

Chapter I

INTRODUCTION

I. Statement of the Problem

The failure of the co-operatives in meeting the credit needs of the rural areas, the urban bias and neglect of weaker sections by the Commercial Banks (CBs) have led to the establishment of Regional Rural Banks (RRBs) in 1975 as a third agency in the rural credit structure on the recommendation of the Narasimham's working groups. The main objective behind the setting up of the RRBs was to provide institutional credit to the weaker sections of the society hitherto neglected and bringing about a progress with social justice to the rural poor.¹

In terms of growth in rural banking parameters, the RRBs have made a phenomenal progress. The number of RRBs rose from 6 in Dec, 1975 to 196 in Sept. 1989. The number of district covered increased from 12 in Dec. 1975 to 405 in Sept. 1995 while, the number of branches increased to 14528 from 17 during the same period, of these 92% are opened in unbanked & under bank areas and their rural branch network constitutes 38.3% of rural branches of all scheduled commercial banks. Aggregate deposits and outstanding credit as on March 1996 stood at Rs. 1418790 lakh and Rs. 750502 lakh respectively.² Despite impressive growth they have emerged serious problems reflected in a decline in productivity and efficiency and erosion of profitability and have become a subject of controversy over the past few years. Upto March 1995, out of 196 RRBs only 19 could make marginal profits while 177 were reporting loss and many of the loss making RRBs have even eroded a part of their deposits. The accumulated losses of 177 RRBs stood at Rs. 171552 lakh as on that date. Though the number of profit making bank increased to 44 in March 1996, the accumulated losses increased further to Rs. 215209 lakh (3) inspite

of some remedial measures taken by the RBI & Govt. of India during 1993-94 and onwards.

There are several factors which have inhibited the financial viability of such institutions. First, the overall return on rural lending is not commensurate with the transaction cost added to the cost of fund. Another important factor which is damaging the financial viability is poor recovery of loans coupled with culture of non-recovery and periodic expectation of debt-relief. The percentage of recovery to demand decreased from 50.1 in 1984 to 41.2 in 1993. The overdues in the aggregate grew at a faster rate than the disbursement of loans. The Recovery to disbursement ratio fell from 70.5 in 1989 to 57.2 in 1996. The high level of overdues are on account of various factors like indifferent management at the grass-roots level, unsound lending policies, diversification of loans for other purposes, lack of adequate supervision over the end use of loans, vested interests and politicisation, lack of effective control of higher tiers over the lowers and failure to take prompt action against wilful defaults. Thus, over the years RRBs have been severely weakened by low margin in interest high transaction cost of serving large number of small accounts, ineffective lending procedures, apathy of the bank staff and poor recovery. The rising volume of overdues of loan has been causing concern not only to the management of these institutions but also to other regulatory agencies like, RBI, NABARD and policy maker at the national level. The reasons for poor recovery vary from bank to bank and from state to state due to their different socio-economic condition prevail and efficiency and attitude of the management and staff. The substantial losses made by RRBs have created doubts. Whether they could function as a viable unit over the longer terms. The resolution of these problems seems necessary not only for their smooth and effective functioning but also for their very survival as a rural credit institutions and an agency for rural development.

Several measures have been initiated by the RBI and the Govt. of India since 1991 providing greater flexibility in lending operations, rationalisation of interest rate structure, relocation of loss incurring branches and others. Again, the restructuring of the RRBs has been debated at length without a resolution. Several proposals have been put forth like merger with sponsor bank, merger into a rural

subsidiaries of commercial banks and the merger of all RRBs into a Nationwide Rural Banks (NRBs). The latest is the plan for restructuring RRBs in a phased manner within the existing framework by cleaning up of their balance sheets and by infusing fresh capital and the introduction of Development Action Plan(DAP) w.e.f. 1994-95 for achieving break-even level (BEL) within in a reasonable period. The DAP envisages several measures to be taken by RRBs for improving their performances.

There are also other areas where the rural credit delivery system is quite clearly unsatisfactory and it is imperative that early measures are taken to bring about an enduring improvement in the credit delivery system.

The problems cited above calls for a details re-examination of the various factors contributing to the overall deterioration of the functioning of the RRBs inspite of some remedial measures taken by the RBI and the Govt.of India. The factors Contributing to the deterioration of the performance and their magnitudes also vary over times and from bank to bank for their functioning in different socio-economic environment, different level of managerial efficiency, attitude of the staff, planning and control system adopted by the respective units etc.

Thus, in the changing face or rural credit, it warrants our attention to make a detail study of the problems and prospect of RRBs. particularly the problems of UBKGB which is suffering from recurrent accumulated losses and represent the financial state of a majority of RRBs in the country for making appropriate suggestions.

II Review of literature.

Various committees have been set-up by the Govt. of India and the Reserve Bank of India (RBI) from time to time to review the overall performance of the RRBs in achieving the objectives set before them. Studies are also undertaken by various academicians in highlighting the problems faced by them. The reports and

studies relevant to the present study are in brief depicted below:

Dantwala Committee (1977), the working groups on RRBs, observed that the expansion of the system was unnecessarily hurried. The two notable propositions were to extent the clientele in terms of loan coverage and to present unrestricted lending to non-target group. Though the performance of the RRBs during the two years period was in no way spectacular, the committee recommended for an integral part of rural credit system.

RBI (1981) : RBI in its viability study on RRBs stressed the need to reconcile the viability with the social objectives for which the RRBs were set-up.

CRAFICARD (1981) : The committee to review the arrangement for Institutional credit for Agriculture and Rural Development (CRAFICARD), recommended for licensing of branches in the rural areas to RRBs on performance basis, transfer of eligible business of rural commercial bank branches to the RRBs, the losses in the initial years should be made good by the shareholders, the various facilities provided by the sponsor banks should continue for a period of 10 years, the control, regulation and promotional responsibility of RRBs to be undertaken by NABARD and also recommended for the continuation of the RRBs as an integral part of the Credit System despite their many deficiencies and loss of viability.

Kelker working group (1986). The group recommended, interalia, the provisions of amalgamation of RRBs in consultation with NABARD, state Govt. concerned and sponsor bank after taking into consideration public interest, development of the area and interest of the RRBs concerned. The working group was also of the view that inspite of serious organisational deficiencies and loss of viability RRBs should continue their existence and cater exclusively to the weaker sections.

Khusro Committee (1987). The agricultural credit review committee in its report in 1989 observed that the factors which contributed to the erosion of profitability of the RRBs were many and indeed endemic to the system structured as it was. In sum, low margins, low level of business and higher operating costs all of which are built into the system, account for the inescapable losses in RRBs. Hence,

the committee recommended that the RRBs should be merged with their respective sponsor banks. The committee also observed that the future thrust on rural credit has to be on preserving the viability of the credit structure. Though the committee was highly critical of the politicisation of rural banking, it has not suggested for any major structural reorganisation as the basic foundation of the rural credit system.

Narasimham Committee (1991) : Finally, the Narasimham Committee has recommended that the directed credit programme at concessional rate of interest be phased out. The committee also suggested for redefinition of the priority sector, to include the small & marginal farmer, the tiny sector of industry, small business and transport operators village and cottage industries, rural artisans and other weaker section and for refixation of the credit target for this group at 10 percent of the aggregate bank credit. The committee also recommended merger of all RRBs into a nationwide National Rural Bank (NRB) and for deregulation of interest rates.

Bhandari, M.C.(1994) and Thingalay, N.K.(1995) suggested restructuring, managerial and financial, by cleaning up of their balance sheet and by infusing fresh capital and time bound improvement of financial performance.

Sangwan, S.S. (1989), attempted to identify the factors which have affected the viability of lending activities in the rural areas for RRBs. Then with the concept of viability, a break-even model for rural lending activities is evolved at the branch level to suggest remedies for improving its viability.

Bedi,S.(1992), in its research project on the viability of RRBs of Haryana revealed that the problems of declining margin is associated both with endogeneous and exogenous factors. The solution has therefore, to be sought basically at the level of monetary policy which is an exogenous parameter for the bank and by efficient internal management of the business which is an endogeneous factors.

Tarapore, S.S. (1994), in his paper suggested for freedom in respect of determining the rate of interest. He also highlighted the involvement of self-help groups (SHGs) and Non Govt. Organisations (NGOs) in the process of lending and stressed an urgent need for restructuring the RRBs and if necessary, closure of some unviable RRBs.

Varde, S. Varsha (1994), Viewed that commercial viability and economic development are not the mutually exclusive factors and they can be achieved simultaneously.

Mahapatra, U.C. (1995), has focussed on the fact that even in the present liberalised and competitive rural banking environment, rural banking is as relevant as it was before and the bankers must reorient their attitude and develop a positive outlook to meet the emerging challenges for actualising the overall organisational excellence.

Bhavani, R.V. (1995), stressed the need for linking of banks with SHGs and NGOs and the viability and greater accountability of the system as a whole are also imperative.

Chowdhury, R. Kumar (1996), in his article on RRBs observed that RRBs have a definite important role to play and the solution lies not in abandoning but revitalising them in suitable manner. Identification of appropriate beneficiaries, constant monitoring of proper utilisation of loans and time-bound repayment are the major tasks for successful operation of the RRBs.

Rao, V.K.K.B (1996), in his articles focussed on to the conduct of Organisational Development (OD) workshop in all the RRBs to bring about the desired attitudinal change in the staff of the RRBs in addition to the structural adjustments attempted by the Govt. through restructuring of RRBs and implementation of Development Action Plan (DAP) and lending through SHGs and NGOs.

The reports and studies mentioned above have amply proves that the RRBs in the country can serve as an important instrument for achieving the national policy objective of economic growth with social justice. The studies have pointed out various aspects for successful operation of the RRBs. The recurrent accumulated losses and the faster growth of overdues of UBKGB inspite of the some remedial measures taken by the Govt. led us to have some fresh thinking on the issues that stand on the way for its successful operation as a rural credit agency for the development of the three backward districts of the state of West Bengal, the operational area of the bank. Hence, the study of the problems & prospect of RRBs, a case study of UBKGB is justified .

III Objective of the study.

The attainment of social objective of lending to the weaker section by mobilisation of rural savings and refinance from higher tiers and channelising them for productive activities in the rural areas was the major objective behind the setting up of the RRBs. In achieving the objective a basic prerequisite for an efficient and viable credit delivery system is that it earns sufficient income (interest and other) to cover all its expenditure (interest and other establishment costs). The timely recovery of loans, the another pre-requisite for a sustainable growth, is far behind the expectation. No credit programme can expand without adequate recovery inspite of the Govt,s best efforts. The recovery is also related to generation of sufficient income which in turn is dependent on adequacy and timely delivery of loans, identification of viable scheme and beneficiaries, quality of assets acquired, pattern of use of loans and follow-up and the rate of interest charged. Above all, the interest and initiatives of the bank staff and concerned Govt. agencies, the policies of the Govt, and that of the bank play a very important role for better recovery. The operational area under different economic activities also plays a positive role for successful functioning of a bank. This coupled with positive management attitude can create a viable institution.

In view of the above, the following objectives are set for the present study:

- 1) Identification of the specific problems and their magnitude in attaining the major objectives of lending to weaker sections by mobilisation of rural savings & refinance
- 2) To find a credit delivery system that will ensure effective use and recovery of loans.
- 3) To examine the factors contributing to the overall deterioration of the financial performance of the bank.
- 4) To understand the management planning and control system in achieving the desired results.

- 5) To suggest measures for overall improvement of the functioning of the bank as well as RRBs of the country.

IV Methodology and scope of the study

The study is based on primary and secondary data. To study the problems of the bank a questionnaire based personal survey is conducted to observe the individual opinion of the bank personnel. (Appendix II). For this purpose both the head office and branch office staff were interviewed personally on selective basis. To study the problems of recovery of loans and the impact of credit, a micro level field survey on selected beneficiaries is also conducted through a schedule. (Appendix I) To collect the information for this purpose, 261 beneficiaries/borrowers, selected at random from all the three districts of the banks operational area, were interviewed personally. Whereas, the secondary data is collected from the respective sources published by the bank concern, the NABARD, the RBI and other Govt. agencies. The data so collected are tabulated and analysed with the help of some simple statistical tools and interpreted accordingly. The study is also make use of various productivity, profitability and operating ratios for assessing the financial performance and comparative analysis. The profitability performance is also anatomised into spread and burden ratios. The spread ratio is analysed in terms of cost and return on funds. To study the problem at the branch level, the branches of the bank are grouped into three different categories (strata) viz., urban, semi-urban and rural considering their area, location and volume of business. The samples are then drawn from each group at random basis.

The data for which is collected from the respective branches and partially from the head office in addition to personal interview and discussion with those branch managers/ officers. The management planning and control system is analysed on the basis of interview results through a set of questionnaire. (Appendix III and IV) The study covers the period of 12 years (1984-1996) at the corporate level and 10 years (1986-96) at the branch level. The initial year 1984 has been selected after

allowing an average minimum period for attaining its viability (on average a RRB would require 6 years and 70 branches network having 8 crores of outstanding business).⁴ The banks performance is compared with Mallabhum Gramin Bank (MGB) having the same age and coverage of three similar backward districts, of the same state of West Bengal, viz., Bankura, Purulia and Midnapure.

V Limitation of the study.

The study is explanatory in nature. Data collected through multiple channels and sources are mainly a combination of primary and secondary types. Inadequacy of required data and lack of sufficient interest and initiatives of the concerned Govt. agencies and bank personnel in explaining and providing required information/data in many cases have made the scope of investigation limited. All the required data also could not be collected for the poor system of reporting and recording/filing of the statistics in a systematic manner. Circular containing data on various aspect of their operations is restricted to official use only. Non-availability of required data has stood in the way of extending the scope of the thesis. Again, the management of cash which is an important segment of fund management that significantly affects margin of funds and eventually, profitability has not been considered in our study due to non availability of the said data as per requirement.

VI The Schematic Arrangement.

Keeping in view the objective of the study, the theme of the research work has been chapterised as follows :

Chapter I starts with introducing the problems. It is followed by overview of literature and objective of the study. The scope of the thesis, methodology adopted and limitation of the study have been duly considered.

Chapter II deals with the problems of resources mobilisation of the bank with special attention to deposits, the major source of fund. The problems of raising

deposits has been analysed with the help of interview schedule. While chapter III is devoted to the factors affecting the growth of credit. The impact of credit has been analysed on the basis of interview results with the beneficiaries. The chapter IV analysis the recovery performance of the bank in comparison with other RRBs and attempted to find out the causes of poor recoveries of dues. For this purpose a field survey at micro level as well as personal interview with the bank personnel is conducted to study the problem in-depth.

The financial viability and profitability problems of the bank is considered in chapter V. It makes an attempt to find out the factors affecting the financial performance of the bank, While, chapter VI analyses the performance of the sample branches in selective variables. Chapter VII presents - The management planning and control system, with particular attention to budget formulation, settlement and review procedure. The final Chapter, VIII, summarises the main findings of the study and while drawing conclusions suggests measures for successful operations of the banks.

VII. A glimpse of Uttar Banga Kshetriya Gramin Bank and its operational area.

Uttar Banga Kshetriya Gramin Bank (UBKGB) was established on 7th March, 1977 as per the provisions of the Regional Rural Bank Act which came into force with effect from 9th Feb., 1976. It has been sponsored by the Central Bank of India. The Bank was started with Paid-up capital of Rs. 25 lakh contributed by the Govt. of India sponsor Bank and the state Govt. in the ratio of 50:35:15 when the authorised capital was fixed at Rs. 1 crore. The paid-up capital was raised to Rs. 50 Lakh during 1986 in terms of section 6³ of the RRBs Act, 1976 and further to Rs. 75 lakh during 1993 contributed by the shareholders in the same proportion. The authorised share capital of the RRBs has been enhanced from Rs. 1 crore to Rs. 5 crore and paid-up capital to Rs 1 crore w.e.f. Sept. 28, 1988 on the recommendation of Kelker working group on RRBs. But the paid-up capital of our

bank was remained at Rs. 75 lakh up to the date of reporting due to non-compliance of the norm for availing this benefit of additional share capital.

The Bank was started with two branches in 1977 with 633 deposit and 497 credit accounts and total business of Rs. 4.53 lakh.(Appendix - VII) The network of the branches increased to 111 with total deposits of Rs. 3595.6 lakh and outstanding credit of Rs. 3310 lakh in March 1990. During the first three years, the bank earned profits of Rs. 3.2 lakh from investment of paidup capital with the sponsor Bank when the number of staff and normal lending activities were very minimum. In the subsequent five years, the bank sustained losses of Rs. 45.9 lakh. During 1985-1989 i.e. before the award of National Industrial Tribunal (NIT), which prescribed pay parity for RRB staff with those of the commercial Banks, it earned marginal profits and thereafter, it suffered from recurrent losses. The accumulated loses of the bank up to Dec, 1983 stood at Rs. 40.5 Lakh and it increased to Rs 1885 lakh in March 1996.

The number of loss making branches in Dec. 1984 was 45 out of the total 83 and it increased to 103 in march 1992 when the number of branches increased to 111. After adopting Prudential accounting norm in 1996 only 16 brnahces were making profits. Of the total brnahces 75% are opened in areas having population of less than 10 thousand (1981 census).

The recovery performance of the bank during the first six years (1977-1982) was more than 63% of the total demand and decreased to 35.9% during the next seven years (1983-90). It reached to 25.3% during the recent five years (1992-96). The recovery to disbursement ratio fell from 77.5 during 1984-90 to 50.3 during 1991-96 (Appendix-VII).

The operational area of UBKGB.

Uttar Banga i.e. the northern part of the state of West Bengal or North Bengal Consists of five northern district of West Bengal Viz., Malda, West Dinajpur, Jalpaiguri, Darjeeling and Coochbehar. The district West Dinajpur is now divided

into north and south Dinajpur. The geographical area of North Bengal is 21332 Sq. Km. Which is about 1/6th area of West Bengal. There are three geographical regions in North Bengal i.e. Himalayan, Sub-Himalayan and plains. The Himalayan region consists of three hilly sub-divisions of Darjeeling namely, Darjeeling Sadar, Kalimpong and Kurseong. Western Dooars of Jalpaiguri and Coochbehar are referred to as Sub-Himalayan region. The Plains cover entire district of West Dinajpur, Malda and Part of Coochbehar and Jalpaiguri district. The economy of North Bengal is under developed and in general characterised by inadequate infrastructure and marketing facilities⁵. No big industry has so far been set up in this area.

Of the total population of West Bengal, population of North Bengal constituted 15.08% in 1951, 15.9% in 1961, 16.9% in 1971, 17.3% in 1981 and 17.7% in 1991 as per census reports. That is the growth of population of North Bengal was much higher than the average growth of the state. Among the three districts (Coochbehar, Jalpaiguri and Darjeeling) the average growth of population of Coochbehar during the decade 1971-1991 was the highest (28.02%) followed by Darjeeling (27.6%) and Jalpaiguri (26.52%) against the state average of 24.9% (Appendix - VIII)

The area of operation of UBKGB Comprises of three districts of North Bengal Viz.: Coochbehar, Jalpaiguri and Darjeeling. Total geographical area of these three districts is 12763 Sq. Km. which is about 60% of the area of North Bengal and the area of operation of UBKGB.

Distribution of Population - Total population of the area of the three districts as per 1971 census was 39.44 Lakh and increased to 50.11 Lakh as per 1981 census. It reached to 62.72 lakh in 1991 census which constituted about 52% of the total population of North Bengal. The rural population constituted about 81% of the total population as against the state average of 72.5%. Coochbehar district has the highest rural population (92.2%) followed by Jalpaiguri (83.6%) and Darjeeling (69.5%). More than 49.5% of the population of these districts belongs to scheduled caste (SC) and Scheduled Tribe (ST) as against 29.2% of the state average. District-Wise distribution of SC and ST population are 58%; 52.4% and 39.9% respectively for

Jalpaiguri, Coochbehar and Darjeeling. The respective share of ST population of the districts are 21%; 0.6% and 23.8%.

Literacy rate : The average literacy rate of these three districts of 49.3% was far behind the state average of 57.7%. District-Wise literacy rate was 57.9% for Darjeeling, Coochbehar 45.8% and Jalpaiguri 45.1%.

Occupational distribution.

Coochbehar : Work participation rate of this district was 32.1%. Out of this, 14.7% are cultivators, 8% are agricultural labourers, 0.7% household industry worker, 1.6% marginal worker and other 7.2%. That is more than 75% of the total workers are engaged in agriculture. There are only 20 registered factories in this district up to 1994-95. Of the total land, 68.2% is available for cultivation. The District Coochbehar is pre-eminently an agricultural district and agriculture forms the principal industry of the district.

Jalpaiguri : Of the total land 36.2% is available for cultivation purpose and 19.5% of the land is under plantation and 28.8% is under forest. The work participation rate of this district is 33.8%, slightly higher than Coochbehar. The percentage of worker in agriculture is 16.9% and much lower than Coochbehar (24.3%). The worker engaged in other activities is 16.6% higher than Coochbehar (7.2%). Work participation in household industry is only 0.4%. The number of registered factories was 221 higher than Coochbehar.

Darjeeling : In Darjeeling only 21.2% of the land is available for cultivation, 38.2% of the land is under forest and about 22% of the land is under plantation. Agriculture and plantation form the principal industrial pursuits of the people of the district of Darjeeling. In the hills, a very large proportion of the area is under tea, forest and Cinchona and the area under ordinary non-plantation is very small. In comparison with other two districts, the work participation rate is better 34.2%. Of the total work participation only 12.8% are engaged in agriculture and more than 21% are engaged in other work (plantation & other). The number of factories

registered in this district was 366 higher than other two districts. In household industry just 0.21% people are engaged. (Appendix - VIII)

Administrative division.

Coochbehar district comprises five sub-divisions namely, Coochbehar, Tufangang, Dinhata, Mathabanga and Mekligagn. There are 12 blocks with 128 Gram Panchayat (G.P.). The district Jalpaiguri comprises of two sub-divisions namely Jalpaiguri and Alipurduar. Number of blocks are, 13 with 122. G.P. Darjeeling comprises of 4 subdivisions namely, Darjeeling, Kalimpong, Kurseong and Siliguri. The number of blocks are 12.

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