

NABARD: A FINANCIAL INCLUSION THROUGH REGIONAL RURAL BANKS (RRB'S)

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ABSTRACT

Financial inclusion is stepping stone for inclusive growth. Banking sector has witness's tremendous changes in recent period in terms of advancement in technology like internet banking, transfer money online, debit card and credit card facility etc. Still financial inclusion looks like a long unachievable dream. Regional rural Banks play a vital role in rural development of India and to spread financial inclusion. Regional Rural Banks are setup to take banking facilities to the door steps of rural households who are in need of easy and cheap credit. These are institutions which strive to turn dream into reality. The objective of economic planning can never be achieved unless we uplift the rural economy and rural people of India. This study is based on secondary data collected form annual reports of NABARD, RBI and other financial institutions. The study finds and concludes that Regional Rural Banks have significantly made financial inclusion a reality. The study will help researchers, academicians and policy makers to try and the reach more in-depth into the bottom of pyramid.

KEYWORDS: Financial Inclusion, Regional Rural Banks (RRBS), NABARD

INTRODUCTION

Regional Rural Banks (RRB's) have been in existence for around three decades in the Indian financial system. RRB's in India started with an Ordinance circulated on 26th September 1975 with an objective to provide sufficient and easy credit to rural households for agriculture and other rural services. To provide low - cost banking facilities, Narsimhan Committee in 1975 put in lot of efforts to come up with the idea of a new set of regionally oriented rural banks. The idea behind the formation was to inculcate the local feel and familiarity of rural problems with features of cooperatives and large resource base of commercial banks. This new development in the financial system of India can be seen as a unique experiment as well as an experience in improving the effectiveness of the rural credit delivery mechanism.

The prime objective behind establishment of RRB's is a great saying by Gandhiji "Real India lies in the villages". In October 1975, Prathama Bank was the first RRB that came into existence. RRB's are also known as '**Gramin Bank**' (*Gramin in hindi means rural*). The share capital of RRB was contributed by (owners) Government of India, the concerned State Government and the sponsored bank in the proportion of 50%, 15% and 35%, respectively. RRBs mobilize deposits primarily from rural/semi-urban areas and provide loans and advances mostly to farmers, rural and artisans as well as to the lower sector of the society. RBI in 2001 constituted a Committee under the Chairmanship of Dr V S Vyasa on "Flow of Credit to Agriculture and Related Activities from the Banking System" which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process initiated in the year

2005 and 2012 as per Dr Vyas Committee Recommendations reduced existing RRBs from 196 to 64.

Table 1: Performance of RRB's in 2014

	March 2013	March 2014
No. RRB's	64	57
Share Capital (Rs. In Cr.)	197	197
Share Capital Deposit (Rs. In Lakhs)	6001	6170
Reserves (Rs. In lakhs)	13,247	15,262
Profit-Earnings RRB's	63	57
Net Profit of RRB's	2273	2744
Accumulated Losses (Rs. In Lakhs)	1091	949
Deposits (Rs. In Lakhs)	211,488	239,511
Loans and Advances (Rs. In Lakhs)	137,078	218,110
Non-Performing Loans (%)	6.08	4.35

Source: NABARD

Provision of services by RRBs to the rural poor is under the preview of financial inclusion, a termed developed in 2005. It is the process of ensuring timely and adequate access to credit where needed by vulnerable groups such as weaker sections and low income groups¹. The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country through various measures. The prerequisite for financial inclusion is important to the people who

- Do not have any access to the structured financial system;
- Have inadequate access to banks and other financial services

In 2005 the concept of Financial Inclusion was first featured in India launched by K C Chakraborty, the chairman of Indian Bank. Mangalam a census town in Coimbatore, Tamil Nadu became the first village in India where all households were provided banking facilities. RBI permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services in January 2006. These intermediaries act as business facilitators or business correspondents by commercial bank.

Financial Inclusion Index

On June 25, 2013, CRISIL, India's credit rating and Research Company launched an index to measure the status of financial inclusion in India, report released by P. Chidambaram, Finance Minister of India at a widely covered program at New Delhi. For preparing the index, CRISIL took into consideration three parameters of basic banking services i.e. Number of Branches, Amount of Deposit and Credit penetration. The index termed as CRISIL Inclusix indicates that there is an overall improvement in the financial inclusion in India. The figure 2 below shows the contribution of RRB's in financial inclusion.

Table 2: Contribution of RRB's to Financial Inclusion

RRB's	Rural	Semi-Urban	Urban	Metropolitan	Total
	12772	3228	891	166	17057

Source: www.financialservices.gov.in

REVIEW OF LITERATURE

Beg (2014) (The Role of Regional Rural Banks (RRB's) in Financial Inclusion: An Empirical Study in India) a study on the role of RRBs in India in financial inclusion. An effort has been made in the instant project to study and find out whether RRBs in this region has made any progress towards ensuring broader banking services for the rural poor people in strengthening the India's position in relation to financial inclusion.

Srinivas & Shanabhogara (2014) (Banking Sector Reforms and Development of Banking Industry, 2014) explained the development of RRB's using models of SWOT analysis and Porter's Five Forces Model. It discusses measures initiated by the Reserve Bank in India [RBI] in order to implement the Reforms and Measures.

Soni&Kapre (2012) (A Study on Current Status of Regional Rural Banks in India, 2012) analyzed the financial performance of RRBs in India during the period 2006-07 to 2010-11. They had analyzed the performance using various key performance indicators such as number of banks, branches, loans, advances etc. and concluded a positive impact on the performance of RRBs.

Raghuram "(A Hundred Small Steps - Report of the Committee on Financial Sector Reforms, 2009)" Financial Inclusion, broadly defined, refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products, but also other financial services such as insurance and equity products.

Khankhoje& Sathye (2008) (A Study on Current Status of Regional Rural Banks in India, 2012) To measure the variation in the performance in terms of productive efficiency of RRBs in India and to assess if the efficiency of these institutions has increased post- restructuring in 1993-94 on not.

NABARD (2002)(NABARD Report - Empowering RRB, 2002) found that viability of was essentially dependent upon the fund management strategy, margin between resource mobility and their deployment and on the control exercised on current and future cost with advances. The study further concluded that RRBs incurred losses due to the defects in their systems and as such, there was no need to rectify these and make them viable. The main suggestions of the study included improvement in infrastructure facilities and opening of branches by commercial bank in such area where regional rural banks were already open.

Jai (1996) (Performance Evaluation of Regional Rural Banks in India) analyzed the role of RRBs in Economic Development and revealed that RRBs played a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursement of loans to the rural borrowers as compared to the commercial banks. Support from the State Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient

OBJECTIVES

- To study the spread of financial inclusion in India through RRB's.
- To study if RRB's is an important player in Indian Financial System.

HYPOTHESIS

Ho: There is no spread of financial inclusion in India through RRB's

Ho: RRB is not an important player for spread of financial inclusion in India.

RESEARCH METHODOLOGY

The present study is diagnostic and exploratory in nature and makes use of secondary data. The financial performance of the RRBs in India has been analyzed with the help of key performance indicators. The year 2010-2011 is taken as the base year and the calculations of growth are made on that basis. Growth rate is measured with the help of following formula

Growth Rate = [(CY Value - BY Value / BY Value) *100] / No. of years between CY and BY Where: CY = Current Year and BY = Base Year

DATA COLLECTION AND ANALYSIS

The study is mainly based on secondary data which is collected and accumulated mainly from annual reports of the NABARD and RBI. The data collected is analyzed and spread of RRBs is studied using growth trend in the Number of branches increased every year. Also the loan taken and accounts handled growth trend show that the RRBs are improving financial inclusion. Therefore

- To prove first Hypothesis: Analyze spread of RRBs in India from 2010 - 2014
- To prove second Hypothesis: Analyze the number of accounts and loan taken from RRBs from 2010 - 2014

RESEARCH FINDINGS

Table 3

Year	Deposit Account		Total Loan A/C's	Loan Account Under Priority					Grand Total Of Business A/C's
	Total (In Nos.)	No Frills		GCC	SHG	KCC	Tenant	SSI	
2009	935	153	170	3.22	8.04	114	0.95	33	1105
2010	1002	200	186	4.12	8.87	83	0.83	24	1188
2011	1112	255	197	4.59	9.34	90	1.09	20	1309
2012	1180	251	203	5.16	8.27	96	1.88	23	1383
2013	1348	319	217	6.01	9.59	104	1.97	21	1565

Source: Financialservices. Gov. In/.../Consolidated%20Review%20RRB%20201

The above table shows that the number of loans accounts under RRB's in India have increased from 170 to 217. There is more growth in GCC and no frills account. It also shows that financial inclusion is improving. Hence on this basis, null hypothesis 2 is rejected and accepts that there is a positive inclusion spread due to RRB's.

Table 4: Trends in Banking Parameters in India

Items	2007	2008	2009	2010	2011	2012	2013	2014
No. of Commercial Banks	183	173	170	168	167	173	174	178
Scheduled Commercial Banks	179	169	166	164	163	169	169	170
RRB	96	90	86	83	82	82	78	57
Non Scheduled	4	4	4	4	4	4	4	4

Source: [Www.Rbi.Org](http://www.Rbi.Org)

Also the total business has increased by 60%. The number of banks under RRBs has decreased due to amalgamation as compared to other banks. The growth of RRBs is calculated in the table above. The above mentioned RRB share earned a profit of 2283 crore. Till August 2014. The aggregate reserves are 21299 till Aug 2014 (Report by RBI). This data helps us to reject the null Hypothesis 1 and accept that there is a positive growth of RRBs in India.

FUTURE CHALLENGES FOR RRB

Even after positive findings that RRB's are successful in achieving the objectives of financial inclusion to a great extent. Still RRB's have to overcome the following challenges to the path of financial inclusion:

- All backward sections and informal sectors should be included up to a large extent.
- Rural people are not much aware of financial inclusion because of illiteracy and the access to financial services should be increased.

People consider that financial services are costly and access is difficult because of the several reasons and this thought needs to be addressed.

CONCLUSIONS

RRBs serve the backward section of the society, the rural poor and people belonging to the lower income group. These banks play a significant role in ensuring sustainable development through financial inclusion. The objective of this research paper has been proved and it can be concluded that spread of financial inclusions in India through RRB's is more than significant. RRB's is an important player in financial system because of penetration and the increasing amount of loans and customers.

Thus at the of the research paper concludes the RRB's have been able to achieve their objective to a great extent by providing banking and financial services to the rural people of India.

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