

A Study on the Financial Performance of the Inflow and Outflow of Funds in Regional Rural Banks

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ABSTRACT

In 1975 the Government of India had appointed a working group on Rural Banks to study, in depth, the setting-up of new rural banks to provide the credit requirements of the rural people. It felt that there was a need to set up new institutions and operational ethos entirely different from those obtaining in the public sector banks. The Working Group examined the structure and functioning of the Co-operative credit agencies and commercial banks and brought out the strengths and weaknesses of both. In conclusion, the working group envisaged a new institution which "combines the local feel and familiarity with rural problems. The co-operatives possess the degree of business organisation, ability to mobilise deposits, access to central money markets and modernised outlook which the commercial banks have. This study has examined the association of the inflow and outflow of funds on the financial performance in RRBs.

Key words- Inflow & Outflow of Funds, RRBs Financial Performance, Operational Efficiency.

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INTRODUCTION:

RRBs, with their wide expansion in rural India focussed on the centric banking activities and close relationship with the local authorities and population, were expected to cater to the credit requirements of the rural areas and provide necessary banking infrastructure. Though the RRBs have been able to mobilise small savings of the rural sectors. They have been relatively less successful in enhancing the flow of credit to the targeted rural poor. RRBs have played a key role in rural institution financing in the term of geographical coverage, clientele outreach, business volume & also contribute to development of rural economy. A remarkable feature of their performance over the past four decades has been massive expansion of their retail network in rural areas.

The Management of each RRB is vested in a nine member Board of Directors, headed by a Chairman who is appointed by a Government of India. In discharging its functions, the Board of Directors is required to act on business principles and in accordance with directives issued by the Government of India after consultation with the Reserve Bank. While a RRB is empowered to

appoint officers and other employees, their remuneration is prescribed by the government of India in accordance with the salary structures of the employees of the state government and local authorities of comparable level and status in the area of operation of the RRBs.

All the RRB's setup has been included in the second schedule to the Reserve Bank of India Act. The amendments met to the Reserve Bank of India Act enable the Reserve Bank grant assistance to the RRB's by way of loans and advances. Moreover, for the purpose of Income Tax Act, 1961 or any other act relating to tax on income, profits, or gains, a RRB is deemed to be a co-operative society.

The number of RRB's rose from 19 at the end of Jun 1976 to 88 at the end of Aug 2008. The branch expansion programme of the RRBs envisages provision of banking facilities in different rural areas, especially where identifiable spatial gaps exist. The expansion is on selective basis taking into account the need, spatial gaps and financial viability of the proposed branches. However, hilly tracks, regions which are sparsely populated tribal areas are given special considerations and expansion is allowed on comparatively liberal basis.

REGIONAL RURAL BANKS' (AMENDMENTS) ACT, 1987

Based on recommendations accepted as above, the Regional Rural Banks' Act, 1976 was amended in 1987. Some of the important items incorporated in the amendment are:

- I. The authorized capital of RRBs has been raised from Rs 1 Cr to Rs 5 Cr and the paid-up share capital from Rs 25 Lakhs to Rs 1 Cr.
- II. The Chairmen of RRBs should be appointed by the concerned sponsor banks' in consultation with NABARD.
- III. The sponsor banks' have been given greater responsibilities in respect of the functioning of the RRBs. They are to aid and assist the RRBs in greater measure apart from subscribing to the share capital by imparting training to the personnel and providing managerial and financial assistance to the RRBs during the first five years of their functioning.
- IV. Provision has been made for the amalgamation of the RRBs. Amalgamation can be made with two or more RRBs after consultation with NABARD, concerned state government and sponsor bank. Such amalgamation should take into consideration public

interest, interest of the government of the area served by the RRBs and also the interest of the RRBs themselves.

- V. The sponsor banks' have been empowered to monitor the progress of their sponsored RRBs from time to time, to conduct inspection, internal audit and security and also to suggest corrective measures to the RRBs whenever necessary.

COMMITTEE ON REGIONAL RURAL BANKS' – DANTWALA COMMITTEE

The main conclusion of this committee is that some modifications in the organizational functions. RRBs are a very useful component in the totality of rural credit structure. The committee is convinced that within a short span of time RRBs have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institutions catering to the credit needs of a class of borrowers to whom institutional credit was till then not available. Hence, the committee does not approve the idea of scrapping the Regional Rural Banks' structure. RRBs are well suited for the purpose of progressively filling up the credit gap in the rural sector and the programme for the establishment of more RRBs deserve to be accelerated.

In the first instance, RRBs should be extended to such areas where the central co-operative banks' are not able to adequately serve primary agricultural credit societies within their jurisdiction. The co-operative structure at the intermediate level is fairly strong but the question arises whether Regional Rural Banks' pattern and the co-operative pattern at the intermediate level can co-exist. The committee feels that the credit, both quantitative and qualitative is so large that a spirit of understanding both RRBs' and central co-operative banks' can function side by side without a clash of interest. The most relevant criterion for the selective extension of RRBs' is the state of co-operative credit structure at the district level. In as many as 182 districts, central co-operatives are weak. The 48 RRBs cover 55 of these districts. To start with, the programme of establishing new RRBs may be implemented in the remaining 127 districts.

There has been rapid expansion of rural branches of commercial banks. The committee has suggested that the reserve bank should discuss with the commercial banks regarding the policy on the extension of their rural branches during the first phase of selective establishment of RRBs'. The Government of India and the Reserve Bank take steps to initiate the process of making the RRBs' an integral part of the rural credit structure.

IMPORTANCE OF THE STUDY

In present era of globalization and privatization (GDP) of India is expanded at the rate of 7.7 percent. Agriculture has occupied 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. The downside of the increased import demand and the current commodity boom is that India's food import bill will be rise sharply. However, it is clear that India's agricultural sector has made huge strides in developing its potential.

The Rural Population in India has suffered a great deal of indebtedness and was subjected to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Households in rural areas needed credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India. The whole country a network of co-operative societies was spread but the entire needs of rural people could not be satisfied. They also adversely affected them because of corruption, favouritism and inefficiency.

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.

This study concentrates on the principles of bank management for assets and liabilities. The study focuses on the microeconomic problems of financial management of banking firms. The study helps in financial management and reduces the misuse of funds, proper estimation of total financial requirements, proper mobilisation, utilisation of finance, maintaining proper cash flow, to increase efficiency, reduce cost of capital and maximize the profit in long run of RRBs.

REVIEW OF LITERATURE

Ahmed, J. Uddin in his research study “**Performance Evaluation of Regional Rural Banks: Evidence from Indian Rural Banks**” (2013) examined the genesis of the Regional Rural Banks (RRBs) for around three and half decades can be traced to the need for stronger institutional arrangements for providing rural credit. The inception of RRBs can be seen as a unique experiment as well as experience in improving the efficacy of rural credit delivery mechanism in India. In the wake of introduction of financial sector reforms, the feasibility of RRBs emerged as the most crucial factors in deciding the desired role due to their limited business flexibility with hardly any scope of diversification, smaller size of loans with higher exposure to risk prone advances and professional inefficiency in financial deployment. In order to strengthen RRBs and to improve their performance, various initiatives have been taken by the Government of India and Reserve Bank of India. The study, therefore, is a synopsis on the evaluation of performance of RRBs in India with respect to deposit mobilization, credit channelization, credit deposit ratio, deployment of credit to various occupations etc.

Subudhi, R. N and Ram, Jitendra K. in their research study “**Operational Efficiency of Regional Rural Banks and Other Commercial Banks of Odisha India: A Comparative Study**” (2012) disclosed that “Banks play an important role in the economic development of a state. The banks play the role of financial intermediaries in the economic development of a state. The commercial banks help in flow of investment capital throughout the market place. The main tool for resource allocation in the economy is to credit disbursed by the banks. When the performance of the banks is evaluated in lieu of the services provided to the larger societies. It is found that a glaring bias of public sector (PS) banks only for the urban areas. But Odisha has a population of 4.20 crore, of which 3.50 crore (83.33%) live in (51313) villages (as per 2011 census). Out of 51313 villages of Odisha, commercial banks function only in 1724 villages. The banking system in Odisha consists of public sector banks, private banks, development banks, specialized banks, and cooperative banks. Through this study an attempt has been made to assess whether the commercial banks functioning in Odisha have properly discharged their responsibilities towards the economic development of the state, especially rural Odisha (India).

Suman in her study. “**Role of Regional Rural Banks in Growth, Employment, Income And Development of Rural Population**”(2012) explored that evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. Commercial banks have little interest in rural areas, these

banks concentrated on deposits rather than credits. The nationalization of major commercial banks also did not improve the situation to any great extent. Less than 1% villages availed financial facilities from commercial banks. So there was strong need for the establishment of Regional Rural Banks. The rapid expansion of Regional Rural Banks has helped in reducing substantially the regional disparities in respect of banking facilities in India. Generation of additional sources of income and employment in rural population has been the main objective of Regional Rural Banks. The banks are striving hard to provide best banking service in its command area. Government should take some effective remedial steps to make Gramin Banks viable.

OBJECTIVES OF THE STUDY

1. To determine and analyze the association of inflow and outflow of funds in RRBs.
2. To make suggestions or the improvement in the efficient management of balancing between inflow and outflow of funds in the RRBs of Madhya Pradesh.
3. **H₀₁**: There is no significant association of inflow and outflow of funds in RRBs.
4. **H₁₁**: There is a significant association of inflow and outflow of funds in RRBs.

5. RESEARCH METHODOLOGY

Research may be deductive or inductive. Deductive research approach begins with the development of a theory or hypothesis and later a development of a strategy to test it in a context to verify or reject its claims

6. SECONDARY DATA

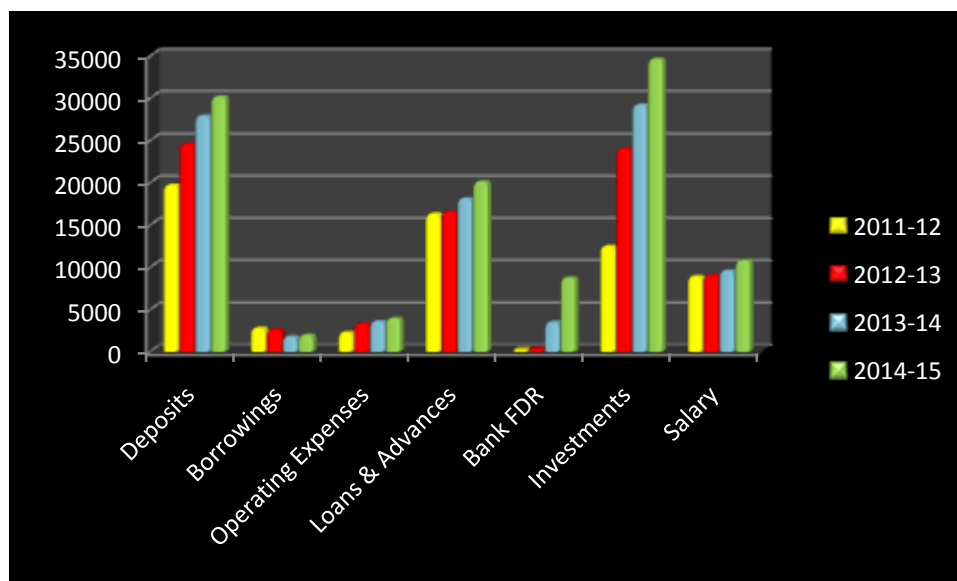
To test the hypotheses secondary data have been collected and compiled together to conclude the results. To test the objectives following secondary data were taken from the Bank Reports separately from Madhyanchal Gramin Bank, Central M.P. Gramn Bank and Narmada Jhabua Gramin Bank. For this study four years data have been calculated (2011-12 to 2014-15) as on March Ending Year. To test the first objective, for the measurement of inflow and outflow of funds and its impact on financial performance in RRBs.

Balance Between Inflow & Outflow in Regional Rural Banks

Balance Between Inflow & Outflow in (Madhyanchal Gramin Bank)

Year	2011-12	2012-13	2013-14	2014-15
Deposits	19692	24559	27899	31546
Borrowings	2776	2608	1758	2279
Operating Expenses	2262	3261	3568	3808
Loans & Advances	16279	16502	18097	18597
Bank FDR	2990	3478	216	238
Investments	12466	23997	29189	42363
Salary	8883	9555	10752	11806

Bar Chart on Balance Between Inflow & Outflow in (Madhyanchal Gramin Bank)



Correlations Between Inflow and Outflow of funds in Madhyanchal Gramin Bank

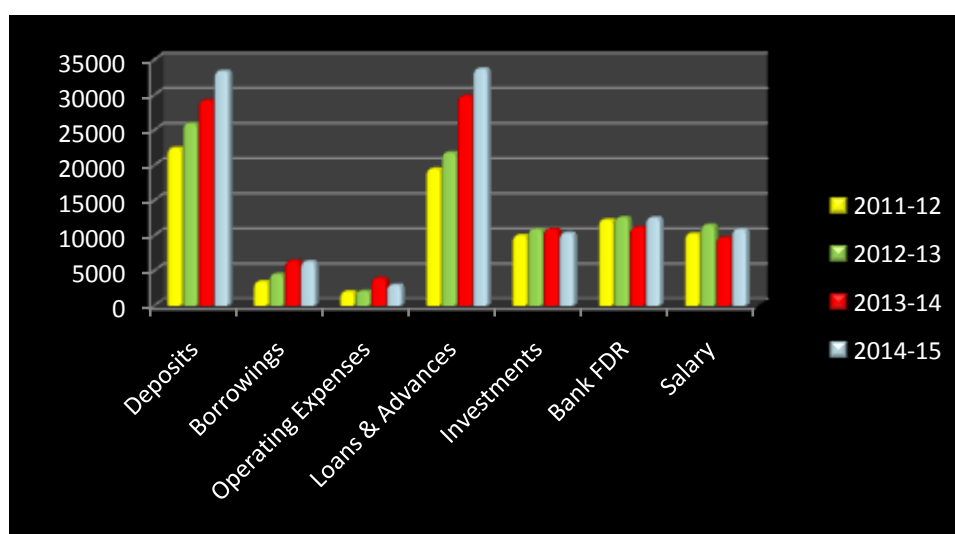
		Inflow	Outflow
Inflow	Pearson Correlation	1	.000
	Sig. (2-tailed)		.785
	N	4	4
Outflow	Pearson Correlation	.000	1
	Sig. (2-tailed)	.785	
	N	4	4

Above table shows the correlations and it is evident from this table that Pearson’s correlation coefficient between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank is 0.785 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Madhyanchal Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

Balance between Inflow and Outflow of funds in Central M.P Gramin Bank.

Year	2011-12	2012-13	2013-14	2014-15
Deposits	22435	25939	29162	33363
Borrowings	3423	4475	6331	6257
Operating Expenses	1980	2052	3891	2952
Loans & Advances	19456	21767	29810	33675
Investments	9980	10870	10851	10316
Bank FDR	12218	12529	11124	12499
Salary	10230	11484	9654	10847

Bar Chart On Balance between Inflow and Outflow of funds in Central M.P Gramin Bank.



Correlations Between Inflow and Outflow of funds in Central M.P Gramin Bank

		Outflow	Inflow
Outflow	Pearson Correlation	1	.980*
	Sig. (2-tailed)		.002
	N	4	4
Inflow	Pearson Correlation	.980*	1
	Sig. (2-tailed)	.002	
	N	4	4

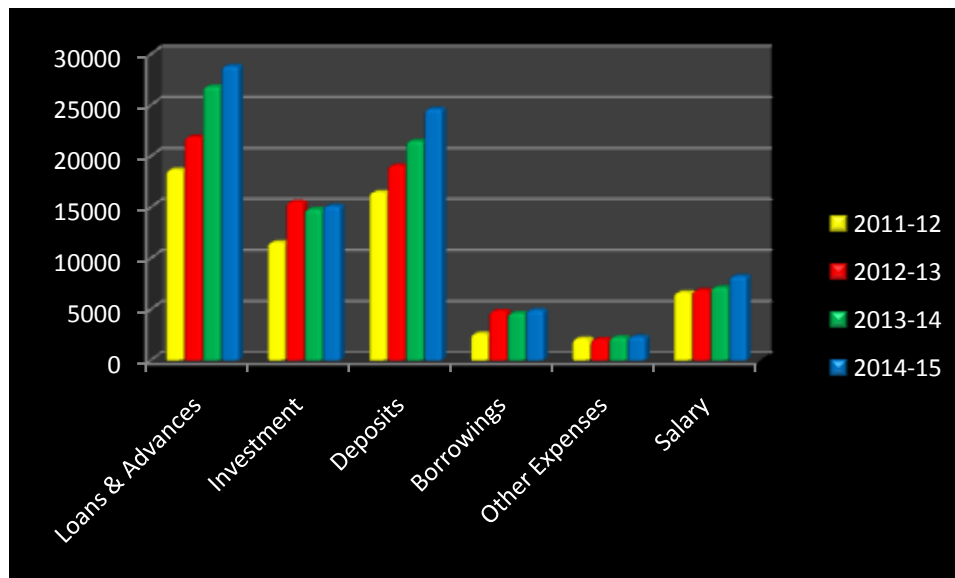
*. Correlation is significant at the 0.05 level (2-tailed).

Above table shows the correlations and it is evident from this table that Pearson’s correlation coefficient between balance of Inflow and Outflow of funds in Central M.P Gramin Bank is 0.980 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Central M.P Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

Balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank

Year	2011-12	2012-13	2013-14	2014-15
Loans & Advances	18648	21869.17	26815.82	28812.65
Investment	11539.76	15490.31	14807.92	15102.92
Deposits	16453.74	19051.45	21477.26	24621.13
Borrowings	2594.63	4812.83	4605.4	4901.2
Other Expenses	2098.56	2035.14	2252.35	2312.92
Salary	6629.4	6842.77	7131.85	8221.67

Bar Chart on Balance between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank



Correlations Between Inflow and Outflow of funds in Narmada Jhabua Gramin Bank

	Inflow	Outflow
Pearson Correlation	1	.984*
Inflow Sig. (2-tailed)		.001
N	4	4
Pearson Correlation	.984*	1
Outflow Sig. (2-tailed)	.001	
N	4	4

*. Correlation is significant at the 0.05 level (2-tailed).

Above table shows the correlations and it is evident from this table that Pearson’s correlation coefficient between balance of Inflow and Outflow of funds in Narmada Jhabua Gramin Bank is 0.984 which is significant since the significant value (p- value) 0.001 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in Narmada Jhabua Gramin Bank. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

Correlations

		Inflow	Outflow
Inflow	Pearson Correlation	1	.878
	Sig. (2-tailed)		.000
	N	4	4
Outflow	Pearson Correlation	.878	1
	Sig. (2-tailed)	.000	
	N	4	4

Above table shows the correlations and it is evident from this table that Pearson’s correlation coefficient between balance of Inflow and Outflow of funds in RRBs is 0.878 which is significant since the significant value (p- value) 0.000 is less than 0.05. Therefore, we may conclude that there is significant association between balance of Inflow and Outflow of funds in RRBs. Furthermore, since the value of correlation coefficient r suggests a strong positive correlation, we can use a regression analysis to Model the relationship between the variables.

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.

Effective performance is the success of every business. In order to achieve the effective and efficient performance, the RRBs (Central M.P. Gramin Bank, Madhyanchal Gramin Bank & Narmada Jhabua Gramin bank) have been selected from the year 2011-12 to 2014-15. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. In this study an attempt is made to discuss the financial performance of selected regional rural banks during the studied period. To measure the financial soundness in terms of capital adequacy, financial ratios, business ratios, balance between inflow and outflow of funds, operational efficiency, banks' performance, net profit and loan disbursement of selected sampled banks, the correlation & Regression analysis and chi-square which is an appropriate technique is adopted. The present study in relation to the recovery, net profit, financial return during the studied period was enough sound. Hence, the banks have to take care to reduce the expenses and also to improve the productive efficiency through an effective utilization of capital, assets, return on investment etc.

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