

A Study of Regional Rural Banks and Its Impact on Escalation of Agro based Economy In India

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Abstract

Regional rural Banks plays a crucial role in the agriculture and rustic development of our country. The RRBS have more reached to the rural area of India, through their huge network and due to more focus of govt. of India now days. By the virtue of the RBI Act, 1935 that "the Bank shall contribute every year such sums of money as it may consider necessary and feasible to do so, to the National Rural Credit (Long Term Operations) Fund and the National Rural Credit (Stabilisation) Fund established and maintained by the National Bank under sections 42 and 43, respectively, of the National Bank for Agriculture and Rural Development Act,1981."

The growth of rural credit in India is deeply dependent on their financial strength. The motive behind the establishment of RRB's was to exclusively develop backward area and to provide assistance to the agriculture sector of India. The motive of writing this paper is to analyze the to what extent the RRB's has successes to achieve their purpose of establishment by the virtue of banking act and what type of challenges facing by RRB'S (i.e. problems of overdue, recovery, nonperforming assets and other problems) at present to attain their motive of establishment.

Keywords: *Regional Rural Banks, Key Performance Indicators, Growth Rate, Rural Economy, NABARD, Agro economic growth.*

I. Introduction

Regional Rural Banks have been in existence for around three decades in the Indian financial scene. Inception of regional rural banks (RRBs) can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. With joint share holding by Central Government, the concerned State Government and the sponsoring bank, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. The genesis of the RRBs can be traced to the need for a stronger institutional arrangement for providing rural credit. The Narshimam committee conceptualized the creation of RRBs in 1975 as a new set of regionally oriented rural banks, which would combine the local feel and familiarity of rural problems characteristic of cooperatives with the professionalism and large resource base of commercial banks. Subsequently, the RRBs were set up through the promulgation of RRB Act1 of 1976. Their equity is held by the Central Government, concerned State Government and the Sponsor Bank in the proportion of 50:15:35. RRBs were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs. Over the years, the RRBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to development of the rural economy.

A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the numbers have grown into 196 RRBs with 14,446 branches working in 518 districts across the country in March 2004. RRBs have a large branch network in the rural area forming around 43 per cent of the total rural branches of commercial banks. The rural orientation of RRBs is formidable with rural and semi urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilize rural savings. The mandate of promoting banking with a rural focus, however, would be an enduring phenomenon only when the financial health of the RRBs is sound. With built-in restrictions⁴ on their operations, it is common to expect that the financial health of the RRBs itself would be a matter of concern. As regards their financial status, during the year 2003-04, 163 RRBs earned profits amounting to Rs.953 crore while 33 RRBs incurred losses to the tune of Rs.184 crore. "Ninety RRBs had accumulated losses as on March 31, 2004. Aggregate accumulated loss of RRBs amounted to Rs. 2,725 crore during the year 2003-04. Of the 90 RRBs having accumulated loss, 53 RRBs had eroded their entire owned funds as also a part of their deposits. Furthermore, non-performing assets (NPAs) of the RRBs in absolute terms stood at Rs.3,299 crore as on March 31,2004. The percentage of gross NPAs was 12.6 during the year ending March 31, 2004. While 103 RRBs had gross NPAs less than the national average, 93 had NPAs more than it. Given the multi agency share holding, this study makes an attempt to enquire into such factors that influence the performance of the RRBs and the role played by sponsor bank in a broader scenario. The problem has been approached in a deductive pattern. First, an attempt is made to identify the extent of the problem of loss making RRBs and see if they are confined to some particular sponsor banks or States. If the problem banks and States could be identified that would help in focusing the attention for an enduring solution. Subsequently, a model-based approach has been pursued to identify the factors that are responsible for the problems faced by the RRBs".

This study contributes to the literature on RRBs primarily in two ways. First, the issues concerning RRBs are an area that is less visited empirically (econometrically) compared to the vast literature on commercial banks. Whatever studies have emerged on the topic, they have primarily relied on exploratory analysis done for a particular year or on a group of RRBs to draw inferences. This kind of an approach has a serious limitation in that the findings are guided by the choice of the year of analysis or the particular RRB(s) in question. To overcome this problem, one needs to consider, as attempted in this paper, a reasonably long period for analysis where extreme observations would be evened out so that one gets results that are more dependable. This study is an attempt in that direction. The present study considers the entire population rather than a few RRBs and a ten-year period for empirical analysis so that results are broad based and robust. Second, given the attention at the policy level to restructure the RRBs, it is necessary that the behavior of RRBs be analyzed separately for the profit and loss making ones, than all RRBs bunched together so that it helps in policy formulation. Such an approach has been followed in this study. The rest of the paper is organized in six segments. Section I provides a brief review of the course for restructuring and financial viability of RRBs suggested by different committees over the years. Section II reviews briefly the different factors identified in the literature that affects the financial performance of commercial banks and also the extant literature on factors affecting performance of RRBs. A bird's eye view of the spatial distribution of the performance of RRBs across the States and sponsor banks is given in section III. The methodology of the empirical analysis is discussed in Section IV. Section V discusses the empirical results. Concluding observations are set out in Section VI.

II. Key Performance Indicators and Growth of RRBs

Table No. 1 presents the key performance indicators of RRBs.

Table 1 - Key Performance Indicators of RRBs in India as on 31st March 2011

Sr No.	Name of RRB	State	Sponsor Bank	Dist Cov	Branches	Share Capital	Share cap. Dep.	Re-serves	Total Owned Fund
1	2	3	4	5	6	7	8	9	10
1	Andhra Pradesh GVB	Andhra Pra.	SBI	8	553	500	8908.50	41901.43	51309.93
2	Andhra Pra-gathi GB	Andhra Pra.	Syndicate Bank	5	385	300	3934.26	79740.98	83975.24
3	Chaitanya Godavari GB	Andhra Pra	Andhra Bank	3	105	200	544.22	7630.19	8274.41
4	Deccan GB	Andhra Pra.	SB Hyderabad	5	226	400	1407.23	19854.46	21661.69
5	Saptagiri GB	Andhra Pra	Indian Bank	2	144	200	1577.05	11428.33	13205.38
6	Arunachal	Arunachal Pradesh RB	SBI	16	22	100	3931.04	0.00	4031.04
7	Assam GVB	Assam	UBI	25	362	400	8563.25	7363.67	16326.92
8	Langpai Dehangi GB	Assam	SBI	2	46	100	2506.12	0.00	2606.12
9	Bihar Kshetriya GB	Bihar	UCO Bank	8	164	300	10335.23	81.29	10716.52
10	Madhya Bihar GB	Bihar	PNB	11	421	400	5932.37	14666.05	20998.42
11	Samastipur KGB	Bihar	SBI	1	68	100	4528.36	0.00	4628.36
12	Uttar Bihar GB	Bihar	CBI	18	884	800	44654.37	216.39	45670.76
13	Durg Rajnandgaon GB	Chhattisgarh	Dena Bank	3	112	100	2583.03	3229.06	5912.09
14	Sarguja Kshetriya GB	Chhattisgarh	CBI	2	99	100	633.92	5708.90	6442.82
15	Chhattisgarh GB	Chhattisgarh	SBI	14	226	300	8472.16	4788.64	13560.80
16	Baroda Gujarat GB	Gujarat	BOB	12	134	300	2004.68	8068.68	10373.36

17	Dena Gujarat GB	Gujarat	Dena Bank	7	145	300	3223.39	9295.81	12819.20
18	Saurashtra GB	Gujarat	SB Saurashtra	7	167	300	2153.43	5978.88	8432.31
19	Gurgaon GB	Haryana	Syndicate Bank	7	186	100	1821.76	49686.30	51608.06
20	Haryana GB	Haryana	PNB	16	229	300	2405.80	24108.28	V
21	Himachal GB	Himachal Pra.	PNB	11	125	100	1065.33	5526.90	6692.23
22	Parvatiya GB, Chamba	Himachal Pra.	SBI	1	33	100	278.29	278.29	1742.53
23	Ellaquai Dehati Bank	J & K	SBI	13	111	100	12151.98	0.00	12251.98
24	J & K GB	J & K	J & K Bank	11	176	200	6116.30	6596.73	12913.03
25	Jharkhand GB	Jharkhand	BOI	15	221	400	7102.17	0.00	7502.17
26	Vananchal GB	Jharkhand	SBI	9	188	200	8264.93	0.00	8464.93
27	Cauvery Kalpatharu GB	Karnataka	SB Mysore	7	215	200	2769.23	12696.33	V
28	Chikmagalur Kodagu	Karnataka	Corporation Ban	2	53	100	829.78	1119.41	2049.19
29	Karnataka Vikas GB	Karnataka	Syndicate Bank	9	451	400	1997.32	68710.61	71107.93
30	Krishna GB	Karnataka	SBI	3	139	100	1875.77	14062.72	16038.49
31	Pragathi GB	Karnataka	Canara Bank	8	368	400	3990.79	47826.93	52217.72
32	Visveshvaraya GB	Karnataka	Vijaya Bank	1	30	100	2817.35	423.25	2294.10
33	North Malabar GB	Kerala	Syndicate Bank	7	185	100	0.00	18113.96	18213.96
34	South Malabar GB	Kerala	Canara Bank	8	235	100	641.43	22774.65	25516.08
35	Jhabua Dhar KGB	M P	BOB	3	80	100	3831.51	0.00	3931.51
36	Madhya Bharat GB	MP	SBI	8	223	300	7397.04	1935.41	9632.45
37	Mahakaushal KGB	MP	UCO Bank	3	43	100	3325.29	0.00	3425.29
38	Narmada Malwa GB	M P	BOI	10	214	400	4293.60	12069.93	16763.53
39	Rewa Sidhi GB	MP	UBI	3	100	100	812.67	4084.08	4996.75

40	Satpura Narmada KGB	MP	CBI	20	348	700	7195.44	4417.76	12313.20
41	Sharda GB	M P	Allahabad Bank	1	63	100	1598.79	3724.24	5423.03
42	Vidisha Bhopal KGB	MP	SB Indore	2	27	100	526.54	3782.40	4408.94
43	Maharashtra GB	Maharashtra	BO Maharashtra	16	329	300	14768.62	2322.68	17391.30
44	Vidharbha KGB	Maharashtra	CBI	5	96	300	1475.87	2688.19	4464.06
45	Wainganga KGB	Maharashtra	BOI	12	182	400	6449.40	54.48	6903.88
46	Manipur Rural Bank	Manipur	UBI	9	27	100	2202.03	10.37	2312.40
47	Meghalaya Rural Bank	Meghalaya	SBI	6	58	100	159.76	5722.25	5982.01
48	Mizoram Rural Bank	Mizoram	SBI	8	62	100	803.82	620.89	1524.71
49	Nagaland Rural Bank	Nagaland	SBI	5	8	100	481.80	0.00	581.80
50	Baitarani Gramya	Bank Odisha	BOI	2	104	100	3420.18	0.00	3520.18
51	Kalinga Gramya	Odisha	UCO Bank	16	183	200	27765.85	5.55	27971.40
52	Neelachal Gramya	Odisha Indian	Overseas	5	174	200	3314.82	182.50	3697.32
53	Rushikulya Gramya	Odisha	Andhra Bank	2	81	1001	1815.27	2190.41	4105.68
54	Utkal Gramya Bank	Odisha	SBI	15	333	300	19304.04	11.31	19615.35
55	Puduvai Bharathiar GB	Puducherry	Indian Bank	2	26	100	475.50	45.47	620.97
56	Malwa GB	Punjab	SB Patiala	5	53	100	0.00	8754.05	8854.05
57	Punjab GB	Punjab	PNB	11	178	300	1949.88	33395.91	35645.79
58	Sutlej GB	Punjab	P & Sind Bank	6	30	100	86.76	2547.49	2734.25
59	Mewar Aanchal-ikGB	Rajasthan	ICICI Bank	3	58	100	1447.45	40.19	1587.64
60	Baroda Rajasthan GB	Rajasthan	BOB	13	175	500	8632.70	1458.83	10591.53

Growth of the RRBs

The RRBs are sponsored by scheduled commercial banks usually public sector commercial banks. A few non- public sector banks have also sponsored RRBs. Following a view taken by the Reserve Bank of India in consultation with the Government of India, scheduled state co-operative banks are also allowed to sponsor Regional Rural Banks.

The RRBs were inaugurated on October 2, 1975. One of the first RRBs to be established is the "Prathama Bank" sponsored by the Syndicate Bank is Muradabad district of Uttar Pradesh. On the same day, four other RRBs were sponsored by other public sector banks. Since their inception, RRBs made rapid strides of progress both in respect of branch expansion and advancement and advancement of loans to the weaker sections. Since the inception of these banks, the number of RRBs established in the country has gone up to 196 by the end of March 1990. The growth of RRBS from 1985 to 1993 is presented in the table 2.1

Table 2.1 Number of RRBs and District covered and their no. of Branches, Deposits and Outstanding Advances (As on December, 1993)

S. No.	As On	No. of RRBs	Disttr. Covered	No. of Branches	Deposits	Outstanding Advances	C.D. Ratio
1	Dec. '85	188	333	12,686	1,28,582	1,48,767	189
2	Dec. '86	194	351	12,838	1,71,494	1,78,484	104
3	Dec. '87	196	363	13,353	2,30,582	2,23,226	97
4	Dec. '88	196	369	13,920	1,96,588	2,88,492	95
5	Sept. '89	196	370	14,297	3,46,799	3,15,493	91
6	Sept. '90	196	388	14,511	4,26,752	3,55,571	83
7	Mar. '91	196	381	14,527	4,98,924	3,69,927	72
8	Sept. '92	196	385	14,531	5,14,133	3,88,368	74
9	Mar. '93	196	388	14,531	4,26,752	3,55,517	74

Progress of RRBs

From the Table 2.1 it is evident that there had been continuous increases in bank branches of RRBs. The deposits and advances have also correspondingly increased. At the end of 1985, there existed only 188 RRBS and the figure have increased to 196 in 1993. Thus, between 85 to 93, there was a very much increase in the number of branches of RRBs. The credit deposit ratio is one of the important indicators in judging the performance of RRBs; the ratio has increased to 189. Though it has declined, the C. D. Ratio of RRBs is comparatively higher than the rural branches of well- established commercial banks. Hence, there is a need for improving the credit deposit ratio by the RRBs.

Table 2.1 presents the number of RRBs and districts covered with branches since their inception in March 1993 as collected and shown in Table 2.1. The RRBs have shown a tremendous growth in third number of branches, deposits and outstanding advances. At the end of March 1993, the number of districts covered was 388 and the number of branches was 14, 531. It shows there is a very good growth in RRBs.

Table 2.2 presents the state- wise number of the RRBs and districts covered with branches since their inception.

Table 2.2 state-wise Number of Regional Rural Banks and their Branches

Sl. No.	Name of the State	No. of RRBs	No. of Districts	No. of Branches
1	Andhra Pradesh	16	23	1,101
2	Assam	5	20	322
3	Arunachal Pradesh	1	4	16
4	Bihar	22	38	1,820
5	Gujarat	9	17	386
6	Haryana	4	11	289
7	Himachal Pradesh	2	4	125
8	Jammu & Kashmir	3	10	256
9	Karnataka	13	20	1,059
10	Kerala	2	6	269
11	Madhya Pradesh	24	44	1,577
12	Maharashtra	10	17	573
13	Manipur	1	8	24
14	Meghalaya	1	3	46
15	Mizoram	1	3	44
16	Nagaland	1	7	10
17	Orissa	9	13	815
18	Punjab	5	10	158
19	Rajasthan	14	27	1,056
20	Tamil Nadu	3	7	198
21	Tripura	1	3	84
22	Uttar Pradesh	40	56	2,994
23	West Bengal	9	18	818

Source: statistics on Regional Rural Banks, NABARD March, 1993

To March 1993. Uttar Pradesh has the highest number of RRBs covering 56 districts with 2, 994 branches followed by Madhya Pradesh 24 banks covering 44 districts with 1, 577 branches and Andhra Pradesh 16 banks covering 23 districts with 1,101 branches. The states of Manipur, Meghalaya, Nagaland, Arunachal Pradesh and Mizoram at the least; they have only single Regional Rural Bank covering their branches in 8 districts, 3 districts, 7 districts, 4 districts, 3 districts respectively. So, it is suggested that the States which are having more districts have to establish some more RRBs to improve their branches to cater the bank services in rural areas.

The Banking Institutions must devote sufficient interest both in the expansion of credit as well as deposit mobilization with the increase in RRB deposits. It is also noticed that RRBs have been relatively better in deposit- mobilization in rural areas compared to co-operative credit societies.

III. Summery/ Observation of the Study (Findings)

Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank. Owned Funds The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at 13838.92 crore as on 31 March 2011 as against 12247.16 crore as on 31 March 2010; registering a growth of 13.0%. The increase in owned funds to the tune of 1591.76 crore was mainly on account of accretion to reserves by the profit making RRBs. The share capital and share capital deposits together amounted to 4273 crore of total owned fund while the balance amount of 9566 crore represented reserves.

Deposits

Deposits of RRBs increased from 145035 crore to 166232.34 crore during the year registering growth rate of 14.60%. Gurgaon GB reported the highest deposit growth rate of 37%. There are Sixteen (16) RRBs having deposits of more than 3000 crore each.

Borrowings

Borrowings of RRBs increased from 18770 crore as on 31 March 2010 to 26490.81 crore as on 31 March 2011 registering an increase of 41.10% . Borrowings viz-a-viz the gross loan outstanding constituted 26.8% as against 22.7% in the previous year.

Uses of Funds

The uses of funds of RRBs comprise of investments and loans and advances.

Investments

The investment of RRBs increased from 79379.16 crore as on 31 March 2010 to 86510.44 crore as on 31 March 2011 registering an increase of 8.98%. SLR investments amounted to 45022 crore where as non-SLR investments stood at 41488 crore. The Investment Deposit Ratio (IDR) of RRBs progressively declined over the years from 72% as on 31.3.2001 to 52.04 % as on 31 March 2011.

Loans & Advances

During the year the loans outstanding increased by 16098.33 crore to 98917.43 crore as on 31 March 2011 registering a growth rate of 19.4% over the previous year. Meghalaya Rural Bank recorded the highest growth rate of 35% during the year 2010-11.

Loans Issued

Total loans issued by RRBs during the year increased to 71724.19 crore from 56079.24 crore during the previous year registering a growth of 27.90%. Samastipur KGB reported highest growth rate of 123% during 2010-11 followed by Andhra Pradesh GVB at 112%.

Working Results

Profitability

75 RRBs (out of 82 RRBs) have earned profit (before tax) to the extent of 2420.75 crore during the year 2010-2011. The profit was marginally lower than the previous year. After payment

of Income Tax of 634.22 crore, the net profit aggregated to 1786.53 crore. The remaining 7 RRBs incurred loss to the tune of 71.32 crore.

Accumulated Losses

As on 31 March 2011, 23 of the 82 RRBs continued to have accumulated losses to the tune of 1532.39 crore as against 1775.06 crore (27 RRBs) as on 31 March 2010. The accumulated loss decreased by 242.67 crore during the year under review.

Non-performing Assets (NPA)

The Gross NPA of RRBs stood at 3712 crore as on 31.03.2011 (i.e.3.75%). The percentage of Net NPA of RRBs has shown an increase from 1.8% to 2.05% during the year. The data revealed that 15 RRBs had gross NPA percentage of less than 2%, whereas 33 RRBs had it above 5%.

Recovery Performance

There has been an improvement in the recovery percentage during 2009-10 from 80.09% as on 30 June 2009 to 81.18% as on 30 June 2010. The aggregate overdues, however, increased by 934 crore to 9805 crore as on 30 June 2010.

Credit Deposit Ratio

The aggregate CDR of RRBs increased over the years from 57.10% as on 31 March 2010 to 59.51% as on 31 March 2011. Eight of the RRBs reported CDR of more than 100%.

Productivity of Branch and Staff

The branch productivity increased to 16.57 crore in 2010-11 from 14.72 crore in 2009-10 with a growth of 12.57%. Similarly, staff productivity in 2010-11 increased to 3.78 crore from 3.70 crore in 2009-10 with a growth of 2.16%.

IV. Policy Initiatives during the Year 2010-2011

1. Capital Infusion for improving CRAR

Consequent upon the decision taken in the Finance Minister's Review Meeting of RRBs dated 18.08.2009, a Committee was constituted by Government of India, Ministry of Finance, Department of Financial Services under the Chairmanship of Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India, to examine the financials of RRBs with reference to CRAR and suggest a roadmap for achieving a CRAR of 9% by March 2012. As per Dr. K.C. Chakrabarty Committee Report recapitalization to 40 selected RRBs in 21 states was started in 2010-11. The recapitalization amount is to be shared by the stake holders in proportion of their shareholding i.e. 50%, 35% and 15% by Central Government, concerned sponsor banks and State Government. As per approved scheme, the release of Central Government share is subject to proportionate share by the Central Government, concerned sponsor banks and State Government. A sum of 66.49 crore was released to 5 RRBs during 2010-11. Accepting the recommendations of the committee, the GOI along with other shareholders decided to recapitalize the RRBs by infusing funds to the extent of 2200 Crore. The implementation is already underway and is expected to be completed during 2012-13.

2. Regional Rural Bank Service Regulations 2010

Based on the recommendations of Amaresh Kumar Committee, the GOI issued the RRB Service Regulations 2010.

3. Regional Rural Bank Appointment and Promotion Rules 2010

GOI also notified the RRB Appointment and Promotion Rules 2010, in July 2010.

4. Technology Innovation through Core Banking Solutions (CBS)

The RRBs were required to ensure that their branches are put on CBS platform so that they can provide hassle free and any where banking services to their clients. 80 RRBs have since been fully migrated to CBS as on 30m September 2011. NABARD is providing financial assistance to identified 28 weak RRBs to the extent of 40% for core banking solution from Financial Inclusion Technology Funds (FITF) and rest of the cost will be shared by the Sponsor Bank (50%) and the RRB (10%).

5. Financial enclosure

As envisaged by the Government of India, RRBs as a group have become a strong intermediary for financial inclusion in rural areas by opening a large number of "No frills" accounts and by financing under General Credit Card (GCC), as per RBI guidelines. Total number of accounts stood at 1310.17 lakhs in March 2011 which was 1188.67 lakhs in March 2010.

6. Interest financial backing to RRBs

The continuance of the interest subvention scheme was announced in the Union budget 2010-11. Interest subvention of 1.5% per annum was available to RRBs for deploying their own funds for crop loan up to 3 lakhs per farmer, provided the ultimate borrower get such loans at 7% interest per annum. An additional subvention of 2% was announced during the year to those farmers who repaid crop loans promptly within one year of disbursement. Thus, the interest paid on crop loans by such farmers was effectively at the rate of 5%.

Problems (Weaknesses) of RRBs

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems.

1. Very limited area of operations
2. High risk due to exposure only to the target group
3. Public perception that RRBs are poor man's banks
4. Mounting losses due to non-viable level of operations in branches located at resource-poor areas.
5. Switch over to narrow investment banking as a turn-over strategy
6. Heavy reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.
7. Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks

8. Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets
9. Unionized staff with low commitment to profit orientation and functional efficiency.
10. Inadequate skills in treasury management for profit orientation
11. Inadequate exposure and skills to innovate products limiting the lending portfolios
12. Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity
13. Serious undermining of the Board by compulsions to look up to sponsor banks, GOI, NABARD and RBI for most decisions.
14. RRB hampered by an across the board ban on recruitment of staff.

Recommendations For Improvement of RRBs

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

V. Conclusion

The speedy growth of RRB has boosted up in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural growth and credit deployment in weaker division of rural areas are noticeable. RRB successfully achieve its objectives like to take banking to door steps of rural households mainly in banking depressed rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to give confidence rural savings for productive activities, to

generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus RRB is providing the strongest banking network. Government should take some effective remedial steps to make Rural Banks viable.

Regional Rural Banks plays a key role as an important vehicle of credit delivery in rural areas with the objective of credit dispersal to small, marginal farmers & socio economically weaker section of population for the development of agriculture, trade and industry .But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan & high risk in loan & advances.

Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

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