Chapter VIII

SUMMARY AND CONCLUSION

Regional Rural Banks (RRBs) appeared in the banking map of the country as a third agency of rural credit structure on the recommendation of the Narasimham working group in 1975. The man objective behind the setting up of the RRBs was to provide institutional credit to the weaker sections of the society hitherto neglected for bringing about a progress with social justice to the rural poor.

These banks have achieved a considerable degree of success in taking the banking services to the rural poor and in providing institutional credit to the weaker sections by opening branches in remote rural and in unbanked areas. Despite impressive growth in rural banking parameters they have emerged serious problems reflected in decline in productivity, efficiency and erosion of profitability and have become a subject of controversy over the past few years. Up to March, 1995 out of 196 RRBs only 19 could make marginal profits while, 177 were reporting losses and many of the loss making banks have even eroded a part of their deposits. The losses have continued inspite of some compensatory measures taken by RBI and the Govt. of India to revive these institutions. The overdues in the aggregate grew at a faster rate than the disbursement of loans. The problems faced are also vary over times and from bank to bank due to their operations in different socio-economic condition, different level of efficiency and management attitude.

The present study is an attempt to identify the various factors contributing to the overall deterioration of the performance of UBKGB which is suffering from recurrent accumulated losses and burden of heavy overdues to suggest ways and means for its sustained growth and very survival as a rural credit institution. The study analyses the problems in achieving the basic objective of raising the resources and their deployment as credit to the rural economy. The recovery performance and the problems of overdues are duly analysed to suggest for an effective credit delivery

system that may ensure recovery and improve financial health of the RRBs. The profitability and viability aspect of the bank and its planning and control system are examined to find the factors that stand way for achieving the corporate goals of financial viability.

The resources of the RRBs comprises of share capital, deposit collection and refinance from higher tiers. Of these resources, deposits collection has been the major source of fund to the bank. The share of deposit to the total fund was 51.4 percent in 1984 and increased to 92.5 percent in 1996. This increase of the share of deposits was due to continuous fall of refinance facilities from higher tiers for poor recoveries of loans. The share of refinance support fell from 47.2 percent to 7.8 percent during the same period.

The growth rate of deposits of the bank decreased with the decrease of credit. The growth of credit and the resultant increase of income has been a direct and positive bearing on the growth of deposits. The upward revisions of the rate of interest has found no impact on the growth of the bank's deposits. The growth rate of deposits of the bank in the recent years affected adversely due to sharp fall in the growth rate of credit, non-opening of new branches, aversion of well-off sections of the society due to lack of banking facilities, absence of institutional deposits, low level of economic activities in the rural areas and higher rate of return offered by the post office and other non-banking financial institutions. Savings deposit though persistently predominant (average 55 percent) recorded a decreasing trend in the recent years as against an upward trend of the term deposit. The performance of the bank in raising the deposits was unsatisfactory in comparison with average performance of the RRBs at the state and national level. At the national and state level deposits increased by 14.8 and 16.8 times respectively as against 12.2 times of UBKGB over a period of 12 years (1984-96).

The growth rate of credit of the bank (4.4 times) during the period 1984-96 was far behind the growth rate of the RRBs at the state (7.9 times) and at the national level (6.9 times) which in turn has affected the economic activities of the area and the resultant lower growth of income affected the growth of deposits of the bank. In

the distribution of credit the priority sector alone accounted for more than 85 percent of the total advances. The share of credit in the IRDP increased from 16.4 percent during 1984-90 to 44.4 percent during 1991-95. The credit Deposit (C/D) ratio of the bank decreased from 159 in 1984 to 57 in 1996 at the instance of amounting overdues and for the preference of the bank for earning higher interest income without any risk by keeping cash balance with the sponsor bank which allow interest at a rate (13%) higher than the earning from the lending activities (average 10.5%). The C/D ratio was however, slightly better for the bank than MGB and the RRBs at the national level. High incidence of overdues has become a major constraint to the expansion of credit which in turn adversely affected for financing to IRDP and other rural development programme of the Govt. The target groups still outside the preview of bank's credit suffered on account of liquidity ground for poor recovery and the resultant decrease of refinance facilities from higher tiers.

There has been a positive impact of credit on the earnings of the borrowers and on the improvement of the standard of living of the rural poor. The field survey result revealed that 52.7 percent of the borrowers have been benefited directly in the earnings of income by utilising the loan and another 27 percent have been benefited indirectly in meeting their household and social obligations which has saved their property from sale to meet the obligations under that circumstances. Among the borrowers responded, 4.2 percent have expressed that they have really been benefited in the improvement of their standard of living by acquiring consumer durable or by repairing and constructing new houses. The impact of credit was not similar for all the district due to non-utilisation or misutilisation of loan. The impact of credit was not satisfactory due to poor credit management, as indicated by wrong selection or selection to unsuitable and unviable scheme, inadequate pre-sanction scrutiny and post sanction supervision and follow-up for end use of credit, supply of poor quality of assets and disbursement only at the end of the year and inadequate infrastructure and marketing facilities which has been observed during the course of our survey.

The recovery performance of the bank was very unsatisfactory in comparison with average performance of the RRBs in the country. The percentage of recovery to demand decreased from 49.2 in 1984 to 27.3 in 1996 as against the percentage 38.0

and 32.9 at the state and 50.1 and 51.0 at the national level during the same period. The recoveries from short-term agricultural loan was however, comparatively better than the term loan for agriculture and allied activities : This very unsatisfactory recovery performance of the bank in the recent years had severely impaired the eligibility of refinance facilities from NABARD and have the lending capacity of the bank like that of other RRBs in the country due to their inability to recycle the resources. The overdues in the aggregate grew at a faster rate than the disbursement of loan. The recovery to disbursement ratio fell from 77.5 during 1984-90 to 50.3 during 1991-96. The overdue per branch and per account also increased with the increase of advances per branch and per account both at the bank and national level. The positive regression coefficient of overdues on loan advances both at the bank and national level also satisfy this fact.

Low productivity and inadequate income generation due to supply of poor quality of assets, failure of the assets/scheme due to inadequate infrastructure and marketing facilities, unforeseen domestic problems due to extravagant social customs and tradition, ineffective and in sufficient supervision and follow-up visits and political interference have been observed to be the major reasons for poor recovery of loans to which the majority of the respondents attributed their defaults. The survey also revealed that a sizeable number of borrowers have defaulted wilfully due to lack of legal steps, lack of sufficient interest and initiatives of the govt. agencies as well as of the bank staff, liberal attitude of the Govt. and expectation of debt relief by the govt. to which 13 percent of the beneficiary respondents and 8 percent respondents of the bank staff have attributed their views. The poor quality of lending as reflected by limited scope of appraisal and rejection of loan proposal, undiversified loan portfolio, pressure for lending to unsuitable and unviable scheme, also responsible for this poor recovery performance of the bank.

The distribution of overdue size with the respective size of land, level of income, educational status, family size, caste and age of the borrowers has revealed no definite relationship. That is, the overdue size has not been influenced by the above mentioned variables. The distribution of defaulters and non-defaulters with their respective size of land, family, level of income, educational status, caste and

age also showed no positive impact on the payment behaviour of the borrowers defaulted or non-defaulted.

The squeeze of profitability and viability of the bank has come from both the revenue and cost side. The spread ratio i.e. interest margin between the source and use of funds has been very low (average about 3.9%) due to (i) lesser utilisation of refinance which was slightly cheaper than the cost of deposits. The refinance support from NABARD fell sharply from 47.2 percent of the total outstanding balance of funds in 1984 to 7.8 percent in 1996. Whereas, the share of deposits increased from 51.4 to 92.5 percent during the same period.

(ii) The preference of the depositors in favour of term deposit causing substantial rise in the cost of deposits. The share of term deposit has increased from 21.5 percent of total deposits in 1990 to 33.5 percent in 1996. When the share of saving deposit decreased from 55 to 49 percent.

(iii) The return on fund has not been increasing in the same proportion as that of the increase of the cost of funds due to non-increase of interest income from advances which accounted for more than 92 percent of the total income. The interest income on advances was almost remain constant at about 10.5 percent. The increasing trend of return on funds in the recent years was due to non-credit interest income i.e., interest from investment and deposit with the sponsor bank. The rate of return on advances has also remained static due to limited scope of lending to non-priority sector at a higher rate of interest. Whatever scope available also could not be utilised due to lack of professional skill of the bank staff.

(iv) Lower productivity due to lower disbursement of credit as a consequence of poor recoveries and bad debt, lower interest rate for lower slab of advances (interest rates policy prescribe higher interest rate beyond Rs. 25,000, when average credit per account of the bank was less than Rs. 2000 during the course of our study) and undiversified loan port-folio (confined to target group lending) provides a major explanation for lower rate of return on funds.

The burden ratio of the bank increased at a steady rate over the years due to increase of establishment and other operating cost and very negligible proportion of

non-fund based income. The burden ratio during 1984-87 was 4.7 percent (average) of the outstanding credit and increased to 7.23 percent in 1990 and further to 11.5 percent during 1991-96. The salary and allowances and other establishment cost (transaction cost) increased from average 44 percent of the total expenses during 1984-89 to 53.6 percent during 1990-96. The salary and allowances increased by 20 percent and other establishment expenses by 21.2 percent as against 14 percent in the volume of business during the period under reference. The share of non-fund based income was less than one percent of the working fund during the same period.

The profitability performance of the bank also affected adversely due to :

(i) the increase of DICGC premium rates from 0.5 to 1.0 percent in 1984 and further to 1.5 percent in 1989.

(ii) The higher cost responsiveness or lower cost effectiveness in comparison with other bank (MGB) due to apparent managerial inefficiency in the control of operating cost.

(iii) the lower Income-Advance (I/A) ratio in comparison with other RRBs of the state due to lower non-interest income and interest income on deposits and higher Expenditure Deposits (E/D) ratio due to higher proportion of establishment and other expenditure and higher proportion of term deposits.

(iv) lower average business per branch of the bank of Rs 95.3 lakh as against 119 Lakh of MGB, lower income per staff of Rs. 1.09 lakh as against Rs. 1.30 lakh and higher expenditure per staff of Rs. 0.68 lakh as against Rs. 0.54 lakh of MGB during 1984-89. The other establishment expenses per staff of the bank of Rs. 0.11 lakh during 1984-89 and Rs. 0.27 lakh during 1990-96 was also much higher than the MGB of Rs. 0.06 lakh and Rs. 0.15 lakh respectively during the same period which affected the bank's profitability performance.

(v) the higher transaction cost per staff due to managerial inefficiency in the control of establishment expenses other than salary and allowances. Though the bank has been experiencing a better growth of staff productivity than MGB the growth rate of other establishment cost at a much higher rate outweighed the benefits of higher productivity.

The performance of the urban branches in the mobilisation of deposits was far better the semi-urban and rural branches due to their locational advantages. The average deposits of the urban branches during 1986-96 was recorded at Rs. 190 lakh as against Rs. 74 Lakh for the semi-urban and Rs. 22 Lakh for the rural branches. However, the growth rate of 3.8 times of the deposits of urban of urban branches was far behind the growth rate of 11.6 times of the semi-urban and 13.8 times of the rural branches. This lower growth rate of the urban branches was mainly due to competition with other commercial banks and non-banking financial institutions which offer better banking and other facilities. The lack of sufficient interest and initiatives of the branch staff also affected this growth. The savings deposit of the rural branches showed persistently dominant varying between 51 to 89 percent of the total deposits as against 24 to 58 and 32 to 46 percent respectively of the semi-urban and urban branches with a decreasing trend. The share of term deposit on the otherhand, of the rural, semiurban and urban branches was varying between 13 to 48, 25 to 55 and 11 to 33 percent respectively.

Credit deployment of the urban and semi-urban branches in the recent years was very negligible and far behind the expectation. The growth of credit of the urban and semi-urban branches was just 2 to 3.7 times as against 5 to 8 times of the rural branches. One of the Sample rural branches even recorded a growth of 39.5 times during its operational period of 8 years. The C/D ratio of the branches fell sharply. This fall in the ratio was much higher for urban branches (decreased from average 68 to 31) than those of the semi-urban and rural branches (decreased from average 137 to 98) The urban branches recorded worst recovery performance followed by semi-urban and rural branches. The average recovery (excluding HBL and DLTD) of the urban branches decreased from 17.7 percent during 1986-91 to mere 6.4 percent during 1992-96. This Performance for the Semi-urban and rural branches decreased from 15 to 12.6 percent and 26 to 15.5 percent respectively. The recovery of one of the rural branches was as high as 95 percent during 1989-92 and decreased to 54.1 percent during 1992-96. The best performance of this branch was mainly due to the initiatives and interest of the branch staff and the member of the panchayat for realising its debt.

The profitability performance of the Sample branches varied due to their wide differences of the volume of business per staff. The average business per staff of the urban branches during 1986-91 was Rs. 20 Lakh as against Rs. 6.8 Lakh to 13.7 Lakh for the semi-urban and Rs. 4 Lakh for the rural branches. During 1992-96 the respective business volume of the branches were Rs. 29 Lakh, Rs. 20 Lakh and Rs. 15 Lakh. The higher average business per staff of the urban branches was mainly due to their larger volume of deposits. On an average the urban branches were earning profits mainly due to interest earnings from larger volume of deposit and non-interest earnings by way of commission & exchange. Thus, the average income Per staff of Rs. 2 Lakh for these branches was higher than the expenditure of Rs. 1.5 Lakh. For most of the semi-urban and rural branches the average income per staff was lower than the expenditure due to their lower volume of business per staff (productivity) and resultant lower interest income. The poor profitability performance of the urban and semi-urban branches during the recent years (1992-96) was mainly due to heavier growth of salary and allowances of 42 and 33.5 percent respectively over the preceding period 1986-90. This growth for the rural branches was very negligible. This heavier growth of salary and allowances of the urban an semi-urban branches was mainly due to concentration of staff in those areas for better civic advantages. This concentration has taken place due to managerial inefficiency in the planning of manpower and their deployment for effective use. Against this concentration, the growth rate of the business of the urban semi-urban branches was much lower (45 and 118 percent respectively) than the growth rate of rural branches (268 percent) during the same period as mentioned above. Most of the urban and semi-urban branches could not utilised the scope granted for lending to non-target and non-priority sector at a higher rate of interest due to lack of professional skill and sufficient interest.

The interest income from lending activities decreased at a constant rate for all the branches as against the increase of interest income from deposits with Head Office and other banks. The interest income from lending activities during 1986-91 were 53.9%, 82.4% and 82.0% of the total income respectively of the urban, semiurban and rural branches and decreased to 33.6%, 68.2% and 62.2% during 1992-96 except

for one sample rural branches (Thansewarhat) for which it increased from 40.6% to 88.9%. The interest income from deposits on the otherhand, increased from 38% to 54%; 11% to 30.3% and 26% to 26.8% respectively for the urban, semi-urban and rural branches. This indicates that the branches in general are not interested in normal lending activities This non interest for lending activities was due to risk of non-recovery to which the majority of the respondents of the branch manager have attributed their views. The survey of the branches also revealed a virtual absence of profit and recovery planning. Most of the branches had their profits or losses as residual elements of heir financial performance.

The Performance Budgeting System (PBS) has been introduced by UBKGB very recently like that of other RRBs in the country. But due importance was not given for its effective implementation. The budgeting system of the bank was primarily based upon the Past Performance of the branches. The business Potentialities of the area (environmental data) which is an important constituent for such budgeting system, has not been dully considered while formulating the branch budget. The needs of the economy and the viability also gets negligible attention.

In the settlement Process of the budget due importance and scopes are not given to the branch managers for open discussion about the business potentialities of the area while fixing the targets. Lack of sufficient data, information and knowledge about the potentialities of the area and non-involment of other staff in the budget formulation procedures stand way to the effective implementation of the system. The budgeting exercise is not carried out in true spirit as the requirements of various resources are worked out but they are provided partially or by temporary adjustment only.

The periodicity of reporting differs from branch to branch for which either no steps or a minor steps are taken by giving only reminders for the same. The review procedure is far from the spirit of the performance budgeting system. Of the branch manager respondents, 33 percent have viewed that the review is either done at the head office without the involment of the respective branch managers or the review is not done at all. The periodicity of review is also not uniform for all the branches.

Though the practice is to review the performance quarterly, 30 percent of the respondents viewed that it is done yearly or half-yearly. For the variance of actual performance in relation to budgeted performance no action is taken.

The inter-branch and inter-area office comparison plays a positive role in the improvement of the performance of the respective branch or Area Office : But this has not been adopted by UBKGB in true sense. The reward for outstanding performance in relation to the budget and discouraging or Punishment for very poor performance for motivating the managers of the performing units is absent in all the cases.

The practice of direct operational control through audit and inspection and indirect control through structured periodic return and statements are not followed strictly by the bank. The interview revealed that the inspections and audits are done very irregularly and for non-compliance of the norms, minor action or no actions are usually taken by the management.

The study leads us to the conclusion that the RRBs in the country have a definite important role to play in the improvement of our rural economy. Thus, the solution lies not in abandoning but revitalizing them in a suitable manner. The problems faced by them are from both exogenous and endogenous factors. The solution to the Problems has therefore to be sought by taking appropriate policy measures both at the leavels of Govt./monetary policy and internal working of the banks.

Deposits collection is the major source of funds to the RRBs and its growth is dependent on the growth of credit. Hence, for a sustained growth of deposits, a steady growth of credit is to be maintained. The level of income has a stronger effect than the upward revisions in the rate of interest on the growth of deposits. Thus, for raising the level of income of the rural poor there must be a circular flow of credit to the rural economy. The absence of institutional deposits to the bank suggests that both the State and the Central Govt. should direct all their respective departments. functioning in the areas of the bank to keep their funds grants with the RRBs. This will not only help these banks in solving the problems of funds but also will go in a

long way in image building of the public. To attract the better-off sections and businessman of their area, it is also necessary to provide banking facilities in line with the commercial banks.

Deposit collection from the rural areas to a great extent depend upon the personal contact and initiatives of the bank staff concern. The lack of initiatives and interest of te bank staff in collecting deposits from prospective customers needs some attitudinal change for bringing about the desired results. The training of the staff needs appropriate reorientation. With this end, "Management Development Programme" for all type of managers and "Organisational Work-shops" for all staff at a regular interval will help to change the attitude of the staff in the right direction. A percentage of additional benefits to the bank beyond the targeted figure may also be granted to the staff concern to encourage them for raising more deposits. Introduction of innovative deposit schemes (like K.S.P. in rural areas, rewards on renewal of deposits, penalty free pre-mature withdrawal and additional benefits for maturity withdrawal) will also be necessary for making them more competititive and attractive.

The positive impact of credit on the earnings of income and in the improvement of the standard of living of the rural poor also suggests that the flow of credit must not be hampered at any cost. The recent poor performance of the bank in the implementation of the District Credit Plan and gradual decrease of priority sector lending by the public sector Banks have severely affected the rural development programme of the govt. It is therefore necessary that the RRBs including UBKGB will come forward to supply the credit according to the needs of the rural economy (as per the target of the District credit Plan) to cover up the target groups still outside the preview of bank's credit and thereby to increase the C/D ratio from present 57 to 100.

The main factor contributing to the unhealthy situation of the RRBs is that the credit delivery system has not produced desired results in terms of quantity, quality and in the maintenance of circular flow of credit and for their end use. The successful management of rural credit in India, specially the RRBs at the moment, requires

identification of appropriate beneficiaries, Constant monitoring of proper utilisation of loans, time bound repayments, cost effectiveness, relaxation in the practice of subsidizing the interest rates to the comparatively better-off section for the lower slab of credit, reduction of overdues and non-performing assets and increase of staff productivity, accountability and motivation. The Credit delivery system of Grameen Bank of Bangladesh (GBB) has proved that the poor can utilise the credit efficiently when their level of awareness is raised and they worked in a group. The strong management system, decentralization of power and responsibility and intensive training of the staff are the main features that have enabled the GBB to function successfully. The incentive scheme of GBB in the form of distribution of 10 percent of the profits to staff, by tying up of bonus to quantifiable performance criteria has succeeded in increasing the staff accountability and motivation. The introduction of social mechanism that lowers transaction cost, screen loan application and ensure repayments appears to be key to success. The group lending approach (i.e. lending through self-help groups (SHGs)) of GBB have had relatively low deliquency and default rate (recovery is more than 95 percent).

The banking through self-Help groups (SHGs) by Oriental Bank's grameen project in Dehradun district of Uttar Pradesh has also experienced better utilisation and almost 100 percent recovery of loans. The group approach is cost effective as a number of persons are contacted in one meeting. The SHGs are also very helpful for increasing rural savings. The group approach can ensure wide coverage of poor families through bank credit. Moreover, the members of the group learn to approach the bank independently for bigger loan due to direct interaction and guidance from the banker.

The SHGs in West Bengal like that of GBB and Oriental Bank's grameen project have also proved the track record of working on almost 100 percent repayment.

Hence, for solving the problems of mounting overdues, huge non-performing assets and high transaction cost and for selection of appropriate beneficiaries, constant monitoring of proper utilisation of loans and time bound repayment from target group lending it is imperative that the RRBs in the country will adopt the policy of group

lending approach on an urgent basis in line with GBB and other SHGs of the country. The group lending approach or lending through SHGs and Non-govt. Organisation (NGOS) will definitely help the banks in the indetification of appropriate beneficiaries, their requirements and for the effective use of credit which then will ensure timely repayment of loans---the basic need of the hour. The system will also help in the reduction of transaction cost, economizing working load including the task of monitoring--- the other important aspect for the successful operation of the RRBs.

The next is the suggestion for appointment of "Recovery Facilitatiors" or "Recovery club" to be drawn locally to improve recovery position through timely contact with the borrowers that will also help in the reduction of transaction cost as a result of curtailment in frequent visits of the recovery staff. The study also suggests that for target group lending the RRBs must be freed from political and administrative interference in regard to selection of appropriate beneficiaries and in taking necessary legal steps for non-payment of dues wilfully. The lack of assistance from the govt. agencies suggests that they be made accountable and responsible for non-recovery of loan in time.

The culture of non-payment of dues among the beneficiaries demands that their level of awarness has to be raised by organising camps in the rural areas to which the member of the panchayat along with other rural development agencies of the govt. and the staff of the bank concern will participate actively at a regular interval. Stern action will have to be taken for default wilfully and the practice of frequent relief of debt by the govt. to be stopped forthwith and declairation to this effect be made immediately by the govt.

The recovery management of the bank also need to be improved a lot by making continuous link with the borrowers in post disbursement stage. For effective supervision and follow-up for end use of credit the field staff of the branches may be freed from their official duties to enable them to devote whole working days for the purpose. The accountability and responsibility of the staff also a necessary for target oriented recovery. The staff must be made accountable and responsible for not achieving the target. However, some incentives may be linked for performance beyond

the targeted amount to motivate the staff. Organising periodical seminar/workshops for joint discussion with the officials of the state govt. departments/agencises for their involment and commitment and for taking joint action for non payment will also help for better recovery performance.

The squeeze of profitability and viability has come from both the revenue and cost side. The dominant determinants of lower margin are exogenous to the bank (increase in the cost of deposits due to increase in the share of term deposits and non-increase of interest income from advances). The monetary policy determines the limits for cost and return on funds. The comparative analysis signifies that there exists scope for reduction of interest cost by availing maximum refinance facilities from higher tier which is slightly cheaper than cost of deposit and also by collecting low cost deposit by taking sufficient interest and initiative by the staff and establishment cost by better productivity and managerial efficiency.

The solution to the problems of profitability has therefore to be sought both at the level of monetary policy (for better interest margin) and internal efficiency of the bank. Keeping in view the nature of viability problems of the bank, determination of a margin sufficient to cover the transaction cost is a necessary condition.

Chakraborty committee advised rationalisation of number of concessional rates of interest to priority sector. To this end, the committee recommended only two concessional rates : one equal of the basic (minimum) lending rates and the other a shade below this rate. The khusro committee estimated the gross interest margin required at the ground level by the RRBs is 8.65 percent to cover transaction cost and risks and recommended a re-determination of lending rates subject to the ceiling of 15.5 percent except for redefined priority sector borrowers. As for the redefined priority sectors, the committee recommended a lending rate of 1.5 points above the higher rate of interest on deposits of SCBs. Narasimhan committee suggested elimination of concessional lending rates even for the priority sector and for the govt. sponsored programmes like, IRDP and the stipulation by RBI of a spread between the bank rate, deposite rate are and the prime lending rate are the important elements of the interest rate policy. The Khusro committee recommended continuance

of directed lending for agriculture but suggested that concessional interest rates should be applied only to small and marginal farmers and that the rates applicables to loans for other farmers be stepped up within the ceiling of 15.5 percent. The Narasimham committee on the otherhand, has recommended the phasing out of all directed lending on the ground that the growth of agriculture and small industries has now reached a stage where the legitimate productive needs of these sectors could be met by banks on the basis of the bank's commercial judgement. Pending such phasing out the committee has suggested a redefinition of priority sector and a refixation of credit target for this group at 10 percent of the aggregate bank credit.

Thus the upward revision of the interest rates on agriculture and other priority sectors rural loans was the main aspect of recommendation of the above mentioned committees. The committees also observed that rural borrowers would be able to afford higher rates if increase in rates is accompanied by an improvement in the quality of lending and the step up in lending rates is likely to be healthier and may produce greater real impact on output and employment besides improving the health of the credit institutions. As regards loans to target groups under IRDP- overtime it has been increasingly realized that the availability in time and the adequacy of the loans that are more important than the cost of loans (J.S. Tomar). The Grameen Bank of Bangladesh has also proved that the poor can utilise the credit efficiently at a higher rate of interest through an improved quality of lending.

In the context of economic reforms and liberalisation we may have to adopt a somewhat cautious approach to ensure that the flow of credit to the rural economy (agriculture & other activities) are not adversely affected. At the same time the viability of the rural credit structure has to be ensured for their very survival as a rural credit institution. The spread between the lending rates and the average cost of loanable funds should be just enough to cover costs and risks. As the burden ratio of the banks (UBKGB and MGB) in our study differ widely owing to internal efficiency differences it is not possible to recommend a particular margin. Thus, a logical approach would be to widen the margin partially by monetary policy adjustment and partly through better fund management and operating efficiency through effective planing and control

system to increase the staff productivity and to improve the profitability performance of the bank.

The freeing of interest rates for higher slabs of loans are not beneficial to the RRBs due to limited scope of lending in rural areas and as the average size of loan is very small (less than Rs. 2.5 thousand). In view of the above observation an upward revision of the rate of interest rate structure by at least two percentage points for lower slab (including priority sector) can provide a reasonable margin to the banks. In the altered structure however the poorest of the categories may be exempted on welfare ground and substituted by a provision for cross subsidisation by including the non-target group beneficiaries with relatively higher economic status. The new interest rate structure also be imparted flexibility and dynamism by making it responsive to inflation and other macro economic policy adjustment that may raise cost of funds and operation of the banks.

The lack of professional skill and interest of the branch staff stand way for lending to non-priority sector at higher rate of interest. Hence to get the desired result it is imperative that the branch staff are trained suitably to reorient their attitudes and to develop a positive outlook in this direction. To augment the lendable resources, the paid up share capital of the RRBs be raised from present Rs. one crore to Rs. two crore and the RRBs not yet eovered for cleaning up of their balance sheet (K. Thinglaya and Basu committee 1995) be immediately taken up to cover up the accumulated losses of such RRBs including UBKGB. A part of the SLR funds may be allowed to be invested in term deposit schemes run by the commercial Banks and post office and in the equity linked securities of the public sector financial institutions (like UTI, IDBI, ICICI etc.). The part of the SLR funds maintained as current and called deposit may be permitted higher interest by two percentage points. Other than SLR, the surplus funds to be allowed to park in UTI schemes, fixed deposits in profitmaking term lending institutions, bonds of nationalised banks, PSU and other financial unstitutins of repute. Another most important point is that they be allowed to access to the credit port-folio of their respective sponsor banks. The overall impact of the additional paid up capital and of the diversified asset port-folio on account of SLR

and non SLR surplus funds is supposed to raise the return about 2 to 3 percentage points.

In the direction of reducing the cost of funds the banks need to give more stress for raising low cost deposits and to adopt refin-ance planning design to make opti mal utilisation of the facility. The lower cost effectiness of the bank suggests to take appropriate steps in the control of operating cost by proper planning in manpower and their utilisation. The high degree of correlation coefficient between the income and business volume suggests that the productivity of the staff be raised to the level to cover up the cost including the rise in wages and other establishment cost in future. In this direction it is also necessary that their productivity to be pre-determined and fixed in accordance with the broad parameters like staff and non-staff cost, provision for bad debt, cost of funds, yield on advances etc., so that the margin earned from business can very well meet their existing as well as future rise in wages. The better productivity in turn will make the RRBs a viable institution and remove uncertainties of existence and secure wage rise and other benefits automatically.

The relocation of some rural branches in comparatively better growth centre and opening of some additional branches in urban areas due to limited scope of business in rural areas are also necessary to increase the staff productivity. Hence, they be all-owed to take steps in this direction. To increase the non-fund based income and for better investment scope they may be allowed to open one branch in their respective state capital. The better productivity, internal efficiency and the group lending approach is supposed to reduce the transaction cost/burden ratio by 2 to 3 percentage points.

Performance budgeting system as an effective instrument of mangement planning and control system, plays a vit al role in realising the objectives of a bank. It enables a judicious use of resources, creates a healthy competition between branches and aids in evaluating the adequacy or otherwise of the existing policies and procedures. Though the system has been introduced by UBKGB like other RRBs in the country, it has not been implemented in true spirit. Hence, for its effective implementation and to get the desired results it is suggested that the business plan of

the branches be based on the potentialities of the area rather than the past performance. In the settlement process more scope to be given to the concern branch managers for open discussion. The review of actual performance at a regular interval, definite steps for non-compliance of the norms and for not achieving the targets, reward for outstanding performance in relation to the budget in the from of promotion increments, bonus etc. an punishment for very poor performance by withhelding the increments, promotion, bonus etc, for motivating the performing units are the other important aspects to which the bank should give due attention for the corporate goals of financial viability. The lack of proper knowladge of the staff for formulation and implementation of the budgeting system also suggest intensive training, organising workshop and other interactive programme to achieve the desired goals.

To improve the effectiveness and feasibility of the various measures the role of the sponsor bank and the govt. is essential. The sponsor banks must share their infrastructure and expertise and advise the RRBs on various aspect of their assets and liability management. Likewise, the state govt. should take care for improving the necessary marketing and infrastructural fracilities, for giving govt. business to the RRBs and in assisting them for recovery of dues.

It all these measures along with the suggestions of CRAFICARD, K. Thingalaya and Basu committee are implemented there is no reason why the objective of the RRBs would not be adequately achieved.