CHAPTER – FIVE

CAUSES OF LOW C D RATIO IN BIHAR

The C D ratio is a statistical artifact and its composition depends on many socio-economic, institutional and ownership factors. Therefore factors affecting it may come from all sides.

In the light of the economic and social consequence of the lower C D ratio the analysis made by several committees, task force, working groups constituted earlier, we find that there are several factors which can be attributed for the low credit-deposit ratio in the state. While analyzing the literature it is evident that lowered C D ratio in the state is the outcome of collective failurness of involved mechanism; lender, borrower, facilitating agencies, and regulatory body so, the sole responsibility cannot be fixed on any one or two.

23. Credit Deposit Ratio and Ownership Structure in the Indian Banking Sector: An Empirical Analysis; Nitin Kumar and Punit verma, Reserve Bank of India, (P6-7)
Providing conducive environment is a collective responsibility of all. Timely and adequate supply of bank credit has helped many economies to overcome the socio-economic problems.

Hence, the problem of lower C D ratio should not be only the matter of debate in the meetings nor it should be treated like only the matter of enquiry by any committee, commission and research scholar. There is an urgent need to overcome this problem.

During the study the following reasons have been identified for lower C D ratio in the state of Bihar.

1. Historically, poor C D ratio is not a newly emerged problem for the state. Its roots come from administrative subordination of the colonial period. Administrative subordination has retrenched the opportunities of special attention of policy makers as well as business communities to develop the region as a center for business activities, resulted into absence of professionalism, strong business houses and their corporate office particularly, financial sector institutions.

2. Banking in India originated in last decade of 18th century but the development was concentrated only around the
presidency towns. However, the Swadeshi movement inspired local businessmen and political figures to found banks of and for the Indian community. A number of banks established then have survived to the present such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India but not a single bank was Bihar based. Even, a Bihar based corporate has opened its bank; Tata Industrial Bank, located in Bombay. The pattern was continued till the recent expansion phase of 1980’s. Other scheduled commercial banks, private sector banks, foreign banks have shown their keen interest in the areas of Gujarat, Maharashtra, and Delhi.

3. Spatial disadvantages i.e. cut off from port areas have stopped business houses to establish their corporate offices and strategic offices in the then remote towns situated in present Bihar. This has discouraged the industrialization and urbanization of the present state, naturally bankers have also considered this area as non viable for banking business. Even-though the banking structure that has been developed appears to be adequate, the spread of rural and semi urban branches has, in fact picked up only from 1980 onwards. Besides, the rural and semi-urban branches are mostly one-man branches or low
staffing branches entrusted with multiple responsibilities and thus are not in a position to perform.

4. The economic profile of the state reveals that there is a need to strengthen and develop necessary linkages and infrastructural support so as to promote and expand credit absorptive capacity of the state. Studies show that infrastructure does not only increase the absorptive capacity but it also encourage banking expansions. During the expansion phase public sector banks has opened their rural branch on preference basis in those areas where all weather connectivity was possible.

5. The credit plans under Annual Action Plans predominantly cover large number of accounts with low volume of credit. This is reflected in the fact that though the state has substantially surpassed national policy stipulations for lending to priority sector under various sub-heads, it still continues to register a low credit-deposit ratio. The fragmented land holdings do not permit introduction of new technology and allied mechanization in agricultural sector thereby reducing further scope for credit deployment.

6. Absence of land records, oral lease and tenural agreement as share croppers do not procedurally permit the
banks to deploy farm credit for production which has considerable scope.

7. In spite of the state providing aside as high proportion as 50 per cent of its available resources for development it is stills not enough to given its size and needs. The state therefore, finds itself in a piquant situation in which it is unable to invest enough for strengthening the infrastructure and providing a string base for sustained growth and meeting the pressing needs of the economy.

8. There is very high incidence of industrial sickness due to several factors which need careful analysis. A part from the lack of forward and backward linkages, untimely and inadequate working capital finance by the banks to the viable and potentially viable units also contributes to the sickness of industries, particularly those in the small scale sector. The concatenation of circumstances also does not provide scope for upgradation of technology and introduction of modern small scale industrial ventures which an augment high credit deployment. The various high capital intensive opportunities in the large sector utilizing the raw materials and resources available in the state which are capable of generating adequate employment opportunities have been projectised by the state and submitted to
the central government. The graph given below shows the percentage share of total loans of commercial Banks for various sectors between the years 2000 to 2005. It may be noted that there has not been very significant change in the relative shares of loans to various sectors. The proportion of demand for manufacturing and industrial credit to total credit is low throughout this period. Whereas in the states where C D ratio is up to the mark, the said proportion is very sufficient however, it is very high in case of small scale and tinny industries in comparison to Bihar. Lower credit flow to manufacturing and industries sector is itself an important reason behind the poor C D ratio of state because of its backward and forward linkage.

**Figure No. 1**

*Share of Industries in Outstanding Loans of Commercial Banks*

![Graph showing share of industries in outstanding loans of commercial banks.](image)

*Source: Economic Survey (2006-07), Finance Department, Bihar Government*

9. It is noted that the decentralization of the planning process as a bottom-up approach below the district level is still to be made fully operative in the state. Lack of coordinated
approach for credit planning due to above gap dilutes the effectiveness of Service Area Plans. Such a situation results in a dichotomy in implementation and shortfall in achievements. The declining trends in performance lead to successive reduction in credit-deposit ratio. Lack of effective monitoring via vertically institutionalized mechanism is one of the banes leading to low credit-deposit ratio.

10. The facilities available and institutional back-up for entrepreneurial development programme in the past appear to be inadequate. The lack of effective entrepreneurial development programme in the past also contributed to industrial sickness and non establishment of new units leading to low level of deployment of credit.

11. The recovery performance affects credit deployment in several ways. Lower recovery, on the one hand, restricts recycling of funds and proves on the other a limiting factor for expansion of credit. The law of limitation applicable to security documents and the inadequate enforcement of existing enactments of the state for recovery inhibit creation of appropriate lending environment.

12. Existence of effective term lending institutions is a pre-requisite for growth and development. The financial position
of the term lending institutions of the state and their effectiveness to cater to the needs of the industries, agriculture and other credit absorptive sectors and sub-sectors deserve due consideration to help increase credit-deposit ratio. Excluding PSBs, the majority of financial institutions working in the state are not very strong. They are not only lacking in the area of capital base but they are also week in branch network, modernization, trained man power and most important policy reforms. State co operative structure; whose penetration is very important to meet short term requirement of agriculture credit has lost its importance. The data given below may prove the argument.

**Figure No. 2**

![Figure 2](source)

Source : Times of India , internet edition, July 2010

Bihar state’s co operative structure is three tier structures, at top level state co operative bank ltd., at middle level it is central co operative banks, and at bottom level it is PACSs. By and large the whole co operative structure is on the back foot of
banking structure of the state; however the condition is severe in the case of central co-operative banks; they are 22 in totality, out of which 14 are not at par with clause XI-(I) of Banking regulation act 1949. PACSs have lost its identity due socio-political corruption and irregular availability of basic agricultural inputs. However, the present government has taken some initiatives and started reforms in the area of PACSs.

13. Allocation of targets among the commercial, co-operative and Regional Rural Banking during the past year especially during the periods of 2003-2007, was not made on a realistic basis. Co-operative banks, having weak financial health, were allocated disproportionately higher target, while commercial banks were given comparatively lower targets.

14. It would be nonetheless to say that the “Area approach” recommended by Gadil committee for the development of credit and banking in the country on the basis of local conditions has lost its significance in the state. Poor achievement by some banks with major presence in the State is best example. At that time the committee has suggested earmarking of the districts to Commercial Banks so that they could act as space setters in the districts allotted in providing integrated banking facilities. RBI accepted the recommendation and formulated the
Lead Bank Scheme in December 1969. Under the Scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning.

15. Lack of initiative by the branch managers in identifying the prospective borrowers. Generally, branch managers are causal in their approach towards credit planning. The extent of causality is as high that some branches do not prepare their ACP in CBR-1 format prescribed by RBI. While preparing annual credit plan at branch level branch did not take in to account the activity wise credit requirements. Branches update their annual credit plan every year without any basis.

16. Delay in issuance of Land Possession Certificates (LPC) to farmers by the state administration. Multiple documentation process of credit granting, leads to higher expenditure for the borrowers. It also provides space for middle man due to unawareness of borrowers especially in rural areas. Tenant/landless farmers not considered for finance under the scheme, as they do not possess the requisite certificate of tilling.

17. Regular division and sub division of agricultural land has also created problem at both corner i.e. lender and
borrower. Due to operation of diseconomies of scale on small size of plots farming is no longer remains profitable which discourage farmers to adopt modern technologies and therefore lower or negligible demand for loan from organized sector. However, banks also face problems due to same reason. Because, granting loan or issuing kisan credit card (KCC), based on some criterion and it also need same paper work so, banks does want to involve in such tiring work.

18. Poor recovery performance of banks has also lowered C D ratio in the state. Poor recovery performance has increased the size of NPA which create saturator barriers for banks and banks do not want to grant loan. However, root of this problem is passes through banks itself. Banks’ Pre-sanction appraisal and post-sanction supervision is very poor. Banks, working in the state have no rehabilitation policy for sick non-performing units.

19. Lack of awareness among the farmers about the scheme; increasing importance of bank credit in agriculture and allied activities has pressurized government and bankers to design specific credit programs for the firm sector activities, but the inadequate information, illiteracy, and negative attitude of the farmers especially, in small and marginal farmers discouraged the
farmers to borrow from banks. More specific, neither banks nor bank branch shows interest in spreading information regarding credit schemes and procedure of firm sector credit schemes.

20. Inadequate attention towards covering all eligible farmers under KCC by banks; in Bihar, here are regular charges of corruption in the distribution of KCC. Branch managers and concerning authorities of KCC are in the grip of middlemen, there is an unavoidable network of middlemen in the distribution of KCC which has increased the cost of borrowing. Increasing interference of middlemen in KCC distribution has increased the degree of risk for bankers itself. So bankers are also facing challenge in KCC distribution.

21. Inadequate or no remedial measures taken by banks for poor performance of their branches; in Bihar, bankers are not ready to accept the changes; the state of Bihar is one of the poor performers in the field of microcredit and SHGs programmes. The role of banks is very important in the success of microcredit, a large no of branches of various SCBs working in rural areas are not ready to open account of such societies on the name proper documentation. In the previous year years the state of Bihar has recorded the case of zero lending braches, but no
action has been taken by the banks on the name poor law and order of that areas.

22. Shortage of both technical and non-technical staff; all of the commercial banks, mainly PSBs working in the state facing the scarcity of staff. Problem is acute in rural areas. Lack of staff leads to delay in sanction of loan. Apart from this the role of commercial banks does not end with providing the credit to the borrowers but, commercial banks also provide technical services to the borrowers like help in the area of sales and marketing, storage, product upgradation, etc.

23. During the discussion with some small borrowers, one of the important reasons has detected which caused lower C D ratio and poor recovery of advances made by banks. In the state the whole credit delivery system is in the acute grip of middle man. There is strong tie-up between middle man, local money lenders, bank officials, government agencies, insurance companies, dealers and borrowers itself. All together, they have knitted a trap of undue benefits in which small, illiterate borrowers are losing their smooth accessibility of credit facilities. Small borrowers pay high commission (it ranged between 07 to 10 percent) to the middle man which increases the cost of borrowing. Unaware potential borrowers cannot get loan from
banks without the unwanted involvement of strong lobby of middle man. The charged commission may very high; up to 40 to 50 percent, if borrower itself involve and receive undue benefits by pre decided no repayment of borrowed amount. During discussion some participant has revels an unbelievable fact, being practiced by some disloyal bankers with the help of local money lenders, they use bank’s money to provide unofficial credit to the local businessmen to meet their working capital requirements at high rate of interest. This is not only misuse of public deposits but it raises the local price level because of high cost of borrowing. This kind of illegal facilities is high in practice during the time of local faire/Haat.

24. Banks’ negative attitude towards granting credit to private sector employees; banks working in the state are not ready grant loan on the basis of personal credit to the private sector employees. In previous days many leading bankers are making agreement with state government and government departments to provide loan to their employees on easy terms and conditions but in case of private sector employee, banks see high risk in granting loan to the private sector employees. However, the same bankers are granting loan to the private sector employee in other states parallel with government sector employees.
25. In recent years, credit flow to real estate especially urban housing has occupied important place in banks’ credit portfolio. Throughout the country tier-I and tier-II cities has witnessed a sharp spurt in housing loan however, in case of Bihar the situation is different. There is concentration of demand for such kind of loan in few towns of the state. According to realty sector experts, the unreasonable high home prices in the state, absence of professional real estate dealers and construction companies responsible for keeping the volumes low in comparison to other states. Besides these reasons lack of proper documents of ownership, unapproved construction tendency, non availability of NOC from local bodies, and bankers’ attitude has created constraint.

26. No space in annual credit policy for covering unorganized sector business activities like street vendors, small shopkeepers, private commercial vehicle owner cum driver, etc.

27. Larger proportion of irregular income group due to causalisation of work force. Increasing the size of causal workforce has also reduced the opportunity to take loan from SCBs, by the potential borrowers of personal finance. Banks grants loan on the basis of many rules and regulation framed for it. In case of causal work force they are unable to provide regular
income proof in the long run. At the same time causal work force are generally not under the coverage of social security measures which increases the risk of the lenders. Lower growth in the size of individuals’ income while faster decrease in the value of money therefore banks are facing problems in sanctioning loan for high cost projects.

28. Heavy government deposits; it is usually claimed by the bankers that the union and state government use to keep heavy deposit in current and saving accounts which cannot be utilized by the bankers for lending purpose. But, at the same time, it increases the size of deposit against credit.

29. Larger proportion of small retail credit is supplied by local money lenders, leasing houses, friends, and relatives which are not included in calculation of C D Ratio of the state but its implication is that it reduces the requirement of bank credit for the person specific. In state like Bihar verbal credit i.e. payment after selling commodities is widely practiced by small and retail traders.

30. Inactiveness of private sector commercial banks in state’s economic affairs has reduced the degree of competitiveness with public sector banks in the area of resources mobilization. Private commercial banks are focusing on some specific areas like
salary account/current account/housing loans/car loan/education loan/cash credit account to relatively large business class. The private commercial banks have established an exclusive banking in place of mass banking. They don’t want to participate in financial inclusion of the state. Finance to agriculture or other small manufacturing activities by them, in the state are negligible even with good management, competitive experience of working in other states, trained man power, vast opportunity for expansion, and high technological work culture.

31. Poor financial health of RRBs working in the state; the objective behind the establishment of RRBs in 1975 was to penetrate credit flow in the rural areas of the country. But, the poor health of RRBs does permit them to increase the flow of credit in rural areas. Earlier, to improve the condition of RRBs government has taken many initiatives but these steps are not area specific however, the establishments of RRBs are area specific. RRBs in Bihar are also facing the problem of technical backwardness as well sufficient deposit.

32. Low demand of credit under RIDF scheme by state government and heavy deposits; RIDF is demand driven scheme. A state can take loan from this scheme to develop rural infrastructure of the state. However, in case of Bihar, the released
corpus under various tranche of RIDF is very small in comparison
to some western and southern states of the country which has
reduced the size of C D Ratio in the state.

33. Poor performance of bank linked- government
sponsored programmes; the benefit of the government sponsored
schemes depends accessibility to it. In the case of Bihar,
corruption, delay, and confusion in identification of real
beneficiaries is most common reason behind the poor performance
of bank -linked government sponsored programmes. Government
deposits in banks under these schemes are not being utilized by
beneficiaries in the form of credit. But, banks have to consider
this large amount while calculating its C D Ratio.

34. Poor law and order of state had also affected the
investment intensity. It has discoursed outside and local business
man to invest in Bihar, especially NRIs belonging from Bihar do
not want to stay in Bihar or setup their business in the state. We
have example of zero lending branches in the state which shows
the problem with law and order. However, the recent
improvement of law and order in comparison to past one and
government initiative to attract investor is commendable.

35. Absence of banks’ corporate/head office in the
state; in the era of syndication of bank loan and centralized credit
processing units practiced by commercial banks has reduced the
role of ACP prepared by branches for credit deployment. Big corporate and export hoses negotiate with bankers at their head office level and corporate levels. At the same time due to big size of projects, single banks are unable to meet its total credit requirement so in this case there is need of syndication and therefore high level concern. Thus the role of head office and corporate office has increased in credit deployment resulting into collective utilization of entire deposit for a particular place and project. By collective utilization of deposits, banks are easily achieved the target of credit disbursement, but in this process size credit deployment at region basis becoming less important.

36. Exclusion of Bihar from 90’s economic reform which is depicted in the form of poor development of service sector in the state. Economic reform of 1990 has bought the series of reform in various areas like IT, professional and vocational education, health services, and most important financial sector reform which includes spared of insurance coverage. But in state failurness of insurance protection especially general insurance and crop insurance has created the problem for both i.e. lenders and borrowers. Economic reform has induced the opening of the medical, engineering, management, and IT colleges through the country. Unfortunately, we could not open or attract such premier centers for knowledge. This also resulted into capital outflow.
37. Prevalence of subsistence level agriculture; Prevalence of subsistence level agriculture leads to lower size of income of the firm sector. We know that, personal disposable income is disposed by earners by two ways either it is consumed directly by them or it is saved for future consumption or, for capital formation. In the form of equation we may write it as follow

\[ Y = C + S \]

Lower the size of income means low consumption and low saving, which is also the basis for capital formation in the future. Lower the size of capital formation leads to low productivity particularly in the area of farming which reduce the borrowing capacity of the firm sector.

38. Sick investment climate; ‘Investment climate’ is a broad concept, encompassing all the factors affecting business decisions, including profitability and where to locate plants and other units. A good investment climate provides opportunities and incentives for firms to invest productively and create jobs, thus playing a key role in ensuring sustained growth and poverty reduction. However, volume of investment depends on availability of and accessibility of credit and many more but investment itself generate demand for another demand and therefore credit demand. Some essential factors responsible for investment climate may be.
1. Availability and ease of use of factor inputs such as land and labour.

2. Availability of adequate physical and social infrastructure, such as power, telecom, urban infrastructure, water supply, hospitals, and educational institutions.

3. Governance and regulatory framework in terms of rules and regulations governing entry, operation, and exit of firms, stability in regulation, integrity of public services, law and order and investment facilitation; and,

4. Provision of incentives and access to credit.

Thus, lower credit deposit ratio in the state is consequences of several factors. The most important observation is that, all the reasons are inter related and inter dependent, therefore the nature of poor C D ratio is perpetuating in itself.