

CONSTRAINTS ENCOUNTERED IN DISBURSEMENT OF PRIORITY SECTOR LOANS IN THE DISTRICT OF NAGAON ASSAM

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ABSTRACT

The constraints encountered by bank authority in the disbursement of Priority sector loans as well as those faced by the beneficiaries for getting same loans are discussed here under. Problems of priority sector lending are many folded and complicated. Priority sector lending is much more difficult in comparison to that of the non-priority sectors. This paper attempts to analyze the nature of difficulties faced by the bank authority in respect of disbursal of priority sector loans.

KEYWORDS: *Constraints, Banks, Credit, Assessment, Down Payment, Subsidy*

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INTRODUCTION

Methodology

The methodology of the study is both descriptive and analytical in nature and makes use of secondary as well as primary data. The descriptive methodology is used to describe the role played by Public Sector Banks in lending to priority sector with special focus on agriculture, MSEs and allied activities.

A questionnaire and a schedule have been prepared for collecting primary data from the bank officials and from the beneficiaries. Besides that, the researcher has conducted a personal interview with the bank managers.

Constraints Encountered by Bank Authority

The priority sector lending is primarily focused on weaker sections of the society and so attention must be given to adequate and timely supply of credit for improving an economic lot of the target borrowers. The lending institution should process, applicants in such a way that the purpose of the borrowers is fully fulfilled in time.

The bank authority must take some special consideration before processing and disbursement of the loans to the borrowers. It is an act of intensive care and closes surveillance. The banks are seen facing various constraints at various stages of lending in our study also. A picture of such problems faced by the banks is given below:

Weak Economic Profile

Sound economic conditions of the concerned person play a significant role in generating confidence and surety among the disbursing agency.

- Ñ **Weak Bargaining Power:** Prima facie evidence suggests that they have weak bargaining power for PSL loan.
- Ñ **Poor Social Status is Poor:** The beneficiaries possess poor social status for which they are hesitant to approach the concerned government agencies for the schemes formulated for their benefit.
- Ñ **Limited Assets:** Limited assets belonging to the borrowers also create constraints for availing loans. Because it affects the credit absorption capacity and repayment capability of the borrowers and the bank can't overlook this critical aspect.
- Ñ **Source of Income:** Income of the family members must also be taken into consideration before sanctioning the loans.

CREDIT RISK ASSESSMENT

Credit risk assessment of the bank loan is an important parameter. Banks face various problems in assessing the credit risk of borrowers and to ascertain the borrowers. From the field survey, it is gathered that the borrowers do not generally maintain the following updated records.

- Ñ **No Savings Account:** Most of the cases it is seen that the borrowers have not maintained a prior saving bank account with the concerned branch. This is regarded as a prerequisite condition for receiving a loan proposal. The absence of this requirement fails to establish a banker-customer relationship.
- Ñ **Banker-Customer Relationship:** In the absence of this relationship between the customer and the banker; the trust worthiness of the customer cannot be ascertained.
- Ñ **Non-Operation of Account:** Some of the borrowers ,although have an account with the bank, but non operation of the same and zero transaction make the account dormant which in turn creates problems at the time of processing the loan application.
- Ñ **Credit Absorption Capacity:** It is seen from the field survey that the beneficiaries have kacha and bamboo houses, less permanent assets available for mortgages, which deters the credit absorption capacity of the beneficiaries.
- Ñ **Possession of Livestock:** Due to the low income of the beneficiaries they cannot possess more livestock. This is again considered for assessing credit absorption capacity.
- Ñ **Source of Livelihood of Members:** Most of the beneficiaries have been identified by low income and disguised unemployment. Few members of the house are earning but the majorities are not earning any income during the whole year.
- Ñ **Occupation of Beneficiaries:** Many borrowers are engaged in the daily wage earnings. They do not have permanent engagement that is why they are not able to show any collateral for availing of benefits.

NO COLLATERAL TO OFFER AS A SUPPLEMENT TO SECURITIES

In certain cases of priority sector lending, the borrowers need to submit collateral as security for availing the loans. In most of the cases, the borrowers can't produce a proportionate amount of collateral which creates problems in processing the loan proposal.

DOCUMENTATION

It has been observed that many of the borrowers do not submit their proper documents. From the following table it is seen that the majority of the respondents i.e. 39% of the total have intimated they borrowers does not have sufficient documents which are asked by the bank, the bank officials face problems in credit appraisal and in the future follow up on the proposal. The borrowers who have the shortage of documents are again asked to re-submit the relevant documents at the time of verification. The response of the bank officials with regard to documents furnished by borrowers is exhibited in the following table.

Table 1: Status of Availability of Documentation with the Borrowers

Items	Number of Bank Officials	Percentage
Proper	9	34%
Improper	6	27%
Shortage	9	39%
Total	24	100%

Source: Response of bank officials

It is seen that only 34% of the respondents carry possess documents.

The problems don't end mere with the disbursement of the loans, but it is spelled over at the time of repayment of the same. The increasing loan disbursement by public sector banks in the study area for various reasons to some extent is responsible for the rising over dues faced by the banks. However, if the over dues rise beyond the manageable limits, the health of the banking would be jeopardized and the recycling of funds, which is the key element in the development of banking, would be severely affected. At present, the bank has hardly any power to exert pressure on the defaulters. When the bank official visits the borrowers' place, the defaulters tend to run away from the house. Even the bank officials would not find the assets procured through loans available to them for inspection. The defaulters have realized the fact that banks have no power to take any action except through resorting to legal proceedings under Bakijai case. The bank authority's reminders, as well as threats for repayment, go all in vain. If the bank officials suit a legal action against borrowers in court, it takes time to get the final decision. Because of the legal tangles, the bank suffers from recovery problem. In the Process, the defaulters get enough time to settle the matter in the future form of one -time settlement (OTS) without the rate of interest, which was fixed at the time of disbursement of a loan.

Some of the Other Problems Faced in the Recovery Are

- Misbehaviors of the borrowers
- Local leader's interference
- Selling off assets
- Remoteness of villages and locational constraints.

Constraints Encountered by Borrowers

The beneficiaries also face difficulties in getting loans. The following are some of the constraints encountered by beneficiaries are given below:

Time Taken for Processing Loans

Generally, the borrowers get discouraged for the length of time taken for processing and disbursement of the loans by the bank authority.

Down Payments

Often it is noticed that borrowers do not have money for down payment and hence they cannot deposit the amount needed for availing the loan facility. From the survey, it is seen that the majority of the respondent's i.e., 56% of the total respondents, revealed that bank generally asks for the down payment. There are some borrowers who do not have money to pay the down payment but have the idea of doing business.

Table 2: Borrowers' Opinion about Requirement of Down Payments

Opinion of Beneficiaries	In Percentage
Opinion in favor of down payment	56%
Opinion is opposing down payment	44%

Source: Response of beneficiaries collected from field survey

It is clear that due to the mandatory requirement of a down payment in case of MSE sector, some of the beneficiaries do not have the courage to apply for the loan even if there is a viable project in hand.

Involvement of the Middlemen

It has been observed that many a time the involvement of hurdles middlemen create. They are seen taking money from the prospective borrowers. All the concerned authorities may create an ambience to abolish the interference of middlemen. Direct loan transfer (DLT) to the borrower's account may be a positive step in this regard.

Table 3: Opinion of Beneficiaries Regarding Involvement of the Middlemen

Opinion of Beneficiaries	In Percentage
Loan availed through middlemen	65%
Loan availed without middlemen	35%

Source: Response of beneficiaries collected from a field survey

It has been observed that the majority of the respondent's i.e. 65% borrowers are not happy with the involvement of the middlemen in the proposal of a loan.

INADEQUATE SUPPLY OF INPUTS

Bank loan sometimes comes in the form of material. Many borrowers are seen taking an agricultural loan in the form of the tractor, power tiller, and other agricultural equipment. According to the borrowers, the loans get sanctioned, but the input does not reach them. The majority of the respondent's i.e

Table 4: Opinion Regarding Supply of Agricultural Inputs

Opinion of Beneficiaries	In Percentage
Inadequate supply of agricultural input	75%
Adequate supply of agricultural input	25%

Source: Response of borrowers

75% in the agricultural sector opined that they have not received agricultural input on time. Therefore, they could not utilize the sanctioned agricultural inputs in the concerned crop season. Hence the borrowers are simply paying the interest amount without practically utilizing the expected benefits of the loans.

NON AVAILABILITY OF THE SUFFICIENT LOAN FUND

The bank officials indicated that they bank does not have sufficient fund all the time and therefore the bank cannot grant the loan on time even after the related procedure has been complied with. This problem has been experienced by many borrowers. Therefore, it is incumbent on the bank authority to keep sufficient fund before sanctioning and disbursing the loan. The loan appears in the shape of a scheme accompanied by money, but when money under the scheme is exhausted, the potential borrowers are denied of the loan facility.

DIFFICULTIES IN OBTAINING RECORD FROM GOVERNMENT OFFICE

Bank does not give a loan without proper verification. As the researcher tried to know whether the banks verify documents properly or not, it is seen that the majority of them verifies borrowers' documents. The bank sends verification documents to the concerned Government departments to ascertain whether the data provided by the borrowers are true or not. In this process of verification, surveyor visits the spot. It has been observed that surveyor finds difficulty to obtain the relevant documents and hence it takes time for approving the loan by the department. It is also found that majority of the respondents, prospective borrowers are not getting a loan on time because of mismatch of the documents, and it is also true that the loan gets canceled. Further, because of the lengthy process of formalities maintained by the government departments like DIC, DRDA, KVIC etc, the bank officials find difficulties in verifying the document and hence the prospective borrowers may become a victim of it.

LACK OF KNOWLEDGE OF REGULATION

Knowledge of rules and regulations is important before applying for the loan. It is observed that many a times the prospective borrowers are not aware of the rules and regulation formulated by the bank from time to time. The government of India announces various schemes from time to time. Some schemes, offer a good percentage of subsidy and some do not. The borrowers have to gather information on about the various schemes of the loans available to them through the bank. It is pertinent that they know the rules and regulation for procurement of the benefits of under the schemes.

Table 5: Opinion Regarding of Knowledge of Regulation

Opinion of Beneficiaries	In Percentage
Adequate knowledge of regulations	42%
Inadequate knowledge of regulations	58%

Source: Response of beneficiaries

In the study, the majority of the respondent replied that they are not aware of the rules and regulation regarding the various schemes of the government. It is true that villagers are not furnished any awareness program about the prevailing scheme of the government.

LACK OF AWARENESS REGARDING LOAN DETAILS

It is well known that most of the borrowers are not aware of the loan details and hence face difficulties at the time of sanction as well as repayment. The borrowers do not know about the rate of interest, processing fee, a period of loan, installment procedure such as monthly, yearly, etc., prepayments for settlement of the loans, cancellation charges and penalties for non-payments or irregularities of installments etc.

This is true that illiterate persons does not understand from the hoarding or banners about the loan details. The banks must come forward to give an idea of loan details to the borrowers.

But the time and space available to the banker to do so is another complex matter to be considered.

LOW SUBSIDY

It is crucial for the borrowers to know about the prevailing subsidy on the loan. It is seen that the majority of the respondents do not know about the subsidy. The person who possesses knowledge about subsidy goes to the bank for availing the same, but it has been observed that the bank becomes very reluctant to offer subsidy loan as the concerned departments take the maximum time to disburse a subsidy amount to the bank. And hence the borrower finds difficulties to avail the subsidy. However, it is also seen that there is a very low subsidy on the PSL loan. Borrowers generally hesitate to avail the subsidy due to the quantum of the formalities and low rate of subsidy.

DISTANCE TO BE COVERED TO REACH THE BANK

Distance matters a lot to take the facilities of the government to the mass people. From the following table, it is clearly understood that 53%, i.e. majority in the case of agriculture sector stays in the distance of more than 15 km and above from the location of the bank. If they have to visit bank frequently then they will be discouraged from the facilities and hence they will not take any initiative for availing bank loan. It is observed from the respondents that after visiting several times if they don't get the loan, they quit the process of the loan in between. As it is true that the majority of the departments who are dealing with the government's subsidy are located in the urban centers. A table showing distance to be covered to reach the bank branches is given below.

Table 6: Distance to be Covered to Reach the Bank

Sectors	1 to 5 km	5 to 15 km	15 km & above
Agriculture	8 (10%)	29(37%)	52(53%)
MSE	25 (20%)	44(64%)	5(7%)
Others	28 (30%)	29(32%)	35(38%)

Source: Response of beneficiaries collected from a field survey

In case of the MSE the majority of the respondents i.e. 64% of the total respondents have agreed that they need to go 5 to 15 km of distance to avail the loan facility. As it is clear from the picture that the majority of the respondents bother about the distance. The RBI could open mobile counter in the rural areas where they can deal with the official and verification formalities and at the final stage, they can call people to the main office. This process will encourage the borrowers and more people will be benefited from the loan.

HIGH RATE OF INTEREST

A rate of interest also encourages the borrowers. Many times it is seen that if the rate of interest is high, then there is seen less number of borrowers. In the study, it is observed that the majority of borrowers are unhappy because of a high rate of interest charged upon loans in the PSL. The bank should reduce the interest rate so that the borrowers may take more loans for the investment purpose.

Table 7: Rate of Interest

Opinion of Beneficiaries	In Percentage
Discontentment with high rate of interest	68%
No discontentment with high rate of interest	32%

Source: Response of beneficiaries

The study revealed that 68% of the total respondents agreed that the high rate of interest is discouraging them to take a loan in PSL. Only 32% of respondents have not satisfied with the high rate of interest.

NON CO-OPERATION OF THE BANK STAFF

It is seen that many a times the bank employees are always not cooperating with the customers. This leads to the frustration among potential borrowers. The majority of the respondents i.e. 65% of the respondents have reported that they feel uncomfortable with the behavior of the bank staff.

Table 8: Non Co-operation of the Bank Staff

Opinion of beneficiaries	In Percentage
The borrowers feeling uncomfortable with bank staff	65%
The borrowers not feeling uncomfortable with the bank staff	35%

Source: Response of beneficiaries

The borrowers complain against banks staff to the higher authority, but still some of the bank staff are reluctant to change their behavior. They should maintain good banker-customer relationship for the long run. The behavior of the bank officials should be polite and pleasant enough to deal the borrowers.

POLITICAL PRESSURE

Many times it is observed that the political agents often come forward to act as a guarantor for the loan propose by a prospective borrower. The Political agents endorse the loan proposals by putting his name, seal and signature with recommendations for the loan. The block officials responsible for sanctioning the subsidy usually sanctioned on these recommendations. Once the subsidy is accompanied in the loan proposal, bank officials also honor the recommendation and accordingly sanctioned the loan.

Table 9: Political Pressure

Opinion of Beneficiaries	In percentage
Beneficiaries facing problems with political parties initiative	72%
Beneficiaries not facing problems with political parties initiative	28%

Source: Response of beneficiaries

Therefore, they will have to wait for long. It is also seen that they wait till long and as the ruling political party changes the schemes also start changing; so it hurts the sentiment of the borrowers. From the table, it can be understood that the majority of the respondent i.e. 72% are facing a problem with the political parties initiative.

CONCLUSIONS

It is important to know about the difficulties faced by the borrowers in availing loans and advances from the bank. It has been observed from the study that many borrowers do not know about the schemes of governments on priority sector lending. The proper agency of the government must undertake an awareness program on it.

Primarily the bank asks for land document and if the loan amount is high then they take the land as a mortgage for loan amounts. It has been reported during field visit that the borrowers face a lot of difficulties in showing the relevant documentation to the bank officials as they cannot produce the required documents. It is also observed that many beneficiaries are illiterate so they do not know how to keep such required documentation. They even do not know they need such documents for availing the loan facilities.

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