Performance Evaluation of Regional Rural Banks (RRBs) in India

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Abstract

Regional Rural Banks were established in 1976 under the RRB Act, 1975 and the Regional Rural Banks Act, 1976 under the provisions of an ordinance promulgated on September 26, 1975 with an objective to ensure sufficient institutional credit for agriculture and non - agricultural sectors. The RRBs mobilize financial resources from rural and 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 a rural area as a place with a population of less than 10,000 people. The RRBs are jointly owned by the Government of India, the concerned State governments, and sponsor banks. The RRBs yielded positive results in respect of key performance indicators such as number of banks and branches, capital composition, deposits, loans, the trend of investments, current deposit ratio, recovery performance, productivity, NPAs, recovery and financial inclusion. The objective of this paper is to study the performance of regional rural banks in India. Several committees have emphasized the need to improve the performance of these banks, which play an important role in the rural credit market in India. The study is diagnostic and exploratory in nature, and makes use of secondary data. The study found that the performance of RRBs in India has significantly improved over time, as steps for their improvement were initiated by the Government of India after the amalgamation process.

Keywords: **performance, sponsor, rural credit market, Reserve Bank of India, amalgamation, Regional Rural Banks**

JEL Classification : E58, G21, G34, O18

In India, it is generally believed that the rural poor have not benefited in proportion to their number or to their needs from the various programmers of rural development. The main feature of the Indian poverty profile is that over 80 percent of the poor live in rural areas, and the bulk of them depend upon low productivity of agriculture and allied activities for their livelihood. The rural poor include small and marginal farmers, landless laborers, and rural artisans. A substantial part of the working population in rural areas is either unemployed or under-employed. Landless laborers constitute a major portion of the rural work force. The basic problem facing the rural poor is the insufficiency of their income to meet the minimum expenditure in production activities. These rural households would be able to cross the poverty line only if they have steady employment all round the year at reasonable wages or have access to both the sources together. As their requirements are not satisfied, the majority of the poor households survive in a state of extreme poverty.

RRBs were established in India in 1975 essentially for the purpose of taking banking services to the doorsteps of rural people, particularly in places without banking facilities. The objectives as given in the preamble of the RRBs Act,1976 were "to develop the rural economy in providing for the purpose of development of agriculture, trade commerce, industry, and other productive activities in the rural areas, credit and other facilities particularly for the small and marginal farmers, agricultural laborers, artisans, and small entrepreneurs and for matter connected therewith and incidental thereto." Several changes have taken place in the focus and operation of the regional rural banks in the wake of financial sector reforms in India, and various measures have been taken by the Government to improve the commercial viability of RRBs since 1994-95. So, it was considered appropriate to study the performance of these banks after their amalgamation, which took place in the year 2006. A study on the efficiency and performance of the RRBs is particularly important in the Indian context.

Objective of the Study

The objective of this study is to analyze the performance of RRBs during the study period. The indicators selected to study the performance of the RRBs are the number of RRBs and branches, geographical coverage, productivity, capital funds, deposits mobilization, loans outstanding and investment, recovery performance, non-performing assets, and financial inclusion made by the RRBs.

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An Overview of Regional Rural Banks (RRBs) in India

In India, the rural people such as small and marginal farmers, landless agricultural laborers, artisans, and socially and economically backward castes and classes have been exploited in the name of credit facility by the informal sector. The rural credit market consists of both formal and informal financial institutions and agencies that meet the credit needs of the rural masses in India. The supply of total formal credit is inadequate, and rural credit markets are imperfect and fragmented. Moreover, the distribution of formal sector credit has been unequal, particularly with respect to region and class, cast, and gender in the country.

Regional Rural Banks were established under the provisions of an ordinance promulgated on the September 26, 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilized 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 a rural area as a place with a population of less than 10,000 people. RRBs are jointly owned by the Government of India, the concerned State governments and sponsor banks, and the issued capital of an RRB is shared by the owners in the proportion of 50 percent, 15 percent, and 35 percent respectively. The first five RRBs were set up in five states of India viz., Haryana, West Bengal, Rajasthan, and 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 : Parthia Bank and Gorakhpur Kshetriya Gramin Bank in Uttar Pradesh, Haryana Krishi Gramin Bank in Haryana, Gaur Gramin Bank in West Bengal, and Raipur-Nagpur Archaic Gramin Bank, Rajasthan.

❖ **Amalgamation of RRBs in India :** The issue of merger of banks has acquired foremost importance with regard to banking sector reforms in the recent past. The finance minister Mr. P. Chidambaram said that the government would put in place an environment that will be conducive to mergers and acquisition of banks. It was important that the public sector commercial banks (PSCBs) grow in scale and muscle so that they can compete effectively with those banks that operate globally.

The Narasimham Committee on Banking Sector Reforms, in its report given during 1991, suggested that the banks should be restructured, creating three to four large banks of international character and eight to ten national level banks with a network of branches throughout the country. In India, there are 196 RRBs operating in 26 states covering only 518 districts, averaging three districts per bank. Most of the RRBs have a network of below 50 branches. For this small coverage, the committee felt, geographical area as a separate entity is not necessary. Amalgamation provides not only sound financial position, but also a large branch network throughout the country, a large clientele base, large resources, and bigger growth in terms of assets as well as business figures. It would also help to utilize the funds effectively for regional balanced rural development. Consolidation of RRBs has further become important due to the following reasons such as **a)** unhealthy competition among banks under the same ownership, **b)** expansion of branches, **c)** regional imbalance or computerization of ATHs/ network more banking solutions. It was decided that while considering a proposal for the amalgamation of RRBs, sponsor banks should ensure that they are geographical contiguities to each other. The modalities regarding seniority and transfer of employees of RRBs on amalgamation may be worked out beforehand.

The Narasimham committee identified three basic problems of RRBs, which include:

a) RRBs have low earning capacity because of many restrictions placed on the business they can undertake.

b) The wages and salary scale of RRB employees have been rising, so this has made them to become non-viable.

c) Sponsoring banks are also running their own rural branches in the area of operations of RRBs.

In view of their problems, the Committee recommended that the commercial banks should segregate the operations of their rural branches through the formation of one or more subsidiaries. Further, the Agricultural Credit Review Committee under the chairmanship of Dr. A. M. Kursk observed that the weaknesses of RRBs were that economic constraints and non-viability were built into their structure, and the RRBs accumulated huge losses. In a few cases, the losses eroded even a part of their deposits. RBI appointed another committee under the chairmanship of Mr. M.C. Bandar to suggest measures for restructuring the RRBs. Pursuant to the recommendations of the the Advisory Committee on Flow of Credit to Agriculture and Rehabilitee Activities under the chairmanship of Professor V.S. Visa to restructure the RRBs by way of amalgamation, the sponsor bank-wise at the State level and the Ministry of Finance, Govt. of India convened a meeting with the selected sponsor banks and State governments on February 16, 2005 at New Delhi. The meeting discussed the specific proposal of amalgamation submitted by seven sponsor banks in five States. The State govt. representatives present at the meeting, agreed, in principle, to concur with the proposals. It was consequently decided in the meeting to consider amalgamation of RRBs under section 23(A) (I) of the RRB Act, 1976. Thereby, the number of RRBs were reduced from 196 to 82 with 16,914 branches in 618 districts as on March 31, 2012.

❖ **Policy Initiatives and Development – Capital Infusion for Improving CRAR :** Consequent upon the decision taken in the Finance Minister's review meeting of RRBs dated August 18, 2009, a committee was constituted by the Government of India, Ministry of Finance, and Department of Financial Services under the Chairmanship of Dr. K. C. Chakrabarty to examine the financial position of RRBs with reference to CRAR, and suggest a roadmap for achieving a CRAR of 9 percent by March 2012. The recapitalization amount is to be shared by the stakeholders in proportion of their shareholding, i.e. 50 percent, 35 percent, and 15 percent by the Central government, concerned sponsor banks and State governments respectively. As per the approved scheme, the release of the Central government's share is subject to proportionate share by the Central government, the concerned sponsor banks, and the State governments. A sum of INR 66.49 crore was released to five RRBs during 2010-11.

❖ **Technology Innovation through Core Banking Solutions (CBC) :** The RRBs were required to ensure that their branches are put on CBS platform so that they can provide hassle free and anywhere banking services to their clients. 33 RRBs had fully migrated to CBS as on by March 2011. NABARD decided to provide financial assistance to the selected 28 weak RRBs to the extent of 40 percent for core banking solutions from financial inclusion technology funds (FITF) and the rest of the cost will be shared by the sponsor banks and RRBs in the ratio of 50 percent and 10 percent respectively.

❖ **Human Resource Development (Including Training of Officers and Staff of RRBs) :** Ensuing upon the amalgamation of RRBs, the training requirement of RRB staff has undergone a change. The banks are now undertaking larger and diversified lending activities, and the volume of their investments has increased significantly. With the introduction of technology and also the CBS (core banking solutions), they need training support for adoption of the same so that the customers of RRBs can get quicker and quality services. NABARD had recognized the capacity building requirement of RRB officials and has conducted programmes in training, establishments for RRBs officers on their subject -specific necessity with regard to investments, risk management, NPA management, credit appraisal, business development, profit planning, internal control systems, treasury management, etc. In addition to the training support provided to the RRB officers and staff on a continuous basis through their regional training centers by NABARD, sponsor banks also ensure that the training requirement of the officers and staff of the RRBs is effectively met.

Review of Literature

The Kalka Working Group (1984) reviewed the working of RRBs. It found that the RRBs could mobilize considerable participation of rural people through their branch networks. Among many recommendations made by the group, the viability participation of NABARD, credit deposit ratio, the relation between sponsoring banks and the RRBs training the bank staff, etc., are the most important.

Baring all, Vishnu (1985) attempted to assess the working of RRBs in Rajasthan. In this study, the author covered the managerial aspects of RRBs and operational aspects like lending, deposit mobilization, branch expansion, recovery, etc. The author recommended that the economic growth of the region, viability, and control should be taken into consideration for determining the operational area of the branch. Roy (1994) conducted a study on comparative performance of eight RRBs in West Bengal. The performance was evaluated in terms of branch expansion, growth in deposits, growth in advances, credit deposit ratio, and profit and loss. He concluded that the working of RRBs in West Bengal showed a remarkable trend with respect to deposits and advances, but most of the RRBs suffered losses in most of the years. He attributed the reason for losses due to the high proportion of establishment cost, high interest, etc.

According to Nathan (2002), the policies of the current phase of financial liberalization have had an immediate, direct, and dramatic effect on rural credit. There has been a contraction in rural banking in general, and in priority sector lending and preferential lending to the poor in particular. Chauvin and Pahlavi (2004) examined the growth and regional distribution of rural banking over the time period from1975-2002. Chauvin's paper documented the gains made by historical underprivileged regions of east, north-east, and central parts of India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposit ratios were the steepest in the eastern and north-eastern states of India. They were also of the view that the policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India. Khankhoje and Sathye (2008) in his study attempted to measure the variation in the performance in terms of productive efficiency of RRBs in India, and to assess if the efficiency of these institutions has increased.

It can be inferred from the above review of literature that since none of these studies have analyzed the performance of the RRBs after the amalgamation took place in the year 2006, there was a need for carrying out the present study.

Data and Methodology/Research Design

The present study is investigative in nature and makes use of secondary data. The relevant secondary data were collected mainly through the databases of National Bank for Agricultural and Rural Development (NABARD) and Reserve Bank of India (RBI). Various journals were also referred to. The study is limited to specific areas like the number of branches, district coverage, productivity, capital funds, deposit mobilization, loans outstanding and investment, recovery performance, non-performing assets, and financial inclusion made by the regional rural banks (RRBs) in India for a ten years period commencing from 2001-02 to the year 2011-2012.

Results and Discussion

❖ **Working of Regional Rural Banks in India :** Till the birth of RRBs in India, commercial banks and co-operative banks rendered services to the rural public. However, despite such a large network of bank branches, the credit needs of the rural population in India were quite inadequate. Regional rural banks in India have achieved tremendous growth in terms of number of banks, as depicted in the Table 1.

❖ **Branch Expansion:** It is very clear from the Table 1 that the number of RRBs decreased from 196 banks in the year 2001-02 to 82 in 2011-2012. This was due to the amalgamation that took place in the year 2005-2006, covering 523 districts with a network of 14, 484 branches. However, the number of branches increased significantly from 14,390 in 2001-02 to 16,914 in 2011-12. The increase over the study period was 1.75 times.

An analysis of the Table 1 also reveals that the number of branches - which were 14,390 during 2001-2002 increased to 16,914 towards the end of March 2012. The growth in the number of banks could be seen only up to 2005.

Table 1 : Performance Indicators of RRBs in India

Year	No. of RRBs	No. of Districts (Covered)	No. of Branches	Deposits (₹ in Crores)	Advances (₹ in Crores)	Credit Deposit Ratio
March 2001	196	484	14,311	38,277.78	15,815.80	41
March 2002	196	511	14,390	44,539.15	18,629.55	42
March 2003	196	516	14,433	50,098.00	22,158.00	44
March 2004	196	518	14,445	56,350.00	26,113.86	46
March 2005	196	523	14,484	62,143.00	32,870.03	53
March 2006	96	525	14,494	71,328.83	39,712.57	60
March 2007	96	534	14,520	83,143.55	48,492.59	58
March 2008	91	594	14,761	99,093.46	58,984.27	60
March 2009	86	616	15,181	1,20,189.90	67,802.92	56
March 2010	82	618	15,480	1,45,034.95	82,819.10	57
March 2011	82	618	15,938	1,74,041.94	1,01,039.30	58
March 2012	82	618	16,914	1,87,351.37	1,20,550.66	64

Source: Central Statistical Information Department, NABARD, March 2012

Afterwards, the growth decreased in 2006 due to the amalgamation of RRBs from 196 banks to 82 banks. About 85 percent of the branches of the RRBs are located in the rural areas in order to cater to the banking needs of the rural people as well as to provide institutional credit flow to Indian agriculture.

❖ **Geographical Coverage of RRBs:** Regional Rural Banks (RRBs) were established in India essentially for taking banking to the doorstep of the rural masses, particularly in areas without banking facilities. RRBs are banks for poor rural people; their presence in all the states of the country, especially in underdeveloped states and union territories is strongly realized. RRBs covered 525 out of 605 districts as on March 31, 2006. After amalgamation, the RRBs have become quite large, covering most parts of the States in India. Year-wise coverage of the districts and the number of branches are provided in the Table 1. Significant improvement in the performance of RRBs was witnessed over the period of study in terms of number of districts covered. RRBs covered 511 districts as on March 31, 2002, which increased to 618 as on March 31, 2012. The increase over the period was 1.21 times.

❖ **Deposits:** Deposits mobilization is one of the twin major activities of the RRBs. Their main objective is to inculcate the habit of saving among the rural poor. As such, deposits mobilization is one of the important measures by which the performance of the banks is assessed. With the steady improvement in the number of RRBs and considerable expansion in branch network in the operational areas of the respective RRBs, their deposits increased substantially. There has been continued up trend in the savings as well as deposits not only in terms of aggregate for all the RRBs, but also per RRB and most significantly, per branch of the RRBs. The data regarding the growth in deposits of RRBs in India during the last ten years is given in the Table 1. A significant improvement is evident with regard to deposits collected by these banks.

The deposits of RRBs in India registered an increase of more than 4.89 times during the 12-year period from 2001-2002 to 2011-2012. It can also be seen from Table-1 that the deposits mobilized by 196 RRBs increased from ₹ 38277.78 crores in 2001-2002 to ₹ 187351.37 crores in 2011-2012. The increase in advances of all RRBs in the country during the last 12 years worked out to around 7.62 times. The average rate of increase during the last 11 years has been 45.46 percent. It can be said that the average rate of growth in deposits mobilized by RRBs is higher than that of advances during this period. It can be also be observed that the credit deposit ratio, which was 41 in March 2001 increased to 64 in March 2012. This may be due to the reason that the rate of growth in deposits is higher as compared to the rate of growth in advances.

❖ **Advances:** As already stated earlier, one of the important functions of the RRBs is the provision of credit, especially to the weaker sections of the society such as the small and marginal farmers, rural artisans, and small entrepreneurs in rural areas. It can be seen from the Table 1 that the total advances given by all RRBs in India increased from ₹ 15,815.80 crores in 2001-2002 to ₹ 120550.66 crores in 2011-2012. The increase in advances of all RRBs in the country during the last 11 years worked out to around 7.62 times. The average rate of increase during the last 11 years is 63.88 percent. It can be said that the average rate of growth in deposits mobilized by the RRBs has been higher than that of the advances during this period. It can also be observed that the credit deposits ratio, which was 41 in March 2001 increased to 64 in March 2012. This may be due to the reason that the rate of growth in deposits has been higher when compared to the rate of growth in advances.

❖ **Credit Deposit Ratio (CD Ratio):** The RRBs were conceived to develop the rural economy by providing credit and other facilities for the purpose of development of agriculture, trade, and other productive activities to the targeted poor people. The credit deposit ratio of the bank indicates the creation of credit out of the deposits mobilized by the banks, the details of which are furnished in the Table 1. The Table 1 exhibits that the CD ratio increased from 41 in the year 2001-02 to 64 in 2011-2012. It can be observed that there has been a consistent growth in the sphere of the credit deposit ratio. The year 2012 registered a higher rate, i.e., 64 percent.

❖ **Productivity Parameters of RRBs in India:** The achievement of any bank depends upon the efficient performance of the functions of deposits, mobilization, and advances. Both these functions are interdependent in most of the commercial banks. Advances cannot be improved without improving the deposit's position. Therefore, the business of a bank can be contemplated by taking both the functions together. As such, the total business of a bank can be taken as

Table 2 : Productivity Parameters of RRBs in India (₹ Crores)					
Year	Business (Deposits + Advances)	Branches	Per-Branch Productivity	Staff	Per-Staff Productivity
2001-02	63,168.70	14,390	4.39	69,876	1.04
2002-03	72,256.00	14,433	5.01	69,547	1.03
2003-04	82,463.86	14,446	5.71	69,249	1.19
2004-05	95,013.03	14,484	6.57	68,912	1.38
2005-06	1,11,041.40	14,494	7.66	68,629	1.62
2006-07	1,31,636.14	14,520	9.07	68,289	1.62
2007-08	1,58,077.73	14,761	10.71	68,005	1.93
2008-09	1,87,992.82	15,181	12.38	68,526	2.32
2009-10	2,27,854.05	15,480	14.38	68,745	3.31
2010-11	2,75,081.24	15,938	17.26	69,125	3.98
2011-12	3,07,902.03	16,914	18.20	70,350	4.37

Source: Central Statistical Information Department, NABARD, June 2012

the sum total of advances and deposits made during the year. An attempt is made to estimate the total business generated for the RRBs by taking the total of deposits and advances at the end of the year. The relevant data is presented in the Table 2. The Table 2 explains that the business of RRBs on the whole increased from ₹ 63,168.70 crores in 2001-2002 to ₹ 3, 07,902.03 crores in 2011-2012, recording an increase of nearly 4.87 times during the study period. The growth of the business of the RRBs in this period was mainly due to the increasing deposits and increasing advances.

The per-branch business of RRBs increased from ₹ 4.39 crores in 2001-2002 to ₹ 18.20 crores in 2011-2012, and the average per branch business was ₹ 8.46 crores. During the same period, the per employee productivity increased from ₹ 1.04 crores in 2001-2002 to ₹ 4.37 crores in 2011-2012, and the average per employee business was ₹ 1.76 crores.

❖ **Recovery Performance of the RRBs:** Timely recovery of loans is vital for any bank and RRBs are not an exemption to this. The performance of the RRBs has been impressive with respect to branch network in general, and deposit mobilization and deployment of loans in particular. However, the ineffectiveness of any lending programme, and the financial viability of a bank invariably depends upon the rate of recovery of loans. The Table 3 shows the recovery performance of RRBs during the period from 2001-2012. The overall recovery of loans by RRBs had been between 70.59 percent to 73.49 percent up to 2003. Afterwards, the recovery performance of the banks gradually improved and

Table 3 : Recovery Performance of RRBs in India (₹ in Crores)				
Years	Demand	Collection	Balance	Recovery
June 2001	9,617.93	6,789.59	2,828.40	70.59
June 2002	11,569.82	8,274.34	3,295.48	71.52
June 2003	13,673.31	10,048.01	3,625.30	73.49
June 2004	17,656.08	13,712.78	3,943.30	77.67
June 2005	19,730.17	15,755.18	3,974.99	79.85
June 2006	24,071.58	19,209.67	4,861.91	79.80
June 2007	29,527.04	23,765.79	5,761.25	80.49
June 2008	32,672.05	26,402.28	6,269.77	80.81
June 2009	38,783.46	30,158.01	8,625.45	77.76
June 2010	42,567.32	34,092.16	8,475.16	80.09
June 2011	49,436.69	39,564.18	9,872.52	80.03
June 2012	58,125.64	48,160.50	9,965.14	82.63

Source: Central Statistical Information Department, NABARD, June 2012 reached to 82.63 percent as on March 31, 2012. It is distressing to note that the RRBs have never seen a 100 percent recovery in any year of the time period from 2001-2012. Hence, it is clear that the mounting overdues and unsatisfactory recovery of loans seriously affects the recovery performance of RRBs.

❖ **NPAs and Recovery of Loans:** The most critical factor in the area of viability of banks is the reduction of their NPAs. As per the guidelines of the RBI, all the RRBs are required to classify their loan portfolio on the basis of their recovery performance and make necessary provisions. Accordingly, the particulars relating to asset classification and percentage of NPAs to loans extended by the RRBs during the period from 2001 to 2011 are presented in the Table 4.

Table 4 : Percentage of NPAs to Loans of RRBs in India (At the end of March 31)

Years	Gross Loans	Gross NPAs	% to Total	Net NPAs %
June 2001	15816	2978	18.8	12.00
June 2002	18629	3066	16.45	11.13
June 2003	22158	3200	14.44	9.51
June 2004	26114	3299	12.63	8.51
June 2005	32870	2890	8.53	4.81
June 2006	39710	2890	7.28	3.92
June 2007	48493	3178	6.55	3.46
June 2008	58984	3566	6.04	3.36
June 2009	67802	2810	4.14	1.76
June 2010	82819	3085	3.72	1.25
June 2011	98917	4994	4.14	

Source: Central Statistical Information Department, NABARD, June 2012

It can be seen from the Table 4 that the NPAs, both in percentage and in absolute terms, decreased marginally. As at the end March 2001, the gross NPAs stood at ₹ 2, 978 crores and gradually reached to ₹ 4,994 crores by the end of March 2011. It is interesting to note that the gross NPAs as a percentage to gross loans registered a downward trend, indicating a figure of 4.14 percentage in 2011 as against 18.82 percent in 2001. The net NPAs also showed a declining trend.

❖ **Capital Composition:** RRBs hold an important place in the rural credit market of India. The rationale for the establishment of the RRBs was to mobilize deposits, provide access to central money market and to a modernized outlook, which the commercial banks have. Sound financial position is very important for any organization to survive to render its services to the society. RRBs have both types of capital, i.e., owned and borrowed. The components of capital funds are furnished in the Table 5.

The Table 5 reveals the year-wise components of total capital contains of owned funds and borrowed funds of RRBs in India. It can be observed from the Table 5 that both the owned funds and borrowed funds have constantly increased over the period of the study. It is clear from the Table 5 that the borrowed funds constituted more percentage than did the owned funds. This figure grew from 52.70 percent in the year 2001-2002 to 65.57 percent in the year 2011-2012. The percentage figure for the owned funds reduced from 47.30 percent in the year 2001-2002 to 34.42 percent in the year 2011-2012.

❖ **Growth in Investments:** Investment as a gap of operation of funds was given more importance than lending. The year wise investment made by the banks is presented in the Table 6. It can be observed from the Table 6 that there has been a consistent growth in the sphere of investment activity. It can also be observed that the amount of investment of the banks increased from ₹ 30,532 crores in the year 2001-02 to ₹ 89, 145 crores in 2011-12.

❖ **Financial Inclusion:** The RRBs have emerged as a strong intermediary for financial inclusion in the rural areas by opening a large number of "No Frills" accounts and financing under the General Credit Card (GCC) as per RBI

Table 5 : Components of Total Capital / Funds (₹ Crores)					
Year	Owned Funds	% to Total Funds	Borrowed Funds	% to Total Funds	Total Funds
2001-02	4,059	47.30	4,524	52.70	8,583
2002-03	4,666	49.30	4,799	50.70	9,465
2003-04	5,438	54.20	4,595	45.80	10,033
2004-05	6,181	52.80	5,524	47.20	11,705
2005-06	6,647	47.65	7,303	52.35	13,950
2006-07	7,286	42.70	9,776	57.30	17,062
2007-08	8,733	43.17	11,494	56.83	20,227
2008-09	10,910	46.14	12,736	53.86	23,646
2009-10	12,247	39.48	18,770	60.51	31,017
2010-11	13,860	33.74	27,216	66.26	41,076
2011-12	15,892	34.42	30,272	65.57	46,164

Sources: Central Statistical Information Department, NABARD, June 2012

Table 6 : Growth in Investments of RRBs in India (₹ Crores)		
Years	Total Investment	% Increase over previous year
2001-2002	30532	--
2002-2003	33063	8.29
2003-2004	36135	9.29
2004-2005	36768	1.73
2005-2006	41182	12.02
2006-2007	45666	6.33
2007-2008	48560	35.72
2008-2009	51159	53.52
2009-2010	79379	55.16
2010-2011	86510	89.83
2011-2012	89145	30.47

Sources: Central Statistical Information Department, NABARD, June 2012

guidelines. The total number of business accounts (deposit plus loan accounts) with RRBs stood at 834.85 lakhs as on March 31, 2007, which increased to 1,188.83 lakhs as on March 31, 2011 (Table 7).

❖ **Financial Inclusion Fund (FIF) – Sanction of Research and Development Project on Financial Inclusion with ICT Based Solutions by RRBs:** A pilot project on financial inclusion with ICT based solutions was launched in the year

Table 7 : Status of Financial Inclusion - RRBs								
Year	No. of Deposit A/C's	Of which No. Fril A/C's	No. of Loan A/C's	Of Total Loan Accounts, Major Areas of Financial Inclusion				
				GCC	SHG	KCC	Tenant	SSI/Artisans/ SCC and Retails/Trader
2006-2007	669.88	34.54	164.97	1.083	6.52	82.84	1.08	35.74
2007-2008	758.02	81.17	171.20	2.35	7.20	93.14	1.03	33.53
2008-2009	935.54	153.81	170.66	3.22	8.04	67.87	0.95	19.64
2009-2010	1002.16	200.09	186.67	4.12	8.97	83.72	0.83	21.28
2010-2011	1157.47	200.94	205.62	5.2	8.62	96.55	1.91	28.15

Sources: Central Statistical Information Department, NABARD, June 2011

2009 in 13 selected RRBs in different regions throughout the country. The project envisaged educating and motivating the rural people to use banking services. The objective of the project was to ensure timely and adequate credit to low income groups at an affordable cost, increasing the reach of the banking services to the small value customers with an overall reduction of transaction costs. NABARD's assistance is extended as a back end incentive from the Financial Inclusion Technology Fund. The deliverables under the projects are as follows :

1) Provide Hardware: Client device, laptop for enrollment.

2) Client Software License: ESE server software for financial inclusion for 6 months.

3) Server Software License: ESE server software for financial inclusion for 6 months.

4) Prior to deployment, each RRB was to sign the STS software license and equipment sale agreement to allow use of the client software for up to 6 months on the purchased hardware.

5) Smart Cards: STS to provide to each RRB :

i) 1000 client smart cards, **ii)** 20 operator Smart Cards

6) Impact study, report drafting, and final reporting and publications.

7) Sharing of learning with suggestions from adopting the appropriate model for further expansion.

The project has been completed and an interim assessment of the project shows that the ICT based initiative can accelerate the pace of financial inclusion if there is physical connectivity, people are educated about financial literacy, and by making technology compatible with the local conditions.

Suggestions

Important suggestions are appended below:

1) Regional Rural Banks have to make earnest efforts to promote the mobilization of rural deposits. Deposit campaigning can be organized with wide publicity at the appropriate time - especially at the time of festivals, harvesting, and marketing of crops and other occasions.

2) To avoid competition, RBI should make a policy for transfer of business from rural branches of commercial banks to Regional Rural Banks, which will be helpful to increase the performance of the RRBs, and at the same time, it will avoid competition between the commercial banks and the RRBs.

3) The core banking system in the RRBs, at present, is not adequate. It is necessary to establish network computerization and online transactions, especially in town branches. The ATM system should be introduced in all branches. All these facilities will attract more deposits to the banks, and will ensure quick disposal of transactions.

4) The Government should encourage and support the banks to take appropriate steps for rural development. Policies should be made by the Government for opening more branches in weaker and remote areas of various States.

5) Efforts should be made to ensure that the non - interest cost of credit to small borrowers is kept as low as possible. Productivity can be improved by controlling the costs and increasing the income.

6) For reducing participation cost, subsidy should be adjusted towards the end of the transaction, for which loan assistance is sanctioned.

7) The Government needs to take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

8) The Regional Rural Banks have to make important changes in their decision making with regard to their investments.

9) Co-operative societies may be allowed to sponsor or co-sponsor with commercial banks for the establishment of new RRBs.

Conclusion

Depending on the background and submissions, the term 'performance' may have different suggestions. In the present study, for ascertaining the performance of the Regional Rural Banks, an attempt has been made to analyze their performance in terms of certain defined parameters like number of branches, districts covered, capital funds, mobilization of deposits, loans, financial inclusion, NPAs , recovery performance, and investments made by these banks. From the analysis, it can be concluded that overall, the performance of RRBs in India improved greatly during the study period.

Even though the number of RRBs decreased, the branch network increased as there was an increase in the number of districts covered by the RRBs. The total capital funds increased tremendously. The credit-deposit ratio increased over the years, showing a remarkable deployment of credit by these banks in rural areas. The net NPAs also registered a declining trend. The total number of business accounts (deposit plus loan accounts) with RRBs increased in number. The recovery performance of the banks improved gradually. However, it is the responsibility of the bank management and the sponsored banks to take charge for implementing corrective steps to raise the credit-deposit ratio of the banks. With a view to facilitate the seamless integration of RRBs with the main payment system, there is a need to implement the computerization of these banks . The gap between the CD ratio of the commercial banks and the RRBs needs to be minimized. The RRBs should extend their services into un-banked areas and increase their credit-deposit ratio. The process of a merger should not proceed beyond the level of the sponsor bank in each state.

It is also concluded that the findings of the present study may be of considerable use to rural banking institutions and policy makers in developing countries and to academic researchers in the area of banking performance evaluation.

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