CHAPTER VI

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A study is made to analyse the Regional Rural Banks with special reference to Kalpatnaru Grama Swarajya Bank and its functioning at Palavally Branch. Though different aspects of agricultural credit by the cooperative banks and commercial banks have been studied fully the credit provided by the Regional Rural Banks to the agricultural and non-agricultural activities of the weaker sections is an area not yet fully analyses. As it is indisputable that the weaker sections in rural areas are having a miserable existence on financial front, the subject of Rural Credit has come in for a critical review by the different expert committees from time to time. But these committees are continued to strength on the credit prospects of the large scale and medium scale agriculture rather than the credit problems of the agricultural and non-agricultural activities.

In India, Rural Development has been accepted as a National Policy. The weaker section had not participated in the development process to the desired extend and as a result they could not associate themselves with the gains arising out of development. This led to unequal distribution
of the benefits of increased production, with the vast majority of the marginal and small farmers and landless labourers being left outside its purview. At the beginning of 4th plan attempts were made to involve them under programmes like SFDA, MFAL and DPAP, with a view to achieving the optimum utilisation of the natural area and for enrichment or the quality of life of the population. The scheme of Integrated Rural Development Programme was introduced in October 1978.

Since Nationalisation in 1969, the involvement of Commercial Banks in the rural sector gets reflected nextly 4 major areas, namely Branch expansion, credit to priority sectors, lead bank scheme and special schemes for weaker sections. The phenomenon of Branch expansion in the rural areas in India has few parallels in the world. The number of bank branches increased from 3,200 to over 42,000 by the end of June 1983. Of the new branches, nearly 60% were opened in rural areas. The change in pattern of banks lending since July 1969 has been no less striking than the expansion of Bank branches. The Importance of Agricultural, Small Scale Industries, Export sector as well as the neglected sector came to be realised and bank have been
asked to extend 40% of their total net credit to priority sectors by March 1985. Within this target, significant proportion of advances should be lent to weaker sections. Of the 40% advances should to be lent under priority sectors, at least 25% should be sanctioned to weaker sections and 15% of the net bank credit should be lent towards direct agriculture. This percentage should improve to 16% by March 1987. Under the lead bank scheme, the different districts in the country have been allotted to various commercial banks. Thus in the matter of rural lending, area approach has been adopted as it is found to bring in a new dimension in the infra-structural development in the countryside. There is no two opinions on importance of agriculture in economic development. Physiocrats were the early economists, who debated on the role of agriculture in economic development. To them, agriculture alone produced an economic surplus over cost of production, which held the key to economic growth.

Hence the significance of Agriculture Credit in Agricultural developments is also not debatable. The need for institutionalisation of agricultural credit, mainly arose from deplorable practices of money lenders charging interest rates demanding advance interest etc.
Another milestone in the institutionalisation of agricultural credit is the emergence of State Bank of India. State Bank of India evolved a few innovations in its pioneering role of agricultural financing. The innovations transformed the complexion of State Bank from credit agency to sponsor agency. Inspite of commendable performance of State Bank of India, meaningful involvement of Commercial Banks in the sphere of agricultural financing did not occur till they were brought under social control in 1968. However, such involvement gained momentum only with adoption of bank nationalisation in 1969.

The present study is intended to examine the extent of credit given to weaker sections by the Regional Rural Banks. The prime objectives of the study are:

1. to understand the role of Regional Rural Banks in mobilising deposits and extending credit to the weaker sections,

2. to assess the utilisation of credit by the borrowers of agricultural and non-agricultural loans and

3. to analyse the credit problems faced by the agricultural and non-agricultural borrowers.

It is viewed that inspite of the existence of co-operative movement and the nationalisation of banks, the econom
conditions of the weaker sections have not been improved. With a view to uplift the weaker sections, it was decided to establish the Regional Rural banks whose cost structure permits them to finance the activities of the rural sector at the rates of interest even lower than those of Commercial banks.

As a result, the Government of India constituted the working group on Regional Rural under the Chairmanship of M. Narasimman to examine the case of the setting up of new banks in addition to the existing nationalised banks. The group felt that the existing credit institutions because of inherent weaknesses were not able to fulfil the credit requirements of the rural population.

The Government of India accepted the recommendations of the group. Accordingly, the Regional Rural Banks ordinances was promulgated on 26th September 1977 and subsequently it was replaced by the regional rural banks act on 9th February, 1976. The Act provides for the incorporation, regulation and widening of Regional Rural Banks with a view to developing the rural economy by providing credit. The operational area of the Regional Rural Banks is relatively small and confining to the specific
area. The staff of the Regional Rural Banks are recruited locally as they have familiarity with the local language and environment. The Regional Rural Banks evolved as the low cost rural based institutions are eminently suited to implement the bankable schemes, in the rural areas for the benefit of the rural poor.

With the inauguration of "Pratnama Bank" as the first Regional Rural Bank in India sponsored by the Syndicate Bank on 2nd October, 1975, the number of Regional Rural Banks has increased from 6 in 1975, to 196 by the end of 1989. All Regional Rural Banks in the country are sponsored by the Syndicate Bank, the State Bank of India, the Union Bank of India, the Bank of India and the Allahabad Bank.

The performance of Regional Rural Banks reveals that they are playing a key role in the removal of economic inequalities among different regions. The Regional Rural Banks are satisfying all the requirements of sound rural credit system. They are able to mobilise rural savings through their innovative schemes of deposit mobilisation. The amount of deposits has gone up from ₹772 lakhs in 1976 to ₹46,799 lakhs in 1989.

This achievement is definitely price-worthy. Though their areas of operation are confined to the relatively backward districts. A similar trend is also noticed in the field of
advances as the figure of advances has gone up from an amount of ₹702 lakhs in 1976 to ₹3,15,493 lakhs in 1989. The credit deposits ratio of ₹91 in 1976 to ₹91 in 1989. The credit deposit ratio shows that there is a net equal of funds into rural sector to serve the weaker sections.

In Tumkur district, Kalpatharu Grameena Bank sponsored by the State Bank of Mysore, was established on 31st March 1982. Being well-known for its scanty rainfall and inadequate irrigation facilities, the district has been characterised by all features of under-development. Though there has been adequate expansion of banking sector in the district, the credit needs of the majority of the rural population especially weaker sections are not met. It is felt that only through the development of rural banking the basic credit needs for investment of the small and marginal farmers, rural artisans and the small businessmen can be met in the district.

Kalpatharu Grameena Bank has so far been able to achieve the objective of helping the weaker sections by controlling its operational expenses quite efficiently despite the constraints of limited area of operation and an unfavourable social conditions. The Bank in the district could make significant progress in the direction
of deposit mobilisation and credit disbursement. As the amount of deposits has increased from ₹330.38 to ₹740.94 lakhs, the total amount of advances has also gone up from ₹640.88 in 1986 to ₹1856.43 lakhs in 1990. The credit disbursed to the Scheduled Castes, Scheduled Tribes and backward classes has also gone up significantly.

There has also been considerable increase in the amount of advances made available to the small and marginal farmers since 1985. These two categories put together account for more than two-thirds amount of the total advances in 1989. The share of rural artisans and small businessmen has also increased though the landless labourers almost got insignificant share of advances. The study reveals that the overall performance of the bank in its lendings is quite impressive.

LENDING OPERATION OF THE BRANCH IN PALAVALLY

The study reveals that Palavally branch gave about 70 per cent of the total credit to agricultural and 30 per cent non-agricultural activities in 1987. Of course, within the reasonable limits, the Bank has been doing its best to maximise the lendings to small entrepreneurs and persons engaged in services sector. As the Bank recovery performance of the Bank is good, a higher proportion of credit can be made
available to these borrowers to develop the severely drought affected areas in the district. 80 borrowers of agricultural and non-agricultural loans are covered to assess the credit gap felt by the borrowers, utilisation of credit and its impact on their income and employment.

The borrowers mentioned that the credit provided is inadequate. As such some of the borrowers got the credit from other sources to fulfil their requirements. Out of 20 borrowers, who reported insufficient finance, 9 borrowers got the finance from co-operative banks, 4 borrowers got the finance from the money-lenders, 7 borrowers got the finance from the others. In some cases the only alternative is to increase the scale of finance by the Banks for all purposes in view of rising cost of production.

Regarding the utilisation of credit, the study reveals that out of the total loan amount of Rs.5,85,000, Rs.4,87,000 i.e., 83 per cent of credit was used for the specified productive purpose. The nature of utilisation in the case of crop loans, bullocks/carts, sericulture, sheep is productive purposes, there is greater diversion to unspecified and mostly to the unproductive uses. Of course, the bank cannot restrict the utilisation of jewel loans and loans on deposits for specific purposes. This, however, reveals that the Gramsena Bank in the district is relatively better over the other Commercial Banks and the Co-operative banks is
in ensuring credit utilisation for pre-determined purposes. This signifies the effective and timely pre and post monetary operations of the Grameena Bank.

The impact of credit is felt by the borrowers in the form of increase in their income and production opportunities in reasonable proportions. The study indicated that after receiving credit and utilising the amount by providing higher doses of credit for the above activities the scope for enhancing the income and production in the rural sector is high in present circumstances.

Prompt recovery of loans is one of the essential factors to have high efficiency in the banks operations. The study of the recovery performance of the banks shows that there is 67 percent of the sample borrowers are paying regular instalments of the loan amount. 33 percent of the sample borrowers are irregularly paying the loan amount. The defaulters are mostly the borrowers of crop loans. Efforts are to be made to increase the recovery performance without deviating from the usual norms of the lending.

It is observed from the above analysis that the financial assistance to agricultural loans under the category
of priority sector lendings of the branch is sufficiently high. Inspite of the impressive performance of the branch, the credit gap felt by the borrowers is making them to go to moneylenders and tottners.

Any serious attempt to strengthen the rural artisans sector should be in terms of covering the weak capital asset base of the rural poor families into strong and productive asset base to increase production and income. Since the Grameena Bank is satisfying most of the conditions of a sound rural credit system, it is desirable to take necessary steps to strengthen them. All the primary agricultural co-operative credit societies and the rural branches of Commercial banks may be brought under the fold of the Grameena Bank at an early data to avoid unnecessary competition in the banking sector.

As the bank satisfied all the desired norms of a sound rural credit system, there is an imperative need for the expansion of the bank with additional financial resources from the Reserve Bank of India. Since there is scope for further improvement in its organisational and operational behaviour, adequate number of trained people must be recruited by the bank to work with sincerity. Besides this, the employees of the bank must be motivated, by the
suitable incentive schemes to make them devoted and hard working.

However, the significant performance attained by the bank in recent years can be retained in future also provided the Grameena Bank is not constrained by the powerful employees union, lack of positive co-operation from the administrative agencies and the absence of involvement of weaker sections in the implementation of the developmental programmes. Unless these constraints are overcome, the Grameena Bank in the district may not be useful to the target groups in the desired direction and extent.

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