CHAPTER VII
CHAPTER VII

Major Findings, Conclusions Suggestions and a Policy Frame:

As a developing country, India, as a major policy measure decided to employ institutional credit system in a big way for developmental purposes and the system which began in the fifties exclusively as a Cooperative based network, has evolved over the years into a multi-agency system. Earlier reviews on rural credit revealed that the credit pattern that emerged in the evolutionary process of institutional set up is more skewed in favour of larger and big farmers, bypassing small and marginal farmers, landless agricultural labourers; rural artisans and rural entrepreneurs. There was therefore, a pressing need for speeding up the flow of institutional credit, to meet the credit needs of the weaker sections in the rural locations. A concrete and purposeful direction towards this end, initiated the process of opening of Regional Rural Banks from 1975 onwards with the main objectives of extending credit support exclusively to small and marginal farmers and agricultural labourers, whether individual or in groups and to Co-operative societies for agricultural purposes or for other purposes connected therewith, as also to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities within the notified area in relation to the Regional Rural Banks. Now that
the Regional Rural Banks have completed about one and half decades of their work in the rural areas with varying levels of success and near failures across the several states of India, there is justification to have an indepth study of Regional Rural Banks in Tamilnadu in terms of its special objectives and in the backdrop of Indian experience in rural banking.

Earlier works on Regional Rural Banks in India studied the general nature of bank financing at macro levels with short reference periods rather than on the performance of the bank at state level and the resultant position of the borrowers at micro levels. Keeping this in view, the present study makes an attempt to study the performance of the Regional Rural Banks in India, with special reference to Tamilnadu at different levels Viz., Banks, Branches and Borrowers. Hence the objectives of the present study can be put under two categories, those objectives like studying the performance of Regional Rural Banks in India over a period and assessing the performance and operational efficiency of a Regional Rural Bank and all its branches in Tamilnadu in particular for a period of 12 years. The other derived objective is to highlight the borrower's performance in the area of employment creation and income generation resulting from the bank loans. The hypotheses that have been formulated in the light of the above objectives are i. The bank
has recorded a high growth rate in (a) branch expansion, (b) deposit: mobilisation, (c) credit deployment, (d) credit-deposit ratio, (e) recovery and (f) profit. ii. The bank has achieved its viability through profitability and iii. The higher the age of the bank, higher is the performance.

This is an analytical as well as empirical study based on both secondary and primary data and is confined to the Regional Rural Banks (196 as on June 1988) in 23 states in India and the Pandyan Grama Bank (Regional Rural Bank) with all its 158 branches in Tamilnadu as also a sample of 358 respondents drawn from a cross section of the total borrowers from five randomly selected branches of the Pandyan Grama Bank from its five operational districts.

The major findings of the study are:

Performance of Regional Rural Banks in India;

The analysis on the performance of Regional Rural Banks at the national level for the period 1975 to 1988 brings out some of the strengths, weaknesses and problems in the working of the Regional Rural Banks.

The Regional Rural Banks in India have achieved a phenomenal growth during the past decades. The expansion in the number of Regional Rural Banks and their branches has been quite impressive and their geographical coverage in
terms of region, state, district and village seems to be adequate. With a modest beginning of 6 Regional Rural Banks in 1975 on an experimental basis, today as on 1988, there are 196 Regional Rural Banks. The number of branches has increased from 17 in 1975 to 13,586 as on June 1988. The Regional Rural Banks have covered 365 districts spread over 21 states and 2 Union territories and all the six regions in the country. The analysis on the expansion programme of Regional Rural Banks revealed four important features. They are: (i) Most of the districts in economically backward states like Bihar, Orissa, Uttar Pradesh and Rajasthan have been covered by Regional Rural Banks; (ii) Out of the 115 identified tribal districts in the country, as many as 92 districts (80 percent) have been covered; (iii) 90 percent of the branches have been opened at hitherto unbanked rural centres and (iv) Regional Rural Banks have been located in areas where the co-operative credit system was found weak and the commercial bank branch network was inadequate. The reasons for this record of Regional Rural Banks in respect of expansion could be attributed to: i. The Regional Rural Banks basically are the Government owned, regionally-based and rurally-oriented institutions which can not by rule enter into the Urban areas and (ii) Having assessed the suitability of Regional Rural Banks in the rural credit structure (particularly after Dantwala's review committee on Regional Rural Banks) priority has been accorded to the
Regional Rural Banks in the matter of opening branches in rural and semi-urban areas in the at operational districts under the branch licensing policy of the Reserve Bank of India. Thus, the process of expansion and filling up bank gaps must be taken as an indication as to the directional growth of Regional Rural Banks at All India level, fulfilling one of the objectives of development goals of Regional Rural Banks to widen the branch net work of banks particularly in rural semi-urban, unbanked and underbanked areas.

The performance of Regional Rural Banks in deposit mobilisation has been satisfactory. The total deposits of the banks increased steadily and substantially from Rs.20 lakhs in 1975 to over Rs.2455.90 crores by the end of June 1988. The average deposits per Regional Rural Bank and per branch also rose from Rs.3.33 lakhs and Rs.1.76 lakhs in 1975 to Rs.1253.11 lakhs and Rs.18.07 lakhs in 1988 respectively. The increase in the number of deposit accounts shot up from Rs.1.89 lakhs in 1976 to Rs.239.12 lakhs in 1988 indicating the efforts taken by the Regional Rural Banks in inculcating the saving and banking habits among the rural clientele. The per capita deposit amounts to Rs.1027, mostly collected from men of small means. It is also revealed that the rural banks have mobilised nearly three fourths of total deposits from the rural areas that too from their clientele. All these point out that the Regional Rural Banks have succeeded in mobilising the rural savings to a
great extent. However, there are inter state variations in deposit mobilisation by Regional Rural Banks. Thus, the banks through their network of branches have contributed to generation and mobilisation of rural savings which is also one of the foremost desiderate of a sound system of rural finance.

The most significant improvement has been evidenced in the case of advances. The growth record in the credit expansion programme of Regional Rural Banks has been impressive. There has been a continuous growth in the advances of banks since their establishment. 196 Regional Rural Banks were able to handle more than 99 lakhs borrowal accounts in the target group which is no mean achievement. The relatively low average advance per account of Rs.2444 indicates the small enterprise based - new orientation of the Regional Rural Banks. The analysis on advances made by the rural banks also revealed that the banks have made efforts in meeting the credit requirements of both the farmers, rural artisans rural entrepreneurs in the remote rural areas responding to the role of social responsibilities assigned to them. Further, by virtue of their large branch network in all operational districts, Regional Rural Banks have shouldered a major responsibility in the implementation of various governmental schemes for rural development in general and integrated rural development programme in particular.
It can, therefore, be said with confidence that the Regional Rural Banks seem to have fulfilled another criterion, namely efficient coverage and deployment of credit in rural areas and that too for their clientele groups and weaker sections.

Analysis of the recovery of loans against outstanding advances by Regional Rural Banks revealed that their performance declined continuously during the period 1980-1989. The quantitative growth in advances did not match with quantitative growth in recovery of advances which resulted in a steady rise in overdue percentage. The percentage of over-dues to outstandings has increased from 17.04 in 1980 to 25.70 in 1984 and further up to 26.80 in 1988, whereas the percentage of recovery to outstandings has declined from 82.96 in 1980 to 74.30 and further declined to 73.20 in 1988. Demand collection balance data for the year ending June 1983, indicated that percentage of overdues to demand was 48 whereas according to the same data, the percentage of over dues to demand was 51.11 as on June 1988. As such, the growth in overdues has been steadily increasing again with regional variations in recovery performance of Regional Rural Banks as in the case of oil KM: financial ins I. i Ui Lions.

The credit-deposit ratio, too, as an indicator of performance, seems to have moved from a mere 50 percent in 1975 to 165 percent in 1978. Afterwards, it was declining year by year and reached 99 percent at the end of the study
period. But the credit-deposit ratio of Regional Rural Banks is far better as compared to their counterparts of rural branches of Commercial banks. This points out to the fact that unlike other Commercial banks, the Regional Rural Banks passed on almost their entire loanable funds to their clientele in rural areas, thus contributing to the circular flow of money.

The idea of low Cost rural banks in terms of salaries, low profile, staffing pattern and office has almost lost its relevance due to substantial increases in the salaries of Regional Rural Banks' personnel. The average annual expenditure on salary alone per branch has gone up from Rs.28,000 in 1980 to Rs.45,000 in 1984 and further increased to Rs.79,649 as on June 1988. However, a comparison of cost structure of Regional Rural Bank branch with the branch of commercial banks revealed that the cost per branch is lower in Regional Rural Banks than in commercial banks, thus claiming to be a relatively low-cost credit institution.

An analysis of the working results of Regional Rural Banks for a period of 13 years (1975 to 1987) brings out the deteriorating financial performance of these banks. However, there are inter bank and inter regional differences between the two extreme i.e., profit-loss terminals. The percentage of profit making rural banks to the total Regional Rural Banks has declined from 67 in 1977 to 23 in 1987.
Correspondingly the percentage of loss incurring banks to total rural banks has increased from 33 in 1977 to 77 in 1987.

A further probe of the working results of Regional Rural Banks revealed that out of 196 Regional Rural Banks, 163 have registered continuous losses including that of their share capital erosion. The total accumulated loss has been put at Rs.1,333.10 crore as of June 1988. This is attributable to the problems of over-dues and mismatch between rapid expansion of branches and growth of business.

An analysis of the performance of the 196 Regional Rural Banks on the basis of the viability norms evolved by the Reserve Bank of India brings out the fact that only 21 Regional Rural Banks out of 196 (as on December 1987) are found to be satisfying all the viability norms.

On the basis of the analysis of data and information gathered, factors (both external and internal) affecting financial performance of Regional Rural Banks have been identified as External factors ~ (i) Locational disadvantages, (ii) Low level of Business turnover, (iii) Reduction in availability of Margin, (iv) Low yield on advance portfolio, (v) Deposit mix, (vi) Increased cost of servicing, (vii) Higher level of Cash Balance, (viii) Low cost Myth and (ix) Long gestation period: Internal Factors ~ (i) Widening
Income-Expenditure Gap, (ii) Ineffective Cost Control measures, (iii) Growth of operating expenses and (iv) Lack of manpower planning.

An overall picture of the performance of Regional Rural Banks numbering 196 over a period of one and half decades showed contrasting features. On the one hand Regional Rural Banks registered tremendous growth and progress, on the other hand they also accounted for huge accumulated losses. The progress made by the Regional Rural Banks under branch expansion, resource mobilisation and credit dispensation has amply demonstrated that this institutional innovation was well conceived and Regional Rural Banks have become a very useful component in the totality of rural credit structure and have proved their capability to serve the purpose for which they have been established. Also, the Regional Rural Banks have been fairly successful in fulfilling the social objectives laid down. But, it is also noticed that the attainment of these social goals might have been at the cost of declining profitability and financial viability.

Performance of Pandyan Grama Bank in Tamilnadu

The Regional Rural Bank that had been taken up for intensive study is the Pandyan Grama Bank in Tamilnadu. As against the all India picture, the overall performance of the Pandyan Grama Bank in Tamilnadu has been found to be
impressive in terms of not only branch expansion, deposit mobilisation, credit deployment and credit–deposit ratio but also in profitability even though there was a declining trend in profitability since 1980. The efforts of the bank since its inception have brought in the development banking "factLints in its 5 operational districts. the bank has reached .far-flung rural and unbanked areas which were relatively less opposed to the commercial banking. The bank has contributed greatly to the development of banking habits among the people through extensive branch expansion and better service to the customers.

within a span of 12 years (1977-1988) the bank with 158 branches ha:-; bull tupp a little over 3.70 lakhs accounts, mobilised deposits of over 30 crores and provided more than Rs.44 crore- as advances to the target groups which is an achievement, more so, when viewed from the social objectives of reaching the weaker sections of the population. It is significant to note that the credit–deposit ratio has been above .100 percent throughout the period under review.

The bank has formulated and implemented the special credit programmes* in its 5 operational districts with refinance assistance from NABARD. The bank's participation in the centre and state sponsored programmes has been recognised in many forums. However, the critical area relates to its sharp decline in earning profit after 1982 and declining
trend in recovery of loans and advances. The recovery of bank loan has been quite satisfactory till 1981, but thereafter, it has shown a declining trend.

The productivity performance of the bank in terms of deposits, advances, income and cash management has been quite impressive. The bank has shown continuously increasing returns per every addition of employee-input. The deposits and advances and income per employee have been rising continuously from the inception of the bank, thereby indicating increasing labour input and output ratio. Similarly, the percentage of cash balance to deposits which is taken as a broad indicator of efficiency in cash management reflected the efficiency of manpower of the bank over cash management. This being the case, the volume of business per rupee of expenses on manpower of the bank was found declining after 1980, mainly attributable to the increased wage bill of the bank.

Further, the cost efficiency ratio also revealed the inefficiency of the bank to have effective control over its operating expenses after 1982. The operating expenses for every Rs-100 of volume of business increased to Rs.5.16 in 1988, thereby indicating "high cost structure and profile". Thus the idea of low cost bank has almost lost its importance.
The profitability ratio of the bank had slowly gone up to 1980 and declined steadily later. The peak was noted in 1980 when it stood at Rs.1.42 per Rs.100 of business and in 1988 it is Rs.0.05 per Rs.100 of business. Again the increase in manpower expenses contributed to the decline in the profitability of the Pandyan Grama Bank. While assessing the relationship and influence of variables on the profitability performance of the bank, the simple correlation technique reveals that in the case of selected bank, profitability is related with spread, interest earned and 'other income'. Burden, interest paid, manpower expenses have only a negative association with the profitability performance of the bank. These associations are quite expected. Again, an inter-correlation among the profitability indicators reveals that the spread is positively associated with interest earned and negatively related with interest paid. Burden is positively associated with manpower expenses and negatively related with other expenses and not interest income. The result of the inter-correlation among the indicators demonstrate internal consistency. The standard regression coefficient indicated that a major portion of Lho profit c,m b- influ.nccHl by UK« olhrr -x^nsc-s.

The viability performance of Pandyan Grama Bank indicated that within the specified period of six years, the bank has achieved its financial viability intorms of identified indicators.
While assessing the performance of Pandyan Grama Bank over years using a set of 12 identified performance indicators, it was found that the overall performance increased with the number of years of its working. The simple correlation indicates that the performance of the bank is positively associated with its age and hence the hypothesis that the higher the age of the bank 'higher is the performance' has been proved. However, in terms of profit earned by Pandyan Grama Bank, there is a negative relationship between the age and profitability. Again, an inter-correlation (Correlation matrix) among the performance indicators reveals that branch expansion is positively associated with increased deposit mobilisation, deployment of credit, borrowings, reserves, volume of business, income, expenditure and staff strength, indicating that the higher level of performance of the bank is linked to its branch expansion programme.

A comparative performance analysis of Pandyan Grama Bank with other Regional Rural Banks in the sphere of selected performance indicators as well as on the basis of composite performance index, revealed that the Pandyan Grama Bank seems to have a performance edge over the similar and similarly situated Rural Banks in different states in India which were started operating from the same year i.e., 1977.
The three generated hypotheses, viz., (a) the Pandyan Grama Bank has recorded a high growth rate in number of branches opened, deposit mobilisation, credit deployment, credit-deposit ratio, recovery and profit over a period of time, (b) the bank has attained its viability through profitability and (c) the higher the age of the bank higher is the performance, have been tested and found that the Pandyan Grama Bank has recorded (1) a higher growth rate in number of branches opened, deposits, advances and credit-deposit ratio over a period of time, (2) the bank has attained its viability through profitability and (3) performance of Pandyan Grama Bank is associated with the age of the bank.
Performance and Operational Efficiency of Pandyan Grama Bank Branches

All the branches of Pandyan Grama Bank in the five operational districts selected for the study have also turned out to be impressive in performance. An assessment of the performance and the operational efficiency of the branches shows

1) As expected of them, the Pandyan Grama Bank, through its branch network spread in remote rural areas have carried banking to the door steps of the rural masses, thus at the end of June 1989, the Pandyan Grama Bank had 158 branches in its five operational districts. More than 90 percent of branches were opened in hitherto unbanked rural centres.

2) A further analysis of the location of the branches revealed that the bank has deeply penetrated into hitherto unbanked and the unreached rural centres. This can be substantiated by the fact that the share of Pandyan Grama Bank's branches to the total number of branches of all commercial banks in the 5 operational districts was 21 percent and the percentage of rural branches of Pandyan Grama Bank to total rural branches of all commercial banks was 32 percent in 1988-89.

3) The performance of the branches of Pandyan Grama Bank, in its five operational districts is satisfactory interms of
the indicators like deposits, advances, recovery and volume of business. The per capita deposits per branch increased from Rs.594 in 1984 to Rs.803 in 1988-89. The per capita average loan amount also increased from Rs.1671.00 in 1984 to Rs.2440.00 in 1988-89 recording an increase of 46 percent during the period under review. The average percentage of collection to demand for the branches as a whole steadily increased from 55.40 in 1986 to 62.00 in 1988-89. The average volume of business per branch has increased from Rs.23.44 lakhs in 1984 to Rs.32.79 lakhs in 1988-89.

4) Interms of the indicators like, credit-deposit ratio and profit, performance of the branches are not very satisfactory. The overall credit-deposit ratio for all the branches has decreased from 158.35 percent to 147.01 percent in 1988-89. The analysis of the performance of branches interms of profit indicators brings out that the percentage of the branches that generated profit came down to 51.90 from 57.67 whereas the percentage of loss incurring branches has increased from 42.31 to 48.10 during the period 1984-1998-89. A further analysis on the working results of the branches indicates that 43 branches in all the five districts were continuously making profit. For the same period, the number of branches continuously incurring loss were only 6 in all the operational districts.
5) But there are inter-district variations in the performance of the branches mainly due to varying levels of infrastructural facilities and linkages available in the service area of these branches.

6) The productivity performance of the branches in respect of deposit and advance accounts per employee, deposits and advances per employee and income per employee has been quite satisfactory reflecting the efficiency of manpower of the branches. There are however inter-district variations. The per-employee deposit and advance accounts for all the branches, on an average has increased from 812 in 1984 to 842 in 1988-89. Deposits and advances per employee has also registered with an impressive growth of 41.15 percent during the period under review. Ifotal income per employee for all the branches on an average recorded a little more than one and half fold increase over a period 5 years under review.

7) An overview of percentage of cash balances to deposits points out that a majority of the branches are less efficient in cash management. This is clear from the fact that the average percentage of cash balance to deposits have increased from 3.14 in 1984 to 3.33 in 1988-89.

8) Regarding the volume of business per rupee of manpower expenses, the branches in all the districts recorded a negative productivity performance. This is also revealed from the fact that the average volume of business per rupee
of manpower costs for all the branches which was Rs. 68 in 1984 sharply declined to Rs. 31.00 in 1988-89. This indicates that the volume of business per rupee of manpower has not risen intune with the rise in payout per employee. This means that the employees have not fairly responded to the compensation package received from the bank.

9) A rise in cost efficiency ratio and diseconomies of scale in branches (ie.,) a greater increase in operating cost per Rs.100 volume of business (around 41 percent) during the period under review resulted in declining trend in the profitability performance of the bank branches but with inter-district variations in the performance and operational efficiency of branches.

The strength and weakness of the overall performance and operational efficiency of branches in the five operational districts have reflected on the performance and operational efficiency of the bank and proved that the performance and operational efficiency of branches (at micro level) decide the efficiency of the overall bank system.
The field level borrower based study revealed that

1) Loans have gone to the target group only. The borrowers of the bank belong to the clientele group consisting of small and marginal farmers (51) landless agricultural labourers (124) rural artisans (75) and rural entrepreneurs (108). A majority of the sample borrowers are socially and economically backward. They have availed credit assistance from the bank branches for the expansion of their current productive activities like cropping, minor irrigation, allied activities of agriculture, village and cottage industries and small business. Misutilisation of borrowed amount was also noticed among the borrowers. Bearing a few, the end use of the loans have helped the borrowers to expand their scale of operations.

2) The loans advanced to the target groups have also resulted in creating more employment both at the family level and outside. The average incremental employment created from the 16 loan activities under study was restricted to 32 days per sample borrower family. However, there are inter district-wise, sector-wise and activities-wise variations in employment creation. This could be attributed to the variations/differences in the principal activities of the 5 districts under study.
3) It is also noticed that the productive loan activities carried out by the sample borrowers with credit assistance from the bank branches made impressive contribution (positives change) in raising the household net income of the sample borrowers of the five districts. The average annual increase in net income from the activities financed, taking all the five districts together, stood at Rs.1237 per sample borrower. The net incremental income generated out of the loan-assisted activities has been relatively higher in agriculture (Rs.1839) and tertiary sector (Rs.1493) activities than "allied" (Rs.1150) and village cottage industry sector activities (Rs.345). This in turn has recorded a higher household income in the post loan period.

4) The credit assistance provided by the bank branches to the borrowers have made a significant contribution to the reduction of poverty (69.01 percent) which prevailed among the borrowers in the pre-loan period.

5) The repayment performance of the sample borrowers, relatively speaking, can not be termed as very bad and stood at 58 percent of the loan amount due. As such, the functioning of various activities by the bank had proved beneficial in several ways to the borrowers, with slight inter-district variations.
The present study on Regional Rural Bank in Tamilnadu brings out a significant fact that the performance of Pandyan Grama Bank in terms of the specific development goals has been fulfilled as against the dismal profit picture of other Regional Rural Banks in India. The bank has a greater role to play as well as concerned areas for improvement.
Suggestions and policy frame

In the light of the flow of findings, it could safely be said that the Regional Rural Banks need to strengthen and to an extent redesign their activities to a further and purposeful penetration into rural locations with greater degree of success. This is very important, particularly when the Regional Rural Banks should necessarily cater to the needs and requirements of the weaker sections of the rural society which again is a very crucial and priority role in the poverty termination programmes. The following are some of the suggestions to improve the working of the Regional Rural Banks, to make them achieve the objectives without in any way surrendering their viability base.

The Regional Rural Banks have to make vigorous efforts to mobilise rural deposits both from individuals and institutions by formulating and implementing innovative methods of deposit mobilisation, through organizing Deposit camps with wide publicity at the time of harvesting and marketing of crops. In this regard, suitable innovative saving schemes targeted upon their clientele groups such as "Chits" and small savings are also to be thought of.

Each Regional Rural Bank branch need to make a detailed and realistic estimate of the credit potential within its operational area by taking into account the actual felt
needs of its clientele groups in different sectors of the rural economy so as to identify area specific, economically viable and technically feasible credit projects that could be generated. In this respect a package of credit programmes (multi-purpose credit support for such as (investment, production and consumption) or for more than (two or three productive activities) should be carved out and provided to the clientele group of borrowers in view of income generation on a long term basis which is perhaps not rare in some RRBs now. But it must be expanded. This balances the quality of lending; and if this is combined with adequate and timely quantity of credit the end usage of it and repayment would not be a problem. The banks may also explore the possibilities of group loans (as in the case of Bangladesh Gramena Bank) for developmental purposes within their operational areas.

It is, therefore, not only important to augment and improve the loan portfolios of the RRBs but it is equally important to effect the timely recoveries of the loans advanced. Prompt and effective recovery of loans is to be made by a proper followup action by the field officers of the banks from production point to distribution of product. The block level extension agency which is associated with the advance of loans under schemes must equally be associated and held responsible for the recoveries of loans. The state government agencies may have to show the same keen
interest in recovering the loans which they exhibit at the time of making advances. Mass loaning under government schemes/programmes must be accompanied with mass recoveries as well. In the respect, the borrower education programmes (like the Vikas Volunteer Vauhihi sponsored by NABARD) wherein borrowers are reached with the message of "development though credit" through successful – borrowers and credit club could be taken up in RRB's.

In order to increase productivity, the employees of the banks must be motivated by suitable incentives like rural working allowances, promotions and providing loans for construction of houses, etc., on the basis of the volume of business turned out by them. Periodical inspection, instruction and setting up of proper controls and vigilance squads will reduce the cash balance and the maladministration of funds. For achieving cost efficiency, the bank should exercise effective control over the cost items i.e., on charges. In order to increase profitability, the bank should increase not only the volume of business per employee but also undertake new banking services through which non-interest income could be increased. The RRBs should continue to enjoy the assistance, guidance and help from Union Government, state government, sponsor bank, RBI and NABARD and RRBs should be considered more as a service institution to the rural poor than as a profit earning bank.
Conducting the 'Grama-Sahba' in every village at least twice a month by the branch managers will help to identify and solve the problems of selection of right borrowers and as well as motivating them to use credit for productive purposes (developmental purposes) and to repay them promptly. The introduction of loan book system as in line with Agricultural pass book system could reduce the problem in availing timely, adequate credit and cut-down multiple and over financing. Periodically, the bank should go in for external evaluation on the impact of different loan schemes.

If the Regional Rural Banks are to be made more effective and result oriented, their working need to be screened and reshaped. A few such measures have been presented below.

1. The process of allotting a large number of rural centres to RRBs for opening their branches, at the instance of the state governments concerned, is in progress. However, it would appear that some of the state governments have identified centres which lack even basic infrastructure facilities like all weather roads, transport facilities and availability of premises to house the branches. The state governments should assist the RRBs in providing the essential infrastructural facilities so that the latter could go ahead with their branch expansion programme in a planned manner.
2. Further, RRBs do not get the necessary patronage of state governments in the matter of placing deposits with them and also in the matter of recovery of dues in the case of government sponsored programmes. As the state governments are involved in setting up of RRBs and also have a say in their management, it is but imperative that the state governments extend the same preference to RRBs as in the case of Co-operatives. The facilities currently available to the co-operatives like exemption from stamp duty for making advances, the "Out of Court" procedure for recovery of over-dues through mortgage of agricultural land etc., should also be extended to the RRBs.

3. With a view to improve the viability of the RRBs, there is a proposal to enlarge the scope of the RRBs lending, so as to cover bigger farmers also. While there may be a case for enlarging the scope of lending activities of RRBs, particularly in such areas where there are no other institutional agency to extend finance to other hitherto non targeted farmers, the broader issue of the scope of RRBs' lending, needs to be more carefully examined so as to ensure that the RRBs continue to identify themselves as an exclusive agency to support men of small means and needs. Infine, while broadening the reach, the original objectives of RRBs should not be diluted.
4. The uneven progress made by the RRBs in the country, in respect of branch expansion, deposit mobilisation and dispensation of credit, calls for a suitable monitoring mechanism by the sponsor banks, in order to identify the factors helping/impeding their progress and take appropriate measures so that their performance picks up and fulfills the objectives more effectively.

5. As banking institutions, RRBs too have to run on profitable lines. Various committees have been formed and brought out problem based solutions for extended service, profitability and viability of the RRBs. The implementation of the suggestions however has been left to the guiding authorities like sponsor banks, NABARD, and Reserve Bank of India. There seems to be a need for a single and strong authority for effective implementation of the policywise acceptable suggestions.

6. Further, with a view to improve the viability and profitability of RRBs, improvements need to be shown in the following areas. Effective management of cash balance, increasing the interest rate on lending and increase in the volume of business.

7. Having regard to the needs of the rural clientele and to bring about greater operational efficiency at the branch level, the gross root level officers of the bank should carveout location and clientele specific credit programmes
(other than traditional). Further, for the upliftment of rural poor, compact projects, instead of provision of credit for only one productive activity which could generate income on a long term basis need to be insisted. When higher production results and income generation is commensurate with the investment, paying a little higher interest is not a problem.

8. Unlike other commercial banks, the RRBs lend almost their entire loanable funds to weaker sections: hence there is greater need to ensure proper utilisation of funds and quality of lending. In the absence of necessary safeguards, RRB may be burdened with heavy over dues which might choke the very line of credit to this growing institution. As the staff recruited by RRBs are generally drawn from the rural areas and have necessary local feel and orientation, RRBs have an edge over other commercial banks as far as better supervision and monitoring of end use of the funds made available to their borrowers and as such, there should be no difficulty in cashing on this asset to the bank's advantage.

9. The success of the RRBs would in the long run depend upon the development of a dedicated band of workers with right attitude, and for this purpose, proper training and orientation of the staff is necessary, and it would be worth
considering the setting up of special institutions for training of RRBs staff instead of tagging them to sponsor banks training centres for this purpose.

10. The experiment of reaching the rural poor with specialized low cost banking institution like RRBs, over a period of time has given mixed results. The positive strength points need to be identified and strengthened further for cost-effectiveness, higher rural reach and credit productivity, which need not be in the form of mergers with sponsor banks but rewarding the more successful RRBs with increased capital structure and continued concessions and at the same time cutting-out the loss making RRBs to size which may even result in reduction in the number of their branch outlets and tie ups with more successful RRBs in the neighborhood.