PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS

Kuldeep Singh,
B.Com, MBE, UGC-NET, B.ED
House No. : 167, New Police Lines,
Sector 26, Chandigarh.

ABSTRACT

The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalised sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich, while the commercial banks had a clear urban bias. In order to provide access to low-cost banking facilities to the poor, the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which "combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have".

INTRODUCTION

Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRBs have more reached to the rural area of India, through their huge network. The success of rural credit in India is depends on their financial strength. RRBs are key financing institution at the rural level which shoulders responsibility of meeting credit needs of different types of agriculture credit in rural areas. Regional Rural Banks have been in existence for around 36 years in the Indian financial scene the Regional Rural Banks were setup through the promulgation of RRB Act of 1976.

The RRBs were established “with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto”. The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35%, respectively. Another major impetus to rural credit was provided by the establishment of the National Bank for Agriculture and Rural Development (NABARD) through an Act of Parliament in 1982.21 NABARD was set up as an apex Development Bank with a mandate for facilitating credit flow for agriculture, rural industries and all other allied economic activities in rural areas.

OBJECTIVES OF RRBs

The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhi ji said "Real India lies in Villages," and village economy is the backbone of Indian economy. Without the upliftment of the rural economy as well as the rural people of our country, the objectives of economic planning cannot be achieved. In fact, the real growth of Indian economy lied in the freeing of rural masses from acute poverty, unemployment, and socio-economic backwardness.

Regional Rural Banks (RRBs) are oriented towards meeting the needs of the weaker sections of the rural population consisting of :

- Small and marginal farmers,
- Agricultural labourers,
- Artisans,
- Small entrepreneurs,
- Mobilise deposits from rural households

The Operational Area of RRB "

The area of operation of RRBs is limited to the area as notified by Government covering one or more districts in the State.

RBI Assistance

With a view to facilitate RRBs operations, the RBI gave RRBs direct access to refinance assistance at a concessional rate of three per cent below the bank rate.

Allowed to maintain a lower level of SLR than commercial banks.

Allowed to pay half per cent more interest on all deposits except those of three years and above.

Sponsor banks IDBI, NABARD, SIDBI, and other FIs are statutorily required under the RRBs Act to provide managerial and financial assistance to RRBs.

AMALAGAMATION OF RRBs

The RBI in 2001 constituted a Committee under the Chairmanship of Dr V S Vyas on “Flow of Credit to Agriculture and Related Activities from the Banking System” which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process thus was initiated in the year 2005 as an off-shoot of Dr Vyas Committee Recommendations. First phase of amalgamation was initiated Sponsor Bank-wise within a State in 2005 and the second phase was across the Sponsor banks within a State in 2012. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs has been reduced from 196 to 64 as on 31 March 2013. The number of branches of RRBs increased to 17856 as on 31 March 2013 covering 635 districts throughout the country.

Performance of RRBs during 2012-13(1 April 2012 – 31 March 2013) (Provisional)

2.1 Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank.

2.1.1 Owned Funds

The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at ₹ 19304 crore as on 31 March 2013 as against ₹ 16462 crore as on 31 March 2012; registering a growth of 17.26%. The increase in owned funds to the tune of ₹ 2842 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to ₹ 6174 crore of total owned fund while the balance amount of ₹ 13130 crore represented reserves.

2.1.2.Recapitalisation of RRBs

(a) The Chakarabarty Committee reviewed the financial position of all RRBs in 2010 and recommended for recapitalisation of 40 out of 82 RRBs for strengthening their CRAR to the level of 9 per cent by 31 March 2012. According to the Committee, the remaining RRBs are in a position to achieve the desired level of CRAR on their own. Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalise the RRBs by infusing funds to the extent of ₹ 2200 Crore. The shareholder wise proportion (GOI/Sponsor Banks/State Governments) is 50:35:15 respectively.

(b) As on 31 March 2013, an amount of ₹ 2015.86 crore has been released to 37 RRBs in 20 States. The released amount includes GoI's contribution of ₹ 1003.92 crore, State Govt's contribution of ₹303.59 crore and Sponsor bank's contribution of ₹ 708.35 crore. The recapitalisation is complete in respect of 35 RRBs (5 in Odisha , 3 in MP, 2 in Uttarakhand, 2 in Jharkhand, 2 in Chhatisgarh, 2 in Bihar, 2 in Maharashtra, 3 in West Bengal, 5 in Rajasthan and one each in Assam, Arunachal Pradesh, Nagaland, Tripura, J&K, Karnataka, Tamil Nadu, Gujarat & UT of Puducherry). GoI share ₹ 7.99 cr. is pending in respect of Manipur Rural Bank. Mizoram State Government has partially released ₹ 0.50 crore in respect of Mizoram Rural Bank and ₹ 2.80 crore is pending. Two State Govts. viz. UP(2 RRBs), & J&K (1 RRB) have not released any amount in respect of 3 RRBs operating in their states. Out of 35 fully recapitalised RRBs, 3 RRBs viz. Central Madhya Pradesh GB, Manipur Rural Bank and Mizoram GB have not achieved CRAR of

9 per cent as on 31.3.2013.

2.1.3 Deposits

Deposits of RRBs increased from ₹ 186336 crore to ₹ 211458 crore during the year registering growth rate of 13.48 %. There are Thirty three (33) RRBs having deposits of more than ₹ 3000 crore each.

2.1.4 Borrowings

Borrowings of RRBs increased from ₹ 30289 crore as on 31 March 2012 to ₹ 38268 crore as on 31 March 2013 registering an increase of 26.34% . Borrowings viz-a-viz the gross loan outstanding constituted 27.37% as against 26.02% in the previous year.

2.2 USES OF FUNDS

2.2.1 Investments

The investment of RRBs increased from ₹ 95975 crore as on 31 March 2012 to ₹ 110683 crore as on 31 March 2013 registering an increase of 15.32%. SLR investments amounted to ₹ 49938 crore where as non-SLR investments stood at ₹ 60746 crore. The Investment Deposit Ratio (IDR) of RRBs progressively declined over the years from 72% as on 31.3.2001 to 52.34% as on 31 March 2013.

2.2.2 Loans & Advances

During the year the loans outstanding increased by ₹ 23452 crore to ₹ 139837 crore as on 31 March 2013 registering a growth rate of 20.15% over the previous year.

2.2.3 Loans Issued

Total loans issued by RRBs during the year increased to ₹ 102162 crore from ₹ 82538 crores during the previous year registering a growth of 23.78%.

2.3 WORKING RESULTS

2.3.1 Profitability

63 RRBs (out of 64 RRBs) have earned profit (before tax) to the extent of ₹ 3281 crore during the year 2012-2013. The profit was higher than the previous year. After payment of Income Tax of ₹ 896 crore, the net profit aggregated to ₹ 2385 crore. One RRB viz. Nagaland Rural Bank incurred loss to the tune of ₹ 2.07 crore

2.3.2 Accumulated Losses

As on 31 March 2013, 11 of the 64 RRBs continued to have accumulated losses to the tune of ₹1012 crore as against ₹ 1333 crore (22 RRBs) as on 31 March 2012. The accumulated loss decreased by ₹ 321 crore during the year under review.

2.3.3 Non-performing Assets (NPA)

The Gross NPA of RRBs stood at ₹ 7907 crore as on 31.03.2013 (i.e.5.65%). The percentage of Net NPA of RRBs has shown an increase from 2.98% to 3.40% during the year. The data revealed that 10 RRBs had gross NPA percentage of less than 2%, whereas 32 RRBs had it above 5%.

2.3.4 Recovery Performance

There has been an improvement in the recovery percentage during 2011-12 from 81.60% as on 30 June 2011 to 81.32% as on 30 June 2012. The aggregate overdues, however, increased by ₹ 1802 crore to ₹ 13567 crore as on 30 June 2012.

2.3.5 Credit Deposit Ratio

The aggregate CDR of RRBs increased over the years from 41.83% as on 31 March 2002 to 66.13% as on 31 March 2013. Nine of the RRBs reported CDR of more than 100%.

2.3.6 Productivity of Branch and Staff

The branch productivity increased to ₹ 19.67 crore in 2012-13 from ₹ 17.90 crore in 2011-12 with a growth of 9.89%. Similarly, staff productivity in 2012-13 increased to ₹ 4.62 crore from ₹ 4.07 crore in 2011-12 with a growth of 13.51%.

2.4 Initiatives during the year

a. Recruitment of Officers and Office Assistants in RRBs

Government of India, Ministry of Finance, Department of Financial Services vide their letter No. F No. 3/8/2010 - RRB dated 23 Feb 2012 instructed that from the year 2012-13 onwards, a Common Written Examination (CWE) to be conducted by Institute of Banking Personnel Selection (IBPS) for recruitment of officers and staff in RRBs. NABARD was entrusted with the responsibility of coordination and Supervision of the selection process beside finalisation of the methodology for the conduct of the C W E. Methodology for conduct of C WE was finalised by NABARD in consultation with the IBPS, select sponsor banks and select RRBs by NABARD and approved by Government of India, Ministry of Finance. The guideline was issued to all the concerned on 9 May 2012. General Notice on behalf of GoI through advertisement in newspapers was released by NABARD on 14 May 2012. The guidelines on CWE has been uploaded on web sites of NABARD and IBPS. First CWE for recruitment of Officers and Office Assistants in RRBs was conducted by IBPS during the month of Sept 2012.

b. Committee on Human Resource Policy for RRBs post CBS

In terms of the GoI order F.No. 7/7/2012-RRB dated 2 Aug 2012, a Committee was constituted under the Chairmanship of an ED, NABARD to revisit the existing Human Resource Policy for assessment of manpower / staffing pattern for Regional Rural Banks post CBS and other technological upgradation with the following terms of reference (i) Laying down norms for categorisation of RRBs and their branches based on the business volume etc.

(ii) Assessment of technological upgradation in RRBs and a) re-assessment of required manpower and staffing pattern of Head Office,Controlling Office, Branches etc. b)skill development needs of employees of RRBs The Committee has submitted its report to GoI on 23 Nov 2012 covering the terms of reference as indicated in GoI order dated 2 Aug 2012.

Subsequently, GoI vide its letter No. F. No.7/7/2012-RRB dated 13 Dec 2012 has conveyed its decision to extend the tenure of the Committee till 30.06.2013 and amended the terms of reference of the Committee to include the following:-

(a) Preparation of roadmap for implementation of recommendations.

(b) Monitoring the implementation of the recommendations.

The Committee finalised the RRB wise time-frame of implementation of technology adoption by all RRBs as per the amended terms of reference. Further, the Part B of the Report of the Committee has been forwarded to GoI for their consideration and approval of the complete Report.

c. Pension to RRBs on the lines of Nationalised banks in lieu of Contributory Provident Fund.

A Working Group under the chairmanship of Chief General Manager, Law Dept. of NABARD was constituted by NABARD for preparation of draft model pension scheme and model pension regulations for RRBs on the lines of Nationalised Banks in lieu of Contributory Provident Fund as advised by GoI. Working Group submitted the draft Model Pension Scheme and Pension Regulation for RRBs and has been forwarded to GoI on 21.11.2012 for consideration.

d. Committee for fixing Inter-Se seniority of RRBs – Post amalgamation :

As advised by GoI, a Committee was constituted under the Chairmanship of Dr. R.M.Kummur CGM, NABARD, IDD with members of 11 new Sponsor banks of amalgamated RRBs to fix the norms for Inter-Se seniority of RRBs in post amalgamation scenario. First meeting of the Committee was convened at NABARD H.O. on 23.01.2013 to discuss views of the sponsor banks on the issue taking into account the prevailing position in the constituent RRBs and also the promotion process in newly formed RRBs. It was decided in the meeting to constitute a Sub - Committee consisting of State Bank of India, Bank of India, Central Bank of India and State Bank of Mysore, for framing rules / guidelines for fixing Inter-Se seniority of amalgamated RRBs keeping in view the legal issues involved therein. Sub-Committee submitted its report during the month of March 2013 (Draft guidelines finalised by the Committee has been forwarded to GoI for approval).

e. Financial Inclusion

As envisaged by the Government of India, RRBs as a group have become a strong intermediary for financial inclusion in rural areas by opening a large number of “No frills” accounts and by financing under General Credit Card (GCC), as per RBI guidelines. As on 31 March 2013 there were 319.59 lakh No Frills accounts.

f. Follow 9% capital adequacy rule

The Reserve Bank of India has directed all regional rural banks to follow the minimum 9% capital adequacy rule from this year, marking the end of their transitory phase.
The central bank said the rule was made applicable to banks in India with a view to strengthening their capital base. The banking regulator introduced the capital to risk weighted assets ratio (CRAR) framework for RRBs

Problems (Weaknesses) of RRBs

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems.

1. Very limited area of operations

2. High risk due to exposure only to the target group

3. Public perception that RRBs are poor man's banks

4. Mounting losses due to non-viable level of operations in branches located at resource-poor areas.

5. Switch over to narrow investment banking as a turn-over strategy

6. Heavy reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.

7. Chairman of RRBs under the direction of Regional Managers appointed as Board of

Directors by sponsor banks

8. Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets

9. Unionized staff with low commitment to profit orientation and functional efficiency.

10. Inadequate skills in treasury management for profit orientation

11. Inadequate exposure and skills to innovate products limiting the lending portfolios

12. Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity

13. Serious undermining of the Board by compulsions to look up to sponsor banks, GOI, NABARD and RBI for most decisions.

SUGGESTIONS (RECOMMENDATIONS) FOR IMROVEMENT OF RRBs

1. Government should encourage and support banks to take appropriate steps in rural development.

2. Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.

3. Policy should be made by government for opening more branches in weaker and remote areas of state.

4. Productivity can be improved by controlling the costs and increasing the income.

5. To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.

6. Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

7. The RRBs have to make an important change in their decision making with regard to their investments.

8. The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.

9. The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.

10. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.

11. A uniform pattern of interest rate structure should be devised for the rural financial agencies.

12. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.

13. The credit policy of the RRB should be based on the group approach of financing rural activities.

14. The RRB may relax their procedure for lending and make them easier for village Borrowers.

CONCLUSION

To conclude, the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable.

Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry .But still its commercial viability has been questioned due to its limited business flexibility, smallersize of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities . In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

REFERENCES

Articles, Books and Research Papers

1. Bagachi, K. K. and A. Hadi (2006), Performance of Regional Rural Banks in West

Bengal: an evaluation, Serials Publications: New Delhi.

2. Bose, S. (2005) Regional Rural Banks: The Past and the Present Debate

3. Das, U.R. (1998) “Performances and Prospects of RRBs”, Banking Finance November.

4. Gupta, S.K (1996) “Profitability and Regional Rural Banks”, Kurukshetra, July.

5. Gupta and Sodhi (1995), “Economic Liberalization and Rural Credit”, Kurukshetra, Vol.

XLIII, No. 10, p-27-30

6. Horseman, S.B (2002), Performance of Regional Rural Banks, New Delhi,

7. Ibrahim Dr. M. Syed (2010) “Performance Evaluation of Regional Rural Banks in

India", International Business Research Vol. 3, No. 4; p-203-211

8. Jham Poonam (2012) "Banking Sector Reforms and Progress of Regional Rural Banks in India (An Analytical Study)", Online published 11 January.

9. Khankhoje, D. and Sathye, M. (2008) "Efficiency of Rural Banks: The Case of India", International Business Research, Vol. 1. No.2, pp. 140-149.

10. Kannan, R. (2004), Regional Rural Banks

11. Misra, B.S. (2006), "The Performance of Regional Rural Banks in India: Has Past Anything to Suggest for Future", RBI Occasional Papers, Vol.27, Nos.1 and 2

12. Official website of NABARD, REGIONAL RURAL BANKS OF INDIA.