CHAPTER - 8

MAJOR FINDINGS AND POLICY MEASURES
8.A MAJOR FINDINGS OF THE STUDY

There is no doubt that the RRBs have been established mainly to facilitate the poorer sections of rural areas, and as such, these banks have close relationship with the policies and programmes of rural development and the implementation of these programmes there of. The credit provided by RRBs to various categories of weaker sections of rural areas is treated as one of the most important element to make the rural development strategy and programme successful. Therefore, the present study has been undertaken to analyse the detail position of RRBs in respect of achieving their major objectives for which they were established in the country as a whole and Assam in particular. The major findings of the study are summarised as follows -

8.A.1 The economy of Assam with about 88.90 per cent rural population as against 77.00 per cent in the country as a whole (1991 census) exhibits the anomaly of poverty in the midst of plenty. Out of these rural population, nearly 73.49 per cent population of Assam depends upon agriculture as their livelihood as against 78.33 per cent population of the country.

8.A.2 Out of the total 44,04,081 agricultural workers of Assam, 8,44,964 persons, that is 19.19 per cent belong to agricultural labourers and 98.49 per cent of these labourers lives in rural areas (1991 census). Again, scheduled caste and
scheduled tribe population represents 20.22 per cent of the total population of the state. As such, rural development of the state is an utmost necessity and that can be done by providing easy, timely and adequate credit facilities to the rural poor. It is in this context that the institutional credit agencies as a whole and RRBs in particular have a highly commendable role to play specially in the rural areas of Assam.

8.A.3 After reaching at the conclusion that rural development should be the main core of all plans and programmes of the Government specially for poverty dominated rural economy of Assam, the study has tried to highlight the various institutional sources of rural credit and in this connection, an attempt has been made to justify the efficiency of RRBs in fulfilling the financial needs of the rural poor. Prior to nationalisation of commercial banks (upto 1969), the various non-institutional sources covered more than 92 per cent of credit supplied to the rural poor of India, whereas commercial banks were able to provide loans to this section of the poor even less than one per cent. With the nationalisation of 14 major commercial banks in 1969 and subsequently another six more banks in 1980, the commercial banks have been able to make a highly positive impact on the spread of bank branches in various parts of rural India.

8.A.4 The experiences derived from six years of bank nationalisation make it clear that commercial banks fell short of expectations and they rather weakened the co-operative banking system instead of supplementing it. The commercial banks have been able to mobilise substantial savings from rural
areas and channelise such rural savings into the semi-urban and metropolitan areas in the process of making adequate profits and accordingly, these banks help in raising the credit gap of rural India.

8.A.5 As commercial banks and co-operatives have failed to supply adequate credit to the poorer sections of rural areas of India, the Government and other political thinkers felt the need of a novel institution to fulfil the vast credit gap of rural areas and accordingly, RRBs came into existence on 2 October, 1975 with due recommendations of Narasimham Working Group (1975).

8.A.6 The RRBs have been able to achieve a very remarkable degree of progress in the fields of branch expansion, coverage of districts, mobilisation of deposits and disbursement of credit etc. By the end of March, 1992, the number of total branches of RRBs increased to 14,539 from only 17 branches in December, 1975 and of these branches, 13,543 branches (i.e. 93.53 per cent) were opened in the unbanked and under-banked rural areas of India. The coverage of districts by these banks also extended to 392 in March, 1992 from only 12 districts in December, 1975.

8.A.7 The volume of deposits mobilised by RRBs in India has increased from Rs. 20 lakhs in December, 1975 to Rs. 7,27,888 lakhs in September, 1993. In addition to increase in aggregate deposits of RRBs in India, the average deposits mobilised by per RRB and per RRB branch also increased considerably during the
period 1975 to 1993. This indicates that RRBs in India have been able to show a tremendous progress in regard to mobilisation of deposits.

8.A.8 The RRBs in India have also been able to provide substantial amount of credit to the weaker sections of rural community. The aggregate advances made by RRBs in India increased from a meagre amount of Rs. 10 lakhs in December, 1975 to Rs. 4,71,236 lakhs in September, 1993. Again, the average advances provided by per RRB and per RRB branch also increased to a marked extent during the period 1975 to 1993.

8.A.9 The credit deposit ratio of RRBs in India has been fluctuating over the period under study. It was only 50 per cent in December, 1975 and increased to 113 per cent in December, 1984. But from this year (1984) onwards, it shows a declining trend and in September, 1993, it stands at 65 per cent only.

8.A.10 In quantitative terms, the progress of RRBs in India is found satisfactory. But the recovery of advances is found to be quite unsatisfactory with the result that rising overdues tends to pose a serious threat to the smooth and efficient functioning of RRBs. The percentage of overdues to total outstanding advances has increased from 24.74 in June, 1984 to 32.12 in March, 1992.

8.A.11 The study also reveals that like India, the position of both co-operatives and commercial banks is not so encouraging specially for the purpose of fulfilling the increased credit
gaps of rural areas of Assam. The vast credit gap of rural Assam and acute poverty of the masses can easily be realised from the facts that in 1951-52, the level of debt of per family in the state was Rs. 219.00 and for per indebted family was Rs. 308.00.

8.A.12 The position of co-operatives in Assam (just like India) is also not at all satisfactory, specially from both the point of branch expansion and deployment of credit. The number of co-operative societies in the state has increased from 6892 in 1970-71 to only 9391 in 1992-93, which represents only 1.36-fold increase in the number of societies over the period of 23 years. Similarly, the working capital of these societies has increased to only Rs. 42,910 lakhs in 1992-93 from Rs. 5,781 lakhs in 1970-71, which again shows only 7-fold increase over the above noted time interval.

8.A.13 The position of commercial banks in Assam with regard to branch expansion, deposit mobilisation, credit disbursement and credit-deposit ratio etc. was not so encouraging. The total number of branches of these banks has increased to 1225 in September, 1993 from only 74 branches in 1969 and it shows only 17-fold increase in branches over the period of 24 years. The population covered by each branch of commercial bank in Assam was 146,000 in June, 1969 as against 66,000 in India and it decreased to 18,000 in September, 1993 in case of Assam as compared to 14,000 population covered by each bank branch in India.

8.A.14 Consequent upon the expansion of branches of commercial
banks in the state, the volume of deposits and credit disbursed by these banks also increased to a considerable extent over the last couple of years. In December, 1975, the aggregate deposits mobilised by these banks was Rs. 123.78 crores and it increased to Rs. 2913.74 crores in September, 1993, showing only 24-times increase in deposits over the last 19 years. Similarly, the credit disbursed by these banks also increased from Rs. 55.91 crores to Rs. 1285.96 crores during the period December, 1975 to September, 1993 and it indicates only 23-times increase in credit over the last 19 years. But the credit-deposit ratio of commercial banks in Assam exhibited a peculiar trend over the period under study. It increased from only 45.17 per cent in December, 1975 to 56.75 per cent in September, 1989 and then decreased to 44.13 per cent in September, 1993. The falling trend of credit-deposit ratio shows the poor viability of commercial banks.

8.A.15 Due to the poor and discouraging performance of both co-operatives and commercial banks, the first Regional Rural Bank was established in Assam on 6th July, 1976, with its Head Office at Nalbari, known as Pragjyotish Gaonlia Bank.

8.A.16 The study also reveals that RRBs in Assam like India as a whole, have demonstrated a good account of success specially in quantitative terms. The coverage of RRBs in Assam specially in quantitative terms is highly satisfactory as it covers entire 23 districts of the state. The average number of branches of each RRB of the state also increased from only 25 in December, 1982 to 81 in September, 1993 and this 81 branches of per RRB is
far higher than the prescribed norm of 50 to 60 branches, as suggested by the Dantwala Committee for each RRB of the country as a whole. It has been revealed further that the population served by each RRB branch has decreased to 55,000 in September, 1993 from 1,57,000 in December, 1982 and this 55,000 population served by each RRB branch is far higher than the norm (that is, 20,000 population) fixed by Dantwala Committee.

8.A.17 Out of the total number of branch network of RRBs in Assam, the maximum number of branches is operating in rural areas. In September, 1993, the percentage of rural branches of RRBs in Assam was 91.85 as against 92.35 in India.

8.A.18 The volume of deposits mobilised by RRBs in Assam is also more or less satisfactory. The aggregate deposits, deposits of per RRB and deposits of per RRB branch in Assam have increased to Rs. 17384.00 lakhs, Rs. 3476.80 lakhs and Rs. 42.93 lakhs respectively by the end of September, 1993 from only Rs. 277.00 lakhs, Rs. 138.50 lakhs and Rs. 5.04 lakhs respectively in December, 1980. Such a rising trend of deposits mobilised by the RRBs indicates the degree of confidence shown by the people to the RRBs of the state.

8.A.19 The study again reveals that the number of RRB branches and aggregate deposits mobilised by them in various districts of the state have increased considerably during the period 1990 to 1993. But the extent of deposits mobilised by per RRB branch varies among the districts.
8.A.20 There is also a growing trend in credit advanced by RRBs, specially to poorer sections of rural areas of the state. The aggregate volume of credit advanced by all RRBs, the credit advanced by per RRB and also of per RRB branch have increased to Rs. 12449.00 lakhs, Rs. 2489.90 lakhs and Rs. 30.74 lakhs respectively in September, 1993 from Rs. 194.00 lakhs, Rs. 97.00 lakhs and Rs. 3.53 lakhs respectively in December, 1980.

But the proportion of credit advanced to the weaker sections, particularly the small and marginal farmers and agricultural labourers has decreased marginally to 40.50 per cent in March, 1992 from 40.73 per cent in December, 1987, whereas substantial portion of credit moves to the category of traders and small businessmen. Of course, the proportion of advances provided to SC/ST category has increased from 18.01 per cent in June, 1987 to 19.48 per cent in March, 1992.

8.A.21 A considerable portion of credit of the RRBs in the state has been provided under IRDP and DRI schemes, which again indicates that RRBs in Assam have given services specially to the poorer sections of rural areas. The volume of credit provided by RRBs in the state under IRDP and DRI schemes have increased to Rs. 320.33 lakhs and Rs. 8.88 lakhs respectively in 1991 from Rs. 169.05 lakhs and Rs. 6.75 lakhs respectively in 1984.

8.A.22 The performance of RRBs in Assam under Annual Action Plans has been found not satisfactory. The targets fixed for giving advances under AAPs have increased in case of majority of
the districts of Assam, particularly during the period 1989 to 1993. But, the percentage of achievement has decreased in case of all the districts during the above noted period, which reflects a very gloomy picture about the performance of RRBs under AAPs.

8.A.23 The sector-wise performance of RRBs under AAPs is also not at all satisfactory. Both the target and achievement of financing to agricultural sector under AAPs have decreased in case of most of the districts during the period 1989 to 1993. Similarly, the target and achievement of financing to small scale industries and tertiary sectors under AAPs have decreased in case of majority of the districts in the state during the above noted period.

8.A.24 The aggregate volume of credit and credit per branch of the RRBs in Assam have increased in case of most of the districts during the period 1990 to 1993. But, the percentage of credit-deposit ratio has decreased in case of 15 districts and in case of remaining 8 districts, the same has increased in 1993 as compared to the year 1991. This again reveals that performance of RRBs in the various districts of the state is quite unsatisfactory and it indicates a dark future of these banks.

8.A.25 The credit-deposit ratio of the RRBs in the state as a whole, shows a rising trend during the period under study. This rising trend also indicates that the RRBs have been able to meet the credit requirements of the rural areas and push up the rate
of growth of such areas. The credit-deposit ratio of RRBs in Assam has increased from 70 per cent in December, 1980 to 72 per cent in September, 1993, whereas the All India credit-deposit ratio has decreased from 122 per cent to 65 per cent during the above noted period.

8.A.26 The RRBs in Assam are also facing the problem of mounting overdues like the RRBs of the country as a whole, which again affects adversely the recycling of funds for further investment in productive fields. The volume of total overdues of these banks has increased from Rs. 498.47 lakhs in December, 1984 to Rs. 3600.11 lakhs in March, 1992. Of course, the percentage of overdues to total outstanding advances has increased from 34.25 in December, 1984 to 34.88 in March, 1992.

8.A.27 During the period 1984 to 1992, the bank wise position of overdues reveals that the increase in overdues is applicable to all five RRBs of the state, though the magnitude of overdues varies from bank to bank.

8.A.28 The recovery performance of the RRBs in Assam is also not found satisfactory during the period under study. The percentage of recovery (recovery as a percentage to demand) has decreased considerably in case of all five RRBs of Assam during the period 1983-84 to 1990-91. Again, the percentage of recovery of the RRBs in Assam and India as a whole also decreased from 55.85 and 50.13 respectively in 1983-84 to 38.57 and 47.00 respectively in 1990-91. The major factors responsible for such a poor recovery of loans are such as misutilisation of loans,
wilful defaulting attitude of borrowers, wrong and improper identification of borrowers specially under IRDP scheme, lack of required follow-up action, benami advances given by banks under particular circumstances, droughts or floods occurred during various years, political intervention in sanction of loans, loan write-off, the agricultural debt relief scheme of 1990, lack of proper education among beneficiaries and so on. Such a poor recovery of advances automatically raises doubt about the credit agencies in respect to their sincerity in supervising the loans provided by them.

8.A.29 Regarding the viability of RRBs in Assam, it can be stated that most of them are running with huge amount of losses since their inception. The total amount of losses incurred by all five RRBs in Assam has increased to Rs. 1075.03 lakhs in 1992-93 from Rs. 15.57 lakhs in 1983.

8.A.30 The RRBs in Assam also exhibits a very bright picture in regard to the aggregate number of staff, number of trained staff and SC/ST staff who are working in various branches of these banks. The number of total staff, trained staff and SC/ST staff of RRBs in Assam have increased to 1968, 1171 and 425 respectively in March, 1992 from only 867, 426 and 148 respectively in December, 1984.

8.A.31 After having an in-depth study about the various aspects of RRBs in Assam, a large number of factors have been identified as responsible for poor performance of these banks both in Assam and India. The major problems faced by the RRBs in Assam can be
stated as economic, social, political and administrative and these problems as a whole may be summarised in a compact way. These problems include the problem of branch expansion, improper identification of borrowers, low credit-deposit ratio, mounting overdues, non-viability, rising political pressure on banks, lack of proper staff, deficiency of training centres in the state, problem of efficient management, lack of related research work, lack of supervising attitude, lack of professionalism, failure to earn adequate profit and lack of proper co-ordination among financial institutions and other development agencies etc. All these problems as a whole have affected adversely the functioning of RRBs and as such, the banks naturally move to deviate from its main objectives for which they were established.

8.A.32 A field survey of the beneficiaries of the Pragjyotish Gaonlia Bank, the first RRB of Assam, has also been made to make the study meaningful. Out of the total 23 districts of Assam, the Pragjyotish Gaonlia Bank (PGB) covers 9 districts, which represents that the bank is covering 39 per cent districts of the state. By the end of March, 1993, the bank has been operating with 3 area offices, 172 branches, aggregate deposits Rs. 8218.27 lakhs and Rs. 6731.56 lakhs as aggregate credit. Further, the credit-deposit ratio of this bank stood at 81.91 per cent in March, 1993 and this credit-deposit ratio (81.91) is far higher than the average credit deposit ratio of RRBs in Assam and all India average.
8.A.33 The field survey reveals that 27.5 per cent of the total sample borrowers belongs to SC/ST category and remaining 72.5 per cent to that of general category (which represents all other castes excluding SC/ST), which again indicates that RRBs in Assam have given priority to the poorer and backward classes of the economy to uplift their standard of living.

8.A.34 About 18 per cent of the total sample borrowers belongs to the income group of above poverty line and out of the remaining borrowers, 17.25 per cent is destitutes, 28.75 per cent is very very poor, 24.25 per cent is very poor and 11.75 per cent is poor. The above distribution of sample borrowers according to income group further reflects the fact that the RRBs in Assam are providing financial help mainly to the poorer sections of the rural areas.

8.A.35 The majority of the sample borrowers (i.e. 85.75 per cent) were provided small amount of loan by RRBs not exceeding Rs. 10,000. Of the remaining borrowers, 10.75 per cent received loan not exceeding Rs. 25,000 and only 3.5 per cent borrowers received loan amount exceeding Rs. 25,000. As majority of the sample borrowers received a meagre amount of loan, they naturally found the loan amount insufficient to execute their contemplated schemes or activities and as such, they had to fulfil their credit gap by borrowing either from money lenders, or from friends/relatives or by using their own resources in some cases.

8.A.36 Most of the sample borrowers were not able get loan
within the stipulated time. In case of 5.25 per cent borrowers, the time taken for obtaining loan from RRBs was even more than one year. Only 7.75 per cent sample borrowers had been able to obtain loan within the prescribed time interval of 0 to 1 month. Paucity of bank staff, non-co-operative attitude of both bank staff and the staff of sponsoring agencies and unnecessary queries by bank officials etc. were pointed by the borrowers as major reasons responsible for delay in advancing loans by RRBs.

8.A.37 In regard to the arrangement of supporting services, namely the arrangement of training facilities to the sample borrowers, it can be stated that training arrangements was not found satisfactory. Out of the total 126 borrowers, who received some sort of training through DRDA under TRYSEM, 34.13 per cent borrowers viewed training arrangement as adequate and 65.87 per cent considered the same as inadequate to their requirements.

8.A.38 The field survey again reveals that various malpractices like bribery etc. have played a very significant role in the sanction and disbursement of loans in case of majority of the borrowers. About 51 per cent of the total sample borrowers had to pay bribe for getting loans from RRBs. Existence of malpractices naturally exploits the poorer sections of rural areas, which again hampers the workings of these banks.

8.A.39 Majority of the sample borrowers have failed to keep their asset intact, which were purchased through bank finance. Again in case of 19 per cent borrowers, there was no asset at their disposal during the time of our field investigation.
Inadequate income, redemption of old debts, investment in other purposes, poor quality of assets, death of animals, fire damage and floods etc. were the major reasons for disposing of or non-existence of assets at the disposal of borrowers.

8.A.40 Nearly 51 per cent of the sample borrowers obtained loan under IRDP scheme, whereas 8.75 per cent borrowers received loan under DRI scheme. The remaining 40.25 per cent borrowers received loan under various other schemes like APTDC, FFDA, SCDC and DIC etc.

8.A.41 The repayment performance of all categories of borrowers was found to be quite unsatisfactory. About 32.25 per cent of the total sample borrowers was found to be irregular in repayment, whereas 44.75 per cent borrowers was identified as defaulters. The repayment performance of only 23 per cent borrowers was found to be more or less satisfactory. Insufficient income, unwillingness to repay, higher family consumption, promises of loan write-off, unforeseen calamities, lack of timely recovery efforts by bank staff, death of animals, corrupt practices and non-sureties of getting subsequent loans etc. are some of the important factors which are mainly responsible for poor recovery position of the borrowers.

8.A.42 It has also been found in the study that a large number of sample beneficiaries have misutilised the loan provided to them. Out of the total loan amount of Rs. 24,69,664, Rs.9,91,058 (i.e. 40.13 per cent) was misutilised by a total of 134 borrowers. The average amount of loan misutilised by per
borrower was found to be Rs. 7396.

8.A.43 The study again reveals that the effect of loan in generation of income of the poorer sections is not at all significant. The net average income of the per borrowing family, specially in the post loan period (1992-93) has increased to Rs. 4676.87 from the pre-loan period (1988-89) income Rs. 3879.60, which represents only 20.55 per cent increase in net income over the period of 5 years. Of course, all the sample borrowers have been able to cross the poverty line (Rs. 6400 p.a.) in terms of nominal income, after having the loan assistance from RRBs. But in terms of real income, all borrowers can be categorised as very poor. This again highlights the fact that the RRBs in Barpeta and Nalbari districts in particular and Assam in general, have failed to generate adequate income to the rural poor.

8.A.44 It is further clear from the study that additional employment has been generated in case of all categories of borrowing accounts specially in the post-loan period as compared to the pre-loan period. The average annual employment in terms of mandays (a manday means 8 hours of work per day) has increased from 421.6 in pre-loan period to 622.4 in post-loan period in case of all categories of borrowing accounts, which again represents an increase of only 47.6 per cent over the period of 5 years. The low rate of percentage increase in employment of per borrowing account again reveals another fact that the RRBs' finances have not been able to raise adequate employment opportunities to the rural poor.
8.A.45 Majority of the sample borrowers (about 44 per cent) ranked RRBs' services as satisfactory while only 15 per cent borrowers ranked the services of RRBs as poor. Most of them are of the opinion that RRBs have failed to give proper and required services to the rural poor.

8.A.46 The enquiry of the branch managers of Pragjyotish Gaonlia Bank of the districts of Nalbari and Barpeta reveals that recovery performance of various branches of the bank is not at all satisfactory, and it tends to vary between 14 per cent and 16 per cent during the year 1992-93. The major factors responsible for poor recovery of bank loan as identified by the branch managers of the surveyed districts include inadequate income, misutilisation of credit, inability to maintain the asset, promises of loan write-off by political leaders, wilful defaulting attitude of borrowers, wrong identification of beneficiaries, delay in sanction and disbursement of loan, lack of proper co-ordination with other development agencies, lack of proper infra-structural facilities, non-availability of supporting services, misutilisation of loan and deficiency of required number of staff etc.

8.A.47 The sample branch managers reject outright the suggestion given by Khusro Committee (1989) regarding the merger of RRBs with their respective sponsor banks, rather they suggest the formation of National Rural Bank of India (NRBI) as early as possible.

8.B POLICY MEASURES AND SUGGESTIONS

It is worthmentioning that in quantitative terms, that
is, in the field of opening of branches in unbanked/underbanked rural areas, mobilisation of deposits, disbursement of credit to the weaker sections of rural areas, lower operational costs as compared to commercial banks etc., the RRBs have been able to achieve a moderate progress in case of Assam in particular and India as a whole. But in qualitative terms, these banks have failed to prove themselves to be a reliable and satisfactory institutional credit agency to re-vitalise and upgrade the living standards of the rural poor under the process of implementation of various rural development programmes launched by the Government since the introduction of Five Year Plans. Due to such qualitative inefficiency, the mounting overdues of RRBs has now reached such a serious stage that there is a dangerous threat to the economic viability of these institutions. In the areas of viability, namely the recovery performance of RRBs is absolutely unsatisfactory. These banks suffer from built in non-viability due to limited areas of their operation (e.g. out of total 196 RRBs of India, 85 RRBs operate in one district each, another 75 RRBs in two districts each and only 26 RRBs operate in more than two districts each), limited scope of providing advances (i.e. to target group only) and low rates of interest on advances leaving a very little or no operating margin etc. Again, due to the progressive hike in salaries and allowances of State Government's employees during eighties and implementation of the National Industrial Tribunal Award (NIT) to the employees of RRBs, the operations of these banks have further deteriorated gradually since 1991. As a result, at the existing stage, it is found that out of 196 RRBs of the country, around 150 RRBs and
all 5 RRBs of Assam are incurring huge amount of losses and in a majority of cases, their net worth is wiped out.

Thus, a stage has now reached when the RRBs are treated as weak financial institutions and due to the huge accumulated losses incurred by them, they are considered as drag on the entire financial system of Assam in particular and India as a whole. Therefore, the suggestions for reforming the working and performance of RRBs are mainly associated with the qualitative reforms in economic, social, political, administrative, organisational and environmental aspects etc. That is why, a pragmatic rather than a theoretical approach is followed in the process of suggesting the policy measures for making the RRBs economically viable, socially acceptable and administratively efficient to meet their major objectives for which they were established. The following suggestions may be considered for the purpose of fulfilling the objectives of RRBs and improving their viability in future -

8.B.1 Economic viability of any financial institution is the most important aspect on which entire performance of these institutions depends. The Dantwala Committee (1977) had suggested that at least 60 per cent of the loan provided by RRBs should be ear-marked for the benefit of the poorer sections. The Committee also expressed its view that the total exclusion of all other borrowers would not be advisable for a variety of reasons. We also strongly endorse this recommendation given by the Dantwala Committee and do suggest to allow the RRBs to finance non-target groups upto the maximum limit of 40 per cent.
It is perhaps a significant step for RRBs that with effect from 12 September, 1992, they have been allowed to finance non-target group borrowers up to 40 per cent of their incremental lendings.

8.B.2 For raising the financial viability of RRBs, some other steps such as, increase in the volume of share capital, reducing the rate of interest on refinance amount to RRBs, providing a minimum of 13.5 per cent interest per annum on the short-term deposits of RRBs kept with sponsor banks for a period of 15 days and above, enhancement of service charges levied by RRBs on borrowed accounts with due consultation to RBI, bearing total responsibility of providing training arrangements to the staffs of RRBs by sponsor banks, deputing additional staffs to RRBs by sponsor banks to take care of inspection and audit of RRBs branches, and deploying surplus funds on Government securities etc. should be considered seriously. In addition to these reforms, the RRBs should be permitted to open non-resident accounts, give safe deposit lockers for all branches, issue travellers', cheques and act as bankers to public issues etc.

8.B.3 We again feel the necessity of another important provision to RRBs is that they should also be allowed to issue transport loans to the members of target group for the purpose of raising their profitability and thereby enable them to improve their financial viability.

8.B.4 The Narasimham Committee, 1991 also dealt with the financial viability of RRBs and suggested that RRBs should be allowed to engage in all types of banking business and the
interest rates of these banks should be re-arranged in accordance with that of other commercial banks. We, therefore, suggest to implement various reforms mentioned above with proper care and sincerity and if followed in true sense of the term, the viability of the RRBs can be expected to improve in near future.

8.B.5 For making RRBs economically more viable, mobilisation of adequate deposits is another critical area, where utmost importance is not given still today. Resource mobilisation of these banks has two dimensions - the core resources coming from deposits mobilised in its own area of operation and adequate volume of refinance provided by NABARD and sponsor banks at cheaper rate of interest.

We feel that for mobilising adequate deposits from the weaker sections of rural areas, positive initiative should be taken by RRBs for convincing the people and show their superiority over other banks in prompt action, polite behaviour, everhelping attitude and providing more benefit to the depositors etc. The rate of interest of the RRBs should be fixed at a rate which is a bit higher than that of other commercial banks specially in case of fixed deposits kept for more than three years. Further, a daily deposit scheme should be executed by these banks to enable the rural people for saving a little amount of income in bank and in this way, the saving potential of the rural masses can be raised.

It is to be noted here that on an average, about 15.20
per cent of deposits of RRBs come from institutional sources. The reason behind such a poor percentage of deposits from institutional sources is that, even State Government and District Administrations do not often prefer to keep their funds in RRBs due to pressure from other financial institutions and the built-in non-viable nature of these banks. These aspects need to be considered seriously both by the RBI and NABARD so that RRBs will be able to acquire necessary resources to meet adequately the credit needs of the rural poor.

We think that for mobilisation of adequate deposits by RRBs and other financial institutions, what is most important is the good customer services provided by the banks staffs and for the purpose of which direct involvement of the staff is essential. Of course, providing good customer services and direct involvement of the staffs is the most crucial work than any other area of banking activity. Hence, it is advisable that some sort of promotional works should be done by branch managers and his staffs outside the premises of branch for influencing the generation of savings from that of rural masses.

8.B.6 The RRBs were established mainly for providing banking facilities and cheap advances to the rural people. But, despite the various efforts made by RRBs towards simplification, the lending procedures of these banks tends to be cumbersome specially in case of meagre amount of loan provided to weaker sections. A large number of formalities have to be completed even in case of a small amount of loan, which in turn, compels the borrower to spend unnecessary time, energy and money. As
such, we feel that all possible efforts should be made to ensure that procedures of getting loan is simplified and no borrower is in a position to face any kind of harrassment including unnecessary time and money for getting loans from RRBs. It may be suggested that in order to save the borrower from running from pillar to post, lists of borrowers can be exchanged through the respective credit agencies in a very systematic and sincere way. Again, some sort of necessary formalities and enquiries may be completed by the bank staff during the course of field visits so as to reduce the unwanted delay and expenditure of borrower to a minimum extent.

8.B.7 Another important problem of the RRBs in Assam and the country as a whole, is the wrong identification of borrowers. To reduce the extent of this problem, the intervention of local political leaders and rural elites in selecting borrowers, should be completely abolished. It is also advisable that a team consisting of the representatives of the bank, the block development office, the circle office, and representatives of Gaon Panchayat, should identify the eligible persons for the purpose of getting loan.

Further, an expert committee consisting of two experts in the field of agriculture, two educationists of the local higher educational institution, representatives of the bank, representatives of DRDA and also two efficient farmers should be formed for examining the actual credit needs of the beneficiaries and also the potentialities of the area. Technical advice should also be given by the committee to the
beneficiaries for proper execution of their schemes and all possible attempts should be made to secure honesty and sincerity in the working of the committee.

8.B.8 For more appropriate identification of borrowers, a "credit card" or "pass book" for each person should be issued by the Revenue Authorities containing a detailed description of the farmers land holdings, class of land, location, valuation and also position of irrigation etc. In addition to this, the current asset and liabilities of the borrower, sources of income, degree of indebtedness and sources of debt etc. should be included in the pass-book. All these would help the banks to judge the credit worthiness of the persons concerned and enable to fix the maximum credit limits of loans required to them.

Again, the other sections of the rural poor, who have no land should also be issued separate identity cards, where the other necessary informations except that of land should be included for avoiding double or over financing. Such pass-books if served properly and sincerely with upto-date records, will naturally be able to reduce the extent of wrong selection of borrowers. But the most important point to remember here is that all possible caution must be observed so that any false particulars cannot be incorporated in the pass-books due to biasness of any officials.

8.B.9 For improving the quality of lending of RRBs, the poor transport system of rural areas should also be considered seriously. The Kutcha and Sandy roads running across most of the
villages prevent the bank officials from exercising effective supervision about the use of credit and also the recovery of loans etc. Again, there are some such villages which lie at a distance of about 20 k.m. from that of bank branch and under such a situation, swift mobility of bank officials for catering to the credit needs of villagers, becomes too difficult.

To overcome such deficiencies, at least one motor cycle should be provided to each branch of RRBs and development or rural transportation system should be made on priority basis by the Government and all roads should be transformed into all weather roads in a phased manner.

8.B.10 Another serious problem before the RRBs is the problem of mounting overdues. The magnitude of overdues of these banks has increased to such an extent that it not only reduces the recycling of funds, but also tends to demoralise the field staffs of the banks for serving the rural poor with further enthusiasm. For improving the recovery performance of RRBs, the following policy measures may be considered seriously -

(a) Just like other commercial banks, a budgetary and review system for the purpose of extention and growth of services of RRBs should also be implemented. In addition to this, a recovery budget may be prepared for each branch of RRBs with proper care and caution and all possible attempts may be made to achieve the target of recovery budget at the operating level.

(b) The borrowers, who are able to maintain credit
discipline and repay the loans regularly, should receive recognition, that is, they should be encouraged by quoting a bit lower rates of interest than that of other irregular borrowers and such reward should be granted only after repayment of one third of their loan amount. Further, the system of collecting cash at the door steps of beneficiaries may be encouraged specially in case of small amount of loan.

(c) Generally, a publicity campaign is given for giving knowledge to the rural masses about some matters which have social importance, such as family planning, education, health, drinking water, small savings and conservation of energy etc. through news papers, radio, television network and some public meetings etc. We feel that a publicity campaign should also be launched to educate the borrowers about the urgency of repayment of bank dues in a regular way as far as possible.

(d) As per recommendation of Tiwari Committee, the Narasimham Committee has also given full support for setting up special tribunals which could expedite the recovery process of bank dues. We also give full support to this recommendation and feel seriously that a special tribunal should be formed without delay for improving the recovery performance of RRBs.

(e) Most of the loans of RRBs are sponsored by various sponsoring agencies, like BDO, DIC, DRDA, FFDA, APTDC etc. and target for sanction of loan is fixed by these agencies. But, subsequently, these agencies have no responsibility for the recovery of the amount of loan sponsored by them. We realise
that "Target-for sanction should be accompanied by Target for Recovery" for the various sponsoring agencies and accordingly, post loan initiative should also be made by these agencies, specially for raising the degree of recovery.

(f) Now-a-days, the banking institutions are treated as an important agent for the various poverty alleviation and rural development programmes of Government. As such, there is an urgency to educate and motivate the people about the necessity of repayment of bank dues specially for their own greater interest. We, therefore, realise that just like "extension officers" in the field of industrial works and Government's agricultural departments etc., a post so designed may be created by the Government for giving all kind of education to the borrowers about the need of repaying bank dues in a regular way, specially to safeguard their own interest in the long run.

(g) We again feel that one more attempt can be made by Government through appointment of some "recovery agents" on the same lines to that of agents for mobilisation of deposits for various funds, namely NSCs, NSS etc. To get required services from the agents so appointed, provision of rewards (in terms of money) should be made available. Our best suggestion is that at least one experiment should be made without delay specially in case of a few branches on a trial basis and this may again enable to provide scope for partial employment to a large number of educated unemployed youths.

(h) We again realise that State Government can and should
play a decisive role by educating the rural poor about the advantages of institutional credit and the need for prompt repayment of bank loans only for their own better interest in future. To meet this objective, Government can create some special agencies or commissions as is available in some of the developing countries of South-East Asia (e.g. in Philippines).

(i) It may be mentioned here that the Government of Assam has decided recently to form a block level recovery committee headed by a circle officer as chairman, specially to make a drive for recovery of IRDP loan. As per directives of Government of Assam a "bank loan recovery committee" has already been formed at Hojai for Hojai circle.

We also suggest that such committee should be formed for each block of the country without delay and if run to act in proper and sincere way, the degree of recovery of bank dues can certainly be increased.

(j) There is no need to mention here that political leaders play a very active role both at the time of sanction/disbursement of loans and at the time of recovery. During the time of our field survey, we observed that some of the wilful defaulters did not repay the loans as they were politically strong. It is not so easy to take any stern action against such politically influential borrowers. Under such circumstances, the state machinery should take strict action against such borrowers and all necessary arrangements should be made so that repayment of bank loans can be made almost regular by the above noted section of borrowers.
The RRBs are also following the service area approach in the sphere of rural lending with effect from 1st April, 1989. But the main problem before the RRBs is that most of the branches extended their operations to large areas without reference to their resources, mainly man-power, for the purpose of exercising proper supervision and ensuring end-use of funds. Many of the branches of RRBs are still running on with inadequate staffs and there are even some such branches where there is no field supervisor. Again, in some other branches, which do have field supervisors, combine the work of a clerk with field work and for this purpose, they are mostly stationed at the branches due to which recovery of loans gets impaired.

We, therefore, feel that organisational structure of RRBs should be strengthened as early as possible and provisions of required staffs for all the branches should be made so as to streamline the follow-up and supervisory procedures for giving proper check for the misutilisation of credit. For this purpose, the field staff has to build up a close and continuous contact with borrowers and all possible efforts should be made to encourage them to be free and frank while talking about their problems. We also feel that the field staffs should have some informal discussion in the form of groups of villagers rather than a formal contact with individual borrower. In short, the field staffs should visit the villages of their service area frequently for keeping close and continuous contact with villagers specially for improving the quality of lending and recovery performance of RRBs.
Today, what is lacking for the success of RRBs in Assam and country as a whole, is the lack of adequately trained staffs to handle the rural lending business efficiently. It has been concluded from experience that proper training to RRBs' personnel is of crucial importance than that of other commercial banks. The Kelker Working Group, 1986, also recommended the need to provide training to the staffs of RRBs in its own perspective of business.

At the existing situation, the sponsor banks provide training facilities to the staffs with their own costs, under section 3(3) of the RRBs Act, 1976. But still today, there are a large number of officers and other staffs, who are not getting any kind of training. Therefore, we realise that adequate provision of training facilities (in the form of in-service training, on-job-training and refresher courses etc.) should be made through the active initiative of sponsor banks on the basis of the necessity of their respective branches.

In our view, the existing system of subsidy provided by banks has some of its own loopholes. At the existing procedure of subsidy, the amount of subsidy is credited to the account of the borrower in the bank immediately with release of loan. This procedure facilitates the extent of corruption on the one hand and on the other, raises the volume of overdues mainly due to the fact that most of the borrowers treat this amount as an extra income and as such, spend in some unproductive fields.

Hence, we realise the fact that subsidy linked schemes
should be re-oriented and the Government should examine this issue seriously. We even feel that subsidy should be stopped specially in case of developmental programme, rather this amount of subsidy should be spent on building some infra-structural facilities for the rural areas. Only loan facilities should be provided to the poorer sections at concessional rates of interest.

8.B.14 In the existing system, there is also lack of proper co-ordination between the financial institutions and development agencies. But, a proper co-ordination between these agencies is of urgent need for acquiring information about the behaviour of various borrowers in respect of their post-financial dealings with banks and to know the real nature of the borrowers.

It is, therefore, considered most urgent and essential to introduce a good and improved co-ordination mechanism. We think that the State Government should give appointment of one officer at district level, who can effectively co-ordinate between financial institutions and other development agencies dealing with various sponsored schemes.

8.B.15 We further feel that restructuring of the Board of Directors of RRBs is also essential for improving the performance of RRBs. It is a commonly accepted phenomenon that management of RRBs should be kept free from political interference and as such, no politicians should be nominated for the Board of Directors of RRBs. Rather, two non-officials, who are either active and efficient farmers, social workers or
persons dealing with mass welfare, agricultural development, village and cottage industry or individuals dealing with local cum rural development etc., should be nominated for the Board of Directors of RRBs. Of these two non-officials, one should be nominated by the Government of India and other by the respective sponsor banks.

8.B.16 We have again noted another critical aspect of rural lending that the rural masses are generally unorganised. Due to lack of precise knowledge, strong will and proper organisation, the rural borrowers find difficulty in obtaining loans from the lending agencies. As a result, these poor masses feel that the assistance given to them as an act of generosity on the part of aid-giving agency and not as a matter of their own right. It is in this context, the rural poor must be made conscious of their poor conditions, their handicaps and their strength and for which act, organisation of the rural poor is most essential.

We think that the Panchayat Samities be entrusted with the task of organizing the rural people so that they can put pressure on the political and bureaucratic centres to make the rural credit system easy and convenient to suit their needs. RRBs, being rural oriented in nature, must play a creative role in helping the rural poor as a friend, philosopher and guide.

8.B.17 During the time of our field study, we have observed that most of the villagers do not have knowledge about the various lendable schemes available with the banks for the benefit of the poor. As such, we feel that, it should be the
duty of concerned branch and the block level authorities to undertake a joint attempt for raising the awareness of the rural masses about banking facilities and schemes. For this purpose, a detailed explanation of various schemes can be displayed in local and easy language at the branch concerned, the Panchayat office, other Government offices and in public places and markets where generally the villagers meet together.

8.B.18 We further feel the necessity of formation of an independent tribunal for each RRB specially to prevent corruption and mal-practices that arise in the process of sanction and disbursement of loans. The duty of this tribunal should be to receive and consider the various complaints or allegations from different categories of borrowers against corrupt practices and to investigate into them in accordance with the banking rules and also to recommend beneficial policy measures to prevent such corrupt practices.

8.B.19 Further, we feel that for raising the productive efficiency of bank staff and to prevent mounting losses incurred by the rural banks, there is an urgent need to bring about positive attitudinal changes in the feeling of staffs through proper and effective initiative of the Government of India and RBI. Of course, RBI has announced a package measures for RRBs on 22nd December, 1993, specially for raising the operational efficiency of these banks. If these measures, namely re-location of loss making branches at the new places like mandis, agriculture produce centres and at block/district head quarters, opening of extension counters at places of their choice,
freedom from service area approach, non-target group lending up to the extent of 60 per cent of their fresh loans as against the earlier 40 per cent and allowing non-fund business (e.g. providing locker service at their selected branches, allowing to work out suitable agency arrangements with their sponsor banks for issue of rupee travellers' cheques, demand drafts, mail/telegraph transfers etc.). We also think that if these measures are executed in the true sense of the term, then the operational efficiency of these banks can be increased to the maximum extent.

An overall analysis of the performance of RRBs reveals that these banks have been able to fulfil many of the basic objectives for which they were established. But out of total 196 RRBs of the country, 173 have incurred losses and the accumulated losses was estimated at Rs. 550 crores by the end of March, 1992. Hence, it is realised that the existing RRBs should be restructured so as to make them viable and even more effective in fulfilling the needs of the rural poor. The Khusro Committee, 1986, also recommended for merger of RRBs with their respective sponsor banks, rather than allowing them for some improvements to the existing structure.

At the present stage, the above suggestion does not appear to be acceptable as the commercial banks themselves are now experiencing serious strain on their profitability. In the year 1992-93, out of 20 public sector banks in India, 13 such banks incurred a net loss of Rs. 3648.91 crores as against the loss of Rs. 300 crores incurred by a total of 173 RRBs, which
again represents that loss of per RRB was Rs. 1.73 crore as against Rs. 280.69 crore loss incurred by per commercial bank. Again, the recovery rates of RRBs are much better as compared to that of commercial banks, whose lending to weaker sections is only 10 per cent. Further, it is also revealed from some of the studies on cost analysis that lending to agricultural sector has a negative contribution in so far as profitability of bank is concerned. Hence, merger of RRBs with sponsor banks can only enhance the extent of problem, rather than solve it. In addition to this, merger of RRBs with sponsor banks means that the distinct identity of these small man's banks as a novel Institution in the rural credit structure will be lost.

The Narasimham Committee, 1991 also dealt with the viability of RRBs and suggested for the establishment of rural subsidiaries by commercial banks at state level and the RRBs may merge with such state level "Rural Subsidiaries", if formed and if they so desire. But we think that this suggestion cannot be implemented with immediate effect due to the reason that proposal for commercial banks to create rural subsidiaries has not yet been examined seriously and accepted by the Government of India. Again, serious doubt also arises about the fact that this type of re-arrangement may pose serious financial strain on the proposed subsidiaries specially after a particular period of time and as such, does not appear to be appropriate to deal with the rural problem.

The successive Governments since 1985 by different political parties have rejected the proposal of merger of RRBs
with their respective sponsor banks and successive Finance Ministers have given categorial statements about the Government's intention to keep the separate identity of RRBs. The All India Regional Rural Bank Employees Association (AIRRBEA), right from its initiation in 1978, has been demanding to bring these banks under one umbrella, that is to form National Rural Bank of India (NRBI). In August, 1992, the Governor S. Venkitaramanam, RBI, had given announcement about the setting up of the NRBI. But in April, 1993, C. Rangaranjan, who took the charge of Governor of RBI in December, 1992, cancelled the 1992 declaration.

The above discussion reveals that proposed NRBI will be the only alternative institution through which the problem of rural credit can be expected to solve in a desired way. In the discussion about the proposal of Government of India for NRBI, with the Board of NABARD, on 19th December, 1992, M.L. Dantwala also expressed the view that the non-viability of RRBs is not in-built in its structure as is stated by Khusro Committee, 1989, rather the business which RRBs are dealing with is non-viable in nature. He again stated that merger of RRBs with their respective sponsor banks would not be able to solve the burning problem of RRBs, as the problems would only be transferred from one agency to another agency.

Keeping in view all these acute problems, the Government of India also gave serious thought to the idea of forming a National Rural Bank, as the only viable alternative. Further, the proposal of NABARD (March, 1992) sent to the RBI through the centre, the view of Dantwala (December, 1992), the
scheme forwarded by the Government of India to RBI (May, 1992), the report of the Steering Committee appointed by Governor of RBI (August, 1992), the demand given by a good number of members of parliament cutting across the political lines from almost all political parties (1993), the resolution taken by the Standing Committee on Finance, appointed by the Parliament (July, 1993), the resolution of the meeting convened by Finance Minister including all political parties (7th October, 1993), the internal views of banking division and the views of the RBI etc., opposed the non-viability argument and suggested options to make them viable including the setting up of NRBI.

It is under the above circumstances, we also give urge for the formation of NRBI as early as possible. The views derived from our sample branch managers were also completely in favour of forming NRBI with immediate effect. We expect that NRBI, besides being able to protect separate identity of rural banks, will also be able to stand as a strong viable and self-sustaining institution in near future. The reason behind such expectation is that this new institution will finance to the non-priority sectors on higher rates of interest, it will cater to the all banking services in all India basis and it will have branches at potential areas also for raising their profitability and viability too.

It is also expected by us that the proposed NRBI will be essential for the execution of new economic policies and programmes undertaken by the Government of India. The new agricultural policy of Government is such that it seeks to give
agriculture a status like that of an industry. Industrialisation of agriculture means increase in quality and quantity of agricultural products through active help from financial institutions so as to raise the export potentiality of such products. A specialised and a strong National Rural Bank can naturally be able to provide required inputs to agriculture.

The new institution will perhaps be able to provide all types of banking services to its rural clientele which are not providing by the existing RRBs. In addition to this, the employees of present RRBs can also be able to look forward with enthusiasm as they are also a part of the biggest bank with about 15,000 branches spread over in various nook and corner of the country. Due to availability of better promotional opportunities in such a bank, the morale of staffs and their job-satisfaction can also be able to increase to a maximum extent.

Again, the Prime Minister's "Agri-Business Consortium" proposal will necessarily need the support of a strong rural financing institution like NRBI. We think that the Government of India and RBI should not waste time and all necessary arrangements should be made to form NRBI with immediate effect, as this is nothing but consolidation of the progress made in the rural banking over a period of several decades.

We also feel that the new institution should start with a clean state and it is desirable also to start without the burden of accumulated losses of existing RRBs. We support the
suggestion given by Dantwala regarding the reconciliation of accumulated losses of existing RRBs. The suggestion of Dantwala was such that, the losses incurred in the generation and distribution of electricity, transportation, irrigation, fertilisers etc. have to be borne by the Government in terms of subsidy as these sectors have got critical importance to the economy and the Government compels to reflect these losses in terms of deficit budget. Similarly, the role played by RRBs in rural economy is not less important and as such, their losses should have to be treated accordingly and subsidised the losses in the same manner.

Thus, it is our expectation that the new bank will not only be able to preserve its distinct identity as an institution of providing credit to the rural poor, but also it will be able to enjoy the advantages of economies of size (scale), unity of command and single point control. Once the new institution comes into existence, perhaps it will be a major agency with its strong presence in rural areas in so far as providing of institutional credit facilities is concerned.

It should be noted here that there are also possibilities of arising several organisational and operational problems in managing and properly directing the operations of NRBI. As for example, common accounting practices, systems and procedures, management of information system, funds management, organisational set-up, control mechanism etc. are some of the such areas which necessitate immediate concern. But the main success of such an institution will ultimately depend upon its
financial viability, which again is dependent upon the degree of flexibility in lending policies, availability of adequate return on advances and investments capacity to maintain quality of lending, professional management and fair degree of autonomy in operation. Once such types of experiments are made to achieve by this institution, most of the defects and deficiencies of rural credit structure will disappear and accordingly, a healthy rural credit system will come to exist in reality. We have just to wait and look for the coming years how the proposal of setting up of NRBI takes shape and in what way the rural development process will be executed in the real sense of the term.