

## AN ANALYSIS OF IMPACT ON BANKING SECTOR REFORMS IN THE PERFORMANCE OF DEPOSITS AND LOANS AND ADVANCES OF PANDYAN GRAMA BANK IN TAMIL NADU

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### **Abstract**

*The Regional Rural Banks in India, generally three to four decade old play an important role in the rural economy of India and the Pandyan Grama Bank is one of the Regional Rural Bank operating in Tamil Nadu covering 16 districts. In the recent years the performance of this Bank in rural areas of Tamil Nadu a remarkable. The average of deposit mobilization has increased 10times in Phase III comparing the average deposits mobilized in Phase I. The average loans and advances have increased 24 times in Phase III when compare Phase I. The study reveals the impact of reform measures on the performance of deposits and loans and advances in Pandyan Grama Bank over a study period.*

### **Introduction**

The Regional Rural Banks in India, generally three to four decade old play an important role in the rural economy of India, and it is one of the important Financial Institution in the Indian financial structure. The Pandyan Grama Bank is one of the Regional Rural Bank operating in Tamil Nadu covering 16 districts. In the recent years the performance of this Bank in rural areas of Tamil Nadu a remarkable. By adopting a reform process and attaining continues growth; the bank got 'the best performer' award from the NABARD in 2012. The reform process in revamping and merging of loss- making branches of RRBs, was also adopted by the Pandyan Grama Bank. The major reform measure recommended by the Narasimham Committee 1992 and 1998 were implemented by the Pandyan Grama Bank. The objective of this paper is to make a study in the light of the above, the performance of PGB in the mobilization of deposits and disbursement of loans and advances for the period from 1992-93 to 2013-14.

### **Regional Rural Bank (RRB)**

The Regional Rural Banks were established in the year 1975 "with a view to "Developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto." The RRBs started their journey with 5 banks of 17

branches in 5 states in the year 1975 and as on 2014 it reached all the states of India with 56 banks of 19082 numbers of branches after facing many hurdles and changes including reform process.

#### **Pandyan Grama Bank (PGB)**

Tamil Nadu is a one of State of India, and it has two RRBs namely Pallavan Grama Bank and Pandyan Grama Bank. Pandiyan Grama Bank is a scheduled Bank in the public sector in India under RRB act 1976, established on 9<sup>th</sup> March 1977. The administrative office has started functioning in its own building at Virudhunagar from 31<sup>st</sup> Oct 2000 onwards. During 1992-1993 the bank had 161 branches are spread over 5 districts. In 2014 bank has opened 22 new branches and it has 246 branches spread over 16 district in the year 2014. This bank is sponsored by Indian Overseas Bank. The share holders of the bank are Government of India, State Government of Tamil Nadu and Indian Overseas Bank in the ratio of 50:15:35 respectively.

According to section 5 of the RRB Act 1976 the Authorised Share capital of the bank is Rs.5 Crore divided into fully paid-up of 5 lakh shares of Rs.100 each. The Issued and paid up share capital is Rs.1 Crore, held by Government of India (50%) Government of Tamil Nadu (15%) and Sponsor bank of Indian Overseas Bank (35%) share capital and share capital deposit received from the share holders. The bank have recapitalized in several years by its shareholders up to Rs.39.39 crores as part of reform activities recommended by Narasimham Committee.

#### **Banking Sector Reforms in Pandyan Grama Bank**

A well-developed efficient financial sector can achieve a faster rate of economic growth. In developing countries like India, banking system forms an integral and dominant part of the financial system. As a part of the financial system process banking sector are reformed on 1992 onwards. As a result of that many foreign & domestic private banks were granted license to operate in India.

In august 1991, the Government appointed a committee under the chairmanship of M. Narasimham. The aim of this committee was to bring about “operational flexibility” and “functional autonomy”, so as to enhance efficiency, productivity and profitability of banks. This period the prudential norms (relating to capital adequacy, income recognition, asset classification and provisioning, exposure norms etc.) were implemented.

The Government also appointed another committee on banking sector reforms under the chairmanship of M. Narasimham which submitted its report in April 1998 against such backdrop. The committee focused on bringing about structural changes, so as to strengthen the foundations of the banking system to make it more stable.

On the basis of Narasimham Committee the following reforms were taken place in the Pandyan Grama Bank also.

1. Recapitalised the bank from the year 1996 to 2001 and again capital fund infused in the bank in the years of 2011 and 2012 upto Rs. 39 crores.
2. Introduce IRAC Norms in the year 1996
3. Amalgamation and merges of loss making branches from the year 1996 to 1998
4. Revamping of loss making branches started in the year 2000 to 2004 and relocated rural branches to urban.
5. Computerization and technology up gradation started in the year 1996 and completed in the year 2004.
6. Remove extend lending restrictions
7. Deregulation of interest rate

#### **Scope of the Study**

This study is mainly planned to evaluate the performance based secondary data on its growth of deposits and advances for 22 years and analyze the impact of reform on Deposit, and Loans and Advances. To reveal the impacts of reforms in banking sector the researcher has divided the study period into three phases, as given below

1. First phase of reform started from 1992-1993 to 1998-1999 - Phase I.
2. Second Phase of reform started from 1999-2000 to 2005-2006- Phase II.
3. Third phase of after reforming started from 2006-2007 to 2013-2014.

#### **Objectives of the study**

The objectives of the study are as follows:

- To analyse the growth of deposit and loans and advances of Pandyan Grama Bank in Tamil Nadu
- To Comparison of three phases of growth rate of total deposits of Pandyan Grama Bank in Tamil Nadu
- To Comparison of three phases of growth rate of total advances and loans of Pandyan Grama Bank in Tamil Nadu
- To analyse the comparison of total deposits and total advances and loans of Pandyan Grama Bank in Tamil Nadu

#### **Hypotheses of the study**

In this study following hypotheses are framed for comparing total deposits and total advances.

- There is significant difference in the growth of total deposits in these three phase of study
- There is significant difference in the growth of total loans and advances in these three phase of study

### Collection of data

This study is mainly based on secondary data. Data relating to deposits and lending of the Bank have been collected from the annual reports and published records of the Bank.

### Period of the study

This study covers a period of 22 years from 1992-1993 to 2013- 2014.

### Methodology and Framework of Analysis

The study is mainly based on secondary data. The data have been analysed with the help of various statistical tools like Annual Growth Rate (AGR), Average, Standard deviation, Co-efficient of variation, Compound Growth Rate (CGR) and Average Annual Growth Rate (AAGR) for comparing the performances in three phases. Kruskal -Wallis Test used for compare the significant level in the performance of bank in three phases. Co-efficient of Correlation is used to measure the relationship between the total deposits and advances and used to compare the phase wise relationship.

### Growth of Deposits

“Deposits are the life blood of any banks. Deposits have major stay in bank funds. The growth of a bank depends primarily upon the growth of its deposits. The deposits mobilized by PGB may be classified as current deposits, saving deposits, and term deposits. The total of current and saving deposits are called CASA deposits. If CASA deposits are higher than the term deposits the bank get more advantages of less cost deposit.

The classifications of deposits and share of individual deposits to total deposits and AGR of each deposit and total deposits of PGB showed in Table 1 for the period from 1992-93 to 2012-13.

**Table - 1**  
**Components of Deposits of PGB**

(Rs. In Lakhs)

Year	Current Deposits	AGR	Saving Deposits	AGR	Term Deposits	AGR	Total Deposits	AGR
1992-93	246.37 (3.71)	-	2032.37 (30.61)	-	4360.56 (65.68)	-	6639.30 (100)	-
1993-94	233.81 (2.99)	-5.10	2498.40 (31.91)	22.93	5097.69 (65.11)	16.90	7829.90 (100)	17.93
1994-95	338.73 (3.42)	44.87	3188.11 (32.18)	27.61	6380.75 (64.40)	25.17	9907.59 (100)	26.54
1995-96	325.85 (2.45)	-3.80	4153.96 (31.25)	30.30	8813.44 (66.30)	38.13	13293.25 (100)	34.17

1996-97	425.91 (2.54)	30.71	4875.17 (29.08)	17.36	11465.34 (68.38)	30.09	16766.42 (100)	26.13
1997-98	424.20 (1.92)	-0.40	8109.34 (36.74)	66.34	13539.66 (61.34)	18.09	22073.20 (100)	31.65
1998-99	496.11 (1.82)	16.95	9118.62 (33.52)	12.45	17585.56 (64.65)	29.88	27200.29 (100)	23.23
1999-00	532.55 (1.52)	7.35	10472.70 (29.91)	14.85	24004.32 (68.57)	36.50	35009.57 (100)	28.71
2000-01	579.13 (1.39)	8.75	11243.45 (26.93)	7.36	29922.27 (71.68)	24.65	41744.85 (100)	19.24
2001-02	665.69 (1.35)	14.95	13996.62 (28.35)	24.49	34710.85 (70.30)	16.00	49373.16 (100)	18.27
2002-03	695.79 (1.22)	4.52	17023.45 (29.96)	21.63	39109.72 (68.82)	12.67	56828.96 (100)	15.10
2003-04	882.23 (1.38)	26.80	21292.61 (33.38)	25.08	41609.19 (65.23)	6.39	63784.03 (100)	12.24
2004-05	904.95 (1.34)	2.58	24321.22 (35.90)	14.22	42529.69 (62.77)	2.21	67755.86 (100)	6.23
2005-06	803.15 (1.00)	-11.25	30933.00 (38.66)	27.19	48283.39 (60.34)	13.53	80019.54 (100)	18.10
2006-07	982.90 (0.97)	22.38	39168.74 (38.78)	26.62	60854.34 (60.25)	26.04	101005.98 (100)	26.23
2007-08	2009.02 (1.55)	104.40	45376.72 (35.07)	15.85	81986.35 (63.37)	34.73	129372.09 (100)	28.08
2008-09	2384.21 (1.44)	18.68	59722.58 (36.09)	31.62	103396.96 (62.47)	26.11	165503.75 (100)	27.93
2009-10	2082.13 (1.15)	-12.67	69242.99 (38.22)	15.94	109821.22 (60.63)	6.21	181146.34 (100)	9.45
2010-11	1294.43	-37.83	79632.47 (37.87)	15.00	129361.96 (61.52)	17.79	210288.86 (100)	16.09
2011-12	3992.69 (1.60)	208.45	95298.24 (38.16)	19.67	150412.21 (60.24)	16.27	249703.14 (100)	18.74
2012-13	6834.20 (2.40)	71.17	102048.68 (35.81)	7.08	176088.78 (61.79)	17.07	284971.66 (100)	14.12
2013-14	7237.92 (2.28)	5.91	107111.23 (33.68)	4.96	203647.69 (64.04)	15.65	317996.84 (100)	11.59

Parenthesis indicates share percent of each category to total percent

Source: Annual Reports of the PGB from 1992-93 to 2012-13

Table 1 infers meager share of current deposits, low share of saving deposits and maximum share of term deposits ranging from 60.25 percent to 71.68 percent. The AGR of the current deposits shows a high fluctuating trend. It has registered high growth rate of 104.40 percent in 2007 -08 and 208.45 percent in 2011-12 and has negative growth rate in some years, it has registered high negative growth rate of -37.83 percent in 2010-11. The AGR of the savings deposits shows a mixed trend. It has registered the high growth rate of 60.34 percent in 1997-98. The AGR of the term deposits shows a mixed trend. In 1995-96 it has registered a high growth rate of 38.13 percent and it has low growth rate in 2004-05. It clearly shows the reform measure impacted in the growth of total deposits in consequent years.

#### Growth of Loans and Advances

The main source of banks to earn income is providing Loans and Advances to the public and charge interest on that. The RRBs mainly provides loans to priority sector and also provide to non priority sector. Priority sector includes loans to agriculture, Industries and services. An attempt has been made to analyse category wise share of loans and advances provided by bank for the period 1992-93 to 2013-14. The components of total advances and AGR of each category of advances during the study period is shown in Table 2

**Table 2**  
**Components of Loans and Advances of PGB**

(Rs. in lakhs)

Year	Priority sector Advances	AGR (%)	Non- Priority sector Advances	AGR (%)	Total Loans and advances	AGR (%)
1992-93	4641.26 (76.36)	0	1436.75 (23.64)	0	6078.01	0
1993-94	4164.62 (68.72)	-10.27	1895.93 (31.28)	31.96	6060.55	-0.29
1994-95	5104.59 (68.30)	22.57	2369.60 (31.70)	24.98	7474.19	23.33
1995-96	6014.32 (60.03)	17.82	4003.81 (39.97)	68.97	10018.13	34.04
1996-97	6872.72 (53.23)	14.27	6037.60 (46.77)	50.80	12910.32	28.87
1997-98	9772.19 (68.27)	42.19	4542.44 (31.73)	-24.76	14314.63	10.88
1998-99	11632.84 (74.44)	19.04	3993.59 (25.56)	-12.08	15626.43	9.16

1999-00	12300.9 (65.22)	5.74	6559.12 (34.78)	64.24	18860.02	20.69
2000-01	15894.96 (63.21)	29.22	9250.93 (36.79)	41.04	25145.89	33.33
2001-02	21301.72 (64.28)	34.02	11837.81 (35.72)	27.96	33139.53	31.79
2002-03	24836.16 (58.50)	16.59	17616.25 (41.50)	48.81	42452.41	28.10
2003-04	41027.70 (76.46)	65.19	12630.16 (23.54)	-28.30	53657.86	26.40
2004-05	54669.78 (83.54)	33.25	10772.57 (16.46)	-14.71	65442.35	21.96
2005-06	69428.81 (88.02)	27.00	9452.30 (11.98)	-12.26	78881.11	20.54
2006-07	97850.00 (92.36)	40.94	8093.98 (7.64)	-14.37	105943.98	34.31
2007-08	120731.65 (92.23)	23.38	10167.98 (7.77)	25.62	130899.63	23.56
2008-09	152192.13 (92.77)	26.06	11858.64 (7.23)	16.63	164050.77	25.33
2009-10	173161.33 (93.18)	13.78	12664.64 (6.82)	6.80	185825.97	13.27
2010-11	237975.01 (94.75)	37.43	13199.00 (5.25)	4.22	251174.01	35.17
2011-12	296426.91 (95.57)	24.56	13752.54 (4.43)	4.19	310179.45	23.49
2012-13	339107.66 (95.80)	14.40	14863.38 (4.20)	8.08	353971.04	14.12
2013-14	306458.28 (94.80)	-9.63	16796.23 (5.20)	13.00	323254.51	-8.68

Source: Annual reports of PGB from 1992-93 to 2013-14.

Parenthesis indicates share percent of each category to total percent

Table 2 infers the share of priority sector advances in total advances during the study period was gradually increased. The share of priority sector advances in total advances has increased to 95.80 percent in 2012-13 from 76.36 percent in 1992-93. AGR of priority sector advances has showed up and down trend. In 2003-04 the bank has attained a favorable growth of 65.19 percent. The share of non priority sector advances in the

total advances has gradually increased from 23.64 percent in 1992-93 to 41.50 percent in 2002-03 but after this period it has gradually decreased from 41.50 percent in 2002-03 to 4.20 percent in 2013-14. Non priority sector advances has showed a mixed trend. In the starting years the bank has attained high growth rate in non priority sector advances in 1994 to 1997 but in 2011-12 growth of loans to non priority sector has showed 4.19 percent only. The AGR of total advances ranging from 0.29 percent to 35.17 percent has shows up and down trend. The highest growth rate has registered in 2010-11 and it has declined to - 8.68 percent in 2013-14.

#### Comparison of Total Deposits

The calculated value of Average, Co-Efficient of Variance (CV), AAGR and CGR for the total Deposits to the three Phases and to overall study period for comparing the performance of total deposits between three phases is given in Table 3.

**Table 3**  
**Average, AAGR, CGR, CV for Total Deposits**

S. No	Phase I	Phase II	Phase III	Over all
Average (Rs. in Lakhs)	14815.95	56359.42	204998.58	97191.57
Std Deviation	7090.41	14457.99	70580.97	93861.28
C V (%)	47.86	25.65	34.43	96.57
CGR (%)	27.62	14.15	17.24	20.12
AAGR (%)	26.61	16.84	19.03	20.46

Note: For calculation table 1 is used.

In Table 3, on comparison of Averages Phase III shows the highest average of total deposits. Phase III is better than other two phases. It was a 10 times increases comparing to Phase I. On comparison of the CV, shows a highest CV in Phase I and lowest CV in Phase II. CV in overall study period shows great variations in total deposits, which mean more changes due to reform in the study period and unable to maintain stability in mobilizing of deposits for a long period. Lowest CV implies the stability in the mobilization of deposits.

On Comparison of the CGR of the total deposits, Phase I shows a highest percent other then two. CGR in Phase III is better than Phase II. On comparison of AAGR of total deposits, Phase I shows a highest percent than two phases.

#### Comparison of Total Advances

Using Table 2 the co-efficient of variations, AAGR, CGR, Averages for Total Advances for the three Phases and overall period of the study separately calculated for compare three Phases and over all period. The calculated values are shown in Table 4.



**Table 4**  
**Average, AAGR, CGR, CV for Total Advances**

S. No	Phase I	Phase II	Phase III	Over all
Mean (Rs. in Lakhs)	10354.61	45368.45	228162.42	100698.22
Std Deviation	3686.73	20228.95	88336.51	111585.02
C V (%)	35.60	44.59	38.72	110.81
CGR (%)	19.97	26.98	19.54	23.45
AAGR (%)	17.66	26.12	17.12	21.40

Source: Table 2 used for calculation

In Table 4, on comparison of Averages Phase III shows the highest average of total Loans and Advances. Performance of Phase III is better than other two phases. It was 24 times increases compare to Phase I. On comparison of the CV, shows a highest CV in Phase II and lowest CV in Phase I. CV in overall study period shows great variations in total Advances. Lowest CV implies the stability in the disbursement of Advances. On Comparison of the CGR of the total loans and Advances, Phase II shows a highest percent other then two. On comparison of AAGR of total advances, Phase II shows a highest percent than two phases. It reveals Phase III and Phase II have better performance than Phase I it may taken placed by the reform measures.

#### Comparison of Total Deposits using Kruskal-Wallis Test

In order to know whether there is any statistical significant difference in the growth rates of total deposits of PGB in the three phases, Kruskal-Wallis test was used. For comparison the Null Hypotheses was framed. The 'W' value was calculated with the help of the following formula.

$$W = \frac{12}{n_T(n_T+1)} \sum_{i=1}^k \frac{R_i^2}{n_i} - 3(n_T + 1)$$

Where K = Number of population groups

$n_i$  = Number of items in sample I

$n_T$  = Total number of items in all samples

$R_j$  = sum of the ranks in all samples

The application of Kruskal-Wallis Test is given in Table 5.

Hypotheses: There is significance difference in the growth of total deposits between three phases.

**Table 5**  
**Growth Rate of Total Deposits of PGB - Kruskal-Wallis Test**

Phase I			Phase II			Phase III		
Year	Growth Rate	Rank	Year	Growth Rate	Rank	Year	Growth Rate	Rank
1993-94	17.93	8	1999-00	28.71	19	2006-07	26.23	15
1994-95	26.54	16	2000-01	19.24	12	2007-08	28.08	18
1995-96	34.17	21	2001-02	18.27	10	2008-09	27.93	17
1996-97	26.13	14	2002-03	15.10	6	2009-10	9.45	2
1997-98	31.65	20	2003-04	12.08	4	2010-11	16.09	7
1998-99	23.23	13	2004-05	6.38	1	2011-12	18.74	11
			2005-06	18.10	9	2012-13	14.12	5
						2013-14	11.59	3
Total Rank		92			61			78

Source: Table 1.

$$W = \frac{12}{21(22)} \left[ \frac{92^2}{6} + \frac{61^2}{7} + \frac{78^2}{8} \right] - 3(22)$$

W= 4.20

From table 5 it is inferred that the calculated value of 'W' for total deposits (4.20) is less than the table value of  $\chi^2$  (5.99 at 5% level and 9.21 at 1% level). Hence the null hypothesis stated earlier is accepted. Therefore there is significant difference in the growth rates of total deposits of PGB in the three phases.

#### Comparison of Total Advances using Kruskal-Wallis Test

In order to know whether there is any statistical significant difference in the growth rates of total advances of PGB between the three phases, Kruskal-Wallis test was used. For testing hypothesis, 'W' value was calculated. The application of Kruskal-Wallis Test is given in Table 6.

Hypotheses: There is significance difference in the growth of total loans and advances between three phases.

Table 6  
Growth Rates of Total Advances and Loans - Kruskal-Wallis Test

Phase I			Phase II			Phase III		
Year	Growth Rate	Rank	Year	Growth Rate	Rank	Year	Growth Rate	Rank
1993-94	-0.29	2	1999-00	20.69	8	2006-07	34.31	20
1994-95	23.33	1	2000-01	33.33	18	2007-08	23.56	12
1995-96	34.04	19	2001-02	31.79	17	2008-09	25.33	13
1996-97	28.87	16	2002-03	28.10	15	2009-10	13.27	5
1997-98	10.88	4	2003-04	26.40	14	2010-11	35.17	21
1998-99	9.16	3	2004-05	21.96	9	2011-12	23.49	11
			2005-06	20.54	7	2012-13	14.12	6
						2013-14	-8.68	1
Total Rank		54			88			89

Source: Table 2

$$W = \frac{12}{21(22)} \left[ \frac{54^2}{6} + \frac{88^2}{7} + \frac{89^2}{8} \right] - 3(22)$$

$$W = 1.08$$

From table 6 it is inferred that the calculated value of 'W' for total advances (1.08) is less than the table value of  $\chi^2$  (5.99 at 5% level and p.21 at 1% level). Hence the hypothesis stated earlier is accepted. Therefore there is significant difference in the growth rates of total advances of PGB between the three phases.

#### Comparison of Total Deposits and Total Advances and Loans - Coefficient of Correlation

Co-efficient of correlation between total deposits and total loans and advances is calculated to measure the strength or degree of relationship between total deposits mobilized and total advances disbursed by the bank. Table 1 and Table 2 are used to calculate the co-efficient of correlation for three phases and overall period with the help of Karl Pearson's co-efficient of correlation. The formula is

$$r = \frac{\sum dx dy - \frac{\sum dx \cdot \sum dy}{N}}{\sqrt{\sum dx^2 - \frac{(\sum dx)^2}{N}} \sqrt{\sum dy^2 - \frac{(\sum dy)^2}{N}}}$$

The calculated value of the co-efficient of correlation is given in Table 7.

Table 7

## Co-efficient of Correlation for Total Deposits and Total Loans and Advances

Name of tool	Phase I	Phase II	Phase III	Overall
Coefficient of correlation (r)	0.98	0.99	0.97	0.99

Source: Table 1 and 2 are used.

Table 7 shows that, total deposits and total advances in Phase I, Phase II, Phase III and overall period has resulted in a positive correlation. It is inferred from the table that total deposits and total loans and advances have a highly positive relationship to each other.

### Conclusion

From the study it can be concluded that the bank maintains the CASA (current deposit and saving deposit) deposit at the lowest because of this bank for the benefit of farmers, whereas people other than farmers prefer commercial Banks. The people know that the RRBs mainly provide agriculture based loan and that does not provide any facilities offered by other commercial banks like ATM, Debit card/ Credit card, Net banking system etc. Priority sector advances have a major share in total advances but growth rate is not significant. It recommended that the bank must increase the disbursement of loans and advances in future. Due to reform measures, deposits and loans and advances have increased but they have registered the significant growth rate in different phases.

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