Chapter – 1.

INTRODUCTION.

1.1 Banking An Overview:
India is a vast country spread from Kashmir to Kanyakumari and from Western Sea to Eastern Sea. Major occupation of the people in India is agriculture. In India 70% of the total population was from rural areas considered to be as principal instrument of economic development based on social justice. After freedom India faced a number of economic problems like poverty, unemployment, industrial backwardness, technological backwardness, lack of infrastructure etc. All these development aspects need support of finance. It was sought from the banking sector. Following the socialistic pattern of society 14 major banks were nationalized in 1969 and 6 more banks were Nationalized in 1980 with a view to gear up the economic growth and development. Programs like 20 Point Economic Program were introduced by the then Prime Minister Smt. Indira Gandhi.

However, the rural folk and agriculturists including rural artisans remained neglected. With a view to focus the rural development in the scheme of social justice the thrust of up-liftment of weaker sections of community i.e. small and marginal farmers artisans, craftsman, laborers, women and schedule caste and schedule tribes and other people living below poverty line, was not only given the top priority but accepted as the ultimate objectives of the Gramin Bank. In fact, the concept of Gramin Bank was first introduced in Bangladesh by
famous social worker and economist Mohd. Younus in 1982 and thereafter the same was adopted in India.

With a view to fill up the institutional credit gap in the rural areas with greater development potentialities, a new category of banks. Known as regional rural banks, has been setup in 1975. Regional Rural banks have been brought into existence by the joint efforts of the central Govt., State Govt. and the commercial banks.

The main objectives of the rural banks is to increase the local involvement of banks to meet the credit requirements of weaker sections and small entrepreneurs in the rural areas. These banks have the limited area of operation. Their staff members are drawn from the area of operation and they are required to provide credit facilities to the weaker sections of the rural areas.

Development of the rural areas has been one of the fundamental objectives of the five year plan. The strategy of rural development aims to improve the economic and social life of a specific group of people, consisting of small farmers, tenants and the land-less, village artisans, craftsman and cottage industrial units. The case for the development of rural economy is urgent and pressing because it is the basis of social stability and economic growth with distributive justice, the concepts of rural development is wider than that of agricultural development.

Credit is the most important and probably the most scarce input in Indian agriculture. Rural people are always unable to exhibit their latent potential and
face difficulties in obtaining loans. It is generally believed that rural credit must be cheap so that even the poorest farmer and rural artisans may afford it.

Banking Industry is one of the Industries which plays very important role in development of any country. The Banks in India have played significant role during the last two decades. The progress made by the Banking Industry is remarkable as compared to any other Industry in the areas of branch expansions, deposit mobilisation, credit to priority sector, implementation of various National Programmes and Rural Development and upliftment of economy. Perhaps it may be the only industry in the world to make such fast progress.

Banking in India is now becoming an important and essential infrastructure in development. Rural India and it is playing a vital role in improvement of country’s economy. The rural community has also realised the need of Banking facility and they are demanding bank offices at their village or in the vicinity of their village. There may be certain adverse points like deterioration of customer services, frauds, robberies etc. but by and large this Industry is proving its importance in masses of all classes.

At present there are three types of banks which are directly dealing with public particularly in rural India.

2. Nationalised Banks and State Bank of India with its subsidiaries which started their dealing with rural masses after social control through nationalisation.

3. Regional Rural Banks.

Though there has been a commendable geographic extension in the operations of co-operative agencies, commercial banks, the State Bank of India and its subsidiaries and other financial institutions working in rural areas, a large part of rural India and many types of rural activities are still badly in need of finance and other assistance for their proper development. In order, therefore, that these financial institutions may be of greater assistance to small and marginal farmers, rural artisans, small and retail traders, self-employed persons, agricultural laborers and others in remote areas, and in order to identify their needs, the idea of regional rural banks was conceived.

The Banking Commission was appointed by the Government of India in February in 1969 with a view to have a comprehensive review of the structure and operations commercial banks in the totality of the working of the existing credit institutions in India and to suggest measures for reorganising the commercial banking structure for improving its functioning. This commission was appointed under the Chairmanship of Mr. R.G. Saraiya.

Banking Commission in its report in 1972 have given proposal for setting up Rural Banks to meet the foil credit needs of all medium and small cultivators.
It is also recommended that a chain of ‘Rural Banks’ be established in addition to the regular branches of Commercial Banks already opened or to be opened in the rural areas, and thus revolutionise rural finance. According to the Commission, the banking entity in rural areas should be essentially co-operative in character and provide a wider range of services than those which were provided by primary agricultural credit societies.

No action was taken by the Government of India on the Banking Commission’s proposal for establishing a chain of ‘rural banks’ upto to June 1975. Government of India did not feel any need for setting up some kind of new institution of ‘Rural Banks’ for providing rural credit. The opportunity for such rethinking was provided by 20 point Economic Programme on 1\textsuperscript{st} July 1975. Some of the points of this programme specifically aimed at ameliorating the lot of the weaker sections of the rural society. The most direct of these points having a bearing on the rural credit scene related to a ‘plan for liquidation of rural indebtedness; small farmers and rural artisans; Thus, the Government of India seriously considered devising new alternative sources of credit to meet the requirements of the weaker sections of the rural society. In this context, the Government of India felt that it was necessary to establish rural banks as ‘new institutions on the basis of attitudinal and operational ethos different from those obtaining in the public sector banks’.

On July, 1975, the Ministry of Finance, Government of India, constituted a working group under the Chairmanship of Mr. M. Narasimham and other six
experts in the field of agricultural economy to examine in depth the question of the setting up of new rural banks to cater to the credit needs of the rural people. The working group was asked to submit its report within the short period of one month. The report was submitted by the working group on 1 July 1975. The working group noted that the major strength of co-operative credit institutions lies in the local feel of the village society and that of the commercial banks in the professional management of the business of the banking. The group also identified the various weaknesses of the cooperative credit agencies and the commercial banks.

1.2 Rural Banking Scenario – A Global Perspective

More than three decades later, when I am a father, and a banker too, I notice not much change, so far as a small farmer's perception about the banks is concerned.

The Scenario

If a news item published in the premier dailies is to be believed, a total of about sixty banks in cooperative sector in Maharashtra and U.P. alone have been put up for auction by RBI, and of the 1,400 cooperative banks in the country, nearly half are reported to be sick. "The cooperative credit variate was started to get the farmers out of the clutches of the money-lenders. Now, the problem is how to get the cooperatives out of the clutches of vested interests". A quote.
The commercial banks, after nationalisation, expanded their reach — unparalleled in the world — unmindfully pumped in substantial amounts in the rural areas, supported the government-sponsored poverty-amelioration programmes, and gradually found themselves riddled with poor recovery syndrome and an unmanageable rural credit portfolio. Short of their priority sector lending targets, most of them are sitting on, explosive heaps of Non-performing Assets (NPAs).

The banks — venerable institutions — feared for their financial muscles, are looking timid and shy in fighting a war against poverty and unemployment. They are being praised for precious little, and blamed for most. This is precisely how best the rural banking scenario can be explained.

**The Political Economy of Targets**

Is the performance of banks going to improve in the short run? What is the relevance of the targets, for instance, why only 18 per cent agriculture lending and not 15 per cent or 20 per cent? How is the targeted lending, emanating from top, going to reconcile with the service area approach which advocates bottom-up planning? Is targeted lending increasing the indebtedness of the people with little regard to increase in productivity? What is the political economy of cheap credit? These are some of the questions evading satisfactory answers.

Whose target is it anyway to ensure that the target groups of the persons or families have really crossed the poverty line, or to ensure that all the needy
persons have access to credit? In the present context, however, what matters most is number of heads financed or amount of loan doled out.

Credit programmes are often hastily drawn up as the objective is to increase the volume of credit as speedily as possible. The success, or failure, of the programme primarily depends on how much credit has been given and how quickly. The recovery of loan is not an important consideration initially but assumes significance subsequently when defaults become a problem. Compulsion of lending to reach targets have opened the floodgates for rich and not-so-poor farmers to have easy access to bank credit. Also the "farmers in long pants" and "gentlemen farmers" (some of the epithets used in Asian countries for ineligible persons) have managed to get loans from the banks under the pressure of targeted lending.

It is politically fashionable, perhaps indispensable, for the governments in poor countries to introduce low interest rural credit programmes which are considered redistributive and equity measures that support the rhetoric that the government is looking after the rural poor, even though such credit may reach only a minuscule section of the poor. The small farmer credit programme is also a means of sublimating agrarian reforms, and easier to espouse than the agrarian reform measures.

In a politically competitive system, opposition parties are also responsible for rural credit disorder. They oppose loan repayments, assure impunity to defaulters and promise a general loan waiver when they resume
power. They rather beam the rays of hope of still cheaper credit programmes with higher outlays. All these pronouncements tend to make governments even more concessionary and relax recovery mechanism. The political motivation to assist small farmers should be sublimated away from credit programmes to other measures to benefit them. These include proper pricing of farm produce and if necessary guaranteed prices, the subsidisation of inputs, development of rural infrastructure, etc.

The Success Stories

Success or failure, notwithstanding, there is a growing awareness amongst international agencies, social action groups, NGOs and governments of various countries, both big and small, for alleviating poverty, and serious actions are afoot in the right direction. While some countries are zeroing in on the successful models of Bangladesh, Indonesia and Malaysia, others are doing the patch work — needling the best pieces together — to suit area or country specific needs. There is continuous need for exchanging news and views amongst the agencies and countries assiduously associated with poverty-ending efforts. May be, each country has to offer some lessons, or to learn a few. It would be too hasty, unwise perhaps, to project banks as insensitive to the poor, or lacking adequate concern for them. Unfortunately, the endurance of banks with the poor can best be equated with the case of a non-swimmer attempting to rescue a drowning person or a chronic sick advising on how to stay healthy.
Bangladesh

In the world of rural credit, all roads lead to Bangladesh Grameen Bank (GB). Countries like Malaysia, Philippines and Indonesia, and even developed countries in Europe are replicating the GB credit programme on an experimental basis. The GB's genesis has become a part of the history of rural credit system. It all began in 1976 with a total loan of $30 given to 42 poor people from his pocket by Prof. Muhammad Yunus, Head of the Economics Department at Bangladesh's Chittagong University. But now GB is the largest credit programme in Bangladesh. It has over 2 million borrowers (94 per cent of them women) living in more than 32,000 villages. The bank's monthly disbursal is over $20 million, the average loan size is $75, and it still has a recovery rate of over 98 per cent. The repayment record for housing loans to 2 lakh poor people at the rate of $300, is cent per cent.

What are GB's design and delivery features serving to distinguish it from other poverty alleviation programmes? The grameen (or village) bank targets rural households owning less than 0.5 acre of cultivable land. It is a non-traditional banking system for those who are not covered by the existing banking system. It organises groups of the landless who usually have no access to formal or institutional sources of credit and information. The GB members do not have to furnish any collateral for loan. Their members only have to utilise their loans in productive activities under the guidance and supervision of GB staff and earn a profit sufficient to repay the loan with interest in one year's
time. Members save with GB's "group" and "emergency" funds. So, the attributes of GB's success story is that it is simple and straightforward. It is a credit programme for an identified group, predominantly women, and pitched at a certain income and asset ownership level. No collateral is needed, nor do detailed and incomprehensible forms need filling up. The GB's principal feature is a near total reliance on the wisdom and the capacity of the target clientele to utilise resources optimally—based on the fundamental neo-classical economic thesis that men/women know perfectly well what is good for them and would perform best when driven by self-interest.

A critical look into GB's activities reveals that the design and focus of the bank is on the group, and not any individual. Within that, there is an exclusive focus on the most disadvantaged. Persons possessing more than 0.5 acre of land are ineligible. Also, material collateral has been replaced by social collateral, wherein the entire group stands guarantee for individual members. Mutual accountability, through peer pressure, is also thus ensured. Loan amounts are delivered right at the members' door steps, and instalments collected in weekly meetings of the members with a fair amount of regularity. Nothing is confidential, everything is transparent. The bank is sceptical about concessions or dole, and aims to recover its money with interest (20 per cent). According to GB's founder, Prof. Yunus, "credit without discipline is nothing but charity".
Grameen Bank has demonstrated that the poor can utilise credit and other inputs efficiently and productively, when their level of awareness is raised and they work in a group. Significantly, GB loanee household per capita incomes rose by 32 per cent over the two year period when Bangladesh’s per capita income as a whole increased by only 2.6 per cent. Again, compared to the average, the expenditure on health of the loanee households is found on average to be 2.3 times higher, 2.4 times higher for housing, and 3.7 times higher for clothing. Literacy rates, and acceptance of family planning measures, are also much higher. Yunus might soon be vindicated in his prediction that GB will soon be known as "the bank for the former poor".

**Malaysia**

Bank Pertanian Malaysia (BPM) is a leading bank involved in rural banking in Malaysia. While fulfilling its social objectives, the bank has not compromised with the fundamentals of sound business practices and commercial considerations. Last year, it posted a return on assets around 1.2 per cent which was marginally less than the top commercial bank in the country. A sick bank five years ago, with accumulated losses of over RM 300 million, BPM today enjoys a high profile status in the banking fraternity of the country.

A bank fully owned by the government of Malaysia, BPM is the brainchild of late Tun Abdul Razak, the second Prime Minister of Malaysia, who was himself a champion of rural development.
The bank has an unusual work culture. For instance, instead of expecting the customers to come to it, the bank takes banking services to the doorsteps of the rural poor in particular and common customers in general. The policy of the bank is to first make a person convert to the saving habit and then extend financial assistance. The bank introduced a number of schemes to mobilise deposits. It is no wonder that small savers are the strength of the strong deposit portfolio of the bank. The bank strives to give attractive returns to the depositors such as rewards on renewal of deposits, bonus to the savers out of annual profits and penalty-free premature withdrawals. The system of prudential norms of income recognition and provisioning is already vogue in the bank. Despite a high rate of interest, about 34 per cent, on advances, its rate of recovery is also extraordinarily high—a little less than cent per cent—with write-off culture generally marked by its absence.

**Indonesia**

Bank Rakyat Indonesia (BRI) is another fully government-owned largest bank of Indonesia in terms of number of employees and banking offices. It has some 300 branches located in district towns, and 4,000 units and service posts in the rural areas. While BRI can trace its roots back almost 100 years, the BRI units were officially founded in 1973 under Presidential Instruction. The core business of the units lies in extending small loans (Kupedes) at commercial rates and collecting voluntary savings on which a real positive rate of interest is paid. There are over two million kupedes loans outstanding, with total balance of
around $1,000 million. The units make over 120,000 loans every month. The market niche of BRI units is for small loans in the range of $100 to $5,000, though kupedes loans can be made for as little as $12 and as much as $12,000. Average loan size is, however, around $750, with about 70 per cent of the loan falling below this figure.

There are over 11 million savings accounts with the units, representing about 26 per cent of all savings accounts in Indonesia, with $2 billion of the amount outstanding. The units were originally developed to carry out the targeted and subsidised rural finance programme of the government with little emphasis on savings mobilisation. Over time, repayment rates declined to astonishingly low levels, and the annual deficit continued to rise. By 1982, it was clear that the subsidised and targeted rural finance system outlived its usefulness and must end. This left BRI the choice of closing the units, with their 14,000 trained staff and 3,600 banking locations, or continuing to absorb an annual loss that was running at Rp 30 billion. An alternative was to develop the units into a profitable rural financial network. What was needed to set an interest rate that was high enough to cover funding and administrative costs, as well as loan losses. In June 1983, the government changed monetary policy direction by reducing controls on lending and on interest rates.

Each unit is expected to cover its costs and return a profit. At present, 87 per cent of the units are profitable, and fewer than ten units have shown losses for three or more years. Loan performance of the units has been excellent, with
losses running a little over 3 per cent, an amount easily covered by the interest spread. While the percentage of fresh unit borrowers with incomes below the official poverty line mirrors that of the nation as a whole, the poor borrowers graduate out of poverty much faster than the population as a whole. After an average participation for three years in unit system, over two-thirds of the previously poor households had graduated out of poverty.

Branch managers are expected to identify the type of infrastructure/supporting facilities for each one of the credit schemes included in the village credit plan, block level aggregation of the data on the requirement of types of linkages may be done by the block level convener and ultimately the lead district managers/LBO and district level development managers could consolidate these data on bank credit scheme based on infrastructure and take up the matter with district development authorities to do the needful.

There appears to be a gap between rural bankers and rural people particularly during the period after sanction and disbursement of loans. Presently gram sevaks village level workers are available to bridge the gap only in respect of IRDP. For other schemes, it appears to be a no man's land. Hence shall we think of creation of an extension officer for bank credit at the block level to closely follow-up with the people/NGOs/SHGs right from awareness/motivation to recovery of loan and to assist the bankers? Till the above factors are taken into account in the demand side of rural banking management for bringing out a conducive environment, shall we think of a
holiday for the credit planning exercise for bankers keeping normal lending programmes.

1.3 Maharashtra Gramin Bank at a Glance.

The RRBs were established in India under RRB Act 1976 [23(1)]. During the period from 1976 to 2006 banking industry had undergone various changes and RRBs were no exception. Considering the need for structural changes in RRBs in view of dynamically changing economic scenario, Govt. of India vide its notification dt. 25.03.2008 amalgamated the two RRBs i.e. Aurangabad Jalna Gramin Bank & Thane Gramin Bank into a single RRB named Maharashtra Godavari Gramin Bank. Maharashtra Gramin Bank came in to existence on 20th July 2009 after amalgamation of erstwhile Maharashtra Godavari Gramin Bank and Marathawada Gramin Bank as per the notification issued by Government of India, Ministry of Finance, Department of Financial Services ref No F.No. 1/4/2006-RRB(II) dated 20July 2009 with its head office at Nanded. The Bank is sponsored by Bank of Maharashtra. The share capital of the Bank is contributed by Government of India, Government of Maharashtra and Bank of Maharashtra in proportion of 50:15:35

The objective of the bank is to improve the rural and semi urban centers by providing financial supports to agriculture,Trade,commerce and others productive activities in the economy. Bank ensure implementation of government sponsored schemes to provides financial assistance to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs and
for matters connected therewith and incidental thereto. The area of operation of Maharashtra gramin bank is of 16 Districts in the state viz. Nanded, Parbhani, Latur, Hingoli, Beed, Osmanabad, Pune, Aurangabad, Jalna, Jalgaon, Dhule, Nandurbar, Ahmednagar, Nashik, Thane, and Raigad. Bank has presence in all the districts by opening at least a branch including newly allotted district.

Bank has a Network of 378 Branches in 16 Districts At present there are 63 Branches in Nanded District.

1.4 Statement & Significance of the Study:

Banking is a financial service industry with its focus on primary functions of deposits and advances. Banking sector takes deposits from public and lends money to various sectors. In fact, it is the public money that is lent by banks in the economy. During the period of Nationalization priority was given to development activities and schemes like Multi Service Agency (MSA) were introduced by large size banks like Bank of Baroda under the leadership of Director Mr. Kannan. In addition to this, a large number of schemes like Scheme
for Educated Self Employee Youth (SEYYU), Schemes for Rural Artisans, Schemes under Special Category of Backward Classes like Mahatma Phule Backward Class Corporation (MPBCDC), Anna BhauSathe Backward Class Corporation (ABSBCC), Integrated Rural Development Program (IRDP) and a host of other programs were introduced under the process of socialization of banking in the Indian economy.

However, India’s entry in GATT and adoption of New Economic Policy in 1991 proved to be path breaking in the history of Banking in India. The concept of Rural Banks has now gained a worldwide recognition and special identity particularly in India. It has lot remained simply a concept or an armchair ideology but has become the very life learned of the Indian Banking System. Rural Banking movement engaged itself in uplifting agricultural as well as urban folks in India through its banking networks more attention is given to rural agricultural development under various plans and schemes.

The New Economic Policy under the concept of Globalization, Privatization and Liberalization started an era of economic and monetary policy change brought about by the Government of India and Reserve Bank of India to globalize the Indian economy. The waves of liberalization that swept across the external trade sector the world over was not without its impact on the domestic sector. The investment policies and indeed the financial sector. The implementation of the recommendations of the Narasimhan Committee ushered in the reformation of the Indian Banking Industry. The banks have
adopted international standards of accounting since 8 years, moving towards prudential regulations.

The Financial Sector Reforms in India are now about five years old—an appropriate time to make a medium-term appraisal. Moreover, having initiated fundamental changes, the financial sector, particularly the banking sector, is now under an obligation to demonstrate the efficacy of the reforms undertaken so far.

Enhancing efficiency by fostering competition is the underlying aim of liberalisation. The banking sector has had a liberal dose of reforms under this head. The doors of Indian banking have been thrown wide open for private banks as well as foreign banks. In the South especially, the banks have also to contend with the mounting competition from the growing number of non-banking financial institutions and unincorporated agencies. Further, as the various financial markets continue to be widened and deepened, the disintermediation of banking both at the wholesale and at the retail level is getting accelerated adding to competition. How the banks are learning to live with competition forms the first part of this volume, *Managing New Challenges*. Indian banks traditionally have been exposed mainly to one type of risk, namely, credit risk. This is, by and large, true of the post-nationalisation period also when decision-making in banks was largely dictated by directives and ground rules. But the de-regulation and integration of the various financial markets under current reforms have exposed the banks to a wide range of risks. Capital
management, asset-liability management, interest-rate management, exchange-rate management, manpower management, profit management — practically all areas of day-to-day banking have to contend with degrees of risk now. Banks will require a great deal of expertise to foresee such risks to protect themselves or to exploit them gainfully, as the case may be. The progress or even the survival of the individual banks, therefore, would largely depend on how far they will be successful in managing these multiple risks which are discussed in the second part of this volume, *Managing Financial Risks*.

Combining public good with private enterprise is the essence of the v liberalisation philosophy. The implication of this to the banking sector is unambiguous. Banks have to make rural banking an integral part of their commercial character. Over the nationalisation period, a very sound foundation has been laid for rural finance in terms of a wide network of branches, a substantial deposit base and an enormous range of bankable activities. The next stage, obviously, is to provide a commercial orientation to rural finance. A stage has been reached in the evolution of rural banking where a system based on concessions and patronage can be safely replaced with a system based on commercial co-operation and partnership. Such a transition would, of course, throw up many basic issues such as how can new banking innovations be introduced purposefully and profitably into rural operations, what kinds of institutional backup are required and so on, just be studied with reference to the performance of MarawathwadaGramin Bank.
1.5 **Rural Banking & Reforms:**

Managing rural banking or the rural credit system acquires considerable importance in the context of banking and financial reforms. Rural credit is as wide in its content as the Indian rural society. In terms of magnitude of credit requirements, the need for an efficient credit delivery system and faster pace of growth of the rural economy, the task of rural banking would be stupendous in future and would pose many challenges to managing rural banking. Apart from the size of the rural sector in terms of contribution to national income, employment, etc. the fact that over 70 per cent of the poor live in rural areas makes it imperative for rural banking to play a role in providing the safety net for these vulnerable sections in the context of economic liberalisation.

The banking reform measures initiated in 1992 will no doubt have an indirect effect on the rural credit system (e.g. priority sector lending, lending for agricultural exports, etc.). This apart, the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) have taken a few measures specific to rural credit. These are basically concessions and relaxations in the present system so as to be in tune with liberalisation. The priority sector credit has been re-defined. While the overall target of 40 per cent remains unchanged, the investment limits in respect of small-scale sector have been raised to Rs 65 lakh against the earlier limit or Rs 35 lakh (in the case of export-oriented units the rise is from Rs 45 to Rs 75 lakh). Advances to retail trade have been raised to Rs 2 lakh. Within the SSI sector 40 per cent of the
advances would be allocated for cottage, village industries, artisans and tiny industries. Interest rates in respect of rural credit have been de-regulated. Now different tiers of the system are free to determine their own rates after taking into consideration transaction costs and the margins required to cover costs at different tiers. Service area branches are now grouped block-wise so that borrowers have the choice to approach any bank branch within the block. In respect of Regional Rural Banks (RRBs) some liberalisation measures have been taken. Now RRBs can lend to non-target group of borrowers up to 60 per cent of their fresh lending and 10 per cent to non-priority sector purposes. Regional Rural Banks can relocate their loss making branches and also lend outside their service area.

All these measures are expected to help the rural credit system to become more efficient and viable. Yet, the rural credit system suffers from several constraints of a serious nature which affect the flow of credit to the rural poor. These problems may get accentuated if rural banking lags behind the general banking reforms. This calls for a separate programme of reforms for rural banking.

The elaborate rural credit structure that has been built in the country over the last 50 years suffers from many serious drawbacks some of which have been discussed. There is no single magic solution which can solve them all. What is required is a wholehearted and drastic restructuring of the existing system and hard decisions in the face of political pressures. Re-structuring of
the existing institutions particularly RRBs and primary agricultural credit societies (PACs) is essential if they are expected to operate in an increasingly competitive environment; and the aim of re-structuring should be the viability of the institution. In the case of commercial banks, given their vast network of rural branches, the best way to overcome the gaps in credit delivery mechanism is through linkage with SHGs and NGOs. Simultaneously, with the restructuring of the existing set-up, the possibility of having small localised banks or single branch unit banks needs to be seriously considered.

The impact of financial liberalisation on rural credit needs to be assessed carefully. As liberalisation is currently understood in respect of financial sector, it means that credit institutions are free to select their clients, the activities, area of operation and charge market rates of interest. This has led to apprehensions that this total freedom may adversely affect the flow of rural credit. A cautious approach is therefore needed to ensure adequate flow of rural credit. Now that profitability has emerged as a criterion of performance of commercial banks, they have developed overnight a tendency to be indifferent to rural lending. Besides, liberalisation of financial sector links the economy with market-related costs and prices and makes it difficult for banks to continue social lending for unlimited period and at the cost of their profits. Commercial banks will have to re-orient their strategies to harmonise or strike a balance between social lending and commercial orientation.
Economic and trade liberalisation have added a new dimension to the volume and flow of rural credit. Emergence of a new version of GATT, i.e. World Trade Organization (WTO), corporate interests in agricultural exports and the need for financing "Hi-tech Agriculture" will lead to a growing demand for credit over and above the requirements of a growing rural sector and the programme for distributive justice.

The rural credit delivery system has been drawing the attention of Indian policy makers for a long time. Various committees studied the issues related to rural credit delivery system and made several suggestions, many of which were implemented. The main factors hampering rural development were identified as: (a) dominance of informal credit sources (money lenders) in the rural market, (b) lack of formal credit outlets in the vast rural areas, and (c) reluctance on the part of banking institutions to extend credit in rural areas, since it was considered a high-risk high-cost venture. To overcome these problems, a multi-agency approach towards rural credit was adopted. Several policy measures were also taken to make credit available in rural areas. These steps have definitely helped development of rural credit delivery systems and in turn helped rural development. Improvement in agricultural production over the last few years proves the point. At the other extreme, however, there are a large number of people (mainly those below the 'poverty line') in the rural areas without any viable means of income. It was hoped that improvement in the
credit delivery system in the rural areas will provide these people self-
employment opportunities.

It appears that credit was given more importance than it deserved in the
process of development. There was a belief that credit would bring about the
development and the responsibility for this was vested with the credit
institutions. As a result other important components of development like
improvement in infra-structure, education and awareness among people and
making rural areas more liveable with facilities like electricity, water, road,
education and medical facilities did not receive the required attention. On the
other hand, it was expected that the officials of the rural financial institutions
posted in the rural areas would be devoted to the rural development and do
more than simple banking, like educating people, advising them and assisting
them on their need.

This brings an important issue to the forefront, viz. the attitude of the
people who are responsible for implementing the development programmes.
The policy-makers expected that the officials at the grassroot level whether in
the banks or in the government agencies would be devoted to the cause of rural
development and be the catalyst in bringing improvements in rural society. As
the results showed, this was a tall expectation. The officials in rural areas are
not really interested in working in rural areas. There are some genuine
problems like lack of facilities for living in rural areas, and consequently,
maintaining separate establishments by officers, apart from causing inconvenience, are economically burdensome.

The other important point in this regard is non-involvement of people for whom the schemes are conceived. The people consider the schemes as having been designed by outsiders and there is a donor-receiver relationship between the implementing authorities and the recipients. Moreover, taking advantage of the vulnerability of the poorer sections, the powerful faction of the rural society started using the schemes for their own benefit.

In view of the above, the steps suggested to improve the situation are:
(a) Role of rural financial institutions should be restricted to banking activities only, (b) the NGOs should be encouraged to play the developmental role, (c) rural people should be allowed to take part in making decisions for their own development through forming self-help groups, and (d) the role of governmental agencies should be restricted to providing infrastructure support and research and development activities.

1.6 Rationale of The Problem:

Rural Credit in extent is as wide as rural society, which means practically as wide as the Indian nation. In content it embraces all economic activities. In India, the process of increasing and more equitably distributing the economic good must be conceived in terms of rural India. What India needs today is a comprehensive and determined programme of rural regeneration" (Report of the Committee of Direction of the All India Rural Credit Survey, 1954).
Rural financial market development is a complex process. The creation of a formal credit structure for financing agriculture and other rural activities commenced in India in the early part of this century with the introduction of cooperatives. It received a big-push during the plan era. The All India Rural Credit Survey Committee (AIRCS) 1954, forms the edifice, for the policy towards the development of the institutional credit structure. The committee highlighted the awful inadequacy in the supply of institutional credit to the rural sector and proposed an integrated scheme of reorganisation of the system of rural credit. In the four decades after that we have seen many more committees and recommendations. Priority sector lending, lead bank scheme, service area approach, setting up of NABARD, are some of the outcomes of the repeated scrutiny of the system.

Coming to the recent committees, The Agricultural Credit Review Committee (ACRC) 1989, examined the existing rural credit system in detail. It highlighted the yawning gap between income generated and costs incurred by rural credit institutions, necessitating external assistance. The committee recommended greater autonomy for commercial banks; the weaknesses of RRBs were seen as endemic to the system with non-viability built into them. Cooperatives were sought to be strengthened through thrust on deposit mobilisation and reduction of political interference. The Narsimham Committee on Financial Sector Reforms, 1991, among other things recommended a redefinition of priority sector, gradual phasing out of directed credit.
programmes to 10 per cent of aggregate bank credit and deregulation of interest rates.

Looking at the situation today, the exercises seem to have resulted in a scenario where "an imposing superstructure of credit institutions has been built which one Committee after another has kept reshuffling or adding to". (Dandekar, 1993). Commenting broadly on the exercise in developing countries (to which the Indian experience seems to be no exception), Braverman and Guasch, 1986, see most of the changes in institutional design as largely superficial, window dressing type rather than substantial. "The institutions have been perceived more like a welfare agency than a commercial undertaking. There seems to be little effort to integrate deposit taking activities or to generate savings mobilisation—a vital activity for the long run success of a credit institution. No provisions were made to deal with non-compliance, or to implement a reasonable system of incentives to both lenders and borrowers to induce the desired objectives."

The major problems of the rural credit system thus evolved are as follows:

1. It has not produced desired results in terms of the direction, quantum, and quality of the flow of credit.

2. It is afflicted by alarmingly high overdues, bad debts, loan defaults, inviability, low profitability, overburdening of staff, declining control, and deteriorating
customer service. It is estimated that the overdues of credit institutions have increased from Rs 2,818 crore to Rs 9,661 crore during 1983-93.

3. The complex tiering of funds through RBI-NABARD-Commercial banks-State Co-operative Banks (SCBs)-District Co-operative Banks (DCBs)-Primary Agricultural Credit Societies (PACS), has tended to unduly increase the cost of banking.

4. Features of rural credit markets in developing countries may be understood as responses to the problems of adverse selection, moral hazard, and enforcement (Hoff and Stiglitz, 1990). Imperfect information in this sense creates problems from the perspective of constrained Pareto efficiency. In the Indian case too, information imperfections have contributed to inefficiencies like high transaction costs and low recycling of credit.

5. From the institutional perspective, role of an appropriate institution as an enforcer and transmitter of incentives and motivator and inducer of savings is essential for development. The institutional design should serve to promote and facilitate functioning at the levels of both the lenders and the borrowers. This factor seems to have been largely overlooked in the Indian case. Motivating to perform has not been given due importance.

6. Directed credit programmes and subsidised lending have badly affected viable functioning of credit disbursing units. The entire exercise has largely come to be characterised by tiering of funds from above to borrowers who often take it as a gift that need not be returned.
Rural banking in India received a boost with the nationalisation of major commercial banks in 1969, with a view to extending the provision of banking services to the hitherto neglected sectors of the economy. There was a long felt need of establishing an exclusive financial institution primarily for the rural segment so as to meet the genuine credit requirement of the rural sector. Therefore, RRBs were set up in 1976 to supplement the efforts of rural branches of commercial banks and cooperative institutions in catering to the banking needs of rural areas. As the development of the country is inextricably intertwined with the economic upliftment of the rural populace, banks were viewed as catalytic agents for achieving balanced growth and social justice. In pursuit of the above objective, the geographical spread and expansion of bank branches, mainly at unbanked rural areas gained momentum during the post-nationalisation phase of Indian banking.

Out of 196 RRBs, as many as 150 have shown losses in each of the past five years. As at the end of March 1993, 172 were reported to be loss-making many having completely wiped out their equity and reserves and also eroded their deposits. The RRB structure has grown like a white elephant without serving its purpose. It is today hanging like a deadweight on the rural credit edifice. Several proposals have been put forth (like the merger of RRBs with their sponsor banks and amalgamating all of them under a national rural bank of India. The latest is the plan for restructuring RRBs in a phased manner, within the existing framework. Forty nine RRBs were selected for the purpose, in the
first phase. Each RRB is expected to have formulated a development action plan as per guidelines prepared by NABARD to attain the desired targets. A clearly observable feature in this exercise is that all the 49 RRBs selected for the restructuring exercise are either already profit-making or bordering on the break-even level; While these receive special attention, the RRBs that are deep in the red will continue to sink deeper, making many see the entire exercise as a political gimmick. Another 50 RRBs have been earmarked for the exercise in the current financial year.

The area of operation of an RRB is a vital factor for its performance. This coupled with positive management can create viable institutions out of them. Recent relaxation in conditionalities like reduction in percentage of target group lending, permission for portfolio lending of assets for better returns, and relaxation of service area obligations for some banks, are positive features. But the attempt should be to make each RRB a viable institution mobilising local resources and catering to local needs as originally envisaged. Otherwise their very purpose would be defeated.

1.7 The Concept of NPA:

The New Economic Policy was followed by adoption of Prudential Norms of income recognition, asset classification and provisioning. These norms required radical changes in the accounting policies and Balance Sheet structure
of the banks. The introduction of prudential norms of regulations aimed at ensuring the safety and soundness of the banking system, imparting greater transparency and accountability in operations and restoring the credibility of the confidence in the Indian financial system. Prudential norms serve two primary purposes first they bring out the true position of a bank’s loan portfolio and secondly, they help to arrest its deterioration. Prudential norms introduced in India related to:

1) Income Recognition
2) Asset Classification
3) provisioning for bad and doubtful debts.
4) Capital adequacy

Reserve Bank of India given a clear definition of what constitutes a 'Non-performing asset' and interactions have been issued that no interest should be changed and taken to income account on any 'Non-performing asset. Banks are now required to make provisions on advances depending on the classification of assets into the four broad groups:

a) Standard assets
b) Substandard assets
c) Doubtful assets
d) Loss assets

An asset becomes non-performing when it ceases to generate income for the bank. Previously a Non-Performing Asset (NPA) was defined as a credit facility
in respect of which the interest or installment of principal has remained past
due for a specified period of time which was reduced from four quarters to two
quarters in phased manner.

Due to the improvements in the payment and settlement system, recovery climate, up-gradation of technology in the banking system, it has been decided to dispense with past due concept. The Criteria of Non-Performing Asset was introduced as early as in 1992. However, the exact definition of NPA developed in due course of time. Different criteria for different types of account are given by Reserve Bank of India.

In case of Cash Credit & Overdraft Account the account has to be treated as NPA if it remains out of order for period of more than 180 days.

a) In respect of Demand Loan and Term loan Account the account has to be treated as NPA if Interest or installment of principal remains overdue for a period of more than 180 days.

b) In case of Agricultural Crop Loan and other purposes Account the account has to be treated as NPA if interest or installment of principal remains overdue for two harvest seasonal but for a period not exceeding two half years.

c) In case of the Bills purchased and discounted (BP/BD) Account the account has to be treated as NPA if remains overdue for a period of more than 180 days.
d) In case of other accounts Account the account has to be treated as NPA if any amount to be received remains overdue for a period of more than 180 days.

The provisioning requirement ranges from 10 percent to 100 percent depending on the category of the assets. The most crucial factor that governs the performance of banks is the health of its credit portfolio, level of Non-performing Assets (NPAs) of the total loan assets the urban co-operative banks aggregating Rs. 442.084 millions at the end of 2000-01 and NPAs ratio is gradually increasing from 1990-91 it is 11.8% (percent) and in 1995-96 it is 20.43% and in 2000-01 around-it is 20%. Introduction of Prudential Norms and the Concept of NPA after adoption of New Economic Policy has posed number of challenges before banks. The most important thing is that banks cannot take into account the interest on NPA accounts to P&L A/c and as a result the profitability is adversely affected. Similarly, the requirement of provisioning on NPA Accounts for Bad and Doubtful Debts also increases the burden of P&L A/c. As a result level of NPA was considered to be a major criteria of financial health of the banks. Banks had to gear up their human resources for recovery of over dues.

The problem was more serious in case of rural branches. Where subsidy supported lending under government schemes was on a large scale. Gramin Banks were one of these. Therefore, the researcher has undertaken the study of Non-Performing Assets in MarathwadaGramin Bank in Nanded District. It
would not be out of place to have a look at the overall NPA position of banks in India on the eve of beginning of this millennia i.e. 1999-2000 a period where the present study begins.

Table No. 1.1

(Rs. In Crores)

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Bank Group</th>
<th>Gross NPA Amount</th>
<th>Gross NPA Percentage</th>
<th>NET NPA Amount</th>
<th>NET NPA Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Scheduled Commercial Banks</td>
<td>608841</td>
<td>12.8</td>
<td>30152</td>
<td>6.8</td>
</tr>
<tr>
<td>02.</td>
<td>Public Sector Banks</td>
<td>53294</td>
<td>14.00</td>
<td>26188</td>
<td>7.4</td>
</tr>
<tr>
<td>03.</td>
<td>All Private Sector Banks</td>
<td>4932</td>
<td>8.5</td>
<td>3120</td>
<td>5.6</td>
</tr>
<tr>
<td>04.</td>
<td>Old Private Sector Banks</td>
<td>3986</td>
<td>11.3</td>
<td>2484</td>
<td>7.3</td>
</tr>
<tr>
<td>05.</td>
<td>New Private Sector Banks</td>
<td>946</td>
<td>4.2</td>
<td>636</td>
<td>2.9</td>
</tr>
<tr>
<td>06.</td>
<td>Foreign Banks</td>
<td>2615</td>
<td>7.0</td>
<td>844</td>
<td>2.4</td>
</tr>
</tbody>
</table>


From the Table No.1.1 it may be observed that an alarming position as the percentage of gross NPA of Public Sector Banks is 14.00% and that of NET NPA 7.4% whereas that of Scheduled Commercial Bank is 12.8% and 6.8% respectively. Similarly the position of Regional Rural Banks showed significant level of NPA during the period upto2000.
(Rs. In Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Standard Assets</td>
<td>63.2</td>
<td>67.2</td>
<td>72.2</td>
</tr>
<tr>
<td>02.</td>
<td>Substandard Assets</td>
<td>8.2</td>
<td>8.5</td>
<td>8.2</td>
</tr>
<tr>
<td>03.</td>
<td>Doubtful Assets</td>
<td>24.00</td>
<td>20.4</td>
<td>17.0</td>
</tr>
<tr>
<td>04.</td>
<td>Loss Assets</td>
<td>4.6</td>
<td>3.9</td>
<td>2.7</td>
</tr>
<tr>
<td>05.</td>
<td>Total NPA</td>
<td>36.8</td>
<td>32.8</td>
<td>27.9</td>
</tr>
</tbody>
</table>


Note: The Figures show percentage to total advances.

Table No. 1.2 reveals that, The Reserve Bank of India in its Annual Report 1999-2000 rightly remarked: The RRBs showed significant improvement in terms of the reduction in their NPAs during 1999-2000. The share of NPAs in total assets declined from 32.8 per cent as at end March 1999 to 27.9 per cent as end March 2000. The share of substandard, doubtful and loss assets declined during the year 1999-2000. As a result, the share of standard assets increased from 67.2 per cent as at end March 1999 to 72.2 per cent as at end March 2000. Though the figures show a declining trend a overall percentage of 27.9 in the year 1999-2000 shows an alarming situation. The issue of Non-Performing Asset becomes important in the public interest also because it is the public money which the banks are lending to the borrowers. Financial health of the banks and faith of public in banks both has a close relation with NPA level. Hence the researcher has selected the topic of the present study.

1.8 Objectives:
The objectives of the study are as follows:

1. To study the growth of concept of Rural – Gramin Banking as a part of development banks in the Indian Banking sector.

2. To present a profile of the area under study vis-à-vis profile of MarathwadaGramin Bank.

3. To review the performance of MarathwadaGramin Bank with special reference to Nanded district.

4. To present an analytic study of the concept of Non-Performing Assets (NPA) and Prudential Norms in the Banking Sector.

5. To present an analytic study of growth of Non-Performing Assets (NPA) in MarathwadaGramin Bank with special reference to Nanded district.

6. To present an analytic study of reasons of Non-Performing Assets (NPA) in MarathwadaGramin Bank with special reference to Nanded district.

7. To present an analytic study of problems in Non-Performing Assets (NPA) in MarathwadaGramin Bank with special reference to Nanded district.

8. To suggest suitable measure for reduction and control of Non-Performing Assets (NPA) in MarathwadaGramin Bank with special reference to Nanded district.

1.9 Hypothesis:
The hypothesis of the study are as follows:
1. The performance of MarathwadaGramin Bank with reference to major Banking Services is satisfactory.

2. MarathwadaGramin Bank has successfully implemented the Prudential Norms of Asset Classification during the period under study.

3. The performance of MarathwadaGramin Bank with reference to NPA level during the period under study is satisfactory.

4. There are multiple socio-economic reasons for NPA in MarathwadaGramin Bank and that there is no significant difference between the opinions of NPA customers and the MGB staff about these reasons.

5. There are number of financial factors responsible for NPA in MarathwadaGramin Bank and that there is significant difference between the opinions of NPA customers and the MGB staff about these reasons.

1.10 Research Methodology:

This is a analytic study based upon historical data. This is an empirical study based upon survey method. The present study is a analysis of the Non-Performing Assets of Marathwada Gramin Bank during the 10 years period of 2000 to 2009. with special reference to Nanded District.
A. **Primary Data:** Primary data has been the foundation of this study. The researcher has prepared structured first questionnaire for Management and Officers of the Bank and second questionnaire for customers of the bank.

B. **Secondary Data:** The secondary data from various published sources such as published data of various government agencies, Research journals and periodicals, Newspapers, Published Annual Reports etc.

C. **Sample Size:**

- **Universe of Study:**

  Present study is an in-depth analysis of the conditions that lead to Non-Performing Assets of Marathwada Gramin Bank with special reference to Nanded District during the period 1999-2000 to 2008-2009. The universe of study was formed of 60 branches of Marathwada Gramin Bank in Nanded District. Similarly there are 989 employees in the bank as per Annual Report of 31-3-2009. This is the universe of the Study.

- **Selection of Sample:**

  There are 16 talukas in Nanded district. There are 60 branches of Marathwada Gramin Bank. The researcher has selected 33.33% sample i.e. 20 Branches. The researcher has with the help of convenient random sample method selected 10
NPA customers from each of the above branch. Thus a total of 200 (20 x 10 = 200) NPA customers are selected.

The researcher has further selected 4 staff members from each of the branch including 2 officers and 2 clerks.

Thus a staff sample of 80 (20 x 4 = 80) were selected the Researchers was used Convenient random sampling method. total sample size 200+80=280 for this present study.

D. **Statistical Methods:** The researcher has used various statistical tools, techniques and methods such as collection, classification, tabulation, graphic presentation, percentages, averages and Chi square test. Etc.

1.11 **Scope and limitations of the Study:**

- **Scope:** India is a developing country. Banking is the backbone of Indian economy. It provides the financial support to the development activities after independence in 1969, 14 major banks were Nationalized and later on in 1980 6 more banks were Nationalised. The objective of Nationalisation was only to gear up the banking activity towards lending to rural poor. More pressure was given to the Nationalised banks for opening branches in rural area ultimately the process culminated in establishment of Gramin Banks under the leadership of some of the nationalized banks. MarathwadaGramin Bank is one of earliest established rural banks.
Banking in India since 1969, was guided by the socialistic pattern of society according to this, the rural poor, farmers, farm labourers, artisans and tiny industries were to be provided finance for their upliftment from poverty. Poverty eradication was one of the important objective of various programmes launched through banking industry. However, the banking in India during this socialistic period adopted improper principles. One such principle was that of accounting of interest income on the basis of accrual principle instead of realization principle. This boosted up the bank profit without actual realization of interest or installment from year to year. In 1990, India adopted the New Economic Policy. As a result of which on the recommendation of Narsimhan Committee Report, prudential norms of income recognition, asset classification and provisioning were introduced. This brought the concept of NPA – Non-Performing Asset in the Banking Industry.

The present study is related with MarathwadaGramin Bank and its NPA level. The study covers a period of 10 years from 1999-2000 to 2008-09. The year after which MarathwadaGramin Bank was merged into Maharashtra Gramin Bank. The study aims to analyse the NPA level of MarathwadaGramin Bank during this period with reference to Nanded District.

- **Limitations.** The limitations of the study are as follows:

  1. The study is limited to Marathwada Gramin Bank.
  2. The study is limited to geographically limited to Nanded District.
3. The study is limited for a period of 10 years i.e. 1999-2000 to 2008-2009.

4. The study is limited for Non Performing assets of Marathwada Gramin Bank.

5. In spite of sincere efforts of the researcher it becomes impossible to include the recent data on various aspect of the topic

1.12 Chapterization:

Chapter - 1 : Introduction

This first chapter presents a general introduction to Indian banking scenario with special reference to Nanded district. It defines the problem under study and explains its significance. This chapter also outlines the objectives, limitations and methodology of research. The hypothesis of the study are also presented and the chapter scheme is given.

Chapter - 2 : Review of Literature

This second chapter presents an overall review of literature related with the subject matter under study.

Chapter - 3 : Profile of Nanded District and Marathwada Gramin Bank

This third chapter is devoted to the profile of the area under study i.e. Nanded district with special reference to Banking sector.

This chapter also devoted to presentation of profile of MarathwadaGramin Bank. It covers the development of the concept of the
MarathwadaGramin Bank and its organizational structure. This chapter is based upon secondary data.

**Chapter - 4 : Theoretical Framework of the Study**

This fourth chapter is devoted to the Prudential Norms introduced in the Banking Sector after adoption of New Economic Policy in 1991. The concept of Non-Performing Assets and Provisioning in Norms are discussed as per RBI guidelines.

**Chapter - 5 : Non-Performing Assets in Marathwada Gramin Bank of Nanded District**

This sixth chapter is devoted to the analytic study of the growth and performance in the sector of Non-Performing Assets and analysis of reasons behind Non-Performing Assets. This chapter is based upon Primary and secondary data.

**Chapter - 6 : Analysis & Interpretation of Data**

This sixth chapter is devoted to the analytic study of the problems related with reduction and control of Non-Performing Assets. This chapter is based upon Primary data.

**Chapter 7: Conclusions & Recommendations**
This chapter presents conclusions and gives recommendations with a view to control Non-Performing Assets.

Thus, in this chapter the researcher has presented a general introduction to the topic under study a brief overview of major changes in the banking structure and policy in India has been given. Significance of the study is stated along with rationale and scope of the study. Objectives, hypothesis and limitations are stated. Similarly Chapter Scheme of the study is given.

Notes &References:


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