

Performance Appraisal of Operational Efficiency in Regional Rural Banks

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Abstract

Development of the Country mainly depends on agricultural rural masses. To meet the agricultural needs of rural masses which are inadequate in condition the govt. decided to establish a poor man's bank (RRBs) for the purpose of mobilizing the deposits and disbursement of loans to the needy people. The present paper focused on the evaluation with respect to the operational performance of regional rural banks in India for a period of ten years. The study is mainly based on secondary data, which is assembled from the annual reports of NABARD and reports on trend and progress of banking in India. The indicators which are considered for the study are deposits, advances, investments, credit deposit ratio investment deposit ratio and percentage of advances in priority sector lending. The data were analysed through descriptive statistics and F-Test Two sample for Variances using EXCEL. The operational performance of regional rural banks has improved significantly during the study period.

Key Words: Deposits, Advances, Investments, Priority Sector Advances, Regional Rural Banks.

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Introduction

Despite the urbanization in the World still, 75 per cent of the population lives rurally. Development of the Country mainly depends on agricultural rural masses. At first, Cooperative societies were established in rural areas to provide financial support to the agricultural requirements. Since then also the people living in rural areas are suffering from inadequate financial facilities. To fill this gap, the Govt. decided to establish a poor man's bank (RRBs) which supports financially. The working group is established by the government to work for setting up of regional rural banks in India. Based on the working group committee recommendations the government was issued "The Regional Rural Banks Ordinance, 1975" by the President of India on September 26, 1975, with an immediate effect. Later it was replaced with "Regional Rural Banks Act, 1976". The main objective of the RRB Act 1976 is to develop the rural economy by providing financial support to the development of agriculture, trade, commerce, industry and other productive activities in the rural area, credit and other facilities particularly to the small and marginal farmers, agricultural laborers, artisans and small entrepreneurs and for matter connected therewith and incidental thereto.

Review of Literature

It is proposed to review the literature that exists in the field of bank finance for rural development. In this context, an effort has been made to survey the important studies having an impact on the present study. Literature is reviewed both from Books and Articles.

'N.B. Shete' (1990) in his article entitled "Regional Rural Banks – An Analysis", makes an attempt to describe the need and evolution of RRBs. He also stressed the performance of RRBs by giving more details about purpose wise advances made by the RRBs and also explained the recovery position of RRBs.

Review note brought out by Culcutta Regional Office of NABARD (1998), titled "Review of the working of the Regional Rural Banks", and has provided the information about all India perspective of the RRBs and the performance of RRBs of West Bengal as on March 1987. It is observed that the annual losses of RRBs recorded a steep rise. A number of RRBs went for non-target group lending in a big way.

'Butt, N. and Thoratt, Y' (2004) in their article "India's Regional Rural Banks: The Institutional Dimension of Reforms", stated the key success for reform process of Regional Rural Banks. They observed that political support for the reform process is a key determinant to the extent to which the Regional Rural Banks can be turned around. The reforms introduced since 1993 have not adequately addressed the incompatibility of the incentives, and provide recommendations for getting incentives right.

'Amarender Reddy' A., (2006) in his article "Productivity Growth in Regional Rural Banks", examines total factor productivity, technical and scale efficiency changes in regional rural banks by using the data from 192 banks for the period 1996 to 2002. He further says that rural banks showed significant economies of scale in terms of assets and number of branches under each bank. Banks located in economically developed areas have exhibited significantly higher productivity growth.

‘Vasam Anand Kumar’ (2008) in his article “Case for De-amalgamation of Regional Rural Banks”, stated amalgamation could be a death blow to the credit-starved rural poor, most of whom are small and marginal farmers, agricultural and landless labourers, and artisans. Since the RRBs are established under a special act passed by the parliament, the decision to amalgamate all 196 RRBs at the national level needs to be ratified by the parliament.

‘Syed Ibrahim’, M., (2010) in his article “Performance Evaluation of Regional Rural Banks in India”, made an attempt to analyze the performance of Regional Rural Banks during pre and post-merger periods. The study finds and concludes that the performance of rural banks in India has significantly improved after the amalgamation process which has been initiated by the Government of India.

‘Suresh’, R., (2014) “Rural Banks of India and its Performance: An Empirical Study”, has found that the performance of the Regional Rural Banks in India since 1975 is good, even though the Regional Rural Banks faced so many crises and competition with other banks. Initiative measures should be taken to give total coverage in districts located in India forming Regional Rural Banks.

Objectives of the Study:

The main objective of the study is to evaluate the growth of Regional Rural Banks of India. The specific objectives are given as:

- To examine the mobilization of deposits, advances and investments of RRBs in India;
- To study the operational efficiency of RRBs in India;
- To know the share of priority sector advances in total advances of RRBs in India.

Need for the Study

A majority of the studies have concentrated on the financial analysis of individual RRBs and comparison between two RRBs. But considerable studies have not been undertaken on performance appraisal of operational efficiency of Regional Rural Banks in India. Thus there is a need to evaluate the operational efficiency of RRBs in India. The present study is based on empirical analysis of “performance appraisal of operational efficiency in regional rural banks”. Deposits, advances, investments, advances to priority sectors have been undertaken to analyse the operational performance of RRBs in India.

The present paper focused on the evaluation with respect to the operational performance of regional rural banks in India.

RESEARCH METHODOLOGY

The present study is of empirical in nature and makes use of secondary data. The secondary data have been collected from the published and unpublished reports of the Reserve Bank of India, Bombay; National Bank for Agricultural and Rural Development [NABARD] Bombay. Journals and magazines concerning Banking, Finance and Rural Development were also referred to collect the secondary data. The study is confined to Regional Rural Banks operating in India from 2008-2009 to 2017-2018. To draw the meaningful results in the study the data were analysed through the use of simple tables, statistical tools like Descriptive Statistics; F-Test Two sample for Variances using EXCEL and SPSS.

Hypothesis

H_{a0} : There is no significant difference in performance between demand deposits and Time deposits of RRBs;

H_{a1} : There is a significant difference in performance between demand deposits and Time deposits of RRBs;

H_{b0} : There is no significant difference in performance between the Credit Deposit Ratio and the Investment Deposit Ratio;

H_{b1} : There is a significant difference in performance between the Credit Deposit Ratio and the Investment Deposit Ratio;

Results and Discussion

1. Deposits of Regional Rural Banks

Deposits are the major sources to raise the funds by the Banks. The size of deposits largely decides the lending activity of the bank. Further, deposits serve as a cushion in absorbing the shocks of over dues enabling the bank to maintain an uninterrupted flow of credit. The total deposits consist of three types namely savings, current and term deposits. The savings and current deposits come under demand deposits and term deposits under time deposits.

Table 1
Growth of Deposits in Regional Rural Banks

(₹ in Billion)

Year	Total Deposits	Growth Rate (%)	Demand Deposits	Growth Rate (%)	Term Deposits	Growth Rate (%)
2008-09	1202	--	701	--	501	--
2009-10	1450	120.63	839	119.69	611	121.96
2010-11	1662	138.27	1003	143.08	659	131.54
2011-12	1863	154.99	1090	155.49	773	154.29
2012-13	2115	175.96	1203	171.61	912	182.04
2013-14	2395	199.25	1322	188.59	1073	214.17
2014-15	2730	227.12	1425	203.28	1305	260.48
2015-16	3135	260.82	1569	223.82	1566	312.57
2016-17	3719	309.40	1988	283.59	1731	345.51
2017-18	4005	333.19	2113	301.43	1892	377.64

Source: Compiled from the various reports of trend and progress of banking in India.

Table 1 discloses about the growth of type-wise deposits in the regional rural banks. The overall performance of the deposits is significantly increasing over the study period from 120.63 per cent in 2009 to 333.19 per cent in 2018. In the case of demand deposits, the growth rate raised drastically from 119.69 per cent to 301.43 per cent throughout the study period. Term deposits also increased significantly from 121.96 per cent in the year 2009 to 377.64 per cent in the year 2018.

An F-Test Two-Sample for Variances was used to determine the relevance in the significant growth rate of both demand deposits and term deposits of the regional rural banks in India.

Table 2
Result of F-Test Two-Sample for variances of Demand Deposits and Time Deposits

	Demand Deposits	Time Deposits
Mean	1325.3	1102.3
Variance	214380.2	246662
Observations	10	10
Df	9	9
F	0.869125	
P(F<=f) one-tail	0.418955	
F Critical one-tail	0.314575	

Table 2 exhibits that, the F Test Two-Sample for Variances of Demand deposits and Time Deposits. It is clear from Table 2 that, the calculated F value (0.869125) of both demand and term deposits is greater than the critical value of F (0.314575). It indicates there is a significant difference in the performance of demand and time deposits of regional rural banks. Hence, the null hypothesis is rejected.

2. Advances and Investments of Regional Rural Banks

The banking institutions are the custodians of public savings and powerful instruments to provide credit. The investments of regional rural banks are the window of deployment of funds. The advances are given from the deposits mobilized by the regional rural banks. Investments include investment in government securities and other approved securities. Table 3 exhibits the advances and investments made by regional rural banks over the period of time and their growth rate.

Table 3
Advances & Recovery of Regional Rural Banks

Year	Advances	Growth Rate (%)	(₹ in Billion)	
			Investments	Growth Rate (%)
2008-09	678	--	380	--
2009-10	836	123.30	473	124.47
2010-11	989	145.87	542	142.63
2011-12	1164	171.68	602	158.42
2012-13	1397	206.05	630	165.79
2013-14	1593	234.96	719	189.21

2014-15	1810	266.96	1628	428.42
2015-16	2065	304.57	1696	446.32
2016-17	2262	333.63	2110	555.23
2017-18	2527	372.71	2210	581.58

Source: Compiled from the annual reports of NABARD.

From table 3, it was found that the advances of regional rural banks have increased from 123.30 per cent in the year 2009 to 372.71 per cent in the year 2018, which is 3.02 times. In case of investments it has significantly increased up to 2014 with a growth rate of 189.21 per cent, in 2015 it has doubled compared to the previous year and ultimately reached to a growth rate of 581.58 per cent.

3. Credit-Deposit Ratio and Investment Deposit Ratio

The credit-deposit ratio states the relationship between advances and deposits. Investment-Deposit Ratio is computed by investments divided by the total deposits of the bank.

Table 4
Credit Deposit Ratio and Investment Deposit Ratio

Year	Credit	Deposits	Credit Deposit Ratio (%)
2008-09	678	1202	56.41
2009-10	836	1450	57.66
2010-11	989	1662	59.51
2011-12	1164	1863	62.48
2012-13	1397	2115	66.05
2013-14	1593	2395	66.51
2014-15	1810	2730	66.30
2015-16	2065	3135	65.87
2016-17	2262	3719	60.82
2017-18	2527	4005	63.10

Source: Compiled from the annual reports of NABARD.

Table 4 portrays the credit-deposit ratio is in increasing trend in the initial years from 2009 to 2014 but later it has decreased and reached to 63.10 per cent

Table 5
Investment Deposit Ratio

Year	Investment	Deposit	Investment Deposit Ratio (%)
2008-09	380	1202	31.61
2009-10	473	1450	32.62
2010-11	542	1662	32.61
2011-12	602	1863	32.31
2012-13	630	2115	29.79
2013-14	719	2395	30.02
2014-15	1628	2730	59.63
2015-16	1696	3135	54.10
2016-17	2112	3719	56.74
2017-18	2210	4005	55.18

Source: Compiled from the various reports of trend and progress of banking in India.

From table 5 the highest investment deposit ratio is noticed during the year 2015 with 59.63 per cent and with the fluctuations, it has reached to 55.18 per cent during 2018.

An F-Test Two-Sample for Variances was performed to determine whether the Credit-deposit Ratio of the regional rural banks significantly differs from the Investment-Deposit Ratio of the regional rural banks in India.

Table 6
Result of F-Test Two-Sample for Variances of Credit Deposit Ratio and the Investment Deposit Ratio

	Credit-Deposit Ratio	Investment-Deposit Ratio
Mean	62.47017	41.46169
Variance	14.13883	168.4201
Observations	10	10
Df	9	9
F	0.08395	
P(F<=f) one-tail	0.000528	
F Critical one-tail	0.314575	

Table 6 provides the F-Test Two-Sample for Variances result of credit-deposit ratio and investment-deposits ratio. From the analysis, of F-value (0.08395) is smaller than the critical value of F (0.314575) that leads to the conclusion that H_0 is accepted; hence there is no significant difference between the credit-deposit ratio and the investment-deposit ratio of the regional rural banks.

4. The share of Regional Rural Banks in the Priority Sector Lending

The priority sector includes the agriculture and allied activities, self-help groups, small scale industries and another priority sector. Guidelines were prescribed by the reserve bank of India to

the banks in India regarding the priority sector advances. Table 7 evaluates the advances to priority sectors in the total advances of regional rural banks.

Table 7
Role of Regional Rural Banks in the Priority Sector Lending

(₹ in Billion)

Year	Total advances	Advances to priority sector	% of advances to Priority sector in total advances (%)
2008-09	678	566	83.48
2009-10	836	687	82.18
2010-11	989	826	83.52
2011-12	1164	955	82.04
2012-13	1397	1118	80.03
2013-14	1593	1302	81.73
2014-15	1810	1494	82.54
2015-16	2065	1779	86.15
2016-17	2262	2033	89.88
2017-18	2527	2285	90.42

Source: Compiled from the various reports of trend and progress of banking in India.

Table 7, manifests the advances to priority sectors have an increasing trend over the period. It was ₹ 566 billion in the year 2009 and it became ₹ 2285 billion in the year 2018. The share of priority sector advances in total advances of regional rural banks fluctuated in the initial years of study up to 2013 later it increased progressively and reached to 90.42 per cent in 2018.

Findings and suggestions

- Incredible growth was noticed in the deposits mobilised by RRBs in India.
- The funds mobilized through various sources were also properly utilized for the purpose of issuing loans and advances.
- The credit-deposit ratio has increased over the study period. Still, there is a need to improve in the credit-deposit ratio.
- There is an upsurge in the investment deposit ratio.
- The share of priority sector advances of regional rural banks was also high during the study period.

Conclusion

Depending on the context and applications, the term performance may have different connotations. Keeping into consideration the varied activities being performed by rural regional banks, any appraisal of their performance may become meaningful with its underlying objectives. In the present study, the performance of Regional Rural Banks, an attempt has been made in terms of certain defined, parameters, like growth pattern of RRBs, the credit distribution of RRBs, the investment of RRBs, and the advances share of RRBs in priority sector. Obviously,

there is progress in the operational performance of Regional Rural Banks in India in the study period.

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