

Regional Rural Banks Encourage Entrepreneurship in Rural Areas – A Study

***Indira.N.Bagalkoti**, Asst Professor of Commerce, Govt First Grade College, Mundgod (UK)

Abstract

The fast development of RRB has contributed to a significant reduction in regional inequalities in banking services in India. RRB's efforts in branch growth, deposit mobilization, rural development, and credit deployment in rural communities are commendable. RRB has succeeded in achieving its goals of bringing banking to rural households' doorsteps, particularly in banking-deprived rural areas, providing easy and affordable credit to rural households who are reliant on private lenders, encouraging rural savings for productive activities, creating jobs in rural areas, and lowering the cost of providing credit in rural areas. The rise of nonperforming assets (NPAs) and the difficulty in recovering them have compelled a review of RRB's financial performance. The primary goal is to investigate the development patterns and financial performance of India's Regional Rural Banks. The research is descriptive, and data was gathered from RBI and NABARD annual reports issued between 2006 and 2012. The financial performance of RRBs has improved as a result of mergers and other reasons, according to the report.

Keywords: Regional Rural Banks, Deposit Mobilisation, Credit Deployment, RBI, NABARD

1. INTRODUCTION

The first five RRBs were established in five states: Haryana, West Bengal, Rajasthan, and Uttar Pradesh, each with one RRB and two in Uttar Pradesh. RRBs are commercial banks that follow some cooperative ideas, such as area allocation, operating for rural populations in a restricted region, and so on. As a result, they are hybrid institutions. The Reserve Bank of India and the National Agricultural Bank for Rural Development (NABARD) are the two entities in charge of RRBs (RBI). In India, rural banking began with the development of the banking industry. The agriculture industry was the primary focus of rural banks at the time. In India, regional rural banks have reached every part of the country and lent a hand in the country's development. In India, SBI operates 30 RRBs (Regional Rural Banks). SBI has rural banks in 13 states, from Kashmir to Karnataka and Himachal Pradesh to the North East. In India, there are 2349 branches of SBI's Regional Rural Banks (16 percent). There are 14,475 rural banks in India as of now, with 2126 (91%) of them located in distant rural regions.

2. REVIEW OF LITERATURE

- **Robson William B. P., Bergevin Philippe (2012)¹:** The authors of this paper believe that Canada's federal government, which began issuing real-return bonds (RRBs) in 1991, should issue more RRBs of different varieties than it now does. More RRBs would not only better meet present investor demand, but it would also help to promote the creation of new price-indexed securities. More government RRBs, based on previous experience, might inspire other institutions to issue price-indexed debt, as well as allow intermediaries to provide products like inflation-linked annuities, ensuring that more Canadian savers are protected against purposeful or inadvertent inflation.
- **Soni kumar Anil, Kapre Abhay (2012)²:** have looked at the financial performance of Indian RRBs from 2006-07 to 2010-2011. The current study is an expansion of their previous work. They examined the performance of RRBs using a variety of key performance measures, such as the number of banks, branches, loans, and advances, and concluded that they had a beneficial influence on their performance.
- **Ibrahim Syed (2010)³:** "Performance Evaluation of Regional Rural Banks in India" was the subject of the research. According to the findings of this study, RRBs in India performed admirably in the post-merger period. Dilip Khankhoje and Milind Sathye (2008): The purpose of the study was to determine the variation in RRB performance in terms of productive efficiency in India, as well as to determine whether or not the efficiency of these institutions has improved since the reorganization in 1993-94.
- **Jasvir S. Sura (2008)⁴** The overall situation of RRBs in India is not encouraging, according to the report. The RRBs' improved performance is nevertheless being hampered by their weak credit-to-deposit ratio. Because the RRB is designed to be a bank for the poor, its presence in every state of the country, particularly in undeveloped states, can help. The government should establish RRB branches at the grassroots level to give such banking services to the impoverished rural population. Furthermore, the bank administration and the sponsored bank must take remedial action to increase the bank's credit-to-deposit ratio, which will make RRBs relevant in rural India.
- **Nitin and Thorat (2004)⁵** The report has presented a detailed examination of how institutional restrictions have severely hampered the RRBs' ability to govern. They claim that irrational institutional arrangements that resulted in incompatible incentive structures for key stakeholders such as politicians, policymakers, bank employees, and clients served as performance restrictions. According to the authors, RRBs' poor performance over the previous two decades may be attributable in large part to their lack of commercial orientation. An effective restructuring approach would entail identifying the issues that are causing the RRBs' poor performance.

3. CONCEPTUAL FRAMEWORK

3.1. Meaning of Bank

A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposit boxes. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks. In most countries, banks are regulated by the national government or central bank.

3.2. Key Takeaways

- A bank is a financial institution licensed to receive deposits and make loans.
- There are several types of banks including retail, commercial, and investment banks.
- In most countries, banks are regulated by the national government or central bank.

3.3. Meaning of Regional Rural Bank

Regional Rural Banks (RRBs) are government-owned scheduled commercial banks of India that operate at the regional level in different states of India. They were created to serve rural areas with basic banking and financial services.

The regional rural banks are the newest form of banks that have been set up in the country on the sponsorship of individual nationalized commercial banks. At the end of March 1994, they numbered 196, with about 14,500 branches covering 408 districts.

These banks have been set up with the express objective of developing the rural economy by providing credit and other facilities for agriculture and other productive activities of all kinds in rural areas. The main emphasis is supposed to be on the provision of such facilities to small and marginal farmers, agricultural laborers, rural artisans, and other small entrepreneurs working in rural areas.

3.4. Features of Regional Rural Bank

- The Regional Rural Banks government based banks operate at the regional level in the various states across the country
- The RRBs are entrusted to cater to the needs of the rural people in the backward regions and bring financial inclusion at the primary level
- The main objective of the RRB is to provide credit and other banking facilitates to the small, marginal, formers, agricultural laborers, small artisans, etc. in the rural areas for boosting the rural economy.

- At present, there are 43 RRBs in the country and each of them is sponsored by the government of India in collaboration with the state government and sponsor bank.

3.5. Objectives of Regional Rural Bank

- To provide cheap and liberal credit facilities to small and marginal farmers, agriculture laborers, artisans, small entrepreneurs, and other weaker sections.
- To save the rural poor from the moneylenders.
- To act as a catalyst element and thereby accelerate the economic growth in the particular region.
- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas.
- To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government?
- To develop underdeveloped regions and thereby strive to remove the economic disparity between regions.

3.6. Role of Regional Rural Banks in the present scenario

- To accept deposit
- To grant advances
- To provide ancillary banking services
- To supply inputs and equipment's to farmers
- To assist in the marketing of their products
- To maintain godowns

4. SCOPE OF THE STUDY

It applies to all RRBs operating in India. The research is limited to the years 2006 to 2012. The performance of all RRBs in India is evaluated at a macro level. The period covered in this study is 2006 to 2012, which is an expansion of prior work done by various research academics.

5. RESEARCH QUESTION S

- Is the financial Performance of the RRB is viable?
- Is the financial performance of the RRB is improving?

6. OBJECTIVES OF THE STUDY

Followings are the Objectives of the study

- To study the growth pattern of Regional Rural Banks in India.
- To analyze the financial performance of RRBs.
- To analyze the credit distribution and credit-deposit ratio.

7. RESEARCH METHODOLOGY

A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevant research purposes with the economy in procedure. The research design is Descriptive. The study aims to find out the financial performance Evaluation of Regional Rural banks in India. The study has been taken up for the period 2012.

8. LIMITATION OF THE STUDY

The followings are the limitations of the study

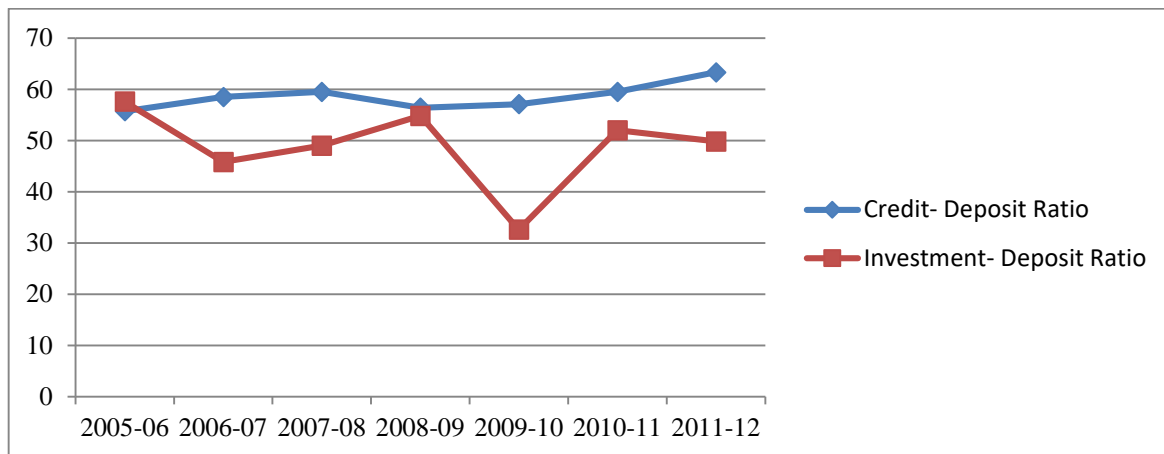
- Information from NABARD and RBI was difficult to be obtained.
- Accuracy of the data cannot be granted because all the data is taken from the internet from the site of NABARD and RBI.
- Interpretation is subjective, as different people may interpret the same analysis in different ways. The study doesn't cover all the issues of RRBs because of time constraints but an attempt is made to cover all the important issues in this study.

9. DATA ANALYSIS AND INTERPRETATION

Table No 1 Shows the Credit deposit and investment deposit ratio (in %age)

Year	Credit- Deposit Ratio	Investment- Deposit Ratio
2005-06	55.7	57.6
2006-07	58.5	45.8
2007-08	59.5	49.0
2008-09	56.4	54.8
2009-10	57.1	32.6
2010-11	59.5	52.0
2011-12	63.3	49.8

(Sources: compiled from the report on trend and progress of banking in India) (2006-2012)

Chart No 1 Shows the Credit deposit and investment deposit ratio (in %age)

INTERPRETATION

The Above Chart No 1 Shows the Credit deposit and investment deposit ratio in the year 2005-06 the credit deposit ratio was 55.7 while the investment deposit ratio was 57.6. In addition, at the year-end March 2007, the credit deposit ratio was increased to 58.5 while the credit investment ratio decrease to 45.8. The table shows that in 2009-10 the credit deposit ratio increased to 57.1 existing of 56.4 in last year. While the investment deposit ratio decreased to 32.6 and in 2011-12, the credit deposit ratio was 63.3, and the investment deposit ratio was 49.8.

Table No 2 Shows the Financial Performance of RRBs (2006-07) (in crores)

Sr.No.	Items	2006	2007	variation	% variation
1	Income	5599	7653	2054	36.69%
2	Expenditure	5089	7057	1968	38.67%
3	Operating profit/loss	787	1232	445	56.54%
4	Net profit/loss	510	596	86	16.86%
5	Total assets	88652	105768	17116	19.31%
6	Operating ratio to total assets	0.89	1.16	-	-
7	Net profit ratio to total assets	0.58	0.56	-	-

(Sources: compiled from the report on trend and progress of banking in India)

INTERPRETATION

Above Table, No 2 Shows the Increases in interest and other income of RRBs during 2006-07 did not keep pace with the increased expenditure on account of sharp growth in provisions and contingencies and wage bills. Consequently, net profits of RRBs declined from Rs.617 crore during 2005-06 to Rs.596 crore during 2006-07.

Table No 3 Shows Financial Performance of RRBs (2007-08)(in crores)

Sr.No.	Items	2007	2008	Variation	% variation
1	Income	7653	9406	1753	22.90%
2	Expenditure	7057	8379	1322	18.73%
3	Operating profit/loss	1232	1859	627	50.89%
4	Net profit/loss	596	1027	431	72.32%
5	Total assets	105768	125194	19426	18.36%
6	Operating ratio to total assets	1.16	1.48	-	-
7	Net profit ratio to total assets	0.56	0.82	-	-

INTERPRETATION

The above Table No 3 Shows the Shows Financial Performance of RRBs Aggregate income of RRBs 2007-08 grew by 20.0 percent on account of higher interest as well as non-interest income. Growth in expenditure during the year was relatively subdued on account of a lower increase in interest expenditure and wage bill. As a result, the profitability of RRBs improved significantly during 2007-08. Out of 90 RRBs, 82 RRBs earned a combined profit of Rs. 1,429 crore, whereas 8 RRBs incurred a combined loss of Rs. 55 crore in 2007-08. Thus, RRBs, as a group, earned net profits of Rs. 1,374 crore during 2007-08 as compared with Rs. 625 crore in the previous year. The improvement in the financial performance of RRBs is also reflected in the decline in NPAs ratios (both gross and net) during 2007-08. While gross NPAs to total assets ratio declined to 5.9 percent at end-March 2008 from 6.6 percent a year ago, the net NPAs to assets ratio declined to 3.0 percent from 3.5 percent a year ago.

Table No 4 Shows the Financial Performance of RRBs (2008-09)(in crores)

Sr. No.	Items	2008	2009	Variation	% variation
1	Income	9406	11388	1982	21.07%
2	Expenditure	8379	10053	1674	19.98%
3	Operating profit/loss	1859	2123	264	14.20%
4	Net profit/loss	1027	1335	308	29.99%
5	Total assets	125194	150654	25460	20.34%
6	Operating ratio to total assets	1.48	1.41	-	-
7	Net profit ratio to total assets	0.82	0.89	-	-

INTERPRETATION

The above table 4 shows the Financial Performance of RRBs The growth rate of the aggregate income of RRBs decelerated to 19.5 percent as of end-March 2009 from 20.0 percent last year. This deceleration was mainly on account of a slowdown in 'other income'. The expenditure of RRBs, however, rose sharply mainly on account of an increase in interest expended and rises in provision and contingencies. Out of 86 RRBs, 80. RRBs earned profit amounting to Rs.1,405 crore, whereas 6 RRBs incurred loss amounting to Rs.36 crore for the year 2008-09. Thus, RRBs together earned net profits of Rs.1,369 crore during the year 2008-09 as compared to Rs.1,027 crore during the previous

year. The improvement in the performance of RRBs is also reflected in the decline of NPAs (both gross and net) during 2008-09. While gross NPAs to total loan assets ratio declined to 4.2 percent as of the end of March 2009 from 6.1 percent a year ago, the net NPAs to loan assets ratio declined to 1.8 percent from 3.4 percent for the same period.

Table No 5 Shows the Financial Performance of RRBs (2009-10)(in crores)

Sr. No.	Items	2009	2010	Variation	% variation
1	Income	11388	13835	2447	21.49%
2	Expenditure	10053	11951	1898	18.89%
3	Operating profit/loss	2123	2913	790	37.21%
4	Net profit/loss	1335	1884	549	41.12%
5	Total assets	150654	184093	33439	22.20%
6	Operating ratio to total assets	1.41	1.58	-	-
7	Net profit ratio to total assets	0.89	1.02	-	-

INTERPRETATION

The Above Table No 5 Shows the Financial Performance of RRBs the Out of 82 RRBs, 79 RRBs were in profits during 2009-10 indicating an increase in the share of profit-making RRBs to 96.3 percent during this year as compared to 93.0 percent in the previous year. On the whole, all RRBs taken together reported a net profit of ₹1,884 crores showing a growth of 41.1 percent in 2009-10. As a result, there was a marginal rise in the Return on Assets (RoA) of RRBs from 1.0 percent in 2008-09 to 1.1 percent in 2009-10.

Table No 6 Shows the Financial Performance of RRBs (2010-11)(in crores)

Sr. No.	Items	2010	2011	Variation	% variation
1	Income	13835	16220	2385	17.24%
2	Expenditure	11951	14232	2281	19.09%
3	Operating profit/loss	2913	2703	-210	-7.21%
4	Net profit/loss	1884	1988	104	5.52%
5	Total assets	184093	215359	31266	16.98%
6	Operating ratio to total assets	1.58	1.25	-	-
7	Net profit ratio to total assets	1.02	0.92	-	-

INTERPRETATION

The above Table No 6 Shows the Financial Performance of RRBs The net profits of RRBs increased in 2010-11 over the previous year. Despite a decline in operating profits, net profits registered an increase owing to the decline in provisions and contingencies. However, even with the increase in net profits in absolute terms, the return on assets recorded a decline in 2010-11 over the previous year. The per branch profitability as well as per employee profitability of RRBs witnessed an increase in 2010-11 over the previous year.

Table No 7 Shows the Financial Performance of RRBs (2011-12)(in crores)

Sr. No.	Items	2011	2012	variation	Percentage variation
1	Income	16220	20100	3880	23.92%
2	Expenditure	14232	18100	3868	27.17%
3	Operating profit/loss	2703	3300	597	22.09%
4	Net profit/loss	1988	2000	12	0.60%
5	Total assets	215359	242500	27141	12.60%
6	Operating ratio to total assets	1.25	1.36	-	-
7	Net profit ratio to total assets	0.92	0.82	-	-

INTERPRETATION

During 2011-12, out of a total 82 RRBs operating in the country, 79 made a profit whereas the remaining three RRBs incurred loss. Though the net profits of RRBs witnessed improvement in recent years, their net margin exhibited a mixed trend.

10.CONCLUSION

To summarise, the fast development of RRB has contributed to a significant reduction in regional differences in banking services in India. RRB has made commendable efforts in deposit mobilization, rural development, branch growth, and credit deployment in rural regions with lower incomes. RRB has succeeded in achieving its goals of bringing banking to rural households' doorsteps, particularly in banking-deprived rural areas, providing easy and affordable credit to weaker rural sections who are reliant on private lenders, encouraging rural savings for productive activities, creating jobs in rural areas, and lowering the cost of providing credit in rural areas. As a result, RRB has the most extensive banking network. To make rural banks profitable, the government should adopt some effective remedial measures.

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