Outstanding Advances by RRBs (Rs. In Lakhs)**

Year	Priority Sectors						Non-Priority Sectors	Total
	Short term Crop Loans	Agri & Allied Loans	Rural Artisans Loans	SSI Loans	Retail Traders Loans	Others		
2001-02	288058 (22)	3329.87 (25)	584.23 (5)	188.83 (1)	2608.08 (20)	519.48 (4)	3073.51 (23)	13185 (100)
2002-03	3692.61 (23)	3557.84 (22)	568.65 (3)	253.65 (2)	2780.45 (18)	884.72 (6)	4080.54 (26)	15819 (100)
2003-04	4882.74 (26)	3521.95 (19)	67.80 (4)	224.48 (1)	2984.39 (16)	1483.2 (8)	4859.95 (26)	18628 (100)
2004-05	6494.72 (29)	3765.65 (17)	9694.33 (3)	330.32 (2)	3264.11 (15)	2075.9 (9)	5532.76 (25)	22157 (100)
2005-06	7663.65 (29)	4057.57 (15)	714.98 (3)	432.16 (2)	3606.15 (14)	3995.3 (15)	5643.92 (22)	26114 (100)
2006-07	18707 (36)	3745 (7)	736 (1)	880 (2)	3677 (7)	15748 (30)	8641 (17)	52134 (100)
2007-08	22748 (33)	10468 (15)	671 (1)	1227 (2)	4531 (7)	19339 (28)	10090 (14)	69074 (100)
2008-09	24986 (31)	11480 (14)	820 (1)	1400 (2)	5015 (6)	25329 (32)	11502 (14)	80532 (100)
2009-10	33663 (35)	12619 (13)	810 (1)	1598 (2)	5234 (5)	28895 (30)	13956 (14)	96775 (100)
2010-11	40663 (35)	14407 (12)	881 (1)	2625 (2)	5082 (4)	36643 (31)	17625 (15)	117956 (100)
2011-12	40700 (35)	14400 (13)	900 (1)	2600 (2)	5100 (5)	35300 (31)	16300 (14)	115300 (100)
2012-13								

Source: Various Statistical Reports on RRBs, NABARD, Mumbai.

It is observed from that the priority sectors outstanding advances accounted for 77 per cent in 2001-2002 which has gradually increased to 78 per cent in 2005-06. After amalgamation of RRBs 2006-07 sector-wise outstanding advances amounted for 83 per cent which has sustainable increase and achieved to 86 per cent in 2011-12. This analysis infers that up to the restructuring of RRBs, the banks have given top priority to the non-priority sectors like housing advances, gold loans, car advances etc. During the financial sectors reforms, the RRBs were able to reach more than 86 per cent of the priority sector advances. Therefore, the weaker sections and the unemployed people have deprived of the loans and advances from the bank for taking up agricultural allied activities and self-employment ventures. Rural artisans and retail trade have become victims. There is one and half and two fold decrease in the outstanding advances of rural artisans and the retail trade respectively. Finally, the overall result reveals that the small scale, village and cottage industries have received a considerable check of loans outstanding and also it is stated that the loaning operations of RRBs have tended to move towards income or profit oriented sectors like other purposes.



## ISSUES IN 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.

- Very limited area of operations.
- High risk due to exposure only to the target group.
- Public perception that RRBs are poor man's banks.
- Mounting losses due to non-viable level of operations in branches located at resource-poor areas.
- Switch over to narrow investment banking as a turn-over strategy
- Heavy reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.
- Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks.
- Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets.
- Inadequate skills in treasury management for profit orientation
- Inadequate exposure and skills to innovate products limiting the lending portfolios.
- Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity.
- Serious undermining of the Board by compulsions to look up to sponsor banks, GOI, NABARD and RBI for most decisions.

## SUMMARY AND CONCLUSION

- There had been an impressive progress in the number of branches and the coverage of the districts.
- There has been decrease in the total numbers of RRBs in the country, the quantum of deposit is increasing over the years. At the same time, deposit per branch has increased over the years.
- It is clear observed that the total amount of loans and advances of RRBs in the country has increased by more than five times over the period.
- The reason of significantly low credit deposit ratio of RRBs may be attributed to nature of loans sanctioned, non-recovery of loans, stubborn cheaters, lack of direction of end use of bank credit, lack of implementation of bankable schemes and so on.
- The recovery performance of RRBs has progressively improved over the year from 2001-02 (68.91 per cent) to 2011-12 (82.63 per cent). Even though in the limited areas operation, there is an impressive growth in the recovery performance of bank loans.
- This analysis also infers that up to the restructuring of RRBs, the banks have given top priority to the non-priority sectors like housing advances, gold loans, car advances etc. During the financial sectors reforms, the RRBs were able to reach more than 86 per cent of the priority sector advances.

## CONCLUSION

Regional Rural Banks have been existence for around three and half decades in the Indian financial scene. The inception of RRBs can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. A remarkable feature of their performance over the past three and half decades has been the massive expansion of their retail network in rural areas. After amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common public marketing efforts, and also derive the benefits of at large area operation, enhanced credit exposure limits and more diverse banking activities. From the analysis, it is identified that the reform measures introduced following Narasimham Committee recommendations 1991 and 1998 have positive impact in mobilizing the rural deposits, credits and recovery performance of RRBs. The study can be concluded that after the amalgamation of Regional Rural Banks plays on important role in the economic upliftment of the weaker sections of the rural India.



## REFERENCES

1. Government of India, Report of the Working Group on Regional Rural Banks (1986), New Delhi.
2. Singha, Kanhaiya (1990) "Restructuring Regional Rural Banks", Kurukshetra, 38 (10): 9-11.
3. Prasad, T. S. (2003), Regional Rural Banks: Performance Evaluation, Kurukshetra, Vol. No.10, p. 20-24.
4. Ibrahim, M.S.(2010); "Performance Evaluation of Regional Rural Banks in India, International Business Research 3(4) (November).
5. Bhaskar, C.S (2011); "Problems and Prospects of Regional Rural Banks in India", Indian Streams Research Journal, 1(X):1-4.
6. Mohindra Versha and Kaur Gian (2012), Regional Rural Banks in India since Reforms: A Study of Technical Efficiency, Prerana, March.
7. Jaynal Uddin Ahmed (2013), Performance evaluation of Regional Rural Banks: Evidence from Indian Rural Banks, *Global Journal of Management and Business Research*, Vol.XIII (1).
8. Balamuniswamy & Erraiah (2014), Role of Regional Rural Banks Finance to Weaker sections of the Rural Society in India, *Paripex-Indian Journal of Research*, Vol.1, pp.206-209.