Chapter II

Research Design and Methodology
1. Introduction: The commercial banks in India had usually been lending a negligible proportion of their funds to the rural public. In view of the large gap between the credit needs of modern agriculture and the supply of credit, government accepted the philosophy of a multi-agency approach to the development of credit institutions which was recommended by the All India Rural Credit Review Committee, 1969. In tune with this policy and nationalisation of commercial banks, banks were asked to open more branches in the rural areas. Further, it was evident in the establishment of linkage between co-operatives at the grass root level and the commercial banks and the involvement of the latter in the organisation of farmer service societies, village-adoption schemes for the concentration of investment-enterprise in compact areas as a part of the process of rural-orientation of commercial banks.

Both the co-operative and commercial banks have made substantial progress over the years in providing credit to agriculture, which has been classified as a 'priority' sector. Thus, nearly all the Indian villages were covered by co-operatives at the grass-root level. The commercial banks have been making concerted efforts towards opening more branches in rural areas in the post-nationalisation era.

In spite of the tremendous growth of co-operatives and commercial banks following bank nationalisation, institutional credit was felt to be beyond the reach of the vast majority of rural
borrowers. They turned to rural money lenders who continued to play a crucial role in rural finance. The demand for rural credit increased substantially over the years, especially after the introduction of modern technology in Indian agriculture in the late 1960's, and it is expected to go up at a faster rate in the coming years. The co-operatives and commercial banks were unable to meet all the planned credit requirements of rural areas and there would be still a large unfilled gap.¹

Most of the Primary Agricultural Credit Societies (PACS) were financially and managerially weak. They suffered from inadequate business, heavy overdues and faulty and inefficient management. The commercial banks also had their own weaknesses. Substantial growth in the number of rural branches did not result in their deep penetration into the rural areas. Also, their operations did not go beyond mopping up rural deposits for investment in urban areas, triggering a reverse flow of funds from the rural to the urban areas. There was a growing need of a type of institution which could combine efficiency with low cost and a democratic approach to meet the vastly increasing credit needs of the small and marginal farmers, rural artisans and the weaker sections of the rural society.

Historically, commercial bank branches were confined to urban areas and bank credit was available only to a few leaders of
commerce and industry. The lopsided role played by banking institutions in meeting the rural credit requirements and the spread in banking activities has received special emphasis at the hands of Rural Banking Enquiry Committee and the Committee of Direction of the All India Rural Credit Survey. Hence, the commercial banks were inducted into the field of rural credit. These banks were asked to reorient their lending policies more in favour of primary sector. In accordance with the emphasis, the network of branches, especially in the rural areas, was expanded.

Commercial banks have evinced keen interest in financing agriculture. They have experimented with a number of alternatives and a combination of methods and approaches in different parts of the country with varying degrees of success. Even with much increased network of rural branch offices, commercial banks could not reach the interior rural hinterland. And even where the rural branch offices of commercial banks were operating, the impact, in terms of rural banking, was not discernible since the staff at these branches, having an from urban culture, behaved more like outsiders. Psychological barriers existed between the bank staff and the customers from rural areas telling upon the performance of branch offices. These offices seemingly aimed at mopping the deposits from the rural rich rather than extending credit to the needy-poor. Statistically speaking, at the end of June, 1974, rural branch offices mobilised 7.7 per cent of deposits whereas loans of
these offices amounted to 5.3 per cent. Another important feature observed was the costly infrastructure which rural branch offices could ill-afford due to low volume of business in comparison to semi urban / urban areas.

Further, certain amount of discomfiture has crept into the rural scene. These banks are alleged to be taking away a substantial part of the business of co-operative banks; rural deposits, it was feared, will begin to migrate to urban areas; inadequate assistance was provided to the weaker sections; high cost structure in the operation of rural branches; urban-oriented staff are not found suitable for rural environment; and so, these banks became mere lenders rather than development agencies. The commercial banks could not bridge the gap in rural credit also. They suffered from organisational gaps, personnel deficiencies and recovery problems. In spite of tremendous progress in the availability of institutional credit to rural areas in recent years, the contribution of co-operatives and commercial banks together has not exceeded 40 per cent of the estimated rural credit requirements and, hence, there was a widely shared view that a more determined effort was needed to speed up the flow of institutional credit, especially to meet the needs of the weaker sections of the rural community.

The government considered evolving an alternative source of credit to weaker sections of the society by establishing rural banks
as new institutions since it was felt that the regional and functional
gaps in rural credit could not be bridged within a reasonable period
even if the system of co-operatives and commercial banks was
overhauled and restructured. Setting up of new banks was
contemplated on the basis of ideology different from that obtaining
in public sector banks in view of the pitfalls observed in their
working as already referred to. It aimed at lowering the cost of
rural banking and manning these banks with staff from local
environs so that the target group do not treat the new banks as
alien institutions.

In view of the aforesaid, the Banking Commission, in 1972,
proposed the establishment of a new class of 'rural banks' for
compact groups of villages to meet the increasing credit needs and
also to spread banking habit. The Commission observed that in a
country like India where diversities abound, any single type of
financial institution to meet the financial needs of the rural people
would not be an appropriate method. It, therefore, recommended a
multi-pronged programme where co-operatives, commercial banks
and specially sponsored rural banks were to play their role. While
expressing this view, the Commission has observed that in the total
scheme of bridging the credit gap in agricultural sector, the major
difficulty is that the co-operative sector, which is well organised due
to numerous branches at the field level, is unable to mobilise
deposits while the commercial banks, which are able to mobilise

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deposits in a substantial manner, are unable to provide credit to agriculture owing to their lower coverage of the rural sector and their lack of knowledge of problems of lending. In this context, it proposed the setting up of a new class of rural banks in areas where co-operative credit structure is weak.

The Government of India, therefore, appointed a Working Group during 1975, with Sri M. Narasimham as Chairman, to examine indepth the setting up of new rural banks as subsidiaries of public sector banks to cater to the needs of the rural people. The notification stated that unless such new institutions were started on the basis of attitudinal and operational ethos entirely different from that obtaining in the public sector commercial banks, the mode of functioning of the public sector banking system would not only not change, but on the other hand, would be perpetuated.

After nationalisation of banks, considerable progress was made in providing credit for agriculture. Besides, massive steps were taken up by commercial banks to cover rural artisans, agricultural labourers and small and middle sized farmers whose holdings were neglected in providing credit. It was to meet the needs of these sections of the community, the Working Group felt that attention should be paid to them while extending institutional credit in rural areas. They also felt that neither the co-operatives which were weak and trailing behind, nor the commercial banks, though strong, were institutionally equipped to purvey credit to these sections.
The Working Group recommended the setting up of state sponsored, regionally based and rural-oriented commercial banks called regional rural banks (RRBs). It was also emphasized that the new institutions would supplement but not supplant other institutional agencies in the field. The Group was of the view that the major objectives of RRBs should be to mobilise the resources from the region and to deploy them within the same region. It made it clear that the task of these banks should be seen in the proper perspective of promoting rural development. The analysis referred to provide the full justification for the establishment of RRBs as a distinct and rural environment oriented credit structure, catering mainly to the credit needs of the weaker and neglected sectors of the rural community.

Consequent on the acceptance of the aforesaid recommendations, on 26th September 1975, the government of India promulgated an ordinance to provide for the incorporation and regulation of RRBs. This ordinance came into force with immediate effect and extended to the whole of India. The ordinance was later replaced by the enactment of RRBs Act on February, 1976. Thus, RRBs came into being on the evolutionary scene of rural credit to form the third component of the multi-agency credit system. The establishment of RRB is a landmark in the history of Indian banking. The responsibility of rural credit has fallen on the
shoulders of co-operatives, commercial banks and RRBs. Each one of them is presumed to function as part of a system with close co-ordination while planning credit provisions.

The RRBs are required to confine their lendings mainly to the weaker sections of the rural community. The target group comprises basically the small and marginal farmers, agricultural labour, rural artisans, small entrepreneurs and persons of small means in trade, commerce or industry and other productive activities within the area of operation of the bank. The RRBs accept all types of deposits and also render other banking services consistent with the needs of the area. Financing outside the target group is exceptional and incidental. Generally, the operational area of each RRB is confined to a compact area of one to five revenue districts with homogeneity in agro-climatic conditions and rural clientele, indicating and identifying commonality of problems. The RRBs are to open their branches in the unbanked and underbanked centres.

The RRBs are scheduled commercial banks sponsored by scheduled banks, usually public sector commercial banks. These are to be set up with the initiative taken by the sponsoring banks in consultation with the concerned state government, central government and under licence from the RBI. The sponsoring bank was required to provide managerial and financial assistance to the RRBs sponsored by it for the first five years and thereafter, on the
basis of mutually agreed terms. The first five RRBs were set up in 1975, their number grew up to 196 by 2005 and declined to 133 in the following year due to merger and amalgamation. These institutions were an innovation in providing banking services to rural people in general and rural poor in particular.  

RRBs as financial institutions for rural development are 32 years of age by 2007. This age can be considered as moderate in the life of an institution. During the period, many official and non-official studies were conducted on various aspects of functioning of RRBs. Therefore, an attempt is made to review the existing available literature relating to the topic of research.

2. **Review of literature**: A review of the available literature on RRBs is provided in this section with a view to identify the research gaps and issues for further study. The studies are classified as reports of the committees and individual studies. Most of the studies are in the nature of performance appraisal at macro and micro level. Comparative studies are few.

2.1 **Studies of Committees**

The credit for initiating the first study on RRBs goes to the Reserve Bank of India (RBI). For this purpose, a Committee was set up under the Chairmanship of Prof. M.L. Dantwala, during June, 1977, to review the working of RRBs in the light of the objectives for which they were set up, to indicate their precise role in the rural credit structure and to make recommendations with regard to their
scope, methods and procedures. It submitted its report in February, 1978. Observations of the Committee are based on the results of a detailed study conducted on the working of 12 select RRBs. The main conclusion of the Committee was that with suitable modifications in their organisation and functions, the RRBs could become a useful component in the totality of rural credit structure. The Committee was convinced that within a short span of two years, the RRBs had demonstrated their ability to achieve the purpose for which they were established. In its view, the RRBs should function at the intermediate level in the present multi-agency rural credit structure. The Committee also highlighted the issues relating to the financial viability of RRBs and concluded that the financial results obtained on their working did show that the RRBs possess a potential and capability to attain financial viability and become profit-making institutions at a level of Rs. 3 crore business, which could be expected to be reached in about 3 to 4 years.

The Working Group on multi-agency approach in agricultural finance, under the Chairmanship of C.E. Kamath, has made observations on the role of RRBs. According to it, the role of the RRBs is to supplement, and not to supplant, the other institutional agencies in the field of rural credit. It further recommended that the RRBs in their direct loaning should not enter into competition with co-operatives. It also favoured the idea of allowing RRBs to allocate a part of their total loans to the large and medium size farmers.
A committee on the functioning of public sector banks under the Chairmanship of James Raj9 suggested that the RRBs, to be useful, should take over the rural branches of commercial banks. It said that the RRBs can play a significant role in financing the rural sector. The RRBs should not only open more branches in the rural areas but also gradually take over the existing rural branches of commercial banks. Consequently, all public sector banks and large private sector banks should be allowed to open branches only up to the district headquarters / mandal / block levels.

On the basis of the norms suggested by the Dantwala Committee, a quick study of the issues having a bearing on the viability of RRBs was undertaken by the steering Committee of the RBI during 1980.10 Fifteen RRBs, which had been in existence for three years or which had attained a loan business of Rs. 3 crores and above by the end of December 1978, were selected. In addition, four branches of each selected RRB, which had completed 3 years of operation or reached a loan business of Rs.6 lakhs, were included. The duration of the study is confined to three and a half years. It examined the factors which hindered their viability. For judging the viability of an individual RRB or its particular branch, this study adopted the same norms as were laid down by the Dantwala Committee and tried to identify the key factors that have a bearing either, direct or indirect, on the viability. One of the
findings of the study is that the gap between the income and expenditure is so small that it signifies that the RRBs in question are nearing the break-even point. Clearly, it is not possible for all their branches due to keen competition from commercial and co-operative banks. While concluding, the study pointed out that the RRBs have so far been able to achieve the objective of helping the weaker sections in rural areas by meeting their credit requirements despite the constraint of limited area of operation, the unhelpful topography of some areas and an un-enterprising clientele.

A Committee on the control over branches of RRBs, under the Chairmanship of Sri R. Sundravardan, suggested measures for uniform system and procedures in order to ensure effective control over the branches of RRBs. The observations were in a way largely related to internal management of RRBs, specifically issues linked with control measures in general; statements and returns to be submitted by the branch offices; discretionary powers of the branch managers etc. The Committee suggested that there should be an internal audit and inspection cell at RRBs Head Office whose main function and responsibility will be the periodical inspection of branches. The suggestions include: the state government should improve infrastructure, particularly police protection and civic amenities at the places where the branches are located; the RRBs should be allowed to open branches as represented by them; ban on commercial banks to open branches in the areas falling within
the operational areas of RRBs; the RRBs may be allowed to lend the richer sections in select villages in certain proportion; the RRBs can step up their lending under government sponsored programmes with an intention to reduce scattered lending; uniformity may be brought in the discretionary powers delegated to branch managers; periodical review of eligibility criteria with regard to weaker sections in terms of their annual income etc.

Agricultural Finance Corporation\textsuperscript{12} attempted a detailed comparative study on the performance of two RRBs sponsored by Syndicate Bank viz. (i) Malaprabha Grameena Bank at Dharwar in Karnataka; and (ii) Rayalaseema Grameena Bank at Kadapa in Andhra Pradesh, covering a period of 1976-1980 and submitted its report in 1981. The important observations and suggestions evolved from this study are: RRBs accord due consideration to the list of centres identified by the state governments while opening their branches; if possible, state governments may construct suitable premises for housing the branches at low rent when the government desires opening branches at a particular location. State government departments should treat RRBs as their own institutions and provide all possible help. The state Government is one of the shareholders and should not treat RRBs like other commercial banks. As far as possible, no new branches of commercial banks should be allowed to be opened in the areas of operation of RRBs branches.

As the RRBs have assumed important role in rural development,
state government, state government agencies, autonomous bodies etc., may be moved to keep their deposits with RRBs also. To maintain uniformity among all RRBs, suitable modifications are necessary in the formats to indicate villages as classified in the latest available census records. It is expected that while RRBs are required to finance weaker sections in the selected villages, the credit needs of better-off sections will be met by commercial banks.

Refinance facilities to RRBs should be enhanced, especially from National Bank for Agriculture and Rural Development (NABARD) and Industrial Development Bank of India (IDBI). The recoveries of RRBs are satisfactory in comparison with the District Co-operative Central Banks (DCCBs). Wilful defaulters have to be dealt with firmly and effectively. RRBs can associate voluntary organizations and government agencies in educating and motivating rural poor to come forward and avail financial assistance. Reduction in lending rate of sponsoring banks, provision of all types of banking services by RRBs, re-organisation of Head Offices of RRBs, establishment of independent training centres and inducing employees to remain with RRBs are the important measures to be taken up for better performance of RRBs. A systematic study on the benefits derived by the borrowers belonging to different target groups is to be taken up by RRBs on a continuous basis.
The emoluments of the staff should be continued to be determined with due regard to the state Government scales as now being done by the Government of India. In so far as the banking aspects of the linkage are concerned, it is obvious that these have to be continued since the sponsor banks are financing banks as well. We recommend that facilities for recruitment and training and technical assistance should continue to be provided by the sponsor banks, on the same terms, for a period of 10 years for each RRB. Thereafter, any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB.

We recommend that nomination of at least two non-officials who are either progressive small farmers, social workers or persons connected with rural welfare, agricultural development, village industry, etc. may be made. It is not advisable to consider persons who are active politicians or office bearers of political parties for such nominations. Some of the state Governments have also expressed their preference for keeping RRBs management free from politics. It is urged that the necessary amendments to the RRBs Act may be made at the earliest so that there will be a single overseeing authority to look after RRBs, essentially NABARD. Being institutions devoting exclusive attention to the weaker sections, it should be appreciated that RRBs have to be treated on a special and different footing in facilitating their operations. We have no doubt that given the necessary aid, support and guidance in the initial years, RRBs
will come to have an increasingly important role as an integral element of the multi-agency system at the ground level. RRBs will be well on their way to becoming district level commercial banks, ready to diversify their activities.

A Working Group constituted under the Chairmanship of Kelkar14 reported the various issues of RRBs. It is stated that as many as 130 out of 173 RRBs had incurred losses in the year 1984. The accumulated losses of 49 RRBs had eroded their entire paid-up capital and another 26 had eroded half or more than half of their share capital. The Working Group made several recommendations regarding structure, planning, operational strategies, etc. Once a RRB is required to be established in an area, it should be allowed to open sufficient number of branches taking into account the need and viability aspects. The paid-up share capital of each RRB should be raised from Rs.25 to Rs.100 lakhs and, correspondingly, the authorised capital from rupees one to five crores. The present coverage of RRB may be restricted to one or two districts barring exceptions. The deputed staff from sponsor banks may be continued even beyond 5 years, and as long as it is felt necessary, depending on the stage of development and requirements of RRBs. The sponsor banks should reduce their lending rate from 8.5 to 7 per cent per annum for refinance provided to RRBs. The RRBs may be allowed to invest their surplus funds in government and other trustee securities through sponsor banks in stead of keeping them in current accounts with the sponsor banks.
The sponsor banks should play a more active role in funds management, formulation of projects, staff training, development of proper procedures, internal audit and assessment of financial strength. Several suggestions were made to reduce overdues and get the locked funds released. To retain the present image of small man's bank, changes in the composition and procedure of appointment of directors including Chairman were recommended. The Committee further suggested that a proper policy of manpower planning and recruitment of staff has to be adopted so as to keep the staff to the bare minimum required. It also suggested that the state governments should help the RRBs by issuing necessary instructions to government authorities and local bodies to keep their deposits with the RRBs in order to get a better mix of deposits.

The Agricultural Credit Review Committee (ACRC)\textsuperscript{18} under the Chairmanship of Sri A.M. Khusro reviewed the entire gamut of rural credit in India including RRBs during 1989. Its recommendations with regard to RRBs are: The performance of RRBs in terms of number of banks, branches, loan operations, deposits mobilisation etc., are impressive. Admittedly, the RRBs have achieved a considerable degree of success in taking the banking services to remote areas which had earlier remained unbanked, and made available institutional credit to the weaker sections in these areas. Their achievement in the coverage of the tribal blocks has also been equally significant. A number of RRBs was not able to comply with
the statutory requirement in respect of liquidity and cash reserve ratios. The contributory factors for erosion of profitability are endemic to the system structured as it is. Firstly, the RRBs are mandated to confine their lending to weaker sections where the interest earned on loans is the lowest in the banking system. Secondly low interest margins and the high cost of servicing a large number of accounts, coupled with low volume of business on account of restricted clientele. Recovery performance was not satisfactory at 49 per cent. The reasons for poor recovery are many. The droughts and floods, and consequent damage to the crops, affected recoveries in some years. Wilful default, misuse of loans, lack of followup, improper identification of borrowers under Integrated Rural Development Programme (IRDP) etc., were found to be some of the other reasons for the high level of overdues. Political intervention in the sanction of loans under IRDP on the one hand and announcement of write-off of loans on the other have been cited as reasons for unsatisfactory recoveries in some of the RRBs.

2.2 Individual studies: Charan D. Wadhva\textsuperscript{16} has undertaken a research study on working of RRBs. The author has reviewed the rural credit scene, progress of RRBs in the country and studied the working of Haryana Kshetriya Grameena Bank, Bhiwani (Haryana) and Jaipur Nagaur Aanchalik Grameena Bank, Jaipur (Rajasthan). Wadhva suggested the reorganisation of structure of RRBs to promote the objective of rural development with redistributive
justice. The elements of suggested frame work include: the RRBs must be identified as the 'rural banks of the rural poor'; in order to strengthen the working of the RRBs, participation by the public, especially the local people, both in the equity structure and board of management may be allowed; RRBs Act may be amended to provide for sponsorship of RRBs by DCCBs in the areas where the co-operatives are strong and the RRBs are not operating; the Farmers' Service Societies and Small Business Service Societies are to be attached to RRBs; there is a need to establish a close link between RRBs and the special programmes initiated by the Government; all loans granted by commercial banks under the Differential Rate of Interest (DRI) scheme to the weaker sections of rural society must be made through the RRBs; through effective credit administration and drive towards deposit mobilisation, RRBs may be made financially viable within a time bound programme of five to ten years; much attention needs to be paid to financing group activities; RRBs must pay greater attention to the credit need of non-cultivators; RRBs should increase their loans for consumption purpose initially to such needy borrowers who are being provided with loans by the RRBs for productive purposes; RRBs should be allowed to undertake the full range of banking services; RRBs have to change their staff and training policies according to the changing environment.
Jain\textsuperscript{17} evaluated the impact of RRBs credit on the beneficiaries in terms of income and employment in the state of Rajasthan. The study made use of both primary and secondary sources of data. One hundred and fifty borrowers proportionately spread over three branches of three RRBs were selected on a stratified random sampling technique. It was observed that the RRBs in Rajasthan are functioning well in meeting the credit requirements of target groups. The study revealed that the RRBs finance has enabled the beneficiaries to improve upon their production activities and income levels. It has further served as a means of strengthening their capital base, generating additional employment and ameliorating economic conditions.

Bapna\textsuperscript{18} reviewed the growth and working of four RRBs of Rajasthan. The author has used both secondary and primary sources of data. The specific aspects that have been emphasized upon include organisation, management, financial resources, loans and advances, recovery performance and viability. Since the study is at macro-level, the author discussed the issues peripherally, especially recovery of loans and viability. The observations include: the average number of branches per RRB at the all India level was 59 whereas in Rajasthan it was 53. The credit deposit (CD) ratio of RRBs in Rajasthan was 153 per cent while in India, it was 111 per cent. The author compared the deposit mobilisation, deployment of credit, recovery of loans and viability.
Kulkundrihar's study provides an insight into the problems and performance of two RRBs in Karnataka. This is based on survey technique and a case study method. The findings relate to branch expansion, deposit accretion, credit deployment, recovery performance and profitability at the macro-level and the contribution of RRBs to the economic development of Karnataka. He observed that the rate of branch expansion in Karnataka has been quite encouraging as compared to neighbouring states. The average growth of branches of RRBs in Karnataka was much faster than their counter parts in the country. In terms of deposit mobilisation, Karnataka ranked fourth in the country next only to Bihar, Andhra Pradesh and Orissa. The average advances per RRB in Karnataka were higher than the national level. The recovery performance was satisfactory. The RRBs in the state were marching towards the attainment of break-even point. These banks together have earned profits in the study period barring 1978. The RRBs in Karnataka have substantially contributed to the economic development of the areas in which they operate.

Sunil Kumar analysed the nature, working and performance of institutional credit in general, and RRBs in particular with regard to the development of rural areas and meeting the credit needs of weaker sections of society in the country side. The author has highlighted the existing structure of institutional and non-institutional sources of credit in India as well as Bihar state. The
author has analysed the coverage, deposits, advances and overdues. Further, he evaluated the problems faced by Vaishali Kshetriya Gramin Bank, Muzaffarpur.

Sinha Roy evaluated the progress and performance of RRBs in West Bengal during the period 1975-89. He has concentrated on eight RRBs and evaluated their performance in respect of deposit mobilisation, credit deployment, recovery performance etc. He has compared the performance of select RRBs and analysed the causes for losses at the branch level. He has pointed out that the efforts toward recovery of loans could not claim much success. During 1988-89, the rate of recovery of loans was 30 per cent of demand. Most of the RRBs suffered losses in most of the years. He has suggested that the recovery system should be strengthened and the establishment cost should be reduced to make the RRBs earn profits.

Agarwal, in his study on the working of RRBs, focused attention on the branch expansion, trend in deposits and advances of Prathma Bank in Moradabad district of Uttar Pradesh. He has analysed the capital structure, management pattern and key indicators of financial performance. The author has lamented that the bank is facing difficulty in the recruitment and training of employees. The bank has mobilised deposits from all sections in the villages. The quantum of advances showed a tremendous increase since its inception. The suggestions include: top management should
stream line and fix standards of efficiency; expenditure on rent, stationary, advertisement etc., has to be fixed; profitability has to improved by employing the efficient staff, making well planned and practical policies and programmes; experts should look after the management of funds; and avoid competition with the rural branches of commercial banks. The RBI should make a clear cut demarcation between the area of operation and the line of functioning of the branches of RRBs and the rural branches of commercial banks.

Panandikar assessed the performance of the top five RRBs (in terms of deposits). The study brought into limelight that RRBs have become a significant rural institutional force, especially in the backward states where the existing banking coverage was inadequate; the cost structure had been distinctly lower than that of commercial banks and focused on the weaker sections in the deployment of credit. The author pointed out that the relationship between NABARD and RRBs should clearly be symbolic. The study also emphasized that the present nexus between commercial banks and RRBs should be maintained to develop the latter on sound lines in the years to come. Finally, he cautioned that it is unrealistic to expect that these would fill the credit gaps and geographical coverage within a short period.

Varde and Singh analysed the overall profitability performance of four RRBs with at least 2 years of age, on an average basis. The period of study was spread over 3 years from 1978. For
this study, 10 key indicators were derived by relating various components 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 RRB as between December, 1978 and December, 1980. In general, the study indicated that the profitability performance of all RRBs had improved over the three year period. Further, manpower and other operating costs put together as related to volume of business have significantly declined for all the RRBs. Furthermore, the spread ratios showed the similar tendency. The downfall in manpower and other expenses ratios is largely responsible for improvement in the profitability ratio. Comparing the ratios of manpower and other expenses of RRBs to that of commercial banks indicated that these ratios for an average RRB were much higher than that for an average commercial bank. The study felt that the manpower and other expenses ratios of RRBs 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.

Mishra observed that the beneficiaries of RRBs are mostly the rich farmers, not the small and marginal farmers. He has also brought to the fore that while raising finance, the borrowers are facing the problem of producing no-dues certificates and that the borrowers are the victims of corruption of bank officials and village level workers. They were not granted credit unless they parted with 5 to 10 per cent of the amount of credit to grease the palms of bank
officials and village level workers. However, he affirmed that the establishment of RRBs have uprooted the village money lenders, thereby supporting the conclusions reached by earlier scholars.

Prasad and kumar\textsuperscript{26} analysed the role of RRBs with a special reference to Karya branch of Vaishali Gramena Bank, Muzaffarpur in Bihar state. In this study, the authors dealt with the impact of loans on the rural poor in terms of income generation, employment creation and the coverage of weaker sections. The study found that the monetary assistance of the bank had resulted in the generation of more employment in terms of man-days and increase in the average earnings of all the households during 1981-82 as compared to the pre-loan period (1977-78). Besides, it observed that the bulk of the loanee households belong to the weaker sections of the rural community and not to the rich sections.

Uma Mahesh and Sundara Rao\textsuperscript{27} conducted a research study on the impact of Sri Visakha Grameena Bank on the beneficiary households. Their study reveals that the impact of Sri Visakha Grameena Bank on the select beneficiary households is significant in terms of increase in their investment, income levels and promotion of family employment. A horizontal shift in the distribution of beneficiaries from the low income groups to the higher income groups is noticed and relatively higher income groups are experiencing lower growth rates of income compared to lower income groups.
Varma\textsuperscript{29}, in his article, argues that there is a case for revival of RRBs in their present form itself. RRBs are in the lime light once again with the government thinking of merging all of them under one institution styled National Rural Bank of India. The author advocates that the losses of RRBs should be reimbursed by giving subsidies or grants as these institutions cater to the credit requirements of weaker sections of the society with a view to fulfilling a highly desirable social objective.

3. **Need for the study:** The review of aforesaid literature spells out the areas covered by the earlier studies. It brings out clearly that most of the studies were conducted at the macro level, based as they are on the working of their branches or head offices. This merely highlights the contours of the problem rather than presenting a plan of action. On the otherhand, some evaluative studies were conducted on the performance of RRBs. Only a few attempts were made on the RRBs in AP at the bank level. There are 16 RRBs in A.P. So far as the information and knowledge of the researcher is concerned, there is no empirical comparative study of RRBs functioning in similar and identical situations. Hence, a study is undertaken on the Sri Venkateswara Grameena Bank and the Rayalaseema Grameena Bank, which are located in the drought prone region of Rayalaseema. To bridge this gap, a modest attempt is made by the researcher. The issues highlighted in the enquiry include branch network, deposit mix, credit deployment, C-D ratio, overdues, non performing assets, recovery performance and financial performance.
4. **Present study**: The present study is presented in the following pages:

4.1 **Objectives**: The specific objectives of the study are:

(i) to review the progress of RRBs in India;
(ii) to study the branch expansion, deposit mobilisation and credit deployment of the SVGB and the RGB;
(iii) to analyse and compare the financial performance of the SVGB with the RGB; and
(iv) to evaluate and compare the recovery efficiency and non-performing assets between these institutions.

4.2 **Data collection**: The study has made use of both the primary and secondary data. Secondary data is collected from books, journals, magazines, periodicals, newspapers, handouts, annual reports etc. These include annual reports of the SVGB, the RGB, special issues of Indian Banks Association, RBI publications like Report on Trend and Progress of Banking in India, Statistical Tables Relating to Banks, various reports of NABARD, The Indian Journal of Commerce, IIB Journals, daily papers like Financial Express, The Economic Times, Business Standard, Business line, The Hindu etc. The primary data is gathered from the sample banks by administering a questionnaire specially designed for the purpose by personal interview method. This has been employed to collect the perceptions of officials only.
4.3 **Scope and limitations**: The study is confined to the SVGB and the RGB. The focus is on comparative analysis at the level of the bank but not branch and borrower. The impact of bank credit on the beneficiary, in terms of income generation, employment creation and asset holding pattern, has not been covered.

4.4 **Tools of analysis**: The data collected is processed, analysed and interpreted with the help of statistical tools like mean, percentages, standard deviation, compound growth rate, 't' test and co-efficient of variation. Graphs and diagrams are drawn at appropriate places to illuminate the facts and figures.

4.5 **Chapter scheme**: The present study is divided into eight chapters. Chapter one reviews the genesis, growth and performance of RRBs in India. Review of literature and research design and methodology of the study are provided in the second chapter. The third chapter deals with the profiles and branch network of the SVGB and the RGB. Chapter four covers the trend in the deposits of the SVGB and the RGB. Chapter five highlights the utilisation of funds by the SVGB and the RGB. Recovery performance and non-performing assets of the RRBs is analysed in the chapter six. The financial profitability of the SVGB are compared with those of the RGB in the chapter seven. The last chapter summarises the findings and the hints for further research in future.
References


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