

# REGIONAL RURAL BANKS (RRBS) OF INDIA

*Akash Kumar*

Research Scholar

Department of Commerce  
B.R.A.Bihar University, Muzaffarpur

**Abstract :** Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. They have been created with a view of serving primarily the rural areas of India with basic banking and financial services. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too. Currently, RRB's are going through a process of amalgamation and consolidation. Regional Rural Banks (RRBs) were set up under the provisions of 26 September 1975 ordinance and the RRB Act of 1976 to allocate banking and credit services for agriculture and other rural sectors. They were established on the recommendation of Narshimham Working Group. That time, almost 70% of India's population was based on rural region. 25 RRBs have been amalgamated in January 2013 into 10 RRBs. This counts 67 RRBs till the first week of June 2013. This counts 56 as of March 2015. On 31 March 2016, there were 56 RRBs (post-merger) covering 525 districts with a network of 14,494 branches. All RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus. However, within a very short time, most banks were making losses. The original assumptions as to the low cost nature of these institutions were belied.

**Index Terms - RRBs, Setup, Banking services, Evaluation, Assumption, Low cost nature.**

## I. INTRODUCTION

Rural banking institutions are playing a very important role for all-round development of rural areas of the country. In order to support the rural banking sector in recent years, Regional Rural Banks have been set up all over the country with the objective of meeting the credit needs of the most under privileged sections of the society. These Regional Rural Banks (RRBs) have been receiving a high degree of importance and attention in the rural credit system. Considering the gross absence of banking facilities in the rural areas of the country, the Reserve Bank of India in consultation with the Central Government, State Governments and some major nationalized sponsored banks had set up some Regional Rural Banks in the late 1970s with a view to elevate the economic status of the rural poor as well as to inculcate a habit of saving among the rural masses.

As per the recommendations of the Working Group on Rural Banks, the regional rural banks were established in 1975 for supplementing the commercial banks and co-operatives in supplying rural credit. The main objective of regional rural banks in India is to advance credit and other facilities, especially to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in order to develop agriculture, trade, commerce, industry and other usual productive activities in different rural areas of the country.

At the initial stage, five regional rural banks were established on October 2, 1975 at Gorakhpur and Moradabad in Uttar Pradesh, Jaipur in Rajasthan, Bhiwani in Haryana and Malda in West Bengal under the sponsorship of State Bank of India, the Syndicate Bank, United Commercial Bank, Punjab National Bank and United Bank of India respectively. All these five RRBs have an authorised capital of Rs 1 crore and paid-up capital of Rs 25 lakh. The share capital of RRB is subscribed in the following manner—as the Central Government—50 percent, the State Government concerned—15 percent and the sponsoring commercial bank—35 percent. The regional rural banks are maintaining its special charter its operation is very much limited to a definite region, grant direct loan to rural people at concessional rates and receive subsidies and concessions from the Reserve Bank and the sponsoring bank.

*The concessions granted by the Reserve Bank of India are:*

Allowing RRBs to maintain cash reserve ratio at 3 percent and statutory liquidity ratio at 25 percent; and Providing refinance facilities to RRBs through NABARD.

## **II. PROGRESS OF REGIONAL RURAL BANKS IN INDIA**

In the mean time, the regional rural banks have extended their network throughout the country to a considerable extent. Initially, there were 196 regional rural banks operating in 28 states with nearly 14,700 branches. Till June 1996, these RRBs have been lending annually nearly Rs 1500 crore to the rural people and more than 90 percent of the loan has been advanced to weaker sections. As on September, 1990, the RRBs had advanced jointly to the tune of Rs 3,560 crore in the form of short-term crop loans, term loans for agricultural activities, for rural artisans, cottage and village industries, retail trade, self-employment projects and consumption loans etc. Among all the states, Uttar Pradesh is the state where larger number of RRB branches has already been opened. Recently, after amalgamation, the number of RRBs has been reduced to 92. During the last 30 years, RRBs have been participating actively in various programmes designed for providing credit assistance to identified beneficiaries included under the new 20 Point Programme, IRDP and other programmes designed for scheduled castes and tribes. RRBs are also advancing loans to weaker sections and physically handicapped persons under differential rate of industrial (DIR) schemes.

At the end of June 2014, there were 92 amalgamated RRBs, covering 518 districts of the country with a network of 18,291 branches. Out of all these branches of RRBs, 4,042 are the rural branches as on June 30, 2014 which constitute about 21.4 percent of the total branches of RRBs. The loans and advances stood at Rs 7,852.7 crore as at the end of September 1996. Again, Rs 15,423 crore were mobilised as deposits by RRBs at the end of September 1996. Consequent upon the permission of the Reserve Bank of India to determine their own lending rate with effect from 26 August 1996, most of the RRBs have been charging interest rates on their loans varying between 13.5 to 19.5 percent per annum. In recent years, under the softer interest regime, interest rates on loans advanced by RRBs have also declined considerably. Again, total amount of credit advanced to the agriculture by the RRBs increased considerably from Rs 6,069.79 crore in 2002-03 to Rs 43,968 crore in 2010-11.

As on March 31, 2002 total outstanding deposits of RRBs stood at Rs 44,327.81 crore and total outstanding advances stood at Rs 18,586.97 crore. Out of the 196 RRBs, 170 RRBs are making profit in recent years after introducing measures under banking reforms. Chalapathi Rao Committee on Regional Rural Banks has also recommended privatisation of profit making RRBs in a phased manner. In order to make Financial Inclusion Plan of the government effective and to expand the penetration of banking network in unbanked and under-banked rural areas, regional rural banks (RRBs) also worked out its branch expansion plan for 2011-12 and 2012-13 with 10 percent increase over the previous year. Accordingly, RRBs could open 913 branches in 2011-12 against its target of opening 1247 branches. This figure compares favorably with that of opening of 521 branches in 2010-11 and 299 branches in 2009-10. For 2012-13, a target of opening 1845 new branches has also been set.

## **III. EVALUATION OF REGIONAL RURAL BANKS**

Regional Rural Banks have made commendable progress in advancing various types of loan to the weaker and under privileged section of the rural society. As per our recent RBI report, "The RRBs have fared well in achieving the objective of providing access to weaker sections of the society to institutional credit but the recovery position on the whole is not satisfactory."

The working of RRBs was evaluated by the Narasimham Committee on the Financial System. Although RRBs were set up in order to provide a low cost alternative to the operation of commercial bank branches, particularly in the rural areas but the functioning of RRBs was not up to the mark.

*The Committee mentioned three basic problems of RRBs:*

RRBs have a low earning capacity due to so many restrictions placed on the business undertaken by these banks; With the recent award of a tribunal the wages and salary scales of RRBs would be similar to that of commercial banks and thus the very idea of low cost alternative to the operation of commercial bank has been nullified; and The very area of operations of RRBs is also being utilised by the sponsoring banks by running their own rural branches leading to certain anomalies like duplication of services and expenditures on control and administration.

Thus the Narasimham Committee is of the opinion that the viability of RRBs should be improved without sacrificing the basic objective. The Government should also try to evolve a rural banking structure and base of RRBs with adequate financial strength and management and organisational skills of the commercial banks.

*Functional Superiority of Regional Rural Banks:*

Regional Rural Banks have also established functional superiority over other commercial banks of the country. This superiority of RRBs has been brought out by the share of deposits contributed by these branch offices of RRBs in different states. The share of deposits of these branches of RRBs in December, 1991 in a state like Uttar Pradesh was 25.7 percent in comparison to that of only 12.4 percent for other Scheduled Commercial Banks. This achievement is noteworthy if we consider that the number of branches of RRBs (1,193) was even lower than that of other scheduled commercial banks (1,361). Moreover, the share of deposits of RRBs in Haryana was also higher than other scheduled commercial banks which had comparatively double the number of branches.

Another important matter that has also been noticed is that most of the branches of RRBs are opened in unbanked centres and thus the deposits mobilised by them are fresh deposits and are not diverted from the deposits per branch of RRBs established before 1980 is uniformly higher in almost all the states of the country. In respect of credit operations, RRBs were successful in identifying the target groups and also in meeting their credit requirements.

*Unsatisfactory Performance of Regional Rural Banks:*

The Regional Rural Banks (RRBs) have been experiencing an unsatisfactory performance since last few years. Therefore, the RRBs have now become a serious problem for the Indian Banking sector. They are now far from fulfilling purpose for which they were set up some two decades ago. These RRBs have been incurring heavy losses year after year. In 1990-91, the RRBs incurred a total loss of Rs 92.87 crore, followed by Rs 258.66 crore during 1991-92. In 1993-94, 173 out of the country's 196 RRBs incurred losses to the tune of Rs 310 crore. As per the latest data available with the National Bank for Agriculture and Rural Development (NABARD), the total accumulated losses of all Regional Rural Banks, operating in the country are estimated at Rs 2,176 crore as on 31st March, 1996.

It is, therefore, not surprising that these banks, established for the purpose of providing an impetus to rural growth have dismally failed to boost agro-based rural economy. One of the major contributory factors responsible for the mounting losses suffered by the RRBs has been very high overheads; in which a sizeable component is salaries. Employees of RRBs earlier received lower scales of salaries compared to their counterparts in the scheduled nationalized banks. However, in 1990, with implementation of the National Industrial Tribunal (NIT) Award in case of the employees of the RRBs, the structure of their emoluments was brought at par with that of the staff of the scheduled commercial banks.

The NIT award has enhanced the salary-allowance bill of RRBs by 35 percent during the last three years, apart from increase in its other concomitant expenditure. Moreover, it also placed on the banks shoulder an arrear burden of Rs 225 crore. While the annual wage liability of the RRBs has increased substantially, their income was declining rapidly on account of inadequate loan recoveries and scanty profits. Only 23 of the 196 RRBs were making a profit and the rest were all running losses. The aggregate level of loss at the end of March 1994 was Rs 906 crore.

Over the last three years, the credit-deposit ratio of RRBs had also declined from 85.6 in 1989-90 to as low as 68.7 in 1991-92. Further, the increasing number of defaulters has hampered the recycling of cash. In 1992, the loan over dues stood at Rs 1,314 crore. Due to the constant efforts, at recapitalizing RRBs, at the end of March, 2000, 158 RRBs are posting operating profits. Out of these, 48 RRBs have been able to wipe out their accumulated losses. In view of the importance of RRBs in rural financing, the government has decided to continue with this programme of strengthening the RRBs in the coming years.

#### *Restructuring of Regional Rural Banks:*

The present situation is forcing the bank to initiate corrective measures to put them back in stream. The government of India has undertaken restructuring of the RRBs. Towards that end their issue capital has been raised from Rs 25 lakh to Rs one crore in the case of 140 banks and Rs 50 lakh in the remaining cases. A provision of Rs 5 crore for the purpose was made by the government during 1993-94.

The issue capital of the RRBs is shared by the Central Government, all the state governments and various sponsoring banks. At the end of March, 1992 the total credit support extended to the banks amounted to Rs 4090.86 crore. As on the same date the banks had mobilised Rs 5868 crore from 345 lakh accounts. During 1991-92, the RRBs disbursed only Rs 1,107 crore among 23 lakh rural people drawn from the weaker sections of the society.

To revitalize the banks a sum of Rs 402 crore was released in 1991-92 by the state owned National Bank for Agriculture and Rural Development (NABARD). The weak condition of RRBs has been reflected from the fact that many have completely wiped out their equity and reserves and in some, the losses are even eating into deposits. This is an unsustainable situation and long term structural measures are necessary if these banks are to be rehabilitated. Attributing high establishment and operational cost, low level of business and restricted area of operation as the main causes for the loss, the RBI had initiated certain measures to enable RRBs to diversify their operations.

In line with the government's focused strategy for improving the viability of the Regional Rural Banks in the country as many as 136 RRBs have been provided financial support to the tune of Rs 573 crore for their comprehensive revamping. By according priority to revival of viable RRBs instead of tackling the problem in a generalized manner, it is expected to bring down considerably the losses of RRBs and make them stand on their own feet.

The RRBs have been advised to prepare bank specific development action plans to enable them to adopt a systematic approach for their turn around. Besides, the RRBs have been permitted by the RBI to deploy a part of their surplus non-statutory liquidity Ratio fund in the credit portfolio of their sponsor banks. The RBI has fully deregulated the interest rates that can be charged to the ultimate borrowers by the RRBs. Now there is even a move to merge all the 92 RRBs to form a National Rural Bank of India, for which NABARD would contribute 76 percent of the equity.

#### *Reforms of Regional Rural Banks:*

In line with the reform of the banking system, Expert Groups were constituted to examine the major issue concerning managerial and financial restructuring of Regional Rural Banks (RRBs) to devise future course of action in their further reorganization, and to study the role which could be assigned to self-help groups and NGOs in improving the rural credit delivery system.

To ensure that the restructuring of RRBs is sustained and durable, prudential norms were introduced, in 1996 along the lines of those for commercial banks. RRBs will be required to adopt new income recognition norms and exposure limits for borrowers. Provisioning norms were introduced from the year 1996-97.

*Consolidation of Regional Rural Banks:*

The Government has taken the initiative of consolidating Regional Rural Banks (RRBs) sponsored by the same bank within a state. This would widen the sphere and area of banks' operation and strengthen their functioning with a view to increase the flow of credit in the rural areas. In terms of Section 23 of the Regional Rural Banks Act, 1976, the sponsor bank NABARD and the State Governments concerned have already given their concurrence for the proposed amalgamation of 14 RRBs.

Thus the process of merger in 196 RRBs, spread over 14,496 branches in 518 districts in India has quietly begun. A host of PSBs have taken a decision to merge some of their RRBs on a state-wise basis. The Government took systematic merger plan of RRBs on state-wise basis and one RRB started to function in each state province on 31st August, 2005 and as a result, the number of Regional Rural Banks (RRBs) had reduced to 92 from 196 due to amalgamation of RRBs sponsored by the same bank in a state.

The number of loss making RRBs reduced to 15 in 2006-07 from 22 in 2005-06. Of these seven have registered profit during the first half of 2007-08 and the remaining four posted profit by the end of 2007-08. The performance of RRBs has improved considerably as the percentage of their gross NPAs and net NPAs has reduced. The net Worth of RRBs as a whole increased to Rs 4,545.86 crore as on March 31, 2007 from Rs 3,466.25 crore as on March 31, 2005.

**IV. SUGGESTIONS TO RAISE THE DEGREE OF VIABILITY OF REGIONAL RURAL BANKS :**

1. As suggested by CRAFICARD, the areas of operation of a RRB branch never offer sufficient potential for business and thus to attain viability this branches may cover the neighbouring districts. But the chances of extending this area of operation are very remote due to the introduction of the programme of Service Area Approach.
2. Within the service area, the RRBs must be allowed to finance the project of non-target groups after meeting the credit needs of target groups. Although CRAFICARD and Kelkar Committee did not favour the idea of RRBs financing non-target groups but recommended to lend to those public bodies established for the benefit and welfare of weaker sections.
3. In order to increase the resource base, the RRBs may be permitted to open their branches in the semi-urban and urban areas having larger business potential. Such branches will help the RRBs to mobilise the much needed resources required to meet rural obligations.
4. In order to diversify their deposit base, RRBs may be permitted to tap NRI deposits in those areas when they have such potential.
5. District administration should help the RRBs to recover the overdue loan amounts as the present recovery percentage remains as low as 23 percent.

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