

CHAPTER V

- 5.1 INTROCUCTION
- 5.2 WEAKNESSES IN RRB OPERATION
- 5.3 MAJOR RECOMMENDATIONS
- 5.4 COMPARISION
- 5.5 RESUME OF THE STUDY
 - 5.5.1 HYPOTHESIS
 - 5.5.2 FINDINGS
- 5.6 SUGGESTIONS
- 5.7 CONCLUSION

DR. BALASHEB KHARDEKAR LIBRARY
SHIVAJI UNIVERSITY KOLHAPUR



CHAPTER - V5.1 INTRODUCTION -

In this chapter, before presenting a brief summary of our main findings and giving the suggestions, we are presenting a summary of the main findings of the working group on Regional Rural Banks, which was appointed by the government of India in 1984. The group was originally set up under the chairmanship of Shri. V. K. Dar but subsequently Shri. S. M. Kelkar was designated as a chairman of the group. The group submitted its report in June 1986. Review of the main findings of this study group is presented below in order to bring out a comparative picture of the working of RRBs selected by the group vis-a-vis the working of SGB - the RRB under study.

5.2 - WEAKNESSES IN RRB OPERATION

In spite of the fact that the RRB staff has a feel of the local economy, RRBs have not been able to ensure a satisfactory recovery rate. At the end of June 1984, the overdues of the RRBs amounted to 49.9 % of demand ; what is worse, the overdue percentage has been steadily rising. In the ultimate analysis rising overdue percentage, apart from resulting in non-recycling of funds, leads to increased dependance on refinancing agencies and casts doubt on the capability of the credit agencies to supervise credit utilisation by borrowers. Ability to supervise credit and to ensure its productive utilisation and timely repayment of loans is the fundamental attribute of the institutional credit structure particularly if it is to canalise credit from the central money market. Rising overdues of the RRBs are thus a matter for concern.

DECLINING VIBILITY AND MOUNTING LOSSES

A majority of the RRBS are working at a loss. At the end of 1984, out of the 173 RRBS in operation, as many as 130 showed losses in 1984. In fact, the accumulated losses of 49 RRBS had eaten up their share capital and another 26 RRBS had eroded half or more than half of their share capital. A number of RRBS were unable to comply with the statutory requirements in respect of liquidity and cash reserves. In other words, the operations of the RRBS in the first decade ~~about~~ of their working had created doubts about their long term viability. Unless the credit institutions serving the poor and the weak are themselves strong and viable, they will knuckle under the burden of buttressing the tottering economy of the weaker sections. The task of the policy - marker is thus to ensure continued health and viability of these institutions.

It must be admitted that there are many factors which have compounded the problem of loss-making and it would not be fair to pass a judgement on the RRBS as a body. First, not all RRBS are of the same vintage nor do they function in the same economic environment. Where per branch business has been relatively high, overall profitability has been satisfactory. Availability of competent and trained staff has posed problems to many RRBS operating in the backward and tribal districts. Further mis of business has also told on profitability, Branches

have broken even faster, with a relatively higher proportion of production loans compared to investment loans. A large network of branches opened at a fast pace, which has not contributed to substantial increase in business, has added to overhead costs without contributing to profits. Till such time as these branches start breaking even and contributing to profits, the losses of the RRBs may continue. ¹

5.3 MAJOR RECOMMENDATIONS

The major recommendations of the Working Group which have been accepted by the Government and which are either complied with or are under various stages of compliance are as under.

- a) In order to improve viability, the authorised share capital of RRBs may be raised from Rs. 1 crore to Rs. 5 crores and issued capital from Rs. 25 lakhs to Rs. 1 crore.
- b) Sponsor banks should invest in Government securities the deposits kept by RRBs sponsored by them in current account for SLR requirement so as to give the RRBs a higher rate of return on such deposits.
- c) NABARD should remove the proposed restriction which would require RRBs to bring down the CD ratio to 100% as this would adversely affect the resources position of RRBs and lead to lower level of business for them and restrict availability of credit to the weaker sections.

1. D.S.J. Kanvinde, Regional Rural Banks, state Bank of India Monthly Review, Nov. 1987 Page No. 545 and 546.

- d) The sponsor banks should reduce the rate of interest on refinance from 8.5 % to 7 %.
- e) While the restrictions on lending by RRBs to non-target groups may continue to be maintained, they may be allowed to provide credit to select institutions such as SC/ST corporations, local bodies and housing boards. NABARD, however, has suggested that such loans should be given only to financially sound institutions and for production purposes alone.
- f) It is normally desirable to restrict the coverage of RRBs to 2 districts for better supervision and control of branches. At the same time it would be advisable to merge small and uneconomic RRBs. Establishment of new RRBs should primarily be considered on the basis of genuine need to serve a neglected area and particularly the tribal population.²

5.4 COMPARISION

It is true that most of the RRBs have incurred losses over the past ten years - particularly in the early years of their inception. The reasons of their losses are numerous but a very obvious reason is the heavy operational cost of the RRBs in the earlier years. It is understandable and justified because no new organisation can be expected to be functioning immediately after inception.

The Solapur Gramin Bank, the bank under study had also incurred losses in the beginning. However it is pertinent to note that the losses of this bank have continuously declined over the years. It is gratifying particularly

2. Regional Rural Banks, Working Group on RRBs Report on ~~Re~~rend and Progress of Banking in India, 1986-87, Oct. 1987 Page 77 and 78.

on the background of most of the other banks are still operating on heavy losses.

We have already made it clear that a micro level study of ours has helped us in understanding the problems of the RRBs in a better perspective. Some of the other weaknesses mentioned above which have been pointed out by the Kelkar Committee are also found with SGB and the recommendations therefore, some of which have been already accepted, are equally applicable in case of SGB. The problems that emerges from our study demand different majors and in the following paragraphs we are making specific suggestions in respect of SGB.

5.5 RESUME OF THE STUDY

5.5.1 HYPOTHESIS

The RRB Scheme aimed at providing the managerial expertise and the provision of credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas. The hypothesis that emerges from these objectives of the Scheme can be worded as follows.

" The Solapur Gramin Bank has significantly contributed to the rural development of the Solapur district, through the provision of credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural part of Solapur district. "

5.5.2 FINDINGS

The discussion in the earlier chapters help us in formulating the conclusive opinions about the performance of SGB in the district. These findings can be summarised as follows. sp

- 1) The branch expansion programme of the SGB has become successful in view of the fact that the hitherto neglected areas of the district have been provided with the banking facilities of the bank.
- 2) The deposit mobilisation has become particularly significant in the rural areas where the bank has opened its branches during 1984-86.
- 3) Agriculture being the main occupation in the rural area, the bank has successfully launched its programme of extension of credit.
- 4) The administrative expenditure has consistently declined as a proportion of total expenditure.
- 5) The interest payments have increased more rapidly than the interest receipts.
- 6) The losses have been there all the three years but they are managed and being kept at the low levels.

Hence, on the whole the performance of the SGB can be considered as satisfactory and in tune with the basic objectives of the RRB Scheme.

5.6 SUGGESTIONS

It can thus be seen from the analysis and experiences presented in the study that, the SGB has significantly contributed to the economic upliftment of the borrowers. However, the following suggestions are worth considering.

- 1) In the years to come, the SGB should concentrate on further efforts of deposit mobilisation from the hitherto untapped areas with the help of a phased programme of branch expansion.
- 2) The Branch Expansion programme should be prepared in consultation with the lead bank of the district in such a way that the pockets with banking potential particularly in the field of extension of credit to small and marginal farmers are properly utilised.
- 3) The SGB should also pay more attention to co-ordination of co-operative credit in the rural areas of the district.
- 4) The SGB should look forward to minimising the losses further and should also aim at making profits in the years to come.
- 5) Adequate training facilities should be provided to the staff working in the bank with a view to improving their overall efficiency.
- 6) The SGB gives loans to the farmers who have not more than 16 acres/dry land. This ceiling should be extended so that the big farmers take loan/ from the bank. In this way the bank can get the deposits from the rich farmers.

81
/

- 7) In administering the loan operations of the bank some incentives must be given to the borrowers who repay the loan within the time and penalty should be charged to the defaulters.
- 8) In case of crop loan and agricultural loans Crop Insurance Scheme must be implemented.
- 9) Field supervision is essential to visit the actual project. Field visits at regular intervals by the field supervisors should be arranged.

5.7 CONCLUSION

It can thus be finally concluded that the SGB has significantly contributed to the upliftment of the rural poor in the Solapur district. Although, the SGB has incurred losses they are being minimised and if the above suggested measures are implemented, the SGB can work with more positive contributions to the economic development of the district.

APPENDIX.1) CROP LOAN AND HORTICULTURE.*(which period)*

(Amount in Rupees.)

No.of Borrowers.	Income Before Loan Operation	Income after Loan Operat- ion.	Net.Add- tional Income	Average Net.Add. Income.
04	6200	7600	1400	
	9000	10400	1400	
	8000	8600	600	
	12900	17400	4500	
04	36100	44000	7900	1975

2) Minor Irrigation and Land Development.

(Amount in Rupees.)

No. of Borrowers.	Income Before Loan operation.	Income After Loan Operation.	Net Additional Income.	Average net Additional Income.
23-	350	1850	1500	
23	650	1550	950	
	1000	1700	700	
	800	1400	600	
	28000	28000	4000	
	700	2100	1300	
	4100	5000	900	
	1500	2000	500	
	4850	9575	4725	
	4200	5700	1500	
	5000	6000	1000	
	4000	6000	2000	
	700	1325	625	
	600	30000	29400	
	200	1700	1500	
	8400	26300	17900	
	3500	3900	400	
	0	0	0	
	5000	8000	3000	
	800	1000	200	
	2700	6700	4000	
	4000	16000	12000	
	1400	3000	1600	
23	78450	168800	90350	3928

3) Agricultural Allied Activities

(Amount in Rupees)

No. of Accounts 1	Income Before Loan operation 2	Income After Loan operation 3	Net Additional Income 4	Average Net Additional Income 5
	3000	3600	600	
37	5000	9000	4000	
	3000	4800	1800	
	3000	4800	1800	
	3000	6600	3600	
	3000	5400	2400	
	5000	7000	2000	
	2000	2500	500	
	2000	3800	1800	
	2000	5000	3000	
	3000	6000	3000	
	3000	4400	1400	
	2500	3200	700	
	3500	5000	1500	
	3000	6240	3240	
	3000	6600	3600	
	7000	10000	3000	
	6000	10800	4800	
	3000	4000	1000	
	3000	5400	2400	
	3000	5400	2400	
	3000	8640	5640	
	7000	14200	7200	
	3000	5040	2040	
	3000	5240	2240	

1	2	3	4	5
	3000	4800	1800	
	3000	6600	3600	
	1800	3420	1620	
	3000	4500	1500	
	3000	4500	1500	
	18000	21500	3500	
	3000	5500	2500	
	20000	27560	7560	
	3000	4320	1320	
	3000	5400	2400	
	3000	5600	2600	
	4000	6400	2400	
37	154800	252760	97960	2648

4) Gobar Gas

70

(Amount in Rupees)

No. of Accounts	Income Before Loan Operation	Income After Loan Operation	Net Add. Income	Average Net Add. Income
2	4000	4000	0	
	3000	4400	1400	
2	7000	8400	1400	700

5) Retail Trade

(Amount in Rupees)

No. of Accounts	Income Before Loan Operation	Income After Loan Operation	Net Additional Income	Average Net Add. Income
	6320	9200	2880	
16	4320	5760	1440	
	4800	6240	1440	
	10000	12100	2100	
	1800	3000	1200	
	3500	9000	5500	
	2400	7200	4800	
	3000	7200	4200	
	10800	14400	3600	
	1080	3900	2820	
	8100	13500	5400	
	13800	24000	10200	
	10800	14400	3600	
	3600	9000	5400	
	3600	9000	5400	
	2000	4500	2500	
16	89920	152400	62480	3905

SELF EMPLOYED.

71

(Amount in Rupees.)

No. of Accounts.	Income B. Loan Oper- ation.	Income After Loan Opera- tion.	Net Additional Income.	Average Net Additional Income.
21	2400	7200	4800	
	1200	3600	2400	
	720	5400	4680	
	10400	14040	3640	
	2500	7200	4700	
	3600	18000	14400	
	1800	9000	7200	
	3600	10200	6600	
	3600	12000	5400	
	3600	6000	2400	
	5400	10800	5400	
	3600	9000	5400	
	3000	6600	3600	
	8160	14160	6000	
	3600	4800	1200	
	3600	1800	1800	
	2400	4800	2400	
	8340	10740	2400	
	3000	3600	600	
	2400	3600	1200	
	2500	3240	740	
21	82420	165840	83420	3972

SMALL BUSINESS.

(Amount in Rupees.)

No. of Accounts.	Income Before Loan Operation.	Income after Loan Operat- ion.	Net Additional Income.	Average Net Additional Income.
	7000	14200	7200	
9	3600	9000	5400	
	3600	5400	1800	
	3600	7200	3600	
	1800	4200	2400	
	1500	2400	900	
	-	1800	1800	
	3600	5400	1800	
	1800	3600	1800	
9	26500	53200	26700	2967

TRANSPORT OPERATORS.

(Amount in Rupees.)

No. of Accounts.	Income Before Loan Operation	Income After Loan Opera- tion.	Net Additional Income.	Average Net Add- tional Income.
	3500	36000	32500	
	6000	42000	36000	
2	9500	78000	68500	34250

VILLAGE AND COTTAGE INDUSTRIES.

(Amount in Rupees.)

No.of Accounts	Income Before Loan Operat- ion.	Income After Loan Operat- ion.	Net Addi- tional Income.	Average Net Addi- tional Incom-
4	12000	36000	24000	
	4500	7800	3300	
	3600	9000	5400	
	4800	8808	4008	
4	24900	61608	36708	9177

SOLAPUR GRAMIN BANKBORROWER'S SCHEDULE AND QUESTIONNAIREI - Identification particulars of the Borrower

- 1.1 Name :
- 1.2 Address :
- 1.3 Financing Bank (Branch) :
- 1.4 Purpose of Loan :
- 1.5 Period of Loan :
- 1.6 Rate of Interest :
- 1.7 Category of the Borrower :
- 1.8 Occupation prior to [availment] of Loan :
- 1.9 Labour employed in that occupation :
- 1.10 Other (Specify)

II - Assests of the Borrower

- | | Before loan operation | After loan operation |
|---|-----------------------|----------------------|
| 2.1 Land (Acres) | | |
| 2.2 Cattle (No.) | | |
| a) Cow | | |
| b) Bullocks | | |
| c) Goats | | |
| d) Bafellows | | |
| e) Hens | | |
| 2.3 Farm Equipments
(Value) | | |
| 2.4 Equipment for
profession (Value) | | |
| 2.5 Other (Specify) | | |

III - LIABILITIES OF THE BORROWER

	Before Loan operation	After Loan operation
3.1	Personal Loans (Rs.)	
3.2	Period of Loan	
3.3	Rate of Interest	
3.4	Institutional Loans	
3.5	Rate of Interest	
3.6	Other Liabilites outstanding (Specity)	Sp

IV - BUSINESS INFORMATION OF THE BORROWER

	Before Loan Operatðon	After Loan Operation
4.1	Expenses on Seeds	
4.2	Expenses on Fertilisers	
4.3	Irrigation Expenses	
4.4	Expenses on Insec./Pest.)	?
4.5	Labour Expenses	
	a) Sowing	
	b) Harvesting	
	c) Other	
4.6	Annual consumption expenses	
4.7	Main items of consumption	
4.8	Particulars of Production	

Before Loan Operation After Loan
operation

Name of the crop	Quantity price (TR)	Quantity price (TR)
1		
2		
3		
4		
5		
6		

- 4.9 Total Income from
production Activities
- 4.10 Total Expenditure
on production
- 4.11 Net Income from Production
- 4.12 Income from allied
agriculture Activities
- 4.13 Total Net Income

B) PROFESSIONALS/SELF EMPLOYED

- 4.14 Equipments (Value)
- 4.15 Average Sales (Rs.)
- 4.16 Av. Purchases (Rs.)
- 4.17 Av. Stock (Value)
- 4.18 Other Expenses
- 4.19 Taxes paid
- 4.20 Gross Earnings
- 4.21 Net Earnings

*per
unit
period?*

C) MANUFACTURERS

- 4.22 Fixed Capital

Before Loan operation After Loan
operation

C) MANUFACTURERS

4.22 Fixed Capital

- a) Land
- b) Building (Est)
- c) Plant and Machinery

4.23 Working Capital

- a) Raw material
- b) Labour Expenses
- c) Power Expenses
- d) Rent
- e) Taxes
- f) Miscellaneous

TOTAL

4.24 Production (Rs.)

4.25 Sales (Rs.)

4.26 Gross Earnings

4.27 Net Earnings

QUESTIONNAIRE

- 1 a) Amount applied for loan : /
- b) Amount Sanctioned :
- 2 a) Date of application :
- b) Date of sanction :
- 3 Period required for accumulating the necessary documents. ?
- 4 What kind of hypothecation was mentioned for loan ?
 - a) Assets **B** Personal

- 5) How was the loan utilised ?
- For capital expenses
 - Consumption expenses
 - Current Capital
- 6) Loan given by the bank has helped to improve your economic conditions? Yes / No
- 7) Does the bank help in technical/managerial guidance mode alongwith the loan? Yes/No
- 8) How many times did the bank officers visit your project ?
- 9) a) The instalments were paid out of the yield recovered through the loan utilisation regularly and on time - Yes/No
- b) Does the bank offer any kind of concession for the regular repayment?
- 10) How many overdue instalments are unpaid?
Reasons for the overdue instalments.
- 11) Does the bank charge any penalty on the overdue amount ?
- 12) What is your opinion about the bank service ?
excellent / good / bad.
- 13) Had you your account in the bank before procuring the loan ?
- 14) Why did you take the loan from the said bank?
- 15) Have you any accounts in any other banks except this one ? Have you any loan proposal at such other banks?

Place -

Date -

Signature of the Borrower