

Regional Rural Banks (RRB)-analysis and Performance



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ABSTRACT

Regional rural Banks plays a vital role in the agriculture and rural development of India. The RRB's have more reached to the rural area of India, through their huge network. The success of rural credit in India is largely 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. At present, most of the regional rural banks are facing the problems of overdue, recovery, non performing assets and other problems. Therefore, it is necessary to study financial performance of RRBs in India. This paper attempts to analyze the financial performance of RRBs in India during the period 2006-07 to 2010- 2011. The study is based on secondary data collected form annual reports of NABARD and RBI. An analytical research design of Key Performance Indicators Analysis such as number of banks and branches, deposits, loans, loans, investments and growth rate index is followed in the present study. The study is diagnostic and exploratory in nature and makes use of Secondary data. The study finds and concludes that performance of RRBs has significantly improved.

Keywords: Regional Rural Banks, Key Performance Indicators, Non performing assets

Introduction:

Regional Rural Banks are local level banking organizations operating in different States of India. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services. However, RRB's may have branches set up for urban operations and their area of operation may include urban areas too. RRB's are recognized by the law and they have legal significance. The Regional Rural Banks Act, 1976 Act No. 21 Of 1976 [9 February 1976.] reads "For the incorporation, regulation and winding up of Regional Rural Banks 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 the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto". RRB's are therefore created with a view to develop rural economy.

Functions:

The main purpose of RRB's is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRB's also perform a variety of different functions. RRB's perform various functions in following heads:

- Providing banking facilities to rural and semi-urban areas. Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- Providing Para-Banking facilities like locker facilities, debit and credit cards.

History:

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act. 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set up on the recommendations of The Narasimham Working Group during the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The development process of RRBs started on 2 October 1975 with the forming the first RRB, the Prathama Bank. Also on 2 October 1976 five regional rural banks were set up on with a total authorised capital of Rs. 100 crore (\$ 10 Million) which later augmented to 500 Crore (\$ 50 Million). There were five commercial banks, Punjab National Bank, State Bank of India, Syndicate Bank United bank of India and United Commercial Bank, which sponsored the regional rural banks. Earlier, Reserve Bank of India had laid down ceilings on the rate of interest to be charged by these RRBs. However from August 1996 the RRBs have been granted freedom to fix rates of interest, which is usually in the range of 14-18% for advances.

Restructuring of RRB:

The financial viability of RRBs has engaged the attention of the policy makers from time to time. In fact, as early as 1981, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) addressed the issue of financial viability of the RRBs. The CRAFICARD recommended that 'the loss incurred by a RRB should be made good annually by the shareholders in the same proportion of their shareholdings'. Though this recommendation was not accepted, under a scheme of recapitalization, financial support was provided by the shareholders in the proportion of their shareholdings. Subsequently, a number of committees have come out with different suggestions to address the financial non-viability of RRBs. For instance, the Working Group on RRBs (Kelkar Committee) in 1984 recommended that small and uneconomic RRBs should be merged in the interest of economic viability. Five years down the line, in a similar vein, the Agricultural Credit Review Committee (Khusro Committee), 1989 pointed out that 'the weaknesses of RRBs are endemic to the system and non viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions'. The Committee on Restructuring of RRBs, 1994 (Bhandari Committee) identified 49 RRBs for comprehensive restructuring. It recommended greater devolution of decision-making powers to the Boards of RRBs in the matters of business development and staff matters. The option of liquidation again was mooted by the Committee on Revamping of RRBs, 1996 (Basu Committee). The Expert Group on RRBs in 1997 (Thingalaya Committee) held that very weak RRBs should be viewed separately and possibility of their liquidation be recognised. They might be merged with neighboring RRBs. The Expert Committee on Rural Credit, 2001 (Vyas Committee I) was of the view that the sponsor bank should ensure necessary autonomy for RRBs in their credit and other portfolio management system. Subsequently, another committee under the Chairmanship of Chalapathy Rao in 2003 (Chalapathy Rao Committee) recommended that the entire system of RRBs may be consolidated while retaining the advantages of regional character of these institutions. As part of the process, some sponsor banks may be eased out. The sponsoring institutions may include other approved financial institutions as well, in addition to commercial banks. The Group of CMDs of Select Public Sector Banks, 2004 (Purwar Committee) recommended the amalgamation of RRBs on regional basis into six commercial banks - one each for the Northern, Southern, Eastern, Western, Central and North-Eastern Regions. Thus one finds that a host of options have been suggested starting with vertical merger (with sponsor banks), horizontal merger (amongst RRBs operating in a particular region) to liquidation by different committees that have gone into the issue of financial viability and restructuring strategies for the RRBs. A committee under the Chairmanship of A. V Sardesai revisited the issue of restructuring the RRBs (Sardesai Committee, 2005). The Sardesai committee held that 'to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders'. Merger of RRBs with the sponsor bank is not provided in the RRB Act 1976. Mergers, even if allowed, would not be a desirable way of restructuring. The Committee was of the view that merging a RRB with its sponsor bank would go against the very spirit of setting up of RRBs as local entities and for providing credit primarily to weaker sections. Having discussed various options for restructuring, the Committee was of the view that 'a change in sponsor banks may, in some cases help in improving the performance of RRBs. A change in sponsorship may, inter alia; improve the competitiveness, work culture, management and efficiency of the concerned RRBs'. Against this backdrop, a number of issues need empirical probing. Such as, which are the RRBs that need focus and whether for them the sponsor bank has really to be made accountable. All these issues fall under the broader questions of what factors drive the performance of RRBs? And do the sponsor banks have a role to play?

Recapitalization of Regional Rural Banks (RRB) - Chakrabarty Committee

Subsequent to review of the financial status of RRBs by the Union Finance Minister in August, 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR). A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including re-capitalization to bring the CRAR of RRBs to at least 9% in a sustainable manner by 2012. The Committee submitted its report in May, 2010. The following points were recommended by the committee:

- RRBs to have CRAR of at least 7% as on 31st March 2011 and at least 9% from 31st March 2012 onwards. Recapitalization requirement of Rs. 2,200.00 crore for 40 of the 82 RRBs. This amount is to be released in two installments in 2010-11 and 2011-12. .

- The remaining 42 RRBs will not require any capital and will be able to maintain CRAR of at least 9% if on 31st March 2012 and thereafter on their own.
- A fund of Rs. 100 Crore to be set up for training and capacity building of the RRB staff.
- The Government of India recently approved the recapitalization of Regional Rural Banks (RRBs) to improve their Capital to Risk Weighted Assets Ratio (CRAR) in the following manner:
- Share of Central Government i.e. Rs. 1, 100 crore will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011-12. However, release of Government of India share will be contingent on proportionate release of State Government and Sponsor Bank share.
- A capacity building fund with a corpus of Rs. 100 crore to be set up by Central Government with NABARD for training and capacity building of the RRB staff in the institution of NABARD and other reputed institutions. The functioning of the Fund will be periodically reviewed by the Central Government. An Action Plan will be prepared by NABARD in this regard and sent to Government for approval.
- Additional amount of Rs. 700 crore as contingency fund to meet the requirement of the weak RRBs, particularly those in the North Eastern and Eastern Region, the necessary provision will be made in the Budget as and when the need arises.
- Problems (Weakness) 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.
- Very limited area of operations
- High risk due to exposure only to the target group
- Public perception that RRBs are poor man's banks
- Mounting losses due to non-viable level of operations in branches located at
- Resource poor areas.
- Switch over to narrow investment banking as a turn-over strategy
- Heavy reliance on sponsor banks for investment avenues with low returns barring Exceptions, step-motherly treatment from sponsor banks.
- Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks
- Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets

Suggestions To Improve The Working Of Rrb In India:

- The RRBs have indeed a good beginning in the direction of the objective of promoting rural Development redistributive justice. their working. We make the following important suggestions in this regard;
- The unique role of RRBs in providing credit facilities to weaker section in the village must be preserved. The RRBs should exist as rural banks of the rural poor.
- The RRBs may be permitted to lend up to 25 percent of their total advances to the richer section of the village society.
- The State government should also take keen interest in the growth of RRBs.
- There should be a clearly demarcated planning for scope of activities of RRBs co-operative and commercial banks in the rural area.
- The RRBs should be linked with PACS and farmers' service societies (FSS).
- The RRBs should be strongly linked with the sponsoring scheduled commercial banks and the Reserve Bank of India.
- A uniform pattern of interest structure should be devised for the rural financial agencies.
- The must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loan and their efficient recovery.
- The credit policy of the RRBs should base on the group approach of financing rural activities.
- The RRBs may relax their procedures for lending and make them easy for the villagers borrowers.

Conclusion:

Despite these problems, the RRBs have been trying their level best to achieve their objective. They have been succeeded in projecting their image of 'small man's bank'. They are in fact developing bank of the rural poor. They have been trying to fill regional and functional gaps in rural finance in our country. To conclude that, the expansion of RRBs at the rapid growth rate helped the rural economy to reduce the dependence on indigenous sources of finance the emerging economy must want to financial inclusion. At present RRBs growth increased like snail way to promote rural development in India. RRBs need to be developed as the strongest banking network. Government should take some effective remedial steps to make Rural Banks profitable by concentrating on qualitative, secure and speedy banking services.

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