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FINANCIAL PERFORMANCE EVALUATION OF RRB's IN INDIA

Kanika, Nancy

Assistant Professor, Rayat Bahra Institute of Management, Hoshiarpur(Punjab),India.
krishna5kanika@gmail.com
Assistant Professor, Lovely Professional University,Phagwara(Punjab),India
nancy.sahni@gmail.com

ABSTRACT

The rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. The increase in the number of NPA's and the problem of recovery has necessitated the need to study the financial performance of RRBs. The main objective is to study the growth-pattern and financial performance of Regional Rural Banks in India. The study conducted is descriptive in nature and data is collected from published annual reports of RBI and NABARD for the period 2006-2012. The study has witnessed positive impact on the financial performance of RRB's due to amalgamation and various other factors.

Keywords: Regional Rural Banks, Deposit Mobilisation, Credit Deployment, RBI, NABARD

Academic Discipline And Sub-Disciplines

Management

SUBJECT CLASSIFICATION

Regional Rural Banks

TYPE (METHOD/APPROACH)

Descriptive and data is collected through published annual reports of RBI.

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INTRODUCTION

The history of Regional Rural Banks in India dates back to the year 1975. It's the Narasimham committee that conceptualized the foundation of Regional Rural Banks in India. The committee felt the need of regionally oriented rural banks' that would address the problems and requirements of the rural people in India. Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26thSeptember 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 of50%, 15% and 35% respectively. The first five RRBs were set up in five States in Haryana, West Bengal, Rajasthan, with one each and two in Uttar Pradesh, which were sponsored by different commercial banks.

RRBs are commercial banks but they adopt some of the principles of cooperatives such allocation in areas, work for rural population in a limited area etc. Thus they are hybrid institutes. RRBs operate under the control of two institutions, the National Agricultural Bank and Rural Development (NABARD) and Reserve Bank of India (RBI). Rural banking in India started since the establishment of banking sector in India. Rural Banks in those days mainly focussed upon the agro sector. Regional rural banks in India penetrated every corner of the country and extended a helping hand in the growth process of the country SBI has 30 Regional Rural Banks in India known as RRBs. The rural banks of SBI are spread in 13 states extending from Kashmir to Karnataka and Himachal Pradesh to North East. The total number of SBIs Regional Rural Banks in India branches is 2349 (16%). Till date in rural banking in India, there are 14,475 rural banks in the country of which 2126 (91%) are located in remote rural areas.

SCOPE OF THE STUDY:

It covers all RRBs working in India. The study covers a specific period from 2006-07 to 2011-12 i.e. after globalization and amalgamation. There is macro evaluation of performance of all the RRBs in India. This study is an extention of the previous work done by some research scholars where the time period is taken upto 2010-2011.

OBJECTIVES OF THE STUDY

- To study the growth-pattern of Regional Rural Banks in India.
- To analyze the financial performance of RRBs.
- To know the credit distribution and credit- deposit ratio.

LIMITATIONS OF THE STUDY:

1. Information from NABARD and RBI was difficult to be obtained.
2. Accuracy of the data cannot be granted because all the data is taken from internet from the site of NABARD and RBI.
3. Interpretation is subjective, as the different people may interpret the same analysis in different ways.

The study don't cover all the issues of RRBs because of time constraint but an attempt is made to cover all the important issues in this study

REVIEW OF LITERATURE :

***Robson William B. P., Bergevin Philippe* (2012)** : This study argues that Canada's federal government, which began issuing real-return bonds (RRBs) in 1991, should issue more RRBs of more types than it currently plans to do. Issuing more RRBs would not only better satisfy existing demand from investors, it has the potential to spur the development of other price-indexed instruments. Experience elsewhere suggests that more federal RRBs could encourage other entities to issue price-indexed debt, and would let intermediaries provide such products as inflation-linked annuities, thus providing more Canadian savers with protection against intentional or accidental inflation.

Soni kumar Anil, Kapre Abhay(2012): have analysed the financial performance of RRBs in India during the period 2006-07 to 2010-2011. The present study is the extention of the work done by them. They had analysed the performance using various key performance indicators such as number of banks, branches, loans, advances etc. and concluded a positive impact on the performance of RRBs.

Ibrahim Syed (2010): The study was carried out on the topic "Performance Evaluation of Regional Rural Banks in India". In this study, it was concluded that RRBs in India showed a remarkable performance in the post-merger period.

Khankhoje Dilip and Sathye Milind (2008): The study has 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 or not.

Jasvir S. Sura (2008) The study shows that the overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making dent on the improval functioning of RRBs. Since the RRB is supposed to be a bank for poor people, it's presence in all the states of country especially in underdeveloped States can make things better. The government should spread the branches of RRBs at grass root level to provide such banking service to the really needy rural people. Moreover, it is the responsibility of the bank management and the sponsored bank to take corrective measures to raise the credit-deposit ratio of the bank that would make RRBs relevant in the rural India.

Nitin and Thorat (2004)The study has provided a penetrating analysis as to how constraints in the institutional dimension have seriously impraied the governess of the RRBs. They have argued that perverse institutional arrangements that gave rise to incompatible incentive structures for key shareholders such as political leaders, policy makers, bank staff and clients have acted as constraints on their performance. The lackluster performance of RRBs during the last two decades, according to the authors can be largely attributed to their lack of commercial orientation. An appropriate restructuring stategy would require identifying the problems leading to the non- satisfactory performance of the RRBs.

Chavan and Pallavi (2004) The study has 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.

Goddard et al. (2004)The study has given the nature of banking business, the need for risk management is of crucial importance for a bank's financial health. Risk management is a reflection of the quality of the assets with a bank and availability of liquidity with it. During periods of uncertainty and economic slowdown, banks may prefer a more diversified portfolio to avoid adverse selection and may also raise their liquid holdings in order to reduce risk.

Sinha (2003)The study of 5 RRBs have found that non-priority sector advances increased sharply in the second -half of the 1990s for all the sample banks. Of these 4 banks have a significant 25 percent of their portfolio invested in non-priority sector loans. The interviewed RRB managers aggree that this was a deliberate strategy to improve viability. Non-priority sector advances are mostly collaterlized and therefore carry low risk, they are generally market-based and of a higher value extended to higher incom clients or a low income clients through deposit and jewelry linked loans.

NABARD (2002)Study has shown RRBs viability, which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of Regional Rural Banks was essentially dependent upon the fund management straregy, margin between resource mobility and their deployment and on the control exercised on current and future cost with advances. The study further concluded that RRBs incurred losses due th defects in their systems and as such, there was no need to rectify these and make them viable. The main suggestions of the study included improvement in infrastructure facilities and opening of branches by commercial bank in such area where regional rural banks are already in operations.

Malhotra (2002) The issue whether location matters for the performance has been addressed in some detail by Considering 22 different parameters that impact on the functioning of RRBs for the year 2000, Malhotra asserts that geographical location of RRBs is not the limiting factor for their performance. He further finds that 'it is the specific nourishment which each RRB receives from its sponsor bank, is cardinal to its performance'. In other words, the umbilical cord had its effect on the performance of RRBs. The limitation of the study is that the financial health of the sponsor bank was not considered directly to infer about the umbilical cord hypothesis.

Naidu L. K. (1998),This study on Regional Rural Banks taking a sample of 48 beneficiaries as rural artisans in Cuddapah districh of Andhra Pardesh under Royal Seen Gramin Bank. In this study, it was conducted that the beneficiaries were able to find an increase in their income because of the finance provided by bank.

(Millerand Noulas, 1997). According to this study credit risk is found to have a negative impact on profitability. This result may be explained by taking into account the fact that more the financial institutions are exposed to high-risk loans; the higher is the accumulation of unpaid loans implying that these loan losses have produced lower returns to many commercial banks.

Prakash A. K. Jai (1996) 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 disbursal 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.

Kumar Raj (1993)The study has carried out 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.

The Committee on Financial Systems, 1991 (Narasimham Committee)The study has shown stress on the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs. 25 lakhs) didn't cover for the loan losses of most RRBs. In the case of a few RRBs, there had also been an erosion of public deposits, besides capital. In order to impart viability to the operations of RRBs, the Narasimham Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

Kalkundarickars (1990), A study has been conducted on performance and growth of Regional Rural Banks in Karnataka found that these banks had benefied the beneficiaries in raising their income , productivity, employments, and use of modern practices and rehabilitate the rural artisans.

RESEARCH METHODOLOGY:

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A research methodology has a specified framework for collecting the data in an effective manner. Research methodology means a "defining a problem, defining the research objectives, developing the research plan, collecting the information, analyzing the information and presentation of findings."

Problem Definition:

Importance of defining a problem can be judged from the fact that unless a problem has been defined, it is very difficult to point out/decide whether or not the research work has been useful in helping the researcher understand all the nuances of the situation resulting in a hazy understanding of the situation.

The problem for present study can be clearly and precisely stated as follows:

"Financial Performance Evaluation of RRBs in India"

Research design:

A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance research purpose with economy in procedure.

Research design is **Descriptive** in nature. The aim of the study is to find out the financial performance Evaluation of Regional Rural banks in India. The study has been taken up for the period 2006-2012.

Data collection method:

Data for this study is gathered mainly from **secondary sources**, that is from the **published annual reports of RBI** for the financial year ended 2006 to 2012

Statistical Tools & Techniques

Various tools are used to analyze the data tools like charts, percentage method, ratio analysis etc. is used to find out the results.

DATA ANALYSIS AND INTERPRETATION

Table No. 1: Growth of RRBs in India

(As at end-March)

Years	No. Of RRBs	No. Of Branches	No. Of District Covered
1980	85	3279	144
1981	107	4795	182
1982	124	6191	214
1983	150	7795	265
1984	173	10245	307
1985	188	12606	333
1986	194	12838	351
1987	196	13353	363
1988	196	13920	369
1989	196	14079	369
1990	196	14443	372
1991	196	14527	381
1992	196	14539	392
1993	196	14543	398
1994	196	14542	408
1995	196	14509	425
1996	196	14497	427
1997	196	14461	427
1998	196	14475	451
1999	196	14499	454
2000	196	14301	457
2001	196	14311	476
2002	196	14350	487
2003	196	14311	495
2004	196	14446	518
2005	196	14446	523
2006	133	14446	524
2007	96	14526	534
2008	91	14761	594

2009	86	15158	617
2010	82	15480	618
2011	82	16001	620
2012	82	16914	N.A.

N.A.: Not Available

Sources: RRBs key statistics 2011-12, NABARD, Mumbai

Table 1. depicts a sharp increase in the number of banks which went up to 107, covering 182 districts with a branch network of 4795 in the year 1981.it is also cleared from the table that in each successive year, the number of RRBs districts covered and number of branches had significantly increased. As on 31 march 2004, 196 RRBs were operating in India with 518 districts covered and 14446 number of branches.

Till in 2007 the total number of RRBs bringing down in the country from 133 to 96 only. And at the end of 31 march, 2012, the number of RRBs are 82, with 16914 branches.

Table No. 2 Geographical Distribution of RRBs

Sr. No.	Name of State	No. Of RRBs
1	Andhra Pradesh	5
2	Arunachal Pradesh	1
3	Assam	2
4	Bihar	4
5	Chhattisgarh	3
6	Gujarat	3
7	Haryana	2
8	Himachal Pradesh	2
9	Jammu & Kashmir	2
10	Jharkhand	2
11	Karnataka	6
12	Kerala	2
13	Madhya Pradesh	8
14	Maharashtra	3
15	Manipur	1
16	Meghalaya	1
17	Mizoram	1
18	Nagaland	1
19	Orissa	5
20	Punjab	3
21	Rajasthan	6
22	Tamil Nadu	2
23	Tripura	1
24	Uttar Pradesh	10
25	Uttaranchal	2
26	West Bengal	3
27	Pondicherry	1
	All India	82

Sources: RRBs key statistics, NABARD, Mumbai(31 March, 2012)

It is clear from the table 2 that there are 82 RRBs in India as on 31 March, 2012. However many districts in the country are yet to be covered. As per table, Uttar Pradesh has the highest number of 10 RRBs followed by Madhya Pradesh with 8. While Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Pondicherry has minimum number of RRBs

Table No.3 Purpose wise outstanding loans and advances of RRBs

(in crores)

Sr. No.	Purpose	2006	2007	2008	2009	2010	2011	2012

1	Short term (crop loans)	13877	18707	22748	26652	33643	40663	474
2	Term loans for agriculture and allied activities	7632	3745	10468	10715	12619	14404	167
1	Total agriculture (1 to 2)	21509 (54.2)	27452 (56.6)	33216 (56.3)	37367 (55.1)	46282 (55.9)	55067 (54.9)	641 (53.2)
3	Rural artisans	748	736	671	772	810	881	11
4	Other industries	757	880	1227	1656	1598	2625	36
5	Retail trade etc.	3452	3677	4531	4690	5234	5082	66
6	Other purposes	13246	15748	19339	23317	28895	36643	452
11	Total non- agriculture (3 to 6)	18204 (45.8)	21041 (43.4)	25768 (43.9)	30435 (44.8)	36537 (44.1)	45231 (45.1)	564 (46.8)
	Total (1to 11)	39712 (100.0)	48493 (100.0)	58984 (100.0)	67802 (100.0)	82819 (100.0)	100298 (100.0)	1206 (100.0)

2006-07 : The share of agricultural loans (Rs.27,964 crore in 2006-07) increased to 57.7 percent at end-March 2007 from 54.2 per cent at end-March 2006.

2007-08: The share of agricultural loans declined marginally to 55.4 per cent at end-March 2008 from 56.6 per cent a year ago.

2008-09: The share of agricultural loans declined marginally to 52.8 percent as at the end of March 2009 from 56.3 per cent a year ago.

2009-10: Importantly, however, the share of agricultural credit in total credit from RRBs was on a declining trend in the recent years.

2010-11: It is important to note that more than 80 per cent of the total credit of RRBs belonged to the priority sector in 2010-11. A little more than half of the credit was bagged by the agricultural sector in 2010-11, though the share of agricultural credit in total credit witnessed a marginal decline in 2010-11 over the previous year. Within agriculture, crop loans constituted almost 74 per cent of the volume of lending. Within the non-agricultural sector, majority of the credit was for other purposes in 2010-11.

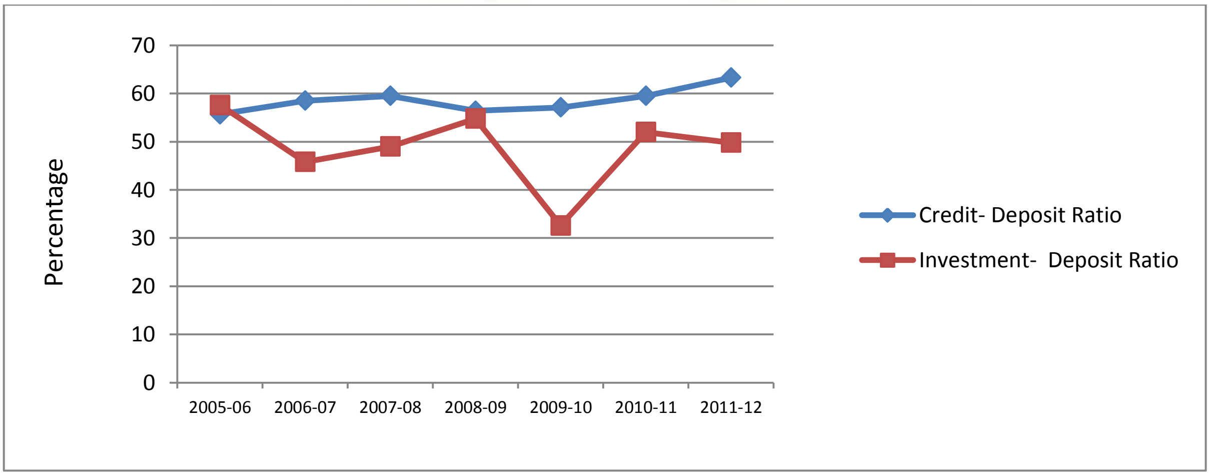
2011-12: As at end-March 2012, priority sector advances comprised of more than 80 per cent of the total credit of RRBs. Purpose-wise composition of credit disbursed by RRBs remained broadly unchanged during 2011-12, with more than half of total credit going to the agricultural sector.

Table No. 4: Credit deposit and investment deposit ratio (in %age)

Year	Credit- Deposit Ratio	Investment- Deposit Ratio
2005-06	55.7	57.6
2006-07	58.5	45.8
2007-08	59.5	49.0
2008-09	56.4	54.8
2009-10	57.1	32.6
2010-11	59.5	52.0
2011-12	63.3	49.8

Sources: compiled from report on trend and progress of banking in India (2006-2012)

Chart 1



In the year 2005-06 the credit deposit ratio was 55.7 while the investment deposit ratio was 57.6. and at the year end march 2007 the credit deposit ratio was increased to 58.5 while credit investment ratio decrease to 45.8.

The table shows that in 2009-10 the credit deposit ratio increased to 57.1 existing of 56.4 in last year. While the investment deposit ratio decreased to 32.6

And in 2011-12, the credit deposit ratio was 63.3 and investment deposit ratio was 49.8.

Table 5.Financial Performance of RRBs (2006-07)

(in crores)

Sr.No.	Items	2006	2007	variation	Percentage variation
1	Income	5599	7653	2054	36.69%
2	Expenditure	5089	7057	1968	38.67%
3	Operating profit/loss	787	1232	445	56.54%
4	Net profit/loss	510	596	86	16.86%
5	Total assets	88652	105768	17116	19.31%
6	Operating ratio to total assets	0.89	1.16	-	-
7	Net profit ratio to total assets	0.58	0.56	-	-

Increase in interest and other income of RRBs during 2006-07 did not keep pace with the increased expenditure on account of sharp growth in provisions and contingencies and wage bill. Consequently, net profits of RRBs declined from Rs.617 crore during 2005-06 to Rs.596 crore during 2006-07.

Table 6. Financial Performance of RRBs (2007-08)

(in crores)

Sr.No.	Items	2007	2008	Variation	Percentage variation
1	Income	7653	9406	1753	22.90%
2	Expenditure	7057	8379	1322	18.73%
3	Operating profit/loss	1232	1859	627	50.89%
4	Net profit/loss	596	1027	431	72.32%
5	Total assets	105768	125194	19426	18.36%
6	Operating ratio to total assets	1.16	1.48	-	-
7	Net profit ratio to total assets	0.56	0.82	-	-

Aggregate income of RRBs during 2007-08 grew by 20.0 per cent on account of higher interest as well as non-interest income. Growth in expenditure during the year was relatively subdued on account of lower increase in interest expenditure and wage bill. As a result, profitability of RRBs improved significantly during 2007-08. Out of 90 RRBs, 82 RRBs earned a combined profit of Rs. 1,429 crore, whereas 8 RRBs incurred a combined loss of Rs. 55 crore in 2007-08. Thus, RRBs, as a group, earned net profits of Rs. 1,374 crore during 2007-08 as compared with Rs. 625 crore in the previous year. The improvement in the financial performance of RRBs is also reflected in the decline in NPAs ratios (both gross and net) during 2007-08. While gross NPAs to total assets ratio declined to 5.9 per cent at end- March 2008 from 6.6 per cent a year ago, the net NPAs to assets ratio declined to 3.0 per cent from 3.5 per cent a year ago.

Table 7 .Financial Performance of RRBs (2008-09) (in crores)

Sr. No.	Items	2008	2009	Variation	Percentage variation
1	Income	9406	11388	1982	21.07%
2	Expenditure	8379	10053	1674	19.98%
3	Operating profit/loss	1859	2123	264	14.20%
4	Net profit/loss	1027	1335	308	29.99%
5	Total assets	125194	150654	25460	20.34%
6	Operating ratio to total assets	1.48	1.41	-	-
7	Net profit ratio to total assets	0.82	0.89	-	-

The growth rate of aggregate income of RRBs decelerated to 19.5 per cent as at end- March 2009 from 20.0 per cent last year. This deceleration was mainly on account of slowdown in ‘other income’. The expenditure of RRBs, however, rose sharply mainly on account of increase in interest expended and rise in provision and contingencies. Out of 86 RRBs, 80

RRBs earned profit amounting to Rs.1,405 crore, whereas 6 RRBs incurred loss amounting to Rs.36 crore for the year 2008-09. Thus, RRBs together earned net profits of Rs.1,369 crore during the year 2008-09 as compared to Rs.1,027 crore during the previous year. The improvement in the performance of RRBs is also reflected in the decline of NPAs (both gross and net)during 2008-09. While gross NPAs to total loan assets ratio declined to 4.2 per cent as at the end of March 2009 from 6.1 per cent a year ago, the net NPAs to loan assets ratio declined to 1.8 per cent from 3.4 per cent for the same period.

Table 8.Financial Performance of RRBs (2009-10)

(in crores**)**

Sr. No.	Items	2009	2010	Variation	Percentage variation
1	Income	11388	13835	2447	21.49%
2	Expenditure	10053	11951	1898	18.89%
3	Operating profit/loss	2123	2913	790	37.21%
4	Net profit/loss	1335	1884	549	41.12%
5	Total assets	150654	184093	33439	22.20%
6	Operating ratio to total assets	1.41	1.58	-	-
7	Net profit ratio to total assets	0.89	1.02	-	-

Out of 82 RRBs, 79 RRBs were in profits during 2009-10 indicating an increase in the share of profit-making RRBs to 96.3 per cent during this year as compared to 93.0 per cent in the previous year. On the whole, all RRBs taken together reported a net profit of `1,884 crore showing a growth of 41.1 per cent in 2009-10. As a result, there was a marginal rise in the Return on Assets (RoA) of RRBs from 1.0 per cent in 2008-09 to 1.1 per cent in 2009-10.

Table 9.Financial Performance of RRBs (2010-11)

(in crores)

Sr. No.	Items	2010	2011	Variation	Percentage variation
1	Income	13835	16220	2385	17.24%
2	Expenditure	11951	14232	2281	19.09%
3	Operating profit/loss	2913	2703	-210	-7.21%
4	Net profit/loss	1884	1988	104	5.52%
5	Total assets	184093	215359	31266	16.98%
6	Operating ratio to total assets	1.58	1.25	-	-
7	Net profit ratio to total assets	1.02	0.92	-	-

The net profits of RRBs increased in 2010-11 over the previous year. Despite a decline in operating profits, net profits registered an increase owing to the decline in provisions and contingencies. However, even with the increase in net profits in absolute terms, the return on assets recorded a decline in 2010-11 over the previous year. The per branch profitability as well as per employee profitability of RRBs witnessed an increase in 2010-11 over the previous year.

Table 10.Financial Performance of RRBs (2011-12)

(in crores)

Sr. No.	Items	2011	2012	variation	Percentage variation
1	Income	16220	20100	3880	23.92%
2	Expenditure	14232	18100	3868	27.17%
3	Operating profit/loss	2703	3300	597	22.09%
4	Net profit/loss	1988	2000	12	0.60%
5	Total assets	215359	242500	27141	12.60%
6	Operating ratio to total assets	1.25	1.36	-	-
7	Net profit ratio to total assets	0.92	0.82	-	-

During 2011-12, out of total 82 RRBs operating in the country, 79 made profit whereas the remaining three RRBs incurred loss. Though net profits of RRBs witnessed improvement in recent years, their net margin exhibited a mixed trend .

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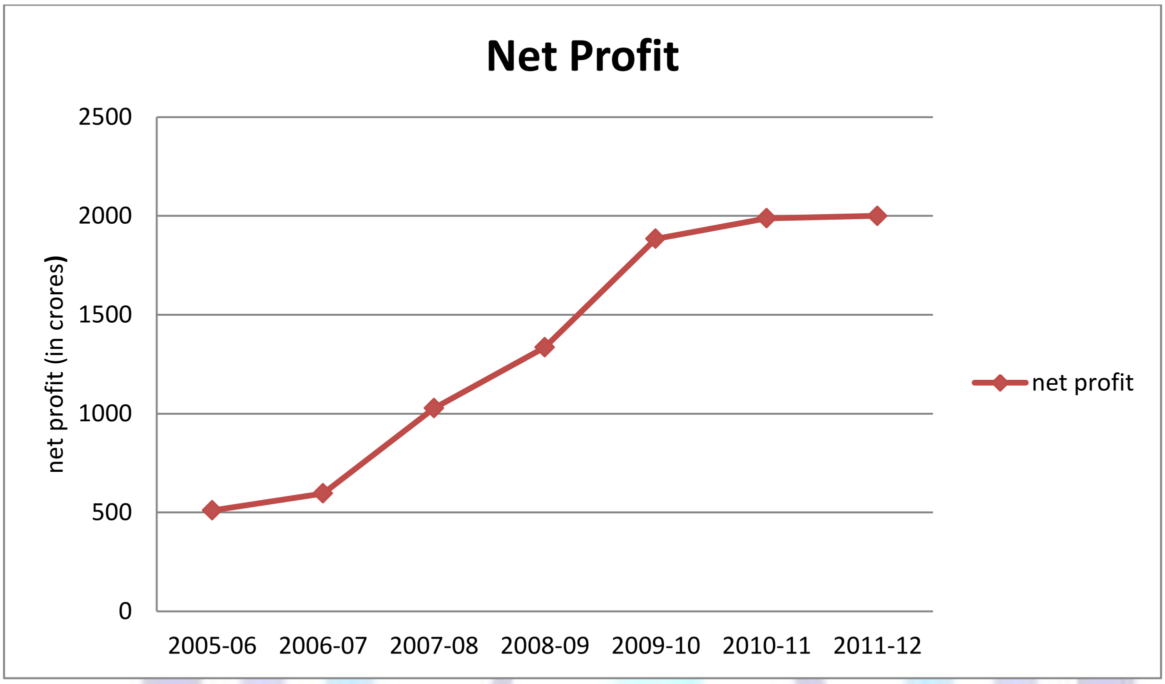
Chart 2. Net profit of RRBs



FINDINGS:

1. Though the growth in credit when seen in isolation gives an impression of the impressive strides made by RRBs in disbursing credit, they account for a very small proportion (around 3 per cent) of the total assets of the Indian banking sector, despite their significant branch network.
2. At the end of the last fiscal 2011-12, the number of branches reached 16,914 as against 14,489 in 2005-06. Amalgamation and reduction of number resulted in rationalization to a great extent. This helped merge the weak RRBs with the stronger ones
3. Lack of a single owner with clear ownership and control, and no prospects for profits, diffused accountability and weakened oversight of the RRBs.
4. RRBs were established "with a view to developing 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 laborers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto"(RRBs Act, 1976).

5. RRBs alone have organized roughly 12 lakh self-help groups, 45 per cent of the total self-help groups in the country. RRBs have also issued over 40 lakh Kisan Credit Cards to the farmers and organized over 5,000 out of 11,000 farmers' clubs under NABARD scheme.
6. Specifically, the sponsor bank contributes thirty-five per cent of issued capital of a RRB, appoints its chairman, advises on decisions regarding investments, monitor its progress and suggest corrective measures to be taken by the RRB.
7. After amalgamation, RRBs transformation has resulted in a 200 per cent increase in net profits, a 100 per cent increase in business, a gradual reduction in the number of loss-making banks and addition of 1,000 outlets. All this has been because of consolidation among RRBs. The Central government initiated the process of amalgamating RRBs in September, 2005. Then there were 196 RRBs.
8. RRBs are extending loans to non-agricultural sector in rural areas also. They are broad-basing their credit pattern. Malaprabha Grameen Bank went ahead to finance vehicles for rural transport system. Financing of vehicles for rural transportation helped villagers, as they sold their produce in urban areas.
9. The reduction in number of RRBs has not resulted in any sudden reduction in staff strength since there was no termination of services of employees after amalgamation. Unlike commercial banks no voluntary retirement schemes were introduced in RRBs.
10. The amalgamation of different RRBs of the same sponsor bank in a State helped the combined entity increase business and profits and also RRBs were permitted to open branches at talk headquarters.
11. RRBs seem to have better Non-Performing Assets (NPA) management with net NPA coming down every year after the amalgamation. In 2005-06, the net NPA stood at 3.96 per cent. It declined to 1.98 per in 2008-09.
12. It is proved that being the bankers for the villagers has helped RRBs garner more CASA than the commercial banks.

SUGGESTIONS

1. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB Government should encourage and support banks to take appropriate steps in rural development.
2. Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
3. Policy should be made by government for opening more branches in weaker and remote areas of state.
4. To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.
5. The RRBs have to make an important change in their decision making with regard to their investments.
6. The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.
7. The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.
8. Productivity can be improved by controlling the costs and increasing the income.
9. Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.
10. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
11. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.
12. The credit policy of the RRB should be based on the group approach of financing rural activities.
13. The RRB may relax their procedure for lending and make them easier for village borrowers.

CONCLUSION

To conclude, the expansion of RRB at a rapid rate has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in deposit mobilization, rural development, branch expansion, and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks profitable by concentrating on qualitative, secure and speedy banking services .

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Author’ Biography

Author 1: **KANIKA**, Assistant Professor at Rayat and Bahra Institute of Management is an MBA(Finance), UGC Net qualified. She has over three years experience of teaching in postgraduate and undergraduate education programmes.

Author 2: **NANCY,** Assistant Professor at Lovely Professional university is an M-Ecom(Finance), UGC Net qualified. She has over five years experience of teaching in postgraduate and undergraduate and executive education programmes. She has taught more than 20 subjects in her teaching career. She has been appointed as a member of several committees at university level.