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PROGRESS AND AMALGAMATION OF REGIONAL RURAL BANKS IN INDIA-AN OVERVIEW

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India lives in villages. Nearly seventy per cent of its population depends on agriculture and allied activities. To carryout all these activities, finance (whether owned or borrowed) is an essential ingredient. With the advent of Green Revolution on one hand and rapid technological advancements on the other, have greatly increased the credit needs in rural areas. Earlier co-operative banks had been a major source of rural credit. Gradually, the commercial banks entered the field and their role in rural finance has significantly increased. In spite of rapid expansion of branches of commercial banks and increase in the membership of Primary Agricultural Credit Societies (PACS), still a large gap exists in the rural credit between demand and supply of credit both in terms of functional needs and adequate geographical coverage in different regions of the country.

It has been observed that the co-operative banks suffer from the domination by a few, poor management, and mounting over dues, while commercial banks suffer from high cost structure and staff indifferences to rural credit needs. Therefore, it is felt that these credit institutions neither in their present from of functioning nor with any possible adoption or reorganization, would be able to fill the kind of credit gap which existed in the rural economy of the country. It was of the firm opinion that in a country of the large size and regional diversity as ours, no single pattern be it commercial banks or co-operative credit, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvision is called for and the range of institutional alternatives widened. It is in this context that we have come to conclusion that a new type of institutional like rural bank is necessary which may be state-sponsored, regionally based and rural-oriented bank[1].

The total number of Regional Rural Banks (RRBs) stands at 82 as at end- March 2010 following the process of their amalgamation initiated by the government in 2005. "In order to strengthen and consolidate RRBs, the government in 2005 initiated the process of amalgamation of RRBs in a phased manner. Consequently, the total number of RRBs has reduced from 196 to 82 as on March 31, 2010, Reserve Bank of India (RBI) said in its annual report released (2010). Twenty-one RRBs have already migrated fully to core banking solutions (CBS) and implementation of CBS is in progress in the remaining RRBs, the RBI said, citing status reports received from their sponsor banks[2].

CAPITAL

RRBs need capital for machinery, building, inventory of goods, office equipment, tool of all kinds and above all cash. All kinds of operations are dependent on the availability of capital. The total capital of RRBs in India under different components has been presented in the table 1.

Table 1
Components of Total Capital /Funds of RRBs in India (Rs. in Crores)

Years	Owned funds	% to Total funds	Borrowed funds	% to Total funds	Total funds
2002-03	4059	47.30	4524	52.70	8583 (100%)
2003-04	4666	49.30	4799	50.70	9465 (100%)
2004-05	5438	54.20	4595	45.80	10033 (100%)
2005-06	6181	52.80	5524	47.20	11705 (100%)
2006-07	6647	47.65	7303	52.35	13950 (100%)
2007-08	7286	42.70	9776	57.30	17062 (100%)
2008-09	8733	43.17	11494	56.83	20227 (100%)
2009-10	10910	46.14	12736	53.86	23646 (100%)

Source: Central Statistical Information Department, NABARD, June, 2011.

The table 1 shows that the owned funds vary from Rs.4,059 crores in 2002-2003 to Rs.10910 crores in 2009-10. It is also noticed from the table that the owned funds increased continuously and show an increasing trend. The borrowed funds range between Rs.4,524 crores in 2002-03 and Rs.12,736 crores in 2009-10 and show an ever increasing trend except during 2004-05 where a decreasing trend is observed. The total funds steeply increased from Rs.8583 crores in 2002-03 to Rs.23,646 crores in 2009-10. It is concluded that the total funds including owned funds and borrowed funds have increased very steeply.

CREDIT DEPOSITS RATIO

Credit Deposits Ratio is the proportion of loan assets created by banks from the deposits received. The credit deposits ratio of RRBs in India is presented in table 2.

Tab1e 2
Credit Deposits Ratio

(2002-2003 to 2009-2010)

Years	CD Ratio
2002-03	41.8
2003-04	44.2
2004-05	46.3
2005-06	52.8
2006-07	55.6
2007-08	58.3
2008-09	59.5
2009-10	56.4

Source: Central Statistical Information Department, NABARD, June 2011.

Table 2 depicts that the credit-debit ratio is the lowest at 41.8 per cent in 2002-03 and the highest at 59.5 per cent in 2008-09 later decreased sharply to 56.4 per cent in 2009-10. The credit deposits ratio shows an ever increasing ratio except in 2009-10 where a decreased credit deposits ratio is observed.

DEPOSITS AND LOANS OUTSTANDING

A sound banking system is the sin-qua-non of accelerated economic growth. The deposits show the potentiality and financial status of any bank and loans outstanding shows the poor recovery performance of the bank. The Deposits and Loans Outstanding of RRBs in India during 2002-10 are presented in table 3.

Table 3
Deposits and Loans Outstanding of RRBs in India (Rs. in crores)

Years	Deposits	Loans
2002-03	44,539	18,629
2003-04	50,098	22,158
2004-05	56,350	26,114
2005-06	62,143	32,870
2006-07	71,329	39,713
2007-08	83,144	48,493
2008-09	99,093	58,984
2009-10	1,20,189	67,802

Source: Central Statistical Information Department, NABARD, June 2011.

Table 3 depicts that the deposits range between Rs.44,539 crores in 2002-03 and Rs.1,20,189 crores in 2009-10 and show an ever increasing steep trend. Similarly the loans also vary from Rs.18,629 crores in 2002-03 to Rs.67,802 crores in 2009-10 and show continued increase from starting to ending. Both the deposits and loans increased continuously and show that the performance of the RRBs is good. It is worth mentioning that the deposits are approximately double the loans and hence the performance is outstanding.

STATE-WISE LOANS OUTSTANDING

The State wise loans outstanding in India during 2006-2010 are presented in the table 4.

The table 4 portrays that the loans outstanding are highest in Uttaranchal at Rs. 7,25,732.09 lakhs in 2006-07 and gradually decreased to Rs.52,196.00 lakhs in 2009-10 and lowest in Nagaland at Rs.705.99 lakhs in 2006-07 and decreased gradually to Rs.206.60 lakhs in 2009-10. The loans disbursed are highest in Andhra Pradesh at Rs.4,47,915.76 lakhs in 2006-07 and gradually decreased to Rs.350406.18 lakhs in 2009-10 and lowest in Arunachal Pradesh at Rs.2,867.00 lakhs in 2006-07 and increased gradually to Rs.3,083.22 lakhs in 2009-10. Above all the loans disbursed are highest at Rs.10,94,232.72 lakhs in Uttar Pradesh in 2009-10.

The total loans outstanding of India are Rs.39,71,257.21 lakhs in 2006-07 and reached by leaps and bounds to Rs.63,84,012.02 lakhs in 2009-10. The loans disbursed in India are Rs.25,42,697.12 lakhs in 2006-07 and reached by leaps and bounds to Rs.1960569.55 lakhs but the disbursement of loans has been decreased nearly half to Rs.63,84,012.02 lakhs in 2009-10.

Table- 4
State-wise Loans Outstanding and Disbursed by Regional Rural banks (RRBs) in India (2006-07 to 2009-10) (Rs. In Lakhs)

States	2006-07		2007-08		2008-09		2009-10	
	Loans Outstanding	Loans Disbursed	Loans Outstanding	Loans Disbursed	Loans Outstanding	Loans Disbursed	Loans Outstanding	Loans Disbursed
Andhra Pradesh	522247.80	447915.76	628599.11	659795.01	799533.92	694500.11	884102.55	350406.18
Arunachal Pradesh	2867.00	385.17	2757.11	585.32	2612.00	935.78	3083.22	625.81
Assam	91362.43	32055.23	112175.14	39676.61	131609.82	42021.25	153328.81	21179.14
Bihar	222456.74	73911.13	290408.22	137041.28	367761.11	158025.73	426733.72	80165.08
Chattisgarh	62775.34	35672.27	72181.67	36994.86	82894.66	43042.08	92210.10	25219.16
Gujarat	94299.54	68261.10	124047.21	93038.20	151844.56	102623.48	169375.38	81281.33
Haryana	129179.85	99658.00	155402.01	139600.00	206694.00	179190.00	226981.00	81629.00
Himachal Pradesh	26557.20	16154.26	32671.20	20372.62	38557.58	25775.03	40973.60	10600.79
Jammu & Kashmir	28282.07	14712.33	35052.32	19355.42	45522.63	23434.64	48015.80	9287.85

Jharkhand	58665.48	23885.77	60289.27	18494.94	68460.47	25437.29	74587.36	13344.56
Karnataka	470410.08	286055.59	589296.92	369507.47	708157.17	435857.84	729374.89	188940.75
Kerala	229589.33	216673.07	289604.76	266607.44	345863.82	305194.00	388726.00	185354.00
Madhya Pradesh	243761.57	156665.10	297672.38	187369.14	357018.28	234524.88	370069.29	127025.05
Maharashtra	101805.91	49370.03	128735.83	76652.03	157485.15	80824.57	164872.06	31358.43
Manipur	3443.69	1407.47	3809.10	678.42	3282.57	249.28	3201.53	103.49
Maghalaya	6667.00	3366.23	8253.57	4126.99	9733.16	4681.80	9951.10	1758.90
Mizoram	10854.27	4306.62	12833.07	5431.27	16106.42	6400.48	16859.96	4091.43
Nagaland	705.99	288.22	774.99	185.80	792.18	129.66	817.75	206.60
Orissa	241136.63	108749.19	283965.68	124232.14	319077.05	125478.91	355825.49	51895.39
Punjab	65878.21	63061.40	83914.33	80253.91	107836.37	109813.54	117896.36	59201.17
Rajasthan	258026.47	159380.42	328070.07	222745.51	414712.43	283611.85	436048.31	153977.58
Tamil Nadu	101620.30	121516.33	134798.78	146227.59	165287.38	184785.13	188446.53	112447.74
Tripura	37528.95	19034.77	46795.64	19220.65	54914.42	19445.17	58916.09	9347.08
Uttar Pradesh	29322.15	16821.93	859756.76	509234.05	1031304.05	610282.45	1094232.72	297686.46
Uttaranchal	725732.09	419434.32	35662.83	19995.97	46994.84	27644.56	52196.00	9264.36
West Bengal	206081.12	103955.41	231731.42	106926.80	264370.57	134287.98	277186.40	54172.22
India	3971257.21	2542697.12	4849259.39	3304349.44	5898426.61	134287.98	6384012.02	1960569.55

Note:* Provisional

Source: Souvenir 15th terminal conference, Bodhgaya, Bihar, 14-16 October 2011

AMALGAMATION OF RRBs

The advisory committee on flow of credit to agriculture and related activities (Chairman: Shri VS, Vyas in June 2004 recommended restructuring RRBs. Following this, an internal working group on RRBs was set up in the Reserve Bank to examine various alternatives available within the existing legal framework for strengthening RRBs. The Group, in its report submitted in June 2005,observed large variations in the number of districts covered and the branch network of RRBs. While 47 RRBs covered only one district each, 111 RRBs covered 2-3 districts, 29 RRBs 4-5districts and 9 operated in 6-9 districts. Similarly 72 RRBs had up to 50 branches, 87 RRBs 51-100 branches, 21 RRBs 101-150 branches and 16 had more than 150 brands. As many as 6 sponsor banks had only one RRB sponsored by them. While 11 sponsor banks had 2-4 sponsored RRBs, 3 sponsor banks had upto 10 RRBs and 8 sponsor banks had more than 10 RRBs sponsored by them in various states. Of these, only 2 sponsor banks had more than 20 RRBs. In order to improve the operational viability of RRBs and take advantage of the economies of scale (by reducing transaction cost), the route of merger amalgamation of RRBs was suggested taking into account the views of various stakeholders. The merged entities would have a larger area of operation and the merger process would help in strengthening some of the weak RRBs. A two-phase restructuring was suggested: (i) merger between RRBs of the some sponsor bank in the same state: and (ii) Merger of RRBs sponsored by different banks in the same State. Merger of RRBs with the sponsor bank is not provided for in the RRBs Act, 1976. Further, such mergers would go against the spirit of setting up of RRBs as local entities and for providing credit primarily to weaker sections.

The Government of India has initiated the first phase of amalgamation of RRBs sponsor bank wise at State level to overcome the deficiencies prevailing in RRBs and making them viable and profitable units. The process of amalgamation of RRBs sponsor bank-wise at the State level started on September 12, 2005 with the issue of notification in respect of formation of 9 amalgamated entities. As on March 31, 2005,196 RRBs were operating in 26 States across 523 districts (525 in 2005-06) with a network of 14,484 branches (14,489 in 2005-06) RRBs had a large branch network in dry rural areas.

This constituted nearly 45 per cent of rural branch network of all commercial banks. Till October 31, 2006, 137 RRBs were amalgamated to form 43 new RRBs, Sponsored by 18 commercial banks in 15 States, bringing down the total number of RRBs in the country to 196 from 102. The amalgamation process of phase-I is in process of being completed.

Revised guidelines regarding organizational setup, appointment of Chairman and fixation of seniority of staff were issued by NABARD to sponsor banks for implementation in their respective RRBs in the post-amalgamation period. NABARD is providing full guidance and support to smoothen the process of amalgamation. After amalgamation, RRBs would become bigger in size with a larger area of operation, which would enable them to function in a competitive environment more effectively by taking advantage of the economies of scale and reduction in transaction cost. The process of bringing down the number of RRBs would also make it more convenient for the sponsor banks to manage the affairs of RRBs.

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