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REGIONAL RURAL BANKS AND THEIR PERFORMANCE – AN EMPIRICAL STUDY

*R. Suresh**

ABSTRACT

Regional Rural Banks (RRBs) are formed to serve the needy rural poor for agricultural and allied activity and non-farm sector capital requirements. It is well known that the lenders are the sufferers from non-recovery of loans lent to wilful defaulters and cheaters. The banking system is the heart of any country's economy, striving to achieve growth and remain a permanent and dominating factor in the global competitive business environment. The major part of the Indian banking sector, the commercial and scheduled nationalised and private banks, and cooperative banks play a vital role. But this two-tier mechanism faced problems to satisfy the capital needs to the rural mass. To improve the rural credit mechanism and overcome the inadequate situation, led the Government of India to form a committee to find a feasible solution to facilitate easy rural credit satisfying mechanism through RRBs. In particular, the RRBs mainly focus on mobilisation of savings and supply of credit to the rural people. This paper attempts to study the performance of RRBs for the country as a whole for a period of thirteen years (2001-14). Indicators analysed for critical looks at the RRBs' performance are the following; No. of RRBs, branches, districts covered, and staff employed (Table 1); sources of funds (owned, borrowed, deposits and total) (Table 4); advances, investments and total applications (Table 7); advances, deposits and CD ratio (Table 9); total sources and total utilisation (Table 10). For the first three Tables mentioned above mean, SD, CV and CAGR are worked out for each indicator. Hypotheses are tested for significance. In the concluding section, suggestions for strengthening the working of RRBs are presented.

Introduction

The villages are the backbone of any country. As far as India is concerned, it is populated highly with rural mass that undertakes agriculture and allied activities as the major activity. The income from these activities occupies more in the Gross Domestic Product of India. Since India is an agrarian country that badly needs capital for

* Head, Department of Commerce, Madurai Kamaraj University College, Aundipatti - 625 512, Theni District, Tamil Nadu.

agriculture activity, these requirements are satisfied to the needy poor through banks of India. The lending process in general to needy poor people is executed through banks like commercial banks, cooperative banks and RRBs.

It is well known that the banking system is the heart of any country's economy, striving to achieve growth and remain a permanent and dominating factor in the global competitive business environment. The major part of the Indian banking sector, the commercial and scheduled nationalised and private banks play a vital role. They are having a favourable growth, asset quality and profitability. The Reserve Bank of India and the Government of India are continuously making efforts and taking measures with notable changes in policies, procedures and regulations to strengthen the banking sector. It was felt that the flow of money through commercial banks to the rural mass was not sufficient and not up to the mark for the development of rural economy, because they are commercial in nature. To improve the rural credit mechanism, cooperative banking sector was also introduced earlier, and that was also not in a position to satisfy the rural needs in terms of the required funds. This inadequate situation led the Government of India to form a committee to find a feasible solution to enable easy rural credit satisfying mechanism. The Committee headed by Shri M. Narasimham in 1975 came out with its recommendation to form RRBs. In particular, the regional rural banks mainly focus on mobilisation of savings and supply of credit to the rural people. This paper attempts to examine the workings of RRBs for the country as a whole for a period of 13 years (2001-14) through a number of indicators. Improvement in the performance of RRBs will benefit rural population in their economic and social activities. Profitability of the RRBs will also be improved with the implementation of the suggestions brought out in this study.

Statement of the Problem

The most critical problems faced by RRBs are their economical non-viability, shortage in mobilisation of funds and low interest revenue. It is well known that there are lesser possibilities to the RRBs to earn greater profit when compared to the commercial banks, because their operations are mainly focused on rural areas. Even though the RRBs faced stiff competition from the commercial banks, most of them are doing well. As no study has been undertaken from this angle to analyse the activities of RRBs as a whole in the country for a certain period, the researcher planned to study this aspect of examining the performance of RRBs as a whole for a certain period to bring out relevant conclusions and suggestions.

Review of Literature

The studies that have been undertaken to analyse the workings of RRBs are very few. The literature on RRBs cited in the present study were obtained from the committee reports formed by Government of India, reports of the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) and the reports of researchers.

The Kelkar Committee (1986) made comprehensive recommendations covering both the organisational and operational aspects. Some of them were incorporated in Regional Rural Banks Act, 1975 such as, enhancement of authorised capital of RRBs from ₹ 1 crore to ₹ 5 crore and paid up capital from ₹ 25 lakh to ₹ 1 crore, appointment of Chairman of RRBs by the concerned sponsor bank in consultation with NABARD, providing assistance to RRBs by the sponsor banks to train RRB staff and giving financial assistance to them in their first five years of their operations, and provision to merge and amalgamate RRBs to protect them from loss.

NABARD (1986) published in its study "A study on viability of RRBs" stated that the viability of RRBs would essentially depend upon the fund management strategy, margin between resources mobility and their deployment, and the control exercised on current and future costs with advance. The proportion of the establishment costs to total cost and expansion of branches were critical factors, which affected their viability. The main suggestion was for the improvement of the infrastructure facilities and opening of branches in such areas where RRBs were already functioning.

Narasimham Committee suggested in the year 1991 that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to targeted groups. This recommendation became a turning point in the functioning of the RRBs, which uplifted their position. Simultaneously, prudential norms were introduced to maintain the standard of RRBs equivalent to international standard. Due to these recommendations-amalgamation/mergers, of RRBs in India were restructured. In addition to that, the Government of India and the Reserve Bank of India jointly worked to bring up the status of the RRBs to international standard and adopt the prudential norms in the year 1994, as prescribed to all the scheduled commercial banks in the year 1992.

Bhandari Committee (1994), recommended comprehensive restructuring of RRBs and greater devolution of decision-making power to the board of RRBs in the matter of business development and human resource matters. *Basu Committee* (1996) mooted the idea of liquidation or revamping of RRBs. *Thingalaya Committee* (1997) gave another similar suggestion that very weak RRBs should be viewed separately and the possibility of their liquidation may be recognised. They might be merged with the neighbouring RRBs. *Vyas Committee-I,* the expert committee on rural credit, gave its opinion that the sponsor bank should ensure necessary autonomy to their RRBs in their credit and other portfolio management systems.

Narasimham (1998) in his Committee Report stated that NPAs constitute a real economic loss to the nation in that they reflect the application of scarce capital and credit fund to unproductive uses. The money locked up in NPA is not available for productive areas, and to that extent the bank seeks to make provisions for NPAs or to write them off. It is a charge on their profits. NPAs in short, are not just a problem for the bank; they are bad for the economy. It also recommended that change in sponsor banks may in some cases help in improving the performance, namely, improve the competitiveness, work culture, management and efficiency of the concerned RRBs. In addition, it can also impart viability to the operations of RRBs.

Chalapathy Rao Committee (2003) recommended that the entire system of RRBs may be consolidated while retaining the advantages of these institutions. The sponsoring banks may include other financial institutions for the support. *Purwar*

Committee (2004) laid basement for the better performance of RRBs in the year 2004. It recommended the amalgamation of RRBs by way of vertical and horizontal mergers. *Sardesai Committee* (2005) gave its recommendation that to improve the operational viability of RRBs and take advantage of the economies of scale, the route of amalgamation/mergers of RRBs may be considered taking into account the views of various stakeholders.

The highlights of the empirical studies of various authors are as follows:

V. K. Ramachandran and Madura Swaminathan (2001) revealed that, "Rural Banking Policy in India discussed various issues in rural financing. They observed that every borrower is screened by the lender for his creditworthiness and lenders have a sharp-eyed assessment of the borrower's income and wage-earning capacity when they lend money. As a consequence, there has been a proliferation of different types of loans with respect to the terms and conditions attached to each loan.

Sanjay Sinha et al (2003) expressed that, "Profitability is very strongly correlated with pro-active and well-judged management, and only two of the five RRBs surveyed had these qualities. Programmes of capacity building and motivation among managers are likely to generate high returns".

Dilip Khankhoje and Milind Sathye (2008) in their article recommended that the existing policy of bringing down non-performing assets as well as curtailing the establishment expenditure through voluntary retirement scheme for bank staff and rationalisation of rural branches are steps in the right direction that could help these banks improve efficiency further over a period of time.

Rajaram, and Rajendar (2008) in their article said that, "Quality of loan asset is the most important factor for the basic viability of the banking system. Lower level of non-performing assets helps the banks in consolidating their position and give credence to efficiency of management. On the contrary, higher non-performing asset levels make their balance sheets weak and less competent.

Suresh, R. (2010), in his article highlighted that, "RRBs perform well only when they get more capital injection from the Government of India so as to reach the capital level on par with commercial banks for their business activity to lend to the needy poor persons involved in agriculture and allied activities, and non-farm enterprises".

Need for the Study

The studies on RRBs conducted till date have been largely based on profitability and financial performance of RRBs at individual, banks and district-wise and State-wise comparisons. It is felt necessary to conduct a study covering the whole range of banking activity of all RRBs in the country from the bankers' point of view and also customers' point of view. The method planned is analysis of secondary data by scanning the performance statements available in a published form from Reserve Bank of India and NABARD.

Objectives of the Study

The following are the objectives of the study:

1. To trace the origin and growth of RRBs of India;

2. To study the physical performance of the RRBs;

3. To study the business performance of the RRBs; and

4. To offer suggestions for further development of RRBs.

Methodology and Data Collection

This paper attempts to study and analyse the banking business performance and productivity of the RRBs in terms of branch-wise, district-wise, staff-wise and State-wise. The required details for the analysis are from 2001 to 2014 (13 years) and the data for these years were compiled as per the design of the study by classifying the 13-year period into pre-amalgamation period up to 2005-06 (5 years) and post-amalgamation period after 2005-06 (8 years). The data were collected from the reports of Reserve Bank of India and NABARD from their websites. The collected secondary data were analysed using various statistical tools such as mean, standard deviation (SD), coefficient of variance (CV), compounded annual growth rate (CAGR) and correlation. The hypotheses framed were tested with parametric tests like t-test, f-test, and ANOVA (Single factor). Diagrams have also been drawn for the data presented in five Tables (1,4,7,9 and 10).

Regional Rural Banks of India

The multi-agency approach to rural credit was meant to sub-serve the needs of the input-intensive agricultural strategy (Green Revolution), which had initially focused on "betting the strong". The Regional Rural Banks Act, 1976, succinctly summed up the overall vision of the RRBs to sub-serve both developmental and redistributive objectives.

The RRBs, popularly known as the small man's banks, have taken deep roots, and have become an inseparable part of the rural economy. It plays a vital and essential role in the rural institutional financing for agricultural credit in terms of geographical coverage, with a friendly approach and contributes more to the development of rural economy. There were only six RRBs with 17 branches covering 12 districts to begin with. At the end of the year 1980, there were 85 RRBs with 3,279 branches.

It was noticed in the year 1985 that there were 188 RRBs with12,606 branches. As on March 2001, it showed a greater growth in RRBs with a large number of branches in rural areas forming 42 per cent of the total branches of commercial banks. By March 2002, there were 196 RRBs with 14,390 branches covering 511 districts across the country. In view of the process of merger and amalgamation of RRBs initiated in 2004-05 to safeguard the interests of RRBs to overcome the picture of heavy NPAs by the Government of India with effect from September 2004, in terms of Section 23A of The Regional Rural Banks Act, 1976, the number of RRBs declined to 90 operating in 26 States across 594 districts with a network of 14,761 branches as on March 31, 2008. With further amalgamation, excluding the formation of new RRB in the Union Territory of Puducherry, the total number of RRBs declined to 86 as on March 2009 with a branch network up to 15,181. During 2010, 2011 and 2012, the number of RRBs came down to 82 banks with 15480, 16001 and 16909 branches covering 618, 620 and 638 districts, respectively. Later in 2013, the number of RRBs suddenly came down to 64 having 17856 branches in 635 districts with a share capital of ₹ 19,700 lakh, share capital deposit of ₹ 597684.49 lakh. During 2014, the number of RRBs further declined to 56 having a branch network of 19082 with no change in the share capital of the previous year status. As per the report of the NABARD, the provisional financial results of RRBs for the year 2013-14, indicate that all 57 RRBs earned profits aggregating ₹ 2,833 crore as compared to 63 out of 64 RRBs earning aggregate profit of ₹ 2,275 crore in 2012-13. The proportion of RRBs that are sustainably viable, viz., earning profits and carrying no accumulated losses increased from 83 per cent (53 out of 64 RRBs) as on 31 March 2013 to 86 per cent (49 out of 57) as on 31 March 2014. The aggregate reserves of RRBs increased to ₹ 15, 736 crore and net worth increased to ₹ 21, 199 crore as on 31 March 2014. There were 8 RRBs with accumulated losses and their accumulated losses decreased by 17 per cent over the previous year. The recovery performance of RRBs improved marginally from 81.2 per cent as on 30 June 2012 to 81.9 per cent as on 30 June 2013. Nine RRBs had recovery of more than 90 per cent, 19 RRBs had recovery in the range of 80 to 90 per cent, 28 RRBs had recovery in the range of 60 and 80 per cent and one RRB had recovery of less than 60 per cent. The aggregate gross NPA of all RRBs declined from 6.1 per cent of gross assets as on 31 March 2013 to 4.4 per cent as on 31 March 2014.

Banking Activity Analysis- Results and Discussion

As the first step, the physical analysis is made by considering the number of branches and district coverage that include the State-wise distribution of RRBs. In India, till the inception of RRBs the commercial and cooperative banks rendered financing services to the rural mass. After 1975, the RRBs gained an adequate and tremendous growth in terms of number of branches in the districts of India. In this case, the RRBs faced crises in terms of sources of finance and they met with huge losses. This situation led the Government of India for amalgamating the RRBs which were loss making with those earning profit. This structural consolidation process was undertaken during 2005-2006. Due to this process, the number of RRBs went down from 196 to 133, 94, 90, 86 and finally to 64 and 56. Table 1 exhibits the details from 2001-02 to 2013-14 in terms of number of RRBs and their branches with districts covered and the staff employed during these periods. For each of the indicators, mean, SD, CV and CAGR have been calculated to understand the pattern and rate of growth over various periods.

Table 1 : No. of RRBs, District Coverage, Branches and Staff Employed

Year	RRBs	Districts covered	Branches	Staff employed
2001-02	196	511	14,390	69,875
2002-03	196	516	14,433	69,547
2003-04	196	518	14,446	69,249
2004-05	133	523	14,484	68,912
2005-06	94	525	14,494	68,624
2006-07	90	534	14,520	68,289
2007-08	90	594	14,761	68,005
2008-09	86	616	15,181	68,526
2009-10	82	618	15,480	69,042
2010-11	82	620	16,001	70,153
2011-12	82	638	16,909	74,291
2012-13	64	635	17,856	76,118
2013-14	56	NA	19,082	NA
Mean	111.31	570.67	15541.31	70052.58
SD	51.41	53.06	1520.14	2517.08
CV (%)	46.18	9.30	9.78	3.59
CAGR (%)	Negative	1.11 (up to 2012-13)	2.15	0.25 (up to 2012-13)

Source : Compiled from the Report of RBI & NABARD.

Diagram 1 : No. of RRBs and Their Branches

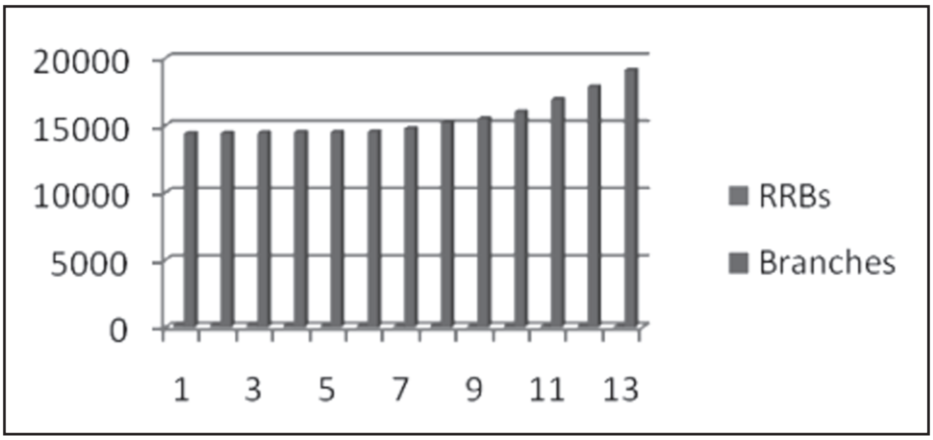

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Table 1 reveals that there is negative growth in the number of RRBs due to amalgamation. It also reveals a meagre growth in number of districts covered, branches and staff employed. This throws a light on the fact that RRBs have not grown in a satisfactory manner. The decision of Government of India was to cut down the expenditure to enable RRBs to improve their earnings. However, the CV highlights lesser variation in the districts covered, branches and staff employed.

Null hypotheses are framed for the above facts for physical analysis as given below:

1. There is no significant difference between the number of RRBs and their branches in the development of RRBs.

2. There is no significant difference between the number of districts covered and number of employees in the development of RRBs.

A paired t-test was performed to test the hypotheses 1 & 2 for the data presented in Table 1. The results are exhibited in Tables 2 & 3.

Table 2 : t-Test: Paired Two Sample for Means

Details	RRBs	Branches
Mean	111.3076923	15541.30769
Variance	2642.564103	2310836.564
Observations	13	13
Pearson Correlation	-0.638272323	
Hypothesised Mean Difference	0	
df	12	
t Stat	-35.81276884	
P(T<=t) one-tail	7.18423E-14	
t Critical one-tail	1.782287548	
P(T<=t) two-tail	1.43685E-13	
t Critical two-tail	2.178812827	

Table 2 reveals that the calculated t-value is less than the t-critical value, and hence it is concluded that the framed null hypothesis-1 is accepted; that there is no significant difference at 5 per cent level of confidence between the number of RRBs and their branches in the development of RRBs. It is also identified that there is a negative correlation among these variables.

Table 3 : t-Test: Paired Two Sample for Mean-No. of Districts Covered and Staff Employed

Details	Districts covered	Staff employed
Mean (₹ Crore)	570.67	70052.58
Variance (₹ Crore)	2815.52	6335706.81
Observations	12	12
Pearson Correlation	0.53	
Hypothesised Mean Difference	0	
df	11	
t Stat	-96.69	
P(T<=t) one-tail	0.00	
t Critical one-tail	1.80	
P(T<=t) two-tail	0.00	
t Critical two-tail	2.20	

Table 3 reveals that the calculated t-value is less than the t-critical value 2.20, and hence it is concluded that the framed null hypothesis-2 is accepted; that there is no significant difference at 5 per cent level of confidence between the number of districts covered and number of staff employed in the development of RRBs. It is also clear from the above Table that there is a moderate positive correlation among the above two variables.

The second step of analysis goes to the business analysis. The funds sources of RRBs are owned funds that include share capital, share capital deposits and reserves and surpluses and the borrowed funds, deposits collected from the public for which the banks have to pay interest for these two items. These three items are put into the analysis to study the performance of banks. The application of funds includes advances lent to the customers, and investments made by the banks with commercial banks and the Reserve Bank of India for which it receives income by way of interest. Special focus on advances has been made by considering the gross loans outstanding of the banks for making analysis even though the sources will not be used only for lending purpose. Table 4 shows the sources of the RRBs for the periods attempted for the analysis. Table 7 exhibits the application of funds of the RRBs. For both the Tables mean, SD, CV, CAGR have been worked out for the variables covered in these Tables.

Table 4 : Sources of Funds of RRBs

(₹ in crore)

Year	Owned sources	% of owned sources to total sources	Borrowed sources	% of borrowed sources to total sources	Deposit source	% of deposits to total sources	Total Sources
2001-02	4,059	7.64	4,524	8.52	44,539	83.84	53,122
2002-03	4,666	7.88	4,479	7.56	50,098	84.56	59,243
2003-04	5,438	8.19	4,595	6.92	56,350	84.89	66,383
2004-05	6,181	8.37	5,524	7.48	62,143	84.15	73,848
2005-06	6,647	7.79	7,303	8.56	71,329	83.64	85,279
2006-07	7,286	7.27	9,776	9.76	83,144	82.97	100,206
2007-08	8,733	7.32	11,494	9.63	99,093	83.05	119,320
2008-09	10,910	7.59	12,736	8.85	120,189	83.56	143,835
2009-10	12,247	6.96	18,770	10.66	145,035	82.38	176,052
2010-11	13,840	6.70	26,491	12.82	166,232	80.48	206,563
2011-12	16,462	7.06	30,289	12.99	186,336	79.94	233,087
2012-13	19,304	7.18	38,268	14.22	211,458	78.60	269,030
2013-14	22,103	7.07	51,208	16.37	2,39,504	76.56	3,12,815
Mean	10605.85	---	17342.85	---	118111.50	---	146060.20
SD	5845.32	---	14954.15	---	65769.67	---	86273.42
CV (%)	55.11	---	86.23	---	55.68	---	59.07
CAGR (%)	15.19	---	24.36	---	15.88	---	16.71

Source: Compiled from the Reports of RBI & NABARD.

Diagram 2 : Sources of Funds of RRBs

(₹ in crore)

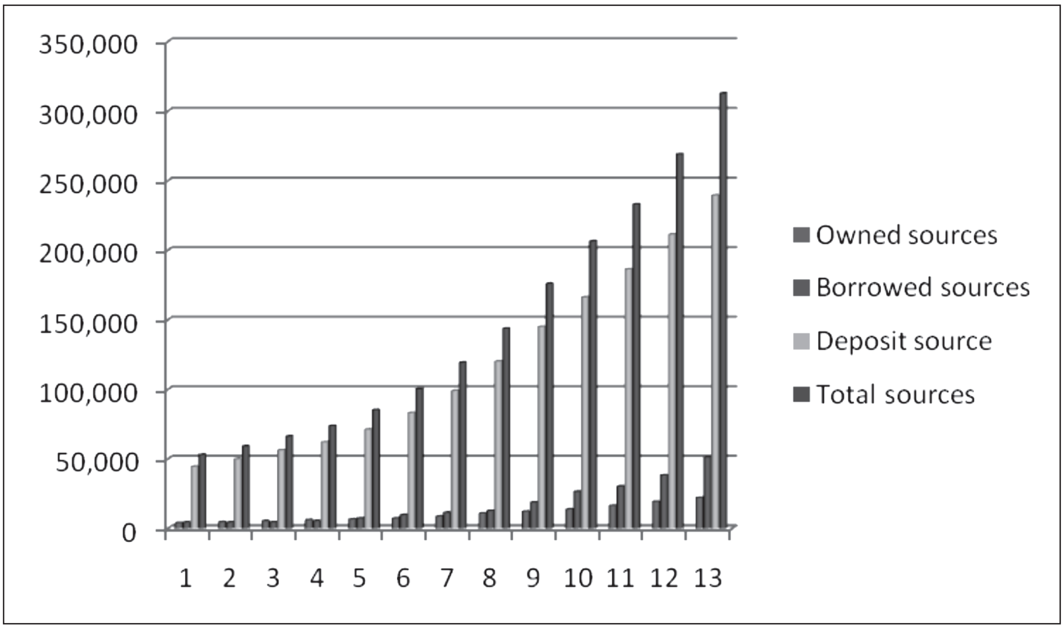

Table 4 displays that there is a steady growth in the ways of creating sources by the banks for their business activities. The coefficient of variation exceeds 50 per cent in all cases due to reasons of mobilisation of sources at a larger level when compared to the previous periods. Considering the sources of the RRBs, a hypothesis is framed as there is no significant difference between the owned, borrowed sources and deposits in the lending process of the RRBs that supports for the higher performance of the banking activity; and the same is tested with the statistical tool ANOVA one way classification. Correlation among these three variables was also computed (Tables 5 and 6).

Table 5 : Anova: Single Factor

SUMMARY

Groups	Count	Sum	Average	Variance
Column 1	13	137876	10605.85	34167739.1
Column 2	13	225457	17342.85	223626738
Column 3	13	1535450	118111.5	4325650035

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ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit	Inference
Between Groups	94281158387	2	47140579193	30.86	1.69	3.26	Significant
Within Groups	55001334145	36	1527814837				
Total	1.49282E+11	38					

The calculated F-value is greater than the f-critical value. The formed null hypothesis is rejected, and concluded that there is a significant difference between the owned, borrowed sources and deposits in the lending process of the RRBs that supports for the higher performance of the banking activity. This may due to high level of participation of deposits in the sources of funds and highlight the major role played by the deposits collected from the public in lending activity. In addition, for these three variables, correlation was also worked out. Table 6 shows the relationship and indicates that these are having a high degree of positive correlation.

Table 6 : Correlation Analysis

Item	Owned fund	Borrowed fund	Deposits
Owned fund	1		
Borrowed fund	0.983881	1	
Deposits	0.996456	0.976833	1

Table 7 exhibits the application of funds of the RRBs for the periods taken for analysis.

Table 7 : Application of Funds of RRBs

(₹ in crore)

Year	Advances	% of advances in total applications	Investments	% of investments in total applications	Total Applications
2001-02	18,629	37.89	30,532	62.11	49,161
2002-03	22,158	40.13	33,063	59.87	55,221
2003-04	26,114	41.95	36,135	58.05	62,249
2004-05	32,870	47.21	36,762	52.79	69,632
2005-06	39,713	49.09	41,182	50.91	80,895

(Contd...)

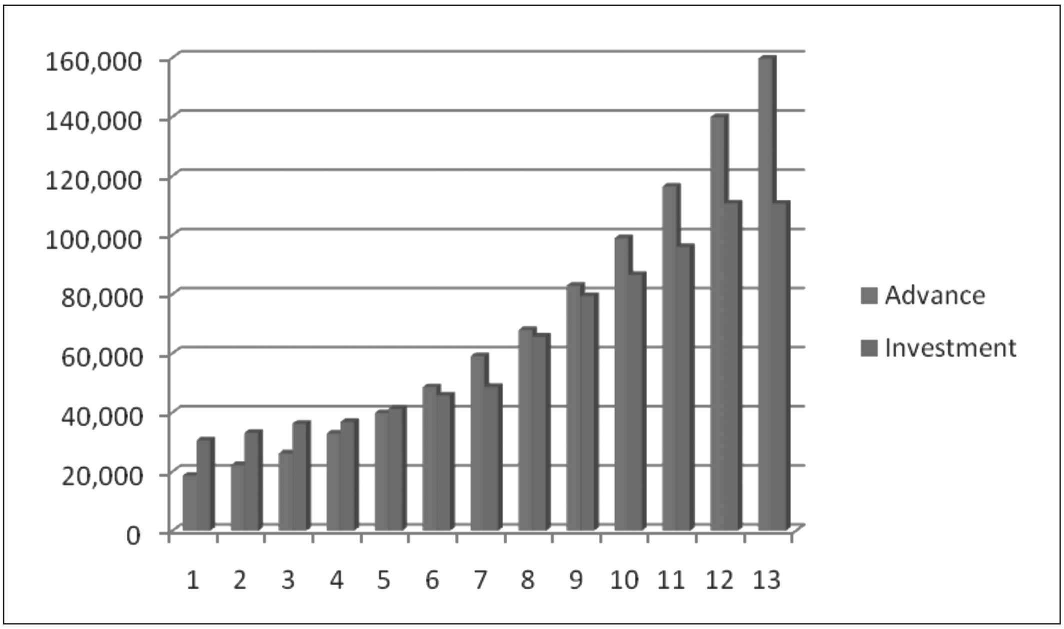
Table 7 *(Contd...)*

Year	Advances	% of advances in total applications	Investments	% of investments in total applications	Total Applications
2006-07	48,493	51.50	45,666	48.50	94,159
2007-08	58,984	54.85	48,560	45.15	1,07,544
2008-09	67,859	50.83	65,630	49.17	1,33,489
2009-10	82,819	51.06	79,379	48.94	1,62,198
2010-11	98,917	53.35	86,510	46.65	1,85,427
2011-12	1,16,385	54.81	95,975	45.19	2,12,360
2012-13	1,39,837	55.82	1,10,684	44.18	2,50,521
2013-14	1,59,660	59.10	1,10,514	40.90	2,70,174
Mean	70187.54	---	63122.46	---	133310.00
SD	46373.48	---	29988.85	---	76101.54
CV (%)	66.07	---	47.51	---	57.09
CAGR (%)	20.05	---	12.79	---	16.23

Source: Compiled from the Reports of RBI & NABARD.

Diagram 3 : Advances and Investments

(₹ in crore)



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It is evident from coefficient of variation that advances and investment vary more due to faster application of funds for interest resources. The compound annual growth rate also shows a satisfactory position, but in case of advances outstanding, the banker should take precautionary steps to protect the banks from the occurrence of non-performing assets. A null hypothesis is framed that there is no significant difference in performance between advances and investments, and the same is tested with F-test. The results are exhibited in Table 8.

Table 8 : F-Test Two-Sample for Variances- Advances and Investments

Item	Advances	Investments
Mean (₹ crore)	70187.53846	63122.46154
Variance (₹ crore)	2150499740	899330875.1
Observations	13	13
df	12	12
F	2.391221963	
P(F<=f) one-tail	0.07256792	
F Critical one-tail	2.686637113	

Since the calculated F-value is less than the F-criterion value 2.69 at 5 per cent level of significance; the formed null hypothesis is accepted; and concluded that there is no significant difference in performance between advances and investments. It shows the application ways are almost equal. This is proved through correlation analysis that these two variables have a high degree of positive correlation.

The RRBs were formed to mobilise savings and develop the rural economy by providing credit and other facilities for the purpose of the development of the agricultural and allied activities of the targeted poor people. The credit deposit ratio of the bank indicates the creation of credit out of the deposits mobilised by the banks that are indicated in Table 9.

Table 9 : Credit Deposit Ratio of the RRBs

Year	Advances (₹ crore)	Deposits (₹ crore)	CD Ratio (%)
2001-02	18,629	44,539	41.83
2002-03	22,158	50,098	44.23
2003-04	26,114	56,350	46.34
2004-05	32,870	62,143	52.89

(Contd...)

Table 9 *(Contd...)*

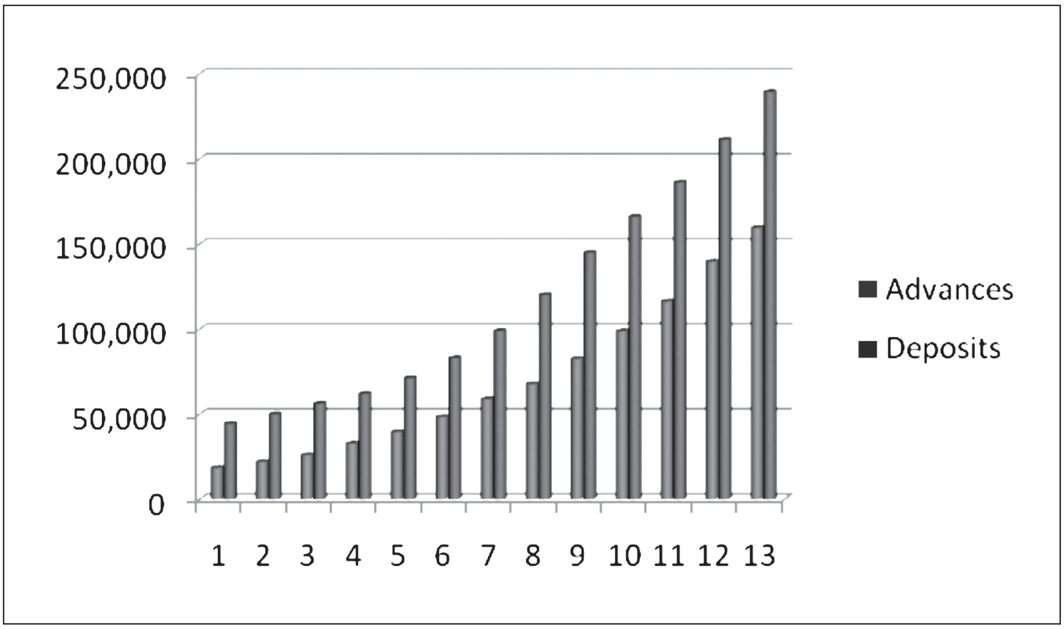
Year	Advances (₹ Crore)	Deposits (₹ Crore)	CD Ratio (%)
2005-06	39,713	71,329	55.68
2006-07	48,493	83,144	58.32
2007-08	58,984	99,093	59.52
2008-09	67,859	120,189	56.46
2009-10	82,819	145,035	57.10
2010-11	98,917	166,232	59.51
2011-12	1,16,385	186,336	62.46
2012-13	1,39,837	211,458	66.13
2013-14	1,59,660	2,39,504	65.41
Correlation between Advances & Deposits =0.997286.			

Source : Compiled from the Reports of RBI & NABARD.

Table 9 reveals that the CD Ratio is showing a steady growth from 41.83 per cent to 66.13 per cent. It shows a positive performance of utilisation of funds from the source deposits, and both of them are having high degree of positive correlation.

Diagram 4 : Deposits and Advances

(₹ in crore)



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It is also essential to consider the comparison of total sources and total utilisation of funds by the banks to identify the effective banking activity. Table10 shows the effective utilisation of sources.

Table 10 : Total Sources and Applications of RRBs

Year	Total Sources (₹ crore)	Total utilisation (₹ crore)	% of utilisation
2001-02	53,122	49,161	92.54
2002-03	59,243	55,221	93.21
2003-04	66,383	62,249	93.77
2004-05	73,848	69,632	94.29
2005-06	85,279	80,895	94.86
2006-07	1,00,206	94,159	93.97
2007-08	1,19,320	1,07,544	90.13
2008-09	1,43,835	1,33,489	92.81
2009-10	1,76,052	1,62,198	92.13
2010-11	2,06,563	1,85,427	89.77
2011-12	2,33,087	2,12,360	91.11
2012-13	2,69,030	2,50,521	93.12
2013-14	3,12,815	2,70,174	86.37

Source : Compiled from the Reports of RBI & NABARD.

The utilisation of sources during the entire study period is more than 90 per cent, except the year 2010-2011 when it is close to 90 per cent, and 2013-14 when it is still lower at 86.4 per cent. It is evident that the banks have performed well in their banking activity. A null hypothesis is framed that there is no significant difference in performance between total sources and utilisation which was tested by F-test. The results are shown in Table 11.

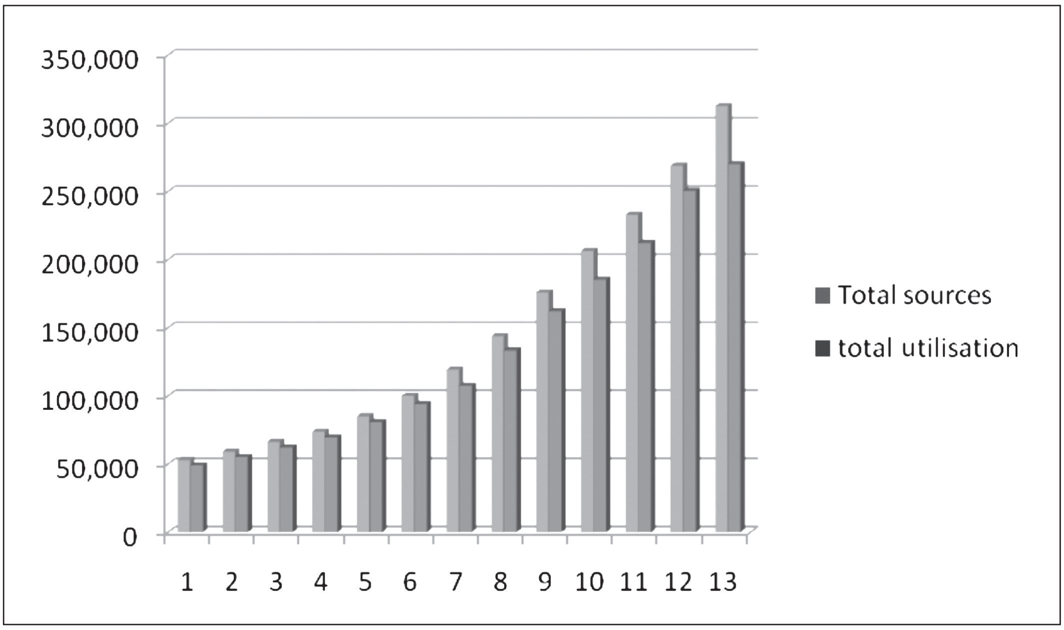
Table 11 : F-Test Two-Sample for Variances- Total Sources and Total Utilisation

Item	Total Sources	Total Utilisation
Mean (₹ crore)	146060.2308	133310
Variance (₹ crore)	7443103403	5791443758
Observations	13	13
df	12	12
F	1.28518962	
P(F<=f) one-tail	0.335386183	
F Critical one-tail	2.686637113	

The calculated F-value 1.28 is less than the F-criterion value 2.69 at 5 per cent level of significance. Hence the formed null hypothesis is accepted; and concluded that there is no significant difference in performance between total sources and utilisation. It shows that the utilisation is almost equal to sources. This is proved through correlation analysis that these two variables have a high degree of positive correlation.

Diagram 5 : Total Sources and Total Utilisation

(₹ in crore)



Concluding Remarks

The role played by the banking system of India since Independence has brought in decisive changes in the monetary system of the country. The performance of the RRBs since 1975 has been good, even though they faced so many crises and competition from other banks. The negative results shown in the above study do not mean that the banks did not perform well. The decline in the number of RRBs over years was due to the measures as downsizing and merger of the banks taken by the Government of India to protect the interest of RRBs. It is clear that the RRBs are competing with other banks with their limited resources and limitations. The plan of helping the RRBs to grow in their functioning like the commercial banks in the country without diluting their objectives and focus should be pursued at the earliest by NABARD and Government of India for their further development. Measures contemplated could be increasing the capital base, and introducing new deposit mobilisation and lending methods with sizable increase in the interest rate that may be lower than that of commercial banks.

Government of India may consider insisting on all the Government departments and other corporate sector enterprises to have banking transactions with RRBs, as a promotional measure. A few more remunerative activities should be placed under the purview of RRBs.

Nagaland State is not covered by RRBs at present. It is important that the entire country with the exception of major cities could be brought under the coverage of RRBs with focus on rural areas. In urban and semi-urban areas, RRBs may be involved in more remunerative transactions. Private sector banks could also be directed to sponsor RRBs in some districts. Modern banking facilities such as Automatic Teller Machine, Cash Deposit Machine, cash counting machines and other advanced practices could also be introduced in RRBs. Higher level of customer satisfaction is the goal of the entire banking system. RRBs being relatively small institutions have an edge over other banks in fulfilling this objective in the transparent way. Increased level of support given by RRBs to self-help groups and micro-finance institutions through flexible systems is another direction to be pursued in different parts of the country. Institutional development as pursued by NABARD in case of RRBs, including in the context of finding solution to the increasing non-performing assets (NPAs) is another important direction that needs special attention.

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