

Performance of Regional Rural Banks in India - A Theoretical Review

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Abstract:

Regional Rural Banks (RRBs) in India were established to promote economic development in rural areas. Many RRBs were established in various states to remove the economic disparities in the country with providing credit assistant to small and marginal formers, agricultural laborers and rural artisans even in small amounts. In this research paper, an attempt is made to present the reviews of studies conducted on the performance of Regional Rural Banks (RRBs) in India. The paper presents a summary of various studies conducted on the performance of RRBs at the national level and also at various state levels.

The study finds and concludes that there are many studies at national level and there are only few studies at the micro level. A Very few studies were earlier reported in the context of Telangana State which provide an opportunity to investigate the performance of RRBs in Telangana state. The findings of this paper reveals that many earlier studies were reported in the context of various states like Kerala, Bihar, Telangana, Andhra Pradesh, Assam and other Indian states while a large number of studies focused on at macro level i.e. overall performance of RRB's. All the reviews envisaged that the RRB's are operating well in the aspects of capital structure, loans disbursement, recovery performance after the amalgamation process.

Few studies suggested that the RRB's have to adopt ICT techniques, should think about aggressive marketing of their products, provide internet banking facilities, ATM facilities for their viability. The findings of this research will help future researchers working on the performance of RRBs in India and micro levels i.e. state wise, district wise and bank wise.

Key Words: India, Performance, Regional Rural Banks, State wise, Distrtict wise, Bank wise.

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A Review of Literature on Performance of Regional Rural Banks in India

1. Introduction:

Regional rural banks were started as institutions that have the features of cooperatives and commercial banks i.e. the local feel and familiarity of cooperatives and business organization ability of the commercial banks. In a multi- agency approach for agriculture and rural credit in India. Regional rural banks have a special place in the development of rural areas.

Regional Rural Banks were established under the provisions of an ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to provide sufficient institutional credit for agriculture and other rural sectors. The RRB's mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks. The issued capital of a RRB's is shared by the owners in the proportion of 50%, 15% and 35% respectively. The first five RRBs were set up in five States in Haryana, West Bengal, Rajasthan, with one each two in Uttar Pradesh, which were sponsored by different commercial banks. These banks covered 11 districts of these five states. The first five Regional Rural Banks are as follows;

- ✓ Prathama Bank and Gorakhpur Kshetriya Gramin Bank in Uttar Pradesh
- ✓ Haryana Krishi Gramin Bank in Haryana,
- ✓ Gour Gramin Bank in West Bengal,
- ✓ Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan.

Regional Rural Banks are specially designed financial institutions run under the guidance of NABARD and the sponsor commercial banks, spread in rural areas with the close network of branches serving a various districts of the country. Regional Rural Banks have been in existence for around 44 years in the Indian financial scene. The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections.

The Banking Commission (1972) recommended establishment of an alternative institution for rural credit and ultimately Government of India established Regional Rural Banks as a separate institution basically for rural credit on the basis of the

recommendations of the working group under the chairmanship of shri M. Narashimham. The main objective behind starting of RRB's was to attain the rural development through the betterment in financing to the weaker section of the society. The originality of rural credit aims at providing finance and other facilities in the development of agriculture and connected activities to modernize the rural economy. These institutions serve as addition to the existing institutional credit infrastructure and also to reduce participation of informal credit agencies, especially the unscrupulous money lenders. The Regional Rural Banks have become fundamental part of the rural credit delivery system and considering significant steps in attaining banking services and mobilizing the rural savings of the weaker sections in the villages even in small amounts for supporting production activities in the rural areas.

2. Amalgamation of RRBs:

The consolidation of RRB's initiated in 2005 by the recommendations of Vyas committee constituted by the RBI in 2001 to examine the relevance of RRB's in rural credit system and the alternatives for making it viable. Phase-I amalgamation of RRBs was initiated in 2005-06. By 2010, the number of RRBs in the country was reduced to 82. Amalgamation in Phase II commenced in 2011-12 and the number of RRB's was further brought down to 56 in the year 2014-15. NABARD provided extensive inputs to the Government of India for building the road map for Phase III of the amalgamation of RRB's initiated in 2018-19. The Government of India initiated amalgamation in Phase III in 2018-19 on the principle of 'One State-One RRB' in smaller states and a reduction in the number of RRBs in larger states aiming at an eventual count of 40 RRBs across India. As on 31 March 2019, the number of operating RRBs stood at 53. In the process of amalgamation, it would be further reduced to 45 during 2019-20.

After successive amalgamations as on 31 March 2019, the number of operating RRBs stood at 53, with a network of 21,747 branches covering 683 notified districts in 27 states and the union territory of Puducherry. There is no RRB in Sikkim, Delhi, Andaman & Nicobar Islands, and Goa.

3. Objectives of The Study:

The objective of the present research paper is to study the reviews of studies conducted on RRB's performance at national level and various states level.

4. Review of Literature

Seena P.C & Nirmala Devi (2018) ¹ conducted a study on “Performance of Regional Rural Banks in India and its role in agricultural credit. They examined the RRB’s role in providing agricultural credit. They concluded that RRB’s are plays a key role as an important vehicle of credit delivery in rural areas. RRB’s have to concentrate on speedy, qualitative and secure banking services for their survival in this competitive era.

Akash Kumar (2018) ² conducted an analytical study on “Performance of Regional Rural Banks in Bihar”. In this he studied the performance of RRB’s in two phases i.e. pre and post merger phases in Bihar state. He examined the impact of mergers on the profitability performance of RRB’s in Bihar state. He concluded that the structural consolidation of RRB’s through amalgamation has brought tremendous opportunities for RRB’s in Bihar state to groom and loss making RRB’s improved their profitability position in Bihar state during the study period.

Satish Kumar and Vibhor Goyal (2018) ³ made a study on “Performance Evaluation of Regional Rural Banks in India.” They studied the progress of RRB’s in India during pre merger and post merger periods and key performance indicators such as branch expansion, deposit mobilization, recovery performance. They revealed that RRB’s successfully achieved its prime objective of take banking facilities and services to door steps particularly in banking deprived areas. He suggested that RRB’s have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract new customers.

Ramakrishna (2018) ⁴ made a study on “A Financial Inclusion through Regional Rural Banks in India.” In this study he studied the role of RRB’s in strengthening the rural poor. He analyzed the RRB’s role in financial inclusion and importance of RRB’s in Indian financial system. He explained that RRB’s are serving the backward section of society i.e. the rural poor and people belonging to the lower income group. He opined that RRB’s playing very important role in ensuring sustainable development and extending banking facilities to rural people of India.

Satya Rajan Doley and Kumud Chandra Goswamy (2017) ⁵ Their study on the title of “Financial Performance of Assam Grameena Vikas Bank in Assam. This study focused on priority sector and non priority sector advances, term deposit and demand deposits. They found that priority and non priority sector showing negative results during the study period. The growth of term deposit was better than demand deposit, interest

income is showing high growth rate compared with other income. The interest expenditure and operating expenditure both are on at most same direction. The study concluded that all nine parameters of the bank were increasing in trend in the study period.

Syed Mohammed Ghouse (2017) ⁶ conducted a research on “Indian Regional Rural Banks Growth and Performance”. It is an empirical study conducted in the study period of 10 years from 2007 to 2017. He opined that there is a positive trend in deposit mobilization and profits of the bank but branches are decreasing gradually. He suggested that the government should encourage RRB’s by providing needed assistance.

Durdena Begum and Babiuddin Ahmed (2017) ⁷ published an article on “Performance appraisal of Regional Rural Banks a study on Telangana Grameena Bank”. In their study examined the key performance indicators such as number of branches, loans and advances, profitability of the bank over the study period from 2005-06 to 2015-16. They concluded that Telangana Grameena Bank showed a rapid growth in all areas during the study period.

K Vekatalakshmi and M. Chandraiah (2016) ⁸ an attempt is made in their paper to analyse “Current Position of RRB’s in India”. They analyzed the performance of RRB’s for a decade from 2005-06 to 2014-2015. They evaluated four key performance indicators such as branch expansion, capital structure, deposits & loans and assistance to SHG’s. They found that there is a positive trend in respect of capital structure, disbursement of loans and branches are decreasing gradually but productivity of bank is increasing. There is a negative trend in the case of assistance to SHG’s.

Prasanna Kumar Das (2016) ⁹ conducted a study on “Financial Performance Evaluation of Regional Rural Banks of India”. In his study he analyzed the growth pattern of RRB’s for two phases i.e. from 2005 -2006 to 2012-2013 and evaluated the region wise position of NPA’s and recovery performance. He revealed that after amalgamation the loss making RRB’s are decreasing and only one bank suffering from losses in 2013-14 financial year. He concluded that RRB’s performance has increased in all aspects only few RRB’s are suffering from accumulated losses.

E Hari Prasad and G V Bhavani Prasad (2016) ¹⁰ conducted a research on the title of “Performance of Telangana Grameena Bank” during the period 2004-2005 to 2013-2014. In this study they analyzed the key performance indicators such as number of branches, total deposits, priority sector lending, and profitability of the bank. They concluded that Telangana Grameena Bank is growing at a healthy growth rate.

Piyush Takur and Aditya Gupta (2015) ¹¹ made a study on “Regional Rural Bank: A Way to Developed Economy”. In this they studied the RRB’s performance region wise i.e. profit making and loss making regions, analyzed the reasons for under development. The study states that the RRB’s located in Andhra Pradesh, Haryana, Assam, Himachal Pradesh and Karnataka are performing efficiently. The banks which are located in Madhya Pradesh, Rajasthan, Jharkhand, Maharashtra, Bihar, and Uttar Pradesh are not performing efficiently. They suggested that the government at center and state level can take some measures so that loss making banks can be viable.

A.Sudarsana Reddy and A.Padmavathi (2015) ¹² published a paper on “Growth and Performance of Regional Rural Banks in Andhra Pradesh A Study on Deccan Grammeena Bank.” They analyzed performance of Deccan Grammeena Bank since their inception in the key areas like branch expansion, deposits and advances. They concluded that the Deccan Grammeena Bank showed a good performance in the study period.

Manoj P.K (2015) ¹³ published a paper on “Grameena Banks for Financial Inclusion a Study on Kerala Grameena Bank with a Focus on Agricultural Credit”. He studied overall performance of RRB’s in respect of their earnings, profitability, advance. He opined that RRB’s in India are doing a commendable job in ensuring rapid and balanced economic growth of the country. He suggested that RRB’s should adopt ICT techniques and should think of aggressive marketing of their products.

Sabitha Devi. N (2014) ¹⁴ made an attempt to study the “Problems and Prospects of Regional Rural Banks in India.” She examined the problems faced by RRB’s. She stated that many RRB’s are facing problems of inadequate finance, heavy loans, non-recovery performance, lack of proper co-ordination between bank and customers. She suggested that the RRB’s have to overcome major problems with the help of commercial banks, co-operative societies and other financial institutions operating in India to achieve its objectives.

B Venkat Rao and Dr G Sudarsana Rao (2014) ¹⁵ analyzed the “Performance of Regional Rural Banks in India taken as a sample of Andhra Pradesh Grameena Vikas Bank in Andhra Pradesh. They revealed that APGVB showing increasing trend in branch expansion, loans issued, loan recovery performance is appreciable, deposits and borrowings are increasing in trend. Profits of the bank were increased during the study period. They concluded that there is a consistent improvement in all thrust areas of the bank.

Kanika and Nancy (2013) ¹⁶ studied the “Financial Performance Evaluation of RRB’s in India. In their study they examine the growth of RRB’s, geographical distribution of RRB’s, outstanding loans and advances of RRBs, credit deposit and investment deposit ratio. They concluded that efforts made by RRBs in deposit mobilization, rural development, branch expansion and credit deployment in weaker section of rural areas are appreciable. RRB’s successfully achieved its objectives like to take banking to door steps of rural households particularly deprived rural areas. The RRB’s are providing the strongest banking network. They suggested that government should take some effective remedial steps to make rural banks profitable by concentrating on qualitative, secure and speedy banking services.

Dr D Maheswara Reddy and KVN Prasad (2011) ¹⁷ conducted a study on “Evaluating the performance of Regional Rural Banks” By an application of CAMEL model with respect to two banks i.e. Andra Pragathi Grameena Bank and Saphthagiri Grameena Bank .This study reveals that APGB excelled over the SGGB in all indicators except in the asset quality .The study also revealed that APGB rate top on the basis of overall performance.

Annop Mahanty, Summet Bajwa and Neeraj Sharma (2010) ¹⁸ studied the “Growth of Regional Rural Banks during the period 2005 to 2010.” He revealed that RRB’s are showing well performance in credit deposit ratio, branch expansion, profit per employee and not good in investment deposit ratio. He concluded that the existence of Regional Rural Banks are important for development of rural sector in India. He opposed the merging of Regional Rural Banks with sponsor bank.

M Syed Ibrahim (2010) ¹⁹ made a study on “Performance Evaluation of Regional Rural Banks in India”. He evaluated the performance of RRB’s after amalgamation. He analyzed the some key areas like branch expansion, districts covered, deposits and loans with the help of ‘t’ test and ANOVA. He concluded that Regional Rural Banks in India achieved rapid growth after amalgamation process.

5. Conclusion:

These articles presents a review of earlier studies reported on the performance of Regional Rural Banks in India and various states on different aspects. The paper presents a summary of various studies conducted on the performance of RRB’s at the national level and also various states level. The findings of this paper reveals that many earlier studies were reported in the context of various states like Kerala, Bihar, Telangana, Andhra

Pradesh, Assam and other Indian states while a large number of studies focused on at macro level i.e. overall performance of RRB's. All the reviews envisaged that the RRB's are operating well in the aspects of capital structure, loans disbursement, recovery performance after the amalgamation process. Few studies suggested that the RRB's have to adopt ICT techniques, should think about aggressive marketing of their products, provide internet banking facilities, ATM facilities for their viability. The findings indicate that very few studies were reported in context of Telangana state which provides opportunities for further research in Telangana state. Comparative studies like state wise comparisons and bank wise comparisons are very few in the case of Telangana state. In the present scenario of "One State –One Bank" (RRB's) adopted by the Government of India according to the initiatives of NABARD there is a need to focus on RRB's in macro and micro levels.

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