A Review of Literature on Performance of Regional Rural Banks in India

M. Shankar¹ & Dr. K Srinivasa Rao²

Abstract: Regional Rural Banks (RRBs) in India were established to promote economic development in rural areas. Many RRBs were established in various states to enhance the economic wellbeing of the rural population. In this research paper, an attempt is made to present the analysis of the performance of Regional Rural Banks (RRBs) in Telangana State. This assumes significance since Telangana was the newest state formed in India on 2nd June, 2014. The paper presents a summary of various studies conducted on the performance of RRBs at the national level and also at various state levels. Very few studies were earlier reported in the context of Telangana state which provide an opportunity to investigate the performance of RRBs in Telangana state. The findings of this research highlight the performance of Telangana Grameena Bank. The findings of this research will help future researchers working on the performance of RRBs in India.

Key Words: India; Performance; Regional Rural Banks; Telangana Research Scholar, Department of Commerce, Rayalaseema University, Kurnool (Andhra Pradesh)

History of Telangana Grameena Bank:
Telangana Grameena Bank (TGB) was established on 24th March, 2006 in the name of Deccan Grameen Bank. The Bank was established by amalgamating four RRBs Sponsored by State Bank of Hyderabad, viz. 1) Sri SaraswathiGrameena Bank, Adilabad 2) Sri SatavahanaGrameena Bank, Karimnagar 3) Sri Rama Grameena Bank, Nizamabad and 4) Golconda Grameena Bank, Ranga Reddy (Hyderabad) with an aggregate net work of 363 branches. The Area of operation of the Bank covers the districts of Adilabad, Karimnagar, Nizamabad, Hyderabad and Ranga Reddy districts of Telangana. The Authorised share capital of the Bank is Rs.5 crores. The paid-up capital is Rs.4 crores which is contributed by Government of India, Sponsor Bank i.e. State Bank of Hyderabad & Government of Telangana in the ratio of 50: 35: 15 respectively.

In the wake of introduction of financial sector reforms in 1991-92, the commercial viability of RRBs emerged as the most crucial factor in deciding about their desired role due to their limited business flexibility with hardly any scope of expansion/diversification, smaller size of loans with higher exposure to risk-prone advances and professional efficiency in financial deployment. To strengthen RRBs and improve their performance many initiatives have been taken by the Government of India and the Reserve Bank of India (RBI).

Introduction: Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1975 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural/semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. For the purpose of classification of bank branches, the Reserve bank of India defines rural area as a place with a population of less than 10,000. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks; the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

The first five RRBs were set up in five States in Haryana, West Bengal, Rajasthan, with one each two in Uttar Pradesh, which were sponsored by different commercial banks. These banks covered 11 districts of these five states. The first five Regional Rural Banks are as follows;

- Prathama Bank and Gorakhpur KshetriyaGramin Bank in Uttar Pradesh
- Haryana KrishiGramin Bank in Haryana,
- GourGramin Bank in West Bengal,
- Jaipur-Nagpur AnchalikGramin Bank, Rajasthan.

The mission of TGB - Providing transparent and efficient Banking Services at a reasonable cost at the doorsteps of our customers by ensuring 100% Financial Inclusion, empowerment of rural customers, promote Self Help Group (SHG) movement with special emphasis on women and earn
continuous profits by having a healthy business mix thus becoming a leading Bank in our area of operation.

ORGANISATIONAL STRUCTURE, CATEGORISATION OF POSITIONS AND SPAN OF CONTROL:
The Chairman will be the administrative head and will exercise overall control of all aspects relating to the functioning of the Bank. He will be responsible to the Bank’s Board for all the affairs of the Bank. The General Manager (Admin.) has been designated as head of the administrative set-up at the Head Office. The General Manager (Credit) will be looking after the matters related to TFI and other credit related issues.
The Head Office administrative set-up comprises of ten Departments, headed by Chief Managers of the Bank:
1. Secretary/Manager to Board & Personal Secretary to the Chairman.
2. Accounts & Compliance
3. Planning & Development
4. Credit
5. Personnel & Human Resources Development
6. Information Technology Department
7. Inspection and Audit
8. Financial Inclusion
9. Recovery

The operational control of all the 351 branches (other than Scale-IV Branches) has been divided into 6 Regions viz. Adilabad, Karimnagar, Nizamabad, Hyderabad-I, Hyderabad-II and Mancherial which will be under the control of Six Regional Managers (II, III, IV, V & VI) stationed at Adilabad, Karimnagar, Nizamabad, Hyderabad and Mancherial respectively. There are twelve Scale-IV Branches as on 31.03.2016 which are under the direct control of the General Managers.

Review of Literature
Reddy A. Amarendra (March 2006) examines the total factor productivity of RRBs. In this Banks located in economically developed as well as low banking density regions exhibited significantly higher productivity growth.
R.C. Dangwal and ReetuKapoor (2010) conducted a study on financial performance of commercial banks. In this study they compared financial performance of 19 commercial banks with respect to eight parameters and they classified the banks as excellent, good, fair and poor categories.
Pati A.P. (June 2010) explains that in India an array of financial institutions are operating in the area of rural financing. Among those institutions Regional Rural Banks (RRBs) are prominent. The idea was to provide efficient service to the rural sectors so that the rural economy could provide the necessary input to the overall economy.
The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part.
Patel and Shete (1980) of the National Institute of Banking Management made a valuable analysis of performance and prospects of RRBs. They also gave a comparative picture of performance in deposits, branch expansion and credit deployment of the co-operative banks, commercial banks and RRBs in a specified area. This was an eye opener for many researchers engaged in this field of rural credit.
Kalkundrickars (1990) in his study on “Performance and Growth of regional Rural Banks in Karnataka” found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans.
Kumar Raj (1993) carried out a study on the topic “Growth and Performance of RRBs in Haryana”. On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient us of distribution channels of finance to beneficiaries.
A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursement of loans to the rural borrowers as compared to the commercial banks.

Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.
L.K Naidu (1998) conducted a study on RRBs taking a sample of 48 beneficiaries of rural artisans in Cuddapah district of Andhra Pradesh state under Rayale Seen Gramin Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank.
According to Nathan, Swami (2002), policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector ending and preferential lending to the poor in particular.
Chavan and Pallavi (2004) have examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan’s paper documents the gains made by historical underprivileged region of east, northeast and central part of India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

Professor Dilip Khankhoje and Dr. Milind Sathye (2008) have analysed to measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post-restructuring in 1993-94.

The RRB were formed in September 1975 to provide ample banking and financial credit facility for the agriculture sector, small scale and cottage industries, and also to other rural sectors. These banks faced many challenges in operation, and it was due to the failure in achieving their targets. Later on to revive these banks from continuous losses the Government of India took the decision of amalgamation with their sponsored banks. It was expected that these banks may perform well, post amalgamation.

Many papers have been written on this performance issue. Ram and Subudhi (2014) in their present article used primary and secondary data to study whether there has been any significant improvement in the functioning of the RRBs in Odisha. Ibrahim (2010) found out whether the amalgamation of the RRBs has helped to improve their performance, it concludes with a relief that performance of the RRBs has improved after the merger.

Misra (2006) in his article made an analysis on the performance factors based on 10 years data. Reddy and Prasad (2011) tried to measure the financial soundness and performance of the RRBs through the CAMEL model approach.

Chakrabarti (2009) tried to evaluate performance of the RRBs profit-wise and region-wise. Soni and Kapre (n.d.) in their paper tried to evaluate the performance of the RRBs based on the key indicator. Ahmed (2013) analyzed the performance of the RRBs in India with respect to credit channelization, deposit mobilization, credit deposit ratio, and deployment of credit to various occupations.

Ibrahim (2013), in this present paper, made an effort to analyze and evaluate the performance of RRBs in pre- and post-amalgamation period. Jindal, Sharma, and Shamim (2014) tried to analyze the probable factors that influence the performance of the RRBs.


Hossain (1984) conducted a study on grameena bank in Bangladesh, which was started in 1976 as a pilot experiment and development project for the landless in an area near Chittagong University. The research study focuses attention on the socio-economic conditions of borrowers, use of loan and recovery performance. The findings indicate that the grameena bank has made positive contributions to the alleviation of poverty in the area of its operation. The study by Abdul Noorbasha and Dakshina Murthy (1984) found that regional rural banks had shown a tendency to grow and cater to the needs of weaker sections. The study also found that regional rural banks identify themselves as the perfect matching credit agents of the rural sector, compared to the than that of the commercial banks. But this study is based on secondary data only.

Lakshmi Narayana (1984) in a study on regional rural banks in West Bengal found that the recovery work of overdue loans together with the normal work of processing new credit proposals and enlisting new borrowers hardly allowed the bank officials any time for guiding them in adopting improved farming techniques and making better use of credit.

Singh and Upadhya (1984) conducted a study on the loan recovery aspect of regional rural bank in Bihar. Crop failure, expenditure on marriage and other social functions in the family were considered important factors of non-payment of loans. Inadequate follow up measures and lack of serious attitude of borrowers towards repayment were also explained as reasons. While, Jagadish Prasad and Sunil Kumar (1985) in a study about regional rural bank in Bihar found that, the loans given to the poor were generally accepted as a dole or relief programme, which was pointed out as the main reason for poor repayment.

Prasad (1985) in a study about Sri Visakha Grameena Bank in Andhra Pradesh revealed that regional rural banks were catering to the needs of rural society, creating banking consciousness, but also serving as corner stone to the building of rural development.

A study by Nagi Reddy and Rathna Kumar (1986) found that low yield, low market price for the produce, repayment of other debts and other domestic expenditure as the main reasons for non-repayment of loan. While, better yield, desire to get future loans, persuasion by bank officials, etc. are the main reasons for prompt repayment.

Rehman (1986) in his paper assessed the impact of the grameena bank on the existing rural power structure of Bangladesh. The
findings of the study indicate that grameena bank members, being conscious of their status as opposed to the rural elites, have already developed a countervailing force to ensure their participation in the development process. Balishter (1986) undertook a study to evaluate the performance of the Jamunagramin bank. On the basis of the working results of the bank, it was concluded that, in the event of future expansion of rural banking, greater importance should be given to the extension and strengthening of the network of regional rural banks along with the expansion of branches of commercial banks.

Another study by Rehman (1987) highlights the factors which have contributed to the success of grameena bank, Bangladesh, in reaching the poor through an innovative credit program. The design of the program, targeting the rural poor and women as clients, excellent implementation system, decentralized and participative management style and various other innovative polities were cited as the factors responsible for its success.

An in-depth household survey in five project villages and two control villages found that grameena bank members had incomes about 43 per cent higher than the non-participants in the adopted for project work villages. This effect on the income was attributed to the increase in income from processing and manufacturing, trading and transport services financed by the bank. Thus, the study concluded that, the grameena bank made positive contribution to the alleviation of the poverty in its area of operation.

Singh and Kalkundrikar (1988) in their study have come to the conclusion that regional rural banks have exclusively financed the weaker sections, showing the image of small man’s bank.

Ramakrishanan (1988) in his study revealed that the support from the state governments were not forthcoming to the extent it was envisaged and expected by the working group on the regional rural banks. The study also suggested entrusting the control of the regional rural banks to their sponsor banks.

In an article, SahanaGhosh (1988) found that the primary objective of taking banking services to un-banked areas had been fulfilled by the regional rural banks. The study made it clear that, since the objective of the regional rural banks had been the extension of credit to the rural poor and not based on the profit motive. It is not justifiable to argue that the concept of the regional rural banks should be done away with, only because they are proved to be unprofitable.

Rao (1988) in an article examines the inherent problems of regional rural banks. Since there are different agencies like reserve bank of India, National Bank for Agriculture and Rural Development (NABARD), sponsor banks, Government of India, etc, to control the regional rural banks, several decisions are delayed for want of clearance by one after the other agencies concerned. So, the study suggests amalgamating all the existing regional rural banks to form a single national rural bank under the single agency.

Conclusions
This article presents a review of earlier studies reported on the performance of Regional Rural Banks (RRBs) in India. The paper presents a summary of various studies conducted on the performance of RRBs at the national level and also at various state levels. The findings of this research will help future researchers working on the performance of RRBs in India. The findings of this paper indicate that many earlier studies were reported in the context of various states like Karnataka, Gujarat, Tamilnadu and other Indian states while a large number of studies focused at all-India level. The findings indicate that very few studies were reported in the context of Telangana state which provides an opportunity for future researchers.

References


Kumar Raj “Growth and Performance of RRBs in Haryana” 1993, Anmol Publications, New Delhi.


