

PERFORMANCE OF REGIONAL RURAL BANKS IN BIHAR WITH SPECIAL REFERENCE TO UTTAR BIHAR GRAMEEN BANK

***SANJAY KUMAR CHAUDHARY**

**Research Scholar, (Department of Commerce), L.N Mithila University, Darbhanga*

INTRODUCTION

Regional rural banks form an integral part of the Indian banking system. Although the first recommendation for the establishment of regional rural banks was made by Banking Commission in 1972, a working group was formed under the headship of Mr. M. Narshimam Rao. Further, in 1975, a new category of scheduled banks came into existence when 6 regional rural banks (RRBs) were established under the Regional Rural Banks Ordinance, 1975. This ordinance was promulgated by the Government of India on 26th September, 1975. The ordinance was subsequently replaced by the Regional Rural Banks Act, 1976.

Although cooperative and commercial banks achieved a high reach and disbursement of credit, there existed a vast gap in the area of rural credit. In order to fill up this gap, a new set up of banks, namely, RRBs was established. RRBs were set up as institutions which combine the local feel and familiarity with rural problems, which the cooperatives possess and the degree of business organisation, ability to mobilise major objective of setting up RRBs was to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry, and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs.

The authorised capital of each RRB is Rs. one crore and the issued capital is Rs. 25 lakh. Of the issued capital, 50 per cent is authorised by the Government of India, 15 per cent by the concerned state government and the balance, namely, 35 per cent by the sponsor bank. Each RRB is sponsored by a public sector bank, which provides assistance in the form of subscription to its share capital, managerial and financial assistance, and help in the recruitment and training of personnel.

Every RRB is authorised to carry on and transact the business of banking as defined in Section (5b) and Section 6(1) of the Banking Regulation Act. The RBI can grant assistance to RRBs by way of loans and advances from the National Agricultural Credit (Stabilisation) Fund under Section 46A and 46B. RRBs are required to maintain a cash reserve ratio of three per cent. They are not liable to pay income tax as they are deemed to be cooperative societies.

The number of RRBs rose from six in 1975 to 196 in 2001. These 196 RRBs operate in 500 districts with a network of 14,313 branches excluding satellite branches and extension countries. The branch network comprises six metropolitan, 348 urban, 1,875 semi-urban and 12,084 rural branches. RRBs branch network forms nearly 37 per cent of the total rural branch network of all scheduled commercial banks.

The massive expansion of their branch network enabled them to expand banking activities in the unbanked areas and mobilise rural savings. Although RRBs are spread over all the states, they have a major presence in seven States viz; Andhra Pradesh, Uttar Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharashtra, and Rajasthan, which have the highest number of RRBs.

By the year end March 2005, there was a remarkable improvement in the financial performance of RRBs as compared to the position prevailing in 2000-01. The numbers of RRBs reporting profit 166 out of 196 in 2004-05 as against 170 out of 196 in 2000-01. It is only in the past few years that the unwanted effects of reform measures on rural banking have begun to be recognized in certain official quarters. That the improved performance of the RRBs – 163 out of 196 RRBs were earning profits in 2003-04 was largely a result of the banks abrogating their credit intermediation role rather than a sign of their genuine health and vibrancy is pitifully obvious.

REGIONAL RURAL BANKS IN BIHAR

Regional rural banks play a vital role in the agricultural and rural development of India. It is because they are the major source of financing in rural India. With equity holdings by the Central Government, the concerned State Government and the sponsoring bank in the proportion of 50:15:35 the RRBs provide a multi-agency approach for agriculture and rural credit in India.

There are 3 regional rural banks in Bihar, each serving a particular zone: Madhya Bihar Kshetriya Gramin Bank sponsored by the Punjab National Bank, Uttar Bihar Kshetriya Gramin sponsored by the Central Bank of India and Bihar Kshetriya Gramin Bank sponsored by the UCO Bank. Bihar Keshtruya Gramin Bank has the

highest CD ratio of 63.44 per cent in September 2013, while Madhya Bihar Keshtriya Gramin Bank has the lowest CD ratio of 42.63 per cent. Their relative positions have remained the same since the last year, except for Bihar KGB after the merger of Samastipur KGB with it during the year. The overall CD ratio of RRBs in the state in September 2013 was 51.58 per cent, an improvement over 48.51 per cent recorded in March 2013 and 46.37 per cent in March 2012.

Table 1: Deposit and Credit of Regional Rural Banks

State	2011-12		2012-13		Percentage Increase	
	Total Deposits	Total Credit	Total Deposits	Total Credit	Total Deposits	Total Credit
Andhra Pradesh	15258	16756	17403	20555	14.1	22.7
Bihar	15076	7044	16024	7867	6.3	11.7
Gujarat	5427	2506	6122	3195	12.8	27.7
Haryana	7027	4873	8485	5546	20.7	13.8
Himachal Pradesh	1914	819	2073	898	8.3	9.6
Jharkhand	3702	1295	3961	1471	7.0	13.6
Karnataka	15009	13053	17728	15143	18.01	16.0
Kerala	5508	6127	6821	7560	23.8	23.4
Madhya Pradesh	11172	5931	12686	7110	13.6	19.9
Maharashtra	5569	3312	6208	4275	11.5	29.1
Odisha	9703	5643	10073	6149	3.8	9.0
Punjab	3501	2620	3878	3094	10.8	18.1
Rajasthan	11375	8230	12415	9270	9.1	12.6
Tamil Nadu	3372	4343	3941	5262	16.9	21.2
Uttar Pradesh	39277	20364	44349	23261	13.1	14.2
Uttarakhand	1837	1011	2163	1245	17.7	23.1
West Bengal	10865	5248	12178	5978	12.1	13.9
India	183009	116567	206461	136690	12.8	17.3

Source: Statistical Tables Relating to Banks in India, 2012-13, RBI

The deposits of RRBs equalled for 31.9 per cent of the total rural deposits of all scheduled commercial banks in India as of March 2012, compared to 33.2 per cent a year ago; for Bihar this ratio stood at 43.3 per cent (2012), compared to 45.7 per cent (2011).¹⁰ The rural deposits of the scheduled commercial banks constituted only 24.7 per cent of the total bank deposits in Bihar in 2011-12, compared to 21.0 per cent in 2010-11. Bihar accounted for about 6.1 per cent of all rural deposits of the scheduled commercial banks in the country in both these years and the total amount of rural deposits of such banks in Bihar amounted to Rs. 34,840 crore. The volume of rural deposits with scheduled commercial banks in Bihar in March 2012 was much more than in many

states, including Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu, but way behind those of Uttar Pradesh and West Bengal. The deposits in the savings bank constituted bulk (65.9 per cent) of the total rural deposits of scheduled commercial banks in Bihar (March 2012).

Table- 1 shows the micro financing done by the Regional Rural Banks in Bihar in 2012-13. During that year, the three Regional Rural Banks have together financed 11,880 SHGs for a total amount of Rs. 91.49 crore, which amounts to 41.21 per cent of the total credit of Rs. 222 crore to SHGs in Bihar. Of the total number of 11,880 SHGs, as many as 10,330 were exclusively women SHGs, involving a savings amount of Rs. 83.37 crore (91.1 per cent).

Table 2: Microfinancing by RRBs during 2012-2013

RRBs	SHGs with Bank-linkage		Women SHGs	
	Number	Savings Amount (Rs. crore)	Number	Savings Amount (Rs. crore)
Bihar KGB	1710	19.14	1674	18.69
Madhya Bihar KGB	4325	34.95	2811	27.28
Uttar Bihar KGB	5845	37.40	5845	37.40
Total	11880	91.49	10330	83.37

Source: State Level Bankers' Committee, Bihar

The performance of Banks under the Annual Credit Plan 2014-15 up to March'2015, is as under:-

**Table 3: Review of Performance under ACP
(During the Financial Year 2014-15)**

Banks	Target	Achievement	% Ach.
Comm. Banks	57166	52250	91.40
Co-op. Banks	1003	362	36.07
RRBs	15831	16185	102.24
Total	74000	68797	92.97

Source: State Level Bankers' Committee, Bihar

**Table 4: Comparative Performance under ACP
(As on Mar' 2014 vis-à-vis Mar' 2015)**

Banks	2014-15			2013-14			YOY increase in disb. (%)
	Target	Ach.	% Ach	Target	Ach.	% Ach	
Comm	57166	52250	91.40	47938	43573	90.90	20%
Co-op	1003	362	36.07	802	310	38.64	17%
RRBs	15831	16185	102.24	13260	13124	98.98	23%
Total	74000	68797	92.97	62000	57007	91.95	21%

Source: State Level Bankers' Committee, Bihar

Comparative performance under ACP as on March 2014 vis-à-vis March 2015 can be seen in Table 1.4. The data reveals that achievement percentage of RRBs is highest among all banks.

Statement of the Research Problem

Bihar is the state with a population of 103.8 million in 2011 where 53.5 per cent of its population live below poverty line. A major portion of its population lives in the villages where the poverty ratio is higher at 55.3 per cent. Bihar had to overcome these challenges to move ahead in a new growth path.

With the bifurcation of the state the vast mineral sector went to Jharkhand. So the present Bihar is left with only agriculture to depend upon (Economic Survey of Bihar 2012-13). In these circumstances the role of RRBs in providing rural credit to agriculture and rural household has a great importance.

Generally in rural areas of Bihar, the inefficiency of rural credit institutions was attributed to the directed and pre-approved nature of loans sanctioned under sponsored programmes, absence of any security, lack of effective follow up due to large number of account, larger recovery measures being considered not cost effective, riddance of repayment culture consequent to loan waiver schemes etc. The key for efficient credit delivery system in rural areas of Bihar lies in reducing operation and overhead costs to speed up working of rural banking institutions.

In exercise of the powers conferred by sub section (1) of section 23 a of the Regional Rural Banks Act, 1976 (21 of 1976), the Central Government has amalgamated Uttar Bihar Kshetriya Gramin Bank and Kosi Kshetriya Gramin Bank (transferor regional rural bank) sponsored by Central Bank of India in the state of Bihar into a single regional rural bank which shall be called as Uttar Bihar Gramin Bank (transferee regional rural bank)

with its head office at Muzaffarpur. Now area of operation of Uttar Bihar Gramin Bank is in the districts of Araria, Katihar, Kishanganj, Darbhange, East Champaran, Gopalganj, Madhepura, Madhubani, Muzaffarpur, Purnea, Saharsa, Saran, Sheohar, Sitamarhi, Siwan, Supaul, West Champaran and Vaishali in the state Bihar. Uttar Bihar Gramin Bank sponsored by Central Bank of India, is one of the largest regional rural bank in India in terms of branch network, staff strength and area.

In this research work, micro-level study has been conducted on rural banking services of Uttar Bihar Gramin Bank. Uttar Bihar Gramin Bank is the largest regional rural bank in India and covers two-third geographical areas of Bihar comprising 18 districts of Bihar with 858 branches and 11 satellite branches and 4 extension counters. The Study also tries to study whether by marketing of banking services of Uttar Bihar Gramin Bank specially for agriculture and rural credit services in the branches of UBGB Gramin Bank is able to enhance its working performance and make them competitive in the banking arena of Bihar. Further, recent trends in the credit policy and debt recovery performance of the Bank has been analysed for the attainment of the objectives of the study.

OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

- To analyse the nature and extent of functioning of Regional Rural Banks in Bihar in general and Darbhanga District in particular.
- To analyse the strategies of rural financial services of Uttar Bihar Gramin Bank in Darbhanga District.
- To draw conclusion based on the analysis made in the study and to highlight the major implications for Regional Rural Banks and rural finance particularly in Darbhanga District.

IMPORTANCE OF THE STUDY

Indian policy makers have had a long-standing concern for enhancing the access to institutional credit by the rural people, particularly the rural poor. The first impetus for state intervention in rural financial markets was provided by the findings of the All India Rural Credit Survey (Gorwala Committee). The Government has taken a series of initiatives aimed at improving flow of credit to rural areas. These have included nationalization of commercial banks, establishment of a machinery for subsidized finance for targeted lending, expansion of the three-tier agricultural credit cooperative system, establishment of new channel (regional rural banks), a focus on

branch expansion, and involvement of financial institutions in planning and implementation of priority sector lending and poverty alleviation programmes.

Today, rural bank branches account for 56 per cent of the branch network of commercial banks, each rural branch serving an average of 3.200 households. The co-operative structure with over 100000 primary agricultural cooperatives provides more intensive penetration. Rural deposits accounts for 15 per cent of the total deposits. Commercial bank outstanding credit to rural areas is approximately Rs. 230 billion or around 14 per cent of the total credit. The overall Credit-Deposit ratio for rural areas is 77.0 per cent as against the national C-D ratio of 57.7 per cent. Thus, we may opine that the rural financial institutions (RFIs) comprising Nationalized Commercial Banks (NCBs), Regional Rural Banks (RRBs) and Co-operative Banks together have made great efforts to provide both credit and deposit services to rural India.

The RRBs, over the years have made impressive strides on various business indicators. Between the year 2000 and 2004, loans disbursed by RRBs more than doubled reflecting the efforts taken by the banks to improve credit flow to the rural sector. The average per branch advances also increased from Rs. 25 lakh in March 1990 to Rs. 154 lakh in March 2003. When one considers the deployment of credit relative to the mobilisation of resources, i.e. Credit-Deposit ratio of RRBs were more than 100 per cent during the first decade of their operations up to 1987. Though the CD ratio subsequently became lower, of late, it has shown an improvement and went up from around 39 per cent in March 2000 to 44.5 per cent in March 2004. At the end of March, 2015, CD Ratio of RRBs in Bihar was 54.92 with deposits and advances of Rs. 21560 and 11841 crores respectively. Regional Rural Banks attend to credit needs of rural sector. These banks have a unique achievement that they have reached to remote rural pockets where commercial and co-operative banks could not stretch their hands. The present study will be beneficial for different stakeholders.

HYPOTHESES

The study is based on the following Hypotheses:

- There is significant relationship between the Regional Rural Banks and rural development of Bihar.
- Regional Rural Banks may be helpful for accelerating economic development of rural poor people of Darbhanga District.
- Regional Rural Banks may be helpful in generating income and employment for rural people of Darbhanga District.

RESEARCH METHODOLOGY

Nature of Study

The present study is analytical in nature. Recent trends in the credit policy and debt recovery performance of Uttar Bihar Gramin Bank with special reference to Darbhanga District have been analysed.

Data Collection

The study has been undertaken with the help of both the sources of data – primary and secondary data. The primary data has been collected with the help of interviews with officials/managers of the bank. These personnel were asked questions on the credit policy and debt recovery of Uttar Bihar Gramin Bank.

Secondary data has been collected with the help of different:

- Books,
- Journals and Magazines,
- RBI Publications,
- Economic Surveys,
- Newspapers and Economic Dailies,
- Reports,
- Websites etc.

Study Area

Uttar Bihar Gramin Bank has the network of 1020 branches (883 rural and 137 Semi Urban and Urban branches) and 3430 Business Correspondent outlets (Sunahara Sapna Kendras). The Coverage area of the present study is limited to branches of the UBGB scattered in Darbhanga District.

Study Period

The study is undertaken to analyse the performance of Uttar Bihar Gramin Bank during the period of 2005-2012. However, as per suitability and availability, we have presented up dated data too.

DATA ANALYSIS AND INTERPRETATION

With the help of data collected from primary and secondary sources, an analysis is being made related to the credit policy and debt recovery performance of Uttar Bihar Gramin Bank. As per need and suitability of the study, we have taken help of simple mathematical/statistical tools and techniques like

- Ratio,
- Proportion,
- Percentage,
- Trend Analysis
- Sampling Theory etc.

For better comprehension, pictorial diagrams have also been used while making analysis and interpretation of results regarding working and performance of Regional Rural Banks in Bihar in general and Uttar Bihar Gramin Bank in particular.

REFERENCES:

1. Charan, Chanchal (2013), *Regional Rural Banks and Rural Financing – Miles to Go*, Kurukshetra, Vol. 62, No. 2, December, p. 35
2. Pathek, Bharti V. (2009), *The Indian Financial System: Markets, Institutions and Services*, Dorling Kindersley India Pvt. Ltd., New Delhi, p. 483
3. Ibid, p. 484
4. Steeven Raj, P.A. (2009), *Merger and Amalgamation of RRBs*, p. 126
5. Agrawal, Meenu (2009), *Regional Rural Banks and Inclusive Growth*, New Century Publications, New Delhi, p. 170
6. Vyas Committee, *Expert Committee on Rural Credit*, 2004
7. Charan, Chanchal (2013), *op. cit.*, p. 36
8. *Economic Survey 2013-14*, Finance Department Government of Bihar, Patna, February, p. 300
9. *Statistical Tables Relating to Banks in India, 2012-13*, Reserve Bank of India, Mumbai
10. *Economic Survey 2013-14*, Finance Department, Government of Bihar, Patna, February, p. 286
11. Ibid, p. 317
12. *State Level Bankers Committee, Bihar*

13. *State Level Bankers' Committee, Bihar 52nd Review Meeting for the Quarter Ended 31st March, 2015 held at Patna on 20th May*
14. *Ibid*
15. *Dantawala Committeed, Report of Committee on Regional Rural Banks, 1978*
16. *Khusro Committee, Report of the Agricultural Credit Review Committee, 1989*
17. *Narasimham Committee, Report on the Financial System of RRBs Nabhi Publications, New Delhi, 1991*
18. *Vyas Committee, Expert Committee on Rural Credit, 2004*
19. *Soni, Anil Kumar and Kapre, Abhay (2013), Performance Evaluation of Regional Rural Banks in India, Abhinav, vol. 1, No. 11, November, p. 27*
20. *Bhatia, Aparna (2013), Performance Evaluation Regional Rural Banks in India During Pre and Post Amalgamation Period, Abhigyan, January, p. 36*
21. *State Level Bankers' Committee, Bihar 52nd Review Meeting for the Quarter Ended 31st March, 2015 held at Patna on 20th May*