CHAPTER SEVENTH

PROBLEMS FACING

E. K. G. B.
CHAPTER VII

PROBLEMS FACING EKG BANK, ETAWAH

Inspite of the best efforts made by the E K G B. Etawah to help the small borrowers of the rural society, there still exists many problems and difficulties in the implementation of various schemes. The officials responsible for the implementation of various schemes to help the rural poor as well as the beneficiaries of E K G B have experienced several problems and difficulties. Untimely availability of credit, non-availability of desired quantity of credit, delay in completion of the procedure of loaning, delay in completion of the official formalities in obtaining credit, time consuming and complexity of the procedure of loaning and in some cases the security demanded were the main problems faced by a large member of small borrowers. In the same way the problem of opening new branches in rural and semi-urban areas, the problem of selection of small and marginal farmers, poor technical knowledge and illiteracy of the farmers, inability to help the defaulters, inadequate and untimely supply of credit from RRBs, poor risk bearing capacity of the borrowers and lack of co-ordination between various development agencies were the major problems faced by the officials of E K G B.

Irregular payment, poor farm management practices, improper utilisation of credit, lack of godowns and were houses for
storage of agricultural commodities and heavy dependence of farmers upon money lenders were other main problems faced by the officials of E K G B.

(General) other problems faced by the officials of E K G B:

The main problems faced by the officials of E K G B are being discussed below:

(1) **Problem in Branch Expansion**

The opening of branches of E K G B had been done in great haste. Organising and opening of new branches at this fast pace in a relatively short period of time has generated problems for the officials of E K G B and their sponsoring banks in planning the opening of a network of 20 to 30 branches in the first year and second year of its operation as expected by the Govt. of India. Perhaps under pressure from the Govt to let the E K G B meet its targets for branch expansion, the selection of location for opening branches in the district have not been done in a coordinated manner demarcating the areas of operation of the existing institutional credit agencies as was suggested by the 'Working Group on R R Bs'. As a result of which E K G B branches are opened at locations where cooperative agencies as well as commercial banks exist.

While opening branches at rural centres, the management of E K G B has experienced the following important problems.
(a) **Lack of suitable Premises:**

For opening branches at rural centres, accommodation suitable for the bank office is required. Rural centres being under-developed, lack such accommodation. Mostly old fashioned buildings are available which are unsuitable for a bank office on the one hand, and lacks proper sanitary facilities desired by the bank employees on the other. As a result the management of E k G B has to delay the opening of branches at such places till suitable premises are available.

(b) **Lack of Safety:**

Rural and semi-urban areas in our country, not being well connected with roads and railways and having no timely police protection are quite unsafe. In such conditions a bank office is full of risks.

(c) **Inadequate qualified Staff:**

Branches in rural areas require highly qualified and experienced employees with a creative mind, since the places are new to the bank and involve many risks and problems. But such branches being un-economical, for want of adequate business in the initial years, can not afford to employ highly qualified and experienced staff. The available qualified and experienced bank employees do not want to serve in
rural areas as they are unable to adjust themselves in the local conditions.

(d) Uneconomic Units:

Most of the rural branches incur losses for want of adequate business in the initial years of their opening. Adequate amount of deposits are not forthcoming to rural offices of these banks because banking is considered unsafe by the rural people and they generally prefer investing money in jewellery and constructing houses. Similarly, as a result of the adequate proposals for credit for want of productive jobs in such areas, the branches cannot advance much so as to earn income sufficient to cover operating expenses. Consequently, branches in rural areas remain uneconomic for quite some time.

(d) Administrative difficulties:

Since branches are being opened in the country-side far away from the head office, there is also the problem of administering these branches. Poor communication channels are quite often disrupted. Hence the problems of control and supervision of these branches have come to the fore.

2. Problem in deposit Mobilisation:

The E K G B had not been able to meet the targets set up by Govt of India for raising rupees one Crore of deposits in the first year of its operation. The targets appear to have been set at an unrealistic levee especially in relation to the
related target of lending. One basic problem in this regard relates to the rejection of recommendations of the 'Working Group' for local participation by individuals and private bodies in the equity structure of these banks. Yet another problem in this regard is the total exclusion of the richer sections of the rural society from the direct lending activities of the RRBs. The richer sections of the rural society, who have the major potential for depositing their surplus, feel less interested in doing so in view of the lending policies of these banks. These banks have also not succeeded much in receiving cooperation of the state and local governments for keeping deposit accounts of the state and local governments and agencies supported by them. This factor has also constrained the potential of deposit mobilisation.

The problem of deposit mobilisation in the rural sector is also due to lack of adequate funds for deposits. This is mainly because of mass poverty, illiteracy and ignorance of the local people on the one hand; and their preference for investment in land, gold and spending on conspicuous consumption on the other. This state of affairs also hampered the process of deposit mobilisation in these areas.

3. Problems in expanding loans to expected level:

The ERGB has not been able so far to meet the expected disbursement of credit to the tune of rupees five crores which was set up by the Govt. of India. The shortfall
in meeting this target can also be explained by several factors. Main factors are listed below:

(a) The E K G B has been lending directly only to the specified weaker sections of the rural society. Thus, the scope for direct lending by E K G B in the area of its operation is limited. The staff of the E K G B has to make special efforts to identify potential 'Small' borrowers who would possess the capacity to repay loans at the relatively higher rate of interest of 14 per cent per annum from farming, small industry and small trading activities in which the borrowed funds were to be deployed. This has posed a challenging situation before the banks.

(b) In spite of the fast expansion in the field of banking, the majority of the 'Small' borrowers still continue to depend heavily on the non-institutional sources of credit. Another reason for the lower rate of growth of advances by the E K G B has been the absence of its effective link with P A C S. Such linkages were expected to play a crucial role in expanding the loaning activities of R R B s overtime. But the state Govt is not giving full support to E K G B (coming mainly under the control of Central Govt) and has relative sympathy for the cooperatives (which come under the administration of the State Govt). An equally disturbing factor in this context has been the lack of support from the district level officials in promoting the loan business by identifying eligible borrowers for the E K G B.

1. Charan D. Wadhava - Rural banks for rural development P. 156.
(c) The E K G B has not been able as far to expend its lending to persons from the weaker sections of the rural society because of its strict and inflexible procedure adopted by it for loaning. In the matter of procedure for loaning, it operates very much like the scheduled commercial banks. Despite the efforts made by a committee set up by the RBI for simplification of the loaning procedure of the R R Bs, these procedures in our judgement still remain sufficiently complicated and time consuming and they are still nowhere near adopting the better parts of procedures adopted by the indigenous money lenders which are still preferred by the rural borrowers.

(d) To complete the official procedure and formalities for obtaining credit by the illiterate rural borrowers is a very difficult task before them and sometimes they fail to avail credit facilities provided for them on account of this complicated official procedure.

(e) The bank officials generally take much time in scrutinising and sanctioning the loan applications of the borrowers. This time consuming procedure of the E K G B loaning sometimes reduces the importance of credit sanctioned to the borrowers.

(f) Non-availability of desired quantity of credit to the borrowers creates a great hardship before them. Such loans do not fulfil the full credit requirements of the beneficiaries and hence in the majority of the cases it has been observed
that such loans fail to increase the productivity and income of the borrowers. In such cases these loans become a burden on the borrowers. Sometimes insufficient loans do not fulfil the needs of the project of the borrowers and hence these are misutilised in other purposes.

(g) The interest charged by the E K G B is no doubt very low from the market rates, but for the poor it is too high because of their low productivity and incomes. In majority of the cases it has been observed that even after the utilisation of loans on the same purpose for which they were granted fail to in one the incomes and productivity of the borrowers. Thus it becomes difficult for the rural poor to make regular payments of their loans and interest thereon.

(h) Most of the borrowers of the E K G B are so poor that they feel difficulty in providing security demanded by the bank. In many of the innovative schemes, the E K G B gets only personal security. In order to judge the personal security and potential repaying capacity of the beneficiaries, various types of information relating to the borrowers are demanded by the bank to avoid risks. But the illiterate rural borrowers fail to supply such information for want of records and ignorance and ultimately they are denied from availing the benefits of the scheme provided for them.

(i) "Differential Rate of Interest Scheme" has been sanctioned for the uplift scheduled caste people who have been compelled
to live as slaves in the villages for hundreds of years. But it has been reported that in some cases the members of the high caste community who have a strong hold in the villages compell the members of the scheduled caste community to avail such loans for them. Thus the loans sanctioned to the members of the scheduled caste community is utilised by the high caste people and compell them to live below the poverty line.

4. Problems in the field of financing of the priority sectors

The E K G B has also experienced many problems with regard to the financing of the priority and neglected sectors of the rural economy.

The financing of the rural poor has been found out to be a non-economic proposition by the management of the E K G B. The main factors contributing to this state of affairs are small holdings of forms, subsistence or traditional farming, natural calamities like floods droughts etc. and highly inelastic supply of agricultural products. These factors on the one hand create undertainty with regard to raising and reaping good crop on the other, result in non payment of the amount of loans even after the period of maturity. The management has to spend more money for the recovery of loans and even after this theme is no full recovery to demand. Earnings from the financing of agriculture and allied activities are low, as most of the loans are to be
advanced at concessional rates of interest.

The management of E K G B also finds difficulty in generating adequate security from the small/marginal farmers and agricultural labourers. One of the worst problems in the field of agricultural finance emerged out of the increasing mounting over dues of the loans advanced to the rural poor.

The E K G B has failed to bridge the gap of credit left by the cooperatives as was expected by it. Small borrowers still seem to continue approaching the village money-lenders and hence are still being exploited by them. The various schemes of the E K G B are not very well known to the needy borrowers in the countryside. Hence the really needy borrowers remain deprived of the facilities provided by the bank.

5. Interference by local big-wigs:

Decisions for the advancement of loans to borrowers are sometimes made under the influence of local big wigs. As a result, these farmers who are really in need of cheap bank finance either get less amount of loans than needed or are refused loans and those farmers who are not in need of finance for agriculture get finance from these banks. It has been experienced that the loans becoming overdue are the result of advancing loans to the later category of borrowers.
due to the influence of local leaders. Besides, this result in wrong channelling of funds which in turn reduces the degree of their best utilisation. But such loans are not very large in volume and hence cannot pose a great problem.

6. Difficulty in identification of eligible borrowers:

The difficulty in identification of borrowers arises mainly in connection with the 'small' borrowers who, on the one hand, are shy and, on the other hand, ignorant of the facilities provided by the E K G B. Besides, such borrowers if identified, lack of good schemes for the gainful employment, sometimes the management of the E K G B had to face risk of dishonesty of such borrowers who get such schemes financed as are neither technically feasible nor economically viable.

7. Problems of the staff:

The staff of the E K G B to educated in the colleges situated in the cities is still essentially an urban one and does not feel satisfied in the rural branches. The employees of E K G B have not so far become an integral part of the socio-economic milieu and can not be completely identified with the inhabitants of the villages where its branches are situated. If given a choice most of them would prefer to shift and settle down in cities. This tendency of the staff may create some problems in near future.

The staff members look for a higher salary including
dearness allowance and more facilities such as the availability of a house and a motor cycle.

Section 17(1) of the RRB Act, 1976 speaks that "the remuneration of the officers and other employees appointed by a RRB shall be such as may be determined by the central govt, and, in determining such remuneration, the Central Govt shall have due regard to the salary structure of the employees of the state Govts and the local authorities of comparable level and status in the notified area." Thus the members of the staff of RRBs are getting at present less salaries as compared to the staff of the rural branches of commercial banks.

Bhabatosh Datta had recently warned about the inevitability of these problems leading to the erosion of the lower cost justification of the setting up of the RRBs. To quote - "The argument about the cost structure involving pay-scales and staffing pattern, is not really very strong. It will be difficult to maintain for a long time two types of pay scales in each area for similar work. It will not be possible to get the work done only by local recruits and there will have to be a regular flow of personnel between the parent banks and their rural offices, whether these offices are direct branches or subsidiaries. The problem is there and is not likely to be completely resolved by having a separate cadre.

2. See section 17(i) and (ii) of the RRB Act, 1976.
for rural subsidiaries. As has been experienced in other spheres, there will emerge soon a strong pressure for merging the cadres.  

Mr Vyas had also warned "Merely bringing down the pay scales of the bank functionaries or having 'non-decolom' look-desirable that these do not ensure a cultural affinity with the rural people."  

Thus the management of these banks also came in cross problems arising out of the lack of wholehearted cooperation from the bank employees. The employees demand attractive salaries and working conditions at par with commercial banks, but are reluctant to put in hard work. 

The management of these banks is finding difficulty in getting the required number of staff to man the new branches and staff the expansion programme of existing branches. Besides, there is dearth of well trained personnel having experience so as to perform new and more complicated tasks of these banks. As a result, persons not having sufficient knowledge and experience in banking are given more responsible jobs quite inconsistent with their standard of skill and acumen. This in turn has resulted in so many problems of mismanagement, non-implementation of schemes, lack of proper leadership etc. 

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