Banking is one of the major constituents of financial sector of India, which is transforming the human economic development leading to economic growth and development of the country. The information technology is pinpoint to leverage the program of financial inclusion which in turn changes the facets of banking sector in all dimensions. As school, temple, and post office which are indispensable in every human being walks of life, similarly banks are too indispensable to make a healthy and vibrant economy. Further, they are catalysts in every area of development, be it agriculture and allied sector, industrial sector, export and import sector, service sector, etc. In other words, for attuning and attaining the cherishing goals of 21st century, an emphasis must be laid on financial inclusion. Its existence, growth and development should be planned in tune with ever changing technology as well as ever-changing financial needs and services of customers. The infrastructure is the base to the rapid economic development of the country, so also the health of the banking sector to determine the degree and direction of the economic development of the country.

CREDIT

India’s investments are estimated for the three year period ending 2008 for stepping into rural infrastructure about US$ 3 billions. The important areas of rural infrastructure are: drinking water and sanitation, electrification, irrigation, roads, tele-
communications and housing. For achieving the improved health and educational facilities and protecting rural country side from natural disasters like floods, earthquakes, etc., the Government needs huge investments. To achieve all these, rural credit plays a crucial role.

The credit needs of weaker section people in rural India still remains as an important segment to be adequately fulfilled. The small farmers need credit for short-term requirements of crop cultivation and also for the long term requirements of purchase of farm equipment, irrigation and land development. Similarly the agricultural laborers need credit for dairy, sheep, piggery, etc. The rural artisans require credit for their tiny, village and cottage industries.

**INSTITUTIONALIZATION OF RURAL CREDIT**

The history of private money lenders in rural India is as old as the villages in which they live. It was during early 20th century in 1904 that the system of agricultural credit cooperatives was set-up. The active participation of commercial banks in rural lending picked up only after the nationalization of banks in the year 1969. During the post nationalization era, the regional rural bank network was established. The performance of the banks in the period after the 1990's has been triggered by reforms in the banking system.
For assessing the demand for rural credit, the World Bank had made a study in dry land region in the State of Karnataka. It is estimated that the average annual credit usage by rural households from all sources amounted to Rs.14549. It also estimated that 65 per cent of total credit was utilized for productive purposes and the running for consumption purposes. Further classification revealed that 16 per cent of the total usage was for long-term productive purpose, which meant for the purchase of farm equipment and livestock.

The Government of India and Reserve Bank of India efforts over a period of time in building a rural credit system led to the emergence of a Multi agency Approach towards rural credit. As a result, the multi-agency approach has been institutionalized for the purpose of rural lending. This approach comprises of cooperative credit structure, commercial banks, regional rural banks and micro-finance institutions in the rural areas. Regional rural banks have played a catalyst role in meeting all types of credit requirements of the rural community, though its order of place is last but not least in the evolution of rural credit system.

Thus, the historical evolution and revolution picturise that the Indian banking sector has undergone towards innovativeness in terms of concept and percept committed to the planned growth and development of economy. In other words, the socio-economic
objectives the country depend on the managerial and financial soundness of the banking sector. As financial intermediation, the banking sector with its effective management practices mobilizes savings and deploys credit. Therefore, it can be considered that the bank is an important “Agent of Change” facilitating the achievements of socio-economic goals of the nation.

REGIONAL RURAL BANKS

The emergency and moratorium on loans were compelling the situations to think separate institutions for meeting the credit requirements of the rural community. The then Prime Minister, Smt. Indira Gandhi has taken up the initiation for appointment of the committees on rural credit. Based on the recommendations of Banking Commission and the Working Group, the Government of India established Regional Rural Banks under the RRBs Act, 1975. These banks were set-up with a rural-orientation having the benefits of low cost profile of cooperatives and at the same time benefiting from the professionalism and modernity of commercial banks. The weaker sections have been a target group for assistance in the multi-agency approach. The regional rural banks would be a ‘model financial infrastructure’ for rural development with patronage and encouragement given by planners in the field. Thus, the State sponsored, regionally based and rural oriented commercial banks have taken birth in rural India which popularly known as ‘Regional
Rural Banks'. These banks penetrate every corner of the country and have been extending a helping hand in the growth of the economy.

REVIEW OF LITERATURE

The current knowledge on the topic of the subject is reviewed hereunder to appraise the need for the present investigation.

A study on financial performance of regional rural banks in Rajasthan was made by Vyas, M.R., and analyzed their financial performance with the help of quick-ratio, credit-deposit ratio and profit to proprietors' capital ratio and working capital analysis. He said that the regional rural banks had a promising future as an effective instrument in the economic growth and uplift of the never cared for and down-trodden sections of Indian society, particularly in rural areas.¹ The committee in regional rural banks called Dantwala Committee² was appointed by the Reserve Bank of India to review the performance of regional rural banks. The committee evaluated the performance of regional rural banks in the light of objectives and the precise role for which they were set up in the rural credit structure. It recommended the enlargement of its scope and adoption of liberal procedure.

Garg, Singh and Tripathi in their study found that "the small and marginal farmers are the major beneficiaries; and there are relatively fewer beneficiaries in the group of agricultural laborers."
This analysis revealed that there is an increasing demand for term loans, particularly for the development of irrigation, dairying and poultry."³ A study on functioning of public sector banks was undertaken by James Raj Committee. It was found that apart from opening more branches in rural areas, the regional rural banks should take over gradually the existing rural branches of commercial branches."⁴

Charan D.Wadva is one of the prominent researchers on regional rural banks. He recommended that the regional rural banks are allowed to lend to richer sections of the society up to a maximum of 25 per cent, and the remaining 75 per cent must be reserved for weaker sections of the society. Further recommended that an effective credit administration measures such as making credit appraisal, monitoring the progress of loans, initiating the measures for efficient recovery of loans, adopting flexibility in loaning procedure and undertaking full range banking services and change of office timings are more essential.⁵

Tiwari made a study on working of regional rural banks. He stated that "the regional rural bank can become a profit making institution at a level of business of about Rs.3 crore. It could be expected to reach that level in about three to four years."⁶ Attempts were made on the deposits pattern of a grameena bank by Reddappa Reddy and observed that "deposits are less than
advances, and as such, its survival depends on the refinance facility extended by NABARD and other agencies.”

The location of regional rural banks or health of the sponsor bank does not significantly affect the performance of regional rural banks. It is the specific nourishment which each regional rural bank receives from its sponsor bank, which is cordial to its performance.”

In the study, Kullu Rao and Shaji Thomas found that “the deposits are growing at compound rate along with advances to agriculture and rural industries, and observed an increasing trend in recovery rate with an average of 50 per cent.”

“The recovery position of commercial banks and regional rural banks are affected to a large extent by the loan-waiver promises made by some political parties” is the opinion of Gayathri.

Patel is of the opinion that measures for success of each and every eligible rural household under the family credit plan and the focus on rural credit in the place of agricultural credit, suggested effective measures to improve the working performance of regional rural banks. Srivastava R.N.et.al., in their study stated that “the regional rural banks provided an easy and timely crop loan at reasonable rate of interest, helped the farmers to have different type of inputs in an optimum manner.” Navin Chandra Josh found in his study that the postponement of dues or writing off overdues tends to have an adverse effect on the working performance of regional rural
banks. He insisted on improving the economic viability of rural poor, which in turn helps to improve the economic viability of regional rural banks. Each regional rural bank would require about six years and a network of 70 branches to become viable with an outstanding loan business of rupees eight crore.\(^{13}\)

"Excessive local involvement and prolonged local interventions have led to rampant malpractices, corruption, excessive political interference, stagnation and unhealthy unionisms. Further, confinement to local aspect has narrowed the vision and experience of the regional rural banks staff resulting in their little or no development."\(^{14}\)

A Working Group on multi-agency approach made several recommendations which includes that the regional rural banks are preferred because they are better suited to direct financing of farmers owing to their low cost structure and rural ethos, non-eligibility of large and medium farmers in getting credit from regional rural banks and encourage to open more branches in un-banked rural areas by regional rural banks.\(^{15}\)

A review of working of twelve selected regional rural banks by the Dantwala Committee noticed that regional rural banks had demonstrated their ability to serve the purpose for which they were established in spite of handicaps within a short span of two years. On the financial results, the committee states that regional rural
banks possesses the requisite potential and capability to attain financial viability and become profit making institution at a level of business of Rs. 3 crore, which could be expected to be reached in about 3 to 4 years.\textsuperscript{16}

The committee under the chairmanship of Sivaraman, B., to Review the Arrangements for Institutional Credit for Agricultural and Rural Development assessed the regional rural banks in rural credit and made certain recommendations, which inter-alia, in view of regional rural banks low cost profile, wide network of its branches in the remote areas and local feel of its staff, they are more suitable in rural areas. Though the regional rural banks incur losses in the initial years but it made good annually by shareholders in the same proportion as their share holding and the emoluments and other service conditions of the regional rural bank staff, who are recruited locally and posted are transferred within the area, or in line with those obtaining for the State Government staff in comparable cadres who constitute the bulk of the salaried people in the area.\textsuperscript{17}

The committee on control over branches of regional rural banks observed that the staff of different cadres should be train properly before being placed in rural charge of business. It also suggested that there should be an internal audit and inspection cell at the regional rural banks head office whose main function and responsibility will be the periodical inspection of branches. Further, it
stated that the regional rural banks may be allowed to lend the richer sections in selected villages in certain proportion.\textsuperscript{18}

At the behest of NABARD, Agricultural Finance Corporation made attempts on a comparative study on the performance of three regional rural banks sponsored by Syndicate Bank drawn from Karnataka and Andhra Pradesh. On covering the issues of recruitment and training, organizational structure, role of sponsor bank, bank's efforts for deposits mobilization, composition of funds, analysis of loan operations, credit-deposit ratio, recovery performance, cost of operations and income, expenditure patterns of regional rural banks and commercial banks. The Corporation observed that more emphasis is not on earning profits but on building up of substantial reserves and link payment with marketing for avowed purpose of ensuring recovery, allow lending to the richer section in the identified villages within a certain fixed proportion of their total lending.\textsuperscript{19}

The Reserve Bank of India's Steering Committee evaluated the financial viability of regional rural banks. Fifteen regional rural banks which had been in existence for over three year period, transacted a loan business of Rs.3 crore by the end of December 1978. The selected regional rural banks were divided into A and B categories. While the former included the regional rural banks, which had outstanding loan business of Rs.3 crore and above, and
the latter covers the regional rural banks, which had not attained outstanding loan business of Rs.3 crore though completed three years of working as on December 1978. The observations include:

i. On an average, a RRB had opened 48 branches by 1978. The opening of branches by banks in ‘A’ category was faster than by banks in ‘B’ category

ii. The performance of banks in category ‘A’, in terms of deposits mobilization and advances was better than banks in category ‘B’

iii. Of the loans, 70 per cent were for agriculture, 22 per cent non-agriculture, five per cent indirect and the rest others

iv. Only five banks had given advance for gold loans for both farm and non-farm activities

v. The average earning per Rs.100 of loans and advances was comparatively higher in ‘A’ category than category ‘B’

One of the main findings of the study is that, on an average, a regional rural bank would require about six years time and a network of 70 branches to become viable. For this, it is necessary that it should transact a loan business of Rs.8 crore and also enjoy a margin on lending rate.20

Varde and Singh conducted a study on overall profitability performance of four regional rural banks with 10 key indicators relating to various components of profit and loss to a common
denominator, i.e., volume of business. Though, the study indicated the profitability performance of all regional rural banks had improved over the three-year period from 1978, the manpower and other operating costs put together, as related to volume of business, are significantly declined for all the regional rural banks. Again, the spread ratio showed the similar tendency. The downfall in manpower and other expenses ratio is largely responsible for improvement in the profitability ratio. Compared the ratio of manpower and other expenses of regional rural banks to commercial banks, the study felt that the manpower and other expenses ratios of regional rural banks should decline in future with increase in the volume of business per employee.21

Suresh Kumar examined the extent of utilization and impact of credit provided by the Rayalaseema Grameena Bank based on the secondary data.22 Jagadish Prasad and Sunil Kumar found that “most of the beneficiaries belonged to poor families and the borrowings had a positive effect on generating income and employment position of beneficiaries.”23

Regional rural banks had succeeded in mobilizing deposits from weaker sections but recovery was poor. This view was spelt out by Vasam Anand Kumar24 and Hebbar A.R.K.25 “Regional Rural Banks could do well in mobilizing deposits and infusing thrift habit among the rural masses” is the opinion of V. Jagan Mohan.26 On the
deposits growth front, Pai confirmed, that the regional rural banks recorded a superior performance vis-à-vis industry average.\textsuperscript{27} Nadeem Mohin and Raghunath Jha dealt with the role of regional rural banks in financing the integrated rural development programme. The main focus of the study was on repayment performance. The study revealed that only one-third of the beneficiaries repaid the amount borrowed.\textsuperscript{28}

Dixit, Chakraborty and Dubey observed that “the borrowings from regional rural banks helped the weaker sections and non-farmers in increasing their level of income and employment either through adoption of new business or expansion of their existing business.”\textsuperscript{29} Sankaraiah and Bhagavan Reddy studied the recovery performance of Rayalaseema Grameena Bank. They stated that there is a declining trend in the recovery efficiency of Rayalaseema Grameena Bank over a period of time.\textsuperscript{30} Ammanaya in his study inferred that to be effective instruments of rural development, the regional rural banks should be strong with a good image and a capacity to mobilize adequate resources through deposit and better productivity, and should increase earnings substantially.\textsuperscript{31}

Shylendra stated that “the innovative self-help group based lending help in supplementing the institutional credit agencies to reach the rural poor effectively.”\textsuperscript{32} The Internal Working Group on Regional Rural Banks was set up by Reserve Bank of India. This
Group after study listed that the operational viability and economies of scale are the advantages of merger. Now, regional rural banks are in the process of merging. The amalgamation of regional rural banks will not automatically improve efficiency, but enlarge their area of operation and business opportunities"  

Sharma R.H Das studied the performance of 17 public sector banks. Swami and Subramanyam studied the inter-bank differences in the performance of public sector banks in India with the help of the taxonomic method and found that many banks had wide disparities in their measures of performance. Novlas and Ketkar conducted a study to examine the technical and scale of banks.

Amarendra Reddy A, in his study found this: "Regional rural banks showed significant economies of scale in terms of assets and number of branches under each bank. Overall, there is a convergence of efficiency of regional rural banks during 1996-02. Parent public sector banks have no influence on the efficiency and productivity growth of regional rural banks."

Battacharya found that performance of the public sector banks were sound as compared to the private sector banks while Sathya found the opposite results in his study. Saha and Ravi Sankar rated 25 public sector banks using the Data Envelopment Analysis (DEA). A study on technical efficiency and benchmark performance of 68 commercial banks
was conducted by Mukherjee et.al. This study revealed the public sector banks are more efficient than both private and foreign banks.\textsuperscript{41} The profit and profitability of commercial banks examined by Sanjay and found that the efficient management is a dominant factor of profitability.\textsuperscript{42} Qamar studied the profitability and resource use efficiency in commercial banks.\textsuperscript{43}

During first decade of regional rural banks operations, they incurred cumulative losses amounting to Rs 3.4 billion. Further, these were increased because of implementation of Industrial Tribunal Award in 1992. Consequently, the benefits of low cost structure of regional rural banks were negated. To revive the 187 RRBs from loss the Government released Rs 21.88 billions. “Low capital base, inadequate infrastructure and other issues such as social and economic disparities have affected the performance of regional rural banks.”\textsuperscript{44}

Reena Ray stated that the innovative role of rural banks is to go beyond agri-financing. As every body started talking about India is the land of immense opportunities. It is particularly true about the rural India. Therefore, whatever the sector, be multinational corporations, domestic entrepreneurs, banking and non-banking whoever wants to grow and expand, can no more afford to ignore rural population and rural India.\textsuperscript{45}
In the study, Rajib Kumar Das noticed the role and function of regional rural banks in agriculture and non-agricultural loan products and services is to improve the general health of the Indian agriculture by offering rescheduling of loans, waiving of loans due to crop loss, cyclical credit as well as launching of credit counseling centers, crop insurance, price risk mitigation system, etc.⁴⁶

Patel and Shete of the National Institute of Banking Management made a valuable analysis of performance and prospects of regional rural banks. They also gave a comparative picture of performance in deposits, branch expansion and credit deployment of the cooperative banks, commercial banks and regional rural banks in a specified area. This was an eye opener for many researcher engaged in this field of rural credit.⁴⁷

Financial Express published a study on regional rural banks viability, which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of was regional rural banks essentially dependent upon the fund management strategy, margin between resources mobility and their deployment, and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that regional rural banks incurred losses due to defects in their systems and as
such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in infrastructure facilities and opening of branches by commercial banks in such areas where regional rural banks were already in operation. However, the main limitation of the study was its generalizations were based on the study of only two regional rural banks namely, Mala Prosha Gramin Dharwar (Karnataka) and the Rayalaseema Grameena Bank (Andhra Pradesh).48

Naidu, L.K conducted a study on regional rural banks asking a sample of 48 beneficiaries of rural artisans in Kadapa district of Andhra Pradesh under Rayalaseema Grameena Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank.49

Kalkundrickars in his study on Performance and Growth of Regional Rural Banks in Karnataka found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate the rural artisans.50

Kumar Raj carried out a study on the topic, Growth and Performance of regional rural banks in Haryana. The study covered all regional rural banks of Haryana, and is found that there was an enormous increase in deposits and outstanding advances. The
researcher felt the need to increase the share capital and to ensure efficient use of distribution channels of finance to beneficiaries.\textsuperscript{51}

Jai Parkash, A.K. conducted a study with the objective of analyzing the role of regional rural banks in economic development and revealed that the regional rural banks have been playing a vital role in the field of rural development. Moreover, regional rural banks were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from State Governments, local participation, proper supervision regional rural banks on of loans and opening urban branches were some steps, which should be taken to make further efficient.\textsuperscript{52}

Swaminathan observed that policies of current phase of financial liberalization have had an immediate, direct and dramatic effect on rural credit. There has been a contraction in rural banking in general and in priority sector lending and preferential lending to the poor in particular.\textsuperscript{53}

Pallavi Chavan has examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan’s paper documented the gains made by historical underprivileged region of east, north-east, and central India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit-deposit ratios were steepest in the eastern and north-eastern state of India. Polices of
financial liberalization have unmistakably worsened regional inequalities in rural banking in India.\textsuperscript{54}

Capital drive is a mix of professional management, operational efficiency and state of the art technology constitute a business model. The flight of professional experts ..... in the microfinance sector will do well to built in efficiency optimization and effectiveness into the Grameen Model which influx of private equity has meant wonders for the microfinance sectors, this support would further multiplied in the Government actively encourages this sector.\textsuperscript{55}

Desai, S.R., explained that the main concern of rural financing agencies should be to improve their financial viability. The measures would be to train the staff, provide necessary management inputs, inculcate the spirit of systems approaches and allow greater freedom to operate by giving them the necessary autonomy to function freely. Removing poverty, reducing unemployment, reaching the credit to the needy and the poor and especially in the remote areas should be the main concern of the banking industry.\textsuperscript{56}

Reserve Bank of India reported that lending for development in the rural areas particularly to the weaker sections, means lending against a carefully worked out and well coordinated programme. Though the rural branches of commercial banks have lent, by June 1979, thirteen per cent of their total credit to 6.5 million borrowers or
eight per cent of the operational holding in the country, our observation in the field is that there is great scope for improving the coverage programmes.\textsuperscript{57}

Rao, P.H.P., opined that the comparison of business ratios of profit-making and loss-incurring rural branches clearly establishes that the chief reason for losses in these branches is the low volume of business. Many rural branches would continue to incur losses on account of low levels of business per employee.\textsuperscript{58}

Manmohan Singh opined that our banking system deserves credit for the manner in which it has responded to its new responsibilities in the field of rural credit. However, there is still a vast credit gap to be filled in rural areas, particularly in those areas where co-operative credit institutions are rather weak. To meet this gap, lead banks will need to draw up early enough in the five year credit plans for each district.\textsuperscript{59}

Hulme D., in his book entitled Finance Against Poverty explained that the aim of serving the poor with reference to the commercial banks and particular reference to the regional rural banks, has ended up in giving poor service. Many might like to use that as an epitaph for the traditional approach to credit for the poor, in which subsidized credit is supplied to a defined target group on terms largely defined by the state and certainly the financial record of the commercial banks is not impressive.\textsuperscript{60}
Gilberto, M., opined that financial institutions play an important role in this regard by canalizing funds from surplus sector (savers) to deficit sectors (investors). However, these institutions do not show much enthusiasm to put their resources in rural and backward areas for the benefit of poorer people as these are commercial organizations and are basically interested in profitability and sustainability, for two reasons: i) incentive for functioning, and ii) for safeguarding the interest of stakeholders. Besides, the transaction in credit market is different from the transaction in goods market. 61

Srivastava, P.K., mention the reasons why priority sectors did not get bank credit are:

i. Prevalence of urban banking.
ii. Bankers apathy towards priority and neglected sectors
iii. Those sectors of economy which were not in a position to provide a tangible security were deprived of bank credit.
iv. Priority and neglected sectors are unorganized. 62

Naithani, P., consolidated that the failure of formal credit institutions in effectively meeting the requirements of rural poor has been the major reason for innovation in the micro-finance. Micro-finance means making provisions for smaller working capital loans to the self-employed or self-employment seeking poor. 63
Sharma, S.P., explains that the recovery of loan is very important from the point of view of recycling of funds, safeguarding the trust and confidence of depositors and also drawing refinance from NABARD. The poor recovery of loans in the agricultural sector, for obvious reasons, is an area of anxiety and serious concern from the banks, Reserve Bank of India and Government. The recovery of public sector banks in agricultural segment was never above 58 per cent in the past one decade.64

Sarkar, A.N., opined that micro-finance, by definition, refers to the entire range of financial and non-financial services, including skill up gradation and entrepreneurship development, rendered to the poor for enabling them to over come poverty. In the context of designing programs for the poor, micro finance is recognized and accepted as one of the new development paradigms for alleviating poverty through social and economic empowerment of the poor, with special emphasis on empowering women. Therefore, micro finance could be referred to as and institutional mechanism of providing credit support in small amount and usually linked with small groups along with other complementary support such as training and other related services to the people with poor resources and skills for enabling them to take up economic activities.65

Nair Tara S., says that micro finance sector in India the formal funds get into the non-formal channels before they reach the
desired segment of the clientele. The entry of a new set of players in the financial system has definitely eased a lot of delivery obstacles, by externalizing a part of bank's responsibilities in the spheres of identification of clients, assessment of their risk profile, loan monitoring and recovery, which in turn, may result in a reduction in transaction cost. 66

Satyasai, K.J.S., in his dissertation on micro finance for rural people has started that micro finance, refers to the entire range of financial services rendered to the poor and includes skill up gradation entrepreneurial development that would enable them to overcome poverty. The concept of micro finance essentially rests on the premises that (a) Self-employment / enterprise formation is a viable alternative means of alleviating poverty, (b) lack of access to capital assets / credit acts as constraint to existing and potential micro enterprises, and (c) the poor are able to save despite their low level of income. Micro finance could be referred to as providing credit support, usually in very small amount, along with training and other related services to people with poor resources and skills but who are in a position to undertake economic activities. 67

Kropp indicated that self-help promotional institution (SHPI) as a financial inter-mediation between the rural poor and the micro enterprises in the informal sector on the one hand and formal financial intuition, on the other. 68
Huppi, M., says that the failure of formal institutions to serve the rural poor effectively led to a review of the informal financial systems and lending groups.\textsuperscript{69}

Tripathi, S.D., opined that if the banking sector wishes to play a dynamic and effective role in the field of societal obligations, they have to condition themselves towards development-oriented and customer-centered approach, liberal credit planning policies, decentralization of administration and participative management techniques. The guiding principle and creed of the management philosophy of these financial institutions has to be a centralized policy and decentralized administration, but a joint appraisal.\textsuperscript{70}

Singh D.K., indicated that despite the vast expansion of branches of banks in every nook and corner of the country, the majority of the small and marginal farmers, laborers, artisans, etc., are still dependent upon the traditional financing institutions for meeting their immediate requirements. They are in need of funds frequently and mostly for small amounts. The banks avoided the formal procedures, the self-help groups have come into existence in 1992-93 in India.\textsuperscript{71}

Hosamani, S.B., pointed that the self-help group bank in linkage programme has made rapid strides in Karnataka as well as in the country as a whole. The number of groups in the state and the country as shown a remarkable growth of 92 and 94 per cent
respectively. In Karnataka, more number of SHGs were concentrated in the southern part and in recent years the trend has been reversed with more concentration towards the northern part. Among the agencies involved by regional rural banks (54 per cent) and commercial banks (40 per cent).72

Sharma, K.C., opined that the self-help groups are informal voluntary associations of 5 to 20 people formed to attain a collective goal. People who are homogeneous with respect to social background, heritage, caste or traditional occupations come together for a common cause to raise and manage resources for the benefit of group members. The SHGs practicing saving and credit activities have been more successful and sustainable.73

Rajender, K., in his study observed by calculating Co-efficient of Determination that “there is a high degree of negative correlation between the standard and the non-standard assets, which shows the assets are in right direction over the study period.”74

All arguments in favour of lower interest rates for small farmers go against the basic requirements. Commercial banks were given loans up to certain limit of their bankable funds as per Reserve Bank of India guidelines. In order to increase the volume of credit for rural community, the Reserve Bank of India deregulated interest rates on small loan given by cooperatives. Even then, the regional rural banks disbursements did not increase much. In the
light of these developments, the commercial banks extended largest volume of rural credit continued to be subjected to the regulatory cap of low interest rates.

**STATEMENT OF PROBLEM**

Development of rural economy is the main motto of regional rural banks with low cost transactions. A sense of local feel coupled with efficient management on professional line is their specific characteristic feature. Over the years, the size, operations and growth of the regional rural banks have been increasing substantially. They have achieved performance to the expected level quantitatively; not tuning the sound financial management and productivity. Further, the achieved performance is not uniform though they are working under the approach of management is almost similar. Effective performance is the success of business. In every line of business, the performance of each bank is appraised in financial perspectives and ranked them. Amalgamation of regional rural banks viewed to strengthen financially. A study of the operational performance of regional rural banks in terms of standard assets and managerial efficiency on comparative basis is the need of the day to know the effectiveness of prudential norms of management which is off-spring of the reforms committee. Hence, the present study.
OBJECTIVES OF STUDY

The specific objectives of the present study are:
1. To review the reforms of regional rural banks
2. To study the performance of regional rural banks
3. To examine the financial operations of selected regional rural banks
4. To analyze the managerial performance of selected regional rural banks
5. To suggest measures for sound and effective financial functioning of sample banks

METHODOLOGY

The present study is confined to Andhra Pragathi Grameena Bank (hereafter called Pragathi Bank) and Sapthagiri Grameena Banks (hereafter called Sapthagiri Bank). The sample banks are working in the districts of Kurnool, Kadapa, Anantapur, Prakasam, Chittoor and Nellore in Andhra Pradesh. Purposefully, it is selected to evaluate their performance on the selected parameters. The aspects covered in the study are branch expansion, deposits mobilization and credit deployment, recovery of loans, overdue, managerial performance and non-performance assets and also focused to know the effects of reorganization of regional rural banks under amalgamation.

The study period is 11 years from 1997-98 to 2007-08 which is divided as pre-amalgamation (1997-98 to 2003-04) and post-amalgamation (2003-04 to 2007-08).
PROFILE OF SAMPLE BANKS

In the context of financial sector reforms being implemented by the Government of India, various steps have been taken to strengthen the regional rural banks. In order to further improve the operational viability of the regional rural banks and to take advantage of the economies of scale, it has been decided by the Government of India to amalgamate the three regional rural banks in Andhra Pradesh, sponsored by a leading public sector bank namely Syndicate Bank. Accordingly, the Central Government has amalgamated (a) Rayalaseema Grameena Bank, Kadapa, (b) Sri Anantha Grameena Bank, Anantapur and (c) Pinakini Grameena Bank, Nellore into a single regional rural bank called “Andhra Pragathi Grameena Bank (APGB) with Head Office at Kadapa. Its area of operation comprises of five districts namely Kadapa, Anantapur, Kurnool, Nellore and Prakasam. All the three transferor regional rural banks were working commonality in the socio-economic conditions and in the composition of their clientele mainly comprising farmers, self help groups, rural artisans, traders and small business men. The loans distributed by them are strictly similar in activities, purposes and financing schemes.

The entire area of the operation of Pragathi Bank, which is mostly in Rayalaseema region, is characterized by drought and backwardness. Sixty five per cent of population lives in the country.
side. The soils of the region are mostly red and black cotton. Seventy five per cent of the area of cultivation land is rain-fed and farmers depend on it. The average rainfall received in the operational area of the bank ranges from 324.40 mms to 768.25 mms during the study period. Most of the crops in the operational area of the bank are depend upon south-west monsoons. The important irrigation sources are canals, tanks, bore wells etc., The important rivers flowing in the operational areas of the bank are Krishna, Tungabhadra, Hundri, Pennar, Kundu, Papaghni, Chitravathi, Vedavathi, Hagari, Pincha and Cheyyuru. Krishna is only the perennial river on which the famous Srisailam Hydro-electric Project is constructed. The minor irrigation projects in the operational areas of the bank are Mylavaram reservoir across the Penna river, Buggavanka minor irrigation project, Pencha project, Annamayya project on Cheyyuru river. The Rayalaseema Thermal Power Station (RTPS) near Muddanur is meeting the power needs of district as well as neighboring districts. The major crops are cultivated are groundnut, sunflower, turmeric, sugarcane, orange, etc.

Similarly in order to improve the operational viability of the Sri Venkateswara Grameena Bank and Sri Kanakadurga Grameena Bank, the Government of India amalgamated them into Sapthagiri
Grameena Bank (SGGB) started functioning with effect from 01-07-2006 with Head Office at Chittoor.

The area of operation of this newly amalgamated entity of Sapthagiri Bank is spread across Chittoor and Krishna Districts in the State of Andhra Pradesh. Chittoor district is located on the southern part of State. Its Head Quarter is established at Chittoor.

DATA SOURCE AND COLLECTION

The source of data is secondary. Required data are compiled from Annual Reports of sample banks, Reserve Bank of India; NABARD Internet has been an important source of secondary data and other published sources in the form of books, journals and research papers.

DATA ANALYSIS

To draw conclusions scientifically, the author has applied the statistical tools to the compiled data. The growth and development is very much needed to rural credit institution, but a more desirous of it is its steady growth and development. To have an idea about the steady growth and development, annual growth rate and co-efficient of variation have been studied. These are used to the variables of mobilization of deposits, deployment of credit, recovery and overdue. Lending and recovery should be in positive and have a strong relation in any institution. The elasticity of co-efficient is also studied to know the mobility of funds. To appraise the managerial
performance, the spread and margin are analysed. Appropriate ratios and techniques are also used to examine profitability position. Further to know the prudential norms highlighting the performance of assets and management, the CAMEL technique is studied.

**SUBJECT CONTRIBUTION**

The present investigation is addressed to study the financial performance of regional rural banks through CAMEL Model which is analytical and empirical in nature. The conclusions based on the analytical approach would throw some light on a bunch of gains for making sound decisions. The study, thus, would make a significant contribution to the subject on regional rural banks and policy prescription as well.

**LIMITATIONS OF STUDY**

The operations of regional rural banks like any other banking institutions is not free in working with the framed norms due to political motive or bureaucratic ideologies. How much these have been contributed cannot be visualized. However, the researcher has taken care and caution while inferring conclusions and making suggestions.

**CHAPTER PLAN**

The report is presented in six chapters. All the methodological issues are presented in the first chapter. The organization and
management of regional rural banks including the provisions of reforms is presented in the second chapter. The operational performance of regional rural banks at macro level is focused in the third chapter. The measurement of financial soundness of the sample banks with the help of CAMEL Model is presented in the fourth chapter. The managerial performance analysis of the selected regional rural banks finds in the fifth chapter. Summary of conclusions and suggestions are dealt in the last chapter.
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