REVIEW OF LITERATURE:

A study and scan of the existing literature on the efficiency of Indian banks provides that there exists various studies that analysed the efficiency of Indian commercial banks using most popularly used parametric technique of Stochastic Frontier Analysis (SFA) and non Parametric technique of data Envelopment Analysis.

It is usual to measure the performance of banks using financial ratios. Yeh (1996) notes that the major demerit of this approach is its reliance on benchmark ratios. These benchmarks could be arbitrary and may mislead an analyst. Further, Sherman, and gold (1985) note that financial ratios don’t capture the long-term performance, and aggregate many aspects of performance such as operations, marketing and financing.

Many studies have been conducted by researchers on NPAs in banking industry. The researcher has made attempts to present a brief review of the literature available, which are published in the form of research articles and technical papers published in the journals, magazines and websites in the related area.

Cole et al. (2009) concluded that financial literacy programme has no effect on the likelihood of opening a bank saving account, but do not find modest effects for uneducated and financially illiterate households. In contrast, small subsidy payment have a large effect on the likelihood of opening a saving account.

Deshpande 1998 attempted a case study of two commercial bank branches in Maharashtra command area for evaluating performance of commercial banks in financing agriculture. In this studied the non interest cost incurred by the sample beneficiaries revealed that in almost all kinds of loans cost of records shared was the maximum in rural branch. With regard to cost towards trips to bank, beneficiaries in rural branch did not incur any cost because of proximity of bank.

The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of reports of various committees and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part.

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Bhatia (1978) attempted to analyse the economic performance of Indian Banking system as reflected in its output, price and profitability over the period 1950-68. The main findings of this study are: i) the profit performance of Indian Banking System during the period 1950-68 has been satisfactory; (ii) the structure of banking system (represented by the number of bank offices and the deposit concentration ratio) during the period has an insignificant effect on its performance.

Evolution of an effective institutional credit structure, which can meet the credit needs of the rural economy, has been one of the basic objectives of credit policy in India. The reserve bank of India has policy of institutionalization of rural credit in India. All India rural credit survey report recommended the three tier cooperative credit system, viz. state cooperative bank, district central cooperative bank, and primary cooperative societies, at state, district, and village level respectively.

The adoption of financial liberalization reforms has been a very laudable initiative given the extent of financial repression that was prevalent prior to these reforms and the stifling effects of repression on both the financial sector itself and on the economy as a whole. The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit.

Mr. Besant kalian (1989) :- The paper makes an effort to first gather the major reforms measures and policies regarding the banking industry by the govt. of India and the Central Bank of India (Reserve Bank of India) during the last fifteen years. Secondly, the paper will try to study the major impacts of those reforms upon the banking industry.

The rapid growth of cities in the developing world has led the struggle for improved living standards and protection of the environment. Since 1950's the Urban Population throughout the world has more than tripled, from just over 750 million to about 3 billion, and by
2030 some 5 billion people will live in cities. In the developing world the urban population is projected to double from 1.9 billion in 2000 to be just under 4 billion by 2030 (M.L. Narasaiah - 2003:1)

From the above analysis it was concluded that total factor productivity change (TFPCH) in performance of nationalized banks Total factor productivity change (TFPCH) in performance of Regional Rural Banks averaged at 1.3 percent during 1991-92 to 2006-07 The decomposition of TFPCH showed that the mean technical progress increased at .9 percent whereas mean technical efficiency has shown a marginal increase 0.1 percent during that period.

The rural finance is a matter of credit concernin a developing economy like India where 70 percent of the total population depends upon agriculture for its livelihood. Over 40 percent of the GDP in India is contributed by the rural sector. The economic development of our country can be achieved only through the up-liftment of the village folk that mainly consists of farmers, agricultural labourers, artisans etc.

Risk management and income recognition is the basic principle to restore and enhance the financial Strength of the banking industry. At International level this principle has constituted in 1974 by the Basel Committee to strengthen the supervisory standard and risk management strategies and suggested the assets classification and recognition norms. Reforms in the financial sector went through two distinct phases.

Banks perform many economically beneficial functions. These functions can be classified into primary and secondary functions. Among the primary functions of banks are:

1) Acceptance of deposit; and
2) Granting of loans and advances

Deposit mobilization as noted by Ekezie (1997) is one of the most important functions of a bank.

Although the relationship between financial development and economic growth has been extensively studied in the literature (see, e.g., King and Levine, 1993; Demetriades and Hussein, 1996; Arestis and Demetriades, 1997; Levine et al., 2000; Bell and Rousseau, 2001; Luintel et al., 2008), little is known about how finance impacts on income inequality.
Literature review is a study involving a collection of literatures in the selected area of research in which the scholar has limited experience. In the past, various studies relating to the financial performance of Regional Rural banks have been conducted by researchers Gunjan M Sanjeev (2009) conducted a study on Efficiency of Indian public sector banks and found that the efficiency of public sector banks not increased during the period 2003-07.

Rural banks are primarily created to play a special role in regional economic development in the Philippines. They generally serve small country-side borrowers and act as conduits of subsidized loans from the government and international donors. In 1952, the government enacted the Rural Banking Act and embarked on a program to enable rural banks to effectively compete with the larger universal and commercial banks and to increase investments in the regions.

Microfinance is the provision of financial service to the economically active poor who are hitherto un-served by the mainstream financial service provider. Microcredit is commonly defined in terms of loan amount as a percentage of average per capita income. In the context of Nigeria, with a per capita GDP of N112,800 (about $752) in 2008, loans up to N112,000 (around $750) will be regarded as micro loans.

RRBs though operate with a rural focus are primarily scheduled commercial banks with a commercial orientation. Beginning with the seminal contribution of Haslem (1968), the literature probing into factors influencing performance of banks recognises two broad sets of factors, i.e., internal factors and factors external to the bank.

The equation system is fitted using the 3SLS procedure. The results of the estimation process are contained in Table 5. As observed from the Table, the first hypothesis is borne out by evidence since the coefficient on the expense ratio is negative and statistically significant in the RoA equation.

Government of India has taken various steps for alleviating poverty since Independence. However, in spite of the various efforts, almost 27 percent of total population in India still continues to be below the poverty line. It is identified that most of the poor are in the rural areas. Further, along with this poverty scenario, no adequate employment has been generated in the labour market in India.
Financial sector reform has been a major component of the structural adjustments being implemented in India since 1991. A key focus of these efforts has been on reforming the Regional Rural Banks (KGB)—India’s state-owned development finance vehicles charged with serving the rural poor, especially micro entrepreneurs, in the agricultural and nonfarm sectors.

The institution of Regional Rural Banks (KGB) was created to meet the excess demand for institutional credit in the rural areas, particularly among the economically and socially marginalized sections. Although the cooperative banks and the commercial banks had reasonable records in terms of geographical coverage and disbursement of credit, in terms of population groups the cooperative banks were dominated by the rural rich.

The state of Maharashtra occupies the most prominent position in the economic and banking map of India. It is the most economically advanced state in India. It contributes the largest share to national income. It is most urbanized and industrial state in the country. It is also the birthplace of co-operative credit movement in the country and continues to have strong co-operative credit institutions, both at urban and rural centres.

You work for a local economic development agency for a living. Or you look into the workings of the regional economies across your state for a university business research centre. Or you are a graduate student wanting to get a handle on the how-to of regional economic analysis. If your aim is to understand, explain or have some positive impact on a regional economy, you need to find, and make sense of, pertinent socioeconomic data.

It could be appropriate to review some of the works done by the former researchers in the field of Karnataka Vikas Grameena Bank in Agriculture development by beneficiary farmers to prepare a suitable background for the present study. It helps to acquire a broad general background in the given field. It provides basis for theoretical framework and insight into methods and procedures of research. Since very few related studies are available on profile borrowers of Regional Rural Banks

This paper describes the changes caused by the global financial crisis in the strategic and operational choices made by local banks embedded in territories where Italian technological districts are located, which can be described as cases in which industrial policies have successfully promoted innovation.
Bahia and Nantel, (2000) developed Bank Service Quality (BSQ) scale to measure the quality perceptions in banking activities. Shafie and Azmi (2004), their working paper 001 stated that ARTER’s six dimensions (Compliance, Assurance, Reliability, Tangibles, Empathy, and Responsiveness) were conceptualized as a proposed framework for measuring quality of services in Islamic banks.

The overall growth of an economy is dependent to a great extent on the efficiency and soundness of its banking system. A sound banking system serves as an important medium for pushing economic growth by mobilisation of small savings of unproductive domestic sector and putting them to the productive use. Given the socioeconomic implications of the banking sector the analyses of relative efficiency of banks has gained popularity among people from banking sector, policy makers, researchers and academicians and other interested parties.

Pragathi Gramin Bank has been serving the rural population since past 27 years in Deodurga Taluk, Raichur district. Over the years it has evolved many saving products keeping in view the customers preferences. It has used campaigns, special deposit mobilization fortnight, farmers clubs etc as saving mobilization strategies. Mainly bank officials are involved in such mobilization campaigns.

This section provides the overview of previous studies reviewed related to the determinants of the profitability of banks. Some studies were country specific and few of them considered panel of countries for reviewing the determinants of profitability. Overall these studies propose that the determinants of profitability for bank can be divided into two groups; internal and external factors.

This paper explores the impact of various forms and levels of ICT on the performance of rural cooperative banks using recent survey data from India. Findings from the research suggest that modern information technology serves to enhance both the efficiency and profitability of the rural credit institutions. Efficiency was significantly enhanced by the usage of moderate technology at the lower organisational level, e.g. stand-alone computers at the branch level, mobile phone usage at PACS (Primary Agricultural Credit Society) and field level.

In this study we discussed issues and challenges encountered in a computerization project being carried out by the ARB Apex Bank to connect rural and community banks in Ghana. The
ARB Apex Bank embarked on the project to make the benefits of computer and networking technologies available to member rural banks. The study selected some rural banks engaged in the first phase of the project and sampled fifty respondents for questionnaires.

The rural environment in Ghana as in many African countries is characterized by lack of basic amenities and infrastructural facilities. Primary production in the form of agriculture and fishing dominate the rural economy. Farm operations and fishing expeditions are carried out with the help of simple tools, local varieties of crops and primitive fishing equipment.

It is the study of various literatures on the level of information technology, and customer satisfaction in the banking sector. It has also emphasis the way in which a customer has access to a bank’s services and products, mainly through the use of automated processes such as computerized banking (Cash and James T, 1994)

Indian Economy: As per the RBI report, the Indian economy continued to record strong growth during 2007-08, albeit with some moderation. With adverse effect of global recessions on Indian industry and service sector, the Real GDP growth rate of India, has declined from 9.6% in 2006-2007 to 9% in 2007-08. But the overall growth of real GDP rate of the Indian economy during 2007-08 was noteworthy in the global context.

In the area of payments systems there have been significant advancements of technology on the customer transactions India is one of the country that has effectively tackled huge volumes of paper instruments in cost effective manner. The magnetic ink Character Recognition (MICR) cheque clearing system, cheque transaction system (CTS) is another innovative solution that has been developed to enhance the efficiency of paper based clearing system.

An retrospect of the events clearly indicates that the Indian banking sector has come for away from the days of nationalization. The Narasimham Committee laid the foundation for the reformation of the Indian banking sector. Constituted in 1991, the Committee submitted two reports, in 1992 and 1998, which laid significant trust on enhancing the efficiency and viability of the Banking sector.