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REGIONAL RURAL BANKS: "THE SMALL MAN'S BANK" SUCCESSES AND FAILURES

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abstract

Regional Rural Bank (RRBs) the youngest member of the rural credit family is always the point of discussion since its inception. Although it has its own space in the whole rural credit system and contributed a lot for the development of rural economy. The purpose of this article is to analyse the rationale for setting up of RRBs and see its prospects in near future. The author concludes that the RRBs are able to meet their primary objective of serving as a bank to the common man and observed, majority of them have transformed into profitable units. The recommendations focus on how the profitability of all RRBs can be sustained in the future. The focus is on what measures should be taken so that all RRBs can serve as profitable institution on a sustainable basis while maintaining its unique characteristics of serving as a small man's bank.

Keywords: *Regional Rural Banks, Profitability of Banks.*

Introduction

Regional Rural Banks (RRBs) were established with a vision of extending banking services to the underprivileged in rural areas in a sustainable and effective manner. However, a decade after its establishment, questions arose about the financial viability and survival of such institutions, causing great concern among policymakers. As a result, the Indian government and its regulators took various steps in the late 1990s to make these institutions financially viable and self-reliant in the long run. These policy interventions have had some success in transforming the financial health of RRBs. However, there was a lot of discussion during this process about whether the RRB would be diverted from its original mission. However, no detailed studies investigating this aspect have been published so far. In this paper, an attempt is made to fill this gap by investigating the performance of RRBs with respect to the purpose for which they were introduced. The study found that RRB has remained true to its original mission and maintained relatively good performance compared to other commercial banks in its area of operations

Objectives of the Study

The purpose of this study is to examine the role of RRBs, their growth, financial performance and also causes of financial crunch and suggest some suitable remedial measures to overcome the problem. To be specific following are the objectives of this article.

- To analyse the role and rationale for setting up of RRBs.
- To analyse the performance of RRBs in respect of this geographical coverage, business performance and financial performance.
- To identify the major problems and failures of RRBs.
- To suggest suitable changes in the functioning of RRBs so that to overcome the problems being faced by them.

This articles has been divided into four sections. Section I focuses on genesis and special features of RRBs. Section II analyses the performance and growth of RRBs since 1975. Section III deals with major problems of RRBs and the last section IV contains conclusions & suggestions.

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Research Methodology

For the study secondary source of data has been used mainly derived from Statistics on Regional Rural Banks (NABARD publication), Report on currency and finance (RBI publication). The secondary data has been gathered from published and unpublished sources including websites, books, journals, magazines, newspapers etc. Further, interviews with various officials of NABARD and RRBs have been conduced to understand the problems of RRBs. Simple statistical tools such as ratios, percentage, average etc. have been used for analyses and interpretation.

Section I

- **Genesis and special feature of regional rural banks**

Initially 14 major commercial banks were nationalised with the main objective to make it obligatory to give loans and advances to agriculture and allied activities. But, is was observed that commercial banks rural branches could not meet the obligation as expected from them. It was observed that because co-operative banks were weak and commercial banks because of lack of rural orientation unable to meet requirements of rural poor. therefore, to meet the requirement of target group (small and marginal farmers, artisans, labours and small entrepreneurs), RRBs have been set up. Initially five RRBs were set up by passing an enactment "Regional Rural Banks Act”.

- **Special Features of RRBs**
  - RRBs are specialised agencies combining the resource orientation of commercial banks and rural reorientation of co-operatives banks having distinct features of their own.
  - RRBs have been set up mainly in unbanked and under banked areas where there is lack of basic amenities like education, medical facilities, transport and communication.
  - RRBs are required to confine their lending to weaker sections of rural areas which is called "Target Group" comprising marginal farmers, agricultural labourers, artisans, small means in trade, commerce and industry.
  - Issued and paid up capital of RRBs is contributed by Government of India, Sponsor bank and State Government in proportion of 50 percent, 35 percent and 15 percent.
  - The management RRBs is done by the board of directors, consisting members appointed by GOI, state government and sponsored bank.
  - RRBs were supposed to be the low cost institution with staff drawn from local areas of state.
  - The very approach of RRBs to rural credit is sectoral. The are required to confine their lending mainly to weaker community of not more them two or three districts and therefore giving them no scope for neutralising losses sustained in one area by the profits earned in another area.
  - RBI arranges for the training of chairman and branch managers. accountants and clerks with the help of sponsor banks. Lastly RRBs are expected to operate on low spreads or margins. They are supposed to lend to weaker section at low rate of interest and pay a little higher by way of interest on deposits mobilised by them. As a clientele they only one category i-e weaker section of rural areas therefore little scope for cross- subsidisation.

Their main objective of RRBs is to provide cheap and liberal credit facilities to "Target group", to save them from money tenders, to cultivate banking habits among rural poor and to mobilise their savings as well, to increase employment opportunities, to cater to the needs of the backward areas which are not covered by other sources, to develop backward regions and remove regional disparities, to identify financial needs of rural poor in backward areas.

Section II

- **Growth and performance of Regional Rural Banks**
  - **Geographical coverage**

RRBs have achieved a phenomenal growth during the past four decades. A chronological progress of RRBs in terms of the basic business indicator coverage of districts, branch network, deposit and advances since their inception are presented here in this section.

Table 1: Branch Expansion of Regional Rural Banks

Year	Number of RRBs	District covered	Number of branches	Average number of branches per RRB
1975	5	12	17	3
1995	196	425	14509	74
2020-21	43	696	21856	508
2022-23	43	525	14494	337

Source: Statistics on Regional rural banks(NABARD ,various issues)

It has been observed from table 1 that as on 31st March 2021 there were 43 RRBs sponsored by 12 commercial banks operating in 26 states, (in all states except Sikkim and Goa) and three union territories (Jammu Kashmir, Ladhakh and Pondicherry). RRBs had a network of 21,856 branches covering 696 districts with 92% of branches in rural & semi urban areas.

- **Deposit mobilisation by Regional Rural Banks**

RRBs have contributed significantly to the development of banking habits among the people through extensive branch network and better services to customers. Table 2 shows deposits of RRBs have been increasing continuously.

Table 2: Deposit mobilisation by Regional Rural Banks(Amount in Rs crores)

Year	Total Deposits	Deposit per RRB	Deposit per RRB Branch
1975	0.20	0.03	0.01
1995	11150	56.8	0.77
2020-21	525000	12209	24
2022-23	608509	14151	41

Source: Statistics on Regional rural banks(NABARD, various issues)

- **Loans and Advances by Regional Rural Banks**

As on 31st March, 2023, the gross loans and advances of Rs. 3.86 lakh crore.

Table 3: Loans and Advance of RRBs(Amount in Rs crores)

Year	Loans Outstanding	Average Loans Outstanding per RRB	Average Loans Outstanding per branch	C/D Ratio
1975	0.10	0.1	0.005	50
1995	6291	32.09	0.43	56
2020-21	334171	7771	15.3	63
2022-23	386951	8998	26.7	63.6

Source: Statistics on Regional rural banks(NABARD, various issues)

As on 31st March 2021, the gross loans advances of 3,34 lakh crore over 90% was towards priority sector identified by RBI and 70% of the loan portfolio of RRBs was towards agriculture sector, followed by MSME (12%) Housing (7%) & Education (1%) As a result a Healthy credit growth during FY 2020-21, the C/D ratio of RRBs as a whole, 31st March 2020 to 64% as on 31st March 2021.

Table 4: Purpose-wise classification of loans and advances by RRBs

		31st March 2020		31st March 2021		
No.	Purpose Priority I to V	Amount (in Rs. crore)	Share (in %)	Amount (in Rs. crore)	Share (in %)	Growth
1.	Agriculture	208,762	70	9233145	7	12%
2.	MSME	35240	12	39543	12	12%
3.	Education	2,358	1	2,132	1	7%
4.	Housing	19804	7	21,127	7	-10%
5.	Other	4,008	1	5,016	1	7%
6	Total	2,70,182	9	3,00962	91	25%
7	Non Priority	28,032	-	33,209	9	18%
8	Gross Loans	2,89214	91	3,4171 100%`	100	12%
9	C/D Ratio	62.3		63.6		
10	Yield on Advances	9.3		9.2		

Source: Statistics on Regional rural banks(NABARD ,various issues)

Table 5: Target and Achievement (FY 2020-21) (in %)

Sector/ Sub Sector	Target	Consolidated Achievement
Over all Priority Sector	75	92
Agriculture	18	50
Small & Marginal	8	31.4
Non. Corporate Farm	12.14	83.5
Micro Enterprise	7.5	15.1
Weaker section	15	70.3
Source: Statistics on Regional rural banks (NABARD) Note: Arunachal, Meghalaya, Nagaland not included		

- **Performance under Priority Sector Lending**

It has been observed from table 4 and 5 that RRBs have extended a large amount of credit to the priority sector.

Section III

Major Problems of RRBs

- **Non-Viability of RRBs.**

A disquieting in the feature of RRBs has functioning of RRBs has been their unsatisfactory working results thus giving rise to mounting losses over the years.

Out of 196 RRBs, 164 banks have incurred losses during the years 1994-95. If profits is any indicator of their performance, then most of the RRBs are in red. Accumulation of losses over the period has wiped out their entire share capital. In the case of certain banks. Their losses have eroded over a part of their deposits.

Table 6: Profitability of RRBs (Amount in Rs. crore)

Indicators	2018-19	2019-20	2020-21
No. of RRBs	53	43	43
Number of RRBs in Profits	39	26	30
Profits of RRB	1,759	2,203	3,550
Number of RRBs in Loss	14	19	13
Loss of RRB	2,411	4,411	1,867
No. of RRBs with Accumulated Loss	11	17	17
Accumulated Loss	2,887	6,467	8,264
Aggregate net profit of all RRBs	(-) 652	(-) 2,208	1682
Statistics on Regional rural banks(NABARD ,various issues)			

Data presented in this section depicts the financial performance of RRBs in terms of this ability to earn profits. After two consecutive years of losses in FY 2018-19 and Fy 2019-20, RRBs as a whole reported a consolidated net profit of Rs. 1682 crore during FY 2021-21. RRBs reported consolidated net losses in FY 2018-19, for the first time since 1996-97 because of the implementation of Regional Rural Bank (Employs) pension scheme 2018 after effect from 1st April 20118 after the verdict of Honourable Supreme Court considering the huge pension liability on account of implementation of the pension scheme, RBI has permitted RRBs to amortise this total person liability over a period of five years from 2018-19, subject to minimum of 20% of the pension liability assessed every year.

During FY 2020-21, 30 RRBs posted profit of Rs. 3,550 crore and B RRBs incurred loss of Rs. 1867 crore, 5 RRBs which incurred losses during Fy 2019-20 turned around & posted profit during FY 2020-21. The reasons for improvement in profitability of RRBs during 2020-21. The reasons for improvement in profitability of RRBs are, Improvement in net interest margins, healthy growth of miscellaneous income and improvement in Asset Quality and CD ratio.

- **Non Performing Assets**

Consolidated Gross Non-Perfuming Assents of RRBs which was 6.80% as on 31st March 2016 consistently increased to 10.8% as at of Fy. 2018-19 on account of transition to a transport regime of system-based recognition of NPAs. The GNPA (%) has since then declined consistently over last past 3 years and stood at 9.15% as on 31st March 2022. While the sub-standard assets decreased during FY 2020-21. the same increased during FY 2021-22 on account of fresh slippages.

Table 7: Status of Non-Performing Assets of RRBs

S.No.	Parameters	31 March 20	20 March 21	21 March 22
1.	Gross NPA Amt.	31,106	31,381	33,190
2.	Sub Standard	10,608	9,828	11,318
3.	Doubtful	19,655	20,666	20,899
4.	Loss Assets	843	886	973
5.	Loans O/S	2,98,214	3,34,171	3,62,838
6.	Net NPA Amt	16,331	15,094	16,024
7.	GNPA %	10.4	9.4	9.1
8.	Net NPA %	5.8	4.8	4.7
NPA % Different Sectors				
1.	Priority Sector	10.8	9.9	9.9
2.	Non Priority	6.5	4.6	3.1
3.	Total Loans	10.4	9.4	9.1
4.	Agriculture	8.7	8.3	9.1
5.	MSME	21.4	19.4	16.0
6.	Education	26	23.1	240
7.	Housing	10.0	7.0	4.45

Regional Disparities

Sharp regional variations have been noticed not only in terms of geographical coverage of RRBs but also in terms of their viability. It has been observed that most of the profit making RRBs are concentrated in the central and southern region whereas most of the loss incurring RRBs belongs to the Eastern region.

Multi- Agency Control

A sample study conducted by the Agricultural Credit Review committee (ACRC) has revealed that the Board of Management of RRBs did not meet regularly. Board meetings were often adjourned due to lack of quorum and resolutions were not even nominated. It was for end that non-official directors did not evince adequate interest in the functioning of RRBs (RBI 1990).

Section IV

Conclusions and Suggestions

RRBs were launched with much fanfare in 1975 with a view to enabling the rural people crossing the poverty line with the help of credit made available to them through these institutions. Their establishment has raised hopes that they could become a force to reckon with the development activities in rural area. However their performance over the past years has brought to light a number of problems faced by them leading to mounting losses and over dues. ACRC popularly known as khushro committee recommended the discontinuance of loss making RRBs through their merger with their sponsor bank as a policy alternative.

The ACRC has observed their RRBs have belied the basic assumption of Narasimham Group (1975) and expectation of the Kelkar group (1986).

RRBs as "Small Man’s Bank"

If RRBs are to be judged on the basis of fulfilment of the basic objective of meeting the credit needs of small borrowers these banks have done reasonably well as it is obvious that in terms of progress in respect of branch expansion, mobilisation of deposits, credit deployment and taking the banking services to the doorstep of rural masses, performance of RRBs is no doubt commendable. RRBs have come up in unbanked and under banked regions. The RRBs no doubt have cultivated the savings habit among different sections of the rural population. Excellent performance of RRBs on deposit mobilisation front have been observed. Keeping in view above facts, it can be subscribed that RRBs have become really a "Small man's bank" but the long term financial viability and strength of RRBs is such an important aspect that it cannot be ignored. Therefore, it is suggested that certain measures like increase in share capital, reducing interest rates on refinance, better rate of return. On SLR funds, deputation of additional staff for taking care of inspection and audit of RRB, posting of an experienced staff as chairperson depending on his qualification, experience and adoptability etc, nomination of senior officers as director by sponsor banks, preparation of schemes & formation of technical cells, training of staff, promotional opportunities etc.

Suggested Measures

RRBs have been caught in the vicious circe of over dues i.e, High over dues losses – weak financial position – target group lending – High over dues. This vicious circe need to be broken by reducing over dues or improving the financial strength or reviving RRBs by relaxing/ removing some restrictions imposed on RRBs (expansion of area, lending to Non-Target Group (NTG) etc. Legal and administrative authority should be conferred on bank staff for attachment of property for recovery of loans.

- Breaking vicious circle of over dues.
- Merger as policy alternative
- Restructuring of RRBs
- Reorganisation of branches of RRBs
- Capital Adequate norm for improving financial health/ performance of RRBs.
- Fund management
- Narrow banking RRBs may operate as 'Narrow Bank' i.e. they may mobilise savings from rural areas and invest in Government securities for some time to enhance their earrings to reach the break-even-level.
- Mobilisation of deposits
- Training of staff and skill enhancement
- Single point control through sponsor bank

For quick and health development of RRBs one of the essential inputs is the presence of commercial/business like atmosphere in these institutions- therefore, it is imperative that steps should be initiated for resolving the critical issues as early as possible, RRBs are not supposed to be "Kamdhenu Gai" they should be viewed as surplus yielding and absolutely commercial institutions. And for ensuring viability certain measures viz shorter repayment period for loans, professional management, increasing role of non-governmental organisations (NGOs) and women beneficiaries, emphasis on deposit mobilisation, providing technical help may be perused fallowing the patters of Gramin bank of Bangladesh.

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