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FOUR DECADES OF REGIONAL RURAL BANKS IN INDIA PERFORMANCE BEFORE & AFTER AMALGAMATION

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For India, agriculture & rural development has been an integral part of country's economic growth & development as agriculture alone employs country's 48.9% population and has to provide food & nutritional security to its increasing population. Acknowledging the significant role of rural financial institutions to support agriculture & rural development, the Government has prioritized, since country's independence in 1947, to progressively institutionalize the rural banking & credit structure. While the Reserve Bank of India[RBI]accepting the recommendations of the All India Rural Credit Survey Committee in 1954 initiated policy to strengthen cooperative credit movement, the recommendations of the All India Rural Credit Review Committee in 1966 emphasized the role of private commercial banks to supplement the efforts of cooperatives in enhancing the flow of agricultural credit. In the changing rural economic scenario in 1975, the need was felt to address the emerging problems of small & marginal farmers, agricultural &bonded laborers under the Government's 20-p0int economic program. This led to set up Regional Rural Banks [RRB] as one more institution to increase the supply/flow of credit to agriculture and activities allied to agriculture. The RRBs while achieving their mandated targets have been faced with the challenging task of their financial viability. Accordingly, the program of their consolidation & amalgamation as part of financial sector reforms, which commenced since 2005, has now yielded rich dividends. In this context, this development perspective article [not a research paper] drawing published data from secondary sources attempts to analyze the performance of RRBs before & after amalgamation and suggest the focused attention to further improve their financial viability and play significant role under the Government's policy of Financial Inclusion & Jan DhanYojana.

Keywords: Regional Rural Banks, Rural Banks, Rural Financial Institution

INTRODUCTION

Agriculture is the mainstay of the Indian economy as it constitutes the backbone of the rural livelihood and ensures food security of country's growing population. The credit is a catalytic agent that lubricates the process to accelerate the farm and non-farm sector development including rural industrialization, business and service segments of the rural economy. The policy framework for dispensation of agricultural and rural credit has been evolved from time to time with a view to creating an enabling environment for the smooth, increased and hassle-free flow of financial resources to rural areas. The need for adequate institutional credit to agriculture occupied the place of priority since 1936 when studies sharply exhibited that farmers were totally dependent upon moneylenders as cooperatives played a negligible role. The All India Rural Credit Survey Committee report in 1954 drew pointed attention of the Reserve Bank of India [RBI] for strengthening the cooperative credit movement. With the changing scenario in agriculture due to ushering in green revolution, the recommendations of the All India Rural Credit Review Committee set up by the RBI in July 1966 brought commercial banks to play role in the delivery of agricultural credit as an integral part of national policy. Accordingly, the role of private commercial banks was further expanded following the nationalization of 14 major private commercial banks in 1969 and other six in 1980.India has an extensive network of rural credit outlets of agencies viz. cooperatives, public & private sector commercial banks, regional rural banks, non-banking finance companies throughout the country. Almost all 5,92,843 villages are being currently served by 5,53,713 rural credit outlets comprising 49,571 branches & 5,04,142 branchless units in addition to 93,488 primary agricultural credit societies &714 primary cooperative agricultural & rural development banks.Regional Rural Banks [RRBs]which have completed four decades of their operations on October 2, 2015 & one decade of their amalgamation in September 2015 have demonstrated significant potential to supplement the institutional credit delivery mechanism that needs to be appropriately harnessed. Against this background, this development perspective article [not a research paper] attempts to analyze the secondary data on various business & financial parameters of RRBs collected from annual reports of the NABARD [2004-05 to 2014-15]. Against the backdrop of the evolution of RRBs, their unique role, financial viability concern, amalgamation process, the article critically analyzes their performance in 2015 comparing with that in 2005 & suggests specific enabling measures that can help RRBs accomplish the mandate/mission enshrined in their establishment Act by further improving & strengthening their financial sustainability.

EVOLUTION OF RRBs

The Banking Commission in 1971-72 observed " in the total scheme for bridging the credit-gap in the agricultural sector, the major difficulty is that the cooperative banking sector which has a very wide organization at the field level is unable to mobilize deposits, while the commercial banks which are able to mobilize deposits in a substantial manner are unable to provide credit to agriculture owing to their lower coverage of rural sector and their lack of knowledge of problems of lending to this sector."

Acknowledging a widely shared view that a more determined effort was needed to speed up the flow of institutional credit to meet the needs of the weaker sections of the rural community, more importantly the land allottees& released bonded laborers under the Government's 20-point economic program initiated in 1975, the Government considered it necessary to establish "new institution on the basis of institutional & operational ethos entirely different from those obtaining in the public sector banks." In pursuance of this view, the Narasimham committee on Rural Banks appointed by the Government in July 1975 identified the weaknesses of cooperative & commercial banks and concluded that they would not be able to fill the regional and functional gap in the rural institutional credit system even with such adaptation, reorganization & restructuring as may be considered. The committee observed "in a country of the size & regional diversity as ours, no single pattern, be it commercial banks or cooperative credit institutions, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives widened. It is in this context that we have come to the conclusion that a new type of institution is necessary."The committee noted that while the major strength of cooperatives lies in the local feel/affinity of the village society that of the commercial banks lies in the professional management of the banking business. It is, therefore, envisaged that a new institution "combines the local feel & familiarity with the rural problems which cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets & a modernized outlook which the commercial banks have". The said committee, further, emphasized that "the role of new institutions would be to supplement and not supplant the other institutional agencies in the field" and suggested that initially five such banks should be set up in selected areas to serve as pilot institutions so as to provide guidelines/feedback in respect of size of operations, initial coverage, viability etc. for further development. Accepting the recommendations, the Government established the Regional Rural Banks effective from October 2, 1975, "with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry & other productive activities in the rural areas, credit and other facilities, particularly to the small & marginal farmers, agricultural laborers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto". The RRB is jointly owned by theGovernment of India, the concerned State Government & Sponsor Bank and the issued capital of a RRB is shared by the respective owner in the proportion of 50:15:35 respectively.

With the establishment of the first RRB on October 2, 1975 there were as many as 196 RRBs as on end-March 2005. Since September 2005 the Government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State. The amalgamated RRBs are expected to provide need based and efficient customer services due to improved banking infrastructure, technology, common publicity/marketing efforts, mechanization and computerization of branches, optimum utilization of available trained and experienced work force, among others, and also derive benefits of a large area of operation [economy of scale], enhanced mobilization of financial resources and deployment of credit and provision of more diverse banking activities.As a result of amalgamation process,the number of RRBs in the country has been reduced progressively from 196 as on end-March 2005 to 56 as on 31 March 2015 with a network of 20059 branches covering 635 districts in 26 States and the Union Territory of Puducherry.

UNIQUE ROLE

Viability of rural financial institutions is a *sine qua non*. However, a balanced view is necessary in the context of immense contribution made by RRBs as a group as well as loss making RRBs individually in the area of their operation despite most of them have extremely difficult and hostile socio-economic and political environment. RRB as an entity has indeed carved out its unique place in the rural financial system in India. Among all commercial banks operating in rural area, RRBs have a fairly reasonable share in terms of branches, deposits and depositors, advances and borrowers and credit-deposit ratio. Besides, it has provided the much needed banking infrastructure reaching to rural masses and contributed significantly to mobilize small-small amount from a very large number of rural household depositors and deploy small amount of credit among quite a large number of rural households for their social and economic emancipation and help them eke out reasonable standard of living rather than leaving them to lead a life of destitute. RRBs have, in particular, covered all the tribal districts identified by the Planning Commission. As for example, as on end-March 2001 when RRBs completed 25 years, RRBs in these districtsmobilized deposits of Rs.1,23.7 billion and deployed credit of Rs.50.42 billion that constituted about one-third of total deposits and credit of all 196 RRBs. Fresh disbursements by RRBs in tribal districts were as high as 49% of the total disbursements of all RRBs. The share of disbursements by RRBs vis-à-vis commercial and cooperative banks in tribal districts during the year end-March 2000 was 11% as compared to average 8% at the national level.

VIABILITY CONCERN

RRBs have now completed 40 years of operations. With the establishment of the first RRB on 2ndOctober 1975& five more in 1975, within a period of 12 years [1975-1987] the number of RRBs phenomenally increased to 196, on an average 16.33 per annum.Since early nineties viability of RRBs has been a serious concern of the shareholders. The concept of financial viability for RRBs had not been considered such a serious issue when six RRBs were established in 1975. Their number, however, increased to 196 in just 12 years ended 1987, due to several reasons despite the fact that the Working Group on Rural Banks recommended to set up initially only five on a pilot basis and learn lessons for future. The inherent structural weaknesses such as limited area of operation, restricted clientele, small and un-remunerative size of loans, directed lending, regulated interest rates, absence of cross subsidization, etc., combined with certain internal factors- specific to individual RRB, eventually resulted into many RRBs accumulating huge losses. Besides, despite the fact that the Working Group had emphasized "*the role of the new institutions would be to supplement and not to supplant the other institutional agencies in the field*," unhealthy competition among the operating financial institutions including sponsor banks, inadequate support from their sponsor banks and high expectations of State Governments added to the problems of business and financial viability. Unexpectedly, the financial burden on all 196 RRBs increased substantially [much beyond one can expect] from September1987, with the directive to implement National Industrial Tribunal Award providing remuneration package to all staff of all RRBs on par with the staff of commercial banks. The fragile state of the RRBs became self-evident from the fact that most of them became non-viable as their accumulated losses eroded the equity base of as many as 165 RRBs as on end-March 1994.

TURBULENT DECADE OF 1990s

Credit-Deposit ratio which was once as high as 165% in December1978 [when there were only 51 banks] gradually came down to 97% in December, 1987 when number of RRBs increased to 196 and thereafter it sharply declined to 56% in March1995 when all RRBs were asked to adopt prudential norms under financial sector reforms. The Credit-Deposit ratio again steeply came down to 41% in March 2000. Though during this period loan disbursements grew at 19% annually, the pace of credit dispensation had not been commensurate with resource mobilization process. Declining trend of Credit-Deposit ratio could be attributed to one or several of the policy changes that the Government of India and Reserve Bank of India effected, which, of course, were well intentioned and were in the right direction but could not properly percolate down level. These changes were [i] with the introduction of *Service Area Approach* from April, 1989 every branch of all financial institutions [except co-operatives] was allotted defined service area for its operation. This in itself restricted the business area. Besides, the branches of banks were for the first time required to collect vital data and comprehensive information for preparing the village profile and formulate village credit plans reflecting effective demand for credit. This task involved several procedural steps and training which, however, could not match the requirements of the operating units [ii]implementation of Agricultural and Rural Debt Relief Scheme in 1990 vitiated the climate both for recovery and fresh lending and created adverse impact on banks' operations[iii]relocation and merger of loss-incurring branches in 1993 required banks to search new locations for shifting existing branches and commence business taking quite a good deal of time [iv]enforcement of prudential norms in 1995 made banks extra cautious and vigil before lending and kept them busy to concentrate on mobilization of recovery and reduction of NPAs[v]formulation of Development Action Plans at individual RRB level and signing of Memorandum of Understanding with sponsor banks for infusing sustained viability of RRB in a planned manner from 1995. Both these requirements had dampening effect on banks with regard to expanding of RRB's lending program viz.[a] RRBs to commit for an action plan which should be implemented to yield expected results and[b] sponsor banks were most conservative in making commitments for providing support to banks which, perhaps, cannot be fulfilled[c] opening of large investment avenues to earn higher rate of return, increase income and ultimately improve profitability by investing in lucrative business portfolio. It may be observed that these banks' investments sharply increased to Rs.189.569 billion as on

31st March,1999 from Rs.61.2782 billion as on 31st March, 1995.Driven by their desire to contain the level of non-performing assets [NPAs], most banks chose to invest in alternatives and make profit such as deposits with sponsor banks or other portfolio investments. Over 70% [Rs.225 billion] of RRB deposits were in the form of deposits with sponsor banks and Government and other trustee securities[d]permission to lend to others outside target group called for high degree of skill [which can't be acquired by RRB staff without effective training] in all aspects of credit management& dealing with loan-delinquencies as against sanctioning proposals sponsored by Government agencies in past[e]diversification of business activities, permission to issue bank guarantees, purchase / discount of demand drafts etc. divided the attention of the staff of RRBs between lending and non-lending operations.

Reform Process

By 1994-95 many RRBs experienced problems of human resource management, conflict of interest among stakeholders more importantly between State Governments and Sponsor banks, low recovery rate, building up non-performing assets, incurring financial loss, even erosion of capital directly affecting their operational viability, leave alone financial sustainability. This drew pointed attention of the Government of India, the RBI & the NABARD to focus on concerted institutional development efforts aimed at strengthening of RRBs to enable them to become viable and achieve the desired objectives. In this process, cleansing of balance sheets and recapitalization marked the first major step and was followed by a series of initiatives that sought to allow them to function in a free and deregulated environment. When, through early 1990s, the reform process was initiated in the banking sector, Government of India in consultation with the RBI and NABARD considered the reforms through a comprehensive package for RRBs including cleansing their balance sheets and recapitalizing them. Simultaneously, extant lending restrictions were removed and space and variety available for investment of their surplus funds were expanded. Besides, the NABARD took a number of human resource development and Organizational Development Initiatives [ODI] with funding support of the Swiss Development Corporation and with emphasis on training and exposure visits, technology support, computerization and use of IT, system development etc., for business development and productivity improvement.

IMPROVEMENT

By end of March 2000, when RRBs completed 25 years of operations a good number of RRBs witnessed a remarkable improvement in their business operations and financial performance as compared to the position in 1994-95. As on end-March 2001, 196 RRBs with an extensive network of 14,499 branches covered 488 districts and had 59.7 million clients. As many as 172 RRBs had posted profit of Rs.6.81billion & 24 RRBs incurred loss of Rs.0.72 billionas compared to 162 RRBs reporting profit of Rs.5.44 billion and 34 loss making RRBsincurring loss of Rs.1.14billion in the previous year. This indicated that the number of RRBs in profit increased by 10, profit increased by 25.18%& loss declined to 63.16%. Recovery performance had improved from 64% to 69% and non-performing assets had declined from 23% to 18%. Accumulated loss declined to 94.09% from Rs.29.79 billion to Rs.28.03 billion. This, therefore, confirmed that committed efforts of all stakeholders of RRBs can make RRBs financially sustainable. These RRBs can, also, make profit after compensating the loss being incurred by other RRBs, which do justify their existence in North-East and most backward regions and difficult terrain of the country.

COMPARATIVE PERFORMANCE

As on end-March 2005 [at the commencement of amalgamation process],RRBs showed better performance as compared with other scheduled commercial banks in respect of performance indicators, such as percentage share of rural branches, employees, deposits, credit, credit-deposit ratio. In rural areas, RRBs accounted for a substantial 37% of total branches, 69% of employees, 31% of deposit accounts, 19% of deposits, 38% of credit accounts and 21% of credit outstanding of all scheduled commercial banks. Credit: Deposit ration also stood at 56.20% as against 50.51% of commercial banks.

Table 1.Particulars of Rural Branches, Employees, Deposits, Credit & C:D Ratio of CBs and RRBs[As on end-March 2005]

Particulars	Commercial banks*	RRBs	Total
Rural branches	20143 [63%]	11824 [37%]	31967 [100%]
Employees	133573 [16%]	45263 [69%]	178836 [100%]
Deposit Accounts	98368000 [69%]	43540000[31%]	141908000[100%]
Deposit Amount million	1721470 [81%]	409570 [19%]	2131040 [100%]
Credit Accounts	18155000 [62%]	10913000[38%]	29068000 [100%]
Credit Amount million	869590 [79%]	230170 [21%]	1099760 [100%]
Credit –Deposit Ratio	50.51%	56.20%	51.61%

Source: Report of the Committee on Financial Inclusion

** Indicates Scheduled Commercial Banks excluding RRBs*
Figures in parentheses indicate % share of RRBs & Commercial Banks in the total

AMALGAMATION PROCESS

In view of the serious concern for accelerating business, improving operational viability and financial sustainability of RRBs as also reaffirming their objective of being rural commercial and professionally managed banks, several options were discussed, out of which amalgamation of all RRBs sponsored by the same bank within a State as recommended by the Vyas Committee in 2004 was considered appropriate and legally feasible. Accordingly, the process of amalgamation of these 196 RRBs commenced from September 2005. Following the amalgamation of RRBs, the number of RRBs has been reduced from 196 with a branch network of 14484as on end-March 2005 to 56[including one set up in Puducherry UT in 2007-08]with a network of 20059 branches covering 635 districts in 26 States as on end-March 2015.

Table 2.Financial Performance of RRBs As on end-March 2005-13 [Rs.Million]

Particulars	2005	2006	2007	2013	2014	2015	CAGR 2005-15
No. of RRBs	196	133	96	64	57	56	
No. of branches	14484	14494	14520	17861	19082	20059	03.68%
Share capital	1959.3	1960.0	1960.0	1970.0	1970.0	1970.0	
Share capital deposits	21668.2	21800.3	21884.3	60010.0	61700.0	61730.0	
Reserves	38185.2	42705.6	49015.4	132470.0	158050.0	184620.0	19.14%
Deposits	621430.0	713288.3	831435.5	214880.0	2394940.0	2713290.0	17.79%
Borrowings	55243.2	73025.9	97758.0	380730.0	502300.0	588240.0	30.06%
Investments	367676.6	411824.5	456661.4	1085480.0	1396310.0	1067800.0	12.58%
Loans & Advances	328700.3	397125.7	484925.9	1370780.0	1594060.0	1848430.0	21.15%
No. of RRBs in Profit	166	111	81	63	57	51	
Amount of Profit [A]*	9026.0	8077.9	9264.0	22750.0	26940.0	29580.0	14.10%
No.of RRBs in Loss	30	22	15	01	00	05	
Amount of Loss [B]	1544.9	1906.6	3012.5	2070.0	00	1770.0	01.52%
Net Profit [A-B]	7481.1	6171.3	6251.5	22730.0	26940.0	27810.0	15.71%
Accumulated Loss	27150.1	26368.5	27594.9	10910.0	9480.0	10690.0	
No. of RRBs with Accumulated Loss	83	58	39	11	08	08	
Recovery percentage	79.85	79.80	80.49	81.2	81.9	79.47	
NPAs to Loans as % to Outstanding	08.53	07.28	6.55	06.1	06.09	05.72	
Net Worth	34662.6	40097.4	45264.8	183550.0	212240.0	237630.0	

Source: Annual Reports of NABARD [2004-07, 2013-15]

The amalgamation process during the decade [2005 to 2015] has been instrumental to improve financial & business performance of 56 amalgamated RRBs at the aggregate level when compared with 196 RRBs on 31st March 2005. This is attributed largely to substantial reduction in number of RRBs from 196 to 56 [28.57%] consequent upon which individual bank derived benefits of a larger geographical operational area i.e. economy of scale in particular and optimum use of available trained & experienced manpower and mechanizing & computerizing branches to the extent possible in general. This is evident from the following performance indicators.

- Number of profit earning RRBs increased from [166/196] 84.7% to[51/56] 91.07%,
- Number of banks with accumulated losses declined from [83/196] 42.35% to [08/56] 14.28%,
- Amount of profit increased to 327.72 % with CAGR 14.10%
- Net profit increased to 371.76% with CAGR 15.71%
- Accumulated loss declined to 39.37%
- Reserves improved to 483.40% with CAGR 19.14%
- Net Worth significantly shot up to 685.55%
- NPAs as percentage to outstanding loans declined from 8.53 to 5.72.
- In terms of business, number of branches increased to 158.49%, deposits to 436.62% [CAGR 17.79%], borrowings to 1064.82% [CAGR 30.06%], investments to 290.42% [CAGR 12.58%], loans & advances outstanding to 562.34% [CAGR 21.15%].
- Credit-Deposit Ratio improved to 68.12% from 52.89%
- The number of sustainably viable RRBs *i.e.,* RRBs making net current profit and having no accumulated losses stood at 46[82.14%] out of 56 RRBs as on end-2015.

PERFORMANCE PER RRB

The amalgamation process during the decade enabled in particular individual RRB to sharply focus on improving banking infrastructure in terms of branch mechanization, computerization & technology. This helped individual branch in particular & RRB in general to provide need based and efficient customer services through optimum utilization of available trained and experienced work force, and derive benefits of a large geographical area of operation. All these facilitated individual RRB to exhibit better performance. Following Table exhibits performance per RRB as on end-March 2015 as compared to end-March 2005. Specifically, the performance per RRB in respect of number of branches, deposits mobilized, borrowings availed, investments made and credit deployed have been responsible to improve the profit & reduce accumulated loss at individual RRB level reflecting at the aggregate level of 56 RRBs.

Table 3.Comparative Financial & Business Performance per RRB & per Branch As on 31st-March 2005 & 2015 [Rs.Million]

	RRBs at Aggregate level		Per RRB	
Particulars	2005	2015	2005	2015
No. of branches	14484	20059 [138.49%]	74	358 [438.78%]
Share capital [Rs]	1959.3	1970.00 [100.55%]	09.99	35.18 [352.15%]
Share capital deposit[Rs]	21668.2	61730.00 [284.89]	110.55	1102.32 [997.12%]
Reserves [Rs]	38185.2	184620.00 [483.40%]	194.82	3296.78 [1692.22]
Deposits [Rs]	621430.00	2713290.00 [436.62%]	317.06	48451.61[15281.53%]
Borrowings [Rs]	55243.2	588240.00[1064.82%]	281.85	10504.29 [3726.91%]
Investments [Rs]	367676,6	1067800.00 [290.42%]	1875.90	19067.86 [1016.46%]
Loans & Advances O/S[Rs]	328700.3	1848430.00 [562.34%]	1677.04	33007.68 [1968.21%]
Amount of Profit [A]* [Rs]	9026.00	29580.00 [327.72%]	54.37	5800.00 [1066.76%]
Amount of Loss [B] [Rs]	1544.9	1770.00 [114.57%]	51.50	354.00]687.38]
Net Profit [A-B]*[Rs]	7481.1	27810.00 [371.74%]	38.17	496.61 [1301.05]
Accumulated Losses[Rs]	27150.1	10690.00 [reduced to 39.37%]	327.11	1336.25 [408.51]
Net Worth	34662.6	237630.00 [685.55%]	176.85	4243.40 [2399.43]

Source: Calculated from the data presented in Table 2
Figures in parentheses indicate percentage increase in 2015 as compared to 2005

RECOVERY PERFORMANCE

As on end-June 2014, at aggregate level the recovery performance of 56 RRBs was 79.47%. Out of 56 RRBs, 22 had loan recovery rate more than national average of 79.47%. Thirty three RRBs had achieved a recovery percentage between 60% & 80% whereas two RRBs had recovery percentage below 60%.

Table 4.Frequency Distribution of States According to Levels of Recovery of RRBs [As on 30th June, 2014]

Recovery %	No. of RRBs	Names of States with number of RRBs
<60	02	Jharkhand [1] & Nagaland [1]
>60 &<80	033	Andhra Pradesh [4], Arunachal Pradesh [1] Assam [2], Bihar [1], Chhatisgarh [1], Gujarat [1], J&K [2], Jharkhand [1], Karnataka [2], Maharashtra [1], Madhya Pradesh [2], Manipur [1], Meghalaya [1], Mizoram [1], Odisha [2], Rajasthan [1], Telangana [1], Tripura [1], Uttar Pradesh [5], West Bengal [2]
>80 &<90	12	Gujarat [2], Haryana [1], Himachal Pradesh [1], Karnataka [1], Madhya Pradesh [1], Rajasthan [1] Uttar Pradesh [2], Uttrakhand [1], West Bebgal [1]
>90	09	Bihar [2], Kerala [1], Punjab [1] Puducherry [1] Tamil Nadu [2]

Source: Annual Report of NABARD 2014-15

CAPITAL TO RISK-WEIGHTED ASSETS RATIO [CRAR] OF RRBS

Rural financial institutions are exposed to unpredictable risks due to unfavorable environment [both natural & economic] consequent upon which non-recovery of loans on time often results into building up non-performing assets[NPA] and accumulated loss, thereby wiping out their capital & reserves.

Thus, the intrinsic strength & financial sustainability of financial institutions invariably lies in complying with the international prudential norms [CRAR, income recognition, classification of assets & provisioning for non-performing assets]which commercial banks in India have been mandated to comply with since mid-1990s. The Chakrabarty Committee on “Recapitalization of RRBs for improving their CRAR” in 2010 revealed that 42 out of 82 RRBs were deemed capable to attain the desired level of 9% CRAR on their own and rest will need to be recapitalized by the shareholders. RBI has, therefore, directed RRBs in 2013 to comply with these norms and ensure to achieve & maintain on ongoing basis a minimum of 9% of CRAR with effect from 31st March 2014. Following Table exhibiting the position of CRAR from 31st March 2012 to 2015 reveals that between 2012 & 2015, the range of CRAR has significantly narrowed down [from 20.29% to 04.82% among 56 RRBs in 2015 as against 23.95% to -67.00% among 82 RRBs in 2012]. While the Chhastigarh Gramin Bank had as high as 20.29% CRAR in 2015, the Nagaland Rural Bank had the lowest CRAR of 4.82%. RRBs have indicated better financial performance in 2014 and 2015 as against that in 2013 & 2012. This is evident from the fact that 98.24% &92.86% RRBs had CRAR above 9% in 2014 & 2015 respectively as compared to 72.62% &82.92% in 2013& 2012 respectively. Respective shareholders will, therefore, need to consider recapitalizing remaining four RRBs to attain 9% CRAR in 2015-16**.**

Table 5.Status of CRAR of RRBs as on 31st March 2012 to 2015

Year	Range of	9% & Above	>7% & <9%	>5%& <7%	>1%& <5%	<1% & negative	Total
2012	23.95% to --67.00%	68	06	04	03	01	82
2013	28.03% to --8.97%	61	01	01	00	01	64
2014	19.88% to 03.86%	56	00	00	01	00	57
2015	20.29% to 04.82%	52	02	01	01	00	56

Source: Annual Report of NABARD, 2014-15

RRBs Among Three Agencies

Attempt is made to analyze the data relating to three agencies viz. commercial banks, cooperative banks & RRBs in respect of credit disbursed to agriculture [2006-07 to 2014-15]; number of borrower accounts & credit disbursed along with the share of small & marginal farmers [2009-10 & 2013-14]; refinance availed [2012-13 to 2014-15] in order to understand the precise status of amalgamated RRBs among the existing rural credit institutions

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Table6.Year-wise & Agency-wise Credit Disbursement to Agriculture [2006-07 to 2014-15] Rs. Billion

	Commercial Banks	Cooperative Banks,	RRBs	Total
2006-07	1664.85 [72.57]	424.80 [18.52]	204.35 [08.91]	2294.00 [100]
2007-08	1810.88 [71.11]	482.58 [18.95]	253.12 [09.94]	2546.58 [100]
2008-09	2289.51 [75.89]	459.66 [15.24]	267.65 [08.87]	3016.82 [100]
2009-10	2858.00 [74.33]	634.97 [16.51]	352.17 [09.16]	3845.14 [100]
2010-11	3458.77 [73.86]	781.21 [16.68]	442.93 [09.46]	4682.91 [100]
2011-12	3686.16 [72.13]	879.63 [17.21]	544.50 [10.66]	5110.29 [100]
2012-13	4324.91 [71.21]	1112.03 [18.31]	636.81 [10.48]	6073.75 [100]
2013-14	5090.05 [71.53]	1199.64 [16.86]	826.52 [11.61]	7116.21 [100]
2014-15	5996.91 [71.34]	1384.69 [16.47]	102483[12.19]	8406.43 [100]
Total	31180.04 [72.36]	7359.21 [17.08]	455288[10.56]	4309213[100]
Average	3464.4489	817.69	50587.55	478801.44
CAGR	17.37%	15.92%	22.33%	17.63%

Source: Annual Reports of NABARD, 2006-15
Figures in parentheses indicate percentage share in the total

The amalgamation process commenced from September 2005 and in the first year of 2006-07, the share of the RRBs in total credit disbursed to agriculture by all three agencies was 8.91% which progressively increased to 12.19% during 2014-15. RRBs disbursed total agricultural credit during 2006-07 to 2014-15 amounted to Rs.4552.88 billion [Rs.505.8755 billion per annum] and accounted for 10.56% of total credit disbursed by all three agencies showing the compound annual growth rate of 22.33% against 17.37% by commercial banks & 15.92% by cooperative banks.

Table 7.Agency-wise Number of Borrower-Accounts& Amount Disbursed [Percentage Share of S& MFs]

Agency	2009-10	2013-14	2009-10	2013-14
	Number of Accounts		%Share of S&MFs in Accounts	
Commercial Banks	20531000 [42.57%]	37905000[47.40%] {84.62%}	52.0%	62.0%
Cooperative Banks	20392000 [42.28%]	32131000[40.18%] {57.57%}	63.0%	64.0%
RRBs	7307000 [15.15%]	9924000 [12.41%] {35.81%}	63.0%	67.0%
Total [Lakh]	48230000 [100%]	79968000 [100%] { 65.80%}	59.0%	63.0%
	Credit Disbursed [Rs. Billion]		% Share of S&MFs in disbursement	
Commercial Banks	2858.1 [74.33%]	5090.2 [71.53%] {78.10%}	24.0%	40.0%
Cooperative Banks	634.8 [16.51%]	1199.8 [16.86%] {89.00%}	46.0%	58.0%
RRBs	352.2 [09.16%]	826.2 [11.61%] {134.58%}	60.0%	62.0%
Total	3845.1 [100%]	7116.2 [100%] { 85.07%}	31.0%	45.0%

Source: Annual Reports of NABARD, 2009-2015
Figures in parentheses [ ] indicate % Share in the total & { } % increase in 2013-14 over 2009-10

The share of RRBs in the total number of borrower-accounts financed by three agencies was 15.15% in 2009-10 which declined to 12.41% whereas they accounted for 9.16% in the total disbursements in 2009-10 which increased to 11.61% in 2013-14. Between 2009-10 & 2013-14 increasein number of borrower-accounts finance by RRBs was the least at 35.81%, increase in the credit amount disbursed was the highest at 134.58%. The CAGR during the said period for number of borrower-accounts financed by RRBs was also the least at 7.95% as compared to 12.04% for cooperatives, 16.57% for commercial banks & 13.47% for all three agencies together whereas the CAGR for credit disbursed was the highest at 23.76% for RRBs as against 15.52% for commercial banks & 17.25% for cooperatives and 16.64% for all three agencies together.

Table 8.Agency-wise Refinance Availed,Targets & Disbursements [Rs. Billion] [2012-13 to 2014-15]

Agency	2012-13		2013-14		2014-15		Total	
	Target	%	Target	%	target	%	Target	%
CBs	99.00 [80.7877]	81.86% {48.54]	85.00 [132.5462]	155.94% {62.86}	99.00 [136.7520]	138.13% {44.63}	283.00 [350.0859]	123.70% {51.20}
Coops	46.78. [38.1237]	81.49% {22.90}	39.75 [35.2827]	88.76% {16.73}	61.00 [67.4206]	110.52% {22.00}	147.53 [140.8270]	95.46% {20.60}
RRBs	51.38 [47.5366]	92.52% {28.56}	39.15 [43.0367]	109.93% {20.41}	80.00 [102.2091	127.76% {33.37}	170.53 [192.7824]	113.05% {28.20}
Total	197.16 [166.4480]	84.42% {100}	163.90 [210.8656]	128.65% {100}	240.00 [306.3817]	127.66% {100}	601.06 [683.6953]	113.75% {100}

Source: Annual Reports of NABARD, 2012-15
Figures in parentheses [ ] indicate disbursements against target & { } % Share in the Disbursement

The disbursement of refinance against the target was 92.52% by RRBs in 2012-13 which increased to 109.93% & 127.76% in following two years. The share of RRBs in the total disbursement of refinance during 2012-13 was 28.56% which increased to 33.37% in 2014-15 after declining to 20.41% in the previous year.

NEED FOR FOCUSED ATTENTION

Since the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State has yielded rich dividends within a decade [2005-2015] following areas need focused attention.

- Each Bank should have its Mission Statement, Vision document for next 15 years and a Strategic Action Plan to accomplish them.

- The best use of technology, Financial Inclusion Fund, Financial Inclusion Technology Fund and establishing Financial Literacy and Credit Counseling Centers should facilitate RRBs hitherto unserved, unreached & financially excluded rural households easy access to financial services at affordable cost & hassle-free
- Each RRB should formulate action plan to achieve self-set targets by end-March 2019 viz.[i] opening new branches fully equipped with technology and CBS[ii] attaining Gross NPA level of less than 3% [iii] achieving 100% Financial Inclusionand adopting at least five villages per branch for financing indebted farmers to swap the debt taken from moneylenders. [iv] bringing all branches under Core Banking Solution[v] wiping out accumulated losses and [vi] improving & maintain CAR more than 9%.
- RRBs, in order to play a significant role as intermediary for financial inclusion in rural areas, need to intensify financing under Prime Minister Jan DhanYojana,Kisan Credit Cards, General Credit Cards and Self-Help-Groups& Joint Liability Groups under micro-finance program.
- RRBs, in 256 districts identified by the Committee on Financial Inclusion as "most excluded" need to deploy ICT based solutions, through use of smart cards, Point of Service devices and mobile technology to reach hitherto unreached households in different regions and client groups in the country.
- Planning and implementing strategy to attain financial viability without depending upon the sponsor banks for financial assistance, training, back office support etc.
- The amalgamation process and provision of Core Banking Solution in all RRBs need to be pursued and completed by end of the March 2017
- To improve business performance and financial sustainability on a continuing basis there is need for training &capacity building of the staff, designinginnovative savings&creditproducts with emphasis on providing remittance & insurance services and developinga client-specific marketing strategy.
- Members of the Bank's Board can help put in place effective MIS and build competence to operate & manage bank on sound principles of business & finance. Exposure of staff & selected members of the Board to other RRBs performing excellently should enable them to widen & deepen penetration in rural areas and improve recovery & financial viability
- State Governments should demonstrate serious concern and commitment to develop the bank on a sound foundation of operational viability and financial sustainability through effective coordination & consultative approach and monitoring & reviewing measurable performance indicators.
- On an annual basis each State in consultation with the RBI & NABARD should comprehensively review performance of individual RRB, share experience & expertise of better performing RRBs and identify deficiencies/constraints inhibiting the performance of specific RRB & formulate road map to significantly improve the financial sustainability of weak/poor performers.
- On lines of North East region, RBI can consider extending the Special Dispensation Scheme to RRBs to open branches at unviable centers in tribal, hilly, desert and drought prone areas and State Governments should provide basic infrastructure, viz. security, roads and digital connectivity that can accelerate expansion of banking network in these regions.

Number of RRBs in 2015 were reduced to 56 [58%] from 96 in 2007 exhibiting significant reduction in central region from 31 to 12 [39%], followed by 10to05[50%] in Western region, 16 to 09 [56%] in Northern region , 16 to 10 [62%] in Eastern region & 15 to 12 [80%] in Southern region with no change in North Eastern region. Maharashtra witnessed substantial reduction from 07 to 02, Uttar Pradesh from 15 to 07 & Madhya Pradesh from 10 to 03.

Table 9.State-wise Number of Banks & Names of Sponsor Banks As On 31st March 2015

State	Sponsor Banks	State	Sponsor Banks
Andhra P	SBI; Syndicate Bank; Andhra Bank; Indian Bank [04/04]	Manipur	UBI[01/01]
Telangana	State Bank of Hyderabad [01/01]	Meghalaya	SBI [01/01]
Karnataka	Syndicate Bank; SBI; Canara Bank [03/06]	Mizoram	SBI [01/01]
Tamil Nadu	Indian Overseas Bank; Indian Bank[02/02]	Nagaland	SBI [01/01]
Kerala	Canara Bank [01/02]	Tripura	UBI [01/01]
Puducherry	Indian Bank [01/00]	Arunachal	SBI [01/01]
Southern	[12/15]	North Eastern	[08/08]
Gujarat	Bank of Baroda; Dena Bank; SBI [03/03]	Bihar	UCO;PNB;CBI [03/05]
Maharashtra	Bank of Maharashtra; Bank of India[02/07]	Jharkhand	BOI;SBI [02/02]
Western	[05/10]	Odisha	IOB;SBI [02/06]
Rajasthan	Bank of Baroda; S B BJ[02/06]	West Bengal	UBI;UCO;CBI [03/03]
Punjab	SBI,PNB' P&SB [03/03]	Eastern	[10/16]
Haryana	PNB[01/02]	Uttar Pradesh	AB;BOB;BOI; Union Bank; Syndicate Bank; SBI; PNB [07/16]
J&K	SBI; J&K Bank [02/03]	Uttrakhand	SBI [01/01]
Himachal	PNB[01/02]	Madhya P	CBI;SBI;BOI [03/10]
Northern	[09/16]	Chhatisgarh	SBI [01/03]
Assam	UBI; SBI [02/02]	Central	[12/30]

Source: Banking Statistics published by Reserve Bank of India 2014-15

Figures in parentheses indicate number of RRBs reduced in 2015 out of number of RRBs in 2007

State Bank of India among 20 sponsor banks has the distinction to sponsor 16 RRBs [one each in each State] out of 56 as on end-March 2016 whereas eight banks have sponsored one RRB each and rest 11 among them sponsored two to five RRBs. While SBI can profitably utilize its experience & expertise to share best practices to improve the performance of RRB in each of 16 States where it has sponsored RRBs, individual State government can too productively facilitate sharing experience & expertise of best practices among other RRBs in each of 11 States where there are more than two RRBs. For example, Uttar Pradesh can derive benefits from each of seven RRBs.

Table 10.State-wise RRBs Sponsored by the Concerned Bank as on 2015

Sponsor Bank	States	Sponsor Bank	States
Allahabad Bank [AB]	Uttar Pradesh	Punjab National Bank [PNB]	Punjab, Haryana, Himachal, Bihar, UP
Andhra Bank [ANDB]	Andhra Pradesh	Punjab & Sind Bank [P&SB]	Punjab
Bank of Baroda [BOB]	Gujarat, Rajasthan, UP	State Bank of Bikaner & Jaipur[SBBJ]	Rajasthan
Bank of India [BOI]	Maharashtra, Jharkhand, UP,MP	State Bank of Hyderabad [SBH]	Telangana
Bank of Maharashtra [BOM]	Maharashtra	Syndicate Bank [SB]	Andhra, Karnataka, UP
Canara Bank [CB]	Karnataka, Kerala	UCO Bank [UCO]	Bihar, West Bengal
Central Bank of India [CBI]	Bihar, West Bengal, MP	Union Bank[UB]	UP
Dena Bank [DB]	Gujarat	United Bank of India [UBI]	Assam, Manipur, Tripura, West Bengal
Indian Bank [IB]	Andhra, Tamil Nadu, Puducherry	State Bank of India [SBI]	Andhra, Karnataka, Punjab, J&K, UP,MP Uttrakhand, Gujarat, Odisha Chhatisgarh Jharkhand Assam, Meghalaya, Mizoram, Nagaland, Arunachal
Indian Overseas Bank [IOB]	Tamil Nadu, Odisha		
J&K Bank [J&K B]	J&K,		

Source: Bank-wise & State-wise segregation worked out from the data presented in Table 9

FINDINGS AND CONCLUSION

The four decades of operations of Regional Rural Banks in India showed that RRBs have carved out their unique position among existing rural financial institutions to mobilize deposits and deploy credit in particular to help growth of rural economy in India. Last one decade of the consolidation and amalgamation program as a part of financial sector reforms process initiated since 2004-05 hassignificantly improved business & financial performance for RRBs as a group at national level as also average value per RRB in terms of expanding branch network, increasing paid-up share capital, share capital deposits, reserves, deposits, borrowings, investments, credit disbursements, amount of profit, net profit, reduction in NPAs as percentage of loans outstanding and substantially improving net-worth. This has demonstrated that RRBs have tremendous potential to improve their business operations and attain financial viability. Search for innovation focusing on application of banking technology accompanied by capacity building of human resources [bank staff & clients] is a continuous process that needs to be harnessed to make India's rural financial institutions [be it a cooperative, public or private sector] to serve hitherto unserved clients in remote rural India and enable them to attain financially sustainability.

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