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Functions and performance of regional rural banks in India

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Abstract

Regional Rural Banks plays a pivotal 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. 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 financial performance of RRBs in India. This paper attempts to analyze the financial performance of RRBs in India during the period 2008-09 to 2010- 2011. The study is based on secondary data collected form annual reports of NABARD and RBI. An analytical research design of Key Performance Indicators Analysis such as deposits, loans, investments and growth rate index is followed in the present study. The study finds and concludes that performance of RRBs has significantly improved.

Keywords: Regional rural banks, key performance indicators, growth rate, rural economy etc.

Introduction

The Regional Rural Banks (RRBs) were established in 1976 under Regional Rural Banks Act, 1976. RRBs are an integral part of rural credit system and are expected to play an increasingly important role in the development of, particularly, rural areas. It is important that the RRBs function in a highly professional manner, embracing the technological advancements. The Government of India had taken a number of steps, including recapitalization support from time to time, to improve the functioning of the RRBs and their financial health. Considering the tremendous potential, due to their presence throughout the country, Government of India has initiated the process of restructuring of RRBs to improve their functioning, achieve the economics of scale and to ensure better managerial control. As a result the total number of RRBs, as on 31 March 2011, stood at 82.

With a view to modernize and strengthen the technology up gradation and functioning of RRBs to compete and play a more meaningful role in the financial services sector RRBs are required to roll out Core Banking Solution (CBS) and their banking operations need to be functionally integrated with their sponsor banks.

Objectives of the Study

1. To measure financial performance of Regional Rural banks in India.
2. To analyze the key performance indicators of RRBs in India
3. To evaluate progress of the RRBs during 2008-09 to 2010-11.
4. To make important suggestions to improve the working of RRBs.

Methodology

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, conference proceedings and websites.

Performance of RRBs as On 31 March, 2011

The performance of RRBs as on 31 March, 2011 under select key parameters is summarized below:

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1. RRBs have reached the business level (Deposits + Loans) of 2, 65, 150 crore as on 31 March 2011.
2. Total deposits aggregated to 1, 66, 232 crore.
3. The loans outstanding stood at 98917 crore.

RRBs, as a system, earned an operating profit (before tax) of 2, 421 crore

1. Number of profit making RRBs stood at 75 out of 82 RRBs.
2. Number of loss making RRBs stood at 7 out of 82 RRBs.
3. The total amount of accumulated losses decreased by 243 crore and stood at to 1,532 crore.
4. Loans outstanding stood at 55, 067 crore.
5. Loans issued under agriculture amounted to 43, 965 crore.
6. Recovery percentage improved to 81.18%.
7. Percentage of Gross NPA to total loans outstanding increased marginally at 3.75% (3.72% as on 31.03.2010).
8. At Net level, NPA percentage increased to 2.05% (1.8% as on 31.03.2010).
9. Net worth of RRBs as a system improved to ` .12, 306 crore from ` .10, 472 crore.
10. The RRBs paid an Income Tax of ` .634 crore during the year as against ` .625 crore during the last year.

The data on comparative performance of all RRBs taken together under major parameters during the last three years (2008-09, 2009-10 and 2010-11) are given in Annexure.

Coverage of Districts by RRBs

As many as 620 out of 640 districts are covered by RRBs as on 31 March 2011 as against 618 as on 31 March 2010.

Branch Network of RRBs

The number of branches of RRBs increased to 16001 as on 31 March 2011 as against 15480 as on 31 March 2010.

Sources of Funds

Owned Funds

The owned funds of RRBs comprising share capital, share capital deposits received from the stakeholders toward recapitalization support and the reserves stood at 13, 839

crore as on 31 March 2011 as against 12, 247 crore as on 31 March 2010. The increase in owned funds to the tune o.1, 592 crore was mainly on account of accretion to reserves of the profit making RRBs having no accumulated losses. The share capital and share capital deposits together amounted to 4, 273 crore (forming 30.88% of total owned fund) while the balance amount of 9, 566 crore (forming 69.12% of total owned fund) represented reserves.

Deposits

Deposits of RRBs increased by 2, 11, 97 crore, from 1,45, 035 crore as on 31 March 2010 to 1,66, 232 crore as on 31 March 2011, registering growth rate of 14.62% as on 31 March 2011.

Borrowings

Borrowings of RRBs increased by 7, 721 crore from 18,770 crore in 2009-10 to 26491 crore during the period under review. The growth rate of borrowing was 41.13% as on 31 March 2011 as against 47.39% as on 31 March 2010. There was a substantial increase in borrowings. Borrowings constituted 26.78% of the gross loan outstanding as against 22.66% in the previous year.

Utilisation of Funds

Loan Issued: As on 31 March 2011, the loans issued by all RRBs have increased in absolute terms by 15, 645 crore. Total loans issued increased to 71,724 crore from 56,079 crore as on 31 March 2010 registering a growth of 27.92%.

Loans Outstanding

As on 31 March 2011, loans outstanding increased by 16,098 crore to 98,917 crore from 82,819 crore as on 31 March 2010, registering a growth rate of 19.44%.

Credit Flow to Agriculture

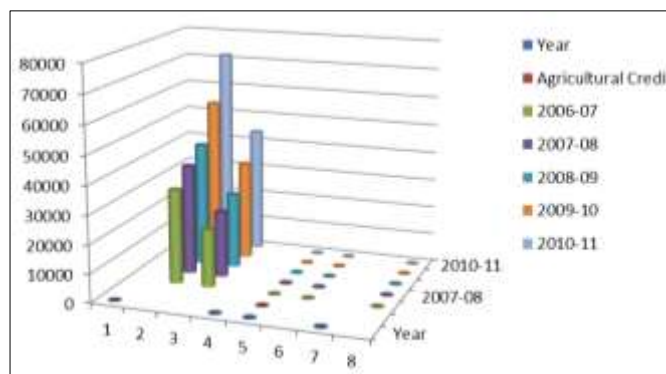
RRBs are actively participating in the credit flow to agriculture sector. Disbursement of agriculture credit with reference to the total credit for the last 5 years revealed as under:

Credit Flow to Agriculture

Table 1: (in crore)

Year	Total Credit	Agricultural Credit	% of Agri Credit to total credit		% Growth in
	Agricultural Credit		Total Credit		
2006-07	33,043.49	20,228.11	61	32.22	29.95
2007-08	38,581.97	23,238.69	60	14.88	16.76
2008-09	43,367.13	26,439.17	61	13.77	12.4
2009-10	56,079.24	34,639.94	62	31.02	29.31
2010-11	71,724.19	43,965.43	61	26.92	27.90

Source: NABARD 2018-19



It may be observed from the above table that the share of agriculture credit to total credit has hovered around 60-62% during the last five years but in absolute terms, the agriculture credit has been doubled in 2010-11 from the year 2006-07. Agriculture credit growth rate has kept pace with the total credit deployment.

Investments

The investment of RRBs increased from 79,379 crore as on 31 March 2010 to 86,510 crore as on 31 March 2011 registering an increase of 8.98%. Further analysis of the investment data revealed that as on 31 March 2011, the Statutory Liquidity Ratio (SLR) investment amounted to 45,022 crore while non-SLR investments was to the tune of 41,488 crore. The Investment Deposit Ratio (IDR) of RRBs progressively declined over the years from 72% as on 31.3.2001 to 52.04% as on 31 March 2011.

Profitability and Viability

75 RRBs (out of 82 RRBs) have earned profit (before tax) to the extent of 2,421 crore as on 31 March 2011. The total profit of the RRBs has decreased marginally from 2,515 crore in 2009-10 to 2,421 crore during the period under review. After payment of Income Tax of ₹.634 crore, the net profit aggregated to 1,787 crore. The number of loss making RRBs had increased from 03 in 2009-10 to 07 during the year 2010-11 and their losses increased to ₹.71 crore.

Accumulated Losses

As on 31 March 2011, 23 of the 82 RRBs had reported accumulated losses to the tune of 1,532 crore as against 1,775 crore (27 RRBs) as on 31 March 2010. The accumulated loss was decreased by ₹.243 crore during the year under review.

Recovery Performance

There has been an improvement in the recovery percentage over the years from 80.09% as on 30 June 2009 to 81.18% as on 30 June 2010. The aggregate overdues, however, increased by 933 crore to 9,805 crore as on 30 June 2010.

Non-Performing Assets (NPA)

The Gross NPA of RRBs which was 3,085 crore as on 31.03.2010 (i.e.3.72%) has increased to 3,712 crore as on 31.03.2011(i.e.3.75%). The Net NPA of RRBs which was 1,423 crore as on 31.03.2010 (i.e.1.8%) has increased to 1,941 crore as on 31.03.2011(i.e.2.05%). The data revealed that 15 RRBs had gross NPA percentage of less than 2%,

while 45 RRBs were having gross NPA percentage above the national average (3.75) as on 31 March 2011.

Credit Deposit Ratio

The aggregate CDR of RRBs further improved to 59.51% as on 31 March 2011 (57.1% as on 31 March 2010). Eight of the RRBs achieved CDR of more than 100%.

Productivity

Branch Productivity

The average branch productivity (business per branch) of all 82 RRBs stood at 16.57 crore in the year 2010-11.

Staff Productivity

Average staff productivity (Business per staff) of all RRBs was 3.78 crore during 2010-11

Net Worth

The Net worth of RRBs improved from 10,472 crore in 2009-10 to 12,306 crore in 2010-11 registering a growth of 17.52%.

Policy Initiatives/Development - Capital Infusion for improving CRAR

Consequent upon the decision taken in the Finance Minister's Review Meeting of RRBs dated 18.08.2009, a Committee was constituted by Government of India, Ministry of Finance, Department of Financial Services under the Chairmanship of Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India, to examine the financials of RRBs with reference to CRAR and suggest a roadmap for achieving a CRAR of 9% by March 2012. As per Dr. K.C. Chakrabarty Committee Report recapitalization to 40 selected RRBs in 21 states was started in 2010-11. The recapitalization amount is to be shared by the stake holders in proportion of their shareholding i.e. 50%, 35% and 15% by Central Government, concerned sponsor banks and State Government. As per approved scheme, the release of Central Government share is subject to proportionate share by the Central Government, concerned sponsor banks and State Government. A sum of ₹66.49 crore was released to 5 RRBs during 2010-11.

Branch Expansion Programme

The RRBs have opened 529 branches during 2010-11, taking their network to 16001 branches spread over 620 districts in 26 states and 1 Union Territory.

Table 2: RRBs - Comparative position of key performance indicators [₹.Crore]

Parameters	2008-09	2009-10	2010-11	% Growth
No. of RRBs	86	82	82	--
No. of Branches	15,181	15,480	16,001	--
Districts covered by RRBs	616	618	620	--
Staff	68,526	69,042	70,153	--
Owned Fund	10,910.29	12,247.16	13,838.92	13.00
Deposit	1,20,188.9	1,45,034.95	1,66,232.34	14.62
Borrowings	12,734.64	18,770.06	26,490.80	41.13
Investments	65,909.92	79,379.16	86,510.44	8.98
Gross Loan (O/s)	67,802.1	82,819.1	98,917.43	19.44
Loan Issued	43,367.13	56,079.24	71,724.19	27.89
CD Ratio	56.41	57.1	59.51	--
Accumulated Losses	2,299.98	1,775.06	1,532.39	(-)13.67
Profit (Before Tax)	1,823.55	2,514.82	2,420.75	(-)3.74
Loss	35.91	5.65	71.32	1162.30

Tax Paid to GoI	452.13	625.25	634.22	1.43
Gross NPA	2,809.72	3,084.81	3,711.96	--
Gross NPA%	4.14	3.72	3.75	--
Net NPA Amount	1,187.62	1,423.31	1,941.32	--
Net NPA%	1.79	1.8	2.05	--
Recovery%	79.19 (30-06-08)	80.09 (30-06-09)	81.18 (30.6.2010)	--
Net Worth	8610.31	10472.1	12306.53	17.52
Branch Productivity	12.38	14.72	16.57	12.57
Staff Productivity	2.74	3.3	3.78	14.55

Data provisional Source – NABARD

Source RRBs Balance Sheets/Annual Report/Key Indicators/MRM returns

Problems (Weakness) of RRBs

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

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

Suggestions (Recommendations) For Improvement of RRBs

1. Government should encourage and support banks to take appropriate steps in rural development.
2. Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
3. Policy should be made by government for opening more branches in weaker and remote areas of state.
4. Productivity can be improved by controlling the costs and increasing the income.
5. To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.
6. Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

7. The RRBs have to make an important change in their decision making with regard to their investments.
8. The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.
9. The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.
10. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
11. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
12. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
13. The credit policy of the RRB should be based on the group approach of financing rural activities.
14. The RRB may relax their procedure for lending and make them easier for village borrowers.

Conclusion

RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section 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 purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable. Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry .But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

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