

CHAPTER - VIICONCLUSION, POLICY IMPLICATIONS AND SUGGESTIONS FOR FUTURE  
RESEARCH

The findings of this study can be divided into two parts : Firstly, analysing the growth and distribution pattern of the rural banking system in Gujarat and secondly, the analysis of the two major operational problems confronting the system, namely, the poor alignment of the rural banking system with the system of rural development planning and the chronic problem of overdues.

The growth of the rural banking system in Gujarat is measured by using three indicators viz. number of outlets, deposits mobilised and credit deployed. Further, the place of Gujarat among the various states in the country is identified using the same indicators. The number of primary rural credit delivery outlets in Gujarat followed a declining trend, largely due to the national policy of consolidating the PACS, with a view to making them viable units. However, the rate of decline was much lesser (-0.74 per cent per annum) compared to all-India rate (-2.68 per cent per annum). Growthwise, Gujarat ranked 8th among the various states in the country. Deposit mobilisation increased by 21 per cent per annum in Gujarat compare to 26 per cent per annum at the all-India level. The lower growth rate needs to be probed into, in view of Gujarat being one of the agricultural

progressive states in the country. Considering the credit deployment, the growth rate was much lower in Gujarat than at the all-India level. Gujarat ranked last among the various states in terms of growth rates of both deposits and credit.

The analysis of the Gujarat growth trends of PACS as well as CBs revealed that they are corroborative of the national trends. Whereas the performance of LDBs in Gujarat was disturbing. It was the only state in the country which reported a declining rate in credit disbursements.

In sum, the progress of rural banking system in Gujarat was poorer compared to that in the country as a whole. This finding becomes a matter of greater concern in view of the fact that Gujarat was the state wherein co-operative credit system had a traditional strong hold.

An examination of the distribution pattern of deposits according to lending agencies revealed a very large concentration in case of CBs, both in Gujarat as well as in the country as a whole (above 95 per cent). This implies that co-operatives hardly played any role in deposit mobilisation in rural areas. Compared to this,

the distribution pattern was much more balanced in case of credit disbursed. Yet, CBs, purveyed largest portion of credit both in Gujarat (46 per cent) as well as in all-India (48 per cent). PACS followed closely in Gujarat, but accounted for around half the share of CBs in the country as a whole. Lastly, LDB in Gujarat accounted for less than half of the share at the all-India level. In sum, in Gujarat, PACS performance was relatively much better and that of LDB much poorer than at the national level.

It needs to be noted that performance of CBs in Gujarat, both in terms of deposit mobilisation and credit deployment was representative of the country as a whole. This findings may be used with great benefit by future researchers.

The problem of alignment of the rural banking system with the system of rural development planning is examined, using the ratios of achievements to targets of credit at the district level under the four AAPs from 1983 to 1986. The analysis revealed that in only 2 out of 19 districts, namely Kutch and Panchmahals, the performance was satisfactory (within the realistic range of  $\pm 25$  per cent) in all the years. In 1983, only 6 out of 19 districts show achievements within the realistic range.

The number of such districts increased to 14 in 1986. Hence, our study indicates a marked improvement in achieving the alignment between the two systems in the state during the study period.

The process of alignment begins at the level of bankable schemes financed in each economic sector. Hence, for a more meaningful analysis, the achievement ratios need to be worked out for each scheme/loan financed. However, such an intensive probing is beyond the scope of this study, but is surely a promising area for future research.

We extended our study to the sectoral level. The sectoral analysis revealed that the performance was most satisfactory in case of agriculture and very poor in case of industrial sector. This gives the clue, that, rural banking system is tuned mainly for agricultural development and much yet remains to be done in the tertiary and industry sectors, which are assigned higher priorities under the development plans. Banks need to put in more efforts to prepare well designed bankable schemes matching with development plans in these two sectors.

Lastly, the evaluation of the alignment process is most meaningful at the level of each participating lending institution. Such an analysis of AAP 1986, revealed that only 4 out of 28 institutions had satisfactory performance (within realistic range of achievement) in more than 50 per cent of districts in which they operated. These four institutions were BCB, Dena Bank, CBI and DCCB. Further, it is found that the number of participating banks, per district having more than one per cent share of total credit disbursed under AAP, ranged from 4 to 14. For achieving better alignment we suggest the number of banks be brought to 8 or 9 per district and while selecting the participating banks adequate presence of the bank in the district should be a major consideration. In future, the evaluation studies of alignment process should focus on the scheme/bank level indicator of achievement ratio, as this approach alone gives a feasible and realistic picture.

The multi dimensional analysis undertaken by us reveals that much remains to be done for achieving proper alignment between the system of rural banking and development planning for achieving rapid rural development in Gujarat.

Rising and consistently higher levels of overdues<sup>2</sup> has been one of the most serious and sticky problems

confronting the rural banking system in India, cutting across all lending agencies, types of borrowers, economic sectors and areas.

Our analysis of the overdue problem in the system of rural banking in Gujarat revealed that during the three year period from 1984 to 1986 (June end), the overdue ratio (over dues to demand) was rising gradually in contrast to the slowly declining trend of the corresponding ratio at the all-India level. In the last year, the overdue ratio were 41 and 43 in Gujarat and all-India respectively. Urgent steps need to be taken to arrest the further increase of the overdue ratio in Gujarat. Further, Gujarat was the only state in the country, showing rising levels of overdues in case of all the lending agencies. However, an inter-state comparison of overdue ratio revealed that Gujarat occupied 15th rank in all the three years, when the states are arranged in the descending order, indicating that the overall recovery performance of Gujarat is better than 14 out of 18 states in the country.

Our investigation explored two dimensions of the overdues problem in Gujarat's rural banking system, namely; institutional and sectoral. The grass root level analysis revealed that the number of banks having overdues ratio above the state average increased from 9 to 16 between

1984 to 1986. More importantly, 8 banks were found to be common in all the 3 years. Out of the 24 lending banks, 13 banks had rising trends of ratios, indicating the worsening of recovery position. Further, the ratios ranged from 16 to 71 in the first year and 34 to 71 in the last year. That is, the minimal ratio more than doubled in three years time, and the maximum ratio increased from 71 to 77 and again dropped to 71. The above analysis reveals a deteriorating recovery situation at the bank level. In particular, efforts to improve recovery need to be focussed on the 8 banks having consistently high overdue ratios.

Secondly, attempt was made to classify overdues according to economic sector financed through bank loans. The sectoral analysis of overdues revealed that the annual overdues ratios of the industry and tertiary sectors were much above the state average and only the agriculture ratio was below it. Considering the three years trend, the agricultural ratio improved in the second year and was stagnant thereafter. The trend in the industry and tertiary ratios showed deterioration which was more prominent in the case of industry. In 1986, the ratio in the agriculture, industry and tertiary sectors were 43, 67 and 57 respectively. Our analysis points out the urgent need to concentrate the

efforts for improving recovery in case of credit disbursed in the industry and tertiary sectors. Even in case of agriculture, there was need to reduce overdues.

For better understanding of the problem of overdues at the grass root level, we examined the sectoral overdues ratio for each of 24 banks. It was found that the number of banks having ratios above the state average (3 years' average) was highest in agriculture(17), followed by industry(13) and tertiary sector(8). Further, out of 24 only two banks, union SOI and RRBs as a group, had rising trends in all the sectoral ratios. This analysis presents contradictory evidence to our findings drawn from analysis of the aggregate sectoral ratios given above. The overall better performance in agriculture seem to camouflage the poor performance of large number of banks. This is a very important revelation for the policy makers. Further, the serious overdues problem posed at aggregate sectoral level in industry and tertiary sectors, seems to be relatively easier to be tackled as lesser number of banks are involved. The lesson is, in future research, it is advisable to take bank level sectoral ratios as indicators of the overdues problem, rather than the aggregate sectoral ratios at a regional level.