



Role of RRBs in Gujarat in Financial Inclusion

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Abstract: *Regional Rural Banks (RRBs) in India were established to spread the banking amongst rural poor based on the recommendation of various expert committees. RRBs have special role to play in spread of banking in rural and semi urban areas to include the rural mass in banking network and thereby help them the rural poor, small and marginal farmers, artisans, agricultural labors, and even small entrepreneurs. There are three RRBs working in Gujarat namely Baroda Gujarat Gramin Bank, Dena Gujarat Gramin Bank and Saurashtra Gramin Bank, covering different parts of the state. The present study makes an attempt to analyze performance of these three RRBs in role of financial inclusion. The financial inclusion is measured in terms of (1) Branch expansion in rural and semi urban areas and (2) Spread of credit, taking published data of last 8 years from 2005-06 to 2012-13. The study find that the branch expansion of RRBs in Gujarat, as a financial inclusion is not fulfill much more in rural areas while credit management is good in SGB rather than BGGB and DGGB. The analysis of performance is made with the help of trend analysis and ANOVA.*

Keywords: *Regional Rural Bank, financial inclusion, rural credit.*

I. INTRODUCTION

India's majority of population lives in villages. Therefore it is rightly said that success of rural development models is very important for the development of nation's economy. Financial inclusion and micro finance are emerging as important in India for raising the living standards of poor in post LPG era. In pre LPG era several initiatives like nationalization of banks, priority sector lending, opening of branch network in rural areas, establishment of Regional Rural Banks and many others have been taken to develop the Indian rural economy by providing institutional credit to the rural poor.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. However, in India in order to focus institutional credit to the rural poor the Regional rural banks (RRB) were established for the first time in India way back in in the year 1975. The RRBs are meant for the development of rural economy by pooling credit gap especially to the rural poor by providing credit. The main objectives of establishment of RRBs is given in the RRBs Act of 1976 were "to develop the rural economy in 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 and for matter connected therewith and incidental thereto".

The RRBs were established as a part of expanding institutional credit to rural poor. The banking policy of the Government has directed bearing on the growth or otherwise of RRBs. However, they faced severe financial viability problems. Based on various recommendation, recently, the RRBs are restructured by merging various RRBs in the year 2005 in order to make them financial viable. In 2005-06, the Government of India initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity, marketing efforts etc., and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking activities. As a result of the amalgamation, the number of RRBs in India was reduced from 196 to 64 as on 31st March, 2013 and in Gujarat it was reduced from 9 to 3.

Gujarat is one of the industrially advanced states. For the sustainable progress of the state the development of rural economy is equally important. In this context this study intends to assess the performance of RRBs in Gujarat in post merger period. Evaluation of financial performance is important to ensure the viability of banks. However RRBs have been assigned the special role of development of rural economy by facilitating to the rural poor, the credit facilities for agriculture, trading, self-employment and so on of each region. This study makes an attempt to evaluation the regional rural banks in Gujarat.

II. REVIEW OF LITERATURE

The studies on RRBs since its inception are of two types, the first related to policy issues and secondly the micro level study of performance of RRBs. The micro level studies covered wide range of issues like impact of RRBs on rural development (Tiwari 1975, Ramchandran 1992, Gupta 1992), personnel problems (Narayappa 1991), case study of RRBs for the state of Tamilnadu,



Karnataka (1986), Gujarat (1987), Bihar, Rajasthan and case studies of RRB for particular district. Other related studies include Hundekar S.G, Shekhar Himanshu (1997), Wadhva Charan (1980), A.Panda and P. Shymla(1997), Pal and Sura (2006), Chidambaram (2007), Dr. M. Syed Ibrahim (2010).

III. RESEARCH PROBLEMS

The present study makes an attempt to analyze performance of these three RRBs in role of financial inclusion. The financial inclusion is measured in terms of (1) Branch expansion in rural and semi urban areas and (2) Spread of credit, taking published data of last 8 years from 2005-06 to 2012-13.

IV. FRAMEWORK OF THE STUDY: FINANCIAL INCLUSION

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy.

The term "financial inclusion" has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty. The United Nations defines the goals of financial inclusion as follows:

- ✓ access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
 - ✓ sound and safe institutions governed by clear regulation and industry performance standards;
 - ✓ financial and institutional sustainability, to ensure continuity and certainty of investment; and
 - ✓ Competition to ensure choice and affordability for clients.
- (WIKIPEDIA)
- ✓ The policy makers have been focusing on financial inclusion of Indian rural and semi-rural areas primarily for three most important pressing needs:
 1. Creating a platform for in context of financial inculcating the habit to save money
 2. Providing formal credit avenues –
 3. Plug gaps and leaks in public subsidies and welfare programmes

Accordingly the study takes the following ratios to gauge the performance of RRBs in context of financial inclusion.

4.1 Branch expansion policy

4.1.1 Market share index of branch expansion.

The market share of the particular RRB in relation to other RRBs in the state is measured by the ratio of total branches of the particular bank to the total branches of all RRBs in the state.

4.1.2 Ratio of rural and semi-urban branches to total branches of the Bank.

The RRBs are meant for only rural areas, and to know whether the particular bank is rural biased or urban-biased, the ratio of rural and semi urban branches to total branches of particular bank is analyzed.

4.1.3 Ratio of single branches in rural centers to total branches of the Bank.

The effectiveness of branch expansion policy of the bank may also evaluate on the basis of its performance in opening branches at the banked places or unbaked places. This can be judged by the ratio of single branches in rural centers to total branches of the bank.

4.2 Credit management

4.2.1 Market share index

The effective role of a rural bank in the sphere of credit management can be evaluated in terms of market segment covered for meeting the credit requirements of rural masses. The market share of the bank in relation to all the RRBs in the state is measured by the ratio of total credit business of the bank to the total credit of all RRBs in the state.

4.2.2 Credit deposit ratio

The ratio is obtained by dividing the total credit provided by the deposits mobilized. It indicates the extent to which the particular bank has been benefited in the form of credit expansion out of deposits generated from that bank.

4.2.3 Recovery performance ratio

Recycling of funds at regular intervals is of vital importance to RRBs especially while considering their resource position and the influence on the cost of funds and profitability. Recovery is an indirect indicator of not only the likely bad-debts but also of the management efficiency in terms of credit evaluation, specialized skills and follow-up.

V. METHODOLOGY/RESEARCH DESIGN

The present study is based on secondary data. The relevant secondary data have been collected mainly through the annual reports of all three RRBs in Gujarat. The study is confined only to the specific areas like branch expansion, and credit management of RRBs in Gujarat for the eight year period starting from 2005-06 to the year 2012-13. In order to analyze the data and draw conclusions in this study, various statistical tools like trend analysis have been accomplished through EXCEL and SPSS Software.

VI. FINDINGS OF THE STUDY

6.1 Summary Table

Sr. No.	Factor	Desired outcome	BGGB		DGGB		SGB	
Branch Expansion								
			R2	Trend	R2	Trend	R2	Trend
1	MSI	Upward	0.949*	Downward	0.220	No trend	0.855*	Upward
2	RBB	Upward	0.121	No trend	0.895*	2nd degree ploy.	0.758*	Downward
3	RSB	Upward	0.942*	Downward	0.963*	2nd degree poly.	0.967*	Downward
Credit Management								
1	MCR	Upward	0.680*	Downward	0.000	No trend	0.287	No trend
2	CDR	Upward	0.674*	Downward	0.229	No trend	0.000	No trend
3	RPR	Upward	0.810*	Downward	0.145	No trend	0.059	No trend

*significant at 0.05 level

HYPOTHESIS TESTING

Ho: There is no significant change in branch expansion.

H1: There is significant change in branch expansion.

Result:

As per the summary table shows that out of three ratios, for two ratios there is trend in BGGB, and therefore hypothesis is partially fail to reject.

Two ratios shows trend out of three ratios of DGGB, therefore the hypothesis is partially fail to reject.

There is significant trend in branch expansion of SGB, therefore the hypothesis is failed to reject.

HYPOTHESIS TESTING

Ho: There is no significant change in credit management.

H1: There is significant change in credit management.

Result:

As per the summary table all the three ratios shows that there is down ward trend in credit management of BGGB and therefore hypothesis is fail to reject.

There is no significant trend in all the three ratios of credit management of DGGB therefore the hypothesis is rejected.

There is no significant trend in all the three ratios of credit management of SGB therefore the hypothesis is rejected.

6.2 Analysis:

6.2.1 Branch Expansion:

Baroda Surat Gramin Bank and Saurashtra gram in Bank shows down ward trend in market share index at state level while Dena Gujarat Gramin Bank shows no trend.

The ratio of rural branch and semi urban branch to total branch (RBB) of Baroda Gujarat Gramin Bank shows no trend and Dena Gujarat Gramin Bank has no linear trend. From testing the significance of this assumption we found that in RBB the R2 value is 0.456 and p-value is 0.161 which is not significant. So, there may be quadratic trend. By assuming there is a quadratic trend and from 2nd degree polynomial equation, we found that the R2 value is 0.895 and p-value is 0.003, from which we can conclude that the model is significant, while Saurashtra Gramin Bank shows down ward trend.



The ratio of single branch in rural centre of the Baroda Gujarat Gramin Bank and Saurashtra Gramin Bank shows down ward trend while Dena Gujarat Gramin Bank 2nd degree polynomial trend. So the BGGB and SGB do not fulfill the main purpose of to open single branch in rural centre.

Banks (BGGB and SGB) have shown downward trend in opening branches in semi-urban and urban areas and Single branch in non banked area.

This indicates that they are more urban biased rather than rural biased.

The very purpose of RRBs is to spread the banking in rural areas where the commercial banks are having limitations.

6.2.2 Credit Management:

Market share index (MSI) of the Baroda Gujarat Gramin Bank shows down ward trend while Dena Gujarat Gramin Bank and Saurashtra Gramin have no trend. It means the BGGB does not increase their credit in relation to total credit of RRBs in the state.

Credit deposit Ratio (CDR) shows downward trend in BGGB while there is no trend in DGGB and SGB. All the three banks do not efficiently use their deposits for credit.

Recovery performance ratio (RPR) of the BGGB shows down ward trend while DGGB and SGB show no trend. Recovery performance is very important for the good health of the bank.

RRBs are expected to increase the market share, increase C/ D ratio and RPR for viability of Banks. However as the result show DGGB and SGB fail to show any pattern whereas BGGB shows downward trend. This indicates RRBs have not increased the spread of credit which is indicator of financial inclusion.

VII. CONCLUSIONS

On the basis of above analysis following conclusions has been drawn:

- ❖ There is an improvement in the market share index in SGB, while it is shows decline in BGGB and there is no trend in DGGB in Gujarat, in post merger period.
- ❖ In the post merger period ratio of rural and semi urban branches shows no difference in all three banks in Gujarat. The DGGB and SGB shows declining trend while BGGB has no trend.
- ❖ Over all the ratio of single branch in rural centre shows declining trend in all banks. This is because of so many banks open there branches in rural areas.
- ❖ There is no more improvement in market share of bank in credit management really all the three RRBs play very important role to cover maximum rural areas for credit expansion.
- ❖ Effective credit management in relation to deposit shows in SGB while in BGGB and DGGB shows declining trend.
- ❖ Recovery performance of one bank shows downward and two banks has no trend. But all the three banks ratios show more than 80% recovery that is good sign for bank. SGB and DGGB recovery performance shows beyond national level while BGGB reached at national level of 80%.

In fact, Regional Rural Banks in Gujarat have a wide scope to serve as an active financial inclusion players in the coming years.

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