RRBs have been in existence for more than three decades in the Indian financial scene. Inception of RRBs can be seen as a unique experiment as well as experience in improving the efficiency of rural credit delivery mechanism in India. Over the years, the RRBs, which are often viewed as the small man’s bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume and also contribution to development of rural economy. A remarkable feature of their performance over the past three decades has been massive expansion of their retail network in rural areas. From a modest beginning of 5 RRBs with 17 branches covering 12 districts in 1975, the number has grown into 196 RRBs with 14446 branches working in 518 districts across the country in March, 2004.

RRBs have a large branch network in the rural areas. The rural orientation of RRBs is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. The growth in the
branch network has enabled the RRBs to expand banking activities in the un-banked areas and mobilise rural savings.

Deposit Mobilisation and Credit Deployment

With the steady improvement in the number of RRBs and considerable expansion in the branch network in operational areas of the RRBs, their deposits and advances also increased substantially. The major findings of the study are outlined below:

- The progress of deposits and advances of RRBs has registered an increasing trend. The deposits have grown by 21 times and advances by 15 times between 1980 and 1990. Between 1990 and 2004, deposits and advances grew by 14 times and 7 times respectively. The hike in the deployment of credit reflects the efforts taken by the RRBs to improve credit flow to the rural areas.

- The average per branch deposits increased from Rs.6.09 lakhs in 1980 to Rs.390.07 lakhs in 2004, recording 64 times increase. On the other hand, the average per branch advances increased from Rs.7.42 lakhs in 1980 to Rs.180.77 lakhs in 2004 showing an increase by 24 times.

- When one considers the deployment of credit relative to the mobilization of resources, the CD ratios of RRBs were more than 100 per cent during the years 1980 and 1985. The CD ratio then subsequently became lower. The CD ratio which was 85.63 per cent in 1990 gradually declined to 46.34 per cent in 2004.

- The growth of credit disbursements by the RRBs declined from year to year as evidenced by sharp fall in CD ratios. It is observed that in order to reduce and improve the profitability of their operations,
the RRBs were restricting credit advances, particularly advances to the target group borrowers.

- In the way of efficient working of RRBs, poor recovery of loans is a very serious problem. The recovery of loans by RRBs, was lowest i.e., 50.98 per cent during the year 1995 and it stood at 73.49 per cent during the year 2004. There are various reasons responsible for poor recovery of loans. This in turn led to capital erosion but more importantly resulted in non-recycling of funds, which necessitated increasing dependence on external sources of refinancing. The internal factors identified as contributing to low recovery were weak monitoring and supervision, apathy towards recovery, failure to link lending with development and to ensure end use of the loan. The external factors were political interference, willful default, drought and floods etc.,

- In Andhra Pradesh more than 80 per cent of the branch network is found in rural areas. The growth rate in deposits ranged from a lowest of 2.79 per cent to the highest of 26.78 per cent during the year 2003-2004. On the other hand, the growth rate in outstanding advances ranged from 7 per cent to 27.80 per cent during the year 2003-2004.

- As at national level, the recovery performance of RRBs in the state is not impressive. The percentage of recovery during the period from 2001-02 to 2003-04 was just more than 70 per cent. The same reasons which are discussed earlier may also be attributed here for poor recovery of loans.
Operational Performance of RGB

Rayalaseema Grameena Bank (RGB) was Sponsored by Syndicate Bank on 8th August, 1976 with its headquarters at Cuddapah covering Cuddapah, Kurnool and Markapuram Revenue Division of Prakasam district. These districts are significantly characterised by economic backwardness and heavy dependence on agriculture. The present study is confined to Cuddapah district only. The major findings of the study on operational performance of RGB are briefly presented:

- RGB has made a distinct progress in branch expansion. There are 148 branches actively involved in deposit mobilisation and credit deployment. Of the total 148 branches, more than 70 per cent of the branches were established in rural areas. But many of the branches have no adequate infrastructural facilities.

- There is a phenomenal growth in deposits and advances of RGB. The deposits have grown by 11 times and advances by 10 times between 1980 and 1990. Between 1990 and 2004 deposits and advances increased by 14 times and 6 times respectively.

- It is significant that highest CD ratios were recorded during the years 1980, 1985, 1990 and 1995. From 2000 onwards, declining trends can be observed. The CD ratio which was 71.51 per cent during the 2000 declined to 68.33 per cent in 2004 as against 46.34 per cent at national level.

- It is significant to note that the share of priority sector advances declined during the period of study. The share of priority sector to total advances was 78.25 per cent in 1995 and gradually declined to 65.80 per cent in 2004.
The recovery performance of RGB is not satisfactory. It is found that the recovery percentage hardly ranged between 42 per cent and 78 per cent. Upto 1999, the recovery percentage was only between 42 and 54. It was only from 2000 onwards, the recovery percentage was more than 60 per cent. However, during the year 2004, the recovery was 78 per cent as against 73.49 per cent at All India level.

Financial Performance of RGB

The mandate of promoting banking with a rural focus, however, would be an enduring phenomenon only when the financial health of the RRBs is sound. The financial health of RRBs itself would be a matter of concern. The findings of the study on financial performance of RGB are summarised below:

- As regards the financial status, RGB incurred losses from 1995 to 1997 and earned profits from 1998 onwards. The growth rate in profit was very high i.e., 116.23 per cent during the year 1999 but sharply declined to 4.86 per cent in 2000 and gradually increased to 36.95 per cent in 2004.

- Interest and discount constitute a major portion of the income of RGB. The growth rate in the total income registered a downward trend.

- The growth rate of income declined from year to year. A highest growth of 72.79 per cent in 1997 and a lowest of 6.87 per cent in 2004 were recorded during the period of study. On the other hand, interest on deposits and operating expenses constitute a major share of total expenditure. Wide fluctuations can be observed in
the growth of expenditure and there had been decline in the growth rate of expenditure since 1997.

- The interest coverage ratio of RGB has been satisfactory since 1998. During the year 2004 a highest ratio i.e., 1.63 was recorded, it is an indication that the bank is in a position to pay interest on deposits and borrowings. On the other hand, the interest earned ratio ranged between 5.78 per cent and 9.41 per cent during the period of study.

- The correlation co-efficient between profit and total assets of RGB is 0.97 It indicates that there is high positive correlation co-efficient between the profit and total assets.

- It is observed that the current ratio of RGB was below the standard of 2:1 upto 1998. From 1999 onwards, the current ratio crossed the standard and recorded at 2.07 times in 1999, 2.40 times in 2000 and 2.50 times in 2001 and 2.44 times in 2002. The liquidity position during these years was more satisfactory. But it is distressing to note that the current ratio started declining from 2002 onwards. During the year 2004 the current ratio was 1.58 times as against 1.65 times in 2003.

Management of NPAs

As discussed earlier, NPAs not only affect the profitability and hamper their ability to recycle funds, but also shake the public confidence which is crucial for existence of any bank. The major findings drawn from the study on management of NPAs in RGB are:

- The NPAs in RRBs declined from 1999 to 2001 reflecting a fall in the growth rate from 27.84 per cent to 18.83 per cent. However from 2002 onward, an upward trend could be observed. The
volume of NPAs increased from 2002 to 2004. But the growth rates declined mainly because of increase in outstanding advances. The present trend of NPAs is alarming and calls for immediate efforts from the side of the RRBs.

- When compared with All India and State, the percentage of NPAs to outstanding advances in RGB was low. During the year 1999 the percentage of NPAs in RGB was 20.02 per cent as against 27.84 per cent at All India and 19.34 per cent at State level. From 2002 onwards also the percentage of NPAs to outstanding advances in RGB was low. By the end of the year 2004 the percentage of NPAs to outstanding advances was 3.54 as against 12.63 at All India level and 8.07 at state level.

- It is noteworthy to observe that the NPAs in RGB diminished from year to year reflecting negative growth rates when compared with RRBs at national and state level during the period of study.

**Operational Performance of Sample Branches**

The chief objective behind setting up of RRBs was to tap the savings of rural folk in the form of deposits extend helping hand to the poorer sections of the rural areas to enable them to enhance their standard of living. In order to achieve these goals efficiently, the RRBs have established branches in the un-banked and under banked areas. The effective functioning of branches significantly contributes to the success of RRBs. The major findings of the study on operational performance of select branches are briefly outlined.

- The select branches except Galiveedu recorded low ratios when compared with RGB. The performance of Galiveedu branch was
much impressive. The CD ratio which was 60 per cent in 1996 considerably increased to 86.95 per cent in 1999, afterwards declined to 75.15 per cent in 2000 and further increased 79.19 per cent in 2001. The ratio once again declined to 72.13 per cent by the end of March, 2004. When compared with Sankarapuram branch, Proddatur and Rajampet branches, the performance of Vempally branch was somewhat better.

- The percentage of recovery in the select branches is said to be satisfactory when compared with the RGB. During the year 2004, in Proddatur branch, highest percentage of recovery (94.40 per cent) was recorded followed by Vempally branch (90.75 per cent) and Sankarapuram branch (86.98 per cent) respectively.

- It is pathetic to note that almost all branches except Galiveedu have incurred losses. During the period of the study, a lowest loss of Rs.3.43 lakhs in Vempally branch and the highest of Rs. 77.48 lakhs in Rajampet were recorded. On the other hand, RGB as a whole earned profits continuously from 1998 onwards and recorded an upward trend. It is noteworthy that the Galiveedu branch earned profits. The profit of this branch was Rs.7.57 lakhs gradually declined and reached to 2.79 lakhs by the end of 31st March, 2004.

- The Co-efficient of Variation (CV) in the CD ratio at Sankarapuram branch is 75.81 per, Proddatur branch 25.68 per cent; Vempally branch 31.91 per cent; Rajampet branch 22.46 per cent and Galiveedu branch 10.04 per cent. The CV is least in case of Galiveedu branch, it implies that the CD ratio of Galiveedu branch is consistent.
Analysis of Field Survey Results

The assessment of the performance of the rural oriented bank like RGB merely on the basis of secondary data can not disclose a vivid picture on it. To have a better insight into the working of RGB, field study was conducted. The researcher has adopted proportion allocation method of stratified random sampling technique. Five branches namely Sankarapuram, Proddatur, Vempally, Rajampet and Galiveedu located in mandal headquarters were selected at random as their involvement in the priority sector lending is significant. From each branch 5 per cent of the borrowers is drawn at random from the list of beneficiaries supplied by the branch managers. 268 borrowers (164 from agriculture and allied; 63 from SSI, rural artisans and small business 41 from service and other petty trades) were selected at random. The findings of the field study are:

- Out of 268 sample respondents, a large proportion (37.31 per cent) are in the large group between 41 to 50 years. In case of agriculture and allied activities majority of the respondents belong to the age group of 41 to 50 years. In case of SSI and small business 44.44 per cent of the respondents are under the age group of 31 to 40 years. Majority of the respondents under service and petty trades are under the age group of 31 to 40 years.

- Majority of the respondents (47.39 per cent) under agriculture and allied belong to OC category. 87 respondents (53.05 per cent) out of 164 belong to OC category followed by BC, SC and ST categories. In case of SSI and small business also, majority of the respondents belong to OC category but in case of service and other petty trades large proportion of total respondents (51.22 per cent)
belong to BC category. The OC and SC categories are equal in number.

- Out of 268 sample borrowers, a large proportion (50.37 per cent) are in the family size of 4 to 6 members followed by the family size of 6 and above. In case of agriculture and allied activities, more than 80 per cent of the borrowers belong to the family size of 4 to 6 members and six and above.

- Out of 268 sample respondents 78 (29.10 per cent) have primary education, 75 respondents have SSC/SSLC qualification and 37 have graduation and above. The percentage of illiterates is more in case of agriculture and allied activities when compared with other sectors.

- Most of the respondents (43.66 per cent) were dependent on banks for procurement of finance. But in case of agriculture and allied activities, most of the respondents (52.44 per cent) relied on money lenders in financing their activities.

- Out of 268 sample borrowers, 97 borrowers (36.20 per cent) fall under the category of annual net income group of Rs.20001 to 40000 followed by the income group of Rs.60001 to Rs.80000.

- 160 respondents (59.70 per cent) strongly opined that the rate of interest on loans charged by bank is reasonable and 150 respondents (55.97 per cent) expressed that they have good relations with the bank.

- 136 respondents (50.75 per cent) when posed question on their reactions about the terms and conditions of RGB while borrowing loan expressed unhappiness on insistence of collateral securities.
With regard to delay in payment of loans, majority of the respondents (50.83 per cent) under agriculture and allied activities pointed out that failure of crops are mainly responsible for delay in repayment of loans. Hard pressed domestic problems are reported by 68 per cent out of 268 respondents. In case of SSI and small business, 30 respondents (47.62 per cent) expressed that production failures are mainly responsible for delay in repayment of loan. Lack of marketing network was reported by 61 respondents (27.61 per cent) out of 268 respondents.

In case of SSI and small business, major portion of the respondents belong to food and agro-based (22.20 per cent); textiles (22.20 per cent); engineering and allied (19.05 per cent); and plastic (19.05 per cent).

SUGGESTIONS

The operations of RRBs warrant a total restructure. In the light of the findings of the study, the following suggestions are offered to improve the performance of RRBs in India in general and Rayalaseema Grameena Bank in particular. It is admitted that most of the suggestions are based on the opinions expressed by the sample respondents and the officials concerned.

- To increase deposits the managers of the rural branches should make personal contact with the residents of local areas covered by their branches and during personal discussions present and prospective customers should be educated about the importance of thrift and savings. Service of the branch should be prompt and efficient so that the reputation of the branch is established. The customers should be given due recognition by the bank officials and
service to the customer should be at top priority. All these steps will leave long lasting effect in increasing the deposits of the branch.

☐ In order to get the desired results of bank credit, there should be complementary support from the State Government, which is lacking in many respects. The State Government compels the bank to finance, but does not give the necessary support like creating infrastructure facilities, particularly for marketing and recovery. This has been pointed out by many committees appointed earlier by the RBI, but very little action has been taken so far.

☐ For increasing the loan recovery, the bank authorities should encourage the managers to work hard with sincerity and honesty. To have good recovery of loans, it is necessary that loans are sanctioned only in genuine cases after carefully analysing the viability of the projects. It is found that recovery position is not good in case of loans given under Government sponsored scheme i.e. Integrated Rural Development Programme (IRDP). It is so, because of wrong identification of families by the implementation machinery for various government sponsored schemes. As a result of this the borrowers misuse the loans or use it for unproductive purpose and such loans can not be easily recovered by the bank.

☐ To motivate the employees, a proper scheme for promotion should be designed so as to boost the role of employees and they should be educated for more sincerity towards their job requirements and they should work hard for increasing the business of the bank and improvement in recovery of loans.

☐ Refinancing facility to RRBs should be made available at subsidiary interest rate by sponsoring bank and NABARD.
For increasing the income of the RRBs, the lending rates may slightly be raised comparatively to increase the profits of the bank to discourage investment of the funds in other areas.

For smooth functioning of the branch, higher officers should extend full co-operation to the branch managers and they should be encouraged for increasing the business of the branch honestly. They should not be harassed for not adopting malpractices. As it has been pointed out by various managers that their promotions are made on the basis of their level of raising the business of the branch without considering honesty and sincerity towards their job requirements. It is observed during the course of field study that the honest managers whose lending business remains low are not promoted and they are transferred to such branches which are in the remote areas of the district.

The RRBs should strengthen their internal checks and control system. The Chairman and General manager should visit the branches regularly. The long pending entries in branch adjustment accounts should be reconciled to avoid frauds.

The present working hours of the branches are also a hurdle in the way of getting business from the rural people because generally farmers are engaged on farm activities during the day time. Thus, the working hours should be adjusted to the time suitable to the prospective and existing clients.

Modern Technologies like ATM, Core Banking, Any where Banking and so on should be introduced to improve the quality of services in all spheres of banking activities.
For improving operational efficiency, modern technology should be introduced. Computerisation and automation will help in reducing unproductive costly operations.

It is suggested that the local leaders should not be permitted to act as intermediaries for the identification of applicants or to pressurise the bank officials for sanctioning loans. They may be allowed to guide the people but in no way they should be allowed to force the bank officials to permit loans to unworthy applicants.

There is a need for proper planning with specific objectives after considering the potential and peculiar characteristics of people in the area of operation. RRBs should make it a policy to exploit the potential available for deposits.

There is an urgent need for a "Research Cell" at the level of Head Office for effective and continuous planning, research and development.

In order to reduce administrative expenses and speed up work, all branches of RRBs should be computerised.

Majority of the bank employees opined that bank should conduct training programmes for the borrowers under SSI and small business especially self employed so as to enable them to operate their business concerns on economic lines and repay the loans within stipulated time.

During the course of field study, most of the respondents reported that they have no adequate marketing network, consequently they are unable to market their products profitably and repay the loans within time. Hence, it is better on the part of the bank to organize
marketing stalls through exhibitions for the benefit of the borrowers especially handicrafts, rural artisans etc.,

Operating expenses have a negative impact on the profitability of both profit and loss making RRBs. Hence, it is inevitable on the part of the RGB to evolve proper control devices to control operating expenses.

Another effective measure for making RRBs economically viable, the branches whose business is not increasing and continuously incurring losses should be relocated in such areas where business may increase and the branch may become economically viable. In some cases working area of the branch should be expanded by merger of one branch into another. Thus staff of the branch would be doubled and the working area also would be doubled. Hence the efficiency of working of the branch will improve and naturally business will also go up. Those unviable branches which can not be merged into another branch should be closed.

It hoped that the above suggestions certainly contribute to the efficient functioning of RRBs in general and RGB in particular.