



**BANK OFFICIALS PERCEPTION ON THE PERFORMANCE OF HIMACHAL PRADESH
GRAMIN BANK: A CASE STUDY**

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ABSTRACT

This paper addresses the concerns regarding performance of the Regional rural banks in Himachal Pradesh. It uncovers the linkage between the bank official of RRBs and rural people in the Himachal Pradesh. According to KMO and Barleys test have been considered significant which have a value exceeding 0.526. These are improving customer base, self-sufficient, providing employment, marketing facilities, own business without money, educational institutions, Improvement in infrastructure, transport facilities, communication facilities, income in per capita, improving standard of living, power supply, providing insurance services, providing investment opportunities, Focusing on small farmers, R & D Facilities, Sufficient amount of loans, Improvement in standard of living and medical facilities. It can be concluded that corruption and inputs matter are very high in the RRBs in Himachal Pradesh

Keywords:Factor analysis,RRBs, Bank Officials, GraminBanks, Himachal Pradesh, Punjab National Bank

JELclassification:C 12, C14, C25 C 44 C81, C82 G21, P42

Introduction

Rural economic upliftment is the dire need of the today for country like India, where nearly two third populations in rural area live below poverty line. As per 2011 census, rural population of India is about 83.3 crore and accounts about 68.84% of total population of India .No doubt, the proportion of rural population in India has been declined from 72.19 % in 2001 to 68.84% in 2011. Thus, more than two third population of India still reside in rural India .The rural population is mainly dependent on agriculture for their livelihood. Agriculture, in India, contributes as much as 29.4% of a Gross

Domestic Product (GDP) and provides employment to 64% of work force in India. Its scarce resources but also in diversification of its economy. Therefore, there is urgent need of balanced growth of all regions enabling every region to share the benefits of economic development. In this process, Institutional finance plays a crucial role. Schumpeter was the first to recognize that there is a definite link between economic development and financial institutions. Now in modern times the financial institutions i.e. banking is the kingpin of all industrial development and economic activities and their growth. The banks are considered as the nerve system of economic and finance of a nation and the barometer of its economic prospective. The banking has become the foundation of modern economic growth.

Review of literature

Reserve Bank of India (1980-81) conducted a study in April, 1980 on the ability of Regional Rural Banks and covered those Regional Rural Banks which had completed three years period by December, 1978. Out of total 15 banks included in the study, 8 banks earned profit in 1978, 6 sustained losses and remaining one bank did not show any profit and loss. The study indicated that Regional Rural Banks with losses and loan business of Rs. 8 crores would require about 6 years obtaining viability in this form of banking.

A field study was undertaken by **Reserve Bank of India (1981-82)** to make better and qualitative assessment of Regional Rural Banks's performance. The study revealed that basic aim of setting up of Regional Rural Banks's viz. developing the rural economy by providing financial assistance for agriculture, trade, commerce industry and other productive activities in the rural areas. The study noted that Regional Rural Banks's had maintained their image as a small man's by confining their credit facilities to the target group.

Later on a survey was launched on a census basis in December by **Reserve Bank of India (1983)** to study the pattern of ownership of deposits of Regional Rural Banks. All the branches of 150 Regional Rural Banks bring about 7800 were covered through this survey. It was found that rural branches of Regional Rural Banks accounted for 87% of the total number of accounts and 75% of the total deposits of rural sector deposits, the major share was accounted for by agriculturist (47%), followed by traders and small businessmen (17%) and wage/salary earners (16%). Around 30% of the deposits with Regional Rural Banks were held by person in the target group identified as economically underprivileged

J.D. Aggarwal and Aman Aggarwal (2006) in their study mentioned that money laundering generation of New idea and their application for productive uses is an important component in the Engine for growth and development. Human talent has paved the way for high economic value creation, behind the generation of ideas, innovation, new technologies and robust financial systems. Estimates indicate that globally money laundering amounts to more US \$ 2 trillion to US \$ 2.5 trillion annually (i.e., about 4-5% of world Gross Domestic Product (GDP) (2006). Series of IIF studies and joint research findings have given due attention resulting decision and formulation of regulations by Government of India and International agencies International Monetary Fund (IMF), World Bank and Asian Development Bank Since 1987. In most cases or application in India which are handled at governmental level, they follow the CD-ROM Principle irrespective of the merit of the case. We have suggested the formulation of Economic International Uniformity system and economic integrated agency system as independent body to combat economic offences to their bank swindled funds into the economic system.

Mitalisen and J.K. Patranayak (2006) attempts to examine the effect of fee based services of Indian commercial banks on its debt structure choice with the determinants of capital structure as control variable. Identified from the literature include profitability, size asset quality, liquidity and efficiency. The present study provides new insights on the way in which the capital structure and fee based income are related the idea used in the paper comprises 82 banks for a period of 7 years from 1996 to 2006. The ordinary least square (OLS) method is employed to study the direction of relationship between the based earning and the various components of debt. The result indicate that the total debt and long term debt elements are negatively correlated with the fee based income, while the short term debt component has a positive relationship with fee based earnings.

The literature on RRBs recognizes a most of reasons responsible for their poor financial health. According to the Narasimham Committee, RRBs have low earning capacity. They have not been able to earn much profit in view of their policy of restricting their operations to target groups. The recovery position of RRBs is not satisfactory. There are a large number of defaulters. Their cost of operation has been high on account of the increase in the salary scales of the employees in line with the salary structure of the employees of commercial banks. In most cases, these banks followed the same methods of operation and procedures as followed by commercial banks. Therefore, these procedures have not found favour with the rural masses. In many cases, banks have not been located at the right place. For instance, the sponsoring banks are also running their branches in the same areas where RRBs are operating. The issue whether location matters for the performance has been addressed in some detail by Malhotra (2002). Considering 22 different parameters that impact on the functioning of RRBs for the year 2000, he asserts that geographical location of RRBs is not the limiting factor for their performance. He further finds that 'it is the specific nourishment which each RRB receives from its sponsor bank, is cardinal to its performance'. In other words, the umbilical cord had its effect on the performance of RRBs. The limitation of the study is that the financial health of the sponsor bank was not considered directly to infer about the umbilical cord hypothesis. Nitin and Thorat (2004) on a different note provide a penetrating analysis as to how constraints in the institutional dimensions have seriously impaired the governance of the RRBs. They have argued that perverse institutional arrangements that gave rise to incompatible incentive structures for key stakeholders such as political leaders, policy makers, bank staff and clients have acted as constraints on their performance. The lacklustre performance of the RRBs during the last two decades, according to the authors can be largely attributed to their lack of commercial orientation. An appropriate restructuring strategy would require to identify the problems leading to the nonsatisfactory performance of the RRBs. The performance of the RRBs under the aegis of their sponsor banks in the spatial dimension has been dealt in some detail in Section III

Methodology

The overall, performance of Himachal Gramin Bank in Himachal Pradesh has been carried in this study with the help of a questionnaire addressed to bank officials working in this bank. The different questions with sub questions were asked to the bank officials to get the relevant information to measure the performance of this regional rural bank in the state. The main questions in questionnaire raised to the officials were to get their opinion about the contribution made by the bank in rural development of Himachal Pradesh, condition of bank services, infrastructure facilities available in different districts, to implement its development programs/activities, criteria for suitability of the project to consider a loan application, types of securities required, receipt of loan application, the decision for loan amount to be sanctioned and its distribution, difficulties faced in distribution of loan, extent of wrong identification of beneficiaries, supervision and follow-up action, and problems with

the monitoring system, extent of misutilisation of loan, measures to check the misutilisation of loan, reasons for misutilisation of loan and some questions pertaining to their job satisfaction and difficulties they faced in the bank. All these questions had the sub questions with the preferences to be ticked by the bank officials. (Refer appendix 1) to provide the required information. All the information collected from the bank officials has been tabulated in the master chart and the analysis has been made in consonance to the objectives of our study. The information so collected has been presented in table for analysis and interpretation. The factor analysis test has been applied to find out those variables which are dominant and significant. The advantage of factor analysis is that it recognize relevant factor that affects overall results and discussion sections discussed the empirical results and [policies suggests the final section derives the conclusion and its implications.

(a) Factor Analysis: factor analysis is a multivariate statistical technique. There is no distinction between independent and dependent variables, in this technique of factor analysis, all variables under investigation are analyzed together to extract the underline factors. It is data reduction method to reduce large number of variables into a few manageable factors. These factors explain most part of the original set up data. In factor analysis KMO and Barlett test has been applied which considered a factor to be significant if the value is more 0.526. The component matrix table with eigen value and communality (h²) have been worked to discuss the relative importance of factor for set of variables considered. It has been used to analyze the contribution and activities of bank in rural development, suitability of project while considering loan application and problems of loan disbursement in the present study.¹

Factor Analysis

The Analysis of the different variables contained in the questionnaire about the contribution made by this Bank in the rural development of Himachal Pradesh. It also include the infrastructure facilities available in different districts of Himachal Pradesh where the branches of the bank are located to implement its development programmes and the activities of the bank geared towards the development in each of the district in providing the loan and opportunity to the loanees. The questionnaire was addressed to the various bank officials i.e senior Manager, Manager, Officer in senior grade, and also to Stenographers. The total number of the respondents of the Regional Rural Bank namely Himachal Gramin Bank were 103. The data has been collected from the officials of Himachal Gramin Bank in the nine districts of the state. These districts are Mandi, Kangra, Kullu, Hamirpur, Una, Bilaspur, Shimla, Solan and Sirmour. The study of contribution and the activities of the bank towards the rural development contained in nineteen variables. These are improving customer base, self-sufficient, providing employment, marketing facilities, own business without money, educational institutions, Improvement in infrastructure, transport facilities, communication facilities, income in per capita, improving standard of living, power supply, providing insurance services, providing investment opportunities, Focusing on small farmers, R & D Facilities, Sufficient amount of loans, Improvement in standard of living and medical facilities KMO and Barlett's test has been applied to discuss fact or analysis on these 19 variables and analysed for 8 components.

Results and discussion

All the component factor values according to KMO and Barlett's test have been considered significant which have a value exceeding 0.526. The component matrix table with eigen value and communalities (h²) have been worked out to discuss the relative importance of factor for set of variables considered in the study.

Table 1.1
Contribution and the activities of the bank towards the rural development

COMPONENT									
Variables	1	2	3	4	5	6	7	8	H ²
Improving customer base	.890	-.035	.034	.145	.009	.017	.180	.142	.869
Self sufficient	.810	.085	-.069	.087	-.133	-.087	.188	.284	.817
Providing employment	.779	.062	-.200	-.231	.112	.295	-.057	-.128	.824
Marketing facilities	-.021	.899	.101	-.056	.038	-.112	-.075	.090	.849
own business without money	-.087	-.788	.146	-.114	.266	-.073	.065	.145	.765
Educational Institutions	.388	.707	.102	-.171	.248	.247	.076	-.276	.895
Improvement in infrastructure	.345	-.617	-.079	-.239	.184	-.238	-.031	-.404	.818
Transport facilities	-.033	.009	.847	.154	.019	-.217	-.016	.274	.865
Communication facilities	-.169	.147	.813	-.094	-.195	.267	-.082	-.231	.890
Income in per capita	.016	-.071	.803	-.157	-.019	-.176	.397	.010	.863
Improving standard of living	.051	.099	-.165	.855	-.310	.011	.072	-.066	.730
Power Supply	.024	-.069	.113	.845	.255	-.024	-.201	.226	.889
Providing insurance services	-.026	-.091	-.104	-.034	.930	-.043	-.024	-.062	.892
Providing investment opportunities	.194	.074	-.051	.042	-.004	.910	.056	-.036	.881
Focusing on small farmers	-.472	.036	-.151	-.145	-.441	.608	-.060	.157	.860
R & D Facilities	.133	.152	.362	-.223	.000	.170	.805	-.128	.915
Sufficient amount of loans	.283	-.414	-.088	.117	.024	-.080	.700	-.085	.778
Improvement in standard of living	.273	-.047	.113	.129	-.073	.027	-.221	.754	.877
Medical facilities	.051	-.006	-.368	-.117	.508	-.143	.380	.518	.844
Eigen Value	2.803	2.576	2.481	1.805	1.722	1.638	1.636	1.460	
Variance Explained	14.755	13.559	13.056	9.501	9.061	8.620	8.611	7.683	
Cumulative variance Explained	14.755	28.314	41.369	50.870	59.931	68.551	77.162	84.846	

Source: Data Tabulated from Questionnaire.

Note: Bold values depicts the result values.

The analysis reveals (table 1.1) that in component factor 1 the variables improving the customer base, making people self-sufficient and providing employment to many people turned out to

be significant according to KMO measure of sampling adequacy. The eigen value for factor 1 (2.80) is significant and has explained 14.755 % variance. The bank officials considered improvement in the customer base, making people self-sufficient and providing employment opportunities as the most important variables in the rural development of the state.

The variables turned out to be significant in factor 2 are marketing facilities (.899), own business without money (-.788) Educational Institutions (.707) and improvement in infrastructure (.617). These variables have been considered to play positive role by the bank officials in rural development of Himachal Pradesh. Adequate marketing facilities, educational institutions and good infrastructure facilities available play a positive role in the implementation of developmental programmes. However, own business without money has been considered as negatively related with the rural development by these bank officials. Factor 2 has shown significant eigen value 2.576 and all these variables have explained 13.559% variance. The variables turned out to be significant in factor 3 are transport facilities(0.847), communication facilities(0.813) and per income capita (803). Factor component 3 has explained 13.056% variance with 2.481 eigen values.

The variables found significant in factor 4 are improving standard of living (.855) and power supply (.845). These variables have been considered as important in the development in rural areas of Himachal Pradesh and these variables in factor 4 explain variance 9.5015 with significant eigen value 1.805. The variables turned out to be significant in factor 5 is providing insurance services(0.930). The bank officials considered that insurance services can provide social security to masses of the rural area. The eigen value of the factor 5 is 1.721 and it explains 9.061% variance.

The variables turned out to be significant in factor 6 are providing investment opportunities and focusing on small farmers. Making provision for investment opportunities particularly focusing on small farmers, this bank can make significant contribution in development of rural areas of the Himachal Pradesh. The component 6 explains 8.625 variance with significant eigen value 1.638.

The variables turned out to be significant in factor 7 are Research and development facilities (0.805) and sufficient amount of loans (0.7). This shows that research and development facilities appropriate for rural area and sufficient amount of loans given to the beneficiaries by the bank are also important towards the development of rural areas of the Himachal Pradesh. In factor 8 only the one variable turned out to be significant i.e. improvement in standard of living (0.754) which shows that the bank can make significant contribution in the rural development by improving the standard of living of the rural people of the state. The eigen value 1.460 has been found significant and the component 8 explains 7.683% variance.

The 8 rotated component factors have explained 84.846% variance in all. The communalities i.e. value of 19 variables vary between 0.730 to 0.915. Research and development facilities have shown highest communality value (h^2) i.e. 0.915 followed by providing insurance services (0.892) and communication facilities 0.890.

Conclusion

All the variables turned out to be significant in the component matrix table. The total variance explained by all the eight factors has been 80.7235. The communalities (h^2) of all the variables varied from 0.715 to 0.946. The highest communality has been depicted by delay in availability of inputs followed by corruption and manipulation by the supervising staff. The bank officials considered improvement in the customer base, making people self-sufficient and providing employment opportunities as the most important variables in the rural development of the state. The variables

turned out to be significant in Research and development facilities and sufficient amount of loans. This shows that research and development facilities appropriate for rural area and sufficient amount of loans given to the beneficiaries by the bank are also important towards the development of rural areas of the Himachal Pradesh. The one variable turned out to be significant i.e. improvement in standard of living which shows that the bank can make significant contribution in the rural development by improving the standard of living of the rural people of the state.

Abbreviations: RRB,: RBI: HP : GDP:IMF

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