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MANAGEMENT AND OPERATIONS OF REGIONAL
RURAL BANKS: TWO CASE STUDIES

By

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Management and Operations of Regional Rural Banks :
Two Case Studies *

Charan D. Wadhva

The setting up of the regional rural banks in India for exclusively financing the credit requirements of the weaker sections of the rural society has been a significant innovation in the field of banking.¹ With the change in the Government at the Centre in April 1977, it has been found necessary to review the working of regional rural banks in the light of the objectives for which these banks were set up and to decide on their future. The Reserve Bank of India has set up a Committee for this purpose under the Chairmanship of Professor M.L. Dantwala. The difficulties of undertaking a definitive and comparable appraisal of the performance of the regional rural banks (RRBs) at a comprehensive level have to be reckoned with since the oldest five such banks have not yet completed even two years of their existence. This makes it imperative to conduct case studies of selected banks to understand the working of these banks at their specific locations and to get a better feel for the comparative importance of the factors which help or hinder the management of planning the programmes of these banks for achieving their objectives.

*This study has been sponsored by the Indian Institute of Management, Ahmedabad. The study has been made possible by the full cooperation of the top management officials of the Haryana Kshetriya Gramin Bank and the Jaipur Nagaur Anchalik Gramin Bank and their sponsoring banks - the Punjab National Bank and the United Commercial Bank respectively. This does not reflect the official views of the banks concerned. I am alone responsible for any errors which may be found in this paper.

¹I have elsewhere examined the case for reorganising and strengthening the role of the regional rural banks in the Indian conditions. See, Charan D. Wadhva, "Rural Banks for Rural Development : The Indian Experiment" (to be published).

This paper also explains the background of the setting up of regional rural banks in India and evaluates their

This paper presents the findings of two such case studies.² The banks selected are the Haryana Kshetriya Gramin Bank, Bhiwani (Haryana) and the Jaipur Nagaur Aanchalik Gramin Bank, Jaipur (Rajasthan). These two banks are among the first five regional rural banks which were set up on October 2, 1975. Special attention is paid on comparing the performance of these two banks for the full year 1976 and also their performance with selected other banks which were set up before June 30, 1976. The paper also poses certain questions for further research.

This paper is divided into three parts. Part I describes the setting; Part II deals with the analysis of the working results and Part III lists the major issues which need to be resolved soon for the future of these RRBs.

I

The Setting

1. The Choice of District for Opening Regional Rural Bank in the State

1.1 The Choice of Bhiwani District for the HKG Bank

The Haryana Kshetriya Gramin (HKG) Bank was set up to operate only in the Bhiwani district of Haryana State with Head Quarters at Bhiwani. One may question the choice of Bhiwani as the first district of the State where regional rural bank was set up. From several points of view, the choice of Bhiwani district for this purpose seems justified. Bhiwani district is one of the agriculturally backward districts in the State. It is in fact included in the Drought Prone Area Programme as well as the Small Farmer Development Agency Programme. Haryana state is well developed in the matter of 100 per cent coverage of all its villages by Primary Agricultural Societies and by 12 District Central

² These findings are partly based on personal observations made during field visits to the Head office and to selected branches of the two regional rural banks. Henceforth, Haryana Kshetriya Gramin Bank will be abbreviated as HKG Bank and the Jaipur Nagaur Aanchalik Gramin Bank

Cooperative Banks covering all 12 districts of the State and a State level Cooperative Bank. The Haryana State Cooperative Land Development Bank operates through 29 primary Cooperative Land Development Banks located at Sub-Division level.³ The performance of Bhiwani District Central Cooperative Bank among the 12 district level cooperative banks in the State based on 1975-76 data has been below average. Its overdues as a proportion of demand for loans accounted for 30 per cent compared to the average of 27 per cent. It's profit at Rs.2 lakhs has been about the average level for 12 such banks in the State. But it needs to be noted that the performance of this Bank has not been the worst in the comparison group. It is difficult to say with certainty as to what extent the choice of Bhiwani for starting the first regional rural bank was based on the fact that Bhiwani has been influenced by political considerations rather than economic considerations. The rationale of selecting Bhiwani as the first district for opening regional rural banks in Haryana was not explained fully even to the management of the sponsoring bank.

In view of the fact that Haryana State was the first state in the country to reorganise the agricultural credit societies by forming one viable society at each Patwar circle and had succeeded in establishing 2168 such societies with full-time paid secretaries / managers, one wonders why Haryana State opted for starting regional rural banks in the state. Punjab and Gujarat States where cooperative

³For a survey of formal credit agencies in Haryana, see, I.J.Singh and A.C. Gangwar, "Agricultural Credit in Haryana : Institutions and Performance", paper presented at the All India Seminar on Agricultural Financing organised by the Gujarat Agricultural University at Junagadh : May 28-30, 1977

movement is strong have not opted for starting regional rural banks in their states.⁴ In fact, in Haryana, the reorganised agricultural societies are popularly called "Mini-Banks". Perhaps the State Government would have considered whether these "Mini-Banks" could not have been strengthened further to meet the objectives for which regional rural banks were to be set up in the State. Considerations of political relationship of the State with the Centre might have played their role in this matter. Perhaps the concern for setting up a Rural Bank for the Rural Poor --- both agricultural and non-agricultural sections of the rural society -- overweighed all other considerations.

Whatever the factors at work for the decision to establish regional rural banks in Haryana, by April 1976, two regional rural banks had been established in the State -- the second one was opened at Gurgaon on March 28, 1976. The regional rural banks have been sponsored by the public sector commercial banks which are the lead banks in the district. Thus, the Punjab National Bank is the sponsoring bank for the Bhiwani district. It is the lead bank in 10 out of 11 districts in the State. The Gurgaon Gramin Bank has been sponsored by the Syndicate Bank since it is the lead bank in that district.

The Punjab National Bank was given only a very limited time (about one week only) to open the Head office of the HKG Bank at Bhiwani.

⁴Recently, (June 1977) the Gujarat Government has announced its willingness to start regional rural banks at two districts (Kutch & Banaskanth) in the State where Dena Bank is the lead bank. The latter has also indicated its willingness to open regional rural banks in these districts. However, a final decision on this will be taken by the Government after the report of the Dantwala Committee on regional rural banks is available.

So were four other sponsoring banks which were asked to open the regional rural banks at the locations suggested by the Government on October 2, 1975. With such a rush job, the HKG Bank and the Punjab National Bank had to face a number of difficulties in the beginning for planning the business and branch expansion programme of the HKG Bank.

1.2 The Choice of Jaipur and Nagaur Districts for the first Regional Rural Bank in Rajasthan

As in the case of Haryana, though to a lesser extent, one can question why Rajasthan State opted for setting up regional rural banks instead of strengthening the Cooperative Credit societies at the primary village level. Primary agricultural credit societies cover 95 per cent of the villages of Rajasthan. As the name implies, the Jaipur Nagaur Manchalik Gramin Bank is allowed to operate in these two districts of the State. Nagaur is certainly one of the more backward districts in the State but Jaipur is not. But Jaipur city being the capital of Rajasthan might have influenced the choice of covering Jaipur district at the time. At the Central Cooperative Bank level, both the Jaipur and the Nagaur banks were in the red for the accounting year 1973-74 as far as the viability of their operations is concerned. It was not so for other district central cooperative banks. Perhaps primary agricultural credit societies also would be weaker at Jaipur and Nagaur districts : The districts of Jaipur and Nagaur are not contiguous and are separated by long distance. One wonders whether the problems associated with travelling and coordination among various branches of the proposed JNAG Bank due to relatively poor infra-structure facilities were taken into account while taking the decision. The process of selecting

districts for starting regional rural banks has not been fully explained even to the sponsoring banks. By December 31, 1976, 3 regional rural banks had been set up in Rajasthan, the second one at Pali district on September 6, 1976 and the third one at Shikar district on October 7, 1976.

The JNAG Bank has been sponsored by the United Commercial Bank which is the lead bank in the district. As in the case of all first five regional rural banks, the United Commercial Bank was asked to set up the Head Office of the JNAG Bank at Jaipur within 7 days of the communication received on this subject. Due to the rush job which had to be done, there were many difficulties in the beginning in gearing up to the task of planning the business of the bank through a network of branches.

2. Schemes of Deposits and Loans

2.1 Schemes of Deposits and Loans of HKG Bank

The full range of usual deposits schemes offered by the commercial banks has been provided by the HKG Bank at its various branches. In addition, the Bank has devised special schemes of deposits for both the retired and the active army personnel from the district. A scheme has also been mooted for collecting small deposits to promote savings habits among the students.

The Bank has evolved four major schemes for giving loans.

These are:

Scheme I : Short Term Crop Loans for Small and Marginal Farmers

Scheme II: Medium Term Loans for Small and Marginal Farmers

Scheme. III: Working Capital and Term Loans for Agricultural Landless Labourers, Rural Artisans and Self Employed Workers in the village

Scheme IV : Working Capital and Fixed Capital Loans for Handloom workers, Cottage Weaving industries and Carpet weavers

The Scheme IV is a novel scheme offered by HKG Bank to promote the development of the local weaving industry. The terms and conditions of these schemes are as per the guidelines issued by the Government to the Regional Rural Banks. Consumption loans are also provided by HKG Bank upto specified limits for specified purposes. The Bank has recently designed an innovation "package deal scheme" to meet all credit requirements of its clients for one year.

It may be noted that in all these schemes, one of the conditions of the loan is that the borrower will exclusively deal with the regional rural bank for the purpose for which loan is being given.

2.2 Schemes of Deposits and Loans by the JNAG Bank

The JNAG Bank also offers full range of usual deposit schemes offered by its sponsor bank.

On the lending side, the bank has schemes for the following six type of borrowers on standard terms of reference: to whom it lends

1. Small and Marginal Farmers
2. Rural Artisans
3. Self-Employed
4. Retailers and Small Business
5. Consumption Loans

JNAG Bank also insists that the borrower should exclusively deal with this bank for loans for a specific purpose under its schemes.

3. Branch Expansion Programme

The target set up by the Government of India was that each regional rural bank will be expected to set up 20 branches during the first year of its operations and an additional 20 to 30 branches in the second year of their operation to cover all the unbanked parts of the districts under its jurisdiction.

3.1. Branch Expansion Programme of the HKG Bank

The progress of branch expansion programme of the HKG Bank is shown in Exhibit 1.1.

The criterion for selecting the location of the branches has been filling up all unbanked lead centres in the Bhiwani district which were identified in the sponsoring bank's Lead Bank Survey Report. With the opening up of 20 branches by December 31, 1976, all these identified unbanked centres have been banked.

It may be noticed that the HKG Bank could not complete the target of opening of 20 branches during the first 12 months of its operation. In order to open 20 branches by the end of Calendar Year 1976, the Bank opened as many as 7 branches on the last day of the year, viz, December 31, 1976. It had applied for license to the Reserve Bank of India for the last seven branches in September 1976 but got the required licenses only in December 1976. And it rushed with the opening of these remaining branches within the shortest possible time.

The HKG Bank has not opened **any** new branches in 1977 since it claims that there is no scope for opening any more branches in the district covered by it. It has pressed its claim for enlarging its area of jurisdiction by allotting to it the near-by districts of Rohtak and Hissar to enable it to open additional branches. The decision of the Government of India is awaited.

The Bhiwani branch of the HKG Bank is located in the same premises as the Head Office. It functions mostly as a deposit mobilisation centre. It may be noted that the twenty branches of the Bank are mostly located nearer to some towns or mandis where there is potential of deposit mobilisation as per the lead bank survey which was conducted from the point of view of possible opening of rural bank branches by the sponsoring commercial banks. As such, the HKG Bank yet cannot reach weaker sections of the rural society in the interior of the villages of Bhiwani district, particularly where the infra-structure facilities (like metalled roads, availability of pucca office space with electricity) are weak. The branches of HKG Bank exist at some places where branches of commercial banks are relatively easily approachable by the local public. At several places, they are likely to co-exist with the branches of "Mini Banks".

If this is true, the location of branches would be running counter to the objective of allowing regional rural banks to open branches in relatively unbanked areas where no other branch of a commercial bank or of cooperative bank exists. It appears that the Reserve Bank of India while issuing licenses to regional rural banks at specified locations has been under pressure to grant licenses at the locations applied by the concerned banks without sufficient scrutiny so as to enable the concerned banks to fulfil their target of opening branches. The trade-off between opening branches at centres primarily for deposit mobilisation versus opening branches at centres where the bank will be able to reach interior villages for dispensing credit to the weaker sections of the local population who need institutional credit the most has not yet been satisfactorily resolved.

3.2. Branch Expansion Programme of the JNAG Bank

The details of the branch expansion programme of the JNAB Bank are given in Exhibit 1.2.

The JNAG Bank succeeded in meeting the target of opening 20 branches within the first year of its operation. It had opened 21 branches at the end of the first year of its working. The number of branches which were opened in the last week of completion of the first year of its operation (24th September to 1st October 1976) was as many as 6. By June 8, 1976, it had 37 operating branches.

Jaipur district has 15 Tehsils and 17 Panchayat Samities (or Blocks). Nagaur district has 8 Tehsils and 11 Panchayat Samities. In opening the branches, JNAG Bank has attempted to cover all the Panchayat Samities by opening at least one branch in the area of each Samit. It has not been able to penetrate the further interior villages of the two districts covered it. It has, of course, to be appreciated that the infra-structure facilities like good roads, electricity, telephone are relatively poor in the villages of Rajasthan and it is difficult to reach even the Tehsil headquarters at some places.

Some of the branches of JNAG Bank are located at places where a branch of a commercial bank or a cooperative bank or credit society is relatively close by. Some branches are located in the city or a mandi town and function mostly as deposit mobilisation centres to enable the bank to lend more to the weaker sections in the villages.

Invariably commercial bank branch(es) already are at work at such places. (The Head Office branch at Jaipur city and the ^{Degana} branch are illustrative cases). This situation has been permitted by RBI. The RBI has not been able to lay down clear guidelines for giving licenses to regional rural banks for opening branches.

The JNAG Bank has plans to open 8 more branches, 6 in the Jaipur district and 2 in the Nagaur district in the near future. However, with the uncertainties created by the statement of the Governor of the Reserve Bank of India regarding the need for rethinking on the working of the regional rural banks (and subsequent appointment of the Dintwala Committee for examining the issue) the pace of opening new branches is likely to slow down.

3.3. Comparative Picture of Branch Expansion of Selected Regional Rural Banks

Table 1 presents a comparative picture of operating branches on December 31, 1976 of the first 19 regional rural banks which were set up by April 30, 1976. As many as 15 out of these 19 banks had opened 20 branches by December 31, 1976 one of them within 8 months of its inception. Whereas HKG Bank could not open 20 branches within its first year of operations, the other regional rural bank, namely, the Gurgaon Gramin Bank had achieved this target in about 9 months of its existence. The JNAG Bank with 30 branches stood first among the very first five regional rural banks and second among all the regional rural banks in the country (the first being the Nagarjuna Gramina Bank, (Khammam, Andhra Pradesh).

4. Profile of a Typical Branch⁵

A typical branch of the HKG Bank and the JNAG Bank is manned by a permanent staff of 3 persons, the Branch Manager, the Field Officer and the Accountant. The working hours of a typical branch are from 10 a.m. to 5 p.m. on weekdays and 10 a.m. to 2 p.m. on Saturdays. The working hours have not been adjusted to any other time which might be more suitable to the prospective and actual clients.

⁵This section is based on personal observations during visit in June 1977 to the Bapora and Tosham branches of the HKG Bank and the Padookalan branch of the JNAG Bank. The word "Typical" is used in the context of describing the physical and human resources of a branch of the concerned bank and may not fit the description of a branch with average business performance.

5. Staff, Training and Personnel Relations

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The low cost and rural orientation were two prominent features of the scheme for setting up regional rural banks. These were sought to be achieved primarily through twin policies of having a lower salary structure at all levels of employment in the regional rural banks and recruitment of local staff at all levels (preferably belonging to the same village or the same district or nearby district of the same State) so as to stimulate greater involvement of staff in the development of the local area. Even though the sponsoring banks were asked to provide the staff initially and bear the cost of their salaries etc, the RRBs were to be self-sufficient in this matter over time.

5.1. The Staff, Training and Personnel Relations at the HKG Bank

The HKG Bank made substantial progress towards recruitment of its own staff and returning the managers on deputation to the sponsoring bank. By December 31, 1976, besides the Chairman-cum-Managing Director, only one manager was working with the HKG Bank on deputation from the sponsoring bank. All other staff had been recruited by the HKG Bank. The strength of staff of the Bank is shown in Exhibit 2.

The Chairman of the regional rural bank has a pivotal role to play in the working of the bank, particularly in the liaison and planning functions. However, in view of the lower salary structure and looking to the place of posting, the Punjab National Bank has been nominating lower middle level staff to this important post. Senior managers of the Punjab National Bank would probably not be lured by the offer of the post of the Chairman of the sponsored regional rural bank. The HKG Bank has had two Chairmen so far. The present Chairman was formerly working last as a Development Officer of the Punjab National Bank at Rohtak (Haryana). He still continues to have his residence at Rohtak and commutes by bus to the Head Office of the HKG Bank at Bhiwani -- a distance of about 120 kms. The first Chairman of the HKG Bank was promoted as Regional Manager of the Punjab National Bank at Jullundur. This can give some idea of the status of the Chairman of the HKG Bank vis-a-vis the hierarchy of senior and top managers of the Punjab National Bank at Head Office as well as at the Divisional Office. The implications of this relationship for the authority of the Chairman for planning the business of his regional rural bank need to be carefully examined.

On the positive side of the relationship between the Head Office of the sponsoring bank and the sponsored bank, it may be said that there has been close coordination between the Chairman of the HKG Bank and the concerned senior officials of the Punjab National Bank. Proximity of Bhiwani from Delhi, a distance which can easily be travelled by a jeep in about $3\frac{1}{2}$ hours, has helped in the process of coordination of policies and providing any help to HKG Bank whenever needed.

As for the coordination between the Head Office and branches of the HKG Bank, the present Chairman seems to be taking a great deal of personal interest. All Staff directly recruited is local. The work of the bank at all branches is done in Hindi which is the local language. He seems to have handled political pressures for employment of local young men at various branches of the Bank fairly well. He has adopted a very personal approach and rapport with the staff of the branches. He makes frequent visits to the branches by office jeep and exhorts the staff to show better performance of their branch both in absolute and comparative terms. Sometimes he himself carries cash from the Head office to the branches to meet their requirements. A number of branches of the Bank are not too far from the Head Office and the availability of very good roads is an asset in enabling the Chairman to keep a personal touch with the developments at the branches.

The selected staff of branch managers has been given extensive training. The first two batches of 8 managers were sent to the 24 weeks training course at the Reserve Bank of India's College of Agricultural Banking, Pune. The cost of the training programme has been heavy. Besides, several doubts have been raised by some of the senior managers of the Punjab National Bank regarding the relevance of several parts of the syllabus for improving the functional efficiency of these managers at their place of posting. The HKG Bank is, therefore, not proposing to send the third batch of 3 managers to the training course at Pune. These managers will be trained at the Punjab National Bank's Zonal Training College, (ZTC)

at Chandigarh. The Field Officers and Clerical Staff of the HKG Bank is being trained at the sponsoring bank's ZTC at Chandigarh. During the period of training of the branch managers directly recruited by the HKG Bank, field officers have been temporarily working at higher posts such as Field Officers-cum-Branch Managers and Accountants as Accounts-cum-Field Officers. It is expected that before the end of 1977, all the trained staff will be equipped to man the various branches of the Bank.

The Branch Managers recruited by the HKG Bank are all graduates in agriculture (B.Sc. Agriculture). They have already worked for varying periods either in the Agriculture Department of the Haryana State Government or in the Cooperative societies in the State.

Their attitudes are still like those of graduates in the cities. They expect the HKG Bank to raise their salaries by providing for dearness allowance for which there is no provision at present. The Field Officers would like to be promoted as full fledged branch managers very soon. In view of the recent moves by the Haryana Government for raising salaries of its employees on the election eve, the staff members of the HKG Bank ^{are} / also expecting their salaries to be raised to keep at par with the emoluments received by the State Government employees in similar grades. The staff members directly recruited are there in the HKG Bank mainly because they have no better job available. Being graduates, and reasonably intelligent people, they appear to be capable of performing the tasks expected of them. With the personal inspiration provided by the Chairman to the present staff, the

staff members appear to be performing their duties well. All said and done, it must be noted to the credit of the HKG Bank that it has succeeded in creating a cadre of staff members which can meet the tasks expected of them within the framework of the present structure of the regional rural banks.

5.2. Staff, Training and Personnel Relations at the JNAG Bank

The JNAG Bank has been heavily depending on the sponsor bank for the staff. No direct recruitment was made by the JNAG Bank during the first 11 months of its operations. The Bank recruited 56 members of the staff in 1976 out of which eight members belong to the scheduled castes and scheduled tribes. The work of the Bank at all the branches is carried on in Hindi which is the local language.

The Bank has been feeling the shortage of staff at its various branches. Despite the problems associated with the working of the staff on deputation, the Bank has continued to depend on the sponsor bank in providing staff. At the end of 1976, out of a total strength of 90 staff members, nearly 40 percent of the staff was still on deputation from the sponsor bank. The details of bank's own staff versus staff on deputation from the sponsor bank is given in Exhibit 2.2.

The relative position of the Chairman of the JNAG Bank in the hierarchy of the management of the sponsor bank is weak since he is accountable both to the Divisional Manager of the sponsoring bank at Jaipur where the Head Office of the JNAG Bank

is located as well as to the top and senior managers of the sponsoring bank at the Head Office in Calcutta. For all practical purposes Chairman of the JNAG Bank has to depend on the cooperation and guidance of the Divisional Manager of the sponsoring bank for the working of the JNAG Bank. And cooperation, so far, has been extended by the Divisional Manager of the sponsoring bank at Jaipur in plenty as would be evident for example from the strength of the staff provided by him from his division for running the branches of the JNAG Bank.

There have been difficulties in the coordination of activities between the Head Office and the various branches of the JNAG Bank in view of the physical distances separating Jaipur and Nagaur districts interspersed by other districts of the State and distance between various branches even within a district. The infra-structure facilities like pucca road and electricity are not well developed in the Nagaur district especially. In view of this, even the post reaches quite late. The Chairman of the JNAG Bank has been devoting large portion of his working time for attending to the correspondence etc., and for coordinating the work among the branches.

The JNAG Bank sponsored eight managers directly recruited by it to the 24 weeks course of training for the managers of the regional rural banks organised by the Reserve Bank of India's College of Agricultural Banking at Pune. A new batch of three managers has been sent in February 1977 to attend the next programme of this College at Pune.

The sponsor bank has organised induction course for training all the staff recruited by the JNAG Bank at the former's Staff Training Centre at Jaipur.

The managers recruited by the JNAG Bank hold B.Sc. degree in Agriculture. Despite the knowledge that the regional rural banks have been set up to keep the cost of operating these banks at a low level, the branch managers would like the Bank to provide more furniture or furniture of better quality at the branches. Some of them would like the Bank to provide a house for them in the village where their branch office is located and also a motor cycle owned by the bank for official use or at least liberal loans for purchasing motor cycles by them. It is claimed that these two facilities (the house and the motor cycle) would greatly enhance the efficiency of the functioning of their branch.

The staff recruited and trained by the JNAG Bank with the help of the sponsoring bank appears to be doing a reasonable job at the places of work. It would not be unfair to remark that through concerted efforts, the JNAG Bank has been able to make progress in recruiting a cadre of specialised staff for performing the functions of regional rural banks.

II

Working Results

6. Growth of Deposits

6.1. Growth of Deposits of the HKG Bank

Table 2.1 presents the data relating to the growth of deposits of the HKG Bank at four points of time, the latest one being May 27, 1976

when deposits reached the level of Rs. 28.93 lakhs.

It may be seen from Table 2.1 that deposits increased by a little over Rs.23 lakhs in 1976. This was largely due to the personal level campaign launched by the Chairman of the Bank who was ably assisted by the staff of the branches. The present Chairman has been trying at his personal ^{level} to get to know the potential depositors in the area of branches nearer to Bhiwani in a better manner by participating in the ceremonial functions (such as marriages of sons and daughters of these potential depositors and even giving small personal gifts at own cost) to win their confidence. A close watch has been kept on the developments in the village which are likely to affect the deposit and loaning activities of the Bank. An example, of this would be gathering commercial banking intelligence of the prospects of sale and purchase of land in the villages. A personalised approach has enabled the Bank to record the growth of deposits in 1976. The rate of increase of deposits however considerably slowed down in the first 5 months of 1977, the increase in this period being about Rs. 4.5 lakhs. The reasons for this slow-down need to be thoroughly investigated to whether it is due to seasonal factors or some exogenous factors or due to other more important structural causes. The number of accounts has however been steadily moving upwards to reach the figure of 10,222 accounts. Most of these accounts are savings accounts. A few accounts of schools and panchayats have been gotten but the HKB Bank has not succeeded in getting deposit accounts from the State Government and bodies supported by it. The cooperatives are stronger in this respect in this area.

An interview with a villager of the Bapora village at the Bapora branch of the HKG Bank who had come to the branch to operate his savings bank account revealed that the depositor appreciated the banking services provided by the HKG Bank in his village.

It would be worthwhile examining the branch-wise pattern of deposits to see whether a few branches accounted for a major share of the total deposits of the HKG Bank.

The HKG Bank even after 20 months of its operation has not been able to reach anywhere near the target of deposits of Rs. 1 crore set by the Government for the first year of the operations of the regional rural banks. The HKG Bank Chairman explained that it is most unrealistic to expect the Bank to raise Rs.1 crore of deposits from the area under the jurisdiction of the Bank. Bhiwani district is a small district with an area of about 5 lakhs hectares and a population of 7.6 lakhs. It is one of the most drought prone backward districts in the state

The area is full of sandy loans at several places. Despite lift irrigation scheme, the scope for increasing agricultural incomes as well as non-agricultural incomes in the area is very limited. Most of the account holders of the Bank (99%) are people of small means. In addition, the district is already reached a saturation point for deposit mobilisation as every important centre of economic activity in the district is fully banked. There are, in fact, more than 55 banking centres of institutional credit

agencies operating in the district (like the commercial banks, district central cooperative banks, the State Land Development Bank and the HKG Bank. The HKG Bank is, therefore, pursuing its case for extending its area of operations to the adjoining Rohtak and Hissar districts.

6.2 Growth of Deposits of the JNAG Bank

The growth recorded in the deposits of the JNAG Bank is represented in Table 2.2.

It can be observed from Table 2.2 that the JNAG Bank has not been able to meet the target set by the Government of India for raising Rs. 1 crore of deposits in the first year of its operations despite having 30 branches at the end of 1976.

Table 2.2. shows that the deposits of the JNAG Bank increased by about Rs. 50 lakhs in the year 1975. The rate of growth of deposits in the first four months was extremely low, the increase in deposits being only a little over Rs. 1 lakhs for this period. The reasons for this phenomenon are not fully known. It would be important to analyse the reasons for this dismal performance on the front of deposits. The number of deposit accounts has shown fairly good rate of growth over time. Most of these accounts consist of fixed deposits and saving bank accounts. Even though fixed deposits accounted for only 2.6 per cent of the total number of accounts on April 29, 1977, these accounts claimed as much as 58 per cent share in the total value of deposits. A few accounts of local schools and panchayats have been secured but not much success has been achieved on getting funds of the State Government and agencies supported by it. The State Government favours Cooperative banks in this area for its deposits.

concentration of deposits in a few branches of the Bank, including the deposits at the Jaipur City Branch of this Bank, partial data of the performance of branches made available to me reveals that deposits at five branches of the bank, namely Lawan, Jahota, Itawa Bhopji and Manpur Macheri villages in the Jaipur district and the Padoo Kalan branch in the Nagaur district accounted for 32% of the number of accounts and 21% of the total deposits of the bank as a whole. Such an analysis would help as an input in devising an appropriate strategy for deposit mobilisation in the areas under the jurisdiction of the Bank.

One aspect of the strategy for deposit mobilisation at the branch level, especially for the branches which are located in the city or mandi towns, relates to the provision of complementary banking activities for the depositors. An interview with a depositor at one of the branches of the JN&G Bank revealed that the exclusion of the rich farmers and other rich in the village society from the loaning activities demotivated them from depositing their savings with the rural bank. And, further, even if the richer farmers, traders and others did not contemplate taking any loan for themselves, some of them would want the rural bank to undertake several other banking functions such as issuing demand drafts at other centres of trade in the country with whom they have business dealings. At present some regional rural banks arrange for such functions demanded by their clients usually free of charge through the nearest branch of their sponsor banks. The position of the Reserve Bank of India on this issue needs to be clarified in the interests of evolving a uniform policy in this

6.3. Comparative Growth of Deposits Selected Regional Rural Banks

A comparative picture of growth of deposits of selected regional rural banks on December 31, 1976 in ^{presented in} Table 3.

It may be observed from Table 3 that the HKG Bank has the lowest amount of total deposits as well as average deposit per branch among the banks listed in this Table. In fact the average amount of deposits per branch of the HKG Bank on December 31, 1976 fell short of the All India average of per branch deposits for 491 branches of first 37 regional rural banks in the country. The JNAG Bank stood third among the first five regional rural banks in terms of total amount of deposits. Its deposits were a little above the average deposits per branch for the country. The performance of both the HKG Bank and the JNAG Bank for deposits was much below the performance of the Gorakhpur Kshetriya Gramin Bank (which was among the first five regional rural banks) and the Nagarjuna Gramina Bank (which was started on April 30, 1976. Both of the latter two banks listed here are sponsored by the State Bank of India. It would be worthwhile examining in details the factors responsible for the success of these latter two banks and compare and contrast them with the factors responsible for the relative success or failure of other regional rural banks and to learn from such analysis while reformulating policies for the RRBS in the future.

Another aspect of the performance of the regional rural banks for deposit mobilisation at the branch level which needs to be

researched relates to the impact of $\frac{1}{2}$ per cent per annum higher rate of interest offered by the primary agricultural credit societies compared to the rate offered by the regional rural banks.⁶

How much disadvantage on this account has been caused to raising deposits by HKG Bank and JNAG Bank is not known.

7. Growth of Advances

7.1. Growth of advances by the HKG Bank

The growth of advances by the HKG Bank is shown in Table 4. The advances reached Rs. 48.72 lakhs on May 27, 1977.

Table 5 presents the details of advances by the HKG Bank according to purpose of loans. It also presents the details of outstanding advances classified purpose-wise at the end of 1976. The major purposes for which loans were advanced by the HKG Bank in 1976 were: (i) Purchase of bullocks and camels (33.91 per cent) ii) Purchase of camel carts (23.38 per cent); iii) Procuring working capital and fixed capital for rural artisans and self-employed (12.10 per cent); iv) Purchase of buffaloes (9.70 per cent); and v) Purchase of sheep (7.74 per cent). These five items accounted for nearly 92 per cent of the loans advanced in 1976. The Bank found these purposes to be the major purchases for which the weaker sections of the local population under the local conditions needed credit the most and which they were not getting to the extent of meeting their requirements from the existing institutional agencies. These loans have, therefore, made a small but perceptible impact to the development of the district economy in the activities supported by it. The Camel Carts made available to the local population by loans from the

bank have in particular helped the local economy by not only bridging the transportation gap for goods to be moved from the villages to the mandis for self use but also provided employment for the owners in their spare time (which they have in plenty) to enable them offer the services of transportation of goods and services to others as well. One of the brochures of the HKG Bank issued on the occasion of the first anniversary of the Bank provides illustrative case studies of some of the clients of the Bank like the small shoe maker, small entrepreneur who entered the business of extracting oil with the help of an oil extracting machine and shepherd turned business - man in sheep rearing business, small farmer turned transporter with the help of the purchase of Camel Cart and small farmer who could afford to purchase a pair of bullocks and some others who have expressed the contribution made by the loan from the HKG Bank to their personal happiness and of their family members in getting engaged in gainful economic activity which they could not have otherwise had the opportunity to indulge in.

Table 6.1 provides the cross-classification of purpose-wise advances by the type-of-borrower in terms of landless borrowers and borrowers with small and marginal farm lands. The comparison is made at two points of time, viz, October 1, 1976 (at the end of the first year of the operations of the Bank) and May 27, 1977 (the latest date for which data was available when this study was undertaken).

It may be observed from Table 6.1 that as of May 27, 1977 the small and marginal farmers got 38.65 per cent share while landless agricultural labourers received 43.84 per cent share and rural

artisans and self-employed persons had 12.51 per cent of the share of the total advances. These shares as of October 2, 1976 (at the end of first year of operations) were 43.51 per cent, 44.51 per cent and 11.10 per cent respectively. Consumption loans accounted for less than 1 per cent of the total loans advanced so far.

The HKG Bank's total lending has fallen far short of the expectation of the Government that each regional rural bank would be able to lend at least Rs. 5 crores a year. This expectation was based on a number of other assumptions which have not been fulfilled in the case of the HKG Bank. The scope for lending has been greatly limited by several factors. Some of them are listed below.

Contrary to the ~~feeling~~ expressed by the Narasimham Working Group in its Report on setting up the Regional Rural Banks, the experience of the HKG Bank shows that there was no great flush of requests for loans from this bank from the weaker sections of the rural society in the area under this Bank's jurisdiction. Besides the 20 branches of the HKG Bank, this area is served by 25 branches of commercial banks, 13 branches of the District Cooperative Bank and 2 branches of the Land Development Bank. The HKG Bank staff has had to make special efforts to find eligible borrowers who would hopefully have the capacity to repay the loans at the rate of interest of 14 per cent per annum. The scope for direct lending to the weaker sections of the village society in this backward and drought prone district who could earn a rate of return on investment on nearly wholly borrowed funds for production ventures

much above the rate of interest charged by the HKG Bank has been found to be limited.

The problem is made worse by the fact that at some rural locations where commercial banks (including the sponsor bank of the HKG Bank) have their branches, HKG Bank has had to compete with these banks for advancing loans to the weaker sections of the society at terms greatly different which favour the lending by the commercial banks. The commercial banks lend to the same target segment of the population as that of the regional rural banks under the former's Differential Interest Rate (D.I.R.) Scheme at a low interest rate of 4 per cent per annum. The commercial banks make up for the loss on lending under the D.I.R. Scheme by charging higher interest rates on other avenues of profitable lending. Rural Banks like the HKG Bank do not have such options. Despite this anomalous situation, the HKG Bank through its efforts has been able to identify eligible borrowers and lend them money upto the extent described in Table 6.1. The commercial banks have their own limitations for advancing loans under the D.I.R. schemes. The weaker sections of the rural society (especially the landless people) in the Bhiwani district are still either not fully aware of the institutional sources of credit or still prefer to borrow from the traditional sources of credit because of other considerations than the monetary rate of interest.

It may be observed from Tables 5 and 6.1 that crop loans have formed a negligible proportion of the total advances by the HKG Bank. The scope for lending for purely agricultural purposes is limited in the Bhiwani district. This is due to the fact that nearly 80 per cent

of the farmers in the villages are members of the cooperative societies. The Cooperatives have a strong lobby in the Haryana State. Despite the fact that the Haryana State Government is an equity holder to the extent of 15 per cent of the subscribed capital of the HKG Bank, the State Government continues to favour the cooperatives (which is a State subject) compared to the regional rural banks in the State (which as scheduled banks come under the regulatory authority of the Central Government). This probably explains the fact that the State Government has not ceded any cooperative societies so far in favour of the HKG Bank.

Yet another target laid for the regional rural banks was that they will be able to form 20 Farmer Service Societies (FSSs) on cooperative basis in their areas with the help of the State Government. The latter were also expected to attach existing FSSs with the regional rural banks in their areas of operation. In the case of the HKG Bank, the experience in this respect has been poor. The Bhiwani Farmers Service Society has been in existence for some time. No new FSSs have been created. Efforts for persuading the State Government for help in this respect have been made by the HKG Bank several times. But this has not yielded any result. The State Government has also not done much to promote new FSSs in the district. There have been problems in taking over the Bhiwani FSS which is the only FSS in the district. This has been so despite the fact that the Bhiwani FSS has been dealing with the Punjab National Bank which is the sponsor bank of the HKG Bank. Part of the problem has been insistence of this FSS to take over all its liabilities.

The decision to take over the Assets as well as Liabilities of the Bhiwani FSS even when it was taken - could not be immediately implemented because of the delay in obtaining refinance from the Reserve Bank of India. In the current year, the HKG Bank has availed of the Refinance limit of Rs. 10 lakhs sanctioned by the Reserve Bank of India. The HKGB has also this year availed of the refinance facility from the sponsoring bank.⁷ The HKG Bank is currently engaged in the exercise of formulating its credit plan for the remaining part of the year and assessing needs for seeking refinancing facilities.

The HKG Bank operating like a scheduled bank faces several procedural problems in giving loans many of which the cooperative societies do not face. Thus, for example, stamp duty needs to be paid on the application for loan from the HKG Bank (but not for loan from the cooperative society). The HKG Bank requires several 'no dues' certificates. Such procedures besides being costly for the borrower entail considerable amount of time as a result of which the borrower may not be able to get the loan at the critical time of his requirement. In a society where the prospective borrower being illiterate, still use their thumb impressions on the application form and related papers to be filled, the staff of the HKG Bank play a very helpful role by filling these forms themselves on behalf of such borrowers. The HKG Bank staff has been providing such services.

⁷The Refinance facility has been made available by the Reserve Bank as well as the sponsor bank at $9\frac{1}{2}$ per cent per annum rate of interest.

However, the dealings between the poor and illiterate borrowers and a regional rural bank may not always be direct

the employees of a regional rural bank.

The complicated procedural aspects of advances by the regional rural banks would leave a lot of room for intermediaries to emerge who could make it a profession to exploit such borrowers in the name of helping them in getting loans from the regional rural banks with certainty and minimum time. This aspect of possible exploitation by the intermediaries needs to be thoroughly investigated. Needless to say that there is a need for further simplification of the procedures of lending to make the terms of lending as flexible as possible to suit the special needs of the target segment of the borrowers and the ease with which they can repay the amount in small instalments at convenient times.

Yet another aspect of the loaning activities where the cooperatives score over the regional rural banks relates to the "out of court" recovery procedure which the cooperatives are entitled to. A regional rural bank like the HKG Bank has to resort to lengthy court procedures for recovering overdues which have been standing for an alarming amount of time. The risk involved in lending to the weaker sections of the rural society coupled with the costly and time consuming recovery procedures for recovering "small" loans restricts the capacity of the HKG Bank to lend more in its area. The Chairman of the HKG Bank fervently pleaded the case for parity between the cooperatives and the regional rural banks in the matter of procedures for giving loans and for recovery.

So far the HKG Bank has been mostly directly financing the small and marginal farmers, landless agricultural workers, rural artisans and self employed and other weaker sections of the society. A beginning has been made in indirect financing in 1977 through the Bhiwani Farmers Service Cooperative Society. As Table 6.1 shows, indirect financing constituted about 8.74 per cent of total advances by the bank as of May 27, 1977. The HKG Bank has realised that the scope for further direct lending is extremely limited. It is therefore of utmost importance that cooperative societies are ceded and its area of operations extended to the adjoining districts of Rohtak and Hissar for the activities of the HKG Bank to grow. Till now no cooperative society has been ceded to the HKG Bank. The Bank has been pleading with the State Government to transfer some societies to it. But as the Annual Report of the Board of Directors of the HKG Bank for the year 1976 put it, "efforts made by us in this regard proved futile".

Under the circumstances described above, the special efforts made by the staff of the HKG Bank to directly locate the target segment of borrowers in non-cropping uses appear commendable. It would not be an exaggeration to say that but for the HKG Bank, a large number of the borrowers who have gotten loans from this Bank might not have been able to undertake productive activities which they are currently engaged in.

Last, but not the least, the low amount of owned fund including mobilised deposits by the HKG Bank from within its area has acted

as a constraint on its capacity to make advances. Coupled with the other factors enumerated above, the Bank has not been able to lend in the proportion of Rs. 100 to Rs. 15 mobilised by itself (the remaining funds being contributed by the Reserve Bank of India to the proportion of Rs. 50 and the sponsor bank to the proportion of Rs. 35).

7.2 Growth of Advances by the JNAG Bank

The growth of advances by the JNAG Bank is shown in Table 6.2. This table gives both the total of advances and their classification by type of borrowers.

The pattern of outstanding advances by the JNAG Bank as shown in Table 6.2 reveals that as of April 29, 1977, majority of advances were in the accounts of the small and marginal farmers (nearly 60 per cent); the next highest category of borrowers was "small traders and self-employed" (17 per cent); the share of rural artisans was 12 per cent and the share of landless agricultural labourers was 11 per cent. The outstanding consumption loans were negligible on this date.

There is perhaps a great deal of concentration in the matter of advances among selected branches of the JNAG Bank. The fragmentary data available with me shows that as of April 29, 1977, five out of 33 operating branches (32 operating branches if we exclude the Jaipur City branch), namely, Lawan, Jahota, Itawa, Bhopji and Manpur Macheri in the Jaipur district and Padoo Kalan in the Nagaur district accounted for 38.35 per cent of total disbursements of credit. Not all of these branches are the oldest branches of the bank. Most of them were, in fact, opened in the latter half of 1976. It is perhaps necessary

to disburse more credit in the newer branches to win the confidence of the local community in the usefulness of the bank to the development of the local area. This may have a lot to do with the relative degree of potential absorption capacity for credit. The degree of concentration of advances to certain areas needs to be properly measured. The reasons for such concentration need to be properly analysed to help in judging the "viability" of the total business (both deposits and advances) of the various branches.

The JNAG Bank has not been able to meet the expected disbursement of credit to the tune of Rs. 5 crores which was set by the Government for the yearly operation of a regional rural bank under certain assumptions. This has been due to several factors. Many of the difficulties enumerated in section 7.1 above for the HKG Bank are equally applicable to the case of the performance of the JNAG Bank in the matter of advances. The JNAG Bank has been forced to lend only directly to the target segment of the borrowers. Despite repeated requests by the Bank to the State Government authorities, and the Government agreeing in principle to transfer 8 cooperative societies to this Bank after reorganisation, virtually no cooperative society had been transferred to this Bank until May 1977. Even the weaker cooperative societies would themselves be opposed to their being ceded to the regional rural bank. The State Government has also not acted on the repeated requests of the JNAG Bank to form and attach FSSs to this bank. Till May 1977, not even a single FSS existed in the districts served by the JNAG Bank. One Spearhead Team sponsored by the National Institute of Bank Management has been working near the Manpur Macheri village in the Jaipur district

for promoting the formation of an FSS. But this has also not yielded any result. The scope for direct lending by the JNAG Bank is also limited. The conclusion is inescapable that it would be necessary to take immediate steps to ensure linkage of the JNAG Bank with viable cooperative societies and Farmer Service Societies of the weaker sections of the society if the activities of this Bank are to grow at a faster rate in the future.

We may conclude this sub-section by saying that in its limited way, the JNAG BANK has consciously made efforts to identify "eligible" borrowers with potential repayment capacity from / ^{within} the weaker sections of the rural society and to make credit available to them for useful purposes.

7.3 Growth of Advances by Selected Regional Rural Banks

The comparative performance of the growth of advances of selected regional rural banks as on December 31, 1976 is presented in Table 7

Among the selected 6 regional rural banks, the performance of the HKG Bank is the lowest in terms of the total amount of advances as well as average amount of advances per branch and falls much below the All-India average amount per branch for 491 operating branches of 37 regional rural banks in India for which data is available. The average amount advanced per account by the HKG Bank was above the corresponding All India figure. This perhaps reflects the limitation of the HKG Bank in terms of the scope for coverage of eligible borrow in its area of operation. As for the JNAG Bank, even though its performance is above the All-India figure in terms of the average amount of advances per branch and the average amount per account this Bank was fourth in rank among the selected six banks in terms of amount of deposits.

Table 8 provides comparative picture of allocation of total advances by six selected regional rural banks between two broad categories of borrowers, namely, "Small and Marginal Farmers and Landless Agricultural Labourers" and "Rural Artisans and Others". The average Indian rural bank allocated about 67 per cent of advances to the first category of the borrowers and the balance to the second category. The JNAG Bank appears to be a representative bank in this respect. The implications of the varying pattern of the allocation by RRBs to these two type of borrowers need to be analysed carefully to evolve guidelines on this allocation meeting the national priorities and suited to local conditions.

8. Credit Supervision and Recovery of Demand for Loans

Both the HKG Bank and the JNAG Bank are facing numerous problems in credit administration. These are general problems relating to credit administration by any formal credit agency but become more important in the context of a credit agency like RRBs which grant credit only to weaker sections of the society. One problem relates to ascertaining that there is no lien on the property or land pledged to the regional rural bank by another credit agency. This brings out the need for coordination among all the institutional credit agencies in the specified area to avoid multiple ^{lending} of the same assets by the borrower for the same purpose or for different purposes. One possible solution could be to issue a passbook on loans in which each credit agency must record all the description of loans granted and assets pledged by the borrower. Another problem relates to the

time-bound programme of supervision of the use of credit after it is granted through visits by the Bank staff to the premises of the borrower. This will help in monitoring the progress of the business for which the loan was given and should ensure better record of recoveries. The difficulties of checking whether the animals purchased with the bank loans are still there with the borrower and that he did not sell them off later on is a case in point. The spot inspections of proper use of loans at different points of time till loan is fully recovered is made very difficult in areas which are relatively inaccessible due to poor infra-structure facilities.

Yet another and very basic problem at the stage of consideration of the application of the prospective borrower relates to the verification of the genuineness of the borrower as a person of "small means" such as the small and marginal farmer. The so-called "small" or "marginal" farmer may have substantial amount of income from non-farming sources. Similarly, "small" artisan or self-employed person of apparently small means may not in reality be poor and should not, therefore, deprive another genuine borrower who really needs funds from getting the credit from the rural bank. There may be a tendency among certain borrowers to present themselves as persons of "small means" either on false grounds or through the ingenious device of borrowing in the name of a family member or a close relative who satisfies the legal criterion of ownership of land below certain size in the official records with the motivation of obtaining credit at cheaper terms. Under the Indian conditions, following enactment

of land reforms several farmers sub-divided their land holdings which would justify the new legal owner of the sub-divided land as a "small" or "marginal" farmer. Such a new farmer may well be the closest relative of a rich farmer and may not really need the loan but may prefer to borrow from the credit agencies since the opportunity cost of borrowing from other sources including self-financing is higher. Personal funds might be loaned at higher rate of interest. It is also important to check whether some persons are engaged in the task of borrowing cheap from the regional rural bank under some of its various schemes and recycling funds to uses other than for which loan was granted or to lend immediately or after some time (say after selling of the assets) such funds to other people at higher rates of interest. No rigorous verification exercise is presently carried out by the HKG Bank and the JNAG Bank. The same is likely to be true of other banks.

Both HKG Bank and the JNAG Bank have reported satisfactory position for recovery of demand for loans so far. The figure quoted by the HKG Bank in this respect from its loan account holders is an average of 80 per cent during the first year of its operation.

8 Financial Performance and Operational Costs

8.1 Portfolio Management of Funds by the HKG Bank and the JNAG Bank

Table 9 presents the comparative picture of portfolio management of funds by the HKG Bank and the JNAG Bank as of December 31, 1976.

On the side of the sources of funds, both banks have equal amount of paid up capital as per the Regional Rural Banks Act 1976. Besides larger deposits, the JNAG Bank augmented its resources by borrowing a little over Rs. 20 lakhs from the other banks in 1976. Thus JNAG Bank operated with nearly double the amount of total funds than the HKG Bank.⁸

As for the uses of funds, cash holdings alone constituted 5.18 per cent of the total funds employed and 6.98 per cent of advances.

and bills discounted and purchased for the HKG Bank whereas the corresponding proportions were 7.8 per cent of total and 14.47 per cent for the JNAG Bank. The JNAG Bank could have managed with less of idle cash. The latter bank kept a sizable portion (38.1 per cent) of its funds employed in the form of cash, balances with other banks and money at call and short notice. In terms of investments, HKG Bank invested a larger amount of funds in Government securities and shares of the Agricultural Refinance Development Corporation (a total of Rs. 1.50 lakhs) compared to the JNAG Bank which had bought only Rupees ten thousand worth of shares of the A.R.D.C. The book value of furniture and motor vehicles such as jeeps and bicycles amounted to Rs. 1.51 lakhs for the HKG Bank and to Rs. 5.06 lakhs for the JNAG Bank. The average cost of furniture and vehicles per operating branch amounted to Rs. 7,550 for the HKG Bank and Rs. 17,677 for the JNAG Bank.⁸ It appears that even in relative terms (relative to the volume of business transacted), the JNAG Bank had till the end of 1976 incurred higher cost for furniture and vehicles than the HKG Bank.

8.2. Profit and Loss Account of the HKG Bank and the JNAG Bank

The details of major items of expenditure and income and consequent profit or loss of the operations of the HKG Bank and the JNAG Bank as per their accounts are given in Tables 10.1 and 10.2.

⁸While making this comparison, it must be borne in mind that the JNAG Bank covers two districts in Rajasthan which are separated from each other physically by substantial distance whereas the HKG Bank covers only one district. The comparison must also be made in relation to the value of business transacted.

The profit figure of Rs. 43,200 presented in the Accounts of the HKG Bank in table 10.1 is misleading since the "salaries etc." (salaries, provident fund and other benefits) paid to the deputed staff members of the HKG Bank are not included in the expenses of the HKG Bank since these costs are borne by the sponsor bank. The "salary etc." of the Chairman-cum-Managing Director of the HKG is paid by the sponsor bank. It is seen from the data made available to me that at the end June 1976 4 managers were on deputation with the HKG Bank from the sponsoring bank while at the end of the year 1976, there was only one such manager on deputation. Assuming that only 4 managers were on deputation with the HKG Bank in the first half of the year 1976 (actually there could be more in the earlier months of 1976), and only one manager was on deputation for the second half of the 1976 (here again, the number of managers on deputation with the HKG Bank could well be more in this part of 1976), we have estimated the cost of "salaries etc." borne by the sponsor bank for the staff deputed with the HKG Bank to be around Rs. 70,000. This estimate is based on the assumption of "salaries etc." at the rate of Rs.2,000 per month for the Chairman-cum-Managing Director and Rs. 1,500 per month for a manager deputed by the sponsor bank.

The estimate of Rs. 70,000 as "salaries etc." borne by the sponsor bank for running the business of the HKG Bank in 1976 may well underestimate the cost of subsidy provided by the sponsor bank. The estimated figure of Rs. 70,000 may itself be an understatement of the true cost of "salaries etc." borne by the sponsor bank. A big amount of subsidy may have been given by the sponsor bank for meeting the full or partial costs of training of the staff directly recruited by the

HKG Bank at the Staff Training College of the sponsor bank. Several other "hidden" subsidies may have been provided by the sponsor bank to the HKG Bank, for example, in the form of printed stationery, application forms, passbooks etc. and more telephone calls at the cost of the sponsor bank, provision of sponsor bank's jeep on some occasions etc.

Accepting the figure of Rs. 70,000 as the lower bound of the costs of running the HKG Bank's business borne by the sponsor bank and including this figure in the true expenditure of the HKG Bank, the reported figure of profit of Rs. 43,200 for the HKG Bank for 1976 will turn into a loss of Rs. 26,800.

Similarly, we find that the reported loss of Rs. 16,000 in the operations of the JMG Bank for 1976 would turn into a loss of nearly Rs. 3.24 lakhs if account is taken of "salaries etc." borne by the sponsoring bank to the tune of about Rs. 3.25 lakhs and a sum of Rs. 0.17 lakhs is credited to the account of the JMG Bank for interest due from the sponsoring bank for 1976 which was not received by the JMG Bank. We have not taken into account the cost of "other" subsidies mentioned earlier which the sponsoring bank may have provided to the JMG Bank.

It may, of course, be argued that some losses were expected to be borne by the sponsor bank in the initial years (upto first five years) in sponsoring the regional rural banks. The RRB may get converted within this period into a viable and growing bank when it becomes self-sufficient in the matter of its own personnel

with much lower salary structure than that of the sponsoring bank and expands its business substantially. In fact, it is most likely that the loss to the sponsoring commercial bank would have been much more if this bank had opened its own rural branches at the places where the branches of the sponsored regional rural bank have been opened.

8.3 Comparative Per Branch Cost Structure of the HKG Bank and the JNAG Bank

Table 11 presents comparative picture of per branch cost structure (including Head office expenses) of operating the HKG Bank and the JNAG Bank based on the details of the operational expenses of these two banks for the year 1976. Since the rate of interest paid on deposits etc. is common across all regional rural banks, we have excluded this element in the comparison of per branch costs of management of the two banks. The major elements of cost of management can be divided into "salaries" and "other costs". We have distributed the operational costs of the Head Office of the RRB equally over all the operating branches for comparing the costs of management per branch of the two banks concerned. We have presented two alternative estimates of costs of management per branch, one excluding the "salaries" of the deputed staff by the sponsoring bank and the other including this element. Our preference is for the comparison based on the latter alternative.

Thus, Table 11 shows that the per branch cost of management (including "salaries" borne by the sponsor bank) for 1976 was Rs. 18,950 for the HKG Bank and Rs. 22,581 for the JNAG Bank.⁹

⁹— In making this comparison some of the considerations spelt out in footnote 8 must be borne in mind.

"Salaries" (including salaries borne by the sponsor bank) constituted 63.46 per cent of the cost of management in the case of the HKG Bank and 65.86 per cent in the case of the JNAG Bank.¹⁰ The detailed comparison of the main elements of the "Other costs" of management on per branch basis is given in Table 11.

Another way of comparing the cost of management of the two banks is in relation to the volume of business transacted by it. Cost of management as defined above as a percentage of Loans outstanding was 10.12 per cent in the case of the HKG Bank and 13.31 per cent in the case of the JNAG Bank.

Similar cost data on other regional rural banks was not available to compare the costs of management of the HKG Bank and the JNAG Bank with other selected rural banks in the country. There is a need for undertaking such a study to understand the impact of specific local conditions on the cost of operations of the regional rural banks.

8.4. Comparative Financial Performance and Costs of the HKG Bank and the JNAG Bank and the Cooperative Banks in the Region

The cost of management of the two regional rural banks described above may be compared with the cost of management and the financial performance of cooperative credit agencies at the district level and the base (village) level (excluding the third tier of State level cooperative agency). The headquarters of both the regional rural bank

¹⁰The "salaries" usually constitute from 70 to 80 per cent of the costs of management of the scheduled commercial banks. Banking being a labour-intensive industry, lowering of the "salaries" bill would substantially lower the cost of management of the bank. There is no doubt that the cost of management per branch is much lower for both the HKG Bank and the JNAG Bank compared to the average cost of management of a rural branch of their sponsoring commercial bank.

and the district central cooperative bank are located at the district town. The regional rural banks have to compete with both the District Central Cooperative Bank and the Primary Agricultural Credit Societies at the village level for deposit mobilisation well as the supply of short term and medium term credit to their target segment of clients.¹¹ Besides, the RRBs also have to compete with the branches of the commercial banks for the same activity wherever such branches exist in the district. However, it is commonly acknowledged by the bankers that the cost of management of the branch of a regional rural bank (including Head Office expenses) is much lower than the cost of operating a rural branch of the commercial bank.

The comparative performance and costs of selected district central cooperative banks and the HKG Bank and the JNAG Bank and the primary agricultural credit societies for the States of Haryana and Rajasthan and at All India level wherever available is depicted in Table 12. The data for the performance and costs of the selected cooperative agencies relates to the cooperative year 1973-74 ending with June 1974 since this is the latest published information which was available at the time of the preparation of this study. This fact must be kept in mind while making any comparisons.

A look at Table 12 confirms that the cost of management of the cooperatives as per cent of the loans outstanding (credit) as an indicator of the volume of business transacted is much lower for the cooperatives than for the regional rural banks like the HKG Bank and the JNAG Bank. Thus, this percentage for the District Central

¹¹The District Central Banks lend funds to the Primary Agricultural Cooperative Societies for the latter to lend to the farmers at the village level.

Cooperative Bank at Bhiwani was 3.19 for 1973-74 and the average for all the primary cooperative societies in Haryana was 1.86 for the same year compared to 10.12 for the HKG Bank for the year 1976. Thus, the cost of management of the credit granting business of the HKG Bank was much higher than similar business of the cooperative banks / credit societies at the district and the village level. The data provided in Table 12 confirms similar results for the case of the JNAG Bank. This conclusion regarding the relative costs of the cooperative versus regional rural banks will hold even with the data for 1976 for all the institutions.

There are, of course, several reasons for the lower cost of credit administration through the cooperatives compared to the cost of the HKG Bank and the JNAG Bank in their respective districts. The cooperatives have been working in the country for several years now with the most active support of the Reserve Bank of India and its associated agencies like the A.R.D.C. the Deposit Insurance Corporation of India, and the Credit Guarantee Corporation of India. 95 per cent of India's villages are covered by cooperative credit societies. The Credit Deposit ratio of the cooperative banks is higher at the district central cooperative bank and very much higher at the level of the primary agricultural credit society compared to that of the concerned regional rural banks as is borne out by Table 12. The heavy dependence of the district cooperative banks and credit societies on the government funds (compared to the owned resources and the deposits mobilised through their own efforts;

is well known. Most of the cooperative societies in the country (over 60 per cent) still work with a part time secretary. The part time secretary can be hired in most villages easily at a salary of Rs. 100 per month. The acute problems relating to the overdues of most of the cooperative institutions are also well known.¹²

More important in this discussion of the relative roles of the regional rural banks and the cooperative institutions is the well known fact that cooperatives have been dominated by a few richer farmers and the benefits of cooperative credit have largely gone to this class of the members of the cooperatives. Thus, for example, available data for the cooperative year 1973-74 (from the Source cited in Table 12) shows that the loans by the primary agricultural credit societies (PACS) to the borrowers with no land holdings and the borrowers with land holdings below 2 hectares constituted 32.96 per cent of the total loans advanced by the PACs in Haryana, 30.02 per cent in Rajasthan and an average of 20.42 per cent for the country as a whole. The corresponding percentages of loans by the PACS to the landless borrowers are 17.40 per cent for Haryana, 8.50 per cent for Rajasthan and only 4.10 per cent for All India. Besides the cooperatives, being a State subject, have become highly politicalised bodies. Despite attempts by the policy makers to effect linkage of cooperative societies with the scheduled commercial banks, not much progress has been made so far in this direction. For All India level, only 1.40 per cent of the cooperative societies were financed by the commercial banks in 1973-74. The corresponding figure for Haryana State was 4.45 per cent. These

percentages may have increased by 1976-77. But there is no denying the fact that the involvement of the sponsoring commercial banks with the regional rural banks set up by them would remain much stronger and more permanent than with the PACS. This would, of course, not stand in the way of ensuring closer links between the RRBs and the PACS and the FSSs. As stated earlier, such a linkage would be essential for the further growth of the activities of the RRBs.

8.5 Estimated Break Even Point of Operations of the HKG Bank and JNAG Bank

Lending to the weaker sections of the rural society is a riskier proposition by a credit institution compared to lending to the richer sections of the rural society who can establish their better creditworthiness to such an institution. The regional rural banks are currently charged with the obligation of supplying rural credit only to the weaker sections of the society. It would not be unreasonable to assume that under the present structure, the major source of funds of RRBs for lending to the weaker sections of the society will have to come from the sponsoring bank and refinancing agencies, mainly the Reserve Bank of India. The rate of interest charged by the RRBs on direct loans is at present 14 per cent per annum. Whereas the rate of interest charged on refinancing is currently $9\frac{1}{2}$ per cent per annum. The rate of interest paid on savings accounts by the RRBs before June 1977 was 5.5 per cent per annum. The cost of servicing self-generated deposits is obviously cheaper. Assuming that the effective net rate of return on loans advanced for the regional

rural banks after taking into account the risks involved in recovering loans is 4 per cent per annum and further assuming that the cost of management of the regional rural bank (including "salaries" of deputed staff borne by the sponsor banks) was as per Table 11 the "break even" point for lending operations for the year 1976 is shown in Exhibits 3.1 and 3.2.

Under the assumptions made here, the break-even point for 1976 for the HKG Bank would have been reached with a lending of Rs. 95 lakhs (or an average lending of Rs. 4.75 lakhs per branch) and for the JNAG Bank with the corresponding figure of Rs. 175 lakhs (or an average lending of Rs. 5.65 lakhs per branch). Given that the RRBs are allowed to lend Rs.100 for every Rs.15 raised by them from their own funds, the owned funds which would have been necessary to support the lending at the estimated 1976 break-even point would have worked out to Rs.14.25 lakhs for the HKG Bank and to Rs.26.25 lakhs for the JNAG Bank. If we further assume that the paid up capital was not to be used for financing annual costs of management of the bank's activities, the HKG Bank and the JNAG would have been required to raise deposits from the genuine savers (passive depositors) to the full extent of required own funds calculated above. The total deposits created would have then worked out to Rs.109.25 lakhs for the HKG Bank and to Rs.201.25 lakhs for the JNAG Bank. The actual performance in 1976 for both the HKG Bank and the JNAG Bank, of course, fell much below the break-even points of total loans to be advanced. As stated earlier, the cost of management estimated by us including "salaries" borne by the sponsoring bank is likely to be an under-

estimate. If this is true, the realistic break-even point of required amount of loans for both the banks in 1976 would have been still higher than indicated in Exhibits 3.1 and 3.2.

III

Some Key Issues for the Future of the RRBs

Even though the difficulties of making a fair judgement on the working of the regional rural banks in the short period of their existence are well recognised, the two case studies of the working of such banks presented in this paper do bring out some of the key issues which impinge on their effective working and need to be further examined by the policy makers for deciding the future of these banks. These case studies also point out to the importance of variations in specific local conditions in influencing the working of the regional rural banks. More such studies need to be carried out for a better understanding of the factors responsible for the relative performance of the regional rural banks under the local conditions prevailing in the different regions of the country.

The general picture that emerges from the two case studies of the working of the regional rural banks presented in this paper may be briefly summarised as follows: Not all branches of the regional rural banks have been set up at locations where other credit institutions are not operating.

The regional rural banks, however, can play a very useful role in moving towards filling the big credit gap that exists within the

present institutional structure for meeting the needs of the weaker sections of the rural society, especially for generating self-employment in rural industries and services among the persons who do not hold any land. They can also perform the task of meeting the needs of the small and the marginal farmers who fail to get credit from the existing cooperative credit institutions and the rural branches of the commercial banks. It is important to recognise the importance of the distinct role which the regional rural banks can play as a specialised institution for promoting the economic development of the weaker sections of the society even in areas where other credit institutions exist at present. The regional rural banks have so far been able to make a very limited impact in this respect. The gap in this respect is so big that the regional rural banks alone cannot fill it in the foreseeable future and can therefore be expected to supplement the efforts of the existing institutions in a planned and coordinated manner based on selected area approach.

The new institution of the regional rural bank that has emerged has a queer mixture of the features of the working of the commercial banks and the cooperative banks. While in, theory, the new institution was designed to combine the best features of the commercial banks and the cooperative banks, namely the professional expertise of banking business of the commercial banks and the feel for local conditions and local needs of the cooperative banks, in practice, the regional rural banks seem to be suffering from the combination of the worse features of the

commercial banks without being given the benefit of some of the good features of both the cooperative institutions and the commercial banks. These include among other features, the more complicated procedural formalities associated with the commercial banks for giving loans, inheritance of several features of the "culture" of commercial banks, the nonavailability of "out of court" procedure for recovery which is available to the cooperative societies, differential interest rate on deposits which can be offered, which is, in general, better than the rates which can be offered by the commercial banks, at par with the rates offered by the district level cooperative bank but below the rates offered by the primary agricultural cooperative societies, and the anomalous situation where the commercial banks (sometimes even the sponsoring bank) offer credit to the same target segment of borrowers as of the regional rural banks at vastly different rate of interest (at present 14 per cent per annum versus 4 per cent per annum) under the former's Differential Interest Rate Scheme which is not available to the latter. On the other hand, despite several difficulties, the regional rural banks have been able to create a cadre of staff members which can be expected to perform the functions expected of them at a cost which though higher than that of cooperative agencies is definitely much lower than that of the commercial banks.

The major problem that the regional rural banks face relates to the degree their acceptance within and the **support received from the existing institutional credit agencies and the State governments with whom the**

former have to constantly interact and depend in various ways. The cooperative credit institutions treat the regional rural banks with jealousy since they perceive them either as a threat to the existence of some of the cooperative credit societies (especially the financially weaker ones) or as potential threat to their survival and growth or as agencies directly competing with their present business. The State Governments, despite being participants in the equity of the regional rural banks have not extended much help to them even in areas where the State governments were expected to and for which they have been constantly been approached by the existing regional rural banks. The sponsoring banks, despite their initial enthusiasm, have started giving a cold shoulder to the sponsored regional rural banks as the former view the latter as a drain on both the financial and human resources of the former. It appears that both the State governments and the commercial banks to some extent accepted the new institution as an imposition by the Central Government which they had no alternative but to go along during the last one and a half year or so. With the change in the Government at the Centre, the regional rural banks are not sure of the support of the Central Government which owns 50 per cent of their equity.

The general conclusions reached on the basis of the two case studies presented in this paper need to be examined further for judging their applicability to the working of the regional rural

banks in other parts of the country. Assuming that the general conclusions based on our studies hold good for most regional rural banks, the need for immediately reorganising and revitalising the working of these banks for achieving their objectives becomes an urgent task for the policy makers. The Dantwala Committee is already at work for examining the working of these banks and suggesting their future set up. It is hoped that the findings of the two case studies of the working regional rural banks presented in this paper will be found to be useful for reviewing the working of such banks and for thinking on their reorganisation in the future.

Table 1

Branch Expansion of Selected Regional Rural
Banks* up to December 31, 1976

Name of the Regional Rural Bank	Name of the Sponsoring Bank	Date of Establishment	No. of Operating Branches on Dec. 31, 1976
1. Haryana Kshetriya Gramin Bank	Punjab National Bank	October 2, 1975	20
2. Jaipur Nagaur Aanchalik Gramin Bank	United Commercial Bank	October 2, 1975	30
3. Gorakhpur Kshetriya Gramin Bank	State Bank of India	October 2, 1975	20
4. Gaur Gramin Bank	United Bank of India	October 2, 1975	18
5. Prathama Bank	Syndicate Bank	October 2, 1975	20
6. Bhojpur-Rohtas Gramin Bank	Punjab National Bank	December 26, 1975	17 +
7. Samyut Kshetriya Gramin Bank	Union Bank of India	January 6, 1976	21
8. Kshetriya Gramin Bank, Hoshangabad	Central Bank of India	January 20, 1976	20
9. Tungabhadra Gramin Bank	Canara Bank	January 25, 1976	20
10. Puri Gramya Bank	Indian Overseas Bank	February 25, 1976	20
11. Jammu Rural Bank	Jammu & Kashmir Bank Ltd.	March 12, 1976	20
12. Champaran Kshetriya Gramin Bank	Central Bank of India	March 21, 1976	20
13. Bara Banki Gramin Bank	Bank of India	March 27, 1976	21
14. Gargaon Gramin Bank	Syndicate Bank	March 28, 1976	20
15. Rae Bareli Kshetriya Gramin Bank	Bank of Baroda	March 29, 1976	20

16.	Farrukhabad Gramin Bank	Bank of India	March 29, 1976	21
17.	Mallabnum Gramin Bank	United Bank of India	April 9, 1976	18
18.	Bolangir Aanchalik Gramya Bank,	State Bank of India	April 10, 1976	11
19.	Nagarjuna Grameena Bank	State Bank of India	April 30, 1976	35
20.	All India Total (First 37 RRBs)			491

* Set up before June 30, 1976

+ Figures relate to November 1976

Source : Records of Regional Rural Banks.

Table 2

Growth of Deposits of Haryana Kshetriya
Gramin Bank

<u>As on :</u>	<u>No. of Accounts</u>	<u>Amount (Rs. lakhs)</u>
December 31, 1975	260	1.41
October 2, 1976	5424	14.88
December 31, 1976	7119	24.44
May 27, 1976	10222	28.93

Source: HMG Bank Office Records

Growth of Deposits of JNAG Bank

(No.=Number of Accounts;
Amount in Rs. '000)

	December 31, 1975				December 31, 1976				April 29, 1977			
	No.	%	Amt.	%	No.	%	Amt.	%	No.	%	Amt.	%
Current a/c	5	2.23	7.7	7.46	93	1.14	156	3.06	99	0.89	55	1.06
Savings Bank a/c	210	93.75	81.8	79.26	7423	91.09	44.60	10015	90.15		36.42	
Recurring	5	2.23	0.2	0.19					573	5.16	75	1.43
Fixed deposits	2	0.89	7.0	6.78	633	7.77	2665	52.34	292	2.62	3042	58.04
Certificates of deposit	2	0.89	6.5	6.30					76	0.68	116	2.21
Other deposits	-								54	0.49	44	0.84
Total	224	100.0	103.2	100.0	8149	100.0	5092	100.0	11109	100.0	5241	100.0

Source: JNAG Bank Records

Table 3

Comparative Growth of Deposits : Selected Regional
Rural Banks as on December 31, 1976

Name of the Regional Rural Bank	No. of Accounts	Amount (Rs. Lakhs)		
		Total Amount (Rs. Lakhs)	Average Amount Per a/c (Rs.)	Average Amount Per Branch (Rs. '000)
1. Haryana Kshetriya Gramin Bank, Bhiwani (Haryana)	7199	24.44	316.62	122
2. Jaipur Nagaur Aanchalik Gramin Bank, Jaipur (Rajasthan)	8149	50.92	624.86	170
3. Gorakhpur Kshetriya Gramin Bank, Gorakhpur (U.P)	11239	100.03	890.03	500
4. Gaur Gramin Bank Malda (W.B)	2754	36.87	1333.78	204
5. Prathama Bank Moradabad (U.P)	21739	54.36	250.06	272
6. Nagarjuna Grammeena Bank, Khammam (A.P)	24983	84.73	339.15	242
7. All India (First 37 RRBs)	194993	778.59	400.00	159

Source : RRBs' Records

Table 4

58

Growth of Advances by Haryana
Kshetriya Gramin Bank

<u>As on</u>	<u>No. of Accounts</u>	<u>Amount (Rs.lakhs)</u>
December 31, 1975	159	2.69
October 2, 1976	2145	31.72
December 31, 1976	2992	41.23
May 27, 1977	3214	48.72

Source: HKGB Office Records

Growth of Advances of Haryana Kshetriya Gramin Bank : Purpose-wise

(Amount in Rs. '000)

Items	1975 (Disbursement)				1976							
	No. of Accounts	%	Amount	%	Disbursement				Outstanding			
	No. of Accounts	%	Amount	%	No. of Accounts	%	Amount	%	No. of Accounts	%	Amount	%
Crop loans	14	8.81	9.6	3.57	258	8.62	112.4	2.73	207	8.00	71.3	1.9
Jhallars	7	4.40	13.8	5.14	35	1.17	68.8	1.67	28	1.08	51.4	1.3
Sheep	10	6.29	20.0	7.45	215	7.19	319.0	7.74	162	6.26	29.1	7.7
Diesel engine	1	.63	2.4	.89	21	.70	37.6	.91	14	.54	31.2	.8
Camel carts	53	33.33	117.1	43.59	542	18.11	964.0	23.38	413	15.97	31.6	23.5
Bullocks/ Camels	28	17.61	43.3	16.15	1015	33.92	1604.1	38.91	963	37.24	1512.6	40.3
Buffaloes	6	3.77	10.4	3.88	289	9.66	400.0	9.70	209	8.08	362.9	9.6
Artisans & self- employed	37	23.27	43.0	16.00	470	15.71	498.7	12.1	444	17.17	444.0	11.8
Gobar gas	3	1.8	9.0	3.35	11	.37	28.7	.70	11	.43	24.2	.6
Poultry					8	.27	10.8	.26	7	.27	8.8	.2
Other animals					12	.40	16.7	.41	12	.46	13.9	.3
Tube-wells					1	.03	10.0	.24	1	.04	8.9	.2
Land Levelling					15	.50	18.9	.46	15	.58	16.0	.4
Cattle Sheds					1	.03	2.5	.06	1	.04	2.2	.0
Other mis. loans					22	.73	20.0	.49	22	.85	18.8	.5
Consumption loans					77	2.57	10.9	.26	77	2.98	8.0	.2
	159	100.00	268.6	100.00	2992	100.00	4123.1	100.00	2586	100.00	3744.8	100.00

Table 6.1

Growth of Advances by Haryana Kshetriya Bank : Purpose-wise and by Type of Borrower
(No = Number of Accounts ; Amount in Rs '000)

Purpose	AS ON OCTOBER 1, 1976												AS ON MAY 27, 1977											
	Small and Marginal Farmers				Landless Agricultural Labourers				TOTAL				Small and Marginal Farmers				Landless Agricultural Labourers				TOTAL			
	No	%	Amount	%	No	%	Amount	%	No.	%	Amount	%	No	%	Amount	%	No	%	Amt.	%	No.	%	Amount	%
Crop Loan	128	15.09	44	3.19	76	9.02	29	2.05	204	9.51	73	2.30	108	7.76	32	1.59	75	3.44	23	0.72	183	5.12	55	1.05
Jhallars	16	1.89	28	2.03	7	0.83	17	1.20	23	1.07	45	1.42	36	2.59	65	3.22	1	0.04	2	0.06	37	1.04	67	1.28
Sheep	48	5.66	86	6.23	55	6.52	92	6.52	103	4.80	178	5.61	47	3.38	84	4.16	148	6.79	235	7.34	195	5.46	319	6.11
Diesel engines & agricultural implements	4	0.47	10	0.72	3	0.36	7	0.50	7	0.33	17	0.54	11	0.79	25	1.24	13	0.60	29	0.91	24	0.67	54	1.03
Camel-carts	143	16.86	329	23.84	197	23.37	452	32.01	340	15.85	781	24.62	241	17.31	483	23.95	341	15.64	764	23.87	582	16.29	1247	23.90
Bullocks & Camels	452	53.30	772	55.94	390	46.26	622	44.05	842	39.25	1394	43.95	565	40.59	890	44.12	754	34.59	1133	35.40	1319	36.93	2023	38.77
Artisans / self-employed									360	16.78	352	11.10	61	4.38	62	3.07	596	27.34	591	18.46	657	18.39	653	12.51
Buffaloes	49	5.78	85	6.16	94	11.51	159	11.26	143	6.65	244	7.69	131	9.41	224	11.11	245	11.24	408	12.74	376	10.53	632	12.11
Gobar Gas	5	0.59	12	0.07	6	0.71	17	1.20	11	5.13	29	0.91	4	0.28	9	0.45	7	0.32	16	0.50	11	0.31	25	0.48
Poultry					3	0.36	4	0.28	3	0.14	4	0.13	0	0.58	16	0.79					8	0.22	16	0.31
Other animals	1	0.12	2	0.14	12	1.42	13	0.92	13	0.60	15	0.47	55	3.95	54	2.67					55	1.54	54	1.03
Tubewells	1	0.12	10	0.72					1	0.05	10	0.32	1	0.07	9	0.45					1	0.03	9	0.17
Land Levelling	1	0.12	2	0.14					1	0.05	2	0.06	13	1.29	19	0.94					18	0.50	19	0.36
Cattle sheds													2	0.14	1	0.05					2	0.06	1	0.02
Consumption Loans									90	4.20	24	0.76	83	5.96	17	0.84					83	2.32	17	0.33
Other demand loans									4	0.19	4	0.13	21	1.51	27	1.34					21	0.59	27	0.52
GRAND TOTAL	848	100.00	1380	100.00	643	100.00	1412	100.00	2145	100.00	3172	100.00	1392	100.00	2017	100.00	2180	100.00	3201	100.00	3572	100.00	5218*	100.00

*Excludes Indirect Financing through the Bhiwani Farmers' Service Coop. Society Ltd. Bhiwani details of which are given below:-

S.T. Loan		M.T. Loan		Total	
No. of A/cs	Amount Rs. '000	No. of A/cs	Amount Rs. '000	No. of a/cs	Amount Rs. '000
453	302	121	198	574	500
(78.92)%	(60.40)%	(21.08)%	(39.60)%	(100)%	(100)%

Table 6.2

Growth of Advances by JNAG Bank : Beneficiary Group-wise
(No= Number of Accounts ; Amount in Rs. '000)

	As on 31.12.1975				Outstanding as on 31.12.1976				Outstanding as on 29.4.1977			
	No	%	Amt.	%	No	%	Amt.	%	No	%	Amt.	%
1. Small Farmers	94	44.34	54.7	48.80	1806	41.99	2992	56.90	2854	43.88	4875	59.47
Agricultural (landless) labourers	20	9.43	13.6	12.13	406	9.44	605	11.51	655	10.07	893	10.89
Arts and crafts workers	71	33.49	29.4	26.23	1036	24.09	633	12.04	1485	22.83	1008	12.30
Self-employed labourers & traders	27	12.74	14.4	12.84	1053	24.48	1028	19.55	1468	22.57	1377	16.80
Consumption labourers										0.14	2	0.02
Others									34	0.52	42	0.51
Total	212	100.00	112.1	100.00	4301		5258	100.00	6504	100.00	8197	100.00

Source: JNAG Bank Records

Table 7

Comparative Growth of Advances by Selected Regional Rural Banks
As on December 31, 1976

Name of the Regional Rural Bank	No. of Accounts	Total Amount	Amount (Rs. lakhs)	
			Average Amount per a/c (%)	Average Amount per Branch (Rs. '000)
1. Haryana Kshetriya Gramin Bank	2992	41.23	1378.01	206
2. Jaipur Nagaur Aanchalik Gramin Bank	4678	58.89	1258.88	196
3. Gorakhpur Kshetriya Gramin Bank	15744	96.99 [@]	612.16	485
4. Gaur Gramin Bank	4243	94.55 [*]	2288.38	525
5. Prathama Bank	5189	46.36	893.43	232
6. Nagarjuna Grameena Bank	12824	118.88	927.01	340
7. All India (First 37 RRBs)	100039	805.47	700.73	143

Source : RRBs Records

[@] Includes a total amount of Rs. 23.70 lakhs disbursed to 6485 farmers through 13 FSS/PACS.

^{*} Includes total amount of Rs. 7.48 lakhs disbursed to 9255 beneficiaries, through cooperative societies. Also includes an amount of Rs. 6 thousand given to 50 persons as education and medical loan.

Table 8

63

Comparative Growth of Advances to "Small and Marginal Farmers and Landless Agricultural Labourers" and to "Rural Artisans and Others" by Selected Regional Rural Banks

As on December 31, 1976

Name of the Regional Rural Bank	Amount of Advance to Small and Marginal Farmers and Landless Agricultural Labourers (Rs. lakhs)	% of total advances	Amount of Advances to Rural Artisans and Others (Rs. lakhs)	% of total advances
1. Haryana Kshetriya Gramin Bank	17.89	43.39	23.34	56.61
2. Jaipur Nagaur Aanchalik Gramin Bank	38.87	66.00	20.02	34.00
3. Gorakhpur Kshetriya Gramin Bank	64.46	66.46	8.83	33.54
4. Gaur Gramin Bank	18.60	19.67	3.41	80.33
5. Prathama Bank	18.04	38.91	28.52	61.09
6. Nagarjuna Grameena Bank	82.31	69.23	36.57	30.77
7. All India (First 37 RRBs)	466.55	66.62	233.92	33.38

Source: RRBs Records

Table 9

Portfolio Management of Funds by HKG Bank and
JNAG Bank As of December 31, 1976

(Rs. thousands)

<u>SOURCES OF FUNDS</u>			<u>USES OF FUNDS</u>		
<u>Source</u>	<u>HKG Bank</u>	<u>JNAG Bank</u>	<u>Use</u>	<u>HKG Bank</u>	<u>JNAG Bank</u>
1. Paid up Capital	2500.0	2500.0	1. Cash	261.4	760.8
2. Reserve Fund	67.4	21.7	2. Balance with other banks	705.1	1203.1
3. Deposits	2443.6	5091.8	3. Money at call and short notice	-	1800.0
4. Borrowings from other banks	-	2008.1	4. Investment and		
			a) In Government securities	100.0	-
			b) In A.R.D.C. Shares	50.0	10.0
5. Other income	37.5		5. Advances/Bills Discounted and Purchased	3774.8	5257.6
			6. Book Value of Furniture	96.5	506.2
			7. Vehicles	54.6	
			8. Miscellaneous	36.1	159.4
Total	5048.5	9697.1		5048.5	9697.1

Source: Annual Reports and Accounts of the concerned Banks

Table 10.1

65

Profit and Loss Account of Aryana Kshetriya Gramin
Bank : 1975 and 1976

(Rs. '000)

<u>Expenditure</u>		<u>Income</u>	
<u>1975</u>	<u>1976</u>	<u>1975</u>	<u>1976</u>
0.2 (i)	Interest paid on deposits, borrowings etc. 47.2	41.0 (i)	Interest and discount 398.4
1.8 (ii)	Salaries, allowances and* provident fund 170.5	- (ii)	Other receipts 0.5
4.5 (iii)	Rent, Taxes, Insurance, Lighting etc. 24.5		
2.2 (iv)	Stationery, Printing, Advertisement etc. 19.0		
8.0 (v)	All other expenditure 94.5		
24.3 (vi)	Balance of Profit 43.2		
<u>41.0</u>	<u>TOTAL</u> 398.9	<u>41.0</u>	<u>TOTAL</u> 398.9

* Excludes 'salaries' of staff deputed by the sponsor bank

Source: HKG Bank Annual Report & Accounts 1976

Table 10.2

Profit and Loss Account of JNAG Bank, 1975 and 1976

(Rs. '000)

Expenditure		Income	
1975	1976	1975	1976
0.8 i) Interest paid on deposits, borrowings etc.	66.0	59.5	i) Interest and discount 422.3
1.6 ii) Salaries, allowances, provident fund and gratuity	136.4	-	ii) Other income 2.6
4.2 iii) Rent, taxes, insurance, lighting etc.	27.7	-	iii) Loss 16.0*
3.1 iv) Stationery, printing, advertising etc.	72.3		
12.1 v) All other expenditure			
37.7 vi) Balance of Profit	-		
59.5	TOTAL 440.9	59.5	440.9

* does not include interest of Rs. 17,000 still due from the sponsor bank

Source: JNAG Bank Annual Report & Accounts 1976

Comparative Financial Performance and Cost Structure per Operating branch of JNAG Bank and HKG Bank for 1976

Item	JNAG	HKG
1. Number of Operating Branches on December 31, 1976	31	20
2. Cost of management (excluding salaries etc. paid by the sponsoring bank), (Rs. '000)	375	309
3. Estimated "Salaries etc." paid by the sponsoring bank (Rs. '000)	325	70.0*
4. Estimated Total Cost of Management including "salaries etc." paid by the sponsoring bank (Rs. '000)	700	379*
5. "Salaries etc." paid by the concerned Regional Rural Bank (Rs. '000)	136.4	170.5
6. Average "Salaries etc." (Item 5) per branch (in Rs.)	4,400	8,525
7. Total "Salaries etc." (Item 3 plus item 5) (Rs. '000)	461.1	240.5*
8. Average "total salaries etc." (Item 7) per branch (in Rs.)	14,874	12,025
9. "Salaries etc." (Item 5) as a ratio of cost of management (Item 2) (in %)	36.37	55.18
10. "Total Salaries etc." (Item 7) as a ratio of cost of management (Item No 4) (in %)	65.86	63.46
11. Rent, taxes, insurance, lighting etc. (Rs '000)	27.7	24.5
12. Average "Rent etc." (Item 11) per branch (in Rs.)	894	1,225
13. Postage, Telegrams, stamps etc. (Rs. '000)	17.0	1.2
14. Average "Postage etc." (Item 13) per branch (in Rs.)	548	60
15. Depreciation and repairs to bank property (Rs. '000)	38.3	19.6
16. Average "Depreciation etc." (Item 15) per branch (in Rs.)	1,235	980
17. Stationery, Printing, Advertisement etc. (Rs. '000)	74.3	19.0
18. Average "Stationery etc." (Item 17) per branch (in Rs.)	2332	950
19. "Other" expenditure (unclassified in Bank Accounts) (Rs. '000)	81.1	72.0
20. Average "Other" expenditure (Item 19) per branch	2,616	3,600
21. Average cost of management per branch excluding "salaries etc." paid by the sponsoring bank (in Rs.)	12,097	15,450
22. Average total cost of management per branch including "salaries etc." paid by the sponsoring bank (in Rs.)	22,581	18,950
23. Gross Operational income per branch (Rs '000)	424.9	398.9
24. Average (gross) operational income per branch (Rs.)	13,706	19,945
25. Profit or Loss (-) excluding salaries paid by sponsor bank (Rs'000)	-16.0	43.2
26. Profit or (Loss(-)) taking into account salaries paid by sponsor bank (Rs'000)	-323.7	-26.8
27. Adjusted Profit/Loss (-) per branch (Rs)	-10,442	-1340

* Estimated by us

Source: Annual Reports and Accounts of the concerned banks.

Comparative Performance and Costs of Selected District Central Cooperative Banks, Regional Rural Banks and Primary Agricultural Credit Societies

(Amount in Rs. thousands)

Indicator of Performance/Cost	District Central Cooperative Banks (DCCBs) : 1973-74 (End of June 1974)						Selected Regional Rural Banks 1976 (Dec. 31, 1976)		Average Performance of Primary Agricultural Credit Societies (PACS) at State level 1973-74 (End of June 1974)		
	Average Performance of all DCCBs at State level			Average Performance at District level			HKG Bank	JNAGBank			
	Haryana	Rajasthan	All India	Bhiwani (Haryana)	Jaipur (Rajasthan)	Nagaur			Haryana	Rajasthan	All India
1. Number of CCBs at State Level	12	25	341	-	-	-	-	-	-	-	-
2. Number of Offices of relevant bank/banks	132	173	4,832	13	9	6	20	31	6,266	7,740	1,53,808
3. Deposits	17,80,78	15,59,54	7,18,59,96	1,23,16	95,67	17,03	24,44	50,92	90,02	2,00,70	89,27,89
3(a) Deposits per office of relevant bank/banks	1349	901	1487	947	1963	284	122	164	1.4	2.6	5.8
4. Credit (Loans outstanding)	30,78,06	36,66,52	11,62,80,06	2,43,40	2,01,76	59,30	37,44	52,58	26,77,94	32,82,20	10,54,96,58
4(a) Credit (Loans outstanding) per office of relevant bank / banks	2332	2119	2406	1872	22 42	988	187	170	42.7	42.4	68.6
5. Credit / Deposit ratio ⁺	1.7	2.4	1.6	2.0	2.1	3.5	1.5	1.03	29.7	16.4	11.8
6. Cost of Management (excluding interest paid on deposits)	99,35	1,40,57	38,03,38	7,76	10.04	4.98	379*	700*	4971 [@]	7952 [@]	35,96,24
7(a) Salaries as % of cost of Management	69.38	72.66	70.87	72.94	74.10	81.53	63.46*	65.86*	73.08	45.49	53.60
(b) Other administrative costs as % of Management	30.62	27.34	29.13	27.06	25.90	18.47	36.54	34.14	26.92	54.51	46.40
8. Cost of Management per office (including Head Office) of relevant bank/banks	75	81	79	60	112	83	19	23	0.8	1.0	2.3
9. Cost of Management as % of Credit (Loans Outstanding)	3.20	3.83	3.27	3.13	4.98	8.40	10.12	13.31	1.86	2.42	3.41
10. Profit or Loss(-)	60,32	8,66	12,63,04	1,90	- 2,82	- 1,72	-27*	-323*	18,86	62,43	22,77,41
11. Profit or Loss(-) per office	46	5	26	15	- 31	-29	-1	-10	0.3	0.8	1.5

* including estimated salaries paid by the sponsoring bank

@ including a Government subsidy for management expenses

+ The comparable Credit/Deposit ratio of the scheduled commercial banks in India is 0.7 to 0.8

Exhibit 1.1

Implementation of Branch Expansion Programme of
Haryana Kshetriya Gramin Bank

<u>Location of the Branch</u>	<u>Opened on</u>
1. Bhiwani ⁺	October 2, 1975
2. Dhigawa	December 29, 1975
3. Bapora	January 1, 1976
4. Kairu	January 19, 1976
5. Imloṭa	January 29, 1976
6. Talwandi-Rukka	February 25, 1976
7. Sanwer	March 20, 1976
8. Isharwal	March 24, 1976
9. Dhanana	May 15, 1976
10. Abela	May 17, 1976
11. Kadma	May 28, 1976
12. Raṇiṭa	June 9, 1976
13. Chiriya	September 27, 1976
14. Baund Kalan	December 31, 1976
15. Jhojhu Kalan	December 31, 1976
16. Saṭnali	December 31, 1976
17. Siwani	December 31, 1976
18. Tosham	December 31, 1976
19. Jamalpur	December 31, 1976
20. Bawani-Khera	December 31, 1976

+ Located in same premises as the Head Office

Source: HKG Bank records

Exhibit 2.1Staff Strength of H.K.G. Bank on December 31, 1976

<u>Post</u>	<u>No.</u>
1. Chairman-cum-Managing Director*	1
2. Manager on deputation from sponsoring bank	1
3. Branch Managers	8
4. Field Officers	5
5. Accountants cum Field Officers	14
6. Clerks cum cashiers	24
7. Apprentices	10
8. Jeep Driver	1
9. Dak Runner	1

*"Salary etc." being borne by the sponsoring bank.

Source: Haryana Kshetriya Gramin Bank, Report of the Board of Directors for the year 1976

Implementation of Branch Expansion Programme of
JNAG Bank upto June 8, 1977

Sl. No.	BRANCH	Panchayat Samiti	Date of Opening
<u>JAIPUR DISTRICT :</u>			
1.	Lawan	Dausa	October 2, 1975
2.	Watika	Sanganer	February 3, 1976
3.	Med	Bairath	March 2, 1976
4.	Paparda	Dausa	June 7, 1976
5.	Jahota	Amber	June 24, 1976
6.	Manpur Macheri	Amber	August 2, 1976
7.	Aandhi	Jamwa Ramgarh	August 11, 1976
8.	Ramgarh Pachwara	Lalsot	September 24, 1976
9.	Mandawari	Lalsot	September 27, 1976
10.	Itawa Bhopji	Govindgarh	September 27, 1976
11.	Jatwara	Bassi	September 29, 1976
12.	Mukhyalaya Bank Shakha	Jaipur(City)	October 1, 1976
13.	Sakhoun	Dudu	November 11, 1976
14.	Nareda	Kotputli	December 4, 1976
15.	Sirsi	Jhotwara	December 13, 1976
16.	Hingonia	Jambher	December 22, 1976
17.	Kothkhawada	Chaksu	December 23, 1976
18.	Mahapura	Sanganer	December 27, 1976
19.	Gudha Katla	Bandikui	March 31, 1977
20.	Neemera	Phagi	April 11, 1977
21.	Garh Ranoli	Sikrai	May 31, 1977
22.	Amarsar	Snehpura	June 3, 1977

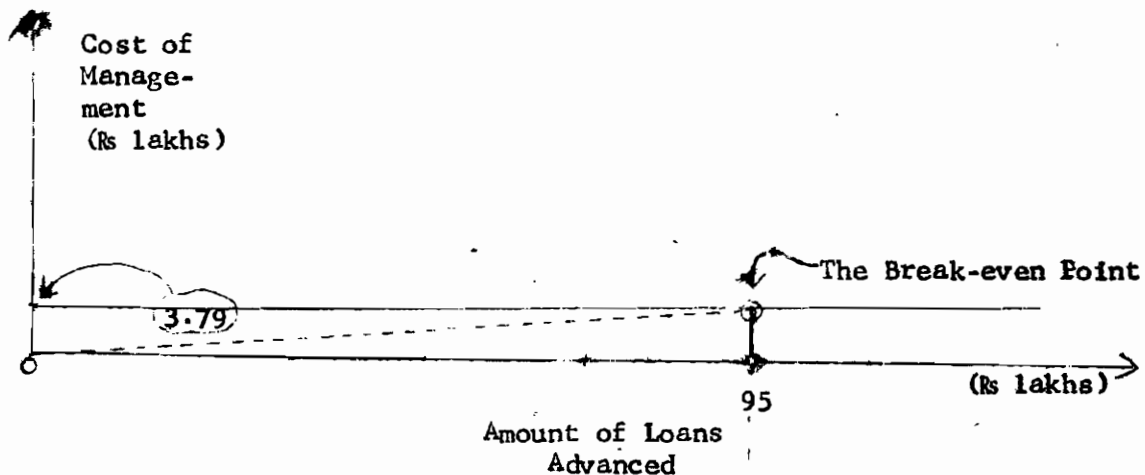
NAGOUR DISTRICT

1.	Shri Balaji	Nagaur	January 30, 1976
2.	Padookalan	Riyan	May 5, 1976
3.	Jasnagar	Riyan	May 5, 1976
4.	Gagrana	Mertacity	June 12, 1976
5.	Tarnau	Jayal	June 21, 1976
6.	Bagot	Parbatsar	August 13, 1976
7.	Ladaria	Deedwana	September 1, 1976
8.	Khunkhuna	Deedwana	September 2, 1976
9.	Kukunwali	Kuchamancity	September 28, 1976
10.	Manana	Makrana	December 1, 1976
11.	Nimbi Jodha	Ladnu	December 3, 1976
12.	Idwa	Degana	December 24, 1976
13.	Pankhwas	Mundhwa	December 29, 1976
14.	Uegara	Degana	June 8, 1977
15.	Merta Road	Merata	June 8, 1977

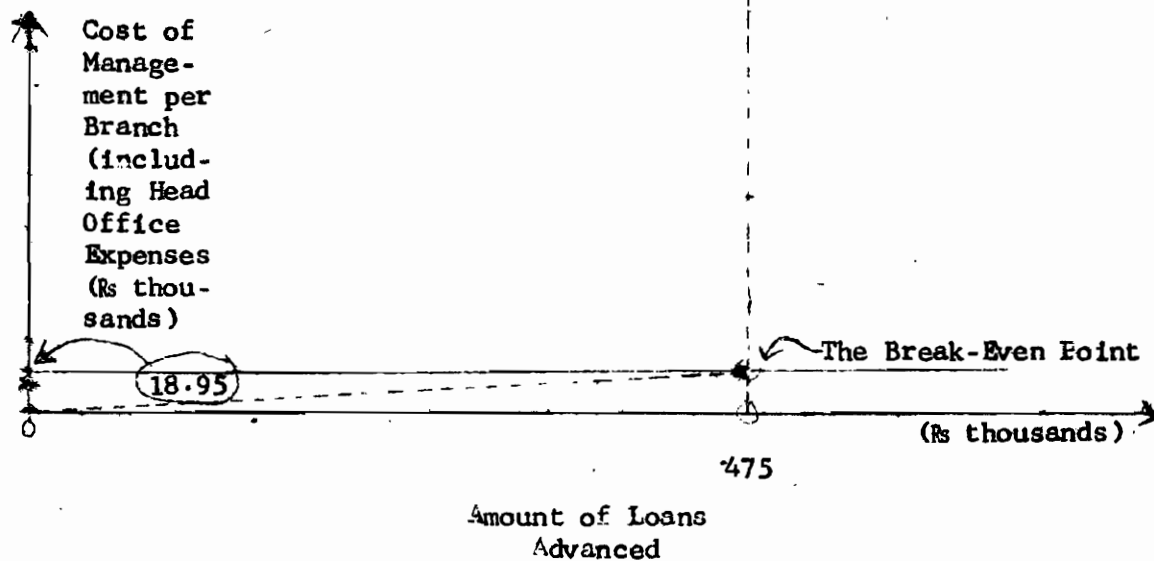
Strength of the Staff of the JNAG Bank
on December 31, 1976

	Number
<hr/>	
1. <u>On deputation from sponsor bank</u>	
i) Officers	20
ii) Clerks / Cashiers	14
Total of 1	<u>34</u>
<hr/>	
2. <u>Bank's own staff</u>	
i) Managers	23
ii) Field Officers	12
iii) Clerks / Cashiers	21
	<u>56</u>
<hr/>	
3. Grand Total (1+2)	90

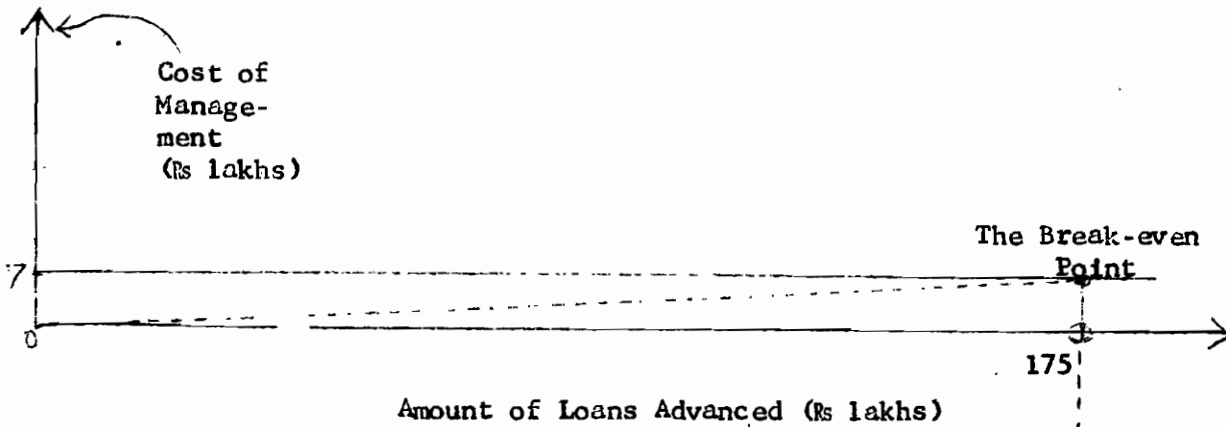
Source: JNAG Bank : Annual Report & Accounts 1976

Exhibit 3.1The Break-Even Point Configuration for the HKG Bank for 1976

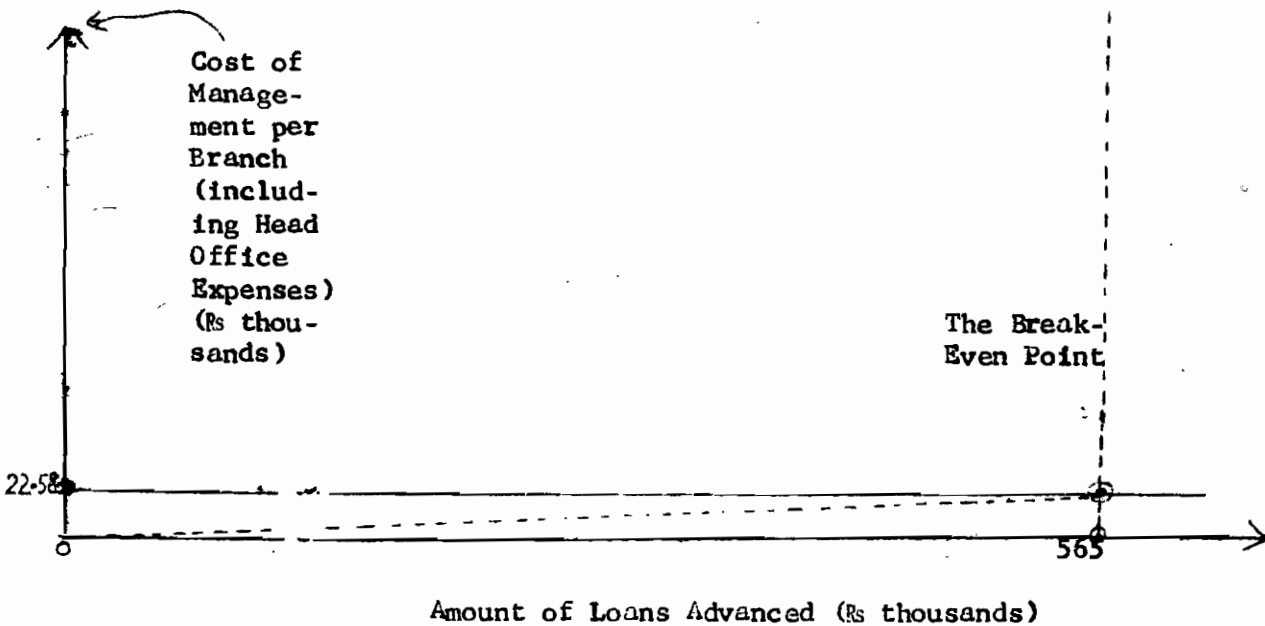
3.1(a): The Break-Even Amount of Loans for the MKG Bank for 1976



3.1(b): The Break-Even Point for Amount of Loans per Operating Branch of the HKG Bank in 1976

Exhibit 3.2The Break-Even Point Configuration for the JNAG Bank for 1976

3.2(a): The Break-Even Amount of Loans for the JNAG Bank for 1976



3.2(b): The Break-Even Point for Amount of Loans per Operating Branch of the JNAG Bank for 1976