**REGIONAL RURAL BANK AND THE UNBANKED: AN EVALUATION**

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***Abstract:***

*After two decades of impressive growth, there is slackening of growth in SHG-BLP. It has reached saturation point in the southern states, the growth is muted in other states. The loan impairment rates are on the rise. Considering the matter paper has attempted to measure RRBs performance in Microcredit outreach in Odisha, using data obtained from secondary sources. For the purpose of the study the researcher has considered the members of the Women Self Help Group (WSHGs) as microcredit borrower. To know the microcredit outreach three parameters have been considered number of clients (breadth of outreach) loan amount per member (depth of outreach)) and loan disbursed amount in pre and post amalgamated period. Descriptive as well as inferential statistical tools have been used to get conclusion. The hypotheses for the study are tested with 95% of significance level. This study finds that there is no difference between the Microcredit outreach of RRBs in pre and post amalgamation period. Most importantly, the results indicate that there is no change in the efficiency of RRB after amalgamation with respect to micro clients. Therefore policy implications are recommended to make vibrant and efficient RRB to cater the unbanked. The sample size for the study is only one RRB therefore any generalization of the findings of the study may be subjected to certain cautions. Several other qualitative factors, which might have influenced are not taken into consideration in this study.*

***Keywords: WSHGs, Microcredit, breadth of outreach (BMO), depth of outreach (DMO), loan disbursed amount, unbanked***

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**1. INTRODUCTION**

RRBs are suffering from serious problems due to built-in restrictions on their operations, it is common to expect that the financial health of the RRBs itself would be a matter of concern. With the onset of the neo- liberal economic reforms, the **Narasimham Committee (1997)** recommended that to impart viability to the operations of RRBs, they should be permitted to finance the non-target group, non-farm sector and non-priority sector clients in a defined proportion. Under the priority sector there is also the social compulsion to lend the micro clients on a target basis.

In 1992 under the SHGs bank linkage programme (SBLP) by NABARD, the banks came into the picture and lent funds to SHGs (Microclients). The current potential microfinance market size served primarily by microfinance Institutions (MFIs) and self help groups (SHGs) Bank Linkage programme at Rs. 1.4-2.5 trillion against of Rs. 0.6 trillion as on March 31, 2013. Overall market growth 14% in 2012-13, MFIs reported higher 26% growth to Rs 220 billion, SBLP grew by 8% to Rs. 394 billion. Microcredit has a greater role to play in India where approximately 40% of people live in extreme poverty. In the ensuing years, RRBs have to face tight competition with the commercial banks for their growth and survival irrespective of the fact that their very role in the society required a special status and a different set of policies.

Thus, in this article the researcher has tried to find out the RRB’s microcredit outreach to WSHGs in pre and post amalgamated period in Odisha. The parameters for the microcredit outreach are breadth of outreach (BMO) which represents the number of clients; the depth of outreach(DMO) means the loan per member (size) which is one of the proxies of the poor and loan dispersed amount.

**2. LIERATURE REVIEW**

In this section, it has been intended to review some of the few earlier important studies undertaken by different authors of national and international those are directly as well as indirectly related to the researcher area have been reviewed. Few of these are as:

**Kanika, Nancy (2014)** have analyzed after amalgamation RRBs transformation has resulted in a 200 per cent increase in net profits, a 100 per cent increase in business, a gradual reduction in the number of loss-making banks and addition of 1,000 outlets. All this has been because of consolidation among RRBs. Then there were 196 RRBs. Though the growth in credit when seen in isolation gives an impression of the impressive strides made by RRBs in disbursing credit, they account for a very small proportion (around 3 per cent) of the total assets of the Indian banking sector, despite their significant branch network.

**Chary and Sreenivas (2013)** They have observed from their analysis that the Commercial Banks aggregately have the majority share of loan outstanding against SHGs to the extent of 70.28% , with number of SHGs 63.8 per cent on an average. However, the Regional Rural Banks accounted for a proportionate share of loan outstanding 23.25 per cent and number of SHGs26.8 % followed by Co-operative Banks which accounted for loan outstanding 6.17 per cent and number of SHGs 9.4% during the study period under review.

**Hanna Hovi (2012)** in his study has found that decreasing costs and increasing interest rates are the main drivers for the profitability of the institutions. It is possible to achieve both goals at a time especially for banks and cooperatives as they have cost control mechanism. Based on his results, there is no clear tradeoff between profitability and poverty outreach. It is possible to achieve both profitability and the large poverty outreach but the results vary depending on the institution type.

**Roy (2012)** in his study has found when MFIs grow beyond 2000 customers, there are no significant further efficiency gains resulting from economies of scale, controlling for a range of other variables like lending technology, geographical location, etc. Thus the study concludes that the average ROA and ROE declines as the active loan number of clients increases beyond 2000.

**Patnaik (2012)** observed only a small proportion of the 3.5 million poor households in Orissa are likely to be members of mature SHGs, clients of well-performing MFIs, or direct clients of banks and other financial institutions, the services available through SHGs remain very primitive and inadequate support to SHGs - for the large number of SHGs promoted through the ICDS system, the range and quality of support services available is very limited.

**Ghalib (2011)** in his study has focused that a large portion (over 41 percent) of total outreach is for the least poor, as opposed to 35.4 percent of the middle poor category, whereas outreach to the poorest people is considerably lower, at less than a quarter (22 percent) of all surveyed households.

**Robert Cull at, el. (2009)** in their study have found mixed evidence for trade-offs between profitability and outreach. They have analysed serving poorer clients are associated with facing higher average costs. The finding follows from the observation that small loans are costlier to serve (per unit lent) relative to larger loans.

**Dehejia, Montgomery, and Morduch (2009)** analyze data from a Bangladeshi lender and find that a ten percentage point increase in the interest rate decreases the demand for credit by between 7.3 and 10.4 percent.

**Mersland and Strøm (2009)** also conduct an econometric analysis of the impact of regulation with cross-institution data. In line with their findings on regulation and profitability, they find that regulation does not have a significant impact on financial performance. They do not find evidence for the trade-off with outreach.

**Frank (2008)** shows how the distinction matters, the relationship between commercial transformation and outreach to women. While commercialization is correlated with a decline in the fraction of female clients served (as a share of total clients), the institutions transformed from NGOs to commercial institutions within her dataset served twice as many women borrowers in absolute numbers relative to the non-transformed institutions.

**Lensink at, el (2008)** they have used stochastic frontier analysis to examine and found strong evidence that outreach is negatively related to efficiency of MFIs. More specifically, they found that a higher percentage of female borrowers are associated with a lower financial efficiency of MFIs and that lower average loan balances have a negative effect on efficiency.

**Dacheva and Gotwalt (2007)** have found after analyzing the financial and outreach data information, provided by the MixMarket database, the results proved that there is no association between the commercialization factors and loans sizes. They found the significance of women borrowers as predictors of loans size.

**Hartarska and Nadolynk (2007)** have opined that regulation does not directly affect the performance of microfinance institutions, either in terms of operational self-sustainability (OSS) or outreach. They viewed that deposit-taking institutions have broader outreach, though, suggesting that regulation may offer an indirect benefit by permitting institutions to expand.

**Manfred Zeller and Julia Johannsen (2006)** in their paper they have examined on the basis of per-capita daily expenditures and client relationships with financial institutions. They found NGOs in Bangladesh and cooperatives as well as micro-banks with strong NGO-origins (i.e. social orientation) in Peru are the best performers with respect to poverty outreach.

**Karlan, D. and Zinman, J. (2005)** in their study have observed customers sensitivity to interest rates, with data from South Africa. They found that demand for credit is “kinked”: the customers are more sensitive to interest rate increases than to the lender’s standard rates.

**Seibel, (2002)** has opined that the quality of customer service from banks to SHGs has declined. There are delays in the disbursement of loans to SHGs, sometimes delivered beyond planting time, reductions in loan amounts irrespective of eligibility, delays in entering transactions in SHG passbooks, and delays in providing financial reports to SHGs which are needed when SHGs are audited. There are also complaints by SHGs that banks have been slow in opening new SHG accounts on grounds of staff shortage. At the same time there are reports that under target-driven pressure some banks try to sell high-cost insurance to SHG members and to persuade them to open bank accounts, while in other cases members find it difficult to open savings accounts.

**Almeyd (1996)** has observed NGO and bank operations, however, hardly begin to cover the demand for microfinance services.NGO programs are generally minuscule in each country, and the banking sector is still by and large just entering this market niche, although in some countries banks already are larger providers of loans to micro entrepreneurs than NGOs.

**3. STETEMENT OF THE PROBLEM**

 The above review shows that institutional microcredit outreach depends upon size, percentage of women borrowers, degree of commercialization, type of institutions etc. However, the data analyzed does not provide conclusive evidence on whether the type (i.e. the legal status of the institution) really matters for poverty outreach. Till date no study has been made in this direction in Odisha, so in this context the researcher has proceeded to study the RRB’s microcredit outreach before and after amalgamation.

**4. OBJECTIVES AND METHODOLOGY**

***4.1 Objectives***

* To measure the growth of microcredit outreach in pre amalgamated period of the sample RRB.
* To measure the growth of microcredit outreach in post amalgamated period of the sample RRB.
* To compare the growth of microcredit outreach in pre and post amalgamated period of the sample RRB.

***4.2 Methodology***

The current study is analytical in nature. The author has used secondary data. Critical evaluations of the publically available data are made to draw any conclusion on this research area. WSHGs are considered as microcredit borrowers for purpose of the study.

***4.3. Sampling***

For the purpose of the study, RRB considered as its universe. In Odisha the DGB which is transformed to NGB in 2008 and thereafter it has been changed to OGB in 2013 is considered for the study.

***4.4. Sample Size***

In Odisha after amalgamation there are two RRBs, one of them is considered for the present study which caters to 13 districts of Odisha.

***4.5. Period of the Study***

Period of the study for the above research work has covered fourteen financial years. The total of fourteen years is divided into two periods, one is pre and the other is post amalgamated period. The pre amalgamated period is from 2001 to 2007and the post amalgamated period is from 2008 to 2014.

***4.6. Data***

The data for the study collected from secondary sources. The sources for the study are Annual reports of sample RRB, Microfinance status of India and web site of RBI etc. The data consists of figures of Annual reports, books and journals of related years.

***4.7. Techniques Used***

Descriptive as well as inferential statistical tools are used to arrive at any conclusion. The hypotheses for the study are to be tested with 95% of significance level.

***4.8. Hypotheses***

In order to conduct the study and examine the objectives, the researcher has formed following hypotheses for testing.

* **H01:** There is no significance difference in growth rate of breadth of microcredit outreach (BMO) in pre and post amalgamated period of the sample RRB.
* **H02:** There is no significance difference in growth rate of depth of microcredit outreach (DMO) in pre and post amalgamated period of the sample RRB.
* **H03:** There is no significance difference in growth rate of loan dispersed in pre and post amalgamated period of the sample RRB.

**5. ANALYSIS & INTERPRETATIONS**

**5.1. Analysis**

***Table No.1: Details of Microcredit Outreach in Pre-amalgamation period of sample RRB.***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year/****Details** | **\*BMO** | **YoY\*****Growth****Rate (%)** | **Loan dispersed****(Rs.)** | **YoY Growth Rate (%)** | **\*DMO****(Rs.)** | **YoY Growth Rate (%)** |
| 2001 | **6285** | - | **8600000.00** | - | 1368.00 |  |
| 2002 | 12375 | 96.90 | 15900000.00 | 85 | **1285.00** | **-6.07** |
| 2003 | 24870 | **100.97** | 40500000.00 | **154.71** | 1628.00 | 26.69 |
| 2004 | 34545 | 38.90 | 62900000.00 | 55.31 | 1821.00 | 11.86 |
| 2005 | 47353 | 37.08 | 90900000.00 | 44.52 | 1912.00 | 5.00 |
| 2006 | 56353 | **19.01** | 138900000.00 | 52.81 | 2457.00 | **28.50** |
| 2007 | **74865** | 32.85 | **185500000.00** | **33.55** | **2479.00** | 0.90 |
|  |  |  |  |  |  |  |
| N | 7 | 6 | 7 | 6 | 7 | 6 |
| Range | 68580.00 | 81.96 | 179600000.00 | 121.16 | 1194.00 | 34.57 |
| Min | 6285.00 | 19.01 | 8600000.00 | 33.55 | 1285.00 | -6.07 |
| Max | 74865.00 | 100.97 | 185500000.00 | 154.71 | 2479.00 | 28.50 |
| Mean | **36663.71** | **54.28** | **76171428.57** | **71** | **1850.00** | **11.15** |
| Std. Dev. | 24554.89 | 35.30 | 67152927.82 | 44.46 | 477.77 | 14.02 |

***Source: Complied and Computed Data from Annual Reports of RRB,***

 ***\* YoY :Year over Year , \*(BMO): breadth of microcredit outreach), loan dispersed per member, (DMO ):depth of microcredit outreach)***

***Figure-1: Trend of YoY Growth Rate of Microcredit Outreach In Pre Amalgamated Period.***

***Source: Drawn from Table 1***

Table-1 & graph -1 reveals three different parameters of microcredit outreach i.e BMO, DMO and loan dispersed amount of the sample RRB and the year over year growth rate (percentage) in pre amalgamated period i.e from 2001 to 2007. After 2003 YoY growth rate of BMO is decreasing except 2007 which has the value 32.85%. All the values of YoY growth rate of BMO after 2003 below the average growth rate 54.28%. The YoY growth rate of loan dispersed is maximum 154.71% in 2003 and minimum is 33.55% in 2007. With respect to DMO it is fluctuating throughout the entire period. The maximum growth rate is 28.50% in 2006 and the minimum is -6.07 in 2002. The range is 34.57%. DMO which is proxy of poor is in a decreasing trend with a slight increase in 2003 and 2006 means RRB is not deviating to serve the poorer.

***Table No.2: Details of Microcredit Outreach in Post-amalgamation period of the sample RRB***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year/Details | **BMO** | YoY Growth Rate (%) | Loan dispersed(Rs.) | YoY Growth Rate (%) | **DMO**(Rs.) | YoY Growth Rate (%) |
| 2008 | 99615 | 33.06 | **294,500,000.00** | 58.76 | 2,956.00 | 19.24 |
| 2009 | 127800 | 28.29 | 293,500,000.00 | -0.34 | **2,297.00** | **-22.29** |
| 2010 | 50715 | **-60.32** | 183,100,000.00 | **-37.61** | 3,610.00 | 57.16 |
| 2011 | 68025 | 34.13 | 229,800,000.00 | 25.51 | 3,378.00 | -6.43 |
| 2012 | **45015** | -33.83 | **182,400,000.00** | -20.63 | 4,052.00 | 19.95 |
| 2013 | **150855** | **235.12** | 977,843,000.00 | **436.10** | **6,482.00** | **59.97** |
| 2014 | 235125 | 55.86 | 1,845,324,000.00 | 88.71 | 7,848.00 | 21.07 |
|  |  |  |  |  |  |  |
| N | 7 | 7 | 7 | 7 | 7 | 7 |
| Range | 190110.00 | 295.44 | 1662924000.00 | 473.71 | 5551.00 | 82.26 |
| Min | 45015.00 | -60.32 | 182400000.00 | -37.61 | 2297.00 | -22.29 |
| Max | 235125.00 | 235.12 | 1845324000.00 | 436.10 | 7848.00 | 59.97 |
| Mean | 111021.43 | 41.76 | 572352428.57 | 78.64 | 4374.71 | 21.24 |
| Std. Dev. | 67382.54 | 94.90 | 627264217.35 | 163.66 | 2021.40 | 30.16 |

***Source: Complied and Computed Data from Annual reports of RRB.***

***Figure-2: Trend Of YoY Growth Rate of Microcredit Outreach in Post Amalgamated Period.***

***Source: Drawn from Table 2***

Table-2 & graph -2 reveals three parameters of microcredit outreach of respective RRB and their year over year growth (percentage) in post amalgamated period i.e from 2008 to 2014. In 2013 YoY growth rate of BMO is highest 235.12% and the minimum is -60.32 in 2010. The average growth rate is 41.76%. The YoY growth rate of loan dispersed is maximum 436.10% in 2013 and minimum is -37.61% in 2010. With respect to DMO the average YoY growth rate is 21.24% with a range of 82.26%.

**5.2. Hypothesis Testing**

* ***H01: There is no significance difference in growth rate of breadth of microcredit outreach in pre and post amalgamated period of the sample RRB.***
* ***H02: There is no significance difference in growth rate of depth of microcredit outreach in pre and post amalgamated period of the sample RRB.***
* ***H03: There is no significance difference in growth rate of loan dispersed in pre and post amalgamated period of the sample RRB.***

From the Table-1 & 2, it has been observed that the YoY growths of three different parameters of microcredit outreach are fluctuating in the pre and post amalgamated period. The average YoY growth rate of BMO, YoY growth rate of Loan dispersed and YoY growth rate of DMO in pre-amalgamated period is 54.28%, 71% and 11.15% respectively, whereas in post-amalgamated period the average YoY growth rate of three different parameters are 41.76%, 78.64% and 21.24% respectively. The average growth rate of pre and post amalgamated period have shown a wide difference. At this juncture, the researcher has applied “t” test to justify whether the difference among the average is significant or not.

***Table -5:‘t’ test Summary for Year over Year growth in three different Parameters of outreach***

|  |  |  |
| --- | --- | --- |
| Variables/ Details of test | Levene's Test for Equality of Variances | t-test for Equality of Means |
| F | Sig. | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference |
| Lower | Upper |
|  **BMO** | EVA | 1.019 | .334 | **.304** | 11 | **.767** | 12.522812 | 41.18 | -78.1152 | 103.1608 |
| EVnA |   |   | .324 | 7.848 | .754 | 12.522812 | 38.66 | -76.9189 | 101.9645 |
| **Loan dispersed** | EVA | 2.143 | .171 | **-.111** | 11 | .**914** | -7.679109 | 69.28 | -160.168 | 144.810 |
| EVnA |   |   | -.119 | 7.015 | .909 | -7.679109 | 64.46 | -160.046 | 144.688 |
| **DMO** | EVA | 1.456 | .253 | **-.750** | 11 | **.469** | -10.093748 | 13.46 | -39.7208 | 19.5333 |
| EVnA |   |   | -.791 | 8.740 | .450 | -10.093748 | 12.75 | -39.0777 | 18.8902 |

***Source: Computed Data from Annual reports 2001-2014***

Table- 5 shows the result of the test. The calculate value of ‘t’ at 5% level of significance is 0.304, -0.111and -0.750 whereas Sig. (2-tailed) value is 0.769, 0.914 and 0.469 respectively for YoY\* growth rate of BMO, YoY\* Growth Rate Loan dispersed and YoY\* Growth Rate of DMO. All the Signifiance (2-tailed) value at 5% level of confidence is greater than 0.05 which leads to acceptance of null hypothesis. It may be safety to settle that there is no significant difference between the average growth rate of the parameters in pre and post-amalgamated period.

**6. FINDINGS & CONCLUSION**

The key objective behind the research work is to measure and compare the growth of microcredit outreach in pre and post amalgamated period of the sample RRB. The researcher has arrived at following points viz

***6.1. Summary of Findings***

* In pre merger period YoY growth rate of BMO after 2003 is in a decreasing trend except 2007 which is 32.85 % with a slight increase. The average growth rate is 54.28% which is higher than the growth of post amalgamated period 41.76%.
* The loan dispersed amount is also having a highest growth of 154.71% in 2003. Thereafter it has decreased to 33.55%. The average growth rate is 71.97% and 78.64% in pre and post amalgamated period respectively.
* The average DMO in pre amalgamated period is 11.15% and range is 34.57% whereas in post amalgamated period it is 21.24% with range of 82.26%.

All the Signifiance (2-tailed) value at 5% level of confidence is greater than 0.05 which leads to acceptance of null hypothesis. It may be safety to settle that there is no significant difference between all the average growth rate of the parameters in pre and post-amalgamated period.

***6.2. Concluding Note***

RRB is a bank of rural community to serve the rural poor i.e weaker section, after failure of commercial bank and co-operative bank. Thus the motto of the bank is to serve them in the long run without fail, but here with regard to its viability it has been amalgamated repeatedly to overcome its pitfalls through different committee’s recommendations. Then here is the question whether the RRB is reaching the unbanked quite efficiently after successive amalgamation?

With respect to this question the researcher has observed that there is no significant difference between the YoY growth rates of different parameters of microcredit outreach in pre and post amalgamated period at 5% level of confidence is more than 0.05 which leads to acceptation of null hypothesis. The loan size is too small which represent the poorer community means DMO is good in both the study period, but with respect to BMO (number of clients) study has observed no such significant improvement. The study has brought to the light that the impact of amalgamation has no effect on the microcredit outreach.

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