

REGIONAL RURAL BANK'S FOUR AND A HALF DECADE JOURNEY

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Abstract

Regional Rural Banks have been conceived mainly for meeting the requirements of ruralites and to uplift them by providing necessary timely financial assistance. The regional Rural banks appeared in the Indian banking map with a number of objectives. In spite of their success and failure, these banks definitely tried to reach the rural mass. These banks which emerged as new species in the arena of Indian banking system have done a good work and have to travel a long way by facing many challenges. In the process of rural development certainly Regional Rural Banks are playing crucial role. Their existence is necessary, and they have to come out with strong, viable institutions in the days to come.

Keywords: RRBs, NPA, C.D. Ratio

1. PRELUDE

Regional Rural Banks popularly known as Gramin Banks in the Indian banking sector are the offshoot of the recommendations made by the Banking Commission in its report submitted to the Government of India in 1972. In its report, the commission felt that the existing structure and capabilities of commercial banks and cooperative banks was unable to meet the full credit needs of rural India. It expressed serious doubts about meeting the rural credit needs though maximum branch expansion is done by the commercial banks. It was thought proper and desirable to create an institution which would combine the strong points such as financial strength and managerial competence enjoyed by the commercial banks, rural background and local feel of cooperative banks.

With this background, to meet the above objective, a working group was appointed under the chairmanship of M.Narasimham on 1st July 1975. Within a short period, the group submitted its report on 30th July 1975 and strongly recommended the new type of institutional setup.

The recommendations of the group accepted by the Government of India and Regional Rural Banks Ordinance of 1975 was promulgated by the President of India on 26th September 1975. Subsequently this was replaced by the Regional Rural Banks Act on 9th February 1976.

A new alternative, low cost, rural minded credit agency was created known as Regional Rural Banks (RRBs) came into existence on 2nd October 1975. The Syndicate Bank sponsored "Prathama Bank" was the first Regional Rural Bank established in Muradabad district of Uttar Pradesh. In addition, other four banks were established one each in Bihar, Haryana, Rajasthan and West Bengal.

1.1 Aim of the study

The main objective of the study is to evaluate whether the Regional Rural Banks are able to meet the credit needs of the rural people or not. The specific objectives are as follows.

- To study, review and analyze the functions of RRBs in terms deposit mobilization, advancing, recovery, NPA management etc.
- To check whether RRBs remain as sustainable and viable financial institutions.
- To know the current status of RRBs after many reforms in the banking sector.
- To know how the RRBs have transformed from 1975 till 2019.

1.2 Methodology

The present study for its analysis mainly depends on secondary data. The necessary data are collected from various annual reports of NABARD, RBI and various websites. The data collected were analyzed with the help of statistical techniques like percentages, averages, ratio methods.

1.3. Objectives of RRBs

Within 6 years after the nationalization of 14 major commercial banks in the Indian banking history, RRBs were established with the following main objectives.

- To meet banking needs of the small and marginal farmers, rural artisans, landless laborers etc.
- To provide credit at cheaper rates for generating employment and productive purposes particularly in rural areas.
- Removal of poverty in rural areas by increasing income generating capacity of the rural poor.
- To operate with low cost and transact the business in local languages with local feel by recruiting local personnel.
- To stop exploitation of the farmers, ruralites and weaker section by the moneylenders by providing adequate and timely institutional credit at cheaper rates.
- To establish proper banking channels in unbanked and underbanked rural centres and to actively participate in implementation of various schemes/programmes of the government for upliftment of rural weaker sections.

2. GROWTH OF RRBs

Regional Rural Banks have been conceived mainly for meeting the requirements of ruralites and to uplift them by providing necessary timely financial assistance. Government of India and other leading agencies took initiation to start RRBs and their bank expansions. The number of RRBs, districts covered and branch expansion from 1975 to 2018 are presented in Table 1.

Table 1
Growth of RRBs (1975-2018)

Sl. No.	Year	No. of RRBs	No. of Districts Covered	No. of Branches
1	Dec-1975	6	12	17
2	Dec-1976	40	84	489
3	Dec-1977	48	99	1,187
4	Dec-1978	51	102	1,753
5	Dec-1979	60	111	2,420
6	Dec-1980	85	144	3,279
7	Dec-1981	107	182	4,795
8	Dec-1982	124	214	6,191
9	Dec-1983	150	265	7,795
10	Dec-1984	173	307	10,245
11	Dec-1985	188	333	12,606
12	Dec-1986	194	351	12,838
13	Dec-1987	196	363	13,353
14	Dec-1988	196	369	13,920
15	Mar-1989	196	369	14,079
16	Mar-1990	196	372	14,443
17	Mar-1991	196	381	14,527
18	Mar-1992	196	392	14,539
19	Mar-1993	196	398	14,543
20	Mar-1994	196	408	14,542
21	Mar-1995	196	425	14,509
22	Mar-1996	196	427	14,497
23	Mar-1997	196	427	14,461
24	Mar-1998	196	451	14,459
25	Mar-1999	196	486	14,498
26	Mar-2000	196	482	14,301
27	Mar-2001	196	501	14,313
28	Mar-2002	196	484	14,350
29	Mar-2003	196	511	14,400
30	Mar-2004	196	518	14,446
31	Mar-2005	196	523	14,484
32	Mar-2006	133	525	14,494
33	Mar-2007	96	534	14,520
34	Mar-2008	91	594	14,761
35	Mar-2009	86	616	15,235

36	Mar-2010	82	618	15,480
37	Mar-2011	82	620	16,001
38	Mar-2012	82	618	16,914
39	Mar-2013	64	635	17,861
40	Mar-2014	57	642	19,082
41	Mar-2015	56	644	20,024
42	Mar-2016	56	644	20,920
43	Mar-2017	56	680	21,422
44	Mar-2018	56	680	21,747

Source: Annual Reports and Statistics on Regional Rural Banks, NABARD, Mumbai

It is evident from Table 1 that there has been continuous increase both in the number of RRBs and number of bank branches over the years. Their number has drastically increased from 6 (with 17 branches) in 1975 to 173 (with 10245 branches) in 1984 within a span of 10 years. The number of RRBs increased to 196 by the end of December 1987 and since then no new banks were added. The same status was maintained till 2005. The number of districts covered has also increased from 12 to 363 by the end of December 1987 and further extended to 534 districts by the end of March 2005 with 14484 RRB branch network.

The rural economy witnessed extensive bank branch expansion, taking the number of rural branches to 32719 of which the share of Gramin banks was 44.20 percent with 14462 branches as on 31st March 2000.

The process of amalgamation was started in the banking sector in the year 2005-2006 and as a result, the number of RRBs came down to 133 by the end of 31st March 2006. This process was continued and the number of RRBs drastically reduced to 96 by the end of 31st March 2007 and further reduced to 56 by the end of 31st March 2018. But on the other hand, opening of new branches in unbanked and underbanked rural areas gained momentum. As a result, number of branches of RRBs increased to 21747 by the end of 31st March 2018. It is evident that RRBs are doing well to reach the rural mass. In the process of financial inclusion, RRBs are playing a vital role by reaching to the doorsteps of rural people.

3. PERFORMANCE OF RRBS

The performance of Regional Rural Banks needs to be evaluated from a different angle, such as deposit mobilization, loans and advances, profitability, recovery rate, level of NPA, etc. The RRBs have created a network of 21747 branches across the country mainly concentrating on the rural areas and their outreach is not small.

3.1 Deposit Mobilization and Loans/advances

RRBs are able to mobilize the idle savings of rural masses and provide loans and advances to the weaker sections such as small and marginal farmers, rural artisans, landless labourers, etc. to a great extent. Table 2 shows the deposits mobilized, loans and advances given, and C.D ratios over the years.

Table 2
Deposits Mobilized and Loans/Advances

Sl. No.	Year	Deposits	Outstanding Advances	C. D. Ratio
1	Dec-1975	0.20	0.10	50.00
2	Dec-1976	7.72	7.02	90.93
3	Dec-1977	33.04	42.35	128.18
4	Dec-1978	74.11	122.02	164.65
5	Dec-1979	123.22	167.41	135.86
6	Dec-1980	199.83	243.38	121.79
7	Dec-1981	336.00	406.59	121.01
8	Dec-1982	502.26	577.11	114.90
9	Dec-1983	677.85	750.84	110.77
10	Dec-1984	959.97	1,080.77	112.58
11	Dec-1985	1,285.82	1,407.67	109.48
12	Dec-1986	1,714.94	1,784.84	104.08
13	Dec-1987	2,305.82	2,232.26	96.81
14	Dec-1988	2,965.88	2,804.29	94.55
15	Mar-1989	3,118.58	2,918.25	93.58
16	Mar-1990	4,150.52	3,554.04	85.63

17	Mar-1991	4,989.24	3,609.27	72.34
18	Mar-1992	5,867.83	4,090.86	69.72
19	Mar-1993	6,938.13	4,626.73	66.69
20	Mar-1994	8,826.51	5,253.02	59.51
21	Mar-1995	11,150.01	6,290.96	56.42
22	Mar-1996	14,187.90	7,505.02	52.90
23	Mar-1997	18,032.01	8,718.08	48.35
24	Mar-1998	22,189.23	9,860.81	44.44
25	Mar-1999	27,065.74	11,355.85	41.96
26	Mar-2000	32,204.34	13,184.25	40.94
27	Mar-2001	38,271.87	15,816.30	41.33
28	Mar-2002	44,539.00	18,598.00	41.76
29	Mar-2003	45,000.00	19,000.00	42.22
30	Mar-2004	56,350.08	26,113.86	46.34
31	Mar-2005	62,143.00	32,870.03	52.89
32	Mar-2006	71,328.83	39,712.57	55.68
33	Mar-2007	83,143.55	48,492.59	58.32
34	Mar-2008	99,093.46	58,984.27	59.52
35	Mar-2009	114,317.45	65,840.78	57.59
36	Mar-2010	145,034.95	82,819.10	57.10
37	Mar-2011	166,232.34	98,917.43	59.51
38	Mar-2012	187,351.37	120,550.66	64.34
39	Mar-2013	211,488.00	137,078.00	64.82
40	Mar-2014	239,504.00	159,660.00	66.66
41	Mar-2015	273,018.00	180,955.00	66.28
42	Mar-2016	313,499.00	206,538.00	65.88
43	Mar-2017	371,910.00	226,175.00	60.81
44	Mar-2018	400,459.00	253,978.00	63.42

Source: Annual Reports and Statistics on Regional Rural Banks, NABARD, Mumbai

It is evident from Table 2 that the RRBs have achieved remarkable growth in deposit mobilization. In the initial few years, deposit mobilization was a bit slow but in subsequent years they achieved a lot. By the end of December 1985, RRBs were able to mobilize Rs 1285.82 crores as against just Rs 20 Lakhs in the year 1975. The deposits mobilized reached Rs 11150.01 crores by the end of March 1995 and the growth rate is nearly 9-fold in a decade. Further by the end of March 2005, it reached Rs 62143 crores, Rs 273018 crores at the end of March 2015 and Rs 400459 crores by the end of 31st March 2018. These figures prove that RRBs are able to promote savings habit among the ruralites.

The figures in Table 2 also prove that RRBs are able to provide loans and advances to the needy people in rural areas to a great extent. They have been financing the identified borrowers under different government sponsored programs and schemes. Through self-help groups also they try to reach rural poor especially rural women. The loans and advances given by RRBs has reached Rs 1407.67 crores by the end of December 1985 as against just Rs. 10 lakhs in the year 1975. This amount increased to Rs. 6290.96 crores by the end of March 1995, Rs. 32870.03 crores by the end of March 2005. Within a decade from 2005 to 2015, this has reached Rs. 180955 crores and Rs. 253978 crores by the end of 31st March 2018. The statistics revealed that out of the total outstanding advances of Rs. 18598 crores, Rs. 11735.97 crores constituting 74.20 percent of the total was from priority sector by the end of March 2002.

3.2 C. D. Ratio

The credit deposit ratio is another criterion for evaluating the performance of RRBs. Table 2 reveals that there is rapid growth of credit- deposit ratio in early stages (up to 1979) and crossing 100 percent mark up to the year 1986.

It has gone up to 164.65 percent in 1978 and thereafter started declining continuously. On 31st March 2001, the total deposits were Rs. 38271.87 crores and outstanding loans and advances were Rs. 15816.30 crores, as a result the C. D. ratio has drastically come down to 41.33 percent. Again after 2003, it has increased gradually and reached 66.66 percent mark by the end of 31st March 2014 and maintained more or less the same rate. It is interesting to note that though the C.D. ratio is low i.e., between 40 percent and 60 percent, majority of the RRBs earn profit during those years. From the point of view of viability of RRBs is concerned, improvement in C.D. ratio is needed, otherwise the credit management situation will become worsen.

3.3 Non-Performing Assets (NPA)

The increase in the non-performing assets is an issue of great concern in the Indian banking sector. It has become a serious problem in view of mounting non-performing assets in large volume. Because of high level of NPA, the earning capacity and profitability of many banks has been adversely affected. RRBs are not exception to this and reduction of NPAs is necessary to improve the profitability and for their sustainability. In some years, the net NPA levels vary widely among them, ranging from the dismal level of 56 percent to the incredibly low of 0.43 percent.

Table 3
Recovery rate and NPA of RRBs

Sl. No.	Year	Recovery Percentage	NPA Percentage
1	2004	77.67	12.63
2	2005	79.85	8.50
3	2006	79.80	7.30
4	2007	80.49	6.55
5	2008	78.00	6.05
6	2009	77.85	5.58
7	2010	80.09	3.72
8	2011	81.18	3.75
9	2012	81.63	4.14
10	2013	81.20	6.00
11	2014	81.90	4.40
12	2015	79.50	6.15
13	2016	82.55	6.80
14	2017	81.00	8.07
15	2018	78.00	9.47

Source: Annual Reports and Statistics on Regional Rural Banks, NABARD, Mumbai

Table 3 reveals that in recent years from 2008-2018 the percentage of NPA varied between 3.72 which is the least and 9.47 which is the highest. The recovery rate is also not satisfactory during the same period. The recovery percentage varies between 77.85 and 82.55 percentage.

3.4 Profitability

The C.D. ratio, recovery rate, rate of NPA, employee productivity, operation cost etc., directly effects the profitability of banking institutions. During the initial years, profitability of RRBs was not good. By the end of March 1991, only 44 RRBs out of 196 were making profits and their accumulated losses were Rs. 369.36 crores. After initiating some action plans by different agencies to improve their performance the picture of RRBs has changed. As a result, by the end of 31st March 2001 the number of profit-making RRBs increased to 170 and 30 RRBs attained sustainable viability, building up reserves of Rs. 1265 crores. Out of the total 196 RRBs, 90 RRBs have attained current viability earning profit to the tune of Rs. 172.17 crores, 14 RRBs entered profit arena from loss.

Table 4
Profit/Loss making RRBs

Sl. No.	Year	(Rs. in crores)			
		RRBs earning profit	RRBs incurring losses	Amount of profit	Amount of loss
1	2004	163	33	952.33	183.65
2	2005	166	30	902.60	154.49
3	2006	111	22	807.79	190.66
4	2007	81	15	926.40	301.25
5	2008	82	8	1,383.69	55.58
6	2009	81	5	1,745.84	33.85
7	2010	79	3	2,514.83	5.65
8	2011	75	7	2,420.75	71.32
9	2012	79	3	2,469.18	25.77
10	2013	63	1	2,275.00	2.07
11	2014	57	0	2,833.00	0.00
12	2015	51	5	2,921.00	176.00
13	2016	50	6	2,206.00	188.00
14	2017	49	7	2,604.00	387.00
15	2018	45	11	2,506.00	1,005.00

Source: Annual Reports and Statistics on Regional Rural Banks, NABARD, Mumbai

Table 5
RRBs with Accumulated Losses and Reserves

Sl. No.	Year	(Rs. in crores)		
		RRBs with accumulated loss	Accumulated losses	Reserves
1	2004	90	2,725.35	3,107.05
2	2005	83	2,715.01	3,818.52
3	2006	58	2,636.85	4,270.56
4	2007	39	2,759.49	4,901.54
5	2008	36	2,624.22	5,703.06
6	2009	35	2,574.00	6,150.00
7	2010	27	1,775.06	8,065.26
8	2011	23	1,532.39	9,565.58
9	2012	22	1,104.85	11,135.19
10	2013	11	1,091.00	13,247.00
11	2014	8	903.00	15,736.00
12	2015	8	1,072.00	18,712.00
13	2016	8	1,050.00	20,665.00
14	2017	8	1,147.00	23,080.00
15	2018	11	1,866.00	25,185.00

Source: Annual Reports and Statistics on Regional Rural Banks, NABARD, Mumbai

It is evident from Table 4 and Table 5 that from 2004 onwards, the profitability of RRBs has improved. The process of amalgamation was started in the year 2005-2006 and as a result the number of RRBs has come down to 133 out of which 111 RRBs made profits and 22 incurred loss. But 58 RRBs had accumulated losses of Rs. 2636.85 crores in their balance sheets during the same period. After 2008 RRBs have improved their profit-making position, and gradually the number of loss incurring RRBs came down. At the end of 31st March 2014 all 57 RRBs made profits of 2833 crores and loss incurring number came down to zero. At the same time only 8 RRBs had accumulated loss of Rs. 903 crores. Again 2015 onwards, the loss making RRBs number gradually increased and 11 out of 56 incurred losses of Rs. 2506 crores at the end of 31st March 2018. They were able to strengthen their balance sheets by creating reserves gradually. The total reserves of all the 56 RRBs have reached Rs. 25185 crores at the end of 31st March 2018.

4. TRANSFORMATION OF RRBs

Since 1975, Regional Rural Banks have travelled a long way from being regional banks with limited area of operation and finance only target group beneficiaries to viable banks by extending operations to the entire state in some cases. The RRBs have come across mainly 4 stages up to date since inception.

1. Expansion phase

During 1975 to 1987 we have seen rapid expansion in RRBs relating to number of banks, branches, volume of business etc. The number of banks increased from 6 to 196, bank branches from 17 to 13353 and number of districts covered from 17 to 363 by the end of Dec 1987. Volume of business also increased many folds during this period.

2. Declining phase

The period from 1987 to 1995 is referred as the declining phase. Because of increase in NPA level, cost of operation, declining of C. D. ratio etc., RRBs profitability has declined. Because of increase in number of loss making RRBs and increase in accumulated profits, RRBs business operations turned to unviable stage. The first report of Narasimham Committee (1991) was not favorable to RRBs because of these reasons.

3. Turn around phase

The period from 1996 to 2006 is referred as turnaround phase. Second report of Narasimham Committee (1998) recommended so many measures for reforms in banking sector. As a result, measures like recapitalization to RRBs, financing to non-target group, fixing more responsibilities to sponsor banks etc., took place to make these institutions profitable and viable.

4. Consolidation phase

The process of amalgamation was started in the year 2005-06 as the reform measures in banking sector. As a result, number of RRBs has come down to 133 by the end of March 2006, 96 by the end of March 2007 and 56 by the end of March 2015. Government of India initiated amalgamation phase three in the year

2018-19 on the principle of “One State, One RRB” and as a result the number of RRBs further reduced to 45 during 2019-2020.

Various reforms in the banking sector have brought about qualitative as well as quantitative improvements in the performance of regional rural banks. Significant improvement in the performance of RRBs is witnessed in recent years.

The scheme of recapitalization of RRBs was started in 2010-11 and was continued up to 2019-2020 in a phased manner with a financial support of Rs. 2900 crores with 50 percent governments share of Rs. 1450 crores. Up to 2019-2020, out of Rs. 1450 crores, an amount of Rs. 1395.64 crores has been released to RRBs.

5. CONCLUSION

The regional Rural banks appeared in the Indian banking map with a number of objectives. In spite of their success and failure, these banks definitely tried to reach the rural mass. These banks which emerged as new species in the arena of Indian banking system have done a good work and have to travel a long way by facing many challenges. In the process of rural development certainly Regional Rural Banks are playing crucial role. Their existence is necessary, and they have to come out with strong, viable institutions in the days to come.

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