

EFFICIENCY EVALUATION AND ITS IMPROVEMENT OF CO-OPERATIVE RURAL BANKS IN SRI LANKA

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Abstract

This study attempts to evaluate the efficiency of Co-operative rural banks using a balanced panel data set of 625 total observations during the period from 2007- 2011. All branches of co-operative rural banks operating in all 25 districts in Sri Lanka were selected. For analysing the efficiency of the above rural banks, secondary data were obtained from annual financial statements and annual central banks reports of Sri Lanka for the study period. A non-parametric Malmquist total factor productivity index was applied to evaluate the efficiency and to identify the efficiency, it was used as dependent variable with amount of deposits and number of branches as independent variables. Pooled regression and fixed effects were applied using double-log model and it suggests that efficiency of the banks have changed across districts, but it has not changed over time. Total factor productivity change of the above banks declined average at 3.9% during 2007-2011. To identify the potential improvements of each bank for inefficiency units in future, Frontier Analyst also was used for the 2011 data. According to the findings, managers can identify the ways of improvements to increase the efficiency and to enhance competitiveness in challenging economic conditions in future.

Keywords: Frontier Analyst, Total Factor Productivity Index, Fixed Effects, Double log Model.