



## AN ANALYSIS ON THE PERFORMANCE OF REGIONAL RURAL BANKS IN INDIA

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### ABSTRACT

Regional Rural Banks are an asset for the rural masses of rural sector, providing them banking and financial services. Since their Inception, they emphasised on removing poverty, unemployment, economic backwardness by providing credit to the small and marginal farmers, agricultural laborers, artisans at cheaper rates. To encourage and develop the rural economy, on 2nd Oct, 1975, Government of India established Regional rural banks with the objective to "to develop 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 small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, for matters connected therewith and incidental thereto". They have faced lot of challenges since their establishment. As a result, RRB's were amalgamated in the year 2005 to improve and strengthen their functioning. This paper attempts to analyse the Growth pattern of RRBs in India during the period 2000-01 to 2016-2017. The study is based on secondary data collected from the annual reports of NABARD annual report. Key Performance Indicators Analysis is taken into account such as number of banks and branches, deposits, investments, profits, accumulated losses and recovery performance of RRB's. The present study is of diagnostic and exploratory in nature.

**KEYWORDS :** RRB's, rural sector, Performance, amalgamation

### INTRODUCTION

In the recent past, Regional Rural Banks have become major source of finance for the Rural sector. They were set up when GOI felt that Commercial Banks and Cooperative banks will not be able to bridge up the gaps in the institutional system of rural credit. That was the time when Narasimham Working Group (1975) suggested the establishment of State sponsored, region-based, rural-oriented bank which would "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". Hence, RRB's got established on 2<sup>nd</sup> Oct'1975, with an objective of removing regional inequalities, meeting the credit requirements particularly, of the small and marginal farmers, landless labourers, rural artisans, small traders and other weaker sections of the society.

Regional Rural Banks growth and development in the initial stages of establishment was quite encouraging as in the year 1991, there were 196 RRBs, 14,000 branches covering 375 districts. However, lately in 1993, it was found that RRB's were facing huge losses and their recovery performance was too low, resulting in high level of Non-performing assets. To improve their functioning and strengthening them, Government of India initiated amalgamation process in year 2005, hence first set of RRB's were amalgamated in September 2005. Regional Rural Banks are now reduced to 56 in the year 2017 from 196 in the year 2005. There are 56 RRB's operating in India covering 676 districts with 21398 branches in the year 2017.

### OBJECTIVES OF THE STUDY

1. To evaluate performance of Regional Rural Banks in India in terms of number of branches, owned funds, deposits mobilization, credit deposit ratio, net profit, recovery performance from the year 2000-01 to 2016-17.
2. To study the growth-pattern of Regional Rural Banks in India from the year 2000-01 to 2016-17 using Average Annual Growth Rate Method and Compounded Annual Growth rate method.

### RESEARCH METHODOLOGY

The study is exploratory and diagnostic in nature. The Study is to examine the Performance of Regional Rural Bank in India for the period of 2000-01 to 2016-17. The performance is

evaluated by taking key performance indicators like number of branches, owned funds, deposits mobilization, credit deposit ratio, net profit, recovery performance. The study is based on secondary data collected from the annual reports of NABARD. Growth rate is calculated by using Average Annual Growth and Compounded Annual Growth.

### Compounded Annual Growth (CAGR%)

$$CAGR = \left( \frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\frac{1}{\# \text{ of years}}} - 1$$

### Average Annual Growth (AAGR%)

AAGR = (Growth Rate in Period A + Growth Rate in Period B + Growth Rate in Period C + ...Growth Rate in Period X) / Number of Periods

### Branch Expansion

During the period of 2001-05, number of RRB's were 196, however due to amalgamation process these were reduced to 96 in the year 2005-06. They were facing huge losses which resulted in consolidation of RRB's in the year 2005. RRB's were reduced to 56 in the year 2016-17 from 196 in the year 2000-01. To attain the objective of providing credit facility to the rural people, it was necessary for the bank to increase their services to the unbanked areas of rural sector, hence to achieve this, number of branches increased significantly from 14313 in the year 2000-01 to 21398 in the year 2016-17.

Table 1.1: Total No. of Branches

Year	Number of RRBs	Number of Branches	Districts Covered
2000-01	196	14313	500
2001-02	196	14390	511
2002-03	196	14433	516
2003-04	196	14446	518
2004-05	196	14484	523
2005-06	133	14494	525
2006-07	96	14526	534
2007-08	91	14761	594
2008-09	86	15158	616
2009-10	82	15480	618
2010-11	82	16001	620
2011-12	82	16909	638
2012-13	64	17856	635

2013-14	57	19082	642
2014-15	56	20024	644
2015-16	56	20920	644
2016-17	56	21398	676

Source: Compiled from the annual reports of NABARD

### DEPOSITS

Deposits of Regional Rural Banks increased to 3,71,900 crores in the year 2016-17 from 38278 crores in the year 2000-01. It can be witnessed from the table 1.2 that there has been an exceptional growth in total deposit. Average Annual Growth Rate stands at 14.21% and Compounded Annual Growth Rate stands at 15.27%.

**Table 1.2: Deposits**

(Amount in crores)

Year	Deposits
2000-01	38,278
2001-02	44,539
2002-03	50,098
2003-04	56,350
2004-05	62,143
2005-06	71,329
2006-07	83,143
2007-08	99,093
2008-09	1,20,189
2009-10	1,45,035
2010-11	1,66,232
2011-12	1,86,336
2012-13	2,11,458
2013-14	2,38,947
2014-15	2,73,018
2015-16	3,13,499
2016-17	3,71,900
<b>AAGR (%)</b>	<b>14.21</b>
<b>CAGR (%)</b>	<b>15.27</b>

Source: Compiled from the annual reports of NABARD

### Owned Funds

The Owned Funds of RRB's significantly increased to 29500 crores in the year 2016-17 from 3480 crores in the year 2000-01 resulting in average annual growth rate of 13.36% and Compounded Annual growth rate of 14.29%.

**Table 1.3: Owned Funds**

(Amount in crores)

Year	Owned Funds
2000-01	3,480
2001-02	4,059
2002-03	4,666
2003-04	5,438
2004-05	6,181
2005-06	6,646
2006-07	7,286
2007-08	8,732
2008-09	10,910
2009-10	12,247
2010-11	13,839
2011-12	16,462
2012-13	19,304
2013-14	21,906
2014-15	24,011
2015-16	26,099
2016-17	29,500
<b>AAGR (%)</b>	<b>13.36</b>
<b>CAGR (%)</b>	<b>14.29</b>

Source: Compiled from the annual reports of NABARD

### Borrowings

The Borrowings of RRB's increased to 56002 crores in the year 2016-17 from 4060 crores in the year 2000-01., resulting in annual average growth rate of 16.40% and compounded annual growth rate of 17.82%.

**Table 1.4: Borrowings**

(Amount in crores)

Year	Borrowings
2000-01	4060
2001-02	4524
2002-03	4799
2003-04	4595
2004-05	5524
2005-06	7303
2006-07	9776
2007-08	11494
2008-09	12735
2009-10	18770
2010-11	26491
2011-12	30289
2012-13	38268
2013-14	51279
2014-15	59422
2015-16	47888
2016-17	56002
<b>AAGR (%)</b>	<b>16.40</b>
<b>CAGR (%)</b>	<b>17.82</b>

Source: Compiled from the annual reports of NABARD

### Credit-Deposit Ratio

Credit Deposit Ratio increased to 60.11% in the year 2016-17 from 41.32% in the year 2000-01, registering Average Annual Growth Rate of 2.34% and Compounded Annual growth rate of 2.37%.

**Table 1.5: Credit Deposit Ratio**

(Amount in crores)

Year	Credit-Deposit Ratio (%)
2000-01	41.32
2001-02	41.83
2002-03	44.23
2003-04	46.34
2004-05	52.89
2005-06	55.68
2006-07	58.32
2007-08	59.52
2008-09	56.41
2009-10	57.10
2010-11	59.51
2011-12	62.46
2012-13	66.13
2013-14	68.47
2014-15	66.28
2015-16	65.88
2016-17	60.11
<b>AAGR (%)</b>	<b>2.34</b>
<b>CAGR (%)</b>	<b>2.37</b>

Source: Compiled from the annual reports of NABARD

### Investments

Investments made by RRB's stands increased significantly to 209800 crores in the year 2016-17 from 26930 crore in the year 2000-01. They have registered an Annual Average Growth Rate of 12.83% and Compounded Annual Growth Rate of 13.69%.

**Table 1.6: Investments**

(Amount in crores)

Year	Investments
2000-01	26,930
2001-02	30,532
2002-03	33,063
2003-04	36,135
2004-05	36,761
2005-06	41,182
2006-07	45,666
2007-08	48,559
2008-09	65,910
2009-10	79,379
2010-11	86,510
2011-12	95,975
2012-13	1,10,683
2013-14	1,12,897
2014-15	1,62,781
2015-16	1,69,592
2016-17	2,09,800
<b>AAGR (%)</b>	<b>12.83</b>
<b>CAGR (%)</b>	<b>13.69</b>

Source: Compiled from the annual reports of NABARD

**Net Profit**

Net Profit of RRB's in the year 2000-01 was 589 crores, which in the year 2016-17 significantly increased to 2393 crore. Net Profit of RRB's registered an Annual Average Growth rate of 8.76% and Compounded Average Annual Growth Rate of 9.15%.

**Table 1.7: Profitability of RRB's**

(Amount in crores)

Year	Net Profit
2000-01	589
2001-02	608
2002-03	524
2003-04	769
2004-05	750
2005-06	510
2006-07	625
2007-08	1,027
2008-09	1,335
2009-10	1,884
2010-11	1,700
2011-12	1,900
2012-13	2,200
2013-14	2,607
2014-15	2,745
2015-16	2,018
2016-17	2,393
<b>AAGR (%)</b>	<b>8.76</b>
<b>CAGR (%)</b>	<b>9.15</b>

Source: Compiled from the annual reports of NABARD

**Accumulated Losses**

RRB's accumulated losses has decreased throughout the years as can be seen in the table. Accumulated losses decreased to 1,028 crores in the year 2016-17 from 2803 crore in the year 2000-01. Annual Average growth Rate is -6.27% and Compounded Annual Growth rate is -6.08%.

**Table 1.8: Accumulated Losses of RRB's**

(Amount in crores)

Year	Accumulated Losses
2000-01	2,803
2001-02	2,694

2002-03	2,752
2003-04	2,725
2004-05	2,715
2005-06	2,637
2006-07	2,759
2007-08	2,624
2008-09	2,300
2009-10	1,775
2010-11	1,532
2011-12	1,332
2012-13	1,012
2013-14	903
2014-15	1,072
2015-16	1,050
2016-17	1,028
<b>AAGR (%)</b>	<b>-6.27</b>
<b>CAGR (%)</b>	<b>-6.08</b>

Source: Compiled from the annual reports of NABARD

**Recovery Performance**

As can be witnessed from the table, that recovery performance has also improved. In the year 2000-01, recovery percent was 68.12, however it significantly increased to 81.37% in the year 2016-17. Annual Average growth Rate is 1.11% and Compounded Annual Growth rate is 1.12%.

**Table 1.9: Recovery Performance**

(Amount in crores)

Year	Recovery (%)
2000-01	68.12
2001-02	70.59
2002-03	71.52
2003-04	73.49
2004-05	77.67
2005-06	79.85
2006-07	79.80
2007-08	80.84
2008-09	79.19
2009-10	80.09
2010-11	81.18
2011-12	81.60
2012-13	81.32
2013-14	81.90
2014-15	79.50
2015-16	82.55
2016-17	81.37
<b>AAGR (%)</b>	<b>1.11</b>
<b>CAGR (%)</b>	<b>1.12</b>

**Recommendations**

1. Extensive training should be provided to the staff and focus should be given to activities of NPA's.
2. Schemes should be provided to staff for motivation. If an employee helps in recovery of long overdue loans, then he/she should be given some monetary/non-monetary benefit. This will keep them motivated to achieve in recovery system.
3. Although RRB's have increased their branches, however still there are some areas in rural which do not have banking facilities. RRB's should expand their branches to those areas where banking facility still does not exist.
4. RRB's should extensively focus on reducing level of Non-Performing Assets. This will help them in improving their performance.
5. Digital Banking should be well adopted for a better functioning.

**CONCLUSION**

Regional Rural Banks were established with an objective of

providing rural credit to the rural people and expanding their services to the unbanked areas of rural sector. They provide credit to weaker sections of rural sector at low interest and concessional rates, mobilize the savings of people of rural sector and channelize them to the needy people for productive activities in rural areas. They have indeed helped rural sector in developing rural economy. The performance of RRB's from 2000-01 to 2016-17 in terms of certain parameters branch expansion, deposits, accumulated losses, investments, profitability are an indicator of growth and development of RRBs. The present study suggests that there has been a growth pattern of RRB's from the study period 2000-01 to 2016-17.

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