Activating the input factors and their full utilization depend upon the one input factor is capital namely credit. Healthy business transactions of banking institutions pertaining to mobilization of funds and their deployment on one hand; and recovery of lent loans, on the other, depends upon a sound banking system with the potent means and prudent management. The pace progress of economy, revolves around the fortunes of banking institution. Therefore, the banking institution is an agent facilitating the achievement of socio-economic goals of the nation.

Resume

The regional rural banks came into being with the mandate to:

- take banking to the doorsteps of the rural and weaker section people
- make available cheaper credit to these people
- mobilize rural saving and canalize them for supporting the employment opportunities in rural areas
- bring down the cost of providing credit in rural areas

To operate economically, effectively and efficiently with perfect compliances of banking sector reforms, in the rural environment wherein varied economic programs dealing with variety of clientele base towards acceleration of productivity of rural people calls for a banking institution with sound means of resources-mix as well as healthy transactions for financing viable programs as
regional rural banks are more than three decades old. It is a right time to examine their performance so as to arrive at pragmatic suggestions to the problems, so as to peep into future with sound portfolio. This has been examined on the basis of analysis of regional rural bank (macro level) with reference to sample Pragathi and Sapthagiri Banks.

A sense of local feel coupled with an efficient management on professional line and style of operation with respective operational jurisdiction is the feature of regional rural banks in the changed socio economic circumstances. This specific objective has been spelt out in terms of operational mechanism, funds mix, prescribed prudential norms with regards to non-performing assets, linkage programs with self help groups, micro-finance and managerial performance, Funds-mix are input mix and output mix. The share capital, reserves, deposits and borrowings constitutes the former while credit deployment to various economic programs and investments forms latter. Further, recycling of funds and working results, micro lending are also covered in the study. A 11 year period from 1997 to 2008 is covered in the study. Further, the period of study is divided into two segments namely: pre-amalgamation period (1996-04) and post amalgamation period (2005-08). And the study is empirical in nature.
FINDINGS

Macro Level

It is worth to recall mobilizing surplus income from the myriad savers plays an important role from the point of spurious spending and at the same time providing price to the depositors for deposits. Attracting deposits is one of the major objectives of regional rural banks in the country.

The progress of per regional rural bank and per branch performance with regards to deposits mobilization and credit deployment is still progressive but the rate of progress is little bit decreased. During pre-amalgamation period the progress of per branch, with respect to deposit mobilization, is registered on an average 18.3 per cent whereas, it is 13.90 per cent during post amalgamation period. The corresponding figures for per branch pertaining to credit deployment are 29.34 per cent and 25.84 per cent respectively. It is learnt that per branch efficiency in terms of deposit mobilization as well as credit deployment is less when compared to pre-amalgamation period. Undoubtedly, this fact discloses that the regional rural banks are moving towards consolidation process.

An increasing credit-deposit ratio is desirable with banking institutions to be said to fulfill deployment of credit locally by raising funds locally. An important conclusion that can be drawn from the
regional analysis is that the southern region among developed region and north region among the backward region had fair credit deposit ratio. The credit deposit ratio in all the remaining regions is below the national average. The attributable reason for this state of affairs is that shiphon of locally raised funds to other regions which is due to no demand for the credit because of backwardness.

The viability of regional rural bank depends on recovery rate. The low recovery rate is in north-eastern region by 59.26 per cent and 67.13 per cent during pre-amalgamation period and post-amalgamation period respectively, while the highest recovery rate region is 85.95 per cent and 86.45 per cent. The recovery rate must be improved further to build up the viability of regional rural banks.

Analysis of Table 3.4 and 3.5 showed that the recovery performance of regional rural banks is tremendously improved to 91.21 per cent in 2008 in sustainable category from 49.49 per cent in 2002. The another interesting result in the loss incurring category is decrease of recovering to 8.79 per cent from 20.41 during the post-amalgamation period which implies the recovery performance of regional rural banks is improved a lot during post-amalgamation period. This is most welcoming sign to a financial institution where it operations were carried out in rural areas.

Deposits mobilization of first three regions of regional rural banks put together Rs.47454.94 crores or 76.36 per cent of total
deposits. The corresponding figures the rest of regions put together Rs.14688.68 crores or 23.64 per cent of total deposits during pre-amalgamation period. From the discussion it is found that the central, eastern and southern regions have achieved excellence performance with regards to deposit mobilization when compared to the performance of northern, western and eastern regions during pre-amalgamation period.

On the deposit mobilization, it is observed that the total deposits of advanced regions of north, north-eastern, and western is improved in 2008 what they had in 2005 by 15.65 per cent. Still there exists a variation in terms of relative between the regions.

The gross non-performing assets and net non-performing assets of regional rural banks are registered at 8.53 and 4.84 per cent in 2008, while in 2007 the figures are 6.39 per cent and 3.41 per cent. The gross non-performing asset is very high in the north-eastern region which accounted 16.35 per cent, whereas in 2007, the net non-performing asset is very high in western region which accounted 7.59 per cent in 2005.

The discussion on branch and staff productivity throws light on the fact that the productivity of the branch has increased progressive, whereas the productivity of the staff is stable growth rate prior to pre-amalgamation period (2001-05) and afterwards it has been increasing in progressive manner.
Non-performing assets initially become the banks' burden but gradually the burden of the financial system and then the burden of the economy. Implications of non-performing assets are reflected in the shrinking bottom line and eroding balance sheets of banks. The problem characterized by erosion of assets and liquidity also affects the interests of owners, depositors, employees, good borrowers, general public and the economy as a whole.

There is decline trend in non-performing assets level to 8.53 per cent from 12.63 per cent in 2005 from 2004 in respect of regional rural banks (Table 3.13). Non-performing assets arise out of standard advances and get classified as substandard, doubtful and loss assets depending on the record of recovery, extent of irregularities and availability of securities, margin money etc. Once the borrower account is classified as non-performing assets, the whole burden is shifted to the bank and the borrower behaves as if he is innocent and not concerned at all. The borrower does not realize that because of his default, other good borrowers and stakeholders are the sufferers and that finally the bank has to be bailed out though budgetary support, the consequence of which ultimately affects the general public, particularly the tax payers.

The working funds are increased by Rs.5456.15 crore or 365.35 per cent from 1493.40 crores in 1996 to Rs.6949.55 crores in 2005. In other words, the working funds have increased, on an
average, Rs.606.24 crores or 40.60 per cent during the study period.

The spread is increased from 2.63 per cent in 1996 to 3.62 per cent in 2005 which is due to the cost conscious efforts on funds management. This is fairly a conscious effect on the working of regional rural banks.

Of the total 22.38 lakh self-help groups credit linked by the banking industry, 33 per cent linkages are made by regional rural banks. Similarly, in terms of loans until March 2006 to SHGs, the share of regional rural banks is an impressive at 29 per cent with higher shares in central, eastern and north-eastern regions respectively.

SAMPLE BANKS

It is found that both Pragathi and Sapthagiri Banks have succeeded in maintaining CAR at a higher level than the prescribed level. The dependence on the debt capital of Pragathi Bank has drastically decreased over the study period whereas in case of Sapthagiri bank, it is found that it is a reasonable depended on debt capital.

The asset quality of ratios (gross non-performing assets to net advances, net non-performing assets to net advances, and net non-performing assets to total assets) have registered a declining trend. It is obliviously seen in case of Pragathi Bank when compared to
Sapthagiri Bank. This shows an appreciable improvement in the asset quality position of Pragathi and Sapthagiri banks. The investment policy of both Pragathi and Sapthagiri Banks is little bit conservative during 1997-98 to 2001-02. Afterwards, it has become more flexible ranging from 15.40 per cent to 30.95 per cent in case of Pragathi bank whereas, it is 15.27 per cent to 26.09 per cent in case of Sapthagiri bank.

The earning quality, measured in terms of the ratio of operating profit to average working funds, net profit to average assets etc., shows that the Pragathi Bank has outperformed the Sapthagiri Bank. The liquidity ratios (i.e., liquid assets to total assets and Government securities to total assets) indicate the better liquidity position for the Sapthagiri Bank to that Pragathi Bank. However, the latter has an edge over the former. The performance of these banks is more appreciable during post-amalgamation period.

In respect to the parameters of the performance model, the Sapthagiri bank has outperformed to that Pragathi Bank in debt-equity ratio, advances to assets ratio, business per employee, interest income to total income, non-interest income to total income and liquid assets to total deposits. In contrast, Pragathi Bank has done better than Sapthagiri bank with regards to capital adequacy ratio, Government securities to total investment ratio, net non-
performing assets to total assets, total advances to total deposits, profit per employee, operating profit to average working funds, spread, net profit to average assets, liquid assets to total assets, Government securities to total assets and liquid assets to demand deposits. On the whole, Pragathi Bank has performed better than Sapthagiri Bank.

The gross non-performing assets of each sample banks clearly shows that they decreased during the period of pre-amalgamation (1997-05) and increased at higher rate during the post-amalgamation period (2005-08).

The growth of disbursed amount, on an average, for self-help groups of Pragathi Bank is Rs.763.92 lakhs and Rs.14619.54 lakhs during pre-amalgamation period; and post-amalgamation period respectively. The corresponding figures of Sapthagiri Bank are Rs.1048.67 lakhs and Rs.4796.35 lakhs for the above periods. These speak out that the Sapthagiri bank had better performance compared to the Pragathi bank during pre-amalgamation period while it is reverse during post-amalgamation period.

The sources of elasticity of funds use for Pragathi Bank and Sapthagiri Bank is more than one in seven years and four out of 11 years of study, which means the change in use of funds is brought about by a change in supply of funds. With reference to deposit elasticity of credit, it is also more than one for Pragathi in five years,
six years in Sapthagiri Bank. It is inferred that the funds are effectively utilized both in Sapthagiri and Pragathi banks respectively.

The analysis with respect to profit per employee, it is noticed that per employee profit is increased throughout the study period. Highest profit per employee (Rs.4.85 lakhs) is settled with Pragathi Bank and for the Sapthagiri Bank it is Rs. 2.75 lakhs.

The operating profit and net profit of Pragathi and Sapthagiri Banks is found moving in the same direction but with different magnitude during the study period. When comparing the operational performance of the sample banks each other, the Pragathi Bank has outperformed the Sapthagiri bank in both operating profit and net profit. During the post-amalgamation period, the highest operating and net profit of both sample banks are Rs. 9284.87 lakhs, Rs.1406.92 lakhs and Rs.9049.09 lakhs and Rs.1389.48 lakhs. It shows the managerial excellence of the sample banks.

The burden coverage ratio of less than one throughout the study period from 1998 to 2008 is observed in the sample banks. It evidently shows that their working is yielded normal profits due to high operational expenses; yet the Pragathi Bank is rated at many fronts and followed by Sapthagiri Bank. The burden coverage ratio of Pragathi Bank has reached almost one and it is 0.62 in Sapthagiri Bank. This progressive trend of both sample banks is in need of the
hour in order to achieve the vision and mission of both banks and operational area of these banks.

Both Pragathi and Sapthagiri Banks are comparatively better at the all India level in terms of deploying funds out of mobilizing funds locally. Further, during pre-amalgamation period (1997-2005) the credit deposit ratio of both Pragathi and Sapthagiri Banks have declined while it is increased during post amalgamation period. It is understood that the regional rural banks; which aimed at the deploying funds locally out of funds raised locally, which in turn less cost, the sample banks have fulfilled this norm.

The source of elasticity of funds use is more than one in most of the years of the study period, which implies a change of application of funds is brought about by change in sources of funds. So far concerning the deposit elasticity of credit, the picture is satisfactory which implies that funds used effectively. The deposit elasticity of credit is better in Sapthagiri Bank particularly during the post-amalgamation period.

Though overdues of both sample banks are occurred at an increasing rates; it is but for majorily from agricultural credit due to crop failure which is the attributable reason.

The standard assets to non-performing assets though increased in both sample banks but it is more in Sapthagiri Bank. The per employee profit is on increasing trend which implies better productivity being the result of better business environment.
SUGGESTIONS

The Governments have contributed a lot so far towards strengthening the capital of regional rural banks to meet the erosion caused by non-performing assets and still there are more demands from banks for such additional resources. It does not require a strong law to enforce that money borrowed from a public institution or for that matter from anybody has to be repaid in any event. It should be as simple a law as possible and public have only to be enlightened on the consequences of non-repayment of borrowed funds from public institutions. Unfortunately, neither the legal system nor the ethics of borrowers favor the public institutions, which are made to suffer nor the burden of cost ultimately falls on the general gullible public.

Further to save the regional rural banks from the problem of non-performing assets at a minimum per cent level, the only workable solution seems to be to bind the borrowers with an obligation to bear the main burden of non-performing assets. Banks also will have to share the burden to some extent to involve themselves and to be more vigilant in the overall administration of credit portfolio. It is in this context that a simple and effective model is suggested to solve this perennial problem. The solution shown in the model is practicable and implementable both from the angle of accounting and legal aspects. Ethically, the solution is acceptable
and justifiable as the cost of non-performing assets is ultimately to be borne by the borrowers, who are the main cause and partially by bankers. In the long run, the measures suggested should help prevent formation of fresh non-performing assets and in case some non-performing assets are unavoidable, the ultimate impact of non-performing assets should be borne by the borrowers themselves.

The existing portfolio administration is worth enough to mitigate the risk of non-performing assets of the regional rural banks. The problem of non-performing assets can be handled easily by levying a small percentage ranging from 0.10 to 0.75 on standard advances for the purpose of creating a fund called as 'Precautionary Margin Reserve (PMR). The levy which is suggested on agreed basis has to be debited to the borrowers' account and credited to the Precautionary Margin Reserve Account whoever pays the loan amount due in time, his account should be credited with the levy charged at the beginning. This account should be shown distinctly separate from other reserves under the column of Reserves and Surplus of the Balance Sheet of banks.

The regional rural banks have to change its policy direction towards commercialization of their transactions at the same time focusing on social aim with which they came into existence. All this is but for the sound means of mechanism being recommended in the reforms and healthy practices operated by the management
towards achieving the sustenance and sound footing in the map of banking.

A futuristic approach to solve the menace of non-performing assets is totally different from the traditional methods so far attempted. This solution lies on conviction of borrowers (creditworthiness), lenders and watch the borrower’s economic proposition and to guide him properly to get economies and government support being extended in the case of calamities. The idea should be promoted so as to facilitate and the solution so sound and strong.

The regional rural bank is primarily meant for low cost transaction so as to enable rural people to avail quality credit in time and adequately. In practice, it is departing and the public still perceive these banks as agencies for poor. This may desist for not having a good banking relations with them. Amalgamation of the regional rural banks is a better idea operationally which stood in achieving the anticipated results of better business by overcoming the deficiencies of prudent developmental funds progression of staff and dilution of local menace. The ownership of regional rural banks is presently confined to the Central and State Governments and sponsor bank without public subscription. In this context, it should be better to open at least 25 per cent of share capital to the public who are customers. The feeling of ownership among the customers
may create a sense of their own. This would build up a good relations between the owner-customer and the regional rural banks which would also ensure creditworthiness and capacity enlarging. With this facility of benefit, a prudent Board should avail a matrix of better service provider and better support extender as the banker and owner-customer respectively. The success of this process would depend on creation of a conducive climate apolitically.

To strengthen mobilization of deposits, it is a better that the Government should come forward with relief measures like no tax on the interest income of deposits and preferential treatment in sanctioning loan to the depositors with an insurance coverage. This process should facilitate more funds on self-generation, credit deployment on feasible norm and better recovery. To create an eco-friendly environment in Rural India through means of social goals like birth control, control of environmental pollution, preservation of natural resources, development of social forestry and formation of an ideal village through self-help which are very urgent to be linked with the services of the regional rural bank. A regional rural bank’s creation and organization is a synthesis of merits of rural credit institution.

The regional rural banks should undertake insurance scheme covering their clientele taking the advantage of the ruling government manifests which in the mood of extending as well as
enlarging insurance of life and non-life by creating a fund called rural risky fund.

Adoption of villages having homogenous resources as well as economic conditions would help in getting the confidence in both the lender and the receiver. This, long run, will develop a friendly relation.

The regional rural banks should work with effective governance in diversified potential areas in forming an integrated collaboration, coordination and co-operation towards synergetic gains. This would ensure a strong and soundness of regional rural banks managerially and financially to challenge the future course of action for achieving the destined goals in the economy of Rural India.