CHAPTER VIII

SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

A chapterwise summary of the previous seven chapters is provided in this Chapter. The findings made are given separately with appropriate suggestions. A final conclusion is also given.

Chapter I

In the first chapter a brief description of the history of banking system in India with particular reference to its changing role after nationalisation is given. In this chapter the problem taken up for study has been outlined. The following are the main objectives of the study;

1. To identify the areas of non-conventional sectors of bank lending.
2. To assess the volume of bank lending to non-conventional sectors by Commercial Banks in Thanjavur Town.
3. To study the rate of growth of lending to non-conventional sectors by Commercial Banks in Thanjavur Town.
4. To assess individual performance of public and private sector banks in Thanjavur Town in financing non-conventional sectors.
5. To make appropriate suggestion for improvement of finance to non-conventional sectors.

The chapter also deals with the methodological issues such as the sampling method used, period of study, tools and techniques used, limitations of the study and the chapter scheme.

Chapter II

This chapter is devoted to explaining the concept of non-conventional sector. The term 'Non-Conventional Sector' has been defined as the sector which the commercial banks till recently have looked upon as an area alien to bank financing. But due to the changing concepts of bank lending, these areas are gradually coming into the fold of organised institutional finance. These sectors include agriculture, small-scale industries, retail trade and small business, professional and self-employed persons, consumption loans and loan facilities for education. Financing non-conventional sector is receiving greater attention by commercial banks because of nationalisation of major commercial banks and also due to the reason that most of the areas come under the category 'Priority Sector'.
Classification of this non-conventional sector into different areas of bank advance with brief description of the coverage of each area is given under this chapter.

Chapter III

In this chapter finance provided to retail traders and small businessmen is considered. The bank loan to this sector covers as many as 130 trade activities identified as eligible for bank finance. Retail traders with an annual turnover upto Rs.4 lacs are eligible to borrow. Small business units for which the cost of equipments does not exceed Rs.2 lacs are also given financial assistance. This sector includes Cycle hire shops, launderers, hotels, juice vendors, beauty parlours, etc. Loan may be granted for expansion of their existing business activity or for purchasing equipment or for renovating them. Loans are given to established new branches also and to fulfil their working capital needs.

Term loans and short term loans are given to this sector. Short term loans are given at the rate of interest ranging from 12.5% to 19.5% according to the loan amount granted. Medium term loans are given for periods ranging from 3 to 5 years at the rate of 15% interest.
This sector is covered under credit guarantee scheme if its annual sales turnover is less than Rs.4 lacs. The banks may insist on certain condition for lending such as personal experience, financial background, nature of trade and repaying capacity of the borrower. The estimated future profit will be checked up and if the banker is satisfied with all the essential details of the application, the banker will inspect the place of business and finally the loan will be sanctioned. The banks are very particular about the security from the borrower. The borrower should furnish a guarantee from a reliable person known to the bank. Short-term loan must be repaid within one year with interest upto 19.4% for limits above Rs.25,000. Medium term loan must also be repaid in instalment within 3 years with the rate of interest at 15%. The volume of advances made to this sector by the commercial banks indicate that the banks have made only a beginning and retailers and small businessmen are even now dependent on Indigenous bankers and money lenders.

Chapter IV

Financing operations of commercial banks with reference to Road Transport Operators are presented in
This chapter. This sector covers various Road Transport Operators such as taxis, autorickshaws, trucks and buses. It covers also the small operators like cycle-rickshaws, carts and bullock-carts, etc. The big road transport operators generally depend on external finance provided by indigenous bankers and money lenders. The finance is usually provided through hire purchase schemes. Operators having less than six vehicles are eligible for bank loan. The vehicle must be owned and operated by the borrower. Credit facilities are offered to purchase vehicle and also for replacement of an existing vehicle. The existing vehicle in such cases must have been disposed before getting the bank loan. A partnership which consists of not more than 6 partners are eligible to borrow and the vehicle must be driven by the partners in rotation.

There are 24 classifications of eligible activities under this sector for bank finance which is given in Appendix II. The purpose of the loan may be to meet the cost of the vehicle which includes cost of spares. The repairs and renovations costs of the vehicle are also eligible. Bank loan is given for working capital requirements also. The type of loan
is mainly term loans and short term loans. The term loans must be repaid within a period of 3 years. The rate of interest fixed is 12.5% for all type of vehicles. Short term loans must be repaid within one year and the rate of interest for such loans is 17.5%. The loans are to be repaid in monthly or quarterly instalments.

The credit guarantee scheme is available for small road transport operators. The special provisions of the scheme is that the period of loan should not be more than 7 years, but in special cases it may be extended upto 8 years.

The cost of chassis is valued at dealer's invoice rate plus the cost of construction of body of trucks, buses and auto-rickshaws. Banks fix a separate ceiling on the cost of the construction of body. Usually a margin of 25% is also maintained.

The bank insists upon certain condition while granting advances such as the financial background of the applicant, experience in driving, honesty and the character of the borrower. The driving licence must also be checked up. The estimated income of the borrower must be evaluated to check his repaying capacity. The banks should demand certain important
documents like demand promissory not an agreement of hypothecation, a letter of guarantee and a letter of loan. Demand Promissory note is regarded as a continuing security. The banks should also check up that the loans are utilised properly for the real purpose of the loan.

Chapter V

The lending practices of banks as regards professional and self-employed is outlined in this chapter. Since the traditional practices in lending have undergone a change this sector is receiving the attention of bankers in recent years. The persons who are having a professional degree or diploma are termed as 'professionals'. Persons making out their own livelihood without getting employed under an employer is known as 'self-employed'. There are 84 activities identified by banks under this sector and also 2 important schemes like SEEUY and SEPUP. They are studied in detail since the major part of weaker section advances under this sector are given through these 2 schemes.

Self-Employment Scheme for Educated Un-employed Youth (SEEUY) is formulated to encourage the educated un-employed youth to help them in self-employment
ventures in industry, service and business. Term loans and working capital loans are disbursed and the Government also provides a subsidy of 25%.

Persons who have passed X standard and I.T.I passed and who are within the age group of 18-35 years are eligible, for bank loan.

Even blind persons are financed under this scheme. The family income per annum should not be more than RS.10,000 from all the sources. The applicant should apply for the loan through District Industries Centres and the banks will sanction the loan after inspecting the feasibility of the project. Rs.35,000 for industrial ventures, Rs.25,000 for service ventures and Rs.15,000 for business ventures are granted as bank loan under SEEUY scheme.

Interest rate ranges from 10% to 13.5% depending on the status of the borrower. For the loan amount above Rs.25,000 third party guarantee is insisted.

Self-Employment Programme for Urban Poor (SEPUP) is another important scheme where the banks give financial assistance to the educated poor residing in cities and towns. The borrower's family income should not be more than Rs.600 per month. Amount upto
Rs.5,000/- is given as loan and 25% subsidy is given by the Government. The amount should be repaid in 33 equal instalments. Third party guarantee and some collateral security must also be given for securing this loan and the rate of interest charged is 10% per annum.

The banks give financial assistance to professionals like doctors, engineers, chartered accountants, etc., for their self-employment. The purpose of loan may be to purchase books, equipments, or for repairing the equipments. Wherever necessary banks provide loan for working capital also. Usually term loans are disbursed which is to be repaid within 3 years and the rate of interest is 15%. The rate of interest for short term loans is 17.5%. The banks are required to follow certain procedures when it grant advances to this sector. Prescribed applications must be received from the borrower and it should be scrutinised to find out his eligibility to borrow, his capacity to repay and his financial background. The maximum amount of loan which can be disbursed to a borrower is Rs.2 lacs. Advances under this sector are eligible for guarantee cover. For construction contractors the amount of cover is Rs. one lac. For engineering consultants and other consultancy services the guarantee cover is upto Rs.50,000. In all other
cases guarantee cover is only Rs.25,000/-.

Chapter VI

In this chapter the non-conventional sector of weaker section, financed by commercial banks is studied. Weaker section includes the small and marginal farmers, small artisans and small scale industries where the turnover is less than Rs.25,000. Different activities like IRDP, DRI, assistance to women and 20 point programme are financed by bank under this area. IRDP is implemented in the year 1978 to help the poor families with institutional credit to develop themselves. It is intended mainly for scheduled castes and scheduled tribes. For the beneficiaries under the scheme the family income should not be more than Rs.4,800 per annum. The amount of credit plus subsidy per family is Rs.3000 and the rate of interest charged is 10%.

DRI Scheme also comes under this sector. The scheme helps the low income group with lower interest rate of 4% for the loan. The family income of the borrower should not be more than Rs.7,200 per annum in Urban or Semi-urban areas and Rs.6,400 per annum in rural areas. The borrower should not have land exceeding one acre of irrigated land and 2.5 acres of
non-irrigated land. The borrower need not give any security. The banks may grant both working capital loan for which ceiling is Rs.1,500 per borrower and term loan for which the ceiling is Rs.5,000. For this sector the banks should achieve a target of 1% of total advances of the previous year. Two thirds of credit must be given through rural and semi-urban branches and atleast 40% of such credit must be distributed to scheduled castes and scheduled tribes.

Women entrepreneurs are encouraged with financial assistance to start small business or small scale industries.

Bank assistance to weaker section is also available under 20 point programme as many as 14 activities are financed by banks to uplift the weaker section under 20 point programme.

Chapter VII

One of the important non-conventional areas of lending by Commercial Banks is financing purchase of consumer durable goods and lending short-term loans for specified consumption expenditure. Such type of loans are generally made available to middle income
group with the salary income. The consumption loans are also available to weaker section for certain specified purposes. The rate of interest charged is 12.5% and the repayment is generally by instalment which may extend over a period of 3 years.

Findings

The main findings of the study are summarised in the following pages. They are given sector wise.

Retail Trade and Small Business

A study of the volume of advances granted by selected commercial banks in Thanjavur Town shows that the banks have made only a beginning in financing this important sector. Out of the total advances only 11.75% is available to this sector. However the trend percentages of growth indicate that there is a remarkable increase of bank finance to this sector during the five years ending 1987. It is interesting to note that the public sector banks have slower growth rate compared to private sector banks. A study of the performance of individual banks indicate considerable variations in the level of advances to this sector among the banks. The total volume of loans by public sector banks is much heavy than that of
private sector banks. The public sector banks have accounted for as much as 80% of the total advances of all the banks. The State Bank of India, the Indian Overseas Bank and the Indian Bank have done well in taking up a major share of finance to this sector. Among the private sector banks the City Union Bank Limited and Bank of Madura Limited, have done well.

Road Transport Operators

It is found from the study that the Road Transport Operators depend on money lenders and indigenous bankers for their financial assistance. Taking the volume of advances given by selected commercial banks in Thanjavur Town for consideration it is to be noted that it has not reached even 4% of the total advances. The trend percentages have also been drawn up and it shows that there is a steady increase of advance during the five years taken up for the study. The individual performance of selected banks have also been studied. Among them the State Bank of India takes the dominant position. The State Bank of India, Indian Bank and the Indian Overseas Bank granted more than 69% of the total advances. Among the private sector banks City Union Bank Limited has the leading role in financing this sector.
The study shows that there is a considerable variation in the level of activity.

**Financing Professionals and Self-employed persons**

The findings of the analysis show that the commercial banks have not taken up this sector with much enthusiasm and the advances does not exceed even 4% of the total advances. The contribution of private sector banks is much less than that of the public sector banks. Seeing the trend increase it is understood that a steady annual rate of growth has been maintained for the previous 4 years. It is also noted that both the public sector banks and the private sector banks have registered a 10% growth in the year 1987. The performance of individual branches show that the public sector banks have a dominant position and among them the credit goes to the State Bank of India, Indian Overseas Bank and the Indian Bank. Taking private sector banks the City Union Bank Limited and the Bank of Madura Limited, have a leading position. Canara Bank and Punjab National bank in the public sector and the Lakshmi Vilas Bank Limited and Karur Vysya Bank Limited in private sector are not upto the expectations.
Weaker Sections

It is found from the study that the public sector banks have advanced more than 4 times than that of the advances made by the private sector banks to this sector. But the percentage of advances to weaker section on total advances to non-conventional sector is more in the case of private sector banks. More advances have been disbursed through IRDP. Next in importance are advances under DRI scheme. There is a remarkable increase in advances to the extent of 200% in the year 1987. It is observed that there is a great degree of variation between different banks in financing this sector. Among the public sector banks State Bank of India shows good participation which is followed by Indian Overseas Bank and the Indian Bank. Among the private sector banks City Union bank Limited and Lakshmi Vilas Bank Limited, occupies the first and second position. It is also seen that the private sector banks have a higher rate of growth of advances to their sector.

Financing purchase of consumer durable goods

A study of the consumption advances by selected banks in Thanjavur Town shows that only 3 banks namely
State Bank of India, Indian Overseas Bank and Indian Bank have given consumption loans and that too for a very small amount of Rs.10.70 lacs. The rate of growth of these advances over the 5 year period ending with 1987 is 30.4%. Among the 3 banks State Bank of India has taken the lead with as much as 65% of the advances granted to this sector.

Suggestions

The study of financing non-conventional sectors by selected commercial banks in Thanjavur Town has shown that the volume of advances to non-conventional sectors even after the inclusion of most of the areas under Priority Sector remains below 30% of the total advances granted by these banks. Among the hypotheses formulated to give proper direction for the study it was found that the hypotheses that bank lending to non-conventional sectors in Thanjavur Town is low and inadequate has been proved correct. However as major borrowers in the non-conventional sectors are weak and illiterate, banks may take more time to reach all the eligible borrowers. The hypotheses that lending to non-conventional sectors has shown good progress during the last 5 years has proved correct. In most of the
cases the progress registered by the banks is more than 30%. The hypotheses that there are wide variations in the individual performance of banks and the public sector banks play a leading role in financing non-conventional sector also proved correct. The share of public sector bank's advances for non-conventional sectors is more than 70%.

For improving the volume of finances to non-conventional sector the following suggestions are made:

1. Without reducing the volume of finance for conventional sectors banks should improve their volume of finance to non-conventional sectors. This can be done by the banks allocating a sizable portion of their incremental deposit to non-conventional sectors.

2. Banks may be reluctant to take up financing non-conventional sectors because of the reason that a sizable part of the sector is considered as the weaker section for whom the banks have to incur higher service cost and for some of them they have to offer concessional rate of interest. But banks can make judicial discrimination between weak and
strong borrowers within the same area and charge the regular rate of interest for financially strong borrower.

3. Banks have registered a satisfactory rate of progress in lending for non-conventional sectors. Banks should try to keep up the rate of growth in coming years as well.

4. There are considerable variations in the individual performance of banks in financing non-conventional sectors, particularly the private sector banks are playing a subdued role in financing the sector. The Lead Bank of the district may provide proper guidelines and draw suitable schemes for encouraging the private sector banks to enlarge their finance to this sectors.

5. The Reserve Bank of India may also revise and fix up new targets for lending to different segments of the weaker section which forms an important segment of non-conventional sector financing.

Conclusion

In the recent past the commercial banks have taken the bold step of entering into new areas of finance. In this they have been encouraged by the
changing trend in the lending practices of commercial banks all over the world, more particularly in Great Britain. In India the inclusion of most of these new areas of finance in priority sector has provided a new thrust for the commercial banks to expand into these non-conventional areas of finance.

A study of the performance of the commercial banks with reference to their financing non-conventional sectors in Thanjavur Town has proved that they have been making good progress during the past five years, though the volume of advances is not much. Moreover the private sector banks are lagging very much behind the performance of public sector banks. As these non-conventional sectors include such strategic sectors like agriculture and transport and vital sectors like weaker sections and educated unemployed the commercial banks should share no pains to enlarge the scope of finance to these sectors. It is to be hoped that the commercial banks will rise up to the occasion to meet the new challenges occasioned by financing non-conventional sectors.