CHAPTER 5

CONCLUSION AND SUGGESTIONS
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In the preceding chapters, the growth of RRBs with a view to develop our rural economy has been analysed. It has also been seen that the performance of these RRBs have a positive impact on the various issues relating to rural development like agricultural development, employment generation. A case study of Sitapur District is made to verify for findings regarding the role of RRBs in rural development. In this final chapter of the work, the main findings and final conclusions of the work will be given.

In India about 72.22 percent of the people are engaged in agricultural sector and are living in the villages. People of rural areas are confronted with many problems, such as unemployment, housing, illiteracy, medical facilities, rapid population growth, etc. Since independence of the country, there have been continuous efforts to improve the economic condition of the people who are still living in poverty.

Rural Development in India is a recognised necessity since the performance of rural economy determines the growth rate of the whole of the economy. Consequently, many programmes were undertaken by the government
such as, CDP, IADP, HADP, PIRDP, PMGSY, SGSY, etc. in order to accelerate the economic development of the rural areas.

In spite of the various programmes launched by the government, the desired economic development could not be possible without the adequate supply of credit to the rural people. Since independence a number of measures have been undertaken to institutionalise rural credit in the country. As a result, tremendous development in the spare of institutional credit has been achieved to cater to the credit need of rural masses. One of the major innovations in the field of institutional development of rural credit has been the establishment of Regional Rural Banks in the year 1975. These banks are meant for economically weaker sections of the rural areas namely small and marginal farmer, landless labourers, rural artisans, small entrepreneur, etc. These banks have been conceived as hybrid type of credit agencies, which combine the local feel and rural orientation of co-operative and resource mobilisation and business organisation of commercial banks, so as to reach the rural poor more extensively.

Statistics given in the preceding chapter suggest that introduction of RRBs in 1975 was not a well thought out institutionalisation. Not only that RRBs happen to face huge losses but also their contribution to rural development was far from satisfactory. Based on realisation there were a number of committees formed by the government and RBI form time to time since mid
seventies to mid nineties to evaluate the performance of RRBs and to recommend measures in the light of emerging situations. The Dantwala committee set-up by the Reserve Bank of India in 1977 praised the performance of RRBs and recommended their expansion particularly in the non-credit banks' areas. The next committee was appointed under the chairmanship of Mr. C.E. Kamath, the important recommendation was made in respect of the commercial banks and RRBs that they should lend directly to farmers in the area served by the primary co-operative credit societies without entering into competition with them. Other important committee was the agricultural credit review committee, which submitted its report in 1989. According to it, the rural credit system had developed a wide area/range of malfunctioning and that the financial viability of a large number of RRBs had seriously been eroded and their capability to provide credit to the target groups had been badly impaired. The committee headed by A.M. Khusro went to the extent of suggesting that the RRBs had no place in the country's rural credit system in future and that they should be merged with their sponsoring banks. Though, the Narasimham committee in 1991 suggested a different solution in the form that the sponsor banks should segregate the operations of their rural branches through the formation of one or more subsidiaries, which should be treated at par with the RRBs in regard to cash reserve and statutory liquidity requirements and refinance facilities from NABARD to improve the viability of rural operations. Apart from this,
the Bhandari committee suggested in 1994 that the surplus funds to be parked in UTI schemes, fixed deposits, in profit making term lending institutions, bonds of nationalised banks approved by the credit rating agencies, and bonds of profit making public sector units.

The government of India and the RBI give much emphasis on the growth and development of RRBs so that they can reach each and every nook and corner of the rural areas. The RRBs themselves and their branch offices made rapid growth till 1985. However, from the year 1987 the RBI stopped to issue new licenses to open new RRBs due to the reason that the maximum RRBs were running in losses and eating up their own deposits.

Due to freezing the issue of licenses to open new RRBs, the branch expansion declined sharply and even recorded negative variations, even though the state-wise growth of the RRBs has been satisfactory. It is noteworthy that the emphasis was given to establish the RRBs in those states where there was urgent need of the rural banks. The commercial banks also played an important role in the growth and development of RRBs. The RRBs are sponsored by those commercial banks, which are leading banks in the districts.

The performance of RRBs has been appraised by undertaking the effective parameter of banking efficiency such as deposit mobilisation, advances and profit and loss amount. The total deposit mobilisation of RRBs has
increased uninterruptedly during the period. It was Rs. 4989.24 crore, which increased to Rs. 38277.78 crore by the end of March 2001. The loans and advances deployed by it also showing an increasing trend in all respect whether it is disbursed to the agriculture sector or the industries sector or the service sector. The loans and advances during the period 1991 to March 2001 had increased from Rs. 3535.35 crore to Rs. 15814.89 crore. However, profitability and viability of 172 RRBs were affected and these were running in losses.

In view of poor financial health of RRBs the government of India and the RBI have taken various measures, such as, permission to lend up to 60 percent of the incremental credit to the non credit target groups, reallocate loss making branches to affluent areas, introduction of safe deposit, introduction of non fund business through the issue of guarantees, etc. Yet another important step was taken by the finance minister to make RRBs more viable was restructuring and cleansing up of balance sheets. With the implementation of these measures, RRBs are coming out of red by the end March 31st, 2001. As many as 170 RRBs have started earning profits and thus the accumulated losses started declining. In the forthcoming chapter, the Role of Bhagirath Gramin Bank will be examined as a case study of the thesis.

To concentrate on detail contribution of RRBs in rural development a case study on Sitapur District has been conducted in the present study. Sitapur is one of the
district of Lucknow division in central Uttar Pradesh and nearly 88 percent of its total population are living in rural areas. The climate and soil of district is suitable for the agricultural activities. There is a paucity of minerals due to which the district lags behind from other districts in business and industrial progress. As such economic growth of the district depends upon the production and productivity of agriculture. However, about 89.4 percent farmers are small and marginal with average land holdings of 0.62 hectare. Therefore, bank finance is an urgent need of its inhabitants. Co-operatives bank, Commercial Bank and Land Development Bank are operating in the district in good number and are catering the credit needs of the rural masses. Due to certain inherent drawbacks of these banks, the Bhagirath Gramin Bank was established on 19th September 1976 under the Regional Rural Bank Act 1976, to cater the credit needs of the rural poor. The performance of Bhagirath Gramin Bank has been appraised by undertaking the efficiency parameter of banking sector. As bank has made efforts to promote deposit and to disburse credit in sufficient amount. The recovery performance has been improved throughout the period under study although, there is still much scope for further improvement. The bank has been continuously making profits since 1991 even in the presence of cutthroat competition.

In its rural development approach, the Bhagirath Gramin Bank disbursed its major share of loan and
advances to agriculture sector in the form of crop loan and term loan. The crop loan is provided for short term period to purchase seeds, fertilisers, insecticides, pesticides, etc. in order to increase production. The term loan is extended to agricultural investment and allied activities to agriculture for medium as well as long term. Term loan to agricultural investment provided for the purpose of construction of wells, tube-wells and for the purchase of pump sets, tractors, thrashers and small agricultural implements. In order to generate supplementary source of income, term loan to allied activities is extended to promote dairying, poultry, goatery, fishery, etc.

The bank has also been providing credit assistance to the rural artisans and rural industries. In this sector there exists a great potential under the activities of handlooms, oils ghanis, gur units and other handicraft work. Although, the volume of credit is not sufficient to compare with demand then to generate more employment in the rural areas.

The activities of trades and services are considered vital in sustaining the development of other sectors of the districts. The bank extended its major share of loan and advances to this sector.

In district, the number of government sponsored programme are operating such as Special Component Programme (SCP), Swaranjayanti Gram Swarozgar Yojna (SGSY), etc. The Bhagirath Gramin Bank is contributing
financial assistance under these programs to identify beneficiaries. The bank is also discharging its traditional social obligation such as payment of pension to farmers and old aged persons, widows, etc. The payment of scholarship is also made by bank to student belonging to the schedule caste/schedule tribe, backward and minority communities.

Main Suggestions and Conclusions:

Based on the performance evaluation of RRBs as has been depicted above it is noticeable that during the period under study, RRBs were found to have concern with the efforts to improve the different aspects of rural development. However, in order to complete eradication of rural poverty, reduce unemployment rate in the rural areas, arrest migration of rural masses to urban areas, create supplementary source to increase the per capita income and emerging development scenario, the RRBs will have to be more cautious in respect of rural development on one hand and sustain profitability and viability on the other hand. The following suggestions are made to overcome the above mentioned problems and to make RRBs more viable so that the rural development may to be augmented further.

The multi-agency control over the management of the RRBs should be dismantled. The reasons in support of this suggestion are; firstly, Problems arising out in systems, procedures, and policies due to the lack of uniformity in
the functioning of bank will be checked and effective delivery system may be enacted. Secondly, poor identification of beneficiaries may be avoided and prompt loan may be provided to ultimate borrower without any delay. Finally, the leakage of information may be arrested easily.

While sanctioning loans, the concerned RRB officer should identify the potential borrower. The bank should also ascertain the viability of project and loan is given to only those projects, which can generate employment and sufficient surplus income for repayment of loan. Where the bank is sanctioning loan to existing assets, it should be ascertained whether the asset is capable to increase the productivity so as to reduce the unemployment and bring about increase in the income level.

Loans given to the weaker sections for the productive purposes should have same consumption component so that their productive efficiency is not impaired due to the lack of maintenance of income.

The cost of project should be estimated before sanctioning loan to avoid over and under finance to the project and proper allowance be given to meet the cost of social obligations, while estimating their repaying capacity.

"Unsecured loan" should also be made available by the banks to all those rural poor whose income is below
Rs. 50 per day. It may be helpful to such people to increase their income.

Provision of working capital in the case of dairying loan to landless is a must. Therefore, an arrangement of extra loan for product and animal husbandry facilities is the immediate need of landless labourer.

The bank should also promote the habit of availing of credit facilities for increasing the over all productivity in the agriculture sector. It is suggested that these banks should organise study tours of the progressive farmers to other parts of the country for interaction and to motivate the rural masses for availing themselves of the credit without any fear.

Finally, institutional support should be given to all those who require such support for the proper utilization of loan.

Deposit mobilisation is the central activity of any banking business. Besides, making the structure self-reliant, higher deposits help the bank basically to cushion their over dues and to minimise external institutional borrowing. The RRBs have achieved an impressive growth in the deposit mobilisation but they have yet to become self-reliant. To further improvement in deposit mobilisation, the manager of rural branches with having knowledge as to who has no deposit account with the bank branches should make personal contact with the resident of local areas covered by their branches. During
interaction with the rural poor, the importance of thrift and saving should be disseminated.

Since, there is prevailing cut throat competition regarding the deposit mobilisation with post office and cooperative banks, it is suggested that the deposits of these banks (RRBs) should be made more competitive through making saving schemes more attractive, convenient and easy to operate so that rural masses may develop the thrift habit.

Tiny savings of the rural poor should also be encouraged as much as possible. On many occasions, the banks are reluctant to accept tiny savings and indirectly discourage poor customers. Deposit targets should be given to each employee and due weightage should be given to appreciate the performance at the time of promotion.

To reduce mounting over dues it is suggested that the bank authorities should encourage the managers to work hard with sincerity and honesty. To have good recovery of loan it is necessary that the field officers should regularly meet the borrowers and to make them aware of the need to repay their loans.

Sometimes the loan, which the poor people used to acquire for income generating assets do not yield much return to them. They are not in a position to repay the loan easily on monthly, quarterly, or annual basis. It is suggested that the tiny amounts may be handled in the
period of little normal bank transactions especially during the evening time on a daily basis. The rural poor like bullock cart owners, rickshaw pullers, cart-pullers, vegetable sellers and other petty traders often express the need for such arrangements as they are of the view that they have better capability of paying back loans on a daily basis rather than monthly/quarterly/annually. Paying back loan on a daily basis also prevents them for misusing their little earnings for other purposes. With such an arrangement for repayment, their credibility can also be maintained and they will not be branded as defaulters.

Seasonality should be taken into consideration in fixing due dates of repayment of the instalment of loan. The recovery camps should be organised at village or panchayat level, soon after the harvesting, i.e., during the period when farmers may be expected to have money for repaying the loans.

In case where repayment of crop loans is defaulted due to the natural calamities or other circumstances beyond the control of the borrowers, bank permit conversion of crop loan into term loan. The conversion may, however, be permitted on specified terms and conditions. Even if the borrowers fail to repay the term loan for the continuity of calamity, the government should come forward to facilitate the bank through refinancing.

The political manoeuvring of institutional borrowing should be eliminated. As these politicians in rural areas
for their own political stand have been propagating and giving an impression that loans will be written off one day or the other.

The police culture to recover loan against the wilful defaulters should be adopted and also against those bank staff who deliberately promote such borrowers for their commission.

Besides the above steps, a 'Recovery Cell' has to be formed at the Head Office, with an objective to reduce the overdue dues and a target is to be set by the department to see that overdue dues are not above a particular level and then only the entire staff of the Bank may recognise its importance.

All the crops of farmers and other projects of beneficiaries must be covered under the insurance scheme.

The RRBs should concentrate and encourage more to develop rural industries and rural artisans. The banks have to make advances up to 15 percent of the total advances to this sector, compared to the existing level of around 10 percent.

The non-target group financing should be sanctioned only for the productive purposes and every possible precaution may be exercised for the recovery of loans while granting fresh advances. Moreover, there should not be any concentration of investment in a particular activity only in order to avoid a sort of lop-sided development.
Attempts should be made to involve more and more people at the village level itself in an effort to identify the beneficiaries. For this purpose self help group approach further strengthened and streamlined and due importance should be given by the bank at the time of formulation of the credit scheme.

Cash disbursement should be avoided by all means and to the extent possible. If not possible, loans should be disbursed in instalment at the appropriate time when beneficiary is in a position to undertake the development work. Payment for purchase of inputs such as thrasher, other agricultural implements, etc. should be made direct to the supplier by cheques/drafts/cash.

The banks should not only provide the credit support but also have effective supervision and monitoring over the borrowers for achieving the objective of project or for the purpose for which loans are granted. If the farmer/borrower is not in a position to generate additional income, he must be guided by the expert staff of the bank about the methods and techniques that may be helpful for the borrower to generate additional income from the project.

In support of the above suggestion it has been necessary that each of the RRBs should be manned with an expert committee. This expert committee should be perfectly trained, can provide technical guidance, supervision and direction to farmers, rural artisans and
other self employed in the matter like use of tools, production, techniques and marketing mechanism.

The rural poor also have complained against the RRBs staff about their careless and irritated attitudes and behaviour. Disregard for the public service and disregard for the poor makes the problem of the approaching poor more complicated. Many staff of the bank is not properly sensitised even when some of them are from the rural areas. It is suggested that the RRBs staff should follow polite culture and etiquette manner while interacting rural poor, because RRBs cannot remain isolated from the functioning of the local economy. The RRBs staff also sensitise themselves to social surroundings to have a feel of the local conditions and should be interested in the local development.

The bank staff should meet the villagers at regular intervals in order to explain to the public the banks' keenness for their socio-economic development and prosperity.

To gain public confidence in RRBs, it is suggested that the government should instruct all its department functioning in the rural areas to keep their funds / grants with the RRBs. This will not only help these banks in attaining viability but will go a long way in image building.

The position regarding general cleanliness and proper maintenance of the office furniture and premises
need to be periodically reviewed. The points, which should receive particular attention is the recondition of the furniture and counters, white washing of the premises, curtains are to be provided and electric wiring may be checked on a regular basis with a view to avoiding the fire hazards.

In Sitapur District there are a good number of handloom weavers and there exists a great potential under this activity. It was found that these weavers are unable to take benefits of bank finance due to sickness of societies. The bank should encourage the weavers to avail of the credit assistant and also provide necessary guidance to the borrowers.

The districts are also suitable for sericulture activities such as mulberry plant, bee-keeping, and rearing of silk worm. These are good income generating activities but bankers are not interested to promote this activity. The Bhagirath Gramin Bank should take an initiation to appreciate this activity and provide term loans to the farmers with the necessary technical guidance.

It was found that the bank advances were given to the farmers having more than five acres of land. Such a practice may be discouraged.

The Bhagirath Gramin Bank should improve the skill of the borrowers through training so that they can use the loans efficiently and repay at the specified date.
If these suggestions are taken with true spirit, the role of RRBs will go a long way in not only helping the poor but also creating a healthy environment for all round development of the rural areas.