7.1. Introduction:
The present concluding chapter covers the three broad areas:

1. The major findings of the study.
2. Suggestions and policy recommendations.
3. Conclusion.

However, before stepping into the major findings of the study, let us have a brief look into the background and basic framework under which the study has been carried out.

7.2. The background:

In spite of existence of a wide net work of commercial banks and cooperatives, the Regional Rural Banks (RRBs) were established on October 2, 1975 the basis of the recommendations of the Banking Commission in 1972, and the Working Group on Rural Banks, 1975 (Narashimham Committee). These banks were established with a view to abridge the gap that existed between the demand for and supply of institutional credit in rural sector and which could not be filled up by the commercial banks and cooperatives. Another motive behind the establishment of RRBs was to free the rural poor from the clutches of the unscrupulous moneylenders who had been exploiting the poor people by exercising their monopoly power in rural credit market.

The Working Group observed that because of regional diversities of the country, no single pattern of institution could be expected to meet the variety of credit needs of the rural sector, be it commercial banks or cooperatives. It therefore, suggested for an institution that fulfils the qualities of “a combination of the local feel and the familiarity with the rural problems, which the cooperatives possess, and the degree of business ability to mobilise deposits, access to central money markets and a modernised out look, which the commercial banks have”.
Thus, the **Regional Rural Banks (RRBs)** emerged as an institution, with the hybrid qualities of co-operatives and commercial banks, to fulfill the banking needs of the rural people with adequate attention to the regional specificities of the operational area.

Over the years, the RRBs, which are often viewed as the **Poor Man’s Bank**, have taken deep roots and become an inseparable part of the rural credit structure. They have been playing a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume and contribution to the development of the rural economy. From a modest beginning of 6 RRBs with 17 branches covering 12 districts in December 1975, the numbers grew to 196 RRBs with 14,433 branches working in 522 districts across the country (as on 31st March 2005). The branch network of RRBs, especially in the rural areas, constitutes about 43 per cent of the total rural branches of commercial banks. The rural orientation of RRBs is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. With this rapid expansion in outreach, the RRBs had become the principal agency to finance various government sponsored rural development and anti-poverty programmes like IRDP. During the financial year 2004-05, the RRBs of the country as a whole, mobilized Rs. 62,283.71 crore of deposits and disbursed credit worth Rs. 260,68.57 crore (with C.D. ratio 41.85). The RRBs alone have organised roughly 12 lakh self-help groups (45% of the total self-help groups) in the country. RRBs have also issued over 40 lakh Kisan Credit Cards to the farmers and organised over 5,000 out of 11,000 farmers’ clubs under NABARD scheme.

However, operating under the dictate of easy credit policy to agriculture, politically motivated decision-making, subsidised lending, emphasise on certain quantitative targets, inadequate attention to qualitative aspects of lending, etc., led to generation of mounting overdues and enormous losses of RRBs. Even so, by virtue of their social banking episodes towards rural clienteles; the RRBs were also largely escaped serious evaluation of their performance in commercial or financial terms and until 1991.
The Report of Committee on Financial System in 1991 (Chairman, M. Narashimham), brought about a radical change in the concept of development banking. The RRBs came under the scanner with gradual realisation that a catalytic role in rural economic development, by serving the weaker sections effectively, could not be expected from a financial institution that suffers from operational and financial inefficiency or which is financially nonviable. As a result, they could not remain insulated from wave of financial reforms on the ground of their rural nature and welfare orientation.

The winds of liberalisation, global competitiveness and hard commercial logic have swept away the will of the bankers and the government for using credit as an instrument for rural development. The government’s concern relating to the performance of RRBs increased in June 1994, when out of 196 RRBs 172 were found unprofitable. In few cases, besides capital, there had been an erosion of public deposits. Further, it was observed, “150 RRBs out of 196 incurred losses in each of the years from 1989 to 1994 and many of them had completely eroded their equity.” Under these circumstances, in 1994-95 the RBI implemented banking reform measures in RRBs also in order to give a boost to their viability and profitability.

The profitability of RRBs, though improved in the years 1995-96 and 1996-97, was overshadowed due to the introduction of income recognition and asset classification (IRAC) norms in 1995-96 and the provisioning norms from 1996-97.

As a measure of rejuvenating them, the government of India released a sum of Rs. 223.57 crore during 1995-96 for the restructuring of 53 RRBs out of selected 70 RRBs. A provision of Rs. 200 crore was also made in the union budget of 1996-97 for recapitalization of 70 RRBs in 1996-97. The financial budget 1997-98, made a provision to the tune of Rs. 270 crore for the same purpose.

In 1999-2000, out of 196 RRBs operating in the country, 162 showed profits and 55 of them had managed to wipe out accumulated losses as well. In 2003-04, 163 RRBs earned profits amounting to Rs.953 crore while 33 RRBs incurred losses to the tune of Rs.184 crore. Ninety RRBs had accumulated losses as on March 31, 2004.
The aggregate accumulated loss of RRBs amounted to Rs. 2,725 crore during the year 2003-04.

The viability based categorisation of RRBs, showed that as on 31 March 2005, out of 196 RRBs, 106 RRBs have wiped off their accumulated losses and in a way attained a sustainable viability, whereas, 57 other RRBs have achieved a turn around and attained a current viability status leaving only 33 RRBs which continued to incur losses.

The above facts, obviously, raise doubt regarding the suitability and effectiveness of banking sector reform measures in solving the problems encountered by the RRBs over the years.

However, the matter of grave concern was that, while the RRBs in the country were struggling for their existence due to the alleged restrictive policy conditions, poor clientele base, low recovery rate and higher cost of operation; the Grameen Bank of Bangladesh has been gaining popularity in the world for its success in implementing the similar objectives as in case of RRBs. The Grameen Bank experience had shown that an access to institutional credit on easy terms and conditions could make a sea change in rural economic scenario. The Grameen Bank has also proved that the poor are credit worthy and an efficient financial institution can improve the life of the rural poor, without putting a threat to the viability of the institution.

Hence, questions about operational policy, managerial efficiency, and the ability of RRBs to serve the society come to the fore front. Further, with the implementation of banking sector reforms in RRBs in 1993-94, RRBs are now exposed to aggressive competitive market conditions from their protected and regulated regime. Thus, unless the RRBs are equipped to face the challenges imposed by the banking sector reforms, their existence would be at stake.

Under this back drop, the present study entitled “Financial Viability and Profitability Problems of RRBs – An Empirical Study on South Assam” was undertaken to get answers to these pertinent issues and to examine how far the
banking sector reform measures has enabled the RRB in the study area in improving its profitability and viability.

In this connection, it is worth mentioning that the Cachar Gramin Bank (CGB) acted as the only RRB in the study area, i.e. the three districts of Barak Valley (viz. Cachar, Karimganj and Hailakandi) in Southern Assam until 11\textsuperscript{th} January 2006. Presently, it has been merged with the other three RRBs of the state, viz., Pragjyotish Gaonlia Bank, Subansiri Gaonlia Bank and Lakhimi Gaonlia Bank (all sponsored by the United Bank of India), to form Assam Gramin Vikash Bank (AGVB) on 12\textsuperscript{th} January, 2006, converting the four operational areas of the erstwhile RRBs as its four zones and their headquarters as the Zonal Offices.

As the period of study under consideration (1981 to 2004-05, i.e., 24 years of operation of the Cachar Gramin Bank) does not cover the event of amalgamation, the performance of AGVB does not come under the purview of the study. Thus the analyses of the study are exclusively on the financial information of erstwhile Cachar Gramin Bank. However, the findings of the study are more relevant in the present context of amalgamation and merger because of the fact that amalgamation of four RRBs of the state was only an equity merger, which, overnight, brought all the branches of erstwhile four RRBs under the umbrella of AGVB, with their prevailing set of staffs and unchanged operational policy parameters. In other words the formation of AGVB was, simply, the summing up of four RRBs to form a bigger one with a new nomenclature. Thus, although the amalgamation was done with a view to enhance the capital base of the RRB, widen the area of operations and bring them under unified control; the future growth and prosperity of the AGVB would depend on the growth and viability of its four components or zones. Hence, the experience of the Cachar Gramin Bank in its 26 years of functioning in the region (From 1981 to 2005) would act as the lighthouse to guide the formulation of operational policies and future strategies for the newly formed AGVB.

The study was undertaken with a view

- To evaluate the financial performance of the RRB under study in the context of changes in operational environment brought forth by the banking sector reform measures.
To assess the extent of reorientation of the RRB in study area in response to the changes generated by the banking sector reform measures.

To make a critical analysis about the prospect of the bank as a viable and profitable financial institution.

To assess the customers' perception about the bank, relating to the quality of services rendered by it.

To prescribe policy measures for further improvement in the financial performance of the RRBs of the country in general and of the study area in particular.

The operational null hypotheses, which are tested by the facts and application of statistical tools in the study, are:

1. "The operational policies and objectives of the RRBs of the country have not changed with the changing socioeconomic scenario, over time'.

2. "The financial performance of the bank under study has not improved, in spite of the implementations of banking sector reform measures in RRBs."

3. "The profitability of the bank under study is independent of the measures implemented by the banking sector reform."

4. "The operational efficiency and viability of the RRB under consideration has not improved even after the implementation of reform measures."

5. "The RRB has failed to satisfy its customers' aspirations."

7.3. Research methodology:

**Data Source:** Both primary and secondary data have been used for various statistical analysis and inferences.

Primary data were used mainly, for the part of the study dealing with service quality vis-à-vis customers' satisfaction in the RRB under study. The necessary statistical information for the specified purpose has been collected from the field survey following the interview method with the help of a structured questionnaire.
**Variables undertaken:** Four different sets of widely used financial variables / financial ratios and attributes have been taken under consideration for four main aspects of the study, viz., a) financial performance appraisal, b) analysis of profitability problems, c) analysis of viability problems, and d) analysis on customers’ perception about the service quality of the bank, i.e. the level of customers’ satisfaction.

a) **For assessing the financial performance** of the RRB, we have taken 12 variables covering the aspects of (i) Branch Expansion, (ii) Deposits mobilization, (iii) Credit disbursement, (iv) Priority sector advances, (v) NPA position, (vi) Growth of income, and (vii) Profit and loss of the bank.

b) **For profitability analysis,** altogether 15 financial variables, such as spread to volume business ratio, total expenditure to volume of business ratio, transaction cost, burden ratio, manpower expenses to total expenses ratio, volume of deposits and volume of outstanding loans and advances, share of priority sector lending to the total lending, recovery rate, and so on.

c) **To analyse viability aspects,** we have given thrust on the efficiency parameters and considered 11 variables / ratios viz., total business growth ratio (TBGR), business efficiency Ratio (BER), number of business accounts per employee (NBAPE), per employee business turnover ratio (PEBTR), number of business accounts per branch (NBAPB), per branch business turnover ratio (PBBTR), income efficiency ratio (IER), and so on.

d) **To assess the Customers’ Satisfaction,** altogether, 21 attributes have been considered. These attributes covered the aspects of work-culture, timeliness, employee efficiency, décor and furnishing of the bank, product variety, procedural complexities and location of the bank branch.

**Period of study:**

The study covered the period from 1981 to 2004-05, i.e. a period of 24 years of operation of the Cachar Gramin Bank (the only RRB of the region) since its inception. In order to examine the impact of financial sector reform, the time series data has been divided into two distinct periods consisting 11 years of ex-ante reform.
(1983 to 1993-94)* and 11 years of ex-post reform (1994-95 to 2004-05). In the study, the term 'two periods under study' or 'two consecutive periods' or 'two successive periods' has been used to imply the pre reform period (i.e., from 1983 to 1993-94) and the post reform period (i.e., from 1994-95 to 2004-05) respectively, unless stated otherwise.

- **Research tools and techniques used:**

  Besides the standard statistical tools such as measures of central tendencies, measures of dispersion, correlation, the study used trend analyses, multiple regression analysis, paired sample T-test, F-test and Factor Analysis.

7.4. **Major findings and testing of hypotheses:**

- After setting the basic premises of the study and introductory analysis in the first Chapter, which included conceptual framework, statement of the problem, rationale of the study, objectives, hypothesis framed, research methodology, socio economic profile of the study area, the scope and limitations, the chapter under took an extensive review of literature. The major findings of the literature review are:

  i) Credit is recognized as one of the key inputs that could trigger development impulses in the rural areas. Therefore, sustainability of rural credit delivery system needs to be reassessed and institutional mechanism for delivery of credit are to be redesigned to serve the specific needs of the rural clientele. Further, the sustainability of credit market has to be viewed from various perspectives like policy makers' agenda, bankers' mission to serve the rural areas and clientele's perception regarding the efficacy of the banking system to serve their needs.

  ii) The factors responsible for the poor financial health of the RRBs, as identified by different scholars, are: lack of commercial orientation, improper identification of beneficiaries, poor recovery performance, limited commercial prosperity due to the compulsions in lending the priority sector and targeted group of clientele,

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* Since the erstwhile Cachar Gramin Bank was established at the fag end of 1981, therefore, the years 1981 and 1982 are excluded to avoid the effects of the extreme low values of the parameters on the estimates, due to its infancy stage. Further, the banking reforms measures were introduced in case of RRBs in 1993-94. Therefore, we have considered 1993-94 as the end of an era for RRBs, and 1994-95 as the beginning of another era with implementation of reform measures on RRBs.
limited area of operation, administered interest rates, low capital base, high operation cost involved in handling small loans, etc.

iii) As a result of the implementation of the reform measures these RRBs have geared up from the subsidised, controlled and protected regime and are pushed into the competitive market conditions, purely driven by the motive of earning profit amidst competition.

iv) Despite the implementation of reform measures, the RRBs are subjected to various impediments, such as, lower recovery rate and high over dues, higher rate of NPAs, and lower interest spread. Along with these traditional problems, the RRBs are now facing hurdles to fulfill the requirement of asset classification and provisioning as per the prudential norms. These problems act on the way of achieving their financial viability and profitability.

v) A number of committees [mainly, the Vyas Committee (2000), the Chalapati Rao Committee (2002) and the Sardesai Committee (2005)] constituted to identify specific organisational issues and structural changes in order to help these banks to adapt themselves into the new environment. They favoured reorganization in the structure of RRBs following the path of merger and amalgamation.

- The Second Chapter entitled Evolution of Rural Banking system in India (with special reference to RRBs) - a paradigm shift was devoted for a detailed analysis of the process of evolution of rural banking system in the country since pre-independence period, with special emphasis on the genesis and evolution of regional rural banks. The hypothesis set for the chapter is:

$$H_0': 'The operational policies and objectives set before the RRBs in the country have not changed with the changing socioeconomic scenario, over time'$$

An evaluation of performance of the RRBs of the country as a whole has been done in this chapter, particularly with respect to branch expansion, deposits mobilization, credit disbursement, C. D. Ratio, NPA%, and Recovery rate. It has been observed that there exists wide variation in the performance of the RRBs from one region to another in above respects. These inter regional differences in the performance of the RRBs of the country highlights the differences in operational strategies and efficiencies of these banks in different region. These differences in
performance of the RRBs resulted a state wise and region wise variation in their viability status.

After going through the available reports and recommendations made by various committees established by the Government / RBI / NABARD at different times and the measures taken by the government on the basis of those recommendations from time to time, the study observed paradigm shifts in the approaches and operational policies of the RRBs during the post reform period as summerised in table below.

**Paradigm Shifts in Approaches of RRBs**

*after Implementation of Banking Sector Reform Measures*

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Issue</th>
<th>Earlier Approaches</th>
<th>Present Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Viability</td>
<td>Not a matter of concern so long as the broad purpose of purveying credit for the weaker section is achieved</td>
<td>A must for survival under competitive market conditions.</td>
</tr>
<tr>
<td>2</td>
<td>Profitability</td>
<td>Not an area of any major concern</td>
<td>Must for attaining viability</td>
</tr>
<tr>
<td>3</td>
<td>Business</td>
<td>Whatever comes in the ordinary course of operation - no special effort is needed</td>
<td>Expansion of business is a must for profitability Looking outside the bank's premises has become necessary for business growth</td>
</tr>
<tr>
<td>4</td>
<td>Product diversification</td>
<td>Traditional banking products are enough</td>
<td>Product diversification according to the needs and suitability of the customers is required</td>
</tr>
<tr>
<td>5</td>
<td>Competition</td>
<td>Does not exist</td>
<td>Keen competition unavoidable in an era of open market in the wake of liberalization</td>
</tr>
<tr>
<td>6</td>
<td>Efficiency</td>
<td>Not a matter of concern as there is directed lending with administered interest rates and social welfare as the fundamental motive.</td>
<td>Must in the environment of competition</td>
</tr>
<tr>
<td>7</td>
<td>Relevance to the nation</td>
<td>Automatic. Depends on the performance, whatever it may be</td>
<td>Will not be relevant if the obligations are not fulfilled</td>
</tr>
<tr>
<td>8</td>
<td>Professionalism</td>
<td>No professionalism needed to serve the rural clientele</td>
<td>Professionalism is a must in the context of the survival of the fittest.</td>
</tr>
<tr>
<td>9</td>
<td>Customer</td>
<td>One who needs the bank</td>
<td>One whom the bank needs</td>
</tr>
<tr>
<td>10</td>
<td>Training</td>
<td>A mere routine work.</td>
<td>A necessity for gaining efficiency and skill</td>
</tr>
</tbody>
</table>

With the above observations, the hypothesis, $H_0$\(^1\) is rejected and it was concluded that there has been a sea change in the operational policies and objectives set before the RRBs with the changing socioeconomic scenario in the country.

- With these findings, we proceeded for a critical analysis of financial performance of the RRB under study during the post reform era in order to assess the impact of the paradigm shifts in policies and approaches on its business performances. This has been undertaken in Chapter III, entitled, ‘Financial appraisal of RRB In
South Assam (CGB): a Critical Assessment. The hypothesis taken in the Third Chapter was:

\[ H_0: \text{the financial performance of the bank under study has not improved, in spite of the implementations of banking sector reform measures in RRBs.} \]

The major findings of this part of treatise are:

i) There was no branch expansion after 1989-90 and since then the bank (erstwhile Cachar Gramin Bank) had been serving the entire Barak valley region of south Assam, comprising the three districts, viz. Cachar, Karimganj, and Hailakandi with its 44 branches.

ii) The performance of the bank in terms of its outreach has improved significantly during the post reform period. This is revealed by significant increase in the average number of deposit accounts of the bank from 52093 in the pre reform period to 116859 during post reform period \( (t = 12.997, p = 0.000) \).

iii) The significant increase is observed in number of deposit accounts per employee \( [\text{from 336 to 655 respectively in pre and post reform period} (t=10.808, p=0.000)] \)
and in the number of deposit accounts per branch \( [\text{from an average of 1258 to 2656 for the two respective periods} (t = 13.781, p=0.000)] \).

iv) The average annual growth rate of deposit accounts during the post reform period (6.71%) is found to be significantly lower than that of the earlier period (40.51%) \( [t = 2.234, p = 0.049] \).

The decline in growth rate was mainly, due to the increased competition in rural banking, increased transport and communication with urban areas, and postponement of branch expansion, particularly after 1990-91 following the ban imposed by the RBI.

v) The performance of the bank was relatively better during the post reform period, in terms of the volume of deposits mobilization. The average volume of deposits of the bank as a whole increased from Rs.5,93,15,090 in pre reform period to Rs.92,44,54,450 in the next period \( [t = 4.786, p = 0.001] \).
vi) A significant improvement is also observed in respect of volume of deposits per employee, volume of deposits per branch, and volume of deposits per account \( t \geq 0.05, 10 \).

vii) However, in terms of growth rate (%) of volume of deposits outstanding, the bank could not outshine as it did in absolute terms. The average annual growth rate of volume of deposits outstanding (%) during the post reform period is found to be 29.09% where as it was 51.82% during the pre reform period \( t = 1.837, p = 0.096 \).

viii) The decline in the growth rate of the volume of deposits mobilized during the post reform period was mainly due to, (a) the decline in growth rate of deposits accounts, (b) the low employee motivation, particularly after the pay parity of RRB employees with their counterparts in sponsor banks, awarded in 1992 (c) lower propensity to save of the rural people, (d) increased penetration of non-banking private financial companies like Peerless Finance Limited, Sahara India Limited, etc. for tapping the rural savings through recruitment of local agents.

ix) Over the periods, the bank’s performance in respect of disbursement of loans and advances has improved in terms of number of loans and advance accounts, and volume of loans and advances outstanding. The average number of loans and advance accounts of the RRB as a whole increased from 15091 to 23793 during the two respective periods \( t = 5.59, p = 0.000 \).

x) The volume of loans and advances outstanding, registered more than 6 times increase from 433.15 lakh during the pre reform period, to Rs. 2631.06 lakh in the post reform period \( t = 3.993, p = 0.003 \).

xi) The employee efficiency measured in terms of average number of loans and advance accounts per employee increased significantly from 97 to 363 \( t = 4.222, p = 0.002 \).

xii) The branch efficiency, measured in terms of average number of loans and advance accounts per branch has also increased from 133 to 541 respectively during the pre and post reform period \( t = 5.798, p = 0.000 \).
xiii) The average annual *growth rate of volume of loans and advances outstanding*, however, *registered a significant decline from* as high as 60.50% for pre reform to 23.07% in the next period ($t = 1.419, p = 0.186$). This depicted that though the bank's performance in quantitative terms has improved, it failed to maintain its earlier growth rate in its lending business.

The factors that can be attributed to such a decline in the growth rate of loans and advances during the post reform period are: (a) cautious approach adopted by the bank in selecting the borrowers and loan projects to prevent loan default, (b) non availability of suitable and secured projects to be financed, and (c) indifferent attitude of the employees after their pay parity with their counter parts at sponsor bank, following the Industrial Tribunal Award in 1991, etc.

xiv) There has been a statistically significant increase in the *total volume of priority sector lending* from Rs.397.86 lakh per year (during 1983 to 1993-94) to Rs. 1667.99 lakh (during the period 1994-95 to 2004-05) [$t = 4.071; p = 0.002$].

xv) But, the average of the *share of priority sector lending to the total lending* declined from 92.99% in the pre reform periods to 68.46% in the post reform period ($t = 6.418, \text{ sig. 0.000}$).

xvi) The *growth rate of priority sector lending* declined significantly from an average 24.79% in the pre reform period to 6.17% in the next period ($t = 4.508, p = 0.001$).

One of the important reasons behind such decline in the share of priority sector lending was the relaxation of priority sector lending obligations of RRBs and fixing its lower minimum limit at 40% of the total lending, keeping the parity with the other nationalized commercial banks in 1994-95.

xvii) The *CD ratio* has also declined significantly from an average of 79.99% during the pre reform period to 30.72% in the next period ($t = 11.044, p = 0.000$). This is mainly due to the emphasis of the bank on its commercial objective and diversification of business to corporate lending with a view to increase its profitability.
xviii) There has been an improvement in recovery rate from 40.69% during the pre reform period to 51.49% in the next period. But, this increase in recovery rate is statistically not significant ($t = 0.954, p = 0.363$). This highlighted inadequacy in the efforts of the bank to increase the recovery rate and the urgency of improving recovery performance.

xix) Average net NPA% for the 10 year period from 1995-96 to 2004-05 of the bank under study (13.69%) found to be higher than two other RRBs of the state [viz., Pragjyotish Gaonlia Bank (12.86%) and Subansiri Gaonlia Bank (12.20%)]. However, the NPA% of the bank under study is lower than that for the RRBs of the state as a whole during the same period (14.89%).

xx) The average volume of income generated by the bank over the period, in absolute terms, increased from Rs. 6108080 per year in pre reform period to Rs. 93925230 per year in the next period, ($t = 4.80, p = 0.000$).

xxi) Following the same trend, the average income per branch increased from Rs. 147440 to Rs. 2134660 ($t = 4.75, p = 0.000$) and income per employee increased from Rs. 38550 per year to 527390 ($t = 4.68, p = 0.000$) during the two respective periods.

xxii) However, the annual growth rate of income registered a significant decline from 37.44% during the pre reform period to 34.96% in the post reform period ($t = 4.86, p = 0.000$).

This demonstrated the incapability of the RRB to sustain its earlier income growth rate which happened mainly due to the lack of product diversification, and lack of employee motivation in augmenting the volume of business of the bank.

xxiii) This observation is further strengthened by the statistically non-significant increase in income to volume of business ratio from 0.065 to 0.075 over the periods under comparison ($t = 0.10, p = 0.341$).

xxiv) The marginal decline in the share of interest income to total income from an average of 93.57% to 92.88% ($t = 0.321, p=0.755$), over the two periods also
delineates a dissatisfactory performance the RRB under study to exploit the non-fund based business opportunities opened before it by the implementation of banking reform measures from 1994-95 onwards.

xxv) The bank has incurred losses continuously since 1982 to 1997-98 and has entered into the profit zone in 1988-89 for the first time. The compound growth rate of profit for the pre reform period was ‘- 6.39%’, where as it is ‘+5.81%’, for the post reform period \( [t < t_{0.05, 10}] \).

xxvi) However, statistically non-significant improvement in profitability of the RRB has been observed during the post reform period in terms of (a) average profit to the volume of business (%), (b) average profit to working fund (%), (c) average profit to volume of expenses (%), and (d) average profit to Income (%) \( [t < t_{0.05, 10}] \).

These findings delineate that the bank has the potentiality to increase its profitability, suggesting, thereby, the need to explore appropriate avenues and widen the scope of the existing ones in order to boost up the volume of business in commercial lines.

The above findings also suggest that the banking reform measures have brought mixed blessings to the bank under consideration by opening up some opportunities to perform better, but, at the same time, have placed some challenges before it. As a result, during post reform period, although, the bank has performed better in terms of the absolute values of some of the variables like, number of deposit and loans accounts, volume of deposits, volume of loans and advances, etc., but, in relative terms, such as, growth rate of deposits accounts, growth rate of volume of deposits, growth rate of volume of credit disbursed, share of priority sector lending to the total lending, C.D. ratio, etc., the bank experienced a setback.

Based on the above observations, our hypothesis \( H^2_0 \) is partially rejected and concluded that the bank’s performance after the implementation of banking sector reform measures has improved in some respect but the improvement is less than what it could have been with adequate emphasis on recovery front, efficient loan management practices, product diversification, etc.
This impelled us to go for an in depth study on efficiency parameters – commercial as well as operational, which are considered in the subsequent two chapters.

- Chapter IV, entitled, 'Profitability of RRB in study area: trends and determinants' was devoted to investigate the different aspects of commercial efficiency of the RRB. Profit being an index of commercial efficiency, as well as viability of the bank, the chapter made a critical assessment of its profitability performance, with the help of standard indicators as mentioned earlier. A functional relationship between the volume of profit and some of the intervening variables has also been derived in this chapter. For this purpose, we hypothesized: $H_0^*$: 'the profitability of the bank under study is independent of the measures implemented by the banking sector reform'.

The findings emerged from the analysis are as under:

i) The loss incurred by the bank during the 11 years of pre reform period (from 1983 to 1993-94) was, on average, Rs. 46.21 lakh per year.

ii) The bank has started earning profit, for the first time in 1998-99 and since then it has been earning profit continuously for the rest of the period under study. The volume of profit per year during the post reform period, on average, was Rs. 16.73 lakh. This demonstrates the rejuvenation RRB from loss incurring stage to profit earning stage after the implementation of banking sector reform measures.

iii) However, the t-value ($t= 0.76885, p=0.45975$) reveals that the transformation from loss making to profit earning stage is not significant from statistical point of view and therefore, exhibits the inability of the bank to re-align itself adequately, with the changing policy environment to exploit the income generation opportunities opened up by the reform measures.

iv) The turn around of the bank from loss incurring to profit earning stage was possible with the (a) increase in volume of business per branch, (b) Decline in C. D. Ratio, (c) increase in recovery rate, (d) Increase in average working fund per branch, (e) decline in the share of borrowings to the working fund and, (f)
deliberate reduction in the share of priority sector lending \[ p(t)<0.05 \text{ for all these cases, except recovery rate}. \]

v) The implementation of banking sector reform measures had exerted little impact on the interest income to total income ratio \[ t = 0.379, \ p = 0.713 \]. In other words, the income composition of the bank has remained unaltered despite the widening of new business avenues of RRBs following the implementation of banking sector reform measures.

vi) Spread to working fund ratio* of the bank was found to decline marginally from 0.038 to 0.025 over the two periods under consideration \( t=0.889, \ p= 0.395 \). This statistically insignificant decline in the spread to the working fund was mainly due to a shrinking spread under the deregulated interest rates regime with intense competition with other commercial banks. Thus, it exhibits the lower competitive strength of the bank and its incapability to find out new avenues of lending and investments that yield higher returns.

vii) The bank has become successful in reducing the transaction cost significantly from 8.81% in the pre reform period to 5.63% in the post reform period.\[ t = 2.446, \ p = 0.034 \]. the reduction in transaction cost was made possible by moving towards the financially affluent classes, by concentrating more on semi-urban and urban areas through branch relocation, giving greater emphasis on the non-target group of customers.

viii) Burden ratio (%) of the RRB has reduced from 5.87% during the pre reform period, to 3.86% in the post reform period \( t = 2.176, \ p = 0.055 \). This reflected adoption of a more rational approach towards the non-interest expenses of the bank and an improvement in cost efficiency in respect of non-interest expenses after implementation of banking sector reform measures.

ix) Manpower expenses to the total expenses ratio decreased significantly from an average value 0.38 in pre reform period to 0.27 in the post reform period \( t = 5.684, \ p = 0.000 \). Thus, there has been an improvement in human resource management in the RRB during the period following the reform process started in

* Spread to working fund ratio reflects the net earning capacity of the RRB out of its working fund in the form of interest income.
1994-95. However, this was mainly due to the postponement of fresh recruitment in the bank after 1991 and consequent decline in the number of staffs because of superannuation or death.

From the above findings, it reveals that though the bank has now lifted itself to the profitable stage, the profitability of the bank under study has not improved significantly because of its failure to manage some of the variables in desired directions. Hence, we accept our hypothesis $H^0$ partially and conclude that the reform measures have partially affected the profitability of the bank.

x) The *multiple regression analysis* applied for deriving the functional relationship between the volume of profit and the eight other explanatory variables for profitability of the bank. The findings of the analysis are presented in the summarised form, hereafter.

### Regression Summary: ANOVA

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Pre reform period</th>
<th>Post reform period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept ($\alpha$)</td>
<td>-2.658</td>
<td>-24.27</td>
</tr>
<tr>
<td>Volume of Deposits per branch (Rs. '000) ($X_1$)</td>
<td>-0.041</td>
<td>0.026</td>
</tr>
<tr>
<td>Volume of outstanding Loans/Adv. per Branch (Rs. '000) ($X_2$)</td>
<td>-0.268</td>
<td>0.139</td>
</tr>
<tr>
<td>Share of priority sector lending to total loans and advances (%) ($X_3$)</td>
<td>-0.166</td>
<td>-0.143</td>
</tr>
<tr>
<td>Recovery rate (%) ($X_4$)</td>
<td>0.462</td>
<td>0.588</td>
</tr>
<tr>
<td>Volume of Interest income per branch (Rs. '000) ($X_5$)</td>
<td>-0.307</td>
<td>0.241</td>
</tr>
<tr>
<td>Volume of non-interest income per branch (Rs. '000) ($X_6$)</td>
<td>-0.026</td>
<td>0.154</td>
</tr>
<tr>
<td>Volume of Interest expenses per branch (Rs. '000) ($X_7$)</td>
<td>-0.386</td>
<td>0.067</td>
</tr>
<tr>
<td>Volume of operating expenses per branch ($X_8$)</td>
<td>-0.273</td>
<td>-0.111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Coefficients ($\beta$)</th>
<th>$\gamma$</th>
<th>Sig.</th>
<th>Coefficients ($\beta$)</th>
<th>$\gamma$</th>
<th>Sig.</th>
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<table>
<thead>
<tr>
<th>$\gamma$</th>
<th>0.131</th>
<th>0.327</th>
<th>0.259</th>
<th>0.038</th>
<th>0.069</th>
<th>0.065</th>
<th>0.126</th>
</tr>
</thead>
</table>

| $R^2$     | 0.887                         | 0.844                         |

| $F_{(8,2)}$ | 40.042 ($p = 0.025$)           | 54.929 ($p = 0.018$)           |

*Dependent Variable: Profit / Loss per branch (Rs. '000) (n)
xi) The appropriateness of the regression model is demonstrated by the multiple coefficient of determinant for both the periods ($R^2 = 0.887$ and $R'^2 = 0.844$) implying that the selected explanatory variables explain more than 80% of the variations in explained variable [volume of profit ($\pi$)]. This is further confirmed by the statistically significant F-statistics [$F=40.042$ (p=0.025) and $F' = 55.344$ (p' = 0.016)] represent the goodness of fit of the model.

xii) The results show that during the pre reform period, all the variables excluding $X_4$ (recovery rate) had a negative impact on profitability of the bank as delineated by their negative coefficients.

xiii) On the contrary, for the post reform period, all explanatory variables, except $X_3$ (the share of priority sector lending to the total lending) and $X_6$ (volume of operational expenses) have positive coefficients. This implied that with the policy changes brought down by the implementation of banking reform measures, the RRB under study has restructured its functioning in such a manner that most of the parameters have yielded a positive impact on its profitability.

xiv) The coefficient of $X_1$ (volume of deposits mobilized by the RRB) is negative for pre reform period, however, not statistically significant ($\beta_1 = -0.041$, p = 0.327). But for the post reform period it is positive and significant ($\beta'_1 = +0.012$, p' = 0.007). These represent a negative impact $X_1$ on the volume of profit earned by the RRB in the pre reform period but it emerged as a growth propellant for profitability during the next period.

xv) The volume of gross loans and advances outstanding (Rs.'000) ($X_2$) is found to have a negative impact on the volume of profit of the RRB for the pre reform period ($\beta_2 = -0.268$, p = 0.259). On the contrary, it became positive and statistically significant during the post reform period ($\beta'_2 = +0.139$, p' = 0.002).

xvi) The share of priority sector lending ($X_3$) has a negative impact on the volume of profit of the RRB under study during both the periods [$\beta_3 = -0.166$ (0.038) and $\beta'_3 = -0.143$ (0.414)]. However, the magnitude of its negative impact
is relatively lower in the post reform period as compared to that of the pre reform period. This is mainly due to the selective lending approach of the bank supported by the cautious selection of beneficiaries and improvement in the recovery rate as already observed in Chapter III.

xvii) “Recovery rate” (X₄) has positive impact on volume of profit and profitability of the RRB in both the periods. This is depicted by the positive coefficients for both the periods (β₄ = +0.462 with p = 0.061 and β'₄ = +0.588 with p = 0.013). Further the higher β value of X₄ for the post reform period ( β'₄ > β₄), represents a greater impact on profitability of the bank.

xviii) The study finds a negative impact of the volume of interest income (X₅) earned by the RRB on the volume of profit for the pre reform period but the situation has reversed in the post reform period. (β₅ = -0.307 and β'₅ = +0.241 with p = 0.069 and p' = 0.032). The negative impact of the variable during the pre reform was because of the lower recovery percentage, lending at subsidised rates of interest under the government sponsored welfare schemes, higher rate of priority sector lending to total lending, and so on. But the changes in operational policies and objectives from social welfare to profit maximization, from directed lending to commercially motivated lending, etc. in the post reform period; have enabled the bank to earn a proportionately higher interest income and resulted in a change in the magnitude as well as the direction of the coefficient.

xix) The coefficient of non-interest income (X₆) was also found to follow the same trend as in the case of (X₅) and have similar implications.

xx) The coefficient of interest expenses (X₇) shows a negative impact on profitability during the pre reform period but a positive impact during the post reform period (β₇ = -0.386 and β'₇ = +0.067 with p = 0.126 and p' = 0.033). In other words, during pre reform period an increase in interest expenses by 1% led to an increase in losses by 0.386% but during the post reform period it is associated to an increase in profit by 0.067%. in other words, the volume of deposits and borrowings became profit generating in the post reform period.

# The share of lending to the priority sector during the pre and post reform periods was, on average, 93.13% and 68.46% respectively
xxi) The coefficient of operational expenses $^a(X_g)$ is negative and statistically significant for the pre reform period while it is positive but not statistically significant in the post reform period [$\beta_g = -0.273$ ($p=0.008$) and $\beta'_g = 0.111$ ($p' = 0.815$)]. The possible reasons for negative impact were branch expansion during the pre reform period and the pay parity of the employees with that of the sponsor bank in 1991-92. The positive coefficient for operational expenses during the post reform period, on the other hand, demonstrates that the RRB under study has rationalised its operational expenses and hence, it is contributing positively to the profitability of the RRB.

xxii) However, the statistically not significant values of the coefficients ($\beta_3, \beta_5$ and $\beta_8$) further supported our partial rejection of hypothesis $H_0^3$. The results of the regression analysis revealed that the bank under study had further scopes for improving its profitability by reducing the operational expenses and increasing the non-interest income. However, the negative coefficient ($-0.143$) for the share of priority sector lending ($X_3$) in the regression equation of post reform period demonstrates that the increase in priority sector lending would reduce the profitability of the bank. But, it is worth noting that the crux of the problem does not lie on the lending to the priority sector, but, in the deficiencies in management of these loans and in their recovery. Thus only a mere reduction in the share of priority sector lending is not the solution of the problem of low or even negative profit. These findings induced us to investigate the operational efficiency aspect of the bank, which is discussed in Chapter V.

∗ Chapter V: ‘Derivatives of Financial Viability of RRB: an application of Principal Component Analysis’ was devoted to analyse the aspect of viability from viewpoint of operational efficiency. Based on widely used efficiency parameters, the analyses in this part of study tested the following hypothesis:

$H_0^4$: ‘The operational efficiency of and viability of the RRB under consideration has not improved even after the implementation of banking reform measures’.

The major findings of this part of study are:

$^a$ Operational expenses include the expenses on manpower, rent of the building, maintenance cost, repairing charges, electricity expenses, expenses on office stationery, telephone bill, postage charges, etc.
i) The total business growth ratio has declined from 54.63% to 26.76% over the two periods under consideration \([t = 1.6, p = 0.141]\).

ii) The average of business efficiency ratio of the RRB has improved but yet negative [changed from an average of -0.034 to +0.012 during the two periods under consideration, \((t = 0.8, p = 0.442)\)].

iii) There has been statistically significant increase in employee efficiency during the period following banking sector reforms, in terms of the number of business accounts per employee (from an average of 434 business accounts per employee during the pre reform period to 788 of the same in the post reform period, \(t = 9.781, p = 0.000\)). The employee efficiency in terms of average volume of business per employee has also registered more than 10 times increment from Rs 6.35 lakh in the pre reform period to Rs 66.69 lakh in the next period \((t = 4.523, p = 0.001\)). The increase in employee efficiency also led to a significant increase in Branch level efficiency expressed in terms of average number of business accounts (from 1636 to 3197 in the two successive periods, \(t = 12.033, p = 0.0000\)) and average volume of business per branch (from Rs. 24.26 lakh to Rs. 268.08 lakh; \(t = 4.568, p = 0.001\)).

iv) The income efficiency ratio (IER) increased marginally from 0.684 to 1.088 over the periods \((t = 1.819, p = 0.099)\). It indicates that although the bank has started to earn profit in the post reform period, but it would be very difficult to sustain its viability unless there is sufficient improvement in income efficiency level.

v) The increase in non-interest income to interest income ratio (NIITHIR) from 0.028 to 0.058 \((t = 1.918, p = 0.084)\) delineates the diversification of its business to non-fund business. However, the diversification of its business is found to be insufficient.

vi) The viability of the bank under study is threatened due to inefficient cost management as revealed by the higher business cost efficiency ratio (BCER), employee cost efficiency ratio (ECER) and operational cost efficiency ratio (OCER).
vii) The comparative analysis of performance of the other four RRBs (erstwhile Pragjyotish Gaonlia Bank, Subansiri Gaonlia Bank, Lakhimi Gaonlia Bank and Longpi Dehangi Rural Bank) revealed that the operational efficiency of the bank under consideration is inferior than that of the three other RRBs under the same sponsor bank (UBI). This is revealed by the observation that during the post reform period, while out of 11 selected parameters, the CGB showed statistically significant improvement in respect of only 4 parameters, the improvement in PGB was in respect of 8 parameters and for SGB and LGB the better performance is observed in respect of 6 of them (Table-5.3).

On the basis of the aforesaid findings, our null hypothesis: “The operational efficiency of and viability of the RRB under consideration has not improved even after the implementation of banking reform measures” and we concluded that was partially accepted with the conclusion that the operational efficiency of the bank had improved to some extent and brought the bank on the track of viability.

viii) The factor analysis performed to identify the factors affecting viability of the bank extracted two Principal Components, explaining 88.515% of total variance of the viability of the bank.

ix) The first component included nine variables related, mainly, to the operational activities of the bank which determines 56.877% of variance in viability of the bank.

x) On the other hand, six variables related to managerial efficiency of business are included in the second principal component nomenclatured as – ‘Efficiency factor’ determines 31.638% of viability of the bank.

These observations demonstrate that operational activities are of prime importance, but mere expansions in its operation through expansion in outreach, increase in deposit mobilization or loan disbursement in quantitative terms are not sufficient. The operational activities are to be adequately supported by efficient management practices following prudential norms of bank management.
The partial acceptance of the hypotheses $H_0^1$ to $H_0^4$ led us to analyze the third dimension of viability, i.e. ‘Service quality of the Bank’, which was done in Chapter-VI.

Chapter-VI: ‘Service Quality vis-à-vis Customers’ Satisfaction in RRB: An Empirical Study’ was designed for an empirical analysis on the perception of customers about the quality of services rendered by Cachar Gramin Bank based with the hypothesis $H_0^5$: the RRB has failed to satisfy its customers’ aspirations.

In order to test the hypothesis we used three satisfaction indices. Moreover we applied Factor analysis taking 21 attributes to identify the components determining Customers’ Satisfaction and to assess their relative strength.

The major findings of this part of the study are as under:

i) The satisfaction levels of individual customers expressed in terms of Satisfaction index of an individual customer ($CSI_{CI}$) was found to vary within 2 and 3 (i.e. $3\leq CSI_{CI} \geq 2$) for 97.14% of the respondent customers. For the rest 2.86% respondents, the $CSI_{CI}$ varied between 1 and 2 (i.e. $2\leq CSI_{CI} \geq 1$). This demonstrates a very high degree of dissatisfaction among the customers relating to the service quality rendered by the bank.

ii) In terms of Customers’ Satisfaction Index of Attributes ($CSI_A$), the study observed that for two attributes Sitting Arrangements, toilet facilities, fan, etc. ($A_4$), Waiting time for withdrawal of money ($A_{20}$), the customers satisfaction index is in between 1 and 2, (i.e. $2\leq CSI_A \geq 1$) and thus revealing high dissatisfaction of the customers against these two attributes. *(Table-6.5)*

iii) For other 19 attributes the $CSI_A$ lies in between 2 and 3, i.e. $3\leq CSI_A \geq 2$ and thereby, exhibiting moderate dissatisfaction of the customers *(Table-6.5).*

iv) The derived Overall Satisfaction Index of the Customers for the Bank ($CSI_{OB}$) is found to be 2.479 revealing the fact that the over all perception of the customers about the service quality offered by the bank is not satisfactory. In other words, it represents the incapability of the bank to satisfy its customers while rendering its services.
On the basis of these findings, the analysis accepts the null hypothesis $H_0$ and concludes that the bank has failed to satisfy its customers' aspirations.

v) Applying **Factor Analysis**, the study observed that the customers' satisfaction could be explained by six extracted principal components and considering their nature and common thread among the variables under each the components they have been classified as viz. i) **Work Culture and Timeliness**, ii) **Staff Efficiency**, iii) **Furnishing of the Branch and Basic Amenities Provided for the Customers**, iv) **Product Variety, Accessibility and Friendliness**, v) **Procedural Complexities**, and vi) **Location of the Branch**. *(Table-6.12)*

vi) These Six factors taken together explain 61.309% of Customers' satisfaction. Among these six factors, the prime factor affecting customers’ satisfaction was ‘**Work Culture and Timeliness**’ (12.464%), followed by ‘**Efficiency factor**’ (11.366%). *(Table-6.13)*.

vii) The third factor ‘**furnishing and basic amenities**’ determine 9.693% of customers' satisfaction followed by Product variety accessibility and friendliness (9.579%) and procedural complexities (9.488%) and the locational factors determine only 8.716% of variation in customers’ satisfaction.

7.5. **Suggestions and policy recommendations:**

In view of the analysis regarding the three major dimensions relating to profitability and viability of the bank the following suggestions are offered as the remedial measures that might be implemented for achieving the height of viability by the Assam Gramin Vikash Bank (an outcome of amalgamation of the four RRBs of the state) operating in this region.

1. The Bank needs to devote adequate attention on **low cost deposit mobilization** by introducing a variety of deposits schemes with their wide publicity. The possibility of door to door collection of Small deposits through authorized commission agents on daily/ weekly / monthly basis might be considered. Further deposits mobilization drives are to be strengthened, especially after harvest of crops as the bank is based on mainly rural clienteles.
2. In order to increase the volume of deposits the bank is to give more thrust to attract big depositors to it. One step towards this direction may be collection of deposits from the businessmen and traders from their business point or home, by the authorized officials.

3. The simplification of procedures for opening deposits accounts may give a boost to increase in the number of deposit accounts and thereby increase the volume of deposits mobilization. In this connection, the use of regional language (Bengali) as option for filling up forms for opening deposits accounts may be considered. The cordial assistance by the bank officials towards illiterate persons would have a positive impact in attracting new depositors and thereby in increasing the volume of deposits.

4. To diversify the risk of loan defaults and improve the viability position of the RRB, more emphasis is required to increase the number of loans and advances accounts at a higher rate.

5. More diversification of credit business to boost lending seems to be an important way to improve the viability of the RRB. A new business culture bonded with new technology and professional management needs to be introduced in the emerging market context and to absorb the shocks of entering into the era of competition from the era of protection.

6. The loan sanction procedures are to be simplified and speedy sanctions of loans and advances is highly necessary. But that should not be at the cost of pre-sanction scrutiny of borrowers focusing on their income-stream, credibility, integrity, capability of running the proposed project, technical aspects and viability of loan projects.

7. The provisions of credit by the RRB should be adequately supported by the techno-economic teams, instead of just sanctioning of loans for unviable projects in the name of helping the poor. The borrowers need to be supported by adequate consultancy services in the form of market information, improved technologies, etc.
8. In order to **reduce the cost of the products**, the RRB is to concentrate on developing new products which could be managed by the existing staffs and branches. For this, the bank is to derive effective policy measures and improve efficiency of the employees through **application of improved technologies** in banking along with adequate training of its staffs.

9. Further, risk and uncertainty associated with agriculture adds yet another dimension to the problems in **rural finance** and **viability** of credit institutions. Therefore, the **agricultural credit should always be linked-up with crop insurance**.

10. In the case of crop loans, overestimation of incomes from crops should be avoided by making a realistic assessment of the actual production which will reduce the burden of loan to the borrowers besides preventing diversion of the excess amounts to other unproductive purposes.

11. While identifying the beneficiaries under Government sponsored schemes, a free hand is to be given to the bank staff to carefully verify the credit worthiness and the repayment capability of the borrower to ensure a better repayment performance.

12. Based on the observations of the study, the following suggestions are put forward for improvement in recovery performance of the RRB:

   a) Adequate delegation of powers to branch managers to enable disposal of loan applications at branch-level itself.

   b) Development of an appropriate mechanism to monitor recovery performance in respect of agricultural loans particularly old and sticky loans.

   c) Visit of internal inspection teams to a few service area villages covered by each branch and meet farmers to discuss about their problems relating to loan repayment.

   d) Development of suitable motivational package of incentives for the staffs, such as, training, posting to centre of choice, cost of educational expense of children of staff posted at remote village areas, etc.
e) Linkage of activities of the rural branches of bank with Farmers Clubs and SHGs.

f) Verification of income generating capacity of assets created from loan, before loan sanctioning.

g) Non-entertainment of outside interference, especially, political interference in sanctioning loans and in deciding number of loan repayment installments.

h) Emphasis on achieving quantitative targets of advances are to be given up.

i) Strengthening of field staffs in rural branches to ensure adequate and continuous supervision and follow-up action after the loan is disbursed.

j) Giving a free hand to the bank officials for verification of credit worthiness and repayment capability of the borrower carefully, to ensure a better repayment performance.

k) Suitable enactments to empower the credit institutions to enforce recovery of loans from the borrower.

l) Encouragement for a better cropping pattern considering the suitability of the area, in liaison with the agriculture department of the government is to be done to increase the crop yields and to ensure better repayment by the borrowers.

m) As far as possible, the Governments, both at the State and Centre should avoid the populist programmes like ‘Waiving of Loans’, which adversely affect the psychology of the borrowers in the rural areas and encouraged absenteeism.

n) Provision of consumption loan facilities to the needy borrowers in order to discourage them to opt for private loans, which take away a major part of their earnings towards repayment of interest rates.

13. There should be built-in incentives to improve the repayment behavior among borrowers. The focus should be on developing sound business strategies to bring down non-performing assets to the minimum level.

14. To improve the employee efficiency, the staffs need to be adequately trained in various aspects like asset-liability management and customer management.
Along with this, a suitable package of incentives needs to be evolved by bank to motivate its employees. The incentives may include posting to centre of choice, allowances for educational expense of children, etc., depending on the performance and efficiency of the staffs.

15. As a remedial measure against loan defaults, and there by, a slippage of a standard asset into sub-standard asset or even to loss assets, timely and need-based financial assistance and advice of non-financial nature are to be provided to the borrowers. Difficulties faced/envisaged by the unit/borrower or assistance required from outside agencies like Govt. Departments/undertakings, Electricity Boards, etc. may be sorted out by rendering timely help and advice.

16. Pre-sanction appraisal of borrower focusing on their income-stream, credibility, capability to take up activity proposed, integrity, etc., and technical viability of the proposal. Achieving quantitative targets of advances should not be given overwhelming importance.

17. Outside interference, especially political, should not be entertained while sanctioning loan and in deciding number of loan repayment installments.

18. While sanctioning loan for creation of assets, it is important to verify the income generating capacity of the proposed assets by the experts.

19. To speed up the process of sanctioning of loans, adequate delegation of powers to branch managers is required to enable disposal of loan applications at branch-level itself.

20. The bank needs to change its outlook towards the priority sector advances and increase the share of priority sector lending to total lending with adequately evolved mechanism to monitor the utilisation and recovery of such loans. This would not only increase the volume of business of the bank at current period but lay the foundation for future growth of business through economic development of the region also.
21. The bank is to encourage the small loans to the villagers through the linkage programme with the SHGs and NGOs.

22. The profitability and viability problems of the bank are largely affected by the lower recovery rate and consequent higher rate of loan defaults. In order to improve recovery rate in agricultural loans, a training programme may be thought of under the joint collaboration with the agricultural department of the state. Similarly, SHGs to train the rural people about variety of non-traditional crops with higher market values, scientific techniques of cultivation and assurance of market to sell their output. The bank has to evolve appropriate mechanism to monitor recovery performance in respect of agricultural loans. The SHG link credit programmes are to be encouraged for the purpose.

23. A frequent visit of internal inspection teams of banks in service area villages and meeting with the farmers to discuss about their problems relating to loan repayment may help the bank to improve the recovery performance.

24. The bank should extend consumption loan facilities also to the needy people in the rural areas in order to discourage resort to private loans, which take away a major part of their earnings towards repayment of private loans on exorbitant interest rates.

25. To ensure adequate and continuous supervision and follow-up action after the loan is disbursed, the bank is to strengthen the field staff in their rural branches and motivate them towards better work norms and ethics.

26. As most of the cultivated land of the area is un-irrigated and depending on the vagaries of nature, a better cropping pattern suitable to the area should be encouraged by the bank in collaboration with the agriculture department. This would increase the crop yields and thereby, ensure better repayment by the borrowers.

27. The Governments, both at the State and Centre should avoid the populist programmes like 'Waiving of Loans', which adversely affect the psychology
of the borrowers in the rural areas and encourage absenteeism and willful loan defaults.

28. The governments, both at the centre and at the state are to ensure **adequate legal and administrative set up** for the recovery of loans and help the RRBs to reduce the NPAs.

29. More efforts are to be taken to **increase non-interest income by diversifying its non-lending business.** A greater scope lies in the areas of **insurance to the borrowers and depositors in exchange of a premium.** Scope of a tie up with other insurance companies can be explored and considered seriously. Entry into mutual fund business is also a prospective business area.

30. The aspect of customers’ satisfaction is a totally neglected part in the bank under study. In the era of competition, the bank is to undertake adequate steps to understand the customers’ needs and sentiments, and also take adequate measures to keep its customers loyal. For this purpose, adequate training to be imparted to, especially, the staffs to deal with the variety of clienteles in appropriate manners.

7.6. **Conclusion:**

The study concludes with the view that the present move to amalgamate the RRBs of a state under the same sponsor bank is obviously a step in right direction to improve their profitability and viability position by (i) enhancing the capital base, (ii) expanding the operational area, and (iii) bringing them under unified control. But this is not an end in itself. The results of the study indicate that the RRB (ie. the branches of presently formed AGVB, erstwhile CGB) has currently catapult to profitable zone. But this current profit is largely, at the cost of a drastic reduction in the CD ratio (from 79.99% to 30.72% over the two periods) and priority sector lending (from an average of 92.99% in the pre reform era to 68.46% in the post reform period) and more so, by distancing itself from the rural clientele. But the RRBs are not supposed to devoid their rural obligations. Therefore, they have to consolidate their operations in rural areas and concentrate on building up of the credit portfolio as well as on the recovery front in order to achieve a sustainable profitability and viability. Further, as
the bank’s present viability status is lower than that of the other three RRBs of the state (Table-5.3), the RRB of the region (the branches of presently formed AGVB Cachar Zone) should reengineer and restructure its products and operational activities and also explore new business avenues particularly keeping an eye to the needs aspirations of its varied clienteles.

Under the era of convergence in areas of banking and non-banking products, the RRBs are to develop the strength in increasing their market share in non-banking business. At the same time, the RRBs can not remain isolated from the application of new technology and implementation of modern banking approaches. This aspect is of crucial importance to reduce transaction cost and employee efficiency.

Further it is revealed that the present move of amalgamation, would obviously help the RRB to suppress the losses of some banks (Zones) under the profits of some others and represent a healthy balance sheet of the bank as a whole. Thus the actual picture of different erstwhile RRBs is likely to be concealed under the consolidated statement of the amalgamated bank.

Therefore, unless adequate concentration is provided on improvement in work culture, employee efficiency, product diversification, technological innovation, recovery management, credit portfolio and customers’ satisfaction the simple amalgamation of existing RRBs of the state under the same sponsor bank and formation of a new one with higher capital base and wider scope of operation would hardly improve viability and profitability of the RRB.