A Study of Regional Rural Banks : The Conundrum of Managing Inclusion with Sustainability

Amar Nath Yadav [1]
Sukhbir Singh [2]
Ashish Jaiswal [3]

Abstract

Regional rural banks (RRBs) were created with the vision to expand banking services to the underprivileged population in rural areas sustainably and effectively. However, after a decade of inception, such institutions' financial viability and survival became questionable, which posed a serious concern for policymakers. As a result, the Government of India and its regulators initiated various policies in the late 1990s to make these institutions financially viable and self-sustainable in the long run. These policy interventions have successfully transformed the financial health of RRBs to some extent. However, in this process, it was widely discussed that the RRBs were moving away from their original mandate. However, no detailed study has been published so far to investigate this dimension. This paper tried to bridge this gap by exploring the performance of RRBs with respect to the objectives for which they were incorporated through evidence based on data. This is the first study that provides a comparison of the performance of RRBs with other banks at the service area level. The study observed that RRBs have remained true to their original mandate and are still doing relatively better in comparison to other commercial banks in their area of operation.

Keywords : performance of RRBs, rural credit, NABARD, agriculture

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Rural development occupies a significant place in the country's overall economic development. Therefore, institutional finance is an important prerequisite for the country's rural development. Since independence, it has been a constant endeavor of our policymakers to provide adequate thrust to rural development as the sector is directly related to agriculture and touches more than half of the country's population. The nationalization of commercial banks in 1969 tried to penetrate the development in rural areas; however, the progress required special focus given the vast rural population. Hence, the need was felt to establish financial institutions specialized in catering to the needs of the rural poor. To fill the regional and functional gap in rural areas and to ensure sufficient institutional credit for agriculture and other rural sectors, Regional Rural Banks (RRBs) were established in 1975 (NABARD, 1976). The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers, and rural artisans.

[1] *Assistant Adviser*, Department of Statistics and Information Management, Reserve Bank of India, Shahid Bhagat Singh Marg, Mumbai - 400 001. (Email : anyadav@rbi.org.in)
[2] *Assistant Adviser,* Department of Statistics and Information Management, Reserve Bank of India, Sansad Marg, New Delhi -110 001. (Email : sukhbirsingh2@rbi.org.in ; sukhbir83@gmail.com)
[3] *Director,* Department of Statistics and Information Management, Reserve Bank of India, Shahid Bhagat Singh Marg, Mumbai - 400 001. (Email : jashish@rbi.org.in)

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Although RRBs made impressive strides on various business indicators and fulfilled the objectives for which they were created, they suffered losses till 1996–97 due to their dismal performance on banking parameters. In response to their dismal performance, the Government of India (GoI) and the National Bank for Agriculture and Rural Development (NABARD), on the recommendations of various committees (Narasimham Committee (Reserve Bank of India, 1991); Vyas Committee (Reserve Bank of India, 2004), initiated several corrective measures to accelerate the business and profitability of RRBs. The changes were introduced in the operations and regulations of RRBs by way of amalgamation, capitalization, flexibility in investments, relaxation in lending to non-target groups, technological upgradation, etc. All these steps helped to restore the fortunes of RRBs to some extent (Joshi, 2013; Khankhoje & Sathye, 2008). However, it was argued that the policies of the financial liberalization have an immediate, direct, and dramatic effect on rural credit, and the reform phase raised the profitability of these banks at the cost of massive rural disintermediation, particularly of the targeted borrower categories (Bose, 2005; Ramachandran & Swaminathan, 2002; Sinha et al., 2003).

The results of some studies showed that these concerns were not unfounded (Ahmed, 2014; Chinna, 2013; Sriram, 2016; Tankha, 2015). However, some studies also suggest otherwise (Ibrahim, 2016). These studies were primarily based on aggregate data comparing RRBs with other Scheduled Commercial Banks (SCBs). RRBs are confined to function under various restrictions in terms of the target population (mostly rural), constraint lending (75% Adjusted Net Bank Credit to Priority Sector Lending), etc. (Reserve Bank of India, 2022a). In contrast, the conditions are not that stringent for other SCBs. Given the restrictions imposed on RRBs, the comparison with other banks not subjected to very stringent constraints may not be meaningful at the aggregate level alone. A more granular comparison is required to see how RRBs and SCBs fare under similar restrictions. With the above backdrop, an attempt has been made in this paper to analyze various aspects pertaining to the activities of RRBs to explore the answers to the above questions.

Literature Review

The RRBs, after initial years of operations, faced several constraints in terms of viability. To address the concerns, various committees appointed by GoI and NABARD suggested relaxations in the restrictions imposed on investment avenues, target population, etc., to make RRBs viable. Narasimham committee (Reserve Bank of India, 1991) suggested that the RRBs may be allowed to finance non-target group, non-farm sector, and non-priority sector clients over the period. In 1998, the priority sector guidelines for RRBs were made analogous to the SCBs (although with a higher target). The Vyas Committee (Reserve Bank of India, 2004) suggested granting further autonomy to RRBs in their credit and other portfolio management.

However, literature suggested that financial liberalization policies had an immediate, direct, and dramatic effect on rural credit. According to Ramachandran and Swaminathan (2002), there was a contraction in rural banking in general and also in priority sector lending and preferential lending to the poor. Chavan (2005) examined the growth and regional distribution of rural banking over the period 1975–2002. Chavan's paper documented that the gains made by historically underprivileged regions of the east, north-east and central parts of India during the period of social and development banking were reversed in the 1990s. Cutbacks in rural branches and rural credit deposit ratios were the steepest in India's eastern and northeastern states. The study concluded that financial liberalization policies worsened regional inequalities in rural banking in India. Bose (2005) reviewed the three phases of Regional Rural Banking in India and concluded that the reform phase raised the profitability of these banks at the cost of massive rural disintermediation, particularly of the targeted borrower categories. The paper emphasized the same set of policies and standards for RRBs and commercial banks to calibrate their performance.

On the other hand, some studies suggested the improved performance of RRBs after policy changes. Ibrahim (2010) studied how the merger/amalgamation of RRBs undertaken in 2005–06 helped improve their performance. Das and Patnaik (2015) examined the role played by RRBs in terms of microfinance in eastern India, particularly using aggregate Self-Help Group data, and observed the significant contribution of RRBs. Ibrahim (2016) studied the performance of RRBs in terms of priority sector lending in rural areas and concluded that the RRBs had significantly improved the rural economy in the post-merger period. Although these studies suggested improvement in credit delivery by RRBs, the issue of comparative performance vis-à-vis SCBs was not addressed to the desired extent. Some studies compared the performance of SCBs toward the targeted customer segment of RRBs. For example, Bansal and Behal (2013) compared the performance of SCBs with a large presence in rural areas vis-à-vis those with a comparatively smaller presence; Arora and Singh (2015) compared the non-performing assets (NPA) under the SHG-Bank linkage scheme.

While there are numerous studies on the comparative performance of various sub-group of SCBs, that is, public, private, and foreign (Budhedeo & Pandya, 2018; Kumar et al., 2014; Syed & Tripathi, 2020), there is little literature comparing the performance of SCBs with RRBs. However, the available studies suggested that the concerns regarding RRBs moving away from the targeted population were not unfounded. The study by Ahmed (2014), using aggregate data, observed that in terms of credit deposit ratio, the RRBs failed to maintain the trends of SCBs. Tankha (2015) stressed that with RRBs' substantial investments in government securities and with the sponsor banks, a large proportion of the deposits mobilized were not lent to the intended beneficiaries. Sriram (2016) also outlined the contradictory concerns of experts on whether RRBs will differ from SCBs after mergers.

However, to the best of our knowledge, no detailed study on these aspects has been conducted to see the changes in the activities of RRBs vis-à-vis SCBs post-financial liberalization and whether it has significantly deviated RRBs from their core objectives. This paper tries to fill this gap by using aggregate data and culling out the evidence from disaggregated service area level data of RRBs and SCBs. The service area-level comparison has been made for the first time to analyze their performance. The service area level comparison will be more meaningful than the aggregate comparison since the service area of RRBs include mostly the underprivileged regions (mostly rural areas). In contrast, other SCBs have a vast service base (thus, the aggregate level comparison may mask the underlying trends). Further, the comparison of RRBs is also made with other SCBs with respect to various schemes designed especially for underprivileged sections of society.

The study is also important in the sense that less attention has been paid to RRBs by researchers as it constitutes only a 3% of the banking system and also due to the paucity of data related to it. The study also gains importance in light of the recent merger plan of the GoI for further consolidation of RRBs by merging RRBs within the states (Government plans to merge, 2019)

RRBs at a Glance Under Changing Policies

In this section, we discussed the trends in the growth of RRBs regarding the number of banks and branch networks. In addition, the changing trends in lending practices and other business ratios are also discussed. This will help understand the effect of policy changes and throw some light on the questions raised in the previous section.

Growth of RRBs

Since its evolution, the development of RRBs can be broadly divided into three phases. In the first phase, between 1975 and 1990, where the emphasis was on outreach, their network expanded from 6 RRBs with 17 branches covering 12 districts in 1975 to 196 RRBs with 14,443 branches covering 372 districts by 1990. In this phase, the target population for lending by RRBs was confined to small and marginal farmers, rural artisans, etc. The next phase, from 1991 – 2004, was the reform and liberalization phase, which covered the deregulation of interest rates, the application of a prudential regulatory framework, and the removal of the restrictions on operations being limited to target groups. The third phase, from 2005 to 2018, was the consolidation phase. During this phase, the number of RRBs declined from 196 to 56 through amalgamation. In the amalgamation process, it has further reduced to 45 during 2019–20.

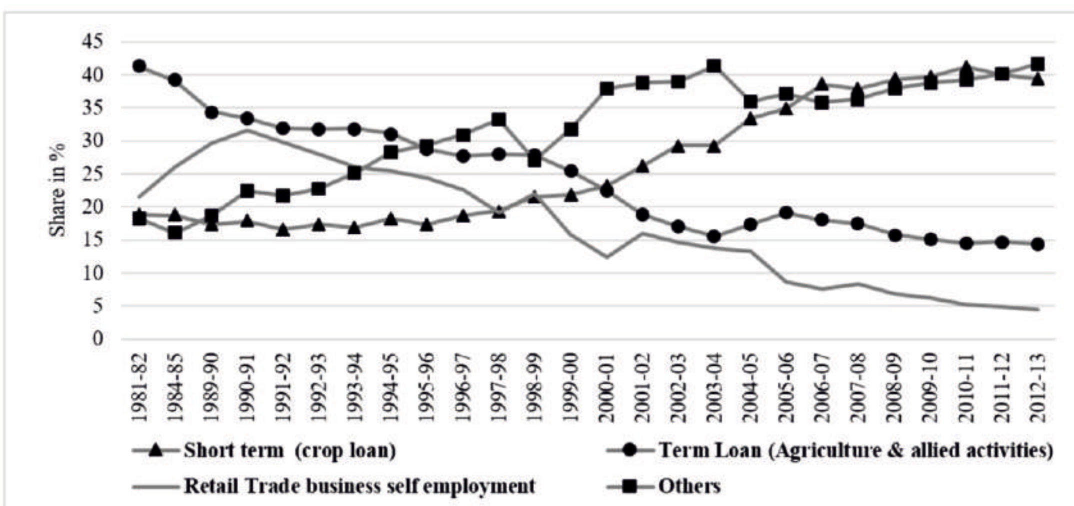
Branch Network

As of March 31, 2020, there were 21,850 functioning branches of RRBs covering 685 districts that dealt with 12 crore customers in rural areas. The rural orientation of RRBs may be inferred from the fact that more than 74% of their branches are in rural areas, and almost 20% are in semi-urban areas. In addition, RRBs as a group also added 5,586 ultra-small branches (USB) to their network beyond the regular branches. A USB is an intermediate brick-and-mortar structure set up between the base branch and Business Correspondent (BC) locations to support about 8–10 BC Units at a reasonable distance of 3–4 kilometers. However, the share of rural branches is declining, whereas semi-urban branches have been increasing (Appendix Table A1). During the last five years, the RRB branch network grew by nearly 30% ; however, this was not in sync with the growth of the branch network of the banking system, which registered a 45% growth.

Priority Sector Lending

Prior to the banking sector reforms, the entire lending by RRBs was targeted to the priority sectors. However, in September 1992, RRBs were allowed to finance non-target groups to the extent not exceeding 40% of their incremental lending. This limit was subsequently enhanced to 60% in 1994 and further revised to 75% in 2016 of total lending within the sub-targets set by RBI (Reserve Bank of India, 2022a). Due to these policies, there has been a structural shift in the lending pattern of RRBs to the purpose-wise advances within the priority sector (Figure 1).

Figure 1. ***Share of Sector-Wise Lending***



Source : NABARD Annual Report, various issues.

Note. Data is not being released by source after 2012–13 in the above format.

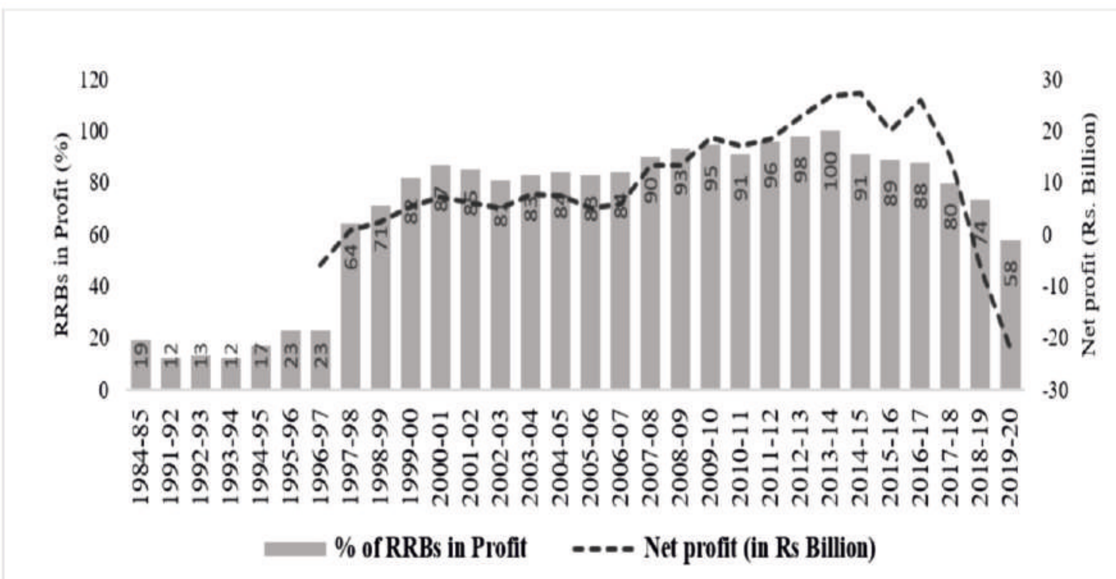
Although the share of term loans (agriculture and allied activities) is declining, the shortfall is covered by an increasing trend in crop loans. As a result, the crop loans and term loans (agriculture and allied activities) together remained a major part of the direct advances, and the share continued above 50% throughout. Since such loans are mainly utilized by the farmer community, this indicates that the RRBs are still focused on serving the target population. However, the decreasing trend in loans to retail trade and self-employment is a concern. On the other hand, the rise in loans for other purposes shows that the RRBs are tapping the opportunities in terms of changing patterns in credit preferences in rural areas.

Business : Profitability, Stability, and Cost

Since its inception, RRBs have made impressive strides on various business indicators. However, they suffered losses till 1996–97 due to their high cost-to-income ratio and non-performing assets (NPAs). In response to this dismal performance, the GoI and NABARD initiated corrective measures in 1994–95. The NABARD started implementing Development Action Plans (DAPs) for each rural finance institution by deregulation in the banking sector initiated in 1994 by the RBI and GoI. Under DAP, the specific direction of credit flow was withdrawn to give flexibility to RRBs in running their business. As a result, more than 64% RRBs became profitable. In addition to liberalization and DAPs, technological changes also played a crucial role in accelerating the change (Figure 2).

RRBs exhibited increasing trends in NPAs, despite various policy interventions from the government and liberalization in lending norms. The increasing trends in asset quality are a concern for RRBs, reaching a level of 10.4 in 2019–20 (Table 1). The current trends in higher NPA are attributed to increasing NPA in the agriculture sector and farm loans (Syed & Tripathi, 2019). On the capital adequacy front, RRBs were advised to achieve a minimum Capital to Risk-Weighted Assets Ratio (CRAR) of 9% on an ongoing basis with effect from March 31, 2014 (Reserve Bank of India, 2013). In 2015–16 the CRAR of 56 RRBs ranged between 6.6% and 21.7%, and

Figure 2. ***Trends in Net Profit of all RRBs***



Source: 1. NABARD Annual Report, various issues.
2. Statistical tables relating to banks in India, various issues (Reserve Bank of India, 2021a).

Table 1. ***Trends in Non-Performing Assets***

End-March	Asset Size	RRBs		SCBs	
	(₹ Billion)	GNPA	NNPA	GNPA	NNPA
2004–05	779	–	–	–	–
2005–06	896	–	–	–	–
2006–07	1058	6.6	3.5	2.5	1.0
2007–08	1252	6.1	3.4	2.3	1.0
2008–09	1507	4.1	1.8	2.3	1.1
2009–10	1841	3.7	1.8	2.5	1.1
2010–11	2154	3.8	2.1	2.4	1.1
2011–12	2425	5.0	3.0	3.2	1.3
2012–13	2795	6.1	3.8	3.2	1.7
2013–14	3329	6.1	3.5	3.8	2.1
2014–15	3508	6.2	3.6	4.3	2.4
2015–16	3808	6.8	4.2	7.5	4.4
2016–17	4066	8.1	6.0	9.3	5.3
2017–18	5196	9.1	6.5	11.2	6.0
2018–19	5380	10.8	6.8	9.1	3.7
2019–20	5542	10.4	5.7	8.2	2.8

Source : 1. NABARD Annual Report, various issues.

2. Statistical Tables Relating to Banks in India, various issues (Reserve Bank of India, 2021a).

Table 2. ***Distribution of CRAR of RRBs (End-March)***

Level of CRAR	2011 – 12	2012 – 13	2013 – 14	2014 – 15	2015 – 16	2016 – 17	2017 – 18	2018 – 19	2019 – 20
9% and above	68	61	56	52	52	51	46	40	28
< 9% – 7%	6	1	0	2	2	2	3	4	5
<7% – 5%	4	1	0	1	2	2	4	5	3
<5% – 1%	3	0	1	1	0	1	3	3	3
<1% to negative	1	1	0	0	0	0	0	1	6
Total No. of RRBs	**82**	**64**	**57**	**56**	**56**	**56**	**56**	**53**	**45**

Source : 1. NABARD Annual Report, various issues.

2. Statistical Tables Relating to Banks in India, various issues (Reserve Bank of India, 2021a).

several banks could not meet the minimum capital requirement. After the government's capital infusion of about ₹ 22 billion in 40 weak RRBs, the number of RRBs with CRAR of less than 9% reduced from 14 to 4 during this period (Table 2).

The banks' profitability is mainly determined by bank-specific factors like NPAs, profit per employee, operating profit to total assets, and investment to total assets (Jain et al., 2019). Internationally, a return of one percent on assets is considered outstanding, but the Return on Assets (RoA) of RRBs never crossed the one percent level (except in 2009–10). Compared to SCBs, from 2013–14 onward, the RoA of RRBs was slightly higher than

Table 3. ***Trends in Earning Parameters***

	ROE		ROA		NIM	
Year	**RRBs**	**SCBs**	**RRBs**	**SCBs**	**RRBs**	**SCBs**
1990–91	10.6	21.9	0.1	0.4	1.5	3.4
1995–96	–16.3	4.9	–1.3	0.3	1.0	6.1
2000–01	9.7	18.2	0.7	0.9	2.1	5.4
2005–06	7.6	14.7	0.5	1.0	2.8	3.0
2006–07	7.3	15.5	0.5	1.0	3.4	2.8
2007–08	12.8	15.9	0.8	1.1	3.4	2.5
2008–09	13.2	15.4	0.8	1.0	2.9	2.6
2009–10	15.4	14.3	1.0	1.0	3.0	2.5
2010–11	12.2	14.9	0.7	1.1	3.0	2.9
2011–12	11.5	14.6	0.7	1.0	3.1	2.9
2012–13	11.3	13.8	0.8	1.0	2.8	2.7
2013–14	12.1	10.6	0.9	0.8	3.3	2.7
2014–15	11.6	10.4	0.8	0.8	3.3	2.6
2015–16	7.4	3.5	0.5	0.3	3.0	2.6
2016–17	6.8	4.1	0.6	0.3	3.0	2.5
2017–18	–	–2.8	0.6	–0.1	3.0	2.5
2018–19	–	–1.8	–0.1	–0.9	2.9	2.7
2019–20	–	0.7	–0.4	0.1	3.2	2.8

Source : Computed from Statistical Tables Relating to Banks in India, various issues (Reserve Bank of India, 2021a).

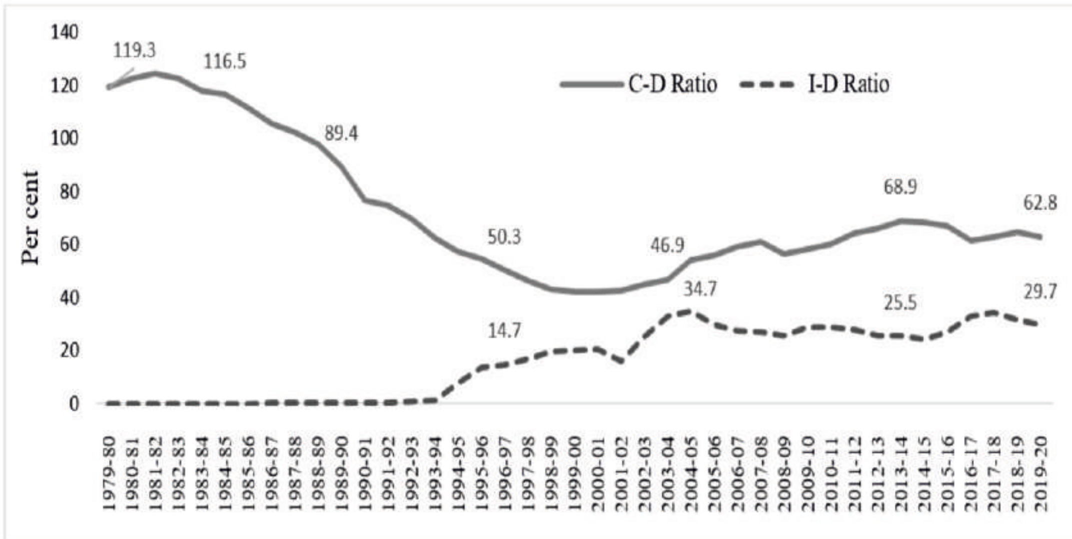
SCBs baring in 2019–20. Similarly, post reforms, the Return on Equity (RoE) of RRBs improved and is steady near the RoE of SCBs. NIM of RRBs as an indicator of financial performance has been more volatile than SCBs (Table 3).

Fund Deployment

The credit-to-deposit ratio (C-D ratio) is considered one of the dependable parameters to measure the efficacy of a bank's participation in the developmental process in the areas where it operates, while the investment-to-deposit ratio (I-D ratio) shows the deployment of additional funds in income generating opportunities.

If we look at the C-D ratio of RRBs, there is a wide movement over the different phases of development. The C-D ratio of RRBs increased during the first phase of its inception and peaked at 120% during 1980–81. Thereafter, it showed a declining trend and reached a level of 50% during 2001–02. However, post-amalgamation, the ratio started improving and stood at 63% during 2019–20. One of the main reasons for the high C-D ratio till 1990 was the fact that the RRBs were permitted to lend only under priority sector schemes, and they had minimal scope to invest their surplus funds freely. After the banking sector reforms in 1991, RRBs were allowed to invest their funds in shares and securities. The effects can be seen in the changing trends of the I-D ratio (Figure 3). This opportunity benefited the RRBs in terms of their income/profit generation, as most RRBs generated profit from this.

Figure 3. *Trends in C- D and I-D Ratios*



Source : Handbook of Statistics on the Indian Economy (Reserve Bank of India, 2022c).

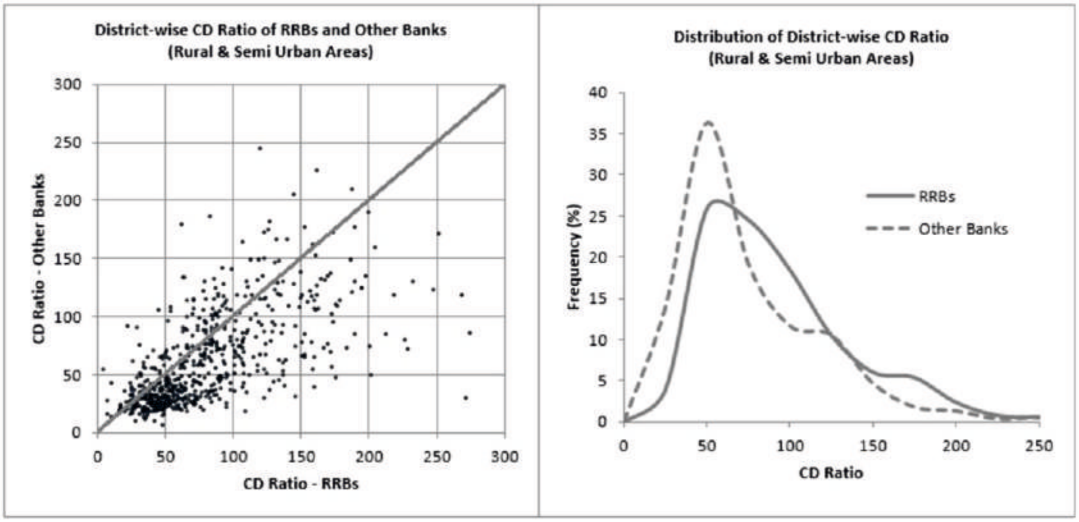
Service Area Level Comparison

The results of the previous section outlined some of the changes in the business practices of RRBs post-liberalization, which helped RRBs in terms of sustainability and opened the opportunity to diversify their portfolio. As a result, significant shifts in the trends of sectoral lending, C-D ratio, and I-D ratio were observed. Although these changes were necessary to sustain the RRBs, they brought their limitations in terms of lending to the target population. On the one hand, this may be argued that RRBs moved away from initial objectives. Thus, comparing the current trends with the past may not be meaningful. However, a comparison of RRBs with other SCBs working in their service/notified area may provide better insights into their efficiency in serving the target population under the restrictions of sustainability. The RRBs are a special kind of bank that function in their notified area comprising some districts (NABARD, 1976). However, the RRBs' service area is mainly confined within these districts to rural and semi-urban areas, as seen from the concentration of their branches in these population groups (Appendix Table A1).

In this section, we used disaggregated service area level data of RRBs and other SCBs to examine the performance of RRBs vis-à-vis other SCBs to understand whether the RRBs are still the leading banking institutions in their areas or not. For this purpose, we used the C-D ratio as a measure of the performance of the bank's participation in the developmental process in the areas where it operates.

RRBs are diverse in size as well as in the area of operation. It is interesting to note that for most of the RRBs, (a) the service area is non-overlapping, i.e., only one RRB functions in one district (for most of the districts), and (b) most of their branches are in semi-urban and rural areas only. This can be deduced from the bank-wise list of branches available in the Branch Locator (Reserve Bank of India (n.d.), Branch Locator). Taking advantage of these facts, the "bank-group × district × population group" level credit and deposit data published by RBI in the quarterly publication, *"Quarterly Statistics on Deposit and Credit in Scheduled Commercial Banks"* (Reserve Bank of India, 2022b) can be safely used to estimate the service area level data of RRBs and other SCBs (within that service area). The C-D ratio for the rural and semi-urban areas of the district is computed as the ratio of total credit to total deposits in these areas. There are only a few districts where more than one RRB operates. For

Figure 4. ***Distribution of District-Wise C-D Ratio for RRBs and Other Banks***



Sources : District × Bank Group-wise C-D Ratio (for Rural + Semi Urban population groups) from Quarterly Statistics on Deposit and Credit of SCBs – March 2016 (Reserve Bank of India, 2022b).

Note. Only those districts included where RRB Branches are present.

analysis, such districts are classified under the service area of RRB, which has the largest number of branches in that district.

Figure 4 provides the comparative distributions of district-wise C-D ratios (rural and semi-urban areas only) of RRBs and other SCBs (as discussed above). It is observed that, in their service area, the distribution of district-wise C-D ratio of RRBs in rural and semi-urban areas (main service area of RRBs) is toward the right side of the distribution of C-D ratio for other banks. This suggests that the RRBs are more efficient in credit disbursal (in terms of C-D ratio) than other banks in their service area.

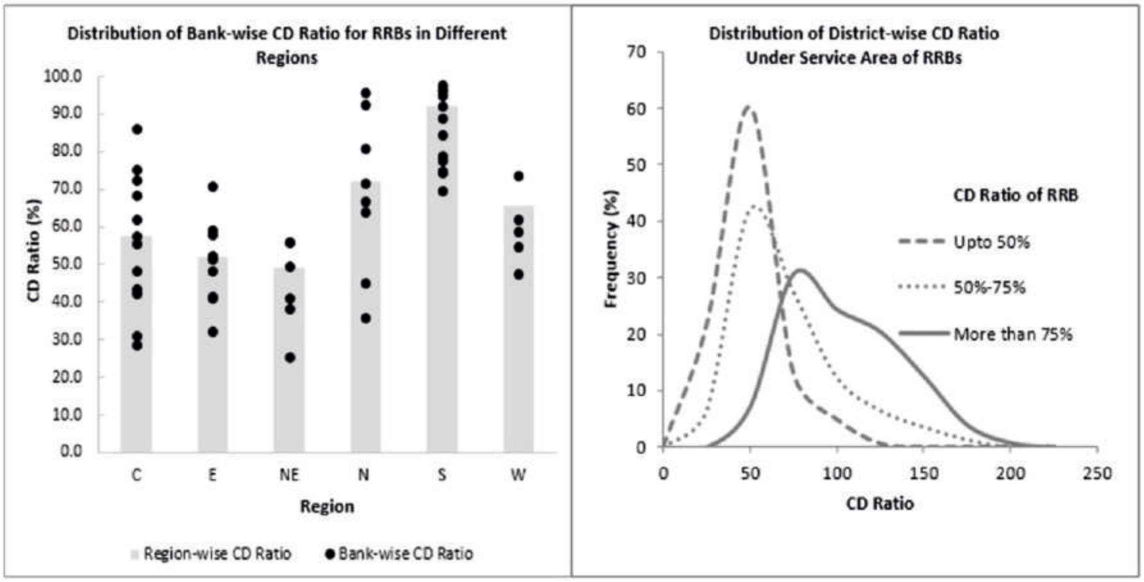
The C-D ratio, however, has wide variation across RRBs working in the same geographical region. The low C-D ratio of RRB may be attributed to either the low credit absorption capacity of the district under the service area or inefficient credit disbursal by RRBs. Taking the overall C-D ratio of the district as a proxy for the credit absorption capacity of the district, we plotted the distribution of the overall C-D ratio of service area districts for RRBs with low, medium, and high C-D ratios at the bank level (Figure 5). The overall C-D ratio for the district includes all SCBs working in the district (irrespective of population group). The distributions suggest that for RRBs with low C-D ratios at the bank level, most of the districts under their service area also have low credit potential. This indicates that the low C-D ratio of RRB is in sync with the overall C-D ratio of the districts where it operates.

The wide variation in the credit absorption capacity of districts may be due to various reasons coupled with inadequate infrastructural facilities, particularly in rural areas. Therefore, it becomes natural to understand whether the bank's service area confined to some specific states is camouflaging the performance of better-run RRBs.

It may be possible that irrespective of the state or region, (a) the individual RRBs' size matters for better performance in terms of C-D ratio, (b) certain regions are not conducive to better performance for RRBs, or (c) there is nothing inherent either with a bank or a particular region in which the RRBs operates to contribute toward the performance of RRBs, and it is a combination of some other factors.

To answer these possibilities, we tried to identify characteristics responsible for the low C-D ratio of some

Figure 5. *Distribution of Bank Wise and Service Area-Wise C-D Ratio of RRBs*



Sources : 1. Region-wise C-D Ratio (RRBs only) and District-wise C-D Ratio (all population groups and all SCBs) from Quarterly Statistics on Deposit and Credit of SCBs – March 2016 (Reserve Bank of India, 2022b).
2. Bank-wise C-D Ratio from Annual Report of Banks for 2015–16.
Note. The service area of banks is identified based on the presence of branches in the district as per Branch Locator, Reserve Bank of India (Downloaded in Nov-2017).

RRBs compared to others working within the same geographical region. The variables included are: (a) capital and reserves, (b) asset size, (c) borrowings, (d) investments, and (e) credit potential of the service area of the bank. The median overall C-D ratio of districts under the bank's service area is taken as a proxy for the credit potential of the service area. The panel regression model is used to identify variables significantly related to bank-level C-D ratio, using the bank-wise data for 53 banks taken for eight years (2010–2017).

$$\textbf{CD ratio}_{i,t} = \alpha + \beta_1{*}Capital_{i,t} + \beta_2{*}Bank\ Size_{i,t} + \beta_3{*}Borrowings_{i,t} + \beta_4{*}Investment_{i,t} + \beta_5{*}CD\ ratio_{i,t}\ (median\ of\ Other\ banks) + \varepsilon_{i,t} \qquad \text{----------}\ (1)$$

The subscript *i* correspond to the banks, and subscript *t* corresponds to the period in the panel. Generalized Least Squares estimates were obtained. The results are provided in Table 4.

Table 4. *Results of Panel Regression*

Variable	Coefficient	Std. Err.	*p*-value	Confidence Interval (95 %)	
Borrowings	0.008	0.002	0.000	0.004	0.013
Investments	–0.003	0.001	0.011	–0.005	–0.001
Capital and Reserve	–0.002	0.005	0.750	–0.012	0.009
Assets	0.001	0.001	0.442	–0.001	0.002
Service Area Median C-D Ratio	0.542	0.037	0.000	0.468	0.615
Constant	29.433	2.735	0.000	24.050	34.816

Note. The R square is 0.66.

The results indicate that the credit potential of the service area is the most important factor in determining the C-D ratio of banks (considering the magnitude of the regression coefficient).

RRBs' Efforts for Financial Empowerment

In the previous section, we observed that the performance of RRBs in terms of the C-D ratio is better than other SCBs functioning in the service area of RRBs. However, some banks' low bank-level C-D ratio may be attributed to the low credit potential service area allotted to them. Therefore, in the current section, we shall see the other contours of the functioning of RRBs specifically to their target population.

Self Help Group (SHG) Bank Linkage Scheme

The SHG-Bank Linkage model started (as a pilot to link around 500 SHGs to the formal financial institutions) during the year 1992–93 and is a critical component of the Indian microfinance scheme with 10.2 million SHGs covering over 100 million households having savings with banks of over ₹ 261 billion as on March 31, 2020. About 5.6 million of these SHGs have also accessed bank credit and have over ₹ 1,080 billion as outstanding credit (Table 5). Out of these, RRBs contributed 32% of the total savings linked SHGs as well as the credit-linked SHGs by end-March 2020. The total bank loan outstanding against the SHGs was ₹ 1,080.8 billion, of which RRBs with ₹ 303.2 billion constituted 28%. This indicates the significance of RRBs in the disbursement of microcredit, especially to women who form a major part of SHGs.

Table 5. ***Progress of SHG – Bank Linkage Scheme***

(Amount ₹ Billion)

	RRBs				Total			
	Savings linked		Credit linked		Savings linked		Credit linked	
End-March	No of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount	No of SHGs	Amount
2006–07	1183065	11.6	729255	28.0	4160584	35.1	2894505	123.7
2007–08	1386838	11.7	875716	44.2	5009994	37.9	3625941	170.0
2008–09	1628588	19.9	977834	52.2	6121147	55.5	4224338	226.8
2009–10	1820870	13.0	1103980	61.4	6953250	62.0	4851356	280.4
2010–11	1983397	14.4	1281493	74.3	7461946	70.2	4786763	312.2
2011–12	2127368	13.0	1293809	86.1	7960349	65.5	4354442	363.4
2012–13	2038008	15.3	1327367	105.2	7317551	82.2	4451434	393.8
2013–14	2111760	19.6	1227563	110.5	7429500	99.0	4197338	429.3
2014–15	2161315	23.5	1272274	138.2	7697469	110.6	4468180	515.5
2015–16	2256811	24.8	1445476	161.1	7903002	136.9	4672621	571.2
2016–17	2586318	36.3	1611842	191.2	8576875	161.1	4848287	615.8
2017–18	2807744	58.1	1658221	227.4	8744437	195.9	5020358	756.0
2018–19	3078473	76.9	1695534	262.0	10014243	233.2	5077332	871.0
2019–20	3261879	78.1	1849225	303.2	10243323	261.5	5677071	1080.8

Source : NABARD Annual Report, various issues.

Table 6. *The Agency–Wise Position of Farmers' Clubs Promoted*

Year	SCBs	RRBs	Coops	NGOs	Others	Total
2007–08	8471	12604	5237	1226	688	**28226**
2008–09	1587	4321	1993	1976	112	**9989**
2009–10	2276	2521	2507	8939	347	**16590**
2010–11	2733	2215	2922	13599	434	**21903**
2011–12	2070	2119	4342	15911	801	**25243**
2012–13	1453	1824	3365	17559	601	**24802**
2013–14	1056	1433	1742	11192	856	**16279**
2014–15	531	309	579	2660	86	**4165**
Total	**20177**	**27346**	**22687**	**73062**	**3925**	**147197**
Share (%)	**13.71**	**18.58**	**15.41**	**49.64**	**2.67**	**100**

Source : NABARD Annual Report, various issues.

Note. Data is not available after 2014–15.

Promotion of Farmers' Clubs

Farmers' Club scheme (erstwhile Vikas Volunteer Vahinee (VVV) scheme) was launched on November 5, 1982. The basic objective of the scheme is to take innovative and new initiatives to bring about an attitudinal change amongst the borrowers in their outlook toward the concept of credit by propagating the principles of "Development through Credit." The agency-wise position of promotion of Farmers' Clubs indicates that RRBs have promoted 27,346 Farmers' Clubs as of end-March 2015, accounting for 18.6% of the total number compared to 13.7% and 15.4% in the case of SCBs and Cooperative Banks, respectively (Table 6).

Financing of Joint Liability Groups (JLGs)

In order to provide institutional credit to small and marginal farmers, tenant farmers, and sharecroppers, NABARD launched a JLG scheme in 2004–05. This project was introduced as a pilot project by NABARD in eight states with the support of 13 RRBs. As a result, during 2016–17, 5.05 lakh JLGs were promoted and financed by banks, taking the cumulative number of JLGs promoted and financed by banks to 22.57 lakh (NABARD Annual Report 2016–17).

Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojna (PMJDY), an ambitious scheme for financial inclusion, was launched in August 2014 (Government of India, 2014). National Mission for Financial Inclusion to ensure access to financial services, namely, banking/savings and deposit accounts, remittances, credit, insurance, and pension, in an affordable manner. It focuses on coverage of households as against the earlier plan, which focused on the coverage of villages. It focuses on coverage of rural as well as urban areas. The earlier plan (Swabhimaan) targeted only villages above 2,000 population while under PMJDY whole country is to be covered by extending banking facilities in each sub-service area consisting of 1,000–1,500 households such that facility is available to all within a reasonable distance, say about 5 km.

Table 7. ***Performance of RRBs under Pradhan Mantri Jan Dhan Yojana***

(Data as of 25/03/2020)

Bank Type	Number of Beneficiaries at Rural/Semi-Urban Centre Bank Branches (in crore)	Number of Beneficiaries at Urban Metro Centre Bank Branches (in crore)	Number of Total Beneficiaries (in crore)	Deposits in Accounts (in crore)	Number of Rupay Debit Cards Issued to Beneficiaries (in crore)
Public Sector Banks	16.5	14.1	30.5	93920.0	24.6
	(72.7)	(89.5)	(79.6)	(79.3)	(83.8)
Regional Rural Banks	5.5	1.1	6.6	21331.8	3.6
	(24.1)	(6.9)	(17.1)	(18.0)	(12.2)
Private Sector Banks	0.7	0.6	1.3	3182.6	1.2
	(3.0)	(3.5)	(3.2)	(2.6)	(3.9)
Grand Total	**22.6**	**15.7**	**38.3**	**118434.4**	**29.3**

Source : Pradhan Mantri Jan Dhan Yojana (PMJDY, 2020).

Note. Values in ( ) indicate the percent out of the total.

The rural sector's contribution in terms of accounts opened under PMJDY was relatively higher than the urban sector in all the banking sectors, namely, public sector banks, regional rural banks, and private banks. As on March 25, 2020, 38.3 crore accounts were opened, out of which 22.6 crore accounts are in rural/semi-urban areas. RRBs accounted for 3.6 crore Rupay debit cards and with mobilization of deposits of ₹213.3 billion. The RRBs reported 24.1% out of the total number of accounts opened in the rural areas under PMJDY and about 19.4% in the overall accounts (rural plus urban) opened by all the banks (Table 7).

The results of the above-discussed schemes show that despite a small share in the banking sector, the RRBs are sharing larger responsibility when it comes to the rural population, which is the prime target population of RRBs. The contribution of RRBs in promoting SHGs, Farmers' Clubs, JLGs, and the Jan-Dhan Scheme indicates that the RRBs are still working as per their original mandate and contributing to the betterment of rural India.

Policy Implications

The RRBs were created for a specific purpose as a vehicle for financial inclusion, so judging the performance of RRBs with other banks may be unfair. Instead, the success of banking institutions needs to be evaluated in terms of their contribution to inclusion, growth, and stability as per their mandate. In this article, an attempt has been made to examine the performance of RRBs in the differentiated banking design with a specific focus on the comparison under similar constraints on both types of banks, viz. RRBs and other SCBs. Although the study observed a structural change in the portfolio of RRBs over a period spanning three phases of development, the RRBs play a bigger role in financial inclusion programs in rural/semi-urban areas. The low C-D ratio across RRBs is due to the low credit potential area assigned to some of the RRBs. The regional merger of RRBs may provide them with wider avenues for deploying funds in productive areas for growth.

Conclusion

The study examined the performance of RRBs in the current banking landscape and reviewed the three phases of the development of RRBs in India. The study also tried to address the concerns raised in literature about RRBs moving away from the target population in the quest for profitability. However, since the RRBs were created for a particular purpose to improve the credit facilities in rural areas with a special focus on disadvantaged people, comparing the performance of RRBs with other banks may be unfair. Nevertheless, it is reasonable to see how well they are performing compared to other banks under a given set of objectives and constraints in their service area, which is the first time employed in the study.

It is observed that there is a structural change in the portfolio of RRBs over a period of time spanning three phases of development. However, the service area comparison shows that they are still performing well compared to other banks in their area of operation. This is further substantiated that despite their low share in the banking sector, the participation of RRBs in implementing various developmental schemes like SHGs, Farmers' Clubs, JLGs, and the Jan-Dhan scheme is immense, indicating the role played by these institutions in the development of the rural economy. The observations indicate that the contribution of RRBs to financial inclusion by providing banking services to the neglected and underprivileged sections of society has been immense and RRBs are still dominant in their area of operations.

Despite their good performance in the service area, the study also outlined some of the constraints faced by RRBs. For example, the low credit potential area assigned to some of the RRBs is the major constraint in the survivability of such banks. However, the Government of India has already started further consolidation of RRBs, which may open new horizons of operations and development for these banks.

Limitations of the Study and Scope for Future Research

Despite its valuable findings and implications, this study contains some limitations. First, the study is confined to comparing performance with respect to the C-D ratio and efforts in financial inclusion. However, comparing performance concerning other profitability and financial stability indicators may be equally important in providing policy insights. In addition, comparing RRBs with small finance banks (SFBs) will give a more comparative assessment in the future as SFBs' business model and area of operation are similar to RRBs.

Authors' Contribution

Amar Nath Yadav conceived the idea and developed a quantitative design to undertake the empirical study. Dr. Sukhbir Singh extracted research papers with a high reputation, filtered these based on keywords, and generated concepts and data relevant to the study design. Ashish Jaiswal verified the analytical methods and results of the study. The same was further transcripted and translated into English by all the others. The numerical computations were done by Dr. Sukhbir Singh using Stata 13.0 software to generate the results. Finally, Amar Nath Yadav wrote the manuscript in consultation with both authors.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest or non-financial interest in the subject matter or materials discussed in this manuscript.

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Appendix.

Appendix Table A1. ***Progress of RRBs in India : 1975 – 2020***

(Amount in ₹ billion)

Year	No. of RRBs	No. of District Covered	No. of Branches	Prop. of Rural and Semi-Urban Branches	Total Deposit	Total Advance	C.D. Ratio	No of RRBs in Profit	% of RRBs in Profit
1974–75	6	17	12	–	–	–	–	–	–
1975–76	40	84	489	–	0.08	0.07	87.5	–	–
1976–77	48	99	1189	–	0.33	0.42	127.27	–	–
1977–78	51	102	1753	–	0.74	1.22	164.86	–	–
1978–79	60	111	2420	–	1.24	1.67	134.68	–	–
1979–80	85	144	3279	–	1.5	1.73	119.31	–	–
1980–81	107	182	4785	–	2.3	2.85	122.84	–	–
1981–82	124	214	6191	–	3.5	4.39	124.72	–	–
1982–83	150	265	7795	–	4.9	6.06	122.67	–	–
1983–84	173	307	10245	–	6.9	8.13	118.00	–	–
1984–85	188	333	12606	–	9.7	11.34	116.55	36	–
1985–86	194	351	12838	–	13.1	14.65	111.49	–	–
1986–87	196	363	13353	–	17.5	18.52	105.59	–	–
1987–88	196	369	13920	–	22.7	23.28	102.51	–	–
1988–89	196	369	14079	–	29.3	28.58	97.64	–	–
1989–90	196	372	14443	98.5	38.2	34.09	89.36	–	–
1990–91	196	381	14527	98.5	45.6	34.97	76.69	196	–
1991–92	196	392	14539	98.5	52.7	39.51	74.96	23	–
1992–93	196	398	14543	98.4	63.7	44.51	69.87	25	–
1993–94	196	408	14542	98.4	80.5	50.24	62.45	23	–
1994–95	196	425	14509	97.4	108.5	62.01	57.16	33	17
1995–96	196	427	14497	97.4	133.7	72.89	54.52	45	23
1996–97	196	427	14461	97.4	169.7	85.44	50.34	45	23
1997–98	196	451	14475	97.3	209.8	96.87	46.18	125	64
1998–99	196	454	14499	97.2	254.3	110.16	43.32	140	71
1999–00	196	457	14301	96.9	300.5	126.63	42.14	161	82
2000–01	196	476	14311	96.8	360.0	152.11	42.26	170	87
2001–02	196	487	14390	96.7	424.9	180.33	42.44	167	85
2002–03	196	495	14433	96.6	476.4	213.59	44.83	158	81
2003–04	196	518	14446	96.5	533.9	250.57	46.93	163	83
2004–05	196	523	14484	96.8	582.9	316.51	54.30	165	84
2005–06	133	524	14494	95.8	642.0	360.50	56.16	111	83
2006–07	96	534	14520	95.7	816.2	484.20	59.32	81	84
2007–08	91	594	14761	94.9	944.1	574.17	60.82	82	90

2008–09	86	617	15181	94.6	1138.3	640.11	56.23	80	93
2009–10	82	618	15480	94.3	1358.1	790.16	58.18	78	95
2010–11	82	620	16001	93.9	1567.0	945.45	60.33	75	91
2011–12	82	622	16909	93.7	1733.9	1110.82	64.06	79	96
2012–13	64	635	17856	93.6	1964.2	1299.36	66.15	63	98
2013–14	57	635	19082	93.5	2206.2	1520.51	68.92	57	100
2014–15	56	642	20059	93.3	2542.3	1739.72	68.43	51	91
2015–16	56	642	20768	90.8	2937.5	1971.11	67.10	51	91
2016–17	56	683	21422	90.9	3455.7	2132.47	61.71	49	88
2017–18	56	683	21747	91.1	3905.5	2453.75	62.83	45	80
2018–19	53	684	21801	91.1	4258.0	2763.45	64.90	39	74
2019–20	45	685	21850	91.7	4672.0	2935.75	62.84	26	58

Source : 1. NABARD Annual Report, various issues.

2. Handbook of Statistics on the Indian Economy (Reserve Bank of India, 2022c).

3. Report on Trend and Progress of Banking in India, various issues (Reserve Bank of India, 2021b).

About the Authors

Mr. Amar Nath Yadav is currently working in the Department of Statistics and Information Management, Reserve Bank of India (RBI), Mumbai. He has been associated with various flagship publications of RBI and has published several papers in reputed journals and RBI publications.

Dr. Sukhbir Singh is currently working as an Assistant Adviser at the Department of Statistics and Information Management, Reserve Bank of India, Regional Office, New Delhi. He is a Statistician with the Reserve Bank of India, having experience of more than 10 years. He has published papers in reputed international journals and Reserve Bank publications.

Mr. Ashish Jaiswal, Director, is presently working in the Department of Statistics and Information Management, RBI, Mumbai. He has a good experience in the rural economy and has published several papers related to rural development.