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# A STUDY ON THE IMPACT OF REGIONAL RURAL BANKS (RRBs) IN RURAL INDIA

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## ABSTRACT

Banking plays a vital role in the growth and development of developing countries like India. Banks lubricate the entire monetary and financial system and ensure smooth operations. Nearly 70% of the total of Indian population lives in rural areas. For the development of Indian economy, there is a need for the development of the rural areas. For the purpose of rural development, there is a need for the banking system in rural areas which provide credit at lower and at reasonable terms to the rural households unlike traditional moneylenders which exploit the rural people by providing loans at a very high interest rate which leads to rural people were unable to repay loans given by moneylenders and lost everything and also commit suicide. To avoid all those negative consequences, the government appoints a working group on rural credit, the narasimhan committee. On the basis of recommendations given by the narasimhan committee, regional rural banks were

established. The main objective behind the establishment of these banks is the development of agriculture, trade, commerce, industry and other productive activities in the rural areas particularly in those areas where banking services does not exist and make available cheaper institutional credit to the weaker sections of the society. This research paper throws light on the need of banking system in rural areas and significant role played by banking system in the development of rural areas and discusses about the problem faced by regional rural banks in India and suggestions to overcome the problems. The main aim of this paper is to analyse the present level of financial performance of RRBs in India as on 31st march 2017 in comparison to 31st march 2016. This study is based on the secondary data collected from the annual reports of NABARD. This study finds and concludes that the RRBs play a very important role in the development of rural areas.

**KEYWORDS:** Regional rural banks, rural development, Credit facilities, banking

## INTRODUCTION

According to the census of India 2011 out of the 121 crore Indians, 83.3 crore lives in rural areas while 37.7 crores stay in urban areas. The rural- urban distribution is 68.84% and 31.16% respectively, Registrar general of India and census commissioner c chandramouli said. From the rural-urban distribution, it is cleared that for development of Indian economy, there is a need for rural development. Rural development is the process of improving the quality of life and economic well being of the people living in the rural areas. For rural development, there is a need for proper credit facilities. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable rates than the traditional moneylenders who provides loans at very high interest rate and on their own terms. Due to high interest rates, rural households unable to repay loans and under that pressure there was trend of committing





suicides. To meet the gap that existed in meeting the credit needs of rural poor, the govt. appointed a working group on rural credit, the narasimhan committee in July 1975. Based on its recommendations, regional rural banks emerged in 1975. These banks were meant to take banking to the rural masses, particularly in areas without banking facilities, make available cheaper institutional credit to the weaker sections of the society, mobilise rural savings and channelize them for other productive activities in rural areas and bring down the cost of providing credit in rural areas.

### LITERATURE REVIEW

Robin burgess and Rohini pande in their research paper titled Do rural banks matter? Evidence from the Indian social banking experiment said that Indian rural branch expansion program significantly lowered rural poverty and increased non-agriculture output.

Jephias matunhu and Stephen mago in their research paper titled Rural banking for rural development in Zimbabwe states that the one of the fundamental reason behind rural poverty and underdevelopment in Zimbabwe was the lack of finance. In this paper they studied about the opportunities and challenges for establishing rural banks in Zimbabwe. They state in their research paper that despite all these challenges, the rural bank initiative is a noble idea for the rural development in Zimbabwe.

Mahendra varman in his research paper titled Impact of self-help groups on formal banking habits studies the impact of self-help groups, which recently came into existence as informal organisation, are limited to banks and its members are mainly women. This paper attempt to examine whether there is an association between the growth of SHGs and the increase in female banks deposit accounts.

Ghouse and Reddy in their research paper titled Indian regional rural bank growth

and performance said that regional rural banks play a vital role in the growth of Indian economy through agriculture and rural development in India. In this paper they studied about the financial performance of RRBs by using KEY PERFORMANCE INDICATORS such as number of banks and branches, deposits, loan, investment and growth rate index. This paper is based on the secondary data and concludes by saying that the financial performance of regional rural banks has significantly improved.

### REGIONAL RURAL BANKS INCUR LOSS IN 2020-21

Regional rural banks (RRBs) as a group reported net loss of Rs 2,206 crore in the fiscal year ended March 31, 2020, as against Rs 652-crore net loss in FY19, according to data published by Nabard.

During FY 2019-20, 26 RRBs earned profit of Rs 2,203 crore, while 19 incurred losses of Rs 4,409 crore, the data showed.

The data on RRBs, recently published by the National Bank for Agriculture and Rural Development (Nabard), is based on the data uploaded by the RRBs in the Ensure portal.

As on March 31, 2020, there were 45 RRBs functioning in 685 districts of 26 states and three union territories (UTs). These RRBs were sponsored by 15 commercial banks and operating through a network of 21,850 branches.

Gross non-performing assets as a percentage of gross loans outstanding of RRBs marginally declined to 10.4 per cent as on March 31, 2020, from 10.8 per cent as on March 31, 2019, the data showed.

Share of standard, sub-standard, doubtful and loss assets stood at 89.6 per cent, 3.6 per cent, 6.5 per cent and 0.3 per cent, respectively, as of end March 2020.

Eighteen of the 45 RRBs (as against 20 out of 53 RRBs as on March 31, 2019) had



GNPA above 10 per cent as on March 31, 2020.

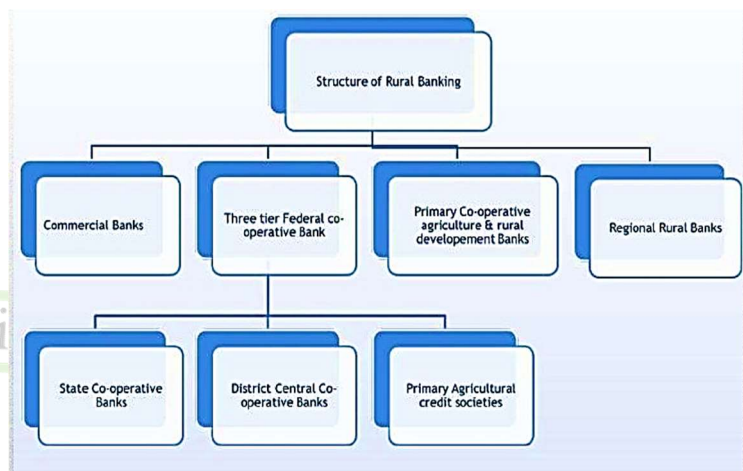
RRBs, at aggregated level, achieved a growth of 8.6 per cent in their business in FY20 compared to a growth of 9.5 per cent in the previous year, according to the data. Total business of RRBs stood at Rs 7.77 lakh crore as on March 31, 2020. Deposits and advances of RRBs increased by 10.2 per cent and 9.5 per cent, respectively during FY2019-20. Gross outstanding loans stood at Rs 2.98 lakh crore as against Rs 2.80 lakh crore in FY19.

Priority sector loans constituted 90.6 per cent or Rs 2.70 lakh crore of the gross loans outstanding of RRBs as on March 31, 2020. Share of agriculture and MSME sectors in total loan outstanding stood at 70 per cent and 12 per cent, respectively, the data showed.

As of end March 2020, 17 out of the 45 RRBs had capital to risk weighted assets ratio (CRAR) of less than 9 per cent, of which six RRBs had negative CRAR.

System-wide CRAR of RRBs deteriorated to 10.2 per cent as on March 31, 2020 from 11.5 per cent in the previous year, the data showed.

## ORGANISATIONAL STRUCTURE OF RRB



## OBJECTIVES OF THE STUDY

- To study the need of banking in rural areas
- To study the functions of regional rural banks in the rural development
- To study the financial performance of regional rural banks
- To study the challenges faced by the banking in rural areas
- To study the possible solutions of the problems faced by the rural banks in the rural areas

### DIFFERENCE BETWEEN RRB AND COMMERCIAL BANK

| Basis             | Regional Rural Bank   | Commercial Bank   |
|-------------------|---|---|
| Purpose           | the main reason behind the existence of RRB is the development of rural and backward areas, and also providing banking facility to rural population | the main reason behind the existence of commercial banks is to make profits out of their operations.  |
| Scope             | Scope of RRB is limited to agriculture finance, small sector loans, handicrafts and other small sector loans  | scope of commercial banks is wide and it not only provides agriculture finance but also housing loan, car finance, letter of credit, credit to big companies and for many activities.   |
| Area of Operation | RRB is present in rural and semi urban areas only   | commercial banks do operations in all over the country that is rural, semi urban and urban areas.   |
| Focus             | While the focus of RRB is more on accepting deposits and granting of loans to the people  | the focus of commercial banks apart from lending and borrowing is on many other services like stock broking, asset management, insurance, merchant banking, venture capital financing, foreign exchange related business etc... |
| Stakeholding      | RRB include government of India, state government and commercial banks  | stakeholders of commercial banks are public, central government etc...  |





## RESEARCH METHODOLOGY

This paper is based on the secondary data and drained from annual reports of NABARD and from various articles, reports, and websites.

## NEED FOR BANKING IN RURAL SECTOR

About 70% of Indian population lives in the villages during 1970s. The savings and cash flows of the majority of the rural population is small due to which for the basic needs like food, housing, education rural households rely on credit. Most of the peoples in rural areas involve in agricultural activities. Rural households also needs funds for carrying out their agricultural activities. For meeting credit needs they approach to moneylenders because loan from the financial institutions involves a lot of paper work, formalities and also time consuming. Moneylenders take advantage of the situation and charge high interest rates. As a result of which rural peoples suffers from a great deal of indebtness. Rural peoples need financial institutions that can provides loans to them at lower rates and easy terms. To meet the credit needs of rural peoples, government appointed a working group on rural credit, the narasimhan committee in July 1975. Based on its recommendation, regional rural banks emerged in 1975. The main aim of establishment of RRBs is that rural peoples can get loans at very low rate and on easy terms. In 1975, five RRBs were established which increases to 56 in number covering 680 notified districts in 27 states and the union territory of pudcherry with a network of 21,422 branches.

## OBJECTIVES AND FUNCTIONS OF REGIONAL RURAL BANKS

The main aim or idea of establishing RRB is to meet credit needs of rural people. There are some other objectives of RRBs are

1. To provide advances to small & marginal farmers, agricultural labourers & small

entrepreneurs who are engaged in agricultural business.

2. To provide banking facilities to rural areas specially unbanked area.
3. To provide loan facilities to Cooperative societies, which are engaged on services related to rural area including agriculture activities.
4. To increase the golden opportunities of employment in RRBs which creates employment at their door step for rural people.
5. Some other auxiliary functions of RRBs
  - \* To convert the rural savings (by accepting deposits) into the productive activities in rural areas by Using that money in agricultural activities.
  - \* Now a day's RRBs starts providing loans for purchasing durable goods against the security of gold, NSC etc.
  - \* Another new facility provided by RRBs is to issue guarantee on the behalf of their customer #100% cash margin up to 20lakhs. Above 20lakhs up to 40lakhs cash margin + collateral security of more than 50%

## ACHIEVEMENTS

Regional rural banks came into existence for providing the credit facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs for the agricultural, trade, commerce and other productive activities. Initially, starting with five RRBs at Moradabad and Gorakhpur in Uttar Pradesh, Jaipur in Rajasthan, Bhiwani in Haryana and Madia in west Bengal on 2nd October 1975, the RRBs achieved a phenomenal growth over the years. As on 31st march 2017 they are 56 in number covering 680 notified districts in 27 states and the union territory of pudcherry with a network of 21,422 branches. The performance indicators of RRBs during 2015-16 and 2016-17 are presented in the table 1



**Table 1**

**Performance Indicators of RRBs (as on 31 March) (Amount in ₹ crore)**

| Particulars                          | 2016     | 2017     |
|--------------------------------------|----------|----------|
| Number of RRBs                       | 56       | 56       |
| Branch Networks                      | 20,920   | 21,422   |
| Share Capital                        | 6,387    | 6,401    |
| Tier II Bonds                        | 97       | 20       |
| Reserves                             | 20,665   | 23,080   |
| Deposits                             | 3,13,499 | 3,71,910 |
| Borrowings                           | 47,888   | 51,588   |
| Investments                          | 1,69,592 | 2,10,984 |
| Gross Loans & Advances (outstanding) | 2,06,538 | 2,26,175 |

**Table 2**

**Profitability of RRBs**

| Particulars                        | 31 March 2016 | 31 March 2017 |
|------------------------------------|---------------|---------------|
| RRBs Earning Profit (No.)          | 50            | 49            |
| Profit in ₹ crore (A)              | 2,206         | 2,604         |
| RRBs Incurring Losses (No.)        | 6             | 7             |
| Losses in ₹ crore (B)              | 188           | 387           |
| Net Profit of RRBs ₹ crore (A – B) | 2,018         | 2,218         |
| RRBs with Accumulated Losses (No.) | 8             | 8             |
| Accumulated Losses in ₹ crore      | 1,050         | 1,147         |

The aggregate deposits of RRBs increased from 3, 13,499 crores in 2016 to 3, 71,910 crores in 2017. Gross loans and advances also increases from 2, 06,538 crores in 2016 to 2, 26,175 crores in 2017. Out of 56 RRBs, the number of profits making banks stood at 49 in 2017 as compared with 50 out of 56 in 2016. The net profit of RRBs increased from 2018 crore in 2016 to 2218 crore in 2017(as shown in table 2). The profits earned by 49 RRBs during the year ranged from 0.56 crore to 352 crore. The frequency distribution of profit earning RRBs during 2016-17 showed that 48 RRBs posted profits between 1 crore to above 200 crore, of which 9 RRBs posted a profit of 100 crore

and above. The accumulated losses of RRBs increased from 1050 crore as on 31st march 2016 to 1147 crore as on 31st march 2017. As percentage of loan outstanding, the gross NPA of RRBs increased from 6.8% as on 31st march 2016 to 8.07% on 31st march 2017.

Union cabinet approved extension of scheme of recapitalization of RRBs up to 2019-20. This will enable RRBs to maintain minimum prescribed capital to risk weighted asset ratio (CRAR) of 9%. It will help RRBs in ensuring strong capital structure and minimum required level of CRAR. It will also helps in financial stability of RRBs and helps it to plays greater role in financial inclusion and meeting the credit requirements of rural areas.

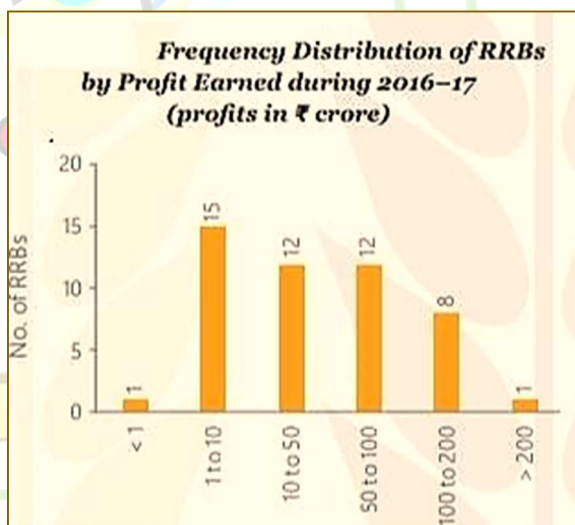


Figure: 1

**PROBLEMS OF REGIONAL RURAL BANKS**

RRB's play the important role in developing the weaker section in rural areas, of our society along with this RRB's faced serious problems. The Dantwala committee, kelkar committee & khusro committee pointed out some weakness which is faced by RRB's.





### 1. Huge branch expansion

As at the early stage of RRB's evaluation a large network of branches opened which creates problem of overhead cost without contributing the amt. of profit. In some areas where RRB's are required, they faced difficulty to get full accommodations or facilities for housing the branches.

### 2. Rigid norms

Rules & regulation related with the RRB's are issued by RBI are rigid are nature and are based on all India being but it's not working because of disparity of India state by state not give the same result to another state.

### 3. Not viable

RRB's are not able to get the same amount of profit ad other banks earns. Due to providing facility to weaker section (low interest rate & high operating cost in providing loans).

### 4. High cost of loan

With comparison to the commercial bank, RRB's have the high long transitions costs than the commercial banks due to the low amount of loan.

### 5. Problem in deposit mobilisation

As RRB's deals with the weaker section of rural area, there is no huge amount of funds in bank. The weaker section is the main target of RRB's are poor. So they don't save so much money in RRB's. It provides less amount of collection in banks.

### 6. No proper Recruitment policy

As RRB's are rural oriented they are expected to recruit staff only locally. But with the transfer of recruitment on RRB's to banking services recruitment boards, all the candidate outside the area of cooperation of RRB's eligible for RRB's . This is against the concept of RRB's.

## SUGGESTIONS TO IMPROVE REGIONAL RURAL BANKS WORKING

To improve the RRB's some parties take initiative for this and provide some solutions to the problems.

1. The important thing for existence there is the requirement of feasibility and viability of the organisation. For this there is the recommendation that RRB's should be merged with commercial banks. It will help to reduce the accumulated losses of insolvency of the banks. This solution is helpful for some RRB's only.
2. Mobilisation of funds or converting the savings of rural people in productive activity can be removed by using the funds transfer from urban to rural area with the help of govt. policies. State govt. about permit the Panchayat & other quasi govt. to keep their funds with RRB's in that area.
3. To reduce the cost of RRB's state govt . either reorganize agricultural credit societies on establish other societies through which RRB's increase their production credit on large scale and use the economies of scale in efficient manner. Another way to reduce the cost of loan is to reduce transaction cost of providing loan to the rural people.
4. The recruitment process in RRB's should be streamlined. There should be preference to the local people and also provide proper training about the work to employees. And also there should be uniform pay scale for employees.
5. To handle with the problem of huge expansion of branches, there should be expansion of no. of employees to handle the work load. And for supervision on the RRB'S there should be the proper authority that manage and control the working of RRB'. One another method



for effective working is to reduce the commercial bank branches in the rural area and hand over these branches to RRB's.

- The main issue related with the banking system is rigid norms, there is less flexibility in the regulation system which can make the huge hindrance in the working of RRB's. To overcome with this problem there should be some free hand for RRB's. Some concession should be given to RRB's according to the area side or department wise according to the need of the RRB. Because at present rules are made by the authority for whole India without differentiation about the state.

### CONCLUSION

For the purpose of rural development and meeting the credit needs of rural people, RRB came into existence on the basis of the recommendation of Narashimhan committee. The regional rural banks have been highly successful in the mobilising rural savings. RRBs are providing loans to small and marginal farmers, artisans, self-employed persons etc. RRBs recruit local persons which creates the employment at the door steps of the rural peoples. Out of 56 RRBs 49 RRBs earning profits. To improve the functioning of RRBs Union cabinet approved extension of scheme of recapitalization of RRBs up to 2019-20. This will enable RRBs to maintain minimum prescribed capital to risk weighted asset ratio (CRAR) of 9%. It will help RRBs in ensuring strong capital structure and minimum required level of CRAR. It will also help in financial stability of RRBs and helps it to play greater role in financial inclusion and meeting the credit requirements of rural areas.

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