



Performance evaluation of RRBs in INDIA

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PERFORMANCE EVALUATION OF RRBs IN INDIA ABSTRACT India is a country of villages. About 70% of the total of Indian population lives in rural areas. Regional Rural Banks plays very crucial role in the growth and development in India. The Regional Rural Banks have more reached to the rural people of India, with their large network.

Abstract

India is a country of villages. About 70% of the total of Indian population lives in rural areas. Regional Rural Banks plays very crucial role in the growth and development in India. The Regional Rural Banks have more reached to the rural people of India, with their large network. For the development of India, there is a need for the development of the rural areas. When we think about development of rural areas, its depend upon a healthy banking system. It provides credit facilities to rural people at lower interest rates and at reasonable terms unlike traditional moneylenders which exploit the rural people by providing loans at a very high interest rate. Once they fall prey to these moneylenders they do not find it easy to come out of their clutches, which leads to lost everything and some cases also commit suicide. To get rid of all those negative aspects, the central government appoints a working group on rural banks under the chairmanship of M. Narasimham popularly known as Narasimham committee. As per its recommendations given by the Narasimham committee, regional rural banks were established. The main purpose behind the formation of these banks is the overall development of rural areas. It includes agriculture, trade, commerce, industry and other productive activities in the rural areas particularly in those areas where banking services does not exist. Its main objective is to make available affordable institutional credit to economically weaker sections of the society. The present research paper enlightens the need of banking system in rural areas and significant role played by RRBs in the development of rural areas. It also draws attention towards the problem faced by regional rural banks in India and suggestions to overcome the problems. The main purpose of this paper is to evaluate the

present level of financial performance of RRBs in India as on 31st march 2020 in comparison to 31st march 2019. This research paper is based on the secondary data collected from the annual reports of NABARD. This study draw conclusion that the Regional Rural Banks playing a very decisive role in the development of rural areas.

Keywords

RRBs, performance, rural development, Credit facilities.

Introduction

Regional Rural Banks are surviving from last 45 years in the Indian financial sector. Establishment of regional rural banks can be seen as a unique trial as well as experience in improving the dexterity of rural credit delivery appliance in India. The population of India as per 2011 census was 121 crore of this 83.3 crore lives in rural areas while 37.7 crores stay in urban areas. The rural- urban distribution is about 69% and 31% respectively. From the rural-urban population ratio, it is cleared that without rural development it can't be possible to develop Indian economy. Rural development is the process of improving the quality of life and economic well being of the people living in the rural areas. For economic development of rural areas there should be proper credit facilities. The villagers want access to one such financial institution that can provide them credit facilities at affordable interest rates than the traditional moneylenders who provides loans at very high interest rate and on their own terms and conditions. Due to high interest rates and low productivity, rural people unable to repay their loans and under that pressure there was trend of committing suicides by the farmers. To meet the gap that existed in meeting the credit needs of rural people, the government of India appointed a working group on rural banks, under the chairmanship of M. Narsimham which is popularly known as Narasimham committee in July-1- 1975. As per recommendation of group, initially five RRBs were started on October 2, 1975. The RRBs were set up as the "poor man's bank". Its main purpose is to take the banking facilities to doorsteps of rural people, particularly in those areas where no banking facilities available. Regional Rural Banks make available affordable institutional credit to the financially weaker section of the society. It also mobilise rural savings and channelise them for supporting productive activities in rural areas and bring down the cost of providing credit in rural areas.

Review of Literature

Dr. Satish Kumar, Vibhor Goyal and M/S Poonam Sharma in their research titled "Performance Evaluation of RRBs in India" said that the rapid development of RRBs has helped in reducing substantially the regional inequality in respect of banking facilities in India.

Sidharthi Sharma, Priyanka Goyal and Neha Mittal their research paper titled "A study on the performance of RRBs in India" said that the Regional Rural Banks have been highly successful in the mobilizing rural savings.

Mahendra varman in his research paper titled "Impact of self-help groups on formal banking habits" studies the impact of SHGs which came into existence as informal organisation, are associated with banks and its members are mainly women. This paper attempt to examine whether there is relation between the growth of SHGs and improvement in opening account in banks by female members.

A.K.Jai Prakash in his research paper titled "Performance Evaluation of Regional Rural Banks in India" examined the role of RRBs in economic development and revealed that RRBs played a very crucial role for the development of rural areas. In addition, RRBs were more capable in giving loan to the rural people as compared to the commercial banks. Proper support from the state governments, local representation, and proper supervision of loans and opening urban branches were some suggestions recommended to make RRBs more efficient.

Objectives of the study

1. To analyse the key performance indicator of Regional Rural Banks in India.
2. To study the importance of banking in rural areas.
3. To study the significance of regional rural banks in rural development.
4. To measure the financial performance of regional rural banks in India.
5. To know about what are the challenges faced by the RRBs in rural areas.
6. To recommend some practical suggestion to boost up the performance of RRBs.
7. To examine the trend and progress of RRBs during 2018- 19 to 2019-20 in India.

Research Methodology

The present study is based on the secondary data which is collected from annual reports of NABARD and from various articles, reports, and websites.

Significance of Banking in Rural areas

India is a country of villages. About 70% of Indian population lives in the villages. The savings and cash flows of the majority of the rural population is small because of that for the basic needs like food, housing, and education rural households depend on credit. Mostly the villages have agriculture as the source of their livelihood. So they also required funds for carrying out their agricultural activities. For meeting credit needs they approach to traditional moneylenders (Mahajan) because loan from the financial institutions involves a lot of paper work, formalities and also time consuming. Moneylenders take advantage of the situation and charge high interest rates. As a result the people of the village get caught in the debt trap. Therefore, rural peoples need financial institutions that can provides loans to them at lower rates and easy terms. To meet the credit needs of rural peoples, government appointed a working group on rural bank, the Narasimhan committee in July 1975. As per its recommendation, regional rural banks were established in 1975. The main purpose of establishment of RRBs is that rural peoples can get loans at very low rate and on easy terms. In 1975, five RRBs were established while as on 31st March 2020, there were 45 RRBs functioning in 685 district of 26 states (in all states except Goa and Sikkim) and 3 Union Territories of India (Puduchery, Jammu & Kashmir, Ladakh). These 45 RRBs were sponsored by 15 commercial Banks and operating through a large network of 21,850 branches.

Objectives and functions of regional Rural Banks

Regional Rural Banks have been set up all over the country with the objective of meeting the credit needs of the most deprived sections of the society. Some important objectives of RRBs are as follows:

1. To make available affordable credit facilities to small and marginal farmers, agriculture labourers, rural artisans, small entrepreneurs and other weaker sections of the societies.
2. To make available banking services to rural and semi – urban areas.
3. To provide loan facilities to Cooperative societies, which are engaged on services related to rural area including agriculture activities.
4. To enhance employment opportunities by promoting trade and commerce in rural areas.
5. To play effective role in rural employment generation activities.
6. To mobilise rural credit and channalise them for supporting productive activities in rural areas.
7. To promote areas that has lagged behind in economic development and thereby reduces economic disparity between regions.

Achievements

Regional rural banks emerged as an innovation in organized banking system. The Regional rural banks are expected to develop the rural economy by providing rural credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisan and small entrepreneurs in order to develop agriculture, trade, commerce, industry and other productive activities in the rural areas. The first five RRBs were set up on October 2 1975, at Moradabad and Gorakhpur in Uttar Pradesh, Jaipur in Rajasthan, Bhiwani in Haryana and Malda in West Bengal. These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Commercial Bank and United Bank of India. After establishment of these five banks the RRBs achieved an exceptional growth over the years. As on 31st March 2020 they are 45 in number covering 685 notified districts in 26 states and the union territory of Pudcherry, Jammu & Kashmir, and Ladakh with a network of 21,850 branches. The performance indicators of RRBs during 2018-19 and 2019-20 are presented in the table 1.

Table 1 : Performance indicators of RRBs (as on 31st March) (Amount in Rs. Crore)

Particulars	2018- 2019	2019-2020
Number of RRBs	53	45
Branch Networks	21871	21850
Share Capital	6735	7849
Reserves	25398	26817
Deposits	4,34,444	4,78,547
Borrowings	53,548	54,393
Investments	2,26,172	2,49,155
Gross Loans and Advances (outstandings)	2,80,755	2,98,256

Source :RRBs key statistics, NABARD, (31st March 2020)

Table 2 : Profitability of RRBs

Particulars	31 March 2019	31 March 2020
RRBs Earning Profit (No.)	39	26
Profit in Rs. Crore (A)	1,759	2,203
RRBs incurring losses (No.)	14	19
Losses in Rs. Crore (B)	2,411	4,409
Net loss of RRBs in Rs. crore (A-B)	-652	-2,206
RRBs with Accumulated Losses (No.)	11	17
Accumulated Losses in Rs. Crore	2,887	6,467

Source :RRBs key statistics, NABARD, (31st March 2020)

The aggregate deposits of RRBs increased from 4,34,444 crores in 2019 to 4,78,547 crores in 2020. Gross loans and advances also increases from 2,80,755 crores in 2019 to 2,98,256 crores in 2020. Out of 45 RRBs, the number of profits making banks stood at 26 in 2020 as compared with 39 out of 53 in 2019. The Net Loss of RRBs increased from 652 crore in 2019 to 2206 crore in 2020(as shown in table 2). During financial year 2019-20, 26 RRBs earned profit of Rs. 2,203 crore, while 19 RRBs incurred losses of Rs. 4,409 crore. Accordingly, RRBs as a group incurred a Net Loss of Rs. 2,206 crore. Moreover, RRBs as a hole incurred Net Loss for the second consecutive financial year and the profitability measured in terms of Return on Assets (%) deteriorated from -0.13% during 2018-19 to -0.40% during 2019-20, primarily due to pension provisions and provisions requirements

for impaired assets. The accumulated losses of RRBs increased from 2887 crore as on 31st march 2019 to 1147 crore as on 31st march 2020. As percentage of loan outstanding, the gross Non Performing Assets (NPA) of RRBs slightly declined from 10.8% as on 31st march 2019 to 10.4% on 31st march 2020.

Recapitalization process of RRBs is being under progress in current financial year also. Union cabinet extended the scheme of recapitalization of RRBs up to 2020-21. This will entitle RRBs to maintain minimum prescribed capital to risk weighted asset ratio (CRAR) of 9%. It will help RRBs to ensure strong capital structure and minimum required level of CRAR. It will also helps in financial stability of Regional Rural Banks and helps it to plays important role in financial inclusion and meeting the credit need of rural areas.

Problems and shortcomings of RRBs

Despite required number of branch expansion, the Regional Rural Banks have lived a troubled life right from their origin. Through views differ on how to reorganize and restructure the Regional Rural Banks, the truth is that the present status of the bank is not very satisfactory. The lists of the important problems and shortcomings plaguing the RRBs seem endless. Some of the main problems affecting the smooth functioning of the RRBs are as under:

1. As large network of branches has been opened expeditiously this has not contributed to substantial increases in business. It has increased overhead costs without contributing to profits.
2. Rules & regulation related with the RRBs are issued by RBI are rigid in nature and are based on all India being but it is not working because of disparity of India state by state not give the same result to another state.
3. With comparison to the commercial bank, RRBs have the high transitions costs than the commercial banks due to the low amount of loan.
4. Because the RRBs deal with financially weaker section of the societies in rural area, there is no huge amount of funds in bank. The weaker section is the main targets of RRBs. They are mostly poor. So they can't save so much money in RRBs. It provides less amount of collection in banks.
5. There is no proper recruitment policy in RRBs. As RRBs are rural oriented they are expected to recruit staff from local areas only. But with the handing over of recruitment power of RRBs to IBPS, the entire candidates outside the area of operation of RRBs are eligible for RRBs. This is against the spirit of RRBs.
6. Lack of proper co-ordinations between RRBs and other financial institutions like, NABARD, commercial and co-operative bank has badly affected the performance of these banks.
7. RRBs are not able to get the same amount of profit compare to other commercial banks earns. Due to providing facility to weaker section of the societies there is low interest rate & high operating cost in providing loans.

Some important suggestions to improve regional Rural Banks functioning

To improve the functioning of Regional Rural Banks government should take some initiative for this and provide some solutions to the problems:

1. The unique role of RRBs in providing credit facilities to weaker sections in the rural areas must be preserved. The RRBs should work as rural banks for the rural people.
2. The sponsor banks should play major role in advising and helping their RRBs in managing their funds, in appraising loan schemes, in making proper use of credit, and in providing experienced

employee for internal audit of RRBs.

3. Mobilisation of funds or converting the savings of rural people in productive activity can be removed by using the funds transfer from urban to rural area with the help of govt. policies. State govt. should permit the Panchayat samiti & other local authorities to keep their funds with RRBs in that area.
4. To reduce the operational cost of RRBs state government should either reorganize agricultural credit societies or establish other societies through which RRBs increase their production credit on large scale and use the economies of scale in efficient manner. Transaction cost of loan provide to rural people should be also reduce.
5. The whole recruitment policy in RRBs should be reformed. There should be preference to the local people and also provide proper training about the working conditions. And also there should be uniform pay scale for employees.
6. To handle with the problem of huge expansion of branches, there should be expansion of number of employees to handle the work load. For supervision of these banks there should be the proper authority that manage and control the functioning of RRBs. One another method for effective working is to reduce the commercial bank branches in the rural area and hand over these branches to RRBs.
7. The main issue related with the banking system is rigid norms. There is less flexibility in the rules and regulation which can make the massive obstacle for the smooth functioning of RRBs. To overcome with this problem there should be some free hand for RRBs. Some concession should be given to RRBs according to the area wise or region wise according to the need of the RRBs.
8. Feasibility or viability is the most important thing for existence of any organisation. For this there is the recommendation that RRBs should be merged with commercial banks. It will help to reduce the accumulated losses of insolvency of the banks. This solution is helpful for some RRBs only.

Conclusion

This study has examined RRBs, at aggregated level, achieved a growth of 8.6 percent in their business in financial year 2019-20 compared to a growth of 9.5 percent in the previous year. For the purpose of rural development and meeting the credit needs of rural people, RRBs came into existence on the basis of the recommendation of Narashimham committee. The regional rural banks have achieved great success in the mobilising rural savings. RRBs are providing loans to small and marginal farmers, artisans, self-employed persons etc. RRBs should recruit local persons which creates the employment at the local level for the rural peoples. Out of 45 RRBs 26 RRBs are earning profits. To improve the functioning of RRBs Central government extended the scheme of change in capital structure of RRBs up to 2020-21. This will enable RRBs to maintain minimum prescribed capital to risk weighted asset ratio (CRAR) of 9%. It will also help RRBs in ensuring strong capital structure and minimum required level of CRAR. As on 31st March 2020, 17 out of the 45 RRBs had CRAR less than 9%, of which 6 RRBs had negative CRAR (%). System –wide CRAR (%) of the RRBs decreased from 11.5% as on 31 March 2019 to 10.2% as on 31 March 2020. It will be helpful in financial stability of Regional Rural Banks and helps it to plays major role in financial inclusion and meeting the credit requirement of rural areas.

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