

RESOURCE MOBILIZATION OF REGIONAL RURAL BANKS IN INDIA

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Abstract:

Regional Rural Banks are established under the provisions of an ordinance promulgated on the 26th September, 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. Reforms and mergers introduced by the Government of India in consultation with Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) in the years 1994-95 to 2005-06 have yielded positive results in respect of key performance indicators such as number of banks and branches, capital composition, deposits, loans, loans and the trend of investments. The objective of this paper is to investigate whether the merger/amalgamation of Regional Rural Banks in India. Several committees have emphasized the need to improve the performance of these banks in terms of resource mobilization, which play an important role in the rural credit market in India. The study is diagnostic and exploratory in nature and makes use of secondary data. The study finds and concludes that performance of rural banks in India has significantly improved after amalgamation process which has been initiated by the Government of India.

Keywords: RRBs, Resource Mobilization, Rural Credit Market, State Governments, Sponsor, Reserve Bank of India.

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INTRODUCTION

Banks play an important role in mobilization and allocation of resources in an economy. The gains to an economy depend on how efficiently the banks perform. Like other commercial organization, the efficiency of banks is also judged among others by their profitability. In India, the priorities in banking operations underwent far reaching changes since the

banking sector reforms have been set in motion. There had been a shift of emphasis from development or social banking to commercially viable banking. Profitability became the main consideration and the prime mover of the financial strength and performance of banks. Unlike in the past, all banking operations gradually came to be measured in terms of their ability to generate profits.

Regional Rural Banks (RRBs) were established in our country in 1975 essentially for taking banking to the doorsteps of rural masses, particularly in areas without banking facilities. RRBs, were expected to operate as State sponsored, region based and rural-oriented commercial banks. RRBs were expected to mobilize resources from rural areas and play a significant role in developing agriculture and rural economy by deploying mobilized resources in rural sectors for the needy not conversed by other formal credit institutions.

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 inefficiency in financial deployment. To strengthen RRBs and improve their performance many initiatives have been taken by the Government and the Reserve Bank of India. As a part of comprehensive restructuring programme, recapitalization of RRBs was initiated in the year 1994-95. The process continued till 1999-00 and covered 187 RRBs with aggregate financial support of Rs. 2188.44 crore from the shareholders, viz. Government of India, State Governments and sponsor banks in the ratio of 50:15:35. Further, the branch licensing policy for RRBs has been liberalized.

Under the new norms, empowered committees at the regional offices of RBI clear RRB application to open government business including conducting foreign exchange business with the prior approval of the concerned Government authority and RBI. These counters at the premises of the institutions of which from the concerned regional office of the RBI. The RRBs need not to obtain permission of RBI for installation of ATMs at branches and extension counters for which they hold licenses issued by RBI. They are also permitted to open off-site ATMs after assessing the cost and benefit. As against the earlier policy of opening a large number of branches in far flung rural areas, RRBs have been permitted to merge close down their unviable branches and the branch licensing policy for RRBs is almost at par with that for commercial banks.

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 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 labourers and rural Artisans. The area of operation of RRBs is limited to the area as notified by Govt. of India covering one or more districts in the State. RRBs are jointly owned by Govt. of India, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively.

REVIEW LITERATURE

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 cooperative banks, commercial banks and RRBs in a specified area. **NABARD (1986)** published "A study

on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function. **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 use 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 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. **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 lending 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. As none of these studies analyze the performance after amalgamation took place in the year 2006, there is a need for carrying out the present study. Customer Service in Regional Rural Banks (2014) Reserve Bank, as the regulator of Regional Rural Banks (RRBs), has been actively engaged from the very beginning in the review, examination and evaluation of customer service in RRBs by means of various guidelines issued from time to time to the RRBs. On review it is felt necessary to issue additional instructions to RRBs on other areas of customer service aligning with those issued to Scheduled Commercial Banks. These guidelines would be required to be complied by RRBs in addition to instructions already issued on Customer Service from time to time.

I. SCOPE OF THE STUDY

The present study will analyze the resource mobilization of Regional Rural Banks in India through the growth of deposits.

II. OBJECTIVES OF THE STUDY

The following are the Objectives of the Study.

- ❖ To analyze the source outline of RRBs in India
- ❖ To study the Time and Demand Deposits of RRBs
- ❖ To offer suitable suggestions on the basis of the findings of the study.

III. METHODOLOGY

The study is purely based on the secondary data only. The data required for the study are collected from the Reports on Trends and Progress of the Banking in India, Government publications, Books, Journals, Websites and so on.

IV. PERIOD OF THE STUDY

The study covers a period of fourteen years from 2000-01 to 2013-14.

V. PLAN OF ANALYSIS

The researcher has used the statistical tools like percentage, Growth rate, compound growth rate, trend analysis

VI. CLASSIFICATION OF TOTAL DEPOSITS OF RRBs IN INDIA

Table 1 shows the classification of total deposits of RRBs in India during the study period.

From the Table 1, it is understood that the total deposits of RRBs in India has increased from Rs.37027 crores in 2000-01 to Rs.241791 crores in 2013-14. The proportion of demand deposit of RRBs in India varied between 17.55 per cent in 2000-01 and 53.78 per cent in 2013-14 and the highest proportion of time deposit of RRBs in India has decreased from 82.45 per cent in 2000-01 to 46.22 per cent in 2013-14.

VII. GROWTH OF DEMAND DEPOSITS OF RRBs IN INDIA

The detail regarding the growth of demand deposits in RRBs in India is presented in Table 2.

Demand deposits of RRBs and its growth rates are shown in Table 2. The demand deposits increased from Rs.6499 crores to Rs.130040 crores between 2000-01 and 2013-14. The growth rate of demand deposits has varied between 18.73 per cent and 9.36 per cent during the study period. The compound growth rate of demand deposits is 36.24 per cent over the study period.

VIII. GROWTH OF TIME DEPOSITS OF RRBs IN INDIA

Table 3 given below presents the growth rate of time deposits of RRBs during the eleven years period of the study.

From Table 3, it is found that the time deposits of RRBs witnessed an increasing trend during the study period except in the year 2005-06. During the study period, it has ranged between Rs.30528 crore and Rs.111751 crore. The growth rates of Time deposit have varied between 16.29 per cent and 20.37 per cent. The compound growth of time deposits of RRBs in India is 5.40 per cent during the study period.

IX. GROWTH OF TOTAL DEPOSITS OF RRBs IN INDIA

Table 4 presents the growth of Total deposits mobilized by RRBs during the study period.

It is clear from Table 4 that the total deposits increased from Rs.37027 crores to Rs.241791 crores, between 2000-01 and 2013-14. The compound growth rate of total deposits is 16.10 per cent. The growth rate of total deposits have varied between 16.73 per cent and 14.46 per cent during the research period.

X. ANALYSIS OF DATA

X.I. TREND ANALYSIS

The deposits and advances of RRBs in India have been analyzed by the method of least square and predicted for the future year 2025. The trend values of RRBs have been estimated by using a linear trend equation as given below.

$$Y_c = a + bx$$

Where Y = Deposits and advances of RRBs in crores.

X = Time variable

'a' and 'b' are parameters to be estimated.

Y_c computed trend figure for period x .

The above trend equation has been estimated by the method of least squares. The value of 'a' and 'b' are determined by solving the following two normal equation:

$$\sum y = Na + b \sum x \quad \dots \quad (1)$$

$$\sum xy = N \sum x + b \sum x^2 \quad \dots \quad (2)$$

Where N =Number of years of which data are given that is 14 years.

The x values for the year 2000 to 11 are -5,-4,-3,-2,-1, 0, 1,2,3,4 and 5.

Since $\sum x=0$ the above two normal equations are

$$\sum y = Na$$

$$a = \sum y / N$$

$$b = \sum xy / \sum x^2$$

With the help of the above linear trend equations the trend values of deposits and advances of RRBs in India have been computed.

Equation to straight line trend is

$$Y_c = a + bx$$

$$\text{Since } \sum x = 0$$

$$a = \sum y / N = 1532893 / 13$$

$$a = 117915$$

$$\sum xy = b \sum x^2$$

$$b = \sum xy / \sum x^2 = 3017587 / 182$$

$$b = 16580$$

$$Y_c = 84597 + 12431X$$

The equation to the straight line trend is

$$Y_{2025} = 117915 + 16580(17) = 399775$$

total deposit in the year 2025 would be Rs. 399775 crores.

XI. FINDINGS

The Total deposits of RRBs comprises Demand deposits and Time deposits

1. The growth rate of demand deposits has varied between 18.73 per cent and 9.36 per cent during the study period. The compound growth rate of demand deposits is 36.24 per cent over the study period.
2. The growth rates of Time deposit have varied between 16.29 per cent and 20.37 per cent. The compound growth of Time deposits of RRBs in India is 5.40 per cent in during the study period.

XII. SUGGESTIONS

- a. To increase the deposits, the bank should organize "Deposits Week" and take steps to mobilize deposits.
- b. As regards deposits, the current deposits carry zero rate of interest. Therefore the banks have to concentrate on mobilizing current deposits.
- c. To maintain a steady growth rate of deposits, it is recommended that the banks should come forward to offer

some subsidiary services like marketing assistance, technological assistance, and insurance facilities, export facilities and so on, to the customers.

- d. The share capital of the banks must be increased in order to make themselves competitive.
- e. There is a need for proper planning with specific objective after considering the potential and

peculiar characteristics of people in the area of operation. RRBs should make it a policy to exploit the potential available for deposits.

XIII. CONCLUSION

The performance of deposits of RRBs has showed a decreasing trend. The trend value of total deposit of RRBs for the year 2025 would be Rs. 399775 crores.

Table 1: Classification of Total Deposits of RRBs in India (Rs in crores)

Year	Demand Deposits	Time Deposit	Total Deposit
2000-01	6499 (17.55)	30528 (82.45)	37027 (100)
2001-02	7716 (17.85)	35504 (82.15)	43220 (100)
2002-03	8802 (18.21)	39544 (81.79)	48346 (100)
2003-04	11019 (19.33)	45991 (80.67)	57010 (100)
2004-05	17330 (27.89)	44813 (72.11)	62143 (100)
2005-06	42186 (59.14)	29143 (40.86)	71329 (100)
2006-07	50886 (61.20)	32261 (38.80)	83147 (100)
2007-08	59059 (59.50)	40036 (40.40)	99095 (100)
2008-09	73124 (61.98)	44860 (38.02)	117984 (100)
2009-10	83971 (57.90)	61064 (42.10)	145035 (100)
2010-11	100326 (60.35)	65906 (39.65)	166232 (100)
2011-12	108900 (58.45)	77400 (41.55)	186300 (100)
2012-13	118904 (56.29)	92339 (43.71)	211243 (100)
2013-14	130040 (53.78)	111751 (46.22)	241791 (100)

Table 1, Source: RBI Report on Trend and Progress of banking in India

Note: The figures in the brackets are per cent to total

Table 2: Growth of Demand Deposits of RRBs in India (Rs in crores)

Year	Demand Deposits	Increases/	Growth Rate (%)
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		Decrease	
2000-01	6499	-	-
2001-02	7716	1217	18.73
2002-03	8802	1086	14.07
2003-04	11019	2217	25.19
2004-05	17330	6311	57.27
2005-06	42186	24856	143.42
2006-07	50886	8700	20.62
2007-08	59059	8173	16.06
2008-09	73124	14065	23.81
2009-10	83971	10847	14.83
2010-11	100326	16355	19.48
2011-12	108900	8574	8.55
2012-13	118904	10004	9.19
2013-14	130040	11136	9.36
Compound Growth Rate=36.24 %			

Source: *RBI Report on Trend and Progress of banking in India*

Table 3: Growth of Time Deposits of RRBs in India (Rs. in crores)

Year	Time Deposits	Increases/ Decrease	Growth Rate (%)
2000-01	30528	-	-
2001-02	35504	4976	16.29
2002-03	39544	4040	11.38
2003-04	45991	6447	16.30
2004-05	44813	1178	-2.56
2005-06	29143	-15670	-34.97
2006-07	32261	3118	10.69
2007-08	40036	7775	24.10
2008-09	44860	4824	12.05
2009-10	61064	16204	36.12
2010-11	65906	4841	7.93
2011-12	77400	11494	17.44
2012-13	92339	14939	19.30
2013-14	111751	18812	20.37
Compound Growth Rate =5.40%			

Source: *RBI Report on Trend and Progress of banking in India*

Table 4: Growth of Total Deposits of RRBs in India (Rs in crores)

Year	Total Deposits	Increases/ Decrease	Growth Rate (%)
2000-01	37027	-	-
2001-02	43220	6193	16.73
2002-03	48346	5126	11.86
2003-04	57010	8664	17.92
2004-05	62143	5133	9.00
2005-06	71329	9186	14.78
2006-07	83147	11818	16.57
2007-08	99095	15948	19.18
2008-09	117984	18889	19.06
2009-10	145035	27051	22.93
2010-11	166232	21197	14.62
2011-12	1,86300	20068	12.07
2012-13	211243	24943	13.38
2013-14	241791	30548	14.46

Compound Growth Rate = 16.10%

Source: RBI Report on Trend and Progress of banking in India

Table 5: COMPUTATION OF STRAIGHT LINE TREND OF TOTAL DEPOSIT OF RRBS IN INDIA (Rs. in Crores)

Year	Total Deposit	X	X ²	XY
2001-2002	43220	-6	36	-259320
2002-2003	48346	-5	25	-241730
2003-2004	57010	-4	16	-228040
2004-2005	62143	-3	9	-186429
2005-2006	71329	-2	4	-142658
2006-2007	83147	-1	1	-83147
2007-2008	99095	0	0	0
2008-2009	117984	1	1	117984
2009-2010	145035	2	4	290070
2010-2011	166232	3	9	498696
2011-12	1,86300	4	16	745200
2012-13	211243	5	25	1056215
2013-14	241791	6	36	1450746
Total	1532893	0.00	$\sum x^2 = 182.00$	$\sum xy = 3017587$

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