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RESEARCH PAPER

An economic analysis on the role of Regional Rural Banks (RRBS) in financial inclusion and alleviating poverty

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ABSTRACT

The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling / advisory services by the formal financial system. There is now recognition that inclusive growth should be achieved in order to reduce poverty and other disparities and raise economic growth, hence the 11th Plan (2007-12) advocates for inclusive growth. To study the performance, growth and instability of Regional Rural Banks in India, analytical techniques such as Compound Growth Rate and Instability analysis were employed. The growth in number of RRBs may be mainly attributed to the amalgamation of these RRBs in several districts causing in their reduction over the years which is also indicated by instability of 41.32 per cent. The growth rate in the number of districts covered by the RRBs was found to be 2.61 per cent per annum at one per cent level of probability whereas, the growth rate for number of staff employed was found to be negative with (-) 0.27 per cent at one per cent level of probability. The recovery performance of RRB was estimated at 80.03 per cent, as on 30 June 2010, compared to 80.09 per cent, as on 30 June 2009. The aggregate gross NPA of all RRB declined from 4.14 per cent as on 31 March 2009 to 3.72 per cent, as on 31 March 2010. The compound growth rate in borrowed funds of RRB was highest with 19.52 per cent as compared to the owned funds with 8.13 per cent per annum at one per cent level of probability. The investments of RRBs recorded a significant growth of 12.39 per cent at one per cent level of probability with coefficient of variation of 40.11 per cent over a period of 2001-02 to 2011-12. Total capital funds increased tremendously after amalgamation took place in the year 2005-06. Credit-deposit ratio increased over the years showing a remarkable deployment of credit by these banks in rural areas.

Key words **:** Financial inclusion, Performance, Amalgamation, NABARD, Loans and advances

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The Financial Inclusion Fund (FIF) for meeting the cost of developmental and promotional interventions of financial inclusion, and Financial Inclusion Technology Fund (FITF) for meeting the cost of technology adoption, were set up in NABARD during 2007-2008, as recommended by the Committee on Financial Inclusion (Anonymous, 2008). The corpus of each fund was ‘500 crore, to be contributed by the GoI, Reserve Bank of India (RBI) and NABARD in the ratio of 40:40:20 in a phased manner over five years. GoI and NABARD made initial contributions of ‘10 crore and ‘5 crore, respectively, to each of these funds. GoI again contributed ‘10 crore for 2009-10 and 2010-11 to each of the funds. As on 31 March 2011, the contribution to this corpus by GoI stood at ‘30 crore in each of the funds, and by NABARD at ‘30 crore (FIF) and ‘40 crore (FITF). The RBI has decided to contribute to these funds on a reimbursement basis. During the year 2010- 11, RBI contributed ‘3.46 crore (‘3.05 crore towards FIF and ‘0.41 crore towards FITF), being its share of expenditure incurred upto July 2009.

“Financial inclusion, thus, has become an issue of worldwide concern, relevant equally in economies of the

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