PART IV
CHAPTER 12

PROBLEMS AND REMEDIAL MEASURES

-- CREDIT PROBLEMS
-- TECHNOLOGICAL PROBLEMS
-- INSTITUTIONAL PROBLEMS
-- PROBLEMS AND REMEDIAL MEASURES OF BANK
12.1 CREDIT PROBLEMS

India is primarily an agricultural country. Agriculture plays a very significant role in the national economy both from the point of view of employment and also from the point of its share in the national economy. The economic development of the country is likely to depend to a large extent on all round growth of agriculture. Agriculture being the largest industry in the country, serves as the major source of livelihood for about 70.7 per cent of the people in the country *1 in 1975 and it is declined marginally to 66.5 per cent in 1990.

In the primary sector alone about 72 per cent of population is employed *2 and 85 per cent of rural population is engaged *3 in such works. The primary sector includes cultivators, agricultural labourers, forestry as well as fisheries. Agriculture is important not only from the point of view of the total employment but also from the point of view of its substantial share in the national economy. It can be seen well from the figures supplied by the 'National Income Committee' and the Central Statistical Organisation during sixties, *4. It contributed more than half of the national income. Even during the

* 1. Census of India, New Delhi
* 2. Times of India Directory, Bombay, 1977
* 3. Census of India, 1971, calculate figures have been taken from the Times of India Directory.
year 1972-73, the agriculture contributed about 40 percent of the national income. The agriculture in advance countries of the world does not contribute to national income so substantially as compared to India. Hence, the significance of agriculture in the national economy of India is highlighted in view of the low share of agriculture in other industrially advanced countries of the world. As for instance, in United Kingdom, agriculture contributes 3.1 percent of the national income, while in the USA it is 3.2 percent. In Canada, the share of agriculture in the national income stood at 5 percent and in Australia it is 12.0 percent. * 5

Agriculture also being the major source of livelihood, provides the largest sections of people for their livelihood. In India, 7 out of every 10 persons depend on agriculture. This is in sharp contrast to other countries of the world. As for example, in countries like the U.K., the U.S.A., West Germany, Canada, New Zealand, etc, people's dependency on agriculture is less than 20 percent of the total population. * 6

The economic development of the country is largely based on the growth of agriculture. It is, in this way, the backbone of Indian economic system. However, unfortunately, ours in a backward agriculture. It faces many serious problems. The nature of the problems of Indian agriculture may placed into two broad categories. In one category we may put problems relating to technology. In other category, we may put the institutional problems.

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* 5 . Ibid
12.2 TECHNOLOGICAL PROBLEMS

The technology is said to be an important factor for the sake of proper development of the agriculture. Many writers on the subject have pointed out that India has a poor technology. Problems relating to technology in agriculture include old, primitive, and traditional system of farming land is still ploughed by a plough with the help of oxen. Conditions of oxen are also not up to the mark, they are too weak to plough the land well in order that soil may be well prepared and the fertility of the soil is retained. Another important problem relating to technology is the bad quality of seeds. Farming is said to be susceptible to many diseases, because of the bad quality of seeds. Lack of manures is another significant problem. For high yields, better and improved quality of seeds are essential. But the improved quality of seeds will do wonder unless, sufficient doses of manures are provided. Together with this, soil testing is necessary in order to see that fertility of the soil is retained properly. Crops required also the use of the pesticides in order to be protected from the pests. Different types of pests do much damage to the standing crops. Consequently the rate of yields is reduced. Apart from this, there is also lack of technical knowhow. Old and primitive methods of agriculture is unable to cope with the pace of time. Farmers be made aware of the present day improvements in the field of agriculture for utilising modern methods of cultivation.

Irrigational facilities are the life-blood of agriculture. Technology itself cannot bring about much improvements in agricultural development unless there is proper irrigational facilities. Water is essential for farmers to
irrigate their fields. Not only this, water has an important role in all basic development plans. Water is needed for agriculture, power, communications and domestic uses. There should be plenty of water flowing through the rivers but the essential requirement for the agricultural development is to provide efficient conservation and regulation of water available in rivers. This is in order to ensure the continuance of supply of water to fields for the purpose of irrigating standing crops. Otherwise agriculture has to depend upon the monsoon which is irregular. The irregular monsoon causes heavy damage to crops.

Hence, it is said that agriculture in India is a gamble with monsoon. As water is essential for the crops; timely supply of water can increase the yield rate of agriculture and retain the fertility of lands. The provision of proper irrigation facilities lead to diversification in agriculture. As a result, double and multiple cropping system are introduced. This will ultimately lead to a change in the land utilisation pattern.

12.3 INSTITUTIONAL PROBLEMS

Another problem relating to agricultural finance is the institutional problem. Here the main problems in agriculture are sub-division and fragmentation of land holdings. Due to fragmentation and sub-division of land holdings of the farmers, the scope for agricultural improvements is limited. Only for this causes, the scope of ploughing the land through tractors happened to be lessened. Supply of irrigated water to the fragmented plots also create problem. At the same time farmers have to waste their time to move from one plot of land to another. Another problem associated with all these are the problem of land reclamation. So, it can be very well ascertained that the technological and
institutional problems have hindered the development of agriculture in India.

At discussion of the general indebtedness of the farmers and their credit needs is of prime importance. The main problems of agriculture have been discussed above. The nature of the problem was mostly related to backward agricultural technology and the institutional framework. These two problems are responsible for the poor return in agriculture. The indebtedness of Indian farmers is the cause as well as the result of the backward state of agriculture. Due to the poor return in agriculture, farmers are not in a position to adopt modern technologies and improved variety of high yielding seeds. For bringing both technological changes and innovations in the farm, financial investment is a must which is out of reach for a large number of farmers in India. Poverty is one of the main reason for low investment. The lack of finance for investment in the field is the main hindrance in the progress of the agriculture. Indebtedness of the cultivators in India has made all talks of agricultural improvements futile. *7. It is no denying the fact that debt money is also used for unproductive purposes by the agriculturist the burden of i.e., which goes on accumulating from generation to generation. A productive debts creates resources for its own payment. Unproductive debts becomes a great burden which goes on increasing. This state of affairs of the Indian agriculturists has been noticed with the surveyed household, where agricultural output—suffered to heavy indebtedness and where shown in the Chapter 8 Table - 8.26.

* 7. Memoria, CR, Agricultural problems of India, Allahabad 1973, P-564
In post-independence era, various attempts have been made to estimate the rural debt. It may be mentioned that the rural credit survey of the Reserve Bank of India has undertaken an inquiry during the year 1951-52. The main highlights of the survey are as follows.* 8.

(a) The proportion of borrowing families among the rural families was 51.7 per cent. It was found that the proportion of borrowing was larger among the non-cultivators.

(b) About 6.3 percent of the rural families were in debt and average amount of debt per family was Rs. 283.

(c) The burden of debt was much higher on cultivators with small holdings as compared to cultivators with large holdings.

(d) The average amount of outstanding debt per family varied from Rs. 29 to Rs. 1,200.

According to the Rural Credit Follow-up Survey 1959-60, the proportion of family in debt showed wide variations from 21 percent to 52 percent.* 9.

According to the All India Rural Debt and Investment Survey, 1961-62, the average debt per household for the country as a whole was about Rs. 604. The incidence of debt was more among cultivators amounting to Rs. 719 per household as compared to non-cultivators (Rs. 423 per household). According to this survey, during the decade ending 1961-62, the percentage of indebted households to total households in rural India did not show any sizeable variation. It was found to be between 67 and 69 for


cultivator and 52 for non-cultivators, thus the average debt for an indebted household recorded an increase from Rs.447 in 1951-52 to Rs.647 in 1961-62. The average loan for cultivator household increased from Rs.526 in 1951-52 to Rs 708 in 1961-62 recording an increase of about 35 percent. Average loan in case of non-cultivators increased from Rs 249 to 430 during the period. This has recorded an increase of about 73 percent.

The All India Debt and Investment Survey conducted for rural indebtedness in 1971-72. The survey has indicated that rural indebtedness amounted to Rs.3,921 crores at the end of June 1971. These estimates were based on the data collected from over one lakh rural households selected from about 12,000 villages. The aggregate physical and financial assets (excluding inventories) held by rural households amounted to Rs.88,409. The average liability per household was Rs.503 whereas, the average assets stood at Rs.11,343. Uttar Pradesh ranked first in India in respect of the burden of rural indebtedness. The second, third and fourth position have gone to Tamil Nadu, Andhra Pradesh and Karnataka. Bihar has middle position in relation to other states in this regard. There are various causes of rural indebtedness. Important among them have been stated below.

* 10. All India Debt and Investment Survey, 1971-72 Reserve Bank of India, Bombay.
One important cause of indebtedness is the ancestral debt. Such type of debts are handed over from father to son. It goes on increasing and accumulating generation after generation without any equitable restrictions. Children are probably ignorant of the law that the debt of the deceased passes on to the their only to the extent of the property inherited by them. And if no property is inherited by them, there is no liability to pay the debt but a pions obligation. * 12. The only facility existed for the redemption of this debt is the borrowing of money from one money lender to pay off another. For lack of proper facilities the debt goes on increasing. Therefore, there are instances of many farmers starting their career with a heavy burden of ancestral debt. They drag on the land for the whole of their lives taking it to be a religious and social obligations with the result that burden increases and becomes hereditary. The above mention problems faced by the sample farmers.

The government of India constituted a committee in 1928 known as the Royal Commission on Agriculture for the purpose of studying the problems of agriculture. The Royal Commission on Agriculture stated in its report, "the Indian peasant is born in debt, lives in debt, dies in debt and bequeathes debt." * 13. The conditions of peasants life has been described beautifully in India. This view has further been supported by Mr Darling who says that Indian cultivators take birth as a debtor, lives as a debtor

* 12. Central Banking Committee Report, P-61
and die as a debtor. In fact people are accustomed to the debt to take it over from their fathers and to pass it on their sons. They accept indebtedness as a settled fact and as a natural state of life. *14.

Second important reason is the subdivision and the fragmentation of holdings. In case of small holding, cultivation ceases to be economical even in the best of years. Total yield from the land becomes insufficient for the maintenance of the farmer and his family. In such conditions, farmer is left with two alternatives, i.e., either to go in debt or must be very industrious or must have another source of income. Mr Darling has pointed out that to support a family upon a few acres without getting into debt requires skill, industry and thrift. But such qualities are seldom attained in a hot country. Undoubtedly it can be done just as a small sailing boat which weathers a storm of the Atlantic, but unless the boat is both well formed and well manned, it will assuredly sink. In India the farm is too often neither the one nor the other and nature can be destructive on land as well as at sea. *15. In view of the small holdings and the narrow margins of safety, any misfortune may plunge the peasant into debt from which he can never extricate himself. A series of bad years, the death of cattle or more carelessness may lead to debt. In the best years, the surplus produce is so small that interest is paid with difficulty and the principal money is left unpaid. Lift is hard and bitter to the cultivator who has to depend on his few acres to support himself and his family.

*14. Darling, Peasantry in Prosperity and Debt, P-262
*15. Ibid
The third important cause is the vagaries of the climatic conditions and other calamities. Agriculture is subject to frequent failures of crops on account of rain failures, drought and famines. The vagaries of monsoons with agriculture are proverbial. This has made agriculture an extremely precarious industry. The frequent crop failures because of drought and floods, hail storm, conflagration, uncontrollable swarm of locusts have damaged agricultural production to the maximum. Poor result of agricultural yields have caused endless miseries to the cultivators. They have no resources to fall back upon in times of distress. It has been found that in a cycle of 5 years, one year is good, one bad and third indifferent, neither good nor bad. It is only in good year that the ordinary small farmer can also possibly keep himself out of debt. *16. To a farmer, there is no other calamity greater or more severe than the total or partial failure of crops. In case of the failure of rains, there is nothing but complete bankruptcy in store. *17. In the bad years, he has to borrow for nearly everything he wants such as for seeds, for cattle, for clothing and even for his food. Cattle is said to be the most important capital of the cultivator. The loss of cattle is the considerable financial encumbrance to him. Frequent failures of rains causes the scarcity of food and water. It also causes low vitality and high mortality of the livestock. Cattle fall victim of many dieases like rinderpest. This disease takes the heavy toll of cattle life.

*16. Baroda Banking Enquiry Committee Report, P-34
*17. Wadia and Joshi, Wealth of India, P-279.
The fourth factor responsible for indebtedness is the ignorance and illiteracy of cultivators. Ignorance and illiteracy easily give way to the multiplication of procreative process. Population goes on increasing without a corresponding increase in the means of subsistence. Cultivators having no additional source of income continue to borrow in and out of the season thinking to mitigate the heavy load of indebtedness. As a consequence, the increase in rural indebtedness has been paralleled to the growing loss of economic equilibrium brought about by the pressure of population on land and decline of subsidiary occupation. *18. Illiteracy is likely to cause the main hindrance to the progress. They easily fall in the shrewd and cunning moneylenders because of their simplicity and ignorance. It has been said that the money lender tempts him to borrow, the lawyers to quarrel and the leader to waste.*19.

The fifth reason is related to the failure to provide for deficiency. Agriculture is subject to the law of diminishing returns if the manures and fertilizers are not given in proper dose and proper irrigation facilities have not been made to check constant soil exhaustion. Because of the deficiency of improved seeds and improved method of cultivation, the produce of the land goes on decreasing. The extreme poverty of cultivators and the low yields of their tiny plots prevented them from providing against depreciation. It is difficult to put aside funds for depreciation of cattle and improved seeds. As a matter of fact,

*18. I bid
*19. Memoris, C.B. op. Cit, P-574
taking into account to uncertainties of weather, the frequency of cattle mortality and the fickleness of prices, cereal growing agriculture especially, is not a paying business. *20. If the Indian ryots stick to agriculture, it is not because of remunerative venture but as it is a mode of life.

Sixth factor is the low income of the cultivator: A large number of farm management studies have been conducted in India. These studies have revealed that the net income of the farmer is very low. In all the size groups, the recorded farm business income is insufficient to cover up domestic expenditures. *21. The cultivators find difficult to satisfy their consumption and production needs. So a cultivator is said to be underfed, under-clad, under-nourished. He is compelled by the circumstances to live hand to mouth. the enforced weakness and illness *22. compel him to borrow.

Seventh is the vicious money lending system of the moneylender. Agricultural capital is said to be supplied mostly by the village moneylenders, Mahajans and Sahukars. Many of the cultivators appear to have a running account with the Mahajan. At the time of inevitable marriage and inevitable low suits, or in the bad days, needy farmers go for relief. The result is that he is never free from the Mahajan's grip. Therefore, Mahajans were the only source from whom the credit can be had. Hence cultivator is always in the clutches of the moneylender. *23.

*20. Thomas, P.J. The Problem of Rural Indebtedness in India, P-16
*23. Wolf, Co-operatives in India, P-3
The eight reason is the high rate of interest. The rates vary from state to state. On account of the weakness and poverty, interest increases every year. The rates have varied from 9 to 12 per cent in Madras on secured and 18 to 24 per cent on unsecured loans. This have varied from 25 to 30 per cent in Bihar, Orissa and Assam. Loans advanced in kinds, are usually on 'Sawai' or 'Deora' rates. If he fails to repay even because of crop failure, the interest will go on accumulating at the compound rate. The other cause is the extravagant and improvident borrowing. Because of traditions and customs, the cultivator borrowing is mostly extravagant and improvident. He spends money in unmethodical and baneful ways. Indian peasants live mostly frugally. But he is apt to carry out his expenditures to extravagant limit on certain occasions. He spends mostly on unproductive consumption like social ceremonies and marriages. There are instances of long series of seasonal feasts and costly dinners. They are in the habits of wasting long periods in gossips.

The next cause of rural indebtedness is said to the absence of adequate marketing facilities. The untimely revenue demand and the constant harassing of Mahajans for payment of interest just at the time of harvest adds fuel to the fire by bringing his produce for sale to an already glutted or flooded market at the end of the harvest and spell his own disaster. *24.*

The Agriculture Finance Sub-committee *25.* concluded:

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*24.* Memoria, C.B. Op, Cit, p-578
(a) There payment of old debt is responsible for contraction of new debts, (b) A large part is played by unproductive debts, (c) Consumers needs and distress circumstances, (d) Debt for improvement purposes is almost everywhere of an insignificant proportions.

"If the debt of rural population were incurred primarily for the purpose of improving agricultural productivity, the growth and extensiveness of rural indebtedness would give no cause for alarm. In many countries, however, the heavy rural debts have accumulated chiefly as a result of borrowing to finance consumption." * 26.

There are certain specific features of agriculture which distinguish it from other form of industries. Agricultural operations are discharged in peculiar conditions of uncertainties, a cultivator does not find easy to make use of capital. Agricultural production is dependent on the vagaries of monsoons. The nature of the agricultural product is perishable. They cannot be stored up for a long time. The period of agricultural operations are comparatively larger as compared to normal industrial operations. The cultivator has to wait for several months, sometimes a year or more for his harvest. * 27. If a particular crop has ceased to command the expected price, a cultivator cannot diversify when the sowing has once been done in the matter of fixation of price also, the farmer does not fix up

the price of his product. Prices are mostly imposed upon him resulting in low profits. Sometimes, he has to incur heavy losses.

The largely agriculture-based economy is a subsistence economy. A subsistence economy is characterised as one consisting of numerous villages where each household is engaged in producing food crops both for his own consumption and for the payment of loans and taxes in kind. There is a little exchange of goods. There is also hardly any contract between the village and the commercial centres excepting seasonal migration of workers. The major part of the subsistence farmer is spent on his consumption than his production requirements. In India, major chunk of the farmer’s group belongs to the small and marginal farmers. Small and marginal farmers have their own peculiar problems especially in the matter of indebtedness. They do not have the adequate finance to invest funds in agricultural development. The bad economic conditions of farmers have demoralising effect on the cultivators who fail to take keen interest in farming activities.

In the light of the facts delineated above it is expedient to discuss the credit needs of farmers and the role of early financial institutions in shaping agricultural growth. The nature and extent of rural indebtedness have been analysed through different reports. Needy farmers require the rural credit for augmenting the cause of agriculture.

The All India Rural Credit Survey Report (1951-52) estimated that the credit needs of rural areas would be about Rs.750 crores. *28. Ten years after, the Reserve Bank of India

*28. All India Rural Credit Survey Report, General Report, P-264
conducted another survey which is known All India Rural Debt and Investment Survey of 1961–62, the average amount of loans outstanding per household in respect of cultivators was Rs.473 for all India. The aggregate amount of cash loans outstanding as on June 30, 1962, for all rural household was estimated at Rs.2789 crores out of this Rs. 2380 crores (85.3 per cent) was outstanding against cultivators, who formed nearly 75 per cent of the rural households. * 29.

Cultivators, therefore, require rural credit for the purpose of bringing about technological improvements in agriculture. The agriculture credit may be classified into four categories.

A short term loan may be borrowed for consumption or for production on personal securities. It may also be taken with land as collateral from a moneylender on from a co-operative society. * 30. Medium and long term loans are taken for the purposes of marriages and funerals. They are also borrowed for productive purposes such as sinking wells, buying bullocks, making improvements on land, purchasing tractors, bringing about innovations and mechanisation of the farm. * 31.

* 31. Ibid
Broadly speaking, there are two types of agencies for the purpose of providing credit needs to the needy farmers. One is private agency, another is the government agency. Private agency of credit supply of farmers includes landlords, agriculturist, moneylenders, professional moneylenders. The village moneylenders occupy a significant position in the rural credit mechanism of the country. It has been stated that only that village is worth-living in which there is a money lender from whom to borrow in need, a vaid to treat in illness, a Brahmin priest to minister to the soul and to tame a stream that does not dry up in the summer. However, the service motive behind the moneylenders has been relegated to the background. Profit maximisation and self aggrandisement are the important motives for their work. The money lenders class has been widely known for extending loans to farmers at the high rate of interest.

There are various agencies to meet the rural credit requirements. These agencies are government, co-operatives relatives, landlords, agriculturist, moneylenders, professional, moneylenders, traders and commission agents, commercial banks and others. Above these sources of agricultural finance to sample farmers has been discussed earlier chapters.

There is also the high degree of inconveniences on agricultural financing of State Bank of India in relation to timing. A lot of time is usually taken in the security of loan applications as a result of which the very purpose of loans is defeated. It has also been pointed out in the Report of All India Rural Credit Survey that cattle purchase loans are never received before the beginning of the Bengali year (Baisakh) and amounts sanctioned in individual cases cannot exceed Rs.300 with the
result that it is very often utilised for the purpose of manure, etc, or even spent as subsistence loan. The cumbersome and expensive producer of getting loan is another handicap. A cultivator may find that half of the loans is already spent in the process of getting it. Another defect is related to the inefficiency of supervision. This is because of reasons that loans are not received in time and for the purpose for which they are intended to inadequate amount of loan is supplied as compared to the cost of articles proposed to be purchased. There are reports about the intentional misuse in some cases also. * 32.

The All India Debt and Investment Survey, 1971-72 has also supported the same feeling. It points out that about 63 per cent of the outstanding debt was accounted for the 30 per cent of the rural households with assets of Rs 10,000 and above. Against this about 70 per cent of the rural households, with assets of less than Rs.10,000 shared only 37 per cent of the total debts. In other words the well to do rural households are more advantageously placed and exploit the credit facilities for improving their incomes. *33.

It is evident from the above analysis that there are instances of extreme indebtedness of cultivators. Since agriculture is the backbone of Indian economy, its conditions have got to be improved upon. Therefore, the proper arrangement of

* 32. The Bombay Grow More Food Policy Committee, Bombay 1951, P-121
rural credit is essential. The extend of rural credit required has got to be assessed. The existing credit arrangements (referred in previous chapter) could not be said to be satisfactory. This was evident from the All India Rural Credit Survey Report also. Majority of rural credit was supplied by the class of professional and agricultural moneylenders. The government finance was not satisfactory to cater to their financial needs. The provisions of taccavi loan were also not satisfactory. There were many defects in it. The process of getting loans was found to be cumbersome and expensive.

Agriculture required a solution for its improvement and proper growth. The seriousness of its problems still continues. Short-term credit will not suffice the purpose. Agriculture required advanced technology for growth. Technological as well as institutional improvements on land required huge financial investment. But the poor cultivator who is characterised as the subsistence farmer is not able to cope with the problems. Hence, there must be proper financial institution to look into, more specially, the long term problems. Hence, there must be provisions of long term finance for this propose. The State Bank of India is an agency to provide long-term finance to needy cultivators in order to bring about technological improvements on land.

For all round growth of agriculture, specific measures to meet these problems have essentially to be taken. For any measure, finance necessary to improve technology for rapid growth in the field of agriculture. The attitude of the cultivators should also change to adopt the modern technologies. However, it has been discussed earlier that cultivators are heavily indebted.
Therefore, one cannot expect investment from them. Institutional improvement in agriculture requires a change in the pattern of ownership of land, land ceiling and consolidation of holdings. After the proper institutional changes are made, investment in land are essentially required to provide infrastructural facilities for the growth of agriculture. Technological improvement require the improvements in agricultural inputs for enhancing agricultural output. Technological improvements include the application of fertilizers, pesticides, improved variety of seeds, plant protection measure, soil conservation, reclamation of land, livestock improvements and mechanisation of agriculture. Institutional changes in land could be brought about by government. Hence, such changes are more under the ambit of government. Technological improvements on land can play their role only if institutional changes on desired lines and on desirable scale are brought about to take advantage of the technology.

The Agricultural Development Branches of State Bank of India provide a package of assistance which, besides credit support includes technical and other facilities. For this purpose, each Agricultural Development Branch is staffed by a set of technical officers, extension officers, veterinary surgeons and agricultural assistants, according to the requirements of the area. In order to guide the technical wing of the Agricultural Development Branches, each local head office of the Bank has a separate technical officers who have specialised in animal husbandary, agronomy, horticulture, etc. The ADBs begins with business plan covering 2 to 3 years, for their area of operations. These plans are based on the development plan prepared with reference to the potential and local resources of the area, and
the progress of the plans is reviewed at regular intervals. There has been a distinct improvement in the techniques of lending for agriculture. Initially, the banks adopted a target approach and achieved considerable progress in qualitative terms. But this resulted in scattered lending, spread over a large number of villages, which posed problems of supervision, follow-up and recovery. Learning from experience, the banks have adopted the area approach strategy in lending for agriculture and/or rural development. The demand for agricultural credit is quite substantial and cannot be met by one institution.

12.4 PROBLEMS AND REMEDIAL MEASURES OF BANK

The expansion of commercial branches including Agricultural Development Branch of State Bank of India is not satisfactory where ten numbers of Commercial Bank branches including two State Bank of India (one is ADB) in the East Golaghat Development Block and 16 numbers of bank branches of south Development Block including two State Bank of India branches. The total number 201 of SBI branch offices which has been functioning whole the State. There are not enough, where more new branches should have to open for proper economic development.

Discretionary Powers of Bank

While the extent of discretionary powers to be vested in a branch manager may admittedly vary from bank to bank depending upon the bank's policies, it is desirable to see that limit on the discretionary powers do not stand in the way of prompt disposal of loan applications. The Sihsagar District Central Co-operative Bank LTD and Purbanchal Bank Ltd may examine the issue in the proper perspective.
Complement of Staff

Many branches of banks are experiencing acute shortage of manpower particularly in the direction of technically qualified staff, who are capable not only of apprising and monitoring the credit proposals, but also of providing consultancy services whenever necessary. The controlling officers of all the banks operating in the district may examine the issue in the proper perspective particularly with a special reference to the 'Service Area Approach' implemented recently with effect from 1st April, 1989.

Reporting System

To monitor the progress of the banks in the achievement of the targets under the credit plan, a revised system has been introduced by the Reserve Bank of India in the wake of the service Area Approach recently introduced throughout the country. The delay in submission of the reports will stand in the way of monitoring of the progress. The past experience in this regard is not encouraging. The controlling officers will initiate suitable remedial measures here in after.

All the Bank Managers and field officers reveals that the underdevelopment of infrastructure has hindered them in providing the loan and the recovery from the beneficiaries. So, infrastructural facilities needed for branch expansion as well as banking development. Therefore, following suggestions have been made for improvement.

1. Disturbed Law and order situation and inability of the State Government to provide armed guards at reasonable,

2. Government unable to provide armed guards,

3. Lack of suitable accommodation,

4. Lack of accommodation for the staff,
As the majority of the bank branches are situated in the urban areas, it is very difficult for poor people to contact the bank officials and in the same way bank officials have also no time to visit the village frequently.

Most of the Bank officials posted from outside have found it very difficult to meet the people as they are not familiar with the local situations.

Due to lack of proper co-ordination with other agencies, there is a leakage of many development plans and programmes.

They have shortage of field officers and vehicles to visit the village every day for the proper selection and recovery of loans.

Another major obstacle in proper implementation of the rural development programme is the wrong selection of beneficiaries by the blocks and DRDA. As such, there is a large amount of outstanding and overdues which passes the banks into a difficult position.

We may make the following suggestions for the improvement in the working of banks and their role in the agricultural development and other social perspectives:

1. Rural offices of the banks should adopt a criterion on innovative banking, (Analysis made in Part-II Chapter-4) in the sense that it should provide technical assistance and other guidance to the weaker sections for their gainful employment with
the help of bank finance. There is a need for the integration of rural credit with supporting services.

2. Rural branch offices should be operated by trained staff resident in the rural or semi-urban areas so that they can easily mix with the rural folk and understand their needs and problems. As such, Regional Rural Banks should be given a leading role to play in the mobilisation of deposits and deployment of credit in the rural sector, since they possess certain inherent characteristics of rural orientation like staff from the local areas, ethos towards rural lending, etc.

3. The high level of overdues of banks has become a matter of concern. So, banks should make all possible efforts to reduce their overdues. This also requires that no loan should be given without proper identification and address of the deserving rural poor.

4. It should not be overlooked that greater risks are involved in atomistic lending to the unorganised weaker sections in rural areas. Hence, politically motivated loan melas should be stopped immediately. Banking legislation should be enacted by parliament to stop such things which may not only land the banks into difficulties but also vitiate the very purpose of helping the weaker sections.

5. There is a need to streamline the credit flow of banks in the rural sector to make it more effective in the process of rural development as well as agricultural development.

6. It is grossly inadequate to measure the success of banks' achievement in rural financing simply in terms of quantitative variables like the number of rural branches, growth of deposits and advances, credit-deposit ratios, etc. The real success is to
be seen in terms of increased earnings, improvement in the standard of living, uplifting the rural population above the poverty line as an impact of bank finance directed towards the poorest among the rural poor. Therefore, data on economic status of the rural beneficiaries in the pre-and post-sanction period of the bank loans should also be collected and evaluated.

7. For a meaningful rural development rural banks may have a broad range:

--- To finance agriculture;
--- To finance agro-based industries;
--- To finance modernisation of small-scale, cottage and tiny industries;
--- To finance artisans like weavers, carpet-makers, blacksmiths, Gold-smiths, carpenters, potters, tailors etc. by catering to their capital needs, along with vocational guidance.
--- To promote creation of a new class of rural entrepreneurs.

8. Whatever role is assigned to the banks in rural areas, they need the supportive action of all concerned. There should have viable bankable schemes, proper identification of borrowers, adequate infrastructure facilities, as well as financial guarantees for the investment undertaken by the banks in the rural sector of the economy.

9. The procedures of banking transactions, such as the opening of accounts, clearance system, pass book system, lending operations, remittance facilities etc. have been designed on the British pattern. Now, with the changing structure of banking and its rural orientation, a substantial revision in the procedure is desirable. Collection, clearing and remittance facilities, especially, have to be thoroughly reorganised, so that prompt service is rendered.
Some suitable methods of procedure should be adopted, especially those devised to meet the challenge of business in rural areas and to deal with the illiterate rural folk. Bank should simplify loan application procedures, making them intelligible to the villagers. 

10. The task of agricultural development through involvement of banking sector obviously calls for a new social perspective approach of qualitative achievement in human resource development of the rural areas.

11. It may also be pointed out that sophisticated and luxurious bank branch offices and equally fashionable sophisticated bank staff with their urban mannerism and behaviour are entirely unsuitable in the rural set-up. These may scare away simple rural folk from banking and defeat the very purpose for which the rural banking schemes is initiated. Therefore, rural bank branches and their staff should be simple, tactful and helpful to their rural clients in the matter of attracting their savings or lending operations in times of need. New bank offices should be located in convenient places with the right atmosphere. Further, to minimise the cost of opening of new branches, as far as possible, banks should take up rented premises in rural centres, rather than construct their own premises in the initial stage. This will be economical as well as time saving.

12. The pace of training of banking personnel has logged far behind the increasing needs of rapid branch expansion. For this, the National Institute of Bank Management, the Bankers’ Training Colleges, and other institutions should accelerate their training activities by increasing their staff and the scope of their teaching. There should be more training centres to train the co-operative banks staff. Universities and presently colleges should
also devise appropriate courses in banking theory and practice at the graduate level. At present, we have an accountancy or business management biased B.Com. degree course. Similarly, there is a need for a banking-biased B.Com. course, and to popularise it, banks must give preference to such degree holders in employment. The present researcher is surprised to see that, on the one hand, banks clamour about the inadequacy of banking staff while on the other, they still cling to their age-old criteria of recruitment.

Further, to improve the mobility of labour towards the banking sector, the age-bar must be relaxed, so that better talents from elsewhere can be absorbed in banking.

Secondly, it is indeed an unwise policy to recruit urban people and train them and send them to rural areas where they are reluctant to go. Instead, it is better to find out local people and absorb them in rural branches as far as possible. For only rural persons with a rural background can work with a complete sense of involvement in the rural set-up. This would be possible only if the stiff criteria of graduation etc. are relaxed for rural branches, especially for rural people, and the regional language is adopted in the working procedures of rural bank offices.

Further, frequent transfer of banking officials as in other government departments must be restricted, because banking services require the development of personal relations with customers, which alone can help in the growth of the banking sector, and its feasibility very much depends on the stability of staff in particular branches.

13. Interest rates on deposits should be enhance reasonably so that savers get their legitimate returns.
14. Further, a dual structure of interest rates in urban and rural lendings may be visualised to curb regional disparities. Here, the differential rate of interest structure in various years as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Bank Rate</th>
<th>Deposit Rate</th>
<th>Adv. Rate</th>
<th>Con. Bank</th>
<th>Co-op. Bank</th>
<th>Bombay</th>
<th>Calcutta</th>
<th>Madras</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>5 - 6</td>
<td>8 1/2-8 3/4</td>
<td>7-8 1/2</td>
<td>8 1/2-12</td>
<td>7 1/2-8 1/2</td>
<td>6.38</td>
<td>6.91</td>
<td>6.45</td>
</tr>
<tr>
<td>1989-90</td>
<td>10</td>
<td>15.5</td>
<td>16 1/2</td>
<td>16.50</td>
<td>—</td>
<td>15.85</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1990-91</td>
<td>10</td>
<td>15.5</td>
<td>16 1/2</td>
<td>16.50</td>
<td>—</td>
<td>11.49</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>May-1991</td>
<td>10</td>
<td>15.5</td>
<td>16 1/2</td>
<td>16.50</td>
<td>—</td>
<td>34.92</td>
<td>—</td>
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</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>IDBI Basic</th>
<th>Scheduled</th>
<th>ARDC, NABARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand loan</td>
<td>laving Rate</td>
<td>Con. Bank NLR</td>
<td>Refinance Rate</td>
</tr>
<tr>
<td>IBBI Basic</td>
<td>8 -8 1/2</td>
<td>5 - 6</td>
<td>6 1/2</td>
</tr>
<tr>
<td>Scheduled</td>
<td>14.00</td>
<td>16-16.5</td>
<td>6 1/2</td>
</tr>
<tr>
<td>Con. Bank NLR</td>
<td>14.00</td>
<td>16</td>
<td>6 1/2</td>
</tr>
<tr>
<td>ARDC, NABARD</td>
<td>14.00</td>
<td>16</td>
<td>—</td>
</tr>
</tbody>
</table>


15. It is a good thing that in recent years the bank management of public sector banks has been reorganised to make them professional. But yet one more major return in the control of banks is necessary. At present, nationalised banks are in a state of what may be called 'diarchy'. The chief executive - the Managing Director - of each nationalised bank is responsible to two masters at the same time - the Reserve Bank and the Finance
Ministry. As a result, he cannot take any quick decision on his own, no he can make his own interpretation of a particular banking policy within the broad framework of general policy laid down. In practice, therefore, he enjoys less freedom, owning to lack of autonomy, and his position remains just that of a computer, translating programmes, whether good or bad, set up and designed by two masters. Thus, as professor Simha *34. has rightly suggested, the boards of management of the nationalised banks should be given substantial autonomy, without undue interference from the government. The Reserve Bank and the government must only lay down broad policies in regard to standardisation in banking practices, and within this framework, individual banks should be given full freedom to function in their own way.

16. For effective agricultural finance to small farmers, credit may be given in kind such as fertilisers, seeds etc., rather than in cash, so as to insure its purposeful use. Similarly, to artisans also, necessary raw materials and equipment may be supplied instead of cash by the banks.

17. As has been successfully demonstrated by the Syndicate Bank, schemes like 'Pigmy Deposit Scheme' in which even a small sum like 25 paise is collected from the small man, can tap a substantial amount of rural savings for the rural branches is the scheme is widely adopted. The schemes also help the common man and farmers to become self-reliant.

* 34. S.L.N. Sinha "Banking Revolution in India Southern Economist, February 14, 1973. P-6."
18. Since banks are handling public money - people's hard-earned savings - they require constant vigilance against corruption and misuse of funds. Any case of fraud, scandal or manipulation by any member of the banking staff must be seriously viewed and the guilty severely punished. Similarly, politically motivated schemes like 'Loan Melas' should never be entertained. Banks chairman should unanimously raise their voice of dissent against such schemes and other unhealthy credit policies directed by the government.

The service standard of the public sector banks is far from satisfactory; it should be improved. Streamlining of the administrative system from top to bottom is absolutely necessary to weed out the inefficient, incompetent and the indifferent. Further, a complaint book must be kept in each branch of the bank in which customers can freely register their complaints or suggestions, and a full record of this must be maintained and evaluated from time to time and necessary steps taken to prevent their recurrence. This would certainly enhance the people's faith in banking. It must be remembered, also, that banks prosper on public confidence and trust.

Further banks should be considered a public utility; thereby trade union activities should not be permitted to interfere with the day to day functioning of the banks, and the management boards must be empowered to take necessary action against employees who neglect their duties.

20. To avoid delays and provide quick service to the customers, a 'Unit Teller system' must be adopted by all the banks, so that a customer has to deal with only one attendant clerk on cashier,
rather than moving from counter to counter.

21. In lending to priority sectors, those which are important, e.g. agriculture, professionals, self-employed, education etc., should be clearly specified. It is better if all viable and productive economic activities on a small scale are listed for the proper guidance of banks.