CHAPTER VI

PROBLEMS AND PROSPECTS OF PANDYAN GRAMA BANK

Having analysed the various aspects of the Regional Rural banks (RRBs) in general and the Pandyan Grama Bank (PGB) in particular it is useful to make a critical appraisal of the entire situation. This will give an idea of where RRBs stand today, the likely direction it can take and promises it holds for the future. Though the RRBs have succeeded in achieving their objectives, yet they are facing some challenging problems. Some of these are of major concern to the planners, policy makers and administrators.

The progress achieved by the RRBs was not uniform across the states and regions. Regional disparity\(^1\) in their growth would be clear from the fact that North- Eastern region (Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura) had only 11 RRBs (that is, 5.6 per cent to the total) and their branches numbered only 653 (that is 4.5 per cent to the total) in December 1993. But the Central region (Madhya Pradesh and Uttar Pradesh) had 64 RRBs (that is, 32.7 per cent to the total) and the number of their branches stood at 4,646 (that is 32.0 per cent to the total).

It is noticed that certain RRBs have grown beyond their optimum size and have thus become unmanageable under the present framework. With the implementation of National Industrial Tribunal Award (NITA) equating RRB employees salary with sponsoring commercial bank employees, the operational costs of RRBs have increased since 1991. RRBs have been complaining that lack of administrative and legislative support from the Government in effecting recoveries, instigation by self-seeking politicians not to repay and indiscriminate write-off of debts by some of the state governments have been foiling their efforts in making timely recovery of agricultural loans.

An important problem which is worrying the RRBs is the mounting overdues. The huge overdues have an adverse effect on the profitability of RRBs in the form of providing for bad debt. The problem of viability is vexing the mind of all concerned as the working results of RRBs have shown that a majority of them were running in loss. As many as 124 RRBs forming 63 per cent of the total have eaten away their share capital and reserves.

In this chapter an attempt has been made to analyse the problems faced by PGB under various headings, namely, organisational, personnel, administrative, political, overdues, problem of viability and other problems. Further an attempt has also been made to evaluate the bankers’ view on these problems and the views of beneficiaries regarding their problems.
6.1 Problems of Pandyan Grama Bank

The problems and constraints faced by branch managers of Pandyan Grama Bank are presented here.

6.1.1 Organisational Problems

The branches of PGB have adopted 12 to 30 villages with a distance ranging up to 15 kilometres. This has undisputedly resulted in dilution of appraisal, follow-up and supervision leading to problems of recovery.

In many branches, which have field supervisors, they combine the work of a clerk with that of field work. For this purpose they are mostly stationed at branches. The inadequate supervision has resulted in misutilisation of funds and consequently impaired the repayment capacity of the beneficiaries.

High income group refuses to deposit in PGB because credit assistance is restricted only to target group.

The branch managers felt that for deposits to grow, as the source is mainly from target groups only, the accretion in deposits was bound to be slow. This was because the target group even after increase in income do not save much and instead concentrates on purchase of land, house or jewels. The general propensity to save in rural areas especially among target group is low.
The bank has to cater to the credit needs of the target groups and the rate of interest which the bank charges from these groups is low. This may be one of the reason which is affecting the earning capacity of the bank.

The bank has no easy access to the branches of commercial banks/ sponsor banks with whom it can keep its excess funds. So the bank is forced to maintain high cash balances (that is, idle cash balances).

6.1.2 Personnel Problems

The rural areas do not have infrastructure facilities like housing, transport, drinking water, medical aid and power. As a result of this the employees of PGB are not interested in working in the rural areas.

Further, if they are posted in rural areas, they do not reside there and they would rather come from urban centres. This causes inconvenience to farmers and it results in inefficiency of the bank employees.

One of the debilitating factors noticed in PGB is the low morale of the staff. This could be due to the continued uncertainty over the future set-up of RRBs, lack of promotional opportunities in the existing set up and the continuous losses incurred by their branches.
It is a general phenomenon that before a branch manager and other staff get familiarised with their area and established rapport with borrowers, they are transferred.

Some branch managers cited staff shortage as one of the main reasons for low recovery rate.

6.1.3 Administrative Problems

The field supervisors have to supervise large number of accounts spread out in a vast area not knit by adequate transport facilities. Invariably all field supervisors felt handicapped in not having a motor cycle on the lines of the field officers of commercial banks. So more personal attention and the required number of visits to the borrowers for proper pre-sanction and post-sanction inspection could not be paid.

The field supervisors are often engaged in administrative and desk work and so they are unable to go to the field to the extent required and hence the quality of field work suffers.

The unit costs for various activities approved by National Bank for Agriculture and Development for purpose of refinance, particularly for activities in rural areas, are inadequate. Hence, the bank is not in a position to allow adequate loans to the beneficiaries.
Sheep loans were reported to be sometimes utilised for fictitious purchase of assets. Even the tagged sheep have been sold away later and during post-sanction inspections, the field supervisors are told that the sheep have gone for grazing or have been taken to another village due to scarcity of water. Therefore, asset verification becomes very difficult.

It was reported by the branch managers that pre-sanction and post-sanction inspection were properly carried out in the case of regular schemes and it was not possible in the case of Government sponsored schemes like Integrated Rural Development Programme.

6.1.4 Political Problems

There is the interference by the politicians both at the time of advancement of loans and at the time of recovery. It has made it difficult to recover effectively the outstanding loans by the bank. The local politicians or the prominent people at the village and unemployed youth approach the branches of the bank without any concrete proposals giving an impression that the bank loans became cheap and easy.

At the time of election or in other contexts political leaders are reported to have advised cultivators not to repay their dues to banks or to have assured them extension of period of repayment. Such political actions create a false idea in the
minds of the defaulters that the loans would be written-off in due course. Writing off the bank overdues induces a honest borrower who is repaying the bank loan regularly to default.

The implementation of Agricultural and Rural Debt Relief Scheme, 1990 affected the recovery climate in the rural areas. This will create a feeling that the virtuous are punished and the vice are rewarded. Hence sincere borrowers will also follow the willful defaulters adding to the number of such defaulters and thus aggravating the problem of recovery in future.

6.1.5 Problem of Overdues

The existing legal machinery available to the bank to recover loans from the beneficiaries is not helpful. On the contrary, the bank is placed at a more disadvantageous position compared with that of the beneficiaries. There are several instance which reveal that beneficiaries have sold hypothecated assets. Though this is a criminal offence, branch managers are normally unable to take action against such beneficiaries.

The majority of Milk Producer’s Co-operative Societies (MAPCs) were dormant. One of the main reasons alleged for this trend was that MAPC presidents often misappropriate funds or do not take the responsibility for recovery.
The branch managers felt that the low recovery rates are partly due to greater participation in Government programmes. The managers seem to get very little time to process large number of loan applications under these schemes. Pre-sanction scrutiny and inspection could not be adhered to invariably and the managers are under constant pressure to sanction loans routed through Government agencies.

6.1.6 Problem of Viability

Another area of concern is that most of the branches of PGB are incurring losses year after year. The problem of viability is vexing the minds of all concerned as the working results of PGB have shown that a majority of the branches were running in loss. In 1993-94 out of 161 branches, 149 were incurring losses. Inspite of all concessions and previllages, the branches of PGB have fared badly in the recent years in terms of earning profits. The reasons attributed to this state of affairs are: (i) low business profile and potential per branch, (ii) uptrend in the cost of establishment and operating expenses, (iii) too thin margin between the cost of lending and the cost of borrowing, (iv) restricted customer profile, (v) higher transaction costs involved in handling a number of small sized loan accounts and (vi) poor recovery of loans especially after the implementation of agricultural and rural debt relief scheme, 1990.
6.1.7 Other Problems

A few branch managers complained that the beneficiaries colluded with the brokers who brought the animals for sales by inflating the prices.

The Government agencies are assigned with the task of identifying the potential beneficiaries and selecting the activities for them. Often the activities are not very suitable though the beneficiary may not fall within the eligible income criteria. Even if the branch feels that the beneficiary is not suitable, the branches are not in a position to reject more than 10 per cent of the applicants as per head office instructions. But the branch experience shows that nearly 30 per cent applicants are found to be unsuitable for the activity. This is because of the target oriented approach adopted for ensuring maximum coverage under different activities.

The attraction of subsidy in government sponsored schemes results in giving secondary importance to economic significance of the scheme. Many a time, the beneficiary has accepted the subsidy-oriented programmes simply because of the attraction of getting a subsidy.

The identification of the beneficiaries has been faulty leading to misuse of the assistance in the form of subsidy and credit. Faulty identification has also put unwilling poor families under the burden of debt and this added to their
difficulties. In order to achieve the physical and financial targets, the Government departments and the bank go on granting loans ignoring proper selection of beneficiaries. If this is repeated, then a huge sum of credit (depositor’s money) and subsidy (people’s tax) would go into drain by way of creating a grave situation, namely, many wells would fail or go dry, bio-gas plants would remain out of order, milch animals would be sold away or become unproductive and rural artisans suffer from irregular supply of raw materials or would have uncertainties in marketing of their products.

Since good breed milch animals were not available in sufficient numbers to meet the sudden increase in demand, low graded milch animals were given to the beneficiaries and it resulted, in some cases, in breeding corruption. Officials in the department of animal husbandry, veterinary staff, bank officials and the so called rural leaders have joined hands with the beneficiaries themselves in sharing and misusing the funds under the schemes.

Even though some beneficiaries opted for dairy loan they were only recommended by the block authorities for sheep loan.

The people in the rural areas are interested in knowing how much loan they will get from the bank because they think that bank loans are not meant for repayment. The philosophy of RRBs conveyed to or impressed upon the
beneficiaries is creating a phyche among them ‘the loan amount is a helping gesture of our government’.

6.2 Branch Manager’s View

In this section branch manager’s view on the above problems has been obtained to rank according to their order of preference. The order of preference thus given by the branch managers was converted into rank by using the following formula:

\[
\text{Per cent position} = \frac{100 \left( R_{ij} - 0.50 \right)}{N_j}
\]

Where,

\( R_{ij} = \) Rank given to the \( i^{th} \) problem by \( j^{th} \) manager,

\( N_j = \) Number of problems ranked by \( j^{th} \) manager.

The per cent position of each rank thus obtained was converted into scores by referring to the table given by Garrett.\(^2\) Then for each problem, the scores of individual branch manager were added together and divided by the total number of managers for whom the scores were added. These mean scores for all the factors were arranged in ascending order, ranks assigned and the important problems identified.

TABLE 6.1

BRANCH MANAGERS VIEW ON THEIR PROBLEMS

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Problems</th>
<th>Mean Score Value</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Overdue</td>
<td>62.71</td>
<td>I</td>
</tr>
<tr>
<td>2.</td>
<td>Administrative</td>
<td>51.62</td>
<td>II</td>
</tr>
<tr>
<td>3.</td>
<td>Personnel</td>
<td>40.62</td>
<td>III</td>
</tr>
<tr>
<td>4.</td>
<td>Political</td>
<td>38.12</td>
<td>IV</td>
</tr>
<tr>
<td>5.</td>
<td>Organisational</td>
<td>34.67</td>
<td>V</td>
</tr>
<tr>
<td>6.</td>
<td>Non-viability</td>
<td>26.12</td>
<td>VI</td>
</tr>
<tr>
<td>7.</td>
<td>Other</td>
<td>24.32</td>
<td>VII</td>
</tr>
</tbody>
</table>

Source: Compiled from Primary data.

It is evident from Table 6.1 that among the various problems faced by the branch managers, overdues problem stood first, followed by administrative problems, personnel problems, political problems, organisational problems, non-viability problems and other problems.

6.3 Problems of Beneficiaries

Problems faced by the beneficiaries are analysed and presented in Table 6.2 in the order of maximum frequency response.
TABLE 6.2

PROBLEMS OF THE BENEFICIARIES

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Problems</th>
<th>Number of Borrowers</th>
<th>Percentage to the Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Quoting high amount for bank loan purchase</td>
<td>364</td>
<td>60.67</td>
</tr>
<tr>
<td>2.</td>
<td>Delay in granting loans</td>
<td>310</td>
<td>51.67</td>
</tr>
<tr>
<td>3.</td>
<td>Inadequate loan amount</td>
<td>202</td>
<td>33.67</td>
</tr>
<tr>
<td>4.</td>
<td>High cost of inputs</td>
<td>192</td>
<td>32.00</td>
</tr>
<tr>
<td>5.</td>
<td>Lack of infrastructural support</td>
<td>136</td>
<td>22.67</td>
</tr>
<tr>
<td>6.</td>
<td>Lack of veterinary services</td>
<td>116</td>
<td>19.33</td>
</tr>
<tr>
<td>7.</td>
<td>Short repayment period</td>
<td>98</td>
<td>16.33</td>
</tr>
<tr>
<td>8.</td>
<td>No problem</td>
<td>68</td>
<td>11.33</td>
</tr>
</tbody>
</table>

Source: Compiled from Primary data.

60.67 per cent respondents reported that the prices taken by the sellers for the assets were much more than the prevailing market prices. The sellers quoted high amount for the assets purchased with loan amount granted by the bank. Since the selected asset items being short of supply the loanees were forced to purchase sub-standard assets at inflated prices.

51.67 per cent respondents reported delay in disbursal of bank loan. Though the bank should dispose the application within 15 days, as per the
guidelines of NABARD, in some cases, especially in the case of scheme loans, there was delay in getting the bank loan.

33.67 per cent beneficiaries reported that the loan amount was inadequate to carry out the activity. The amount of bank loan under different schemes falls short to meet the credit requirements of rural clientele. Owing to under-advancing of loans the beneficiaries fall back for the balance upon private money lenders who charge exorbitant interest rates or they purchase inferior assets.

32.00 per cent respondents reported that the net income derived from the loan activity was low due to the high cost of inputs.

22.67 per cent households reported that there was lack of infrastructural support to carry out the activity. For instance, in the study area, the milk co-operative societies are not functioning well or presence of dormant societies.

19.33 per cent respondents reported that lack of veterinary services was the main problem faced by them. It is complained that health coverage Animal Husbandry and Veterinary Services Department was not adequate which resulted in the death of animals and also low yield.

16.33 per cent respondents reported that the repayment schedule was very short.
Only 11.33 per cent respondents stated that there was no problem faced by them.

A survey was conducted among the beneficiaries to ascertain their suggestions to overcome the problems faced by them and for the better functioning of the PGB. The suggestions offered by the respondents are presented in Table 6.3.

**TABLE 6.3**

**BENEFICIARIES’ SUGGESTIONS**  

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Suggestions</th>
<th>Number of Beneficiaries</th>
<th>Percentage to the Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Avoidance of intermediaries</td>
<td>500</td>
<td>83.33</td>
</tr>
<tr>
<td>2.</td>
<td>Freedom to buy animals anywhere</td>
<td>292</td>
<td>48.67</td>
</tr>
<tr>
<td>3.</td>
<td>Timely availability of loan</td>
<td>280</td>
<td>46.67</td>
</tr>
<tr>
<td>4.</td>
<td>Enhancing loan amount</td>
<td>202</td>
<td>33.67</td>
</tr>
<tr>
<td>5.</td>
<td>Supply of inputs at subsidised prices</td>
<td>120</td>
<td>30.00</td>
</tr>
<tr>
<td>6.</td>
<td>Provision of consumption loan</td>
<td>128</td>
<td>21.33</td>
</tr>
<tr>
<td>7.</td>
<td>Marketing support</td>
<td>120</td>
<td>20.00</td>
</tr>
<tr>
<td>8.</td>
<td>Adequate veterinary services</td>
<td>116</td>
<td>19.33</td>
</tr>
<tr>
<td>9.</td>
<td>Extension of period of repayment</td>
<td>98</td>
<td>16.33</td>
</tr>
<tr>
<td>10.</td>
<td>No opinion</td>
<td>68</td>
<td>11.33</td>
</tr>
</tbody>
</table>

Source: Compiled from Primary data.
In the form of suggestions 83.33 per cent respondents requested avoidance of intermediaries, 48.67 per cent beneficiaries wanted freedom to buy cattle anywhere they like, 46.67 per cent respondents insisted on timely availability of loan, 33.67 per cent respondents suggested an enhancement of loan amount, 30.00 per cent beneficiaries insisted on the supply of inputs at subsidised prices, 21.33 per cent beneficiaries requested for the provision of adequate consumption loan, 20.00 per cent beneficiaries wanted marketing support for their produce, 19.33 per cent respondents needed adequate veterinary services, 16.33 per cent beneficiaries requested for the extension of period of repayment and only 11.33 per cent respondents offered no suggestion.

6.4 Prospects

The concept of Regional Rural Banks in synonymous with rural upliftment, the economic emancipation of people living below poverty line which is a firm commitment of the Government. RRB is emerging as a vital financial institution to play a crucial role together with other banks in the implementation of Government sponsored schemes aimed at alleviating rural poverty. RRB is a movement to bring about economic transformation of the rural masses. As a distinct organisation, RRB can be trusted to take banking sector closer to the rural household and enforce more effective supervision over the end use of credit.
On December 22, 1993, the RBI in consultation with the Government of India and the NABARD announced a package of measures for RRBs with a view to giving them greater freedom to rationalise their existing branch network bringing in operational efficiency. These include:

1. Freezing the RRBs whose disbursals were below Rs.2 crore during 1992-93 from their Service Area Approach (SAA) obligations while permitting other RRBs to extent financial assistance in their entire command areas provided they meet their SAA obligations.

2. Increasing their non-target group financing from 40 per cent to 60 per cent with effect from January 1, 1994.

3. Allowing the RRBs to relocate the existing loss making branches at new places like mandis, agricultural produce centres at block/ district head quarters.

4. Giving RRBs freedom to open extension counters, upgrading and deepening the range of their activities to cover non-fund business.

For long-term improvement in rural credit, the Union Budget for 1994-95 provided Rs.100 crores for augmenting the share capital of NABARD and a similar contribution would come from the Reserve Bank of India so that NABARD could take a strong leadership role in strengthening the system of rural

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As enunciated in the Union Budget 1994-95, 49 of the 196 RRBs are being taken up during 1994-95 for comprehensive restructuring and cleaning up their balance sheets and infusion of fresh capital. The responsibility of restructuring 49 RRBs has been entrusted to 17 public sector banks. It is hoped that the latest initiative of rearranging the balance sheets of 49 of the 196 RRBs by providing financial assistance and managerial strengthening, would arrest the deterioration and provide the main spirings of revival of rural credit flows.

Under Indian conditions where a large segment of rural economy is yet to reap the benefits of institutionalised credit facilities the RRBs have a crucial role to play. The Reserve Bank of India and the Central Government were determined to strengthen the banking system in the rural areas. The annual disbursement through the rural banks has been targeted to increase to Rs.28,455 crores by the end of 1997.

Even though 173 out of 196 RRBs have suffered losses, still there are 23 RRBs which have earned profit during 1991-92. In addition to this there are some

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4Ibid.
5Ibid., p.138.
9Ibid., p.4.
RRBs which have earned more than Rs.300 lakhs as profit. There are some branches of RRBs having 100 per cent recovery rates as in the Malaprabha Grameena bank and Bijapur Grammana Bank. Such a phenomenon is unheard of in commercial banks. Thingalaya\textsuperscript{10} is quite optimistic about the financial viability of the RRBs.

The Memorandum of Understanding (MOU) drafted by the National Bank for Agricultural and Rural Development (NABARD) as a restructuring scheme of RRBs has been recently signed by the RRBs, their sponsoring banks and NABARD. The Government simultaneously decided to contribute Rs.275 crores as additional capital by the end of 1995 so as to cleanse the balance sheets of losses of these banks.\textsuperscript{11}

In order to achieve the objective of attainment of viability operations, the RRBs are expected to draw a Development Action Plan (DAP) wherein they should make projections for 5 years period ending March 1999 by covering all the operational aspects of their working. The DAP must aim at achievement of the following objectives:\textsuperscript{12} (i) Better management of the liabilities including the

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\textsuperscript{10} Thingalaya, Chairman of the Expert Group on RRBs Appointed by the RBI in August 1995.


\textsuperscript{12} Memorandum of Understanding as cited by N.S. Toor, “Restructuring Through Memorandum of Understanding”, \textit{The Banker}, Vol.41, No.10, December 1994, p.31
change of liability mix with the objective of bringing down the cost of funds and ensuring the availability of funds to the extent needed. (ii) Better management of the assets such as cash, investments and loans with the objective of earning better returns from their deployment and bringing a change in mix of development including higher investment in high yielding loans and advances. (iii) improvement in the productivity and reduction in the transaction costs. (iv) better recovery management in loans through long-term or short-term strategies for regular recycling of funds and avoidance of provisions. v) Developing human resources by providing proper training to the manpower and bringing in attitudinal changes in them to suit the changing environment and vi) making RRBs viable and ensuring profits on a perpetual basis.

One positive aspect of the new style of management through MOUs is that it will create awareness amongst staff at all levels in the RRBs and with the passage of considerable time, they are expected to perform better within the environment since the rural is survival of the fittest and they will have to be fit. The fixation of targets for time bound performance at branch would definitely force the managers to be result oriented and analytic for achievement of the goals, particularly profits, by involving the staff to the possible extent. The Government should take concrete initiatives to bring changes in the work environment and the RRBs should be extended all possible support to turn the corner within two or three years.