A Critical Study on Bankers-Borrowers Interface Programme with Special Reference to Nalbari District, Assam

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Abstract
After independence, the Government of India started taking steps to encourage the spreadof banking in India. In order to serve the economy in general and the rural sector in particular, the All India Rural Credit Survey Committee recommended the creation of a state-partnered and state-sponsored bank taking over the Imperial Bank of India andintegrating with it, the former state-owned and state-associate banks. Accordingly, State Bank of India (SBI) was constituted in 1955. Subsequently in 1959, the State Bank of India (subsidiary bank) Act was passed, enabling the SBI to take over eight former state-associatebanks as its subsidiaries. To better align the banking system to the needs of planning and economic policy, it was considered necessary to have social control over banks. In 1969, 14of the major private sector banks were nationalized. This was an important milestone in the history of Indian banking. This was followed by the nationalization of another six private banks in 1980. With the nationalization of these banks, the major segment of the banking sector came under the control of the Government. The nationalization of banks imparted major impetus to branch expansion in un-banked rural and semi-urban areas, which in turnresulted in huge deposit mobilization, thereby giving boost to the overall savings rate of the economy. It also resulted in scaling up of lending to agriculture and its allied sectors. However, this arrangement also saw some weaknesses like reduced bank profitability, weakcapital bases, and banks getting burdened with large non-performing assets. To create a strong and competitive banking system, a number of reform measures were initiated in early1990s. The thrust of the reforms was on increasing operational efficiency, strengthening supervision over banks, creating competitive conditions and developing technological and institutional infrastructure. These measures led to the improvement in the financial health, soundness and efficiency of the banking system.

Keywords: Banking in India, banking system, rural peoples in Nalbari District of Assam, financial intermediaries.

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Introduction:

Background to the Study: Banks have played a critical role in the economic development of some developed countries such as Japan and Germany and most of the emerging economies including India. Banks today are important not just from the point of view of economic growth, but also financial stability. In emerging economies, banks are special for three important reasons. First, they take a leading role in developing other financial intermediaries and markets. Second, due to the absence of well-developed equity and bond markets, the corporate sector depends heavily on banks to meet its financing needs. Finally, in emerging markets such as India, banks cater to the needs of a vast number of savers from the household sector, which prefer assured income and liquidity and safety of funds, because of their inadequate capacity to manage financial risks. Forms of banking have changed over the years and evolved with the needs of the economy. The transformation of the banking system has been brought about by deregulation, technological innovation and globalization.

While banks have been expanding into areas which were traditionally out of bounds for them, non-bank intermediaries have begun to perform many of the functions of banks. Banks thus compete not only among themselves, but also with non-bank financial intermediaries, and over the years, this competition has only grown in intensity. Globally, this has forced the banks to introduce innovative products, seek newer sources of income and diversify into non-traditional activities.

Objectives of the Study:

The general objective of the study is to identify the impacts of rural banking on rural development. Other specific objectives include:

1. To find out the importance that rural banks have on rural people of North-EastIndia in special reference to Nalbari District of Assam.

2. To find out the impact of rural banks on the rural people of North-East India inspecial reference to Nalbari District of Assam.

3. To attempt to offer suggestions and recommendations based on the findings ofthe research.

Research Hypothesis:

The aim of this study is to seek empirical evidence to examine the hypothesis below:

A. Null hypothesis (H0): 'Rural banking promotes rural development in North-EasternRegion with special reference to Nalbari District of Assam

B. Alternative hypothesis (H1): 'Rural banking does not promote rural development inNorth-Eastern Region in special reference to Nalbari District of Assam

The Significance of the Study: This study would be a useful tool in the hands of the Ministry of Finance Government of India and the Indian Economic Planners. Also, it is envisaged that the result of this study would help to create an awareness of the function of the credit unions or rural banks in the rural areas like north-east people of India and the policy makers. This would enable the nation to adopt strategies which will help to achieve the objectives of the rural people. Finally, the findings of the study would provide data base for further research work.

Limitation:

The study was limited to selected people in Nalbari area. The study also has thefollowing limitations:

1. Financial constraints- this poses difficulty in interviewing so many sections ofpeople in Nalbari District.

2. Time- because the study will be undertaken within timeframe of 1 month.

3. Data collection – the distribution and collection of questionnaires will be timeconsuming because of the location and dispersed nature of the respondents.

Interest Rates:

The Indian Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged from 2006 up to 2013 the historic PLR of State bank of India's rate are as below:

4-Feb-13	14.45
27-Sep-12	14.50
13-Aug-11	14.75
11-Jul-11	14.25
12-May-11	14.00
01-Jan-09	12.25
10-Nov-08	13.00
12-Aug-08	13.75
27-Jun-08	12.75
27-Feb-08	12.25
16-Feb-08	12.50
09-Apr-07	12.75
20-Feb-07	12.25
27-Dec-06	11.50
02-Aug-06	11.00
01-May-06	10.75

Security: Nationalized banks normally require that loans be secured by title to land or physical assets, deposit balances, following Reserve Bank of India guidelines. These options are clearly beyond the reach of poor households. Close co-ordination between the Ministry of Finance, Reserve Bank of India and the Microfinance Institutions Network has led to a better understanding of the characteristics of micro-finance loans and the methodologies underlying high repayment rates, and personal and group guaranteed loans are now recognized as secured microfinance loans.

Methodology: The study area Nalbari District of Assam has been carried out the research design, the population and sample. The research design used is survey design. Research design is the Specific data analysis techniques or methods that the researcher in tends to use.The survey design involves the collection and analysis of data, and finding out the answers concerning the current status of the subject. Also, it is a study of variables in their natural setting or under usual circumstances. This comprises observation of facts, formulation of hypothesis, collection and classification of data, interpretation of data, formulation of theories, application of facts and predictions.

Primary data: This is the name given to data that were collected under the control and supervision of the person or the organization making particular study.

Secondary data: This is the name given to data that are being used for some purpose other than that for which they were originally collected.

Summary of Findings, Conclusion and Recommendation of the Study:

Summary of findings of the study: This study examined the impact of rural banking on rural peoples in Nalbari District of Assam. It was found out that all the farmers do save theirmonies at the financial institutions. In addition, the major type of account they do open is a Savings Account. 66.7 percent of the farmers have applied for a loan before. 33.3 percent did not even attempt to apply for a loan because of the fear they have for the high interest rates. Some of the requirements needed to borrow money are a viable business proposal or abusiness plan, four guarantors who are salary workers and collateral securities. The reason why the banks do ask for these items is to protect the interest of the bank and propel customers' commitment to payment of the loan. In addition, the interest rates are too high for the small or peasant farmers to cope with. This is because, those who borrowed money from the bank, found it difficult to pay the loans back. This resulted in the sale of assets andthe collapse of most of these farms. Furthermore, from the regression analysis, there was no specific relationship between the interest rate and the demand for loan. The banks also provide services including:

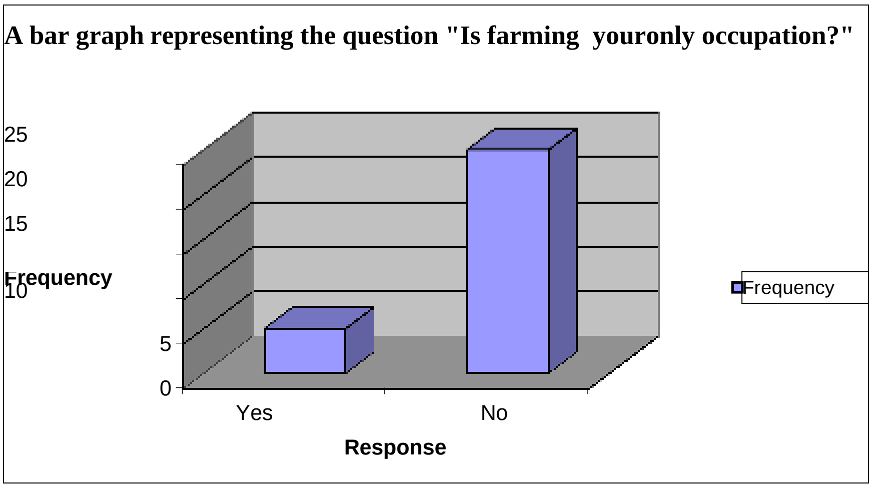
(i) Advisory,
(ii) Safe custody,
(iii) Mortgage financing,
(iv) Intermediary for lending and borrowing,
(v) Intermediary in international trade,
(vi) Network for businesses,
(vii) Investment advisory,
(viii) Brokerage, etc. for individuals or companies.

Major difficulties facing the banks are:
(a) Lack of data and information (Records of operations of business), Managementsuccession plan and
(b) Individual's or customers' data base are their major problems. Concisely, factorsdetermining interest rate are:
(i) The forces of the supply and demand for credit and
(ii) Inflation (cost of living).
(iii) The Reserve Bank of India Prime Rate

1. Findings of the frequency distribution representing the question 'Is farming youronly occupation?'

		Frequency	Percent	Cumulative Percent
Valid	**Yes**	**5**	**16.7**	**16.7**
	No	**25**	**83.3**	**100**

	Total	**30**	**100**	

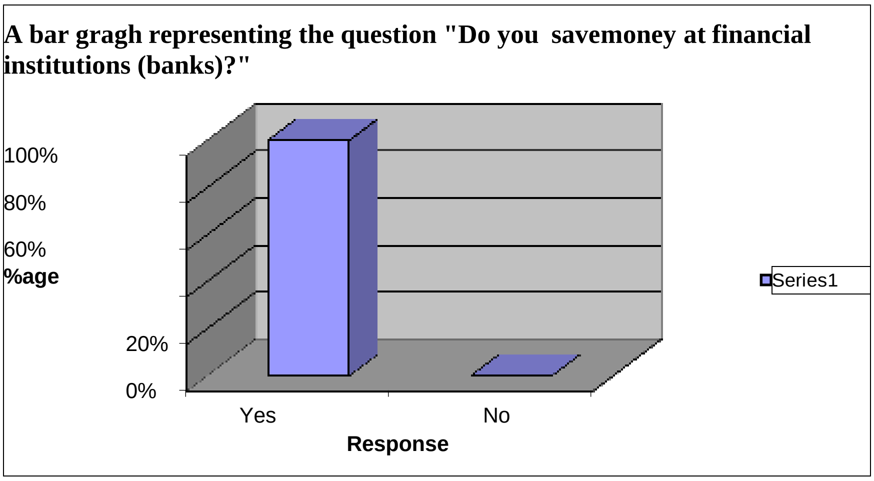


Source: Field Visit by researcher

Majority (83.3%) of the respondents are into other businesses or works. Only 16.7% ofthem relay on farming as their main occupation. Above figure throws more light on this.

2. Frequency distribution representing the question 'Do you save money at thefinancial institutions (Banks)?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100	100
	No	0	0	100
	Total	30	100	

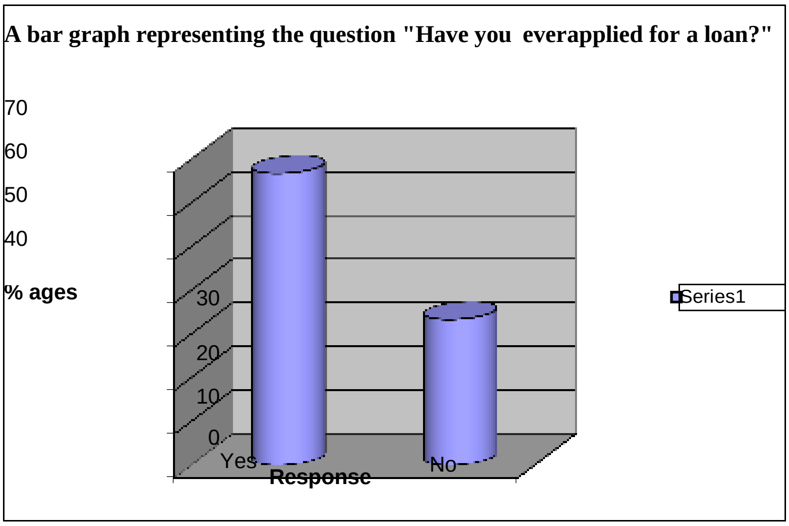


Source: Field Visit by researcher

The rural people of Nalbari area do save their gains from their business/farming at the financial institutions. This means that, the rural people be live that the financial institutions are the safest or secured places for keeping their monies. Despite the fact that they save at the financial institutions, only a handful of them saves at their local rural bank. They said that this rural bank is not assisting them. Moreover, their interest rates are very high. Above figure gives the pictorial view of this information.

3. **Frequency distribution representing the accounts that businessmen/farmersnormally open**

		Frequency	Percent	Cumulative Percent
Valid	Savings A/c	20	66.7	66.7
	Current A/c	10	33.3	100
	Total	30	100	

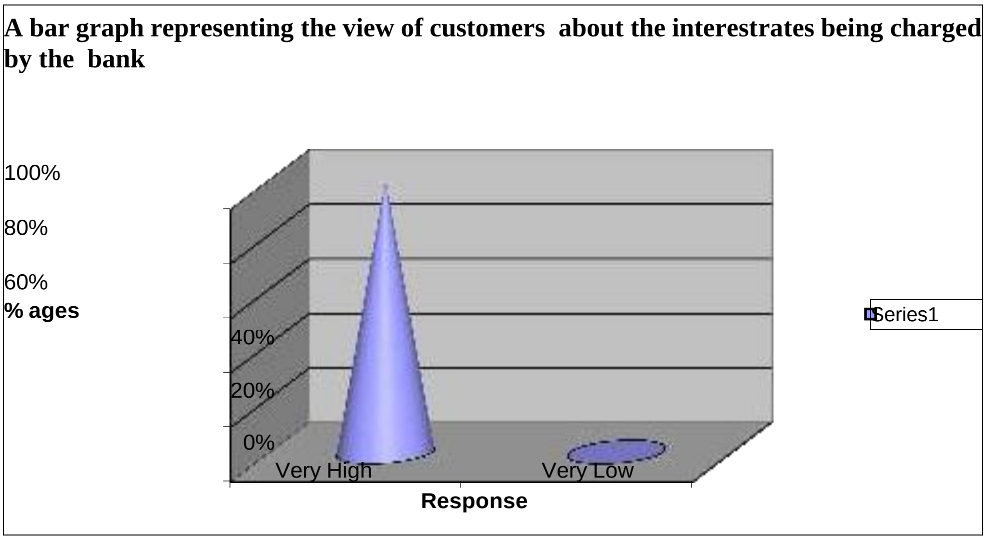


Source: Field Visit by researcher

		Frequency	Percent	Cumulative Percent
Valid	Yes	20	66.7	66.7
	No	10	33.3	100
	Total	30	100	

66.7 % of the businessmen / farmers do open savings account while 33.3 % opens current accounts. Those who opened the current accounts said they made that choice in order to have faster business transactions. The graphical representation of this informationis shown in above figure.

4. **Frequency distribution representing the question 'Have you ever applied for aloan?'**

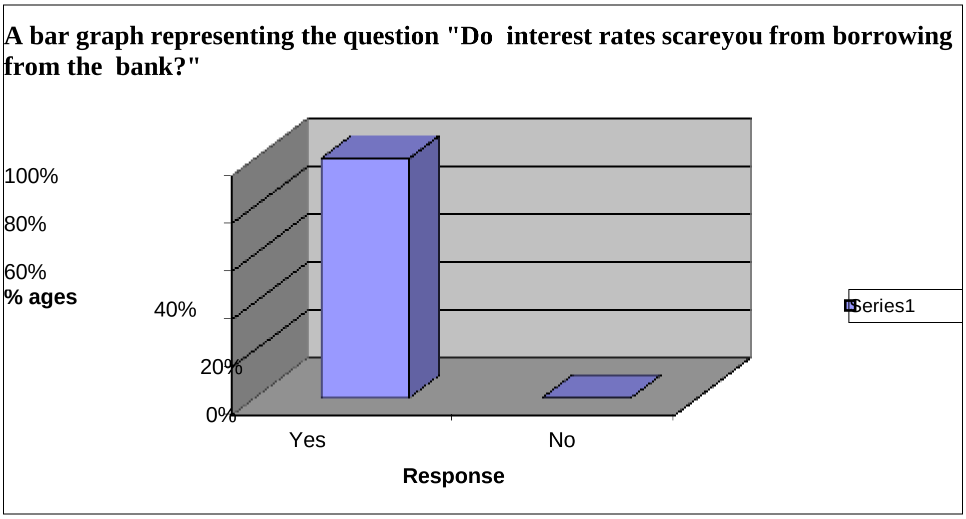


Source: Field Visit by researcher

66.7 % of the farmers have applied for a loan before. 33.3 % did not even attempt to apply for a loan because of the fear they have for the high interest rates being charge by the banks. Those who had the courage to borrow the money were required to bring a viable business proposal or a business plan, four guarantors who are salary workers and collateral securities. They complained that, the banks do not even follow up to see whether loans are being used for the said purpose. They also said that, on the average, it takes one month for every loan application to process or access a loan from the rural banks. Above figure throwsmore light on this.

6. Frequency distribution representing the views of customers about the interestrates being charge by banks

		Frequency	Percent	Cumulative Percent
Valid	Very High	30	100	100
	Very Low	0	0	0
	Total	30	100	



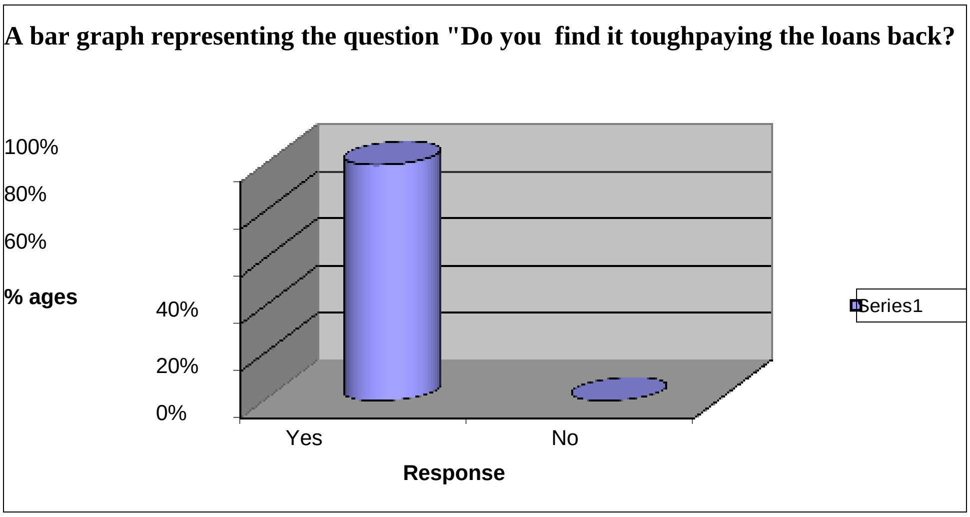
A bar graph representing the question "Do interest rates scareyou from borrowing from the bank?"

Source: Field Visit by researcher

It is clear that the interest rates are too high for the small scale or peasant businessmen /farmers to cope with. Above figure gives the graphical representation of this information.

7. Frequency distribute ion representing the question 'Do interest rates scare youfrom borrowing from the bank?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100	100
	No	0	0	100
	Total	30	100	

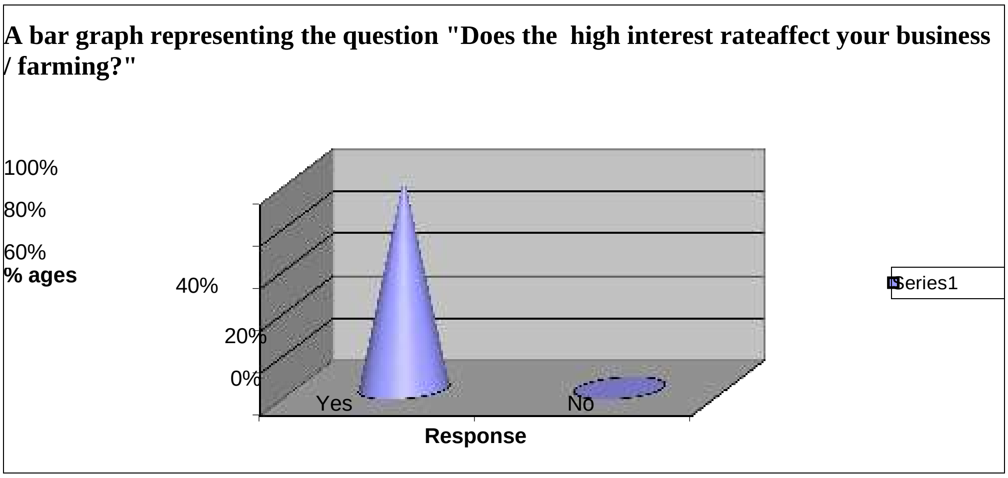


Source: Field Visit by researcher

Most (100%) of the businessmen / farmers are scared from borrowing from the banks as shown in table above. As we can see from table above, almost 33.3 % of the businessmen / farmers did not borrow from the banks just because of the demands by the banks and also the high interest rates. The graphical representation of this information is shown in figure.

8. Frequency distribution representing the question 'Do you find it tough paying theloans back'

		Frequency	Percent	Cumulative Percent
Valid	**Yes**	**20**	**100**	**100**
	No	**0**	**0**	**100**
	Total	**20**	**100**	

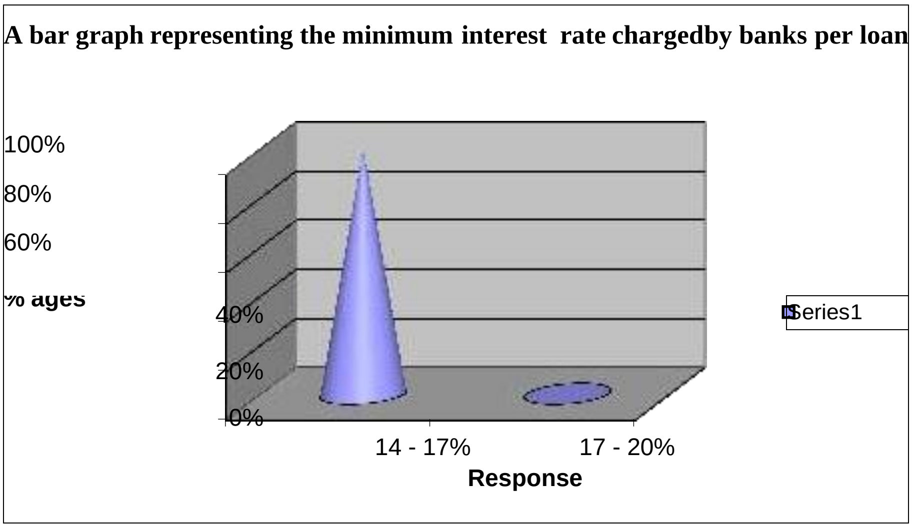


Source: Field Visit by researcher

Out of the 20 respondents or businessmen / farmers who said they borrowed from the bank, none of them found it easy paying the loans back as shown in Table 11 above. Some of them said they were able to pay back the loans by selling all or some of their business/farming assets. The bar graph above depicts this information.

9. Frequency distribution representing the question 'Does the high interest rateaffect your business / farming?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100	100
	No	0	0	100
	Total	30	100	



Source: Field Visit by researcher

All (100%) the businessmen/farmers were affected by the high interest rates beingcharged by the banks. Some were not able to borrow; others had to sell some of their business / farming assets in order to pay back the loans they have borrowed from the banks. This has really collapsed a lot of the infant businesses / farms in the country. The pictorial view of this information is shown in figure above.

10. Frequency distribution representing the minimum interest rate charged by banks per loan

		Frequency	Percent	Cumulative Percent
Valid	14 - 17%	4	100	100
	17 - 20%	0	0	100
	Total	4	100	

It is obvious that the minimum interest rate charged by rural banks or financial institutions ranges between 14-20% which is very high for the infant businessmen / farmers to cope with. This is because, 100% of the workers interviewed selected 14-20% as their minimum interest rate. Therefore, if this is even their minimum, then what will be the maximum? The graphical representation of this information is shown above figure.

Conclusion of the study: The findings of this study show that, the higher the interest rate, the lower the demand for loans. In addition, high interest rates cripple farming businesses. That is, higher interest rates tends to have an adverse effect on the development or growth of farming or businesses in Ghana since they depend very much on availability and accessibility to funds at reasonable or favorable rates.

Recommendations of the study:

Based on the findings of the research, the following suggestions or recommendations aremade:

1. **Government should help in creating a natural database on citizens orinhabitants.**
2. **Credit unions and Rural Banks should be set up in the localities.**
3. **There should be more co-operations between the financial institutions andpeoples of the areas.**
4. **In addition, The Prime Rate charged by the central bank should be minimized toallow the other financial institutions to also reduce their interest rates.**
5. **Farmers and businessmen should be educated on how to establish, manage,sustain and expand**

their farms and businesses.

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