1. Introduction

Rural Development is both the means and end of economic development of a country like India. Today, apart from governments, rural development has become a matter of interest to industrialists, financiers, bankers and philanthropists as well. In India, a country of villages, it means making the life of the majority, worth to live and thus paying back them the dividend of India's economic growth. Four decades of regulations and two decades of libaralisation, has made India the ninth largest economy in the world (World Bank, 2011), which could grow, second after China, at an average rate of 8.46 per cent, for the last five years, even in the aftermath of global economic slowdown (Economic Survey, 2010-11). There are predictions that if the current high growth continues, India will overtake Japan (pre-*quake*) by 2030 (*Economic Outlook – India 2008 to 2010*). Today India hosts 11 per cent of the world's richest (Forbes India Magazine 2010) and it is looking forward the fortunes to trickle down to the rural people.

In India 72 per cent of the population living in rural areas and 69 per cent of the work force depending on agriculture, which is the largest single contributor to the nations GDP. (*RBI 2006*). Traditional farming technique, poor basic infrastructure, and inadequacy of support services to agriculture make farmers and agricultural laborers backward, unemployed and poor. Despite the growth in GDP in recent years, the figures on education, health, housing, sanitation, and access to resources, from the vast country sides of India shows that the trickledown effect of economic growth is rather weak (*India Development Report, 2008*). Even today India is widely considered as one of the hot spots for the widespread poverty and malnutrition. It is estimated that India shelters about one third of the World's poor (*World Bank-2009*) and around 42% of the rural poor in India subsist in poverty and remains in acute shortage of basic facilities. (*Tendulkar Committee 2009*). Therefore, it is high time to relate economic growth with rural development.

Rural development as a concept suggests the overall development of the areas and sustaining improvement in the quality of life of rural people. It results in creating an environment conducive to improve people's capacity and to utilize it fully, without exploitation, on a sustainable basis. The Asian Centre for Development Administration defines it as a process which leads to a continuous rise in the capacity of rural people to control their environment accompanied by a wider distribution of benefits resulting from such a control. It aims to increase the real per capita income of rural people, improvement in the distribution of income, political and economic freedom and equitable access to resources, education, health care, employment opportunities and justice (Katar Singh, 2007).

In India, there have been many policy initiatives and long standing programmes to this end, since independence. Self Employment Programmes, Wage Employment Programmes, Area Specific Programmes (Programmes for the Development of Backward Areas), Integrated Rural Energy Programmes, Development of Dry Land Farming, Soil and Water Conservation Programmes and Constitution of Rural Infrastructure Development Fund can be pointed out. Though the multiplicity of the programmes created a problem of coordination, and poor loan recovery (Neeta Tapan, 2007) they jointly increased the rural productive capacity by adding the physical assets like roads, minor irrigation net works and other social assets (Thingalaya, 2011), and thereby percentage of people below poverty line improved from 56.44% in 1973-74 to 28.30 % in 2004-05 (Planning Commission, 2009). Learning from the experience, today rural development programmes have redesigned to confine the government's role to the provision of good technology, management skills and cheap credit and other financial products in the villages.

India has 6.4 lakhs villages with a population of 83.3 crores which is 68.84% of the whole India (Census India, 2011). Providing timely and adequate cheap credit to farmers, rural artisans, petty shop keepers, and micro and small entrepreneurs is of paramount importance. It is reported that rural India suffers from a more serious lack of finance than urban Indian (Bose, 2004, Shah et al., 2007, Mishra, 2008, Remesha, 2003). Keeping around 80 million out of the banking services, will come in the way of development, as they account for the majority of consumer spending in India; more than $ 100 billion a year (Musthafa 2010). The real source of market promise is not the wealthy few or the emerging middle income group, it is the billions of aspiring poor who are joining the market economy for the first time (Prahalad C.K, 2006).

In order to spread the banking services to rural areas and to promote financial inclusion, Government of India under the guidance of RBI, has taken various policy and administrative measures. Though it dates back to 1904,when the first Co operative Societies Act was passed to give co operatives a separate legal identity, it was with the coming up of Reserve Bank of India (RBI) in 1935 that the financial inclusion efforts received proper direction. Setting up of State bank of India in 1955 for economic regeneration of rural areas, Nationalisation of 14 Commercial banks, identifying of priority sector in the economy and introducing of Lead Bank Scheme, all in 1969 and the branch licensing policy of RBI adopted in 1970, were attempts to ensure targeted credit flow to the rural areas.

Setting up of regional Rural Banks in 1975, combining the feature of co operatives and commercial banks, setting up of National Bank for Agriculture and Rural Development, (NABARD), Introduction of Service Area Approach (SAA) in 1988, Linking of Self Help Group with banks in 1992, Introduction of Kisan Credit Card in 1998, Facilitating of No Frills Account in 2005, introduction of the idea "banking correspondents and Business facilitators" in 2006 were also some of the major policy initiatives of the GoI.

As a combined effect of the above measures, the rural financial infrastructure has improved a lot. Today formal credit agencies with multiple windows and credit products serving different socio-economic and agro-climatic zones have assumed a prominent position in the rural and agricultural sector (*Nanda, 2002).* The policy towards rural credit was to ensure provision of sufficient and timely credit at reasonable rate of interest as large segment of the rural population as possible (Thorat, 2006).

In 1975, Regional Rural Banks (RRBs) were set up with an intention of providing formal banking services to rural folk, so as to save them from usury. By 1990 their number increased to 196, covering 512 districts in the country. Kerala was the place of India's largest Regional Rural Bank till 2005-06. Now for Regional rural Banks, after an amazing expansion phase, a period of consolidation has emerged. It is the time to evaluate their performance so far so as to regain the lost growth momentum of RRBs.

2. Statement of the Problem

Regional Rural Banks were functioning in India since 1975. Though, the idea of 'blending the local feel and familiarity with large resource base' received good appreciation in rural India, before long, the RRBs developed viability problems. Based on various studies GoI undertook remedial measures that brought down the number of RRBs in India from 196 in 1991 to 82 in 2010 and number of loss making RRBs from 90 in 2004 to 29 in 2010. Thus, barring a few, most have "turned around" but are often characterized as 'investment' rather than credit institutions and are perceived to have deviated from the mandate of serving the poor and disadvantaged (Thorat, 2010). The transformation and consolidation process is still on.

South Malabar Gramin Bank, one of the two RRBs in Kerala, was established in the year 1976 with head quarters at Malappuram. Although it operates in eight districts of the State, almost 80 per cent of the branches of the bank are located in the four districts-Malappuram, Kozhikode, Waynad, and Palakkad. It was the biggest RRB in India, in terms of total business, between the year 2003 and 2006, and is the biggest bank net work in the four districts. It is one of the few RRBs that did not need any financial reorganization. Even though the average CD ratio of other Scheduled Commercial banks operating in the area is between 60 and 65 per cent (*Economic Review, Government of Kerala- Various years*), the CD ratio of this bank is on an average of 100 per cent (*Annual Report of SMGB- Various years*). Though the, SMGB has grown manifold in terms of total business, customer base and number of branches, it is observed that since the last eight years the growth in number of branches and also in the number of employees in these districts remains paused. Despite good banking penetration, literacy among customers, money lenders of both local and interstate are actively playing in the region.

As the bank is looking forward and focusing to expand in other districts of south Kerala, the expansion programmes of the bank in the northern Kerala is seemed matured.

Thus, it is the time to make an empirical study of the role already and being played by the South Malabar Gramin Bank in the rural development of four districts of northern Kerala.

3. Significance of the Study

Regional rural banks were established as a strong mechanism to match the credit needs of rural people, which exceeded the capabilities of the co operatives, following a surge in the farm sector due to the plan support extended to the sector, by the Central government. Even though the prominence of agriculture in the GDP has decreased over the years, the relevance in terms of rural occupation has only increased.

Kerala, while a State with notable repute in the social advancement, its northern districts are comparatively less developed and rural. Except Kozhikode, other districts such as Malappuram, Waynad and Palakkad are the least GSDP per capita districts in the State (Economic Review, 2009). With regard to public sector employment, number of registered factories, and number of other enterprises, the region lags behind to southern region of Kerala. Tertiary sector earns most of the income and dependence on NRE income is also prominent. Waynad district stand first in agricultural income in the region, from where the incidence of farmers suicides had been reporting intermittently.

South Malabar Gramin Bank, one of the RRBs in Kerala has been functioning in these areas since more than three decades. It is one of the biggest bank net works in the area and this is the major area of the bank. It has 181 branches in the study region which is more than 80% of its total branches. The bank is in the forefront of the financial inclusion campaign in the region.

This study is an assessment of the development role of the bank in the agriculture, industry and service sectors on the region from the customers' perspective. The result of the study will provide certain ground level information as to the development role played by the SMGB, its reach and effectiveness in the society, and further, the expectations of the customers and officials of the bank. Besides this, the study will also reveal the operational and financial state the bank has reached all through the years. All these will help to provide direction to the development efforts of rural development institutions, policy makers and planners in general and, the government of Kerala, farmers, MSMEs, customers and officials of SMGB in particular.

4. Objectives of the study

The study focuses on the following objectives.

1To study the measures of SMGB for the promotion of agriculture, industry and service sectors of northern Kerala.

2To assess the effect of the promotional measures on the socio-economic status of beneficiaries of SMGB in northern Kerala.

3To examine the operational and financial performance of SMGB.

5. Hypotheses

In line with the objectives, the following hypotheses are set for the study.

1. The customers of South Malabar Gramin Bank are not aware of its loan schemes.
2. The customers of South Malabar Gramin Bank are not getting the entire project cost as credit.
3. The customers of South Malabar Gramin Bank do not face any hardship while availing its services.
4. There is no significant variation in the level of employment, income and savings of customers of South Malabar Gramin Bank even after availing credit.
5. There is no significant contribution on the part of South Malabar Gramin Bank in the socio-economic progress of Malabar region.

6. Methodology

The present study is empirical in nature. All offices of SMGB in the four districts of Kerala viz. Palakkad, Kozhikode, Malappuram and Waynad constitute the universe of the study. There were 185 offices including area offices and Head Office to SMBG on 31st March 2010. Of these 40 offices in proportion to the total number of branches in each district were selected at random, as Malappuram 17, Kozhikode 15, Palakkad 4 and Waynad 4. The borrowers and Officials of the sample offices are the respondents. There were 81639 customers in the 40 branch offices on 31st March, 2010. Of these 400 customers (Palakkad 31, Malappuram 177, Kozhikode 150 and Waynad 42) were selected constitute the first category of respondents. While selecting the customers due representation was given to agriculture, industry and service. Of the 400 customers 112 are from agriculture, 105 are from industry and 183 are from service sectors. The officials of the 40 selected branches were the second set of respondents. Of the total 201 officials in the 40 selected offices, 100 officials (50%) have been selected. Convenient sampling technique was used for selecting the sample respondents (Table 1.1).

Table1.1: Number of Branches and Officials Selected as Samples

Districts	No. of offices* (Branches, Area Offices and Head Office)	No. of offices** selected	Number of Officers	No of officers Selected
Palakkad	14	4	18	9
Malappuram	82	17	89	43
Kozhikode	69	15	74	35
Waynad	20	4	20	13
Total	**185**	**40**	**201**	**100**

Source: *Annual report, SMGB 2009.
** Field survey.

Table1.2: Number of Customers Selected as Samples

Category	Palakkad		Malappuram		Kozhikode		Waynad		Total	
	No. of Customers		No. of Customers		No. of Customers		No. of Customers		No. of Customers	
	Total	Sample	Total	Sample	Total	Sample	Total	Sample	Total	Sample
Agriculture	1633	8	12654	62	2857	14	5715	28	22859	**112**
Industry	1020	5	10409	51	8980	44	1020	5	21430	**105**
Service	3674	18	13062	64	18778	92	1837	9	37350	**183**
Total	**6327**	**31**	**36125**	**177**	**30615**	**150**	**8572**	**42**	**81639**	**400**

Source: Annual Report, SMGB 2009.

Both primary and secondary data were used for the study. The primary data were collected from the sample respondents through two sets of pre-tested structured interview schedules. The secondary data were collected from the Annual reports of SMGB, NABARD, RBI, books, periodicals, Committee reports and the Internet.

The data collected were classified and analyzed with the help of a computer keeping in view the objectives of the study. For the purpose of analysis, statistical tools viz. average, percentages, weighted mean, chi square, ANOVA and confidence limit were applied. The weighted mean was applied to determine the relative order of preference of the respondents. While the chi square test was applied to examine the significant variation in the opinion among respondents in the four districts of Kerala. The ANOVA was used to test the significance of the difference between the variance of responses of the respondents. The confidence limit was used to estimate the population parameters.

7. Variables used for the Study

The following variables have been used for the analysis.

i) Measures of SMGB for the Promotion of Agriculture, Industry and Service Sectors of Northern Kerala

i. Lending schemes for agriculture

ii. Lending schemes for industry

iii. Lending schemes for service

iv. Amount of loans outstanding

v. Age of relationship of customers with the bank

vi. Type of security

vii. Processing time of loans

viii. Amount of loan demanded

ix. Amount of loan sanctioned

x. Adequacy of loan

xi. Number of visits to the bank before sanction

xii. Number of pre-sanction visits by the bank

xiii. Awareness of the loan schemes

xiv. Expenses on loan

xv. Degree of loan use diversion

xvi. Alternative source of finance to customers

xvii. Assessment criteria for applicants

xviii. Degree of default of loans

xix. Reasons for loan default

xx. Difficulties in dealing with the bank

xxi. Nature of difficulties

xxii. Reasons for selecting SMGB

ii) Effects of the Promotional Measures on the Socio-Economic Status of Beneficiaries

i. Generation of employment for self after availing the loans

ii. Generation of employment for others after availing the service of SMGB

iii. Increase in income after the loan)

iv. Increase in assets after the loan

v. Type and size of savings after the credit

vi. Presence in the public domain after the loans

vii. General impression of customers on the promotional role of SMGB

viii. General impression of officers on the promotional role of SMGB

ix. Methods to assess the post loan performance of customers

iii) To Examine the Operational and Financial Performance of SMGB

(A) **Operational Performance**

i. Branch Expansion

ii. Business Growth

iii. Customer Base

iv. Number of Employees

v. Loan Schemes

vi. Documentation

vii. Processing Fees

viii. Security for Loan

ix. Margin Money

x. Rate of Interest

xi. Amount of Loan

xii. Repayment Mode

xiii. Financial Inclusion Initiatives

xiv. Recovery Performance

xv. Management of NPA

(B)Financial Performance

i. Profit Margin

ii. Net Interest Margin Ratio

iii. Interest Spread or Net Interest Income

iv. Return on Assets

v. Return on Equity

vi. Asset Utilization

vii. Income per Employee

viii. Profit per Employee

ix. Business per Employee

x. Operating Cost to Assets Ratio or Intermediation Cost Ratio

xi. Cost to Income Ratio

xii. Ratio of Wage Bills to Intermediation cost

xiii. Ratio of Wage Bills to Total Expenses

xiv. Ratio of Wage Bills to Total Income

xv. Ratio of Burden to Total assets

xvi. Cost of Deposits

xvii. Cost of Borrowings

xviii. Cost of Funds

xix. Return on Advances

xx. Return on Investments

xxi. Cash-Deposit Ratio

xxii. Credit- Deposit Ratio (CD Ratio)

xxiii. Investment-Deposit Ratio

xxiv. Ratio of Demand and Savings Bank Deposits to Total Deposits

xxv. Ratio of Priority Sector Advance to Total Advance

xxvi. Ratio of Term Loans to Total Advances

xxvii. Ratio of Secured Advance to Total Advance

xxviii. Asset Quality

xxix. Gross NPA to Gross Advance

xxx. GNPA to Total Assets

xxxi. Capital adequacy Ratio

xxxii. Net NPA to Net Advance

8. Period of Study

The study confines itself to a period of ten years starting from the Silver Jubilee Year of SMGB i.e. financial year 2000-01 to 2009-10. This period is crucial for RRBs in India, besides this being so for the entire banking industry in the world. This period witnessed the constitution, submission and implementation of various Committee reports in connection with Regional Rural Banks and the historic restructuring of RRBs in India. It was during this period that the number of RRBs in India reduced from 196 in 2001 to 82 in 2010 and the number of loss making RRBs declined from 46 to 29 in (NABARD, 2011). The gradual retreat of scheduled commercial banks from and penetration of Micro Finance Institutions in to, rural India and reports of continued farm suicides in India, and in Kerala is the rural socio economic features of the period.

9. Chapterisation

The study report is presented in six chapters.

Chapter 1 Introduction

Chapter 2 Rural Banking- A Theoretical Review

Chapter 3 Measures of SMGB for the Promotion of Agriculture, Industry and Service

Chapter4 Effects of Promotional Activities on the Socio-economic Status of Beneficiaries

Chapter 5 Operational and Financial Performance of SMGB

Chapter 6 Summery Findings, Conclusion and Suggestions.

10. Major Findings of the Study

The major findings of the study on the basis of the analysis of the data are summarized below:

A. Programmes of SMGB

1. Majority of the customers are aware of the various programmes and schemes of SMGB for the promotion of agriculture, industry and service sectors at varying degrees.

Regarding the awareness of the programmes, 37 per cent are well aware, 47 per cent are aware and the remaining 16 per cent are unaware about the programmes. Meanwhile, the officials are of the view that the customers are well aware of the bank's programmes.

2. There is a marked difference among customers on the number of pre-sanction visits they made to the bank for the loan. One to three visits served the purpose for 24 per cent customers. Four to six visits were necessary for 50 per cent customers, while in some extreme case, they paid more than ten visits.

3. Majority of the customers utilize the loan amount to the purpose for which it has been taken while 12 per cent divert the loan to other purposes at varying degrees. The diversion is highest in Malappuram and least in Waynad district. At the same time, 72 per cent of the officials opined that there is diversion of loan use. They also point out that, agricultural loans are the most diverted category followed by industry and service sector loans.

4. Regarding the reasons for default in repayments, both customers and officials acknowledge insufficient income as the prime reason, followed by failure of financed project, unexpected family expenses and uneasy installments.

5. On the quality of loan experience, 36 per cent of the customers faced some sort of hardships in the bank. Delay in processing the application due to shortage of staff is the most significant problem in the order of priority. Complicated procedure, difficulty to arrange security and low amount of loan are the other difficulties. The Officials of the bank also came out with the same observation.

B. Effects of Promotional Measures on the Socio-economic Status of Beneficiaries

1. The finance of SMGB has helped a majority of the customers (83%) to create full employment. The remaining 17 per cent could also create partial employment of less than 20 man days in a month. The Palakkad district stands first in self employment creation followed by Kozhikode and Waynad.

2. The savings of majority of the customers (61%) are in the form of gold and precious metals whereas 31 per cent have their savings in the form of financial assets. The next 8 per cent has used it for the purchase of livestock.

3. Of the total customers, 35 per cent have a live debt to local money lenders. The Malappuram district stands first in this respect.

4. With regard to the considerations by the bank for the merit of the customers, purpose of the loan, repayment capacity, repayment history and value of collateral are in the order of importance.

5. Regarding the role played by SMGB in the socio-economic progress of individual customers and their region, 98 per cent of the customers and also officials responded affirmatively. But, 12 per cent of the customers in the Waynad district reported negatively as to the role of SMGB in their socio-economic progress.

C. Operational and Financial Performance of SMGB

1. The SMGB has grown 4.72 times during the last ten years in terms of total business with a CAGR of 19.06 per cent. The deposit has increased 5.44 times, advances 4.12 times, and average size of advances 2.27 times to reach Rs.38701. The ratio of NPA to advances has also improved from 2.7 per cent to 1.68 per cent. At the same time, the recovery rate has come down from 91.81 to 91.42 per cent. Also, the number of employees has come down from 1589 to 1555 with a CAGR of (-) 0.22 per cent.

2. The profitability of SMGB is showing a declining trend during the period of the study. Majority of the ratios calculated to measure the profitability such as net interest margin ratio; interest spread, return on assets ratio and return on equity ratio are also falling off.

3. The staff productivity of SMGB is showing an increasing trend during the period. The income per employee has increased 1.14 times with a CAGR of 14.64 per cent. Profit per employee has also increased by 51 per cent with a CAGR of 5.17 per cent. Further, business per employee also registered an increase by 192 per cent with a CAGR of 19.31 per cent.

4. The cost of deposit of SMGB has decreased 9.20 per cent on an average, during the period. Also, the cost of borrowings has come down 12.85 per cent on an average and similar is the case of cost of funds.

5. The CD ratio of SMGB has come down from 119 per cent to 95 per cent during the last ten years. The cash deposit ratio also has come down whereas the investment deposit ratio has gone up from 15.79 to 26.04 per cent during the period.

6. The ratio of gross NPA to gross advances (from 4.63% to 2.53%), gross NPA to total assets ratio (from 3.30% to 1.64%) and net NPA to net advance (from 2.70% to 1.68%) of SMGB have shown a considerable decrease during 2001-10.