CHAPTER I

INTRODUCTION
Banking is the major constituents of the financial sector of India, commanding and controlling about two-thirds of the assets of the country. Geographic pervasiveness coupled with the range and depth of services as also mutual monopoly of ‘mechanism of financial system’ makes the banking sector as an indispensable in the acceleration of economy of the nation.

CHANGE AGENT

The historical evolution and revolution picturise that the Indian banking sector has undergone towards innovativeness in terms of concept and precepts committed towards the planned growth and development of economy. In other words, the socio-economic objectives of the country very much depend on soundness of bank managerially and financially. As a financial intermediation, the banking sector with its effective governance mobilises savings and deploys investments. Thus, it can be considered that bank is an important “Change” agent facilitating the achievements of socio-economic goals of the nation.

COMMERCIAL AND ECONOMIC TRANSACTIONS

Any policy and programme of economic growth and development has to be in consonance with the resources development qualitatively and quantitatively. The meaningful association of resources for productive and economic purposes can be sought by increasing investment and governing channels. For operational efficiency and financial viability of the financial
institution, thus, depends upon how efficient it is in terms of commercial as well as economics.

A bank has a dual function of arresting spurious spending by attracting surplus income of savers and deploying the same for creation of renewal wealth – generation of employment, distribution of income and wealth, and finally, creation of demand for more production. In order to speed up judicious flow of credit on the one hand and to curb down the exploitive activities followed by the money lenders on the other; the Government of India has taken measures for institutionalization of credit on the recommendations of various committees and commissions.

CREDIT AND ECONOMY

The banking sector has achieved accredits for its better performance in terms of mobilization of surplus income from myriad people and deployment of credit to the projects of economic significance. Every sector of the national economy – agriculture, industry, trade, transport and services – needs finance for carrying on day-to-day activities; and for growth and development as well. It is the credit on which the effective use of the other resources depends to the large extent. In other words, economic soundness of developmental programmes in sine-qua-non for development of economy and credit.

Because of one reason or other; and/or one time or other, every entrepreneur in the sectors of agriculture, industry or service depends on
the availability of adequate credit in right time. Hence, credit is universal and its borrowing is must. However, borrowing is neither objectionable nor weakness of the borrowers. Capital is a key input in adopting new technology and in attaining the expected production results. Therefore, the success of operations of various economic sectors depends upon the one input factor of capital namely 'credit'.

RRBs

In institutionalisation of credit, the cooperative and commercial banks have made significant strides in meeting the credit needs of people. However, they are not without short comings in their functional and operational performance. In the arena of rural credit, the performance of the rural sectors has not been in tune to the policy prescription. As a result, the setting up of a new agency was felt with combination of the merits of both the commercial banks and the cooperative banks. Accordingly, the Banking Commission in 1969 came up with an idea of creating Regional Rural Banks (RRBs) as an addition to the existing multi agency credit structure. The Government of India also felt that time arose to establish a new institution on the basis of operational ethos entirely different from those operating in the public sector banks. As consequent of the recommendations of the Banking Commission and Working Group, the Government of India took the decision to start Regional Rural Banks. Under the canon of State sponsored coupled with regional orientation. The regional rural banks, which were conceived as low cost institutions, mid-way between the
cooperative banks and the commercial banks, locally based and imbibing indigenous social ethos. With weaker sections as a target group for assistance in the multicredit agency approach, the regional rural banks as felt is that they would be a model financial infrastructure for rural development with patronage and encouragement given by the 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.

It could be noticed that the regional rural banks have performed their business nearing to the target. However, in terms of qualitative performance, they too are no way better than that of the commercial and cooperative banks. The reasons for this sorry state of affairs are varied; and the prudence in terms of financial management is one among them. A management with sound financial operations, no doubt, sets in better financial management generating surplus income and enlivens the projects of economic significance.

**Review of Literature**

Literature 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 Rajstan made by Vyas, M.R., analysed their financial performance with the help of quick-ratio, credit-deposit ratio, 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 upliftment of the never-cared for and downtrodden sections of Indian society, particularly in rural areas.¹ The Committee on 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, 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 labourers. 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 undertaken by James Raj Committee 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 upto a maximum of 25 per cent, and the remaining 75 per cent must be reserved for weaker sections of the society, local participation covering local bodies, cooperatives and individuals to the extent of 20 per cent, effective credit administration
measures such as making credit appraisal, monitoring the progress of loans and efficient recovery of loans and flexibility in loaning procedure, undertaking full range by banking services and change of office timings.\(^5\)

Tiwari is of the opinion 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 crores. It could be expected to reach that level in about three to four years."\(^6\) Attempts have made on the deposits pattern of a grameeena 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."\(^7\)

In the study, Kallu 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."\(^8\) "The recovery position of commercial banks and regional rural banks is affected to a large extent by the loan-waiver promises made by some political parties" is the opinion of Gayathri.\(^9\)

Measures for success of each and every eligible rural house-hold under ‘family credit plan’ and focus on rural credit in the place of agricultural credit suggested as effective measures to improve the working performance of regional rural banks. This is expressed by Patel. A.R.\(^10\). 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."\(^11\)
Navin Chandra Josh found that “the postponement of dues or writing off overdues tends to have an adverse effect on working performance of regional rural banks. He insisted on improving the economic viability of the rural poor, which in turn helps to improve the economic viability of the 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 crores.”12

A Working Group appointed under the chairmanship of C.E.Kamath 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 the unbanked rural areas by regional rural banks.”13

A review of the working of 12 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 possess the requisite potential and capability to attain financial viability and become profit making institutional at a level of business of Rs.3 crores, which could be expected to be reached in about 3 to 4 years.14
At the instance of Government of India, the Reserve Bank of India appointed a Committee under the chairmanship of B. Sivaraman to review the Arrangements for Institutional Credit for Agricultural and Rural Development. The Committee assessed regional rural banks in rural credit and made certain recommendations, which inter-alia, in view of regional rural banks low cost profile, widen network of its branches in the remote areas and the local feel of its staff, they are more suitable in rural areas. Though regional rural banks incur losses in the initial years but it made good annually by shareholders in the same proportion as their shareholding, and the emoluments and other service conditions of the regional rural bank staff, who are recruited locally and posted or 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{15}

A Committee under the convenorship of R. Sundaravardan observed that the staff of different cadres should be trained properly before being placed in regular charge of business. It also suggested that there should be an internal audit and inspection cell at 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{16}

At the behest of NABARD, Agricultural Finance Corporation had made attempts on a detailed comparative study on the performance of two regional rural banks sponsored by Syndicate Bank drawn from Karnataka
and Andhra Pradesh. On covering the issues of recruitment and training; organisational structure; role of sponsor bank; bank’s efforts for deposit mobilization; composition of funds; analysis of loan operations; credit-deposit ratio; recovery performance; cost operations of the regional rural banks and commercial banks; and income and expenditure pattern. The Corporation observed that more emphasis is on not earning profits but on building up of substantial reserves and link the payment with marketing for avowed purpose of ensuring recovery, allow lending to the richer sections in the identified villages within a certain fixed proportion of their total lending.17

The Reserve Bank India’s Steering Committee evaluated that financial viability of regional rural banks. Fifteen regional rural banks, which had been in existence for over three year of transacted a loan business of Rs.3 crores by the end of December 1978 were selected for the purpose. 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 crores and above, the latter covers the regional rural banks, which had not attained outstanding loan business of Rs.3 crores though completed 3 years of working as on December, 1978. The observations include:

i. On an average, a RRB had opened 48 branches by 1978. The pace of 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 in B;

iii. Of the loans, 70 per cent were for agriculture, 22 per cent non-agriculture, 5 per cent indirect and the rest others;

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

v. The average earning per Rs.100 of loans and advances was comparatively higher in A category than in 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 crores and also enjoy a margin on lending rates.¹⁸

Varde and Singh analysed the overall profitability performance of four regional rural banks with at least two years of age. The period of study was spread over three years from 1978. For this study, 10 key indicators were developed relating to various component of profit and loss statement to a common denominator, i.e., volume of business. It is merely an exercise comparing the relative position of an average regional rural bank as between December 1978 and December 1980. In general, the study indicated that the profitability performance of all regional rural banks had improved over the three-year period from 1978. Further, manpower and other operating costs put together as related to volume of business have significantly declined for all the regional rural banks. Again, the spread
ratios showed the similar tendency. The downfall in manpower and other expenses ratios is largely responsible for improvement in the profitability ratio. Compared the ratios 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 the increase in the volume of business per employee. This study is, of course, based on a simple analysis of profitability. ¹⁹

**STATEMENT OF THE PROBLEM**

The regional rural banks came into operation as rural credit institutions to channel credit and other services to the viable programmes of the rural sector. As such, they should equip their means and mechanism for gearing up the economy of the region in which they operate. In other words, the 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. A rapid progress has been achieved by regional rural banks. This progress is quantifiable but not coupled with quality. The achieved performance of an institution in terms of quantifiable and quality would certainly reflect a sound financial management with higher productivity. This aspect has been intended to examine based on business transactions of Sree Anantha Grameena Bank (SAGB), Anantapur. Hence, the present investigation on “Financial Management of RRBs.”
OBJECTIVES OF STUDY

The specific objectives of the study are:

1. To examine the operative mechanism of RRBs
2. To study the sources of funds mix and credit mix of RRBs
3. To evaluate the managerial performance
4. To suggest remedial measures for sound and effective functioning of RRBs.

METHODODOLOGY

The present study is confined to the regional rural bank, sample of Sree Anantha Grameena Bank, Anantapur in the district of Anantapur in Andhra Pradesh with focus on the financial performance. Purposefully, it is selected to study the financial performance and operational viability pattern. Not only proximity but also its confinement to a Drought Prone Anantapur District is responsible for its selection to intensive study. To measure the objectives stated as above, various variables of regional rural bank have been identified and studied, which are branch expansion, resources mix, deployment of funds mix, recovery of loans, overdues and managerial performance. The study covers a period of eleven years from 1993 to 2003.
DATA SOURCE AND COLLECTION

The source of data for this study is secondary. The data are compiled from Annual Reports of Sree Anantha Grameena Bank, RBI Bulletins, NABARD and other published sources in the form of research papers.

DATA ANALYSIS

To draw conclusions on scientific approach, the author has applied the statistical tools to the compiled data. The growth and development is very much need to rural credit institution, but a more desirous of it is its steady growth and development. To have an idea about to growth and development of variables the linear growth rate and Co-efficient of variation have been studied. These are used to the variables of mobilization of deposits, deployments of credit, recovery and overdues. Lending and recovery should be in positive and have a strong relation. This can be studied by the technique of co-efficient correlation, which throws light on the relation of lending and recovery that are interdependent on which only a sound functioning of regional rural banks is depended. Further, the elasticity of co-efficient is also studied.
CONTRIBUTION TO THE SUBJECT

The present investigation is addressed to the financial performance of regional rural banks in particular Sree Anantha Grameena Bank, which is an analytical in nature. The observations based on the analytical approach would throw light on a bunch of gains for making sound decisions. Thus, the study would be a significant contribution to the subject on regional rural banks and policy prescription as well.

LIMITATIONS OF THE STUDY

The operations of regional rural bank like any other banking institution is not free in working with the framed norms due to political motive or bureaucracy or influence or affluence. How much these have been contributed to the variables cannot be visualised, but the variables as such are taken into account to study the performance of RRBs. These are the limitations of the present study.

CHAPTER PLAN

The report is presented in five chapters. The statement of the problem, review of literature, objectives of the study, methodology, data source and collection are presented in the first chapter. The machinery and mechanism of regional rural banks are presented in the second chapter. The sources of funds mix and deployment of funds mix, recovery and
overdues are analysed in the third chapter. In the fourth chapter the operational viability is examined. The summary of conclusions and suggestions are dealt in the last chapter.
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