CHAPTER-VII

PROBLEMS & CONSTRAINTS OF SYNDICATE BANKS TO FINANCING IN RURAL SECTOR

In the previous two chapters the researcher has dealt with the disbursement of advances to agriculture and non-agriculture sectors by Syndicate bank in district Meerut. The banks have been providing loans to the different beneficiaries. But they have faced some problems for financing in rural sector.

Problems of Repayment of Loans

The increasing loan disbursement by Syndicate bank for various purposes is to some extent responsible for the rising overdues faced by them. However, if the overdues rise beyond the manageable limits, the health of the banking system would be jeopardized and the recycling of funds, which is the key element in development of banking, would be severely stifled. The cultivation of the repayment ethics among bank borrowers thus assumes crucial importance.
The banks have, at present, hardly any power to exert pressure on the defaulters. When the bank officers visit the villages, defaulters trend to runaway from the house. Even the assets financed by the bank are not available for inspection. The defaulters have realized the facts that banks have no powers to take any action except through resorting to legal proceedings. Hence, threats given by bank officers regarding the consequences of default fail to carry any conviction with the borrowers. Ones a banker files a suit/recovery certificate, it takes considerable time to get the final decision. Because of these delay decision, the bank suffers on two sources: (a) there is no timely recovery and, (b) the defaulter gets enough time to dispose off the security so that, even when finally a decree is obtained in favour of the bank, it can not be enforced as the security has disappeared. Beside delay, there are certain other difficulties like the law of limitation etc. as the documents executed are valid for a person of three years; the banker has to obtain the renewed documents to extend the period of limitation. If the documents are not revived, the bank can not resort to legal action. With the strained relations between the borrower and the banker, the former may refuse to sign the revival documents.
Yet defaulter is not usually voluntary, it can be due to circumstances. The borrowers also have a mentality that bank loans are not for repayment. Therefore, this attitude of borrower towards bankers is also responsible for non repayment of loans. The general reasons perceived by the beneficiaries for non repayment are economic in terms of failure of the scheme, increase in cost of living, low price for the produce and nature calamities.

**Some of the problems faced in the recovery are:-**

1. Non-availability of the borrower.
2. Misbehaviors of the borrower.
3. Refusal by the borrower to accept registered postal reminders.
4. Local leader’s interference.
5. Selling of hypothecated goods.
7. Inaccessible villages and
8. Cumbersome legal proceedings.
The banks have, at present, hardly any power to exert pressure on the defaulters. When the bank officers visit the villages, defaulters trend to run away from the house. Even the assets financed by the bank are not available for inspection. The defaulters have realized the facts that banks have no powers to take any action except through resorting to legal proceedings. Hence, threats given by bank officers regarding the consequences of default fail to carry any conviction with the borrowers. Ones a banker files a suit/recovery certificate, it takes considerable time to get the final decision. Because of these delay decision, the bank suffers on two sources: (a) there is no timely recovery and, (b) the defaulter gets enough time to dispose off the security so that, even when finally a decree is obtained in favour of the bank, it can not be enforced as the security has disappeared. Beside delay, there are certain other difficulties like the law of limitation etc. as the documents executed are valid for a person of three years; the banker has to obtain the renewed documents to extend the period of limitation. If the documents are not revived, the bank can not resort to legal action. With the strained relations between the borrower and the banker, the former may refuse to sign the revival documents.
To some of these problems the banker has real solution. Keeping in view the varied problems with which bankers are faced in the recovery of loans, it is necessary that proper procedure is worked out for repayment schedule of loans, as for instance:-

1. Repayment schedule should coincide with the time when the cultivator sells his produce and when he is liquid.

2. Efforts at recovery should start well in advance of the due date through sending of reminders and notices.

3. The recovery performance in each area and for each season should be under constant and closed review.

4. The recovery programmes should be sufficiently flexible to permit easy rephrasing in case of natural calamities of adverse seasonal factors.

5. The farmers should be helped to acquire the habit of regular repayment.
Regarding recovery of bank loans the lead bank gave the following suggestion in the District Level Review committee meeting of district Mccrut.

1. Recovery meetings should be held every month in the district at every Tehsil headquarters under the chairmanship of ADM (finance). In case due to unavoidable circumstances the ADM (finance) is not available, it should be presided over by the concerned SDM.

2. The time period fixed for the disposal of R/Cs (recovery certificates) field with the Government for Rs.25,000 and above should not exceed six months. The remaining R/Cs should also be recovered within a period of one year from the date of filling the R/Cs.

3. The balance confirmation (BC) letters should not be required for legal proceeding because once the R/Cs has been filled in the tehsil the borrower generally refuses to sign the BC letter after filing of R/C.

4. If it is found that the borrower does not have any means to pay back the bank dues, the R/C should not be kept pending.
Instead it should be returned immediately to the bank for further action.

5. Whenever, the recovery work warrants, failed staff should be deputed by recovery office specifically for bank dues. Their recovery budget be fixed and be monitored in the monthly recovery meetings.

6. At present bank recovery is included in miscellaneous receipts in the recovery statement of the SDM. It is suggested that a separate head for bank recovery is made for monitoring the position.

II. The recovery position of bank loans in district Meerut:

The recovery position differs from bank to bank in Meerut district. In some banks it is satisfactory but in some banks it is poor. It requires special attention of the district authorities as well as bank authorities. The recovery position in district Meerut is being shown in Table 8.1.
TABLE 8.1

Position of Demand, Collection and % age of Recovery in the District

(Rs. In Lac)

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</thead>
<tbody>
<tr>
<td>CBs</td>
<td>6391.25</td>
<td>6859.83</td>
<td>8398.16</td>
<td>3459.33</td>
<td>3921.00</td>
<td>4621.18</td>
<td>54.12</td>
<td>57.15</td>
<td>55.02</td>
</tr>
<tr>
<td>RRBs</td>
<td>332.58</td>
<td>414.87</td>
<td>504.28</td>
<td>188.22</td>
<td>252.25</td>
<td>416.84</td>
<td>56.60</td>
<td>60.80</td>
<td>70.14</td>
</tr>
<tr>
<td>DCBs</td>
<td>4485.01</td>
<td>3461.09</td>
<td>4149.70</td>
<td>3802.59</td>
<td>3239.11</td>
<td>3908.98</td>
<td>84.78</td>
<td>93.76</td>
<td>94.20</td>
</tr>
</tbody>
</table>

Source: Rural Credit Dispensation in Meerut, NABARD, April, 2006.

The Table 8.1 shows that the recovery position in Meerut district varies from bank to bank. The recovery by syndicate bank has been 54.12 percent, 58.15 percent, and 55.02 percent in 2003-04, 2004-05, and 2005-06 respectively. It means the recovery of syndicate bank have remained between 54 percent and 57 percent. The recovery by Regional Rural Banks has been 56.60
percent, 60.80 percent, 70.14 percent in 2003-04, 2004-05, and 2005-06 respectively. Regional Rural Banks recovery is continuously increasing. The recovery performance of RRBs is better than syndicate bank. The recovery by DCBs has been 84.78 percent, 03.76 percent, 04.20 percent in 2003-04, 2004-05, and 2005-06 respectively. It shows that DCB’s recovery trend is increasing in all the three years. The recovery position of syndicate bank is not satisfactory. It requires more attention towards the recovery of loans.

III. The recovery position in agriculture and allied sector (including crop loan):

The recovery of bank loan in agriculture and allied sector

(including crop loan) is being shown in Table 8.2.

<table>
<thead>
<tr>
<th>Banks</th>
<th>Demand</th>
<th>Collection</th>
<th>% age in Recovery</th>
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<tbody>
<tr>
<td>CBs</td>
<td>4213.31</td>
<td>4448.69</td>
<td>5270.83</td>
</tr>
<tr>
<td>RRBs</td>
<td>246.96</td>
<td>314.04</td>
<td>428.37</td>
</tr>
<tr>
<td>DCBs</td>
<td>4485.01</td>
<td>3441.48</td>
<td>4079.53</td>
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</table>

TABLE 8.2

of Demand, Collection and % age of Recovery in Agriculture and Allied Sector (including crop Loan in District Meerut) (Rs. In Lac)
Source: Rural Credit Dispensation in Meerut, NABARD, April, 2006.

Above table 8.2 reveals that the recovery under agriculture and allied sector in Meerut district varies from bank to bank. The commercial bank’s recovery has been 60.53 percent, 67.76 percent, and 63.09 percent, in 2003-04, 2004-05, and 2005-06 respectively. The recovery has increased from 61 percent, to 68 percent in all three years. RRB’s recovery has also increased from 60 percent to 72 percent in all the three years. RRB’s position in recovery is better then syndicate bank. DCB’s position in recovery in agriculture and allied sector is much better then the syndicate bank and Regional Rural Banks because DCB’s recovery has been 84.78 percent, 93.75 percent, 84.10 percent in 2003-04, 2004-05, 2005-06 respectively.

IV. Recovery position under non farm sector in district Meerut:

Recovery under non-farm sector like SSI, handloom/powerloom, tiny sector, rural artisans etc. in Meerut district is being shown in table 8.3.
TABLE 8.3

Position of Demand, Collection and % age of Recovery under Non-Farm Sector in District Meerut.

(Rs. In Lac)

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<tbody>
<tr>
<td>SBI</td>
<td>845.04</td>
<td>1049.62</td>
<td>1620.88</td>
<td>372.38</td>
<td>336.31</td>
<td>636.04</td>
<td>32.70</td>
<td>32.04</td>
<td>39.24</td>
</tr>
<tr>
<td>RRBs</td>
<td>17.88</td>
<td>20.16</td>
<td>35.64</td>
<td>5.86</td>
<td>5.54</td>
<td>20.67</td>
<td>33.00</td>
<td>28.00</td>
<td>58.00</td>
</tr>
</tbody>
</table>

Source: Rural Credit Dispensation in Meerut, NABARD, April, 2006.

Above Table 8.3 shows that recovery under non-farm sector has been very poor. The syndicate bank recovery has been 32.70 percent, 39.24 percent in 2003-04, 2004-05, 2005-06 respectively. RRB’s recovery has been 33 percent, 28 percent, 58 percent in 2003-04, 2004-05, and 2005-06 respectively. It shows that in 2003-04 the syndicate bank’s recovery & RRB’s recovery remained about the same. In 2004-05 the commercial bank’s position in recovery is much better, then RRB’s. In 2005-06 RRB’s recovery has increased from 28 percent to 58 percent which is appreciable.
(V) **Recovery position under other priority sector in district Meerut:**

Recovery position under other priority sector like SB/RT, housing, consumption, P& SE, transport etc. in district Meerut is being shown in Table 8.4.

### TABLE 8.4

**Position of Demand, Collection and % age of Recovery Under Other Priority Sector in District Meerut.**

(Rs. In Lac)

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</thead>
<tbody>
<tr>
<td>SBI</td>
<td></td>
<td>1332.90</td>
<td>1361.52</td>
<td>1506.45</td>
<td>536.58</td>
<td>561.18</td>
<td>659.55</td>
<td></td>
<td>40.15</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>40.71</td>
<td></td>
<td></td>
<td></td>
<td>43.78</td>
</tr>
<tr>
<td>RRBs</td>
<td>67.74</td>
<td>79.79</td>
<td>130.27</td>
<td>34.28</td>
<td>42.08</td>
<td>86.92</td>
<td></td>
<td></td>
<td>51.00</td>
</tr>
<tr>
<td>DCBs</td>
<td>19.61</td>
<td>70.17</td>
<td></td>
<td>12.03</td>
<td>69.88</td>
<td></td>
<td>89.04</td>
<td></td>
<td>99.58</td>
</tr>
</tbody>
</table>

**Source:** Rural Credit Dispensation in District Meerut, NABARD, April, 2006.

Table 8.4 shows that commercial bank’s recovery under other priority sector has been 40.15 percent, 40.17 percent, 43.78 percent in 2003-04, 2004-05, and 2005-06 respectively. The RRB’s recovery under OPS has been 51.00
percent, 52.73 percent, 66.72 percent in 2003-04, 2004-05, and 2005-06, respectively. DCB’s recovery under OPS has been 89.04 percent, 99.58 percent in 2004-05, 2005-06 respectively. It shows that recovery trend under OPS is increasing. The recovery position of RRBs is much better than Syndicate bank; DCBs position in recovery is very much satisfactory.

If we see the sector-wise recovery position, then we note that the recovery position in agriculture and allied (including crop loan) Sector remained better than NFS and OPS because it remained above 60 percent. The poor position in recovery is in NFS.

**Mis-Utilization of Loans**

The syndicate bank finance to the rural people for their economic and social upliftment in the rural areas. But when surveyed this is noticed that from 40 to 60 percent of the loan amount is mis-utilized by the beneficiary. The beneficiary does not invest the money in the activity for which he gets the loan amount from the bank but uses in his own other fields of expenditure such as marriages of his children, social function, repayment of personal debts etc. Resulting non-repayment of the loans.
It is noticed that major portion of the rural finance is given to the beneficiaries in shape of crop loans. The crop loan is such type of loan under which the mis-utilization of funds is possible at a large scale. The beneficiary demands the finance for fertilizer and seed for the crop. But is seen that the beneficiary does not use this amount of loan in the crop in true sense resulting the crop not in a better position.

This is also seen that the scheme of the Government in which the case disbursement is being done for the entire loan amount causes the mis-utilization of loan. Because after disbursement of loan in cash, the intention of the beneficiary may be changed. The beneficiary uses the cash in his own style in place of purchasing the assets for which the loan is given. Because when the banks give the loans in the shape of security purchase particularly sanctioned for the purpose, the chances of mis-utilization are negligible but since the Government implemented the cash disbursement particularly in IRD

Programme, the chances of mis-utilization have increased. The check of the bank machinery remains in effective as the amount of loan is in the hands of borrower in cash.
Sometimes the beneficiary invests the loan amount in other activity than the purpose for which the loan is given e.g. the loan is given for the purchase of buffalo but he sells the buffalo and purchases the he-buffalo and cart. In this way the income of the beneficiary may be less than the income from the buffalo resulting the non-repayment of loan amount in time.

Besides all these things this is felt that the borrower entertains the impression that bank loans are not for repayment. After all, banks belong to Government and ultimately to the people. The attitude of borrowers towards bankers is also responsible for mis-utilization of loans.

**Identification of Beneficiaries**

The Government machinery is the main responsible for the identification of beneficiaries under various schemes. The Gram Pradhan, the Gram Sewak/Panchayat, the representatives of the Block Development Office are the main members for the identification of the borrowers using, income as a main criterion. The procedure followed for the identification is not satisfactory due to the reasons mentioned below:-
a. The main attraction of the beneficiaries to get identified themselves is the subsidy and not economic betterment. Most of the beneficiaries do not use the loan amount in the appropriate head but are interested to receive the subsidy amount.

b. The identification places more reliance on the survey report of the district authorities.

c. Selection of the Government schemes without assessing skill, capacity, experience and interest of the beneficiaries is wrong.

d. There is unnecessary interference and undue pressure of the local and political leaders.

e. There is lack of proper information of the patwari in regard to the position of assets, income and other status of the beneficiaries.

f. There is no authenticated age-proof for the identification of the beneficiaries as most of the beneficiaries are illiterated and there is no record of date of births with them.
The needs, skills experience along with intention to repay the loan amount should be considered in identifying a beneficiary. The age-factor must also be the consideration in identifying the beneficiary, to which the beneficiary belongs in choosing the schemes meant for his benefit.

The most of the beneficiaries are identified under A.H. (Animal Husbandry) schemes followed by ISB (Industry Service and Business) and agriculture. It is also found that the 'defaulters' are less in the animal husbandry than in other schemes.

**Time & Money Investment for the Grants**

During the sample survey regarding the time taken by the banks for sanction of loans the researcher noticed that there are a number of documents/formalities required by the banker before the sanction of loan.

Usually the bank managers visits the beneficiaries before sanctioning the loan to verify the various points indicated in their application forms and also to check the viability of the scheme for which they are identified and make an assessment of the credit-worthiness of the beneficiary. The banks manager asks various questions to the beneficiary to ascertain the
knowledge, need and viability of the scheme and ask the beneficiary to call on the bank one to three times before disbursing the loan mostly to check the documents and to make such enquiries as required before the disbursement of the loan. The bank generally takes more than 15 to 20 days time to sanction loan from the time, the application is received. DRDA is also responsible for the time taken by the bank sanctioning the loan applications, as the applications are sent in bulk at a time in the place of sending them throughout the year in a phased manner.

This lengthy process takes a lot of time resulting no full use of loan to the beneficiaries. In regards the money, investment, this is noticed that the unit costs of the various securities sanctioned for the beneficiaries are not up to the market position. The unit cost for the different items are ascertained by the National Agriculture Bank for Rural Development (NABARD). The DRDA fixes the cost of the activity as per guidelines received from NABARD. But this money investment is not sufficient for the purposeful utility of the activity. The main features of the money investment are as follows:-
(1). There is a time gap between the unit cost ascertainment and the implementation thereof as there is a speedily increase in the cost of items.

(2). Mentality of the seller of the item for the bank loan scheme.

(3). Liberalised thinking of the beneficiary that the item is being taken by the bank loan.

As the beneficiary purchases the assets/securities by way of loans and he does not have his own funds to purchase the security of good quality by adding his own share, the item is purchased under the limit of loan amount, resulting the purchase of security of the sub-standard level by which the beneficiary earns the income below the required income. That is why the recovery problem arises.

**Conclusion:**

The syndicate bank are financing in almost each and every sector of the rural economy of the society in the district. But simultaneously the banks are facing some problems by getting the loan amount recovered that’s why the syndicate bank hesitate to give more loans due to shortage of funds.
Though the recovery position of the Syndicate bank is good, yet it is required more attention to be paid by the recovery authorities at district level so that the number of defaulters may be reduced and the percentage of recovery may be increased.

More care must be kept in the identification of borrowers and the mis-utilisation of funds must be checked so that the loan may be disbursed to a genuine and needy person and the repayment of loan may be well in time.

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