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## A Study of Financial Management in Regional Rural Banks in Rajasthan

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**Abstract** A strong financial system is necessary for healthy and vibrant economy. It will result in achieving faster rate of economic growth. A banking sector constitute predominant element in financial services and performance of economy of any country. Therefore banking system occupies an important place in country's economy. In a developing countries like India, where the propensity to consume is high and saving of people are low, banks play important role. Banks contributing attracting more deposits from the people and deploying these saving for various sectors in the economy. In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent, Agriculture has started occupies a top position in Indian policy-making not only because of its contribution to GDP but also because of the large percentage of the population that is still dependent on the sector for its livelihood. The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. However, the banking sector has witnessed a huge growth in the recent years. Despite such a growth, the credit flow by banks to the rural and agricultural sectors remains dismal, which, more or less, has resulted in financial exclusion of the rural masses. Regional rural banks have to play up major role to finance and provide landings to agriculture sector at diminishing rate of interest in order to grow the economy and GDP. It requires better financial management of the RRBs.

**Keywords** financial system, economy, Regional rural banks

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### Introduction

India's 65.53% of the population lives in rural areas and about 18% of the country's national income was derived from agriculture. In a developing country like India, where wealth and poverty exist side by side, a small minority enjoys excessive riches while the vast majority has only the necessities of life and sometimes not even that. Since March 14, 1950 the planning commission has given to the nation 12 Five Years Plans and six Annual Plans. The sole aim of all these plans was not only to allocate resources but also to develop the seed of change for economic growth and simultaneously equitable distribution income as well as to achieve progress and prosperity in all spheres of life.

Removal of poverty, hunger, ill health are still the relevant issues for planning commission in India. Rural development is at the top of the agenda in national policies of developing countries. Rural Development as a concept has been variously defined and interpreted. In the past Rural Development was often considered synonymous with agricultural development. In India, during the 60's, agriculture became the central for developmental activities but extensive concern with agricultural development created differences and inequalities to the basic objectives of Rural Development.

However in recent years Rural Development has transcended the area of agricultural development and is looked upon in national development plans in a broader perspective. In fact Rural Development is wider in scope and deeper in impact. It is essentially concerned with improvement of living standard of the low income population in rural areas .Further it implies a broad based reorganization mobilization of rural masses so as to enhance their



capacity to cope effectively with the daily task of their lives and with changes consequent upon this. Hence, success of rural development model is important for the development of the India's economy. For any development money supply or credit play special role. In history of banking industry there have been major problems likes supply has been inadequate , rural credit markets very imperfect and fragmented, distribution of credit has been unequal , particularly with respect to region and class ,cast and gender in the rural area, loan at very high rates of interest. Moreover the terms and condition attached with these loans have given rise to credit issue. Rural development is synonymous to agriculture development ,satisfaction of basic needs of the rural population, achieving higher living standards in the rural area. Rural banking is important for rural development as rural banking provides loans to farmers for agriculture activity and for other purposes. 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 people. In rural areas for better banking facilities, solve the issue of credit and for rural development the Regional rural banks (RRB) were established for the first time in India 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. These are structured as commercial banks and have the primary objective of providing credit and promoting growth in the rural economy.

RRBs are scheduled commercial banks operating at regional level in different states of India. RRBs perform various function: Providing banking facilities to rural and semi urban areas, carrying out government operations like disbursement of wages of MGNREGA workers, pensions etc, providing para banking facilities like locker facilities, debit and credit cards.

### **Regional Rural Bank**

One of the primary objectives of the Government has been to strengthen its rural economy and to increase standards of living of the weaker sections. For the fulfilment of this objective, apart from other agencies, banking institution are expected to play a dynamic role.

The rural people have been depending upon the non-institutional credit sources which have been exploiting them in several ways. In the absence of adequate and timely credit facilities from the institutions, private agencies dominate naturally rural credit scene. The nationalization of major Commercial Banks extended benefits mostly to the richer sections of the rural areas.

The proposal for setting up some sort of 'rural bank' was first proposed by the Banking Commission in its report in 1972. The terms of reference of this commission included the review of the working of commercial and co-operative banks particularly in the context of its recommendations for extending the geographical and functional coverage of the commercial banking system.

After examining the record of the expansion of the commercial and co-operative banks activities in their rural areas and their limitations, the banking commission expressed serious doubts on the capabilities of commercial banks for giving adequate coverage to the rural seats in the future. This gap rise the new rural bank . The banking commission presented further details of its proposal for establishing a chain of such 'rural banks' such as the capital structure, dividend policy for shareholders, interest policy, deposit insurance, linkages with other government bodies; link the food corporation of India, in terms of its procurement functions in rural areas, terms of borrowing, minimum requirements of liquidity to be prescribed, etc.

The banking commission's concept of rural bank was designed to meet the full credit needs of all minimum and small cultivators. This kind of bank may not be in a position to meet the needs of certain cultivators and other rural producers for different types of technical help and for a much larger volume of loans as these may be beyond its capacity to provide. The commission recommended that such procedures should have access to a branch of commercial banks.

No action was taken by the government of India on the banking commission's proposal for establishing a chain of rural banks. It was not until after the middle of June 1975 that policy makers in the Government of India felt any need for setting up same kind of new institution of rural banks for providing rural credit.

The Government of India conceived the idea of setting up rural banks as part of the new economic programme. In order to further rationalize and operationalize this idea, the Government of India appointed a working group



on rural bank under the chairmanship of M. Narsimham to examine in depth the setting up of new rural bank as subsidiaries of public sector banks to cater to the credit needs of the rural people.

The regional rural banks were first set up by the Government of India in October 1975. They were largely based on the scheme recommended by the working group on rural banks.

The Narsimham committee conceptualized the creation of Regional Rural Banks in 1975, as institutions which “combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have.

**Table 1:** Table showing List of number of RRBs and Branches From 2010 to 2020

<b>Branch Network of RRBs InIndia</b>			
<b>Years</b>	<b>No. Of RRBS</b>	<b>No. Of Branches</b>	<b>No. Of District Covered</b>
<b>2010-11</b>	82	15480	618
<b>2011-12</b>	82	16001	620
<b>2012-13</b>	82	16909	635
<b>2013-14</b>	64	17856	635
<b>2014-15</b>	57	19082	641
<b>2015-16</b>	56	20024	644
<b>2016-17</b>	56	20904	644
<b>2017-18</b>	56	21422	655
<b>2018-19</b>	56	21747	670
<b>2019-20</b>	53	21871	683

### **Financial Management in Banks**

Financial Management in banks is the procedure of management of the financial resources, including accounting, monetary reporting, budgeting, funding, receivable management, risk management, and insurance for a bank. It basically means dealing with management of money affairs. Financial management is concerned with the managerial decisions that result in the acquisition and financing of short term and long term credits for the bank. Here it deals with the conditions that require specific assets and specific problem of size and development of an organisation. The analysis deals with the expected inflows and outflows of funds and their effect on managerial objectives. In short, it deals with arrangement of funds and their effective utilization in the banks.

### **Objectives of Financial Statement Analysis in Bank:**

To determine bank's long term and short term solvency.

To analysis the financial position of a bank.

To assess bank's operating efficiency

To plan future strategy of a bank

To make a comparative study of a financial statement with other banks

### **Data Analysis and Interpretations**

Along with geographical expansion, functional diversification also took place in the RRBs. Data relating to the deposit mobilized by RRBs are presented in table 2. There has been continuous rise in deposits mobilized whether looked from the angle of average amount per RRB and per branch. Thus, the total deposits increased from Rs. 142980.48 crore to Rs.434444 crore in 2020, the average amount per RRB increased from Rs.1743.66 crore to 8197.05 crore and average deposits per branch from Rs.9.23 crore to Rs.19.86 crore. Thus, there is a continuous rising trend in deposits, deposit accounts, average deposits per RRBs and average deposits per branch.



**Table 2:** Deposit mobilization by Regional Rural Bank in India (Rs.in crore)

<b>Deposit Mobilization By Regional Rural Bank In India</b>			
<b>Years</b>	<b>Total Deposits</b>	<b>Average Per RRBs</b>	<b>Average Deposits Per Branch</b>
<b>2010-11</b>	142980	1743.66	9.23
<b>2011-12</b>	166232	2027.22	10.38
<b>2012-13</b>	186336	2272.39	11.01
<b>2013-14</b>	211457	3304.02	11.84
<b>2014-15</b>	239494	4276.67	11.96
<b>2015-16</b>	273018	3000	14.01
<b>2016-17</b>	315048	5625.85	15.07
<b>2017-18</b>	371910	6641.25	17.36
<b>2018-19</b>	400459	7151.05	18.41
<b>2019-20</b>	434444	8197.05	19.86

(Sources: Annual Reports of various years NABARD)

**Table 3:** Table showing NPA management of Regional Rural Banks In India.(Rs.in Crore)

<b>NPA Management of regional rural banks in India</b>				
<b>Year</b>	<b>NPA Rs.</b>	<b>NPA to loan outstanding</b>	<b>Average NPA per RRB Rs.</b>	<b>Average NPA per Branch Rs.</b>
<b>2010-11</b>	3084.81	3.72	37.61	0.19
<b>2011-12</b>	3711.96	3.75	45.26	0.23
<b>2012-13</b>	4994.15	4.14	60.9	0.29
<b>2013-14</b>	7906.94	5.65	123.54	0.44
<b>2014-15</b>	5664.77	6.08	99.38	0.44
<b>2015-16</b>	11128	6.15	198.71	0.51
<b>2016-17</b>	16465	6.45	294.01	0.78
<b>2017-18</b>	18255	8.1	325.98	0.85
<b>2018-19</b>	24059	9.5	429.62	1.10
<b>2019-20</b>	29186	10.8	550.67	1.33

(Sources : Annual Reports of various years NABARD)

Though there has been growth in the fields of branch expansion , deposits mobilization and advances in RRBs, the problem of NPA is very serious in the phase of 2010 to 2020,it is reflected in table - 3.The NPA increased from Rs.3084 crore in 2010 to Rs.29186 crore by 2020.The percentage of NPA to loan outstanding shows increasing trend from 3.72 in 2010 to 10.8 in 2020.Average NPA per RRBs increased from Rs.37.61 crore to Rs.550.67 crore in 2020 and average NPA per branch also increased from Rs.0.19 crore to Rs.1.33 crore by end of 2020.

### Conclusion

The RRBs are playing a predominant role in the socio-economic development of rural poor. In spite of all the policies and practices of financial aspects, there should be continuous monitoring for the evaluation of financial performance with regards to inflow and outflow of funds, banks' performance parameters such as; investment, deposits, profitability, capital adequacy etc. The regional rural banks would be a 'model financial infrastructure' for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as 'Regional Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy. Despite the RRBs journeyed over three decades, they have achieved



performance to the expected level quantitatively not turning towards sound financial management and productivity. Moreover the achieved performance is not uniform though they are working under the approach of same management.

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