

**Swarnjayanti Gram Swarozgar Yojana (SGSY) - Quick Study on Gap Between Sanction
and Disbursement of Loans Under SGSY**

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July 8, 2003

The Chairman and Managing Director
All Scheduled Commercial Banks
(Except RRBs)

Dear Sir,

**Swarnjayanti Gram Swarozgar Yojana (SGSY) - Quick study on gap between sanction and
disbursement of loans under SGSY**

In the meeting on credit related issues under SGSY held under the Chairmanship of Secretary, Banking, at the Banking Division, Ministry of Finance, Government of India, New Delhi on February 21, 2003, the issue of inordinate delay in disbursement of loans after sanction was discussed. It was decided that Reserve Bank of India (RBI) would take up a study on the issue of gap between sanction and disbursement of loans under SGSY. Accordingly, a quick study had been conducted through eight Regional Offices of RBI at Chandigarh, Chennai, Guwahati, Kolkata, Lucknow, Patna, Mumbai and Thiruvananthapuram to ascertain the reasons for pendency of applications at bank branch level and the reasons for the gap between the sanction and disbursement of loans. The salient features of the study are as per [Annexe-I](#).

2. It is observed from the findings of the study that banks and sponsoring agencies had not observed the guidelines issued by Government of India/RBI in implementation of the Scheme. Further, the instructions issued by us do not appear to have percolated to the grass root level functionaries /bank officials and the lack of coordination between banks and Govt. agencies was hampering the smooth implementation of the scheme. The study has brought out that there is a need for greater synergies between banks and Government Extension Agencies.

3. A parallel study in the North Eastern States to find out the reasons for poor off take of credit under SGSY, revealed interalia, that the dismal recovery of loans under Government Sponsored Schemes and the poor law and order situation in the North Eastern Region were the reasons for the poor off take of credit under SGSY in this region. The salient features of the Special study for the North East are as per [Annexe II](#).

4. You are requested to issue suitable instructions as indicated below to your controlling offices to ensure smooth implementation of the scheme.

- The field level functionaries are to be advised to ensure that there is no inordinate gap/delay between the sanction of applications and disbursement of loans, which causes unnecessary hardship to the BPL borrower.
- You may reiterate that the SGSY loan applications are disposed of within the prescribed time limit of 15 days and at any rate not later than one month.

- The branch managers should be vested with adequate discretionary powers to sanction proposals under the SGSY scheme. The exercise of these powers should not require reference to any higher authority.
- Steps may be initiated to ensure that documentation process is kept simple to avoid hardship to the beneficiaries and consequent delay in disposal of applications under the SGSY scheme. Incidentally, based on the recommendations of the High Level Committee on Agricultural Credit, the banks were advised, vide our circular PLFS.BC/58/05.05.16/98-99 dated January 4, 1999 to take appropriate steps for introduction of the simplified forms and agreements as suggested by the Indian Banks Association (IBA).

Please acknowledge receipt.

Yours faithfully,
Sd/-

(Dr. Deepali Pant Joshi)
General Manager

ANNEXE-I

Quick study on gap between sanction and disbursement of loans under SGSY

Salient Features

The study was geographically spread across 14 States including the seven North Eastern States covering 35 districts and 144 rural and semi-urban branches of commercial banks. The target group comprised of 282 Self Help Groups and 577 individual beneficiaries financed under the scheme.

Observations concerning Banks

It was observed that non-receipt of subsidy/delay in receipt of subsidy from DRDA (forming 60% and 40% of the pending applications pertaining to groups and individuals respectively) was one of the important reasons for the inordinate delay in disbursement of loans under SGSY. The other reasons were as under.

- Complex and voluminous documentation.
- Delay in grading the groups on account of their poor performance
- Delay in obtention of 'No Dues Certificate' from other banks.
- Delay in tie-up arrangement in case of dairy activity.
- Cumbersome procedure in the bank such as insistence on the presence of borrowers repeatedly in the branch for various formalities.
- Pressure of work in the banks due to lack of manpower, annual closing, audit and inspection, etc.
- Non-delegation of authority to the bank managers.
- Some of the bank branches have not been conveyed the credit mobilisation targets.

- Lack of awareness among the dealing staff about the guidelines of the Scheme.
- Lack of commitment, enthusiasm and participation on the part of banks due to poor recovery performance of loans under the Scheme resulting in mounting NPAs.

Banks have not adhered to the guidelines issued by the Government of India /RBI in implementation of the Scheme as would be evident from the following findings of the study.

- Not maintaining proper Loan Application Register.
- Discrepancies in maintaining the Revolving Fund Account/Cash Credit Account, Subsidy Reserve Account and SHGs Account.
- Not adhering to the time frame prescribed by RBI for disposal of applications.
- Obtaining third party guarantee in several cases, which is in violation of RBI guidelines.
- Linking of assistance under SGSY to subsidy target.
- Charging interest on the subsidy portion and not maintaining the Subsidy Reserve Account group-wise.
- Subsidy portion was kept in SB accounts and beneficiaries were paid interest.
- Giving the full benefit of subsidy to those applicants who have repaid the loan before the lock-in-period.
- Not fixing the repayment schedule as per the guidelines.
- Opening individual loan accounts in the names of group members.
- No proper follow- up of the end use of the funds by the banks.

Observations concerning Sponsoring Agencies

One of the significant observations made was that viable SHGs were not available for bank financing. This was attributed to various reasons, such as, failure on the part of DRDA to mobilise healthy/ active NGOs for the formation of groups. The study has also revealed the following:

- Deficiencies in the project reports submitted by the Sponsoring Agencies for the key activities.
- Bunching of applications by the Sponsoring Agencies and submission of applications at the fag end of the year.
- Forwarding unviable and un-bankable proposals to the banks resulting in rejection of applications.
- Key activities have not been identified and most of the applications pertained to similar type of activity resulting in saturation of activity.
- Lack of awareness of the scheme guidelines among Government Officials.
- Submission of incomplete applications without any scrutiny.
- Obtaining individual applications from the group members instead of one application from the group.
- Not granting the subsidy as per the entitlement of the applicants.
- Lack of co-ordination between Govt. agencies and bank officials.

Observations concerning Beneficiaries

Some of the beneficiaries contacted under the study have stated that it took unduly long time in sponsoring their cases and they had to visit the office of BDO, several times (3-7 times).

Some of the reasons for the gap between sanction and disbursement of loans under SGSY attributable to beneficiaries were as under:

- Non-completion of formalities by the applicants due to illiteracy. (Forming 31% and 35% of pending applications pertaining to groups and individuals respectively)
- Groups are not cohesive and not responding.
- Change of activity by the Groups.
- Most of the groups restrict their outstanding under cash credit account to the subsidy portion of Rs. 10000/- under the impression that the activity loan would be granted only when they clear cash credit facility.
- Beneficiaries approaching the banks after considerable delay.
- Delay in asset creation by the beneficiaries.
- Lack of proper training and guidance from the Sponsoring Agencies and Banks has resulted in taking up unviable economic activities by the groups.
- Unawareness among groups and individuals about the benefits of the Scheme.
- Disposing of the assets (Milch animals) by the borrowers.

Suggestions for redress

- Sensitisation of the rural and semi-urban branch managers should be undertaken.
- Delegation of authority to branch managers for sanctioning of loans under Government Sponsored Schemes.
- Proper maintenance of Loan Application Register by the banks.
- Involvement of NGOs and Sponsoring Agencies in completing the formalities.
- Sponsoring should be planned/target fixed.
- Forwarding applications in a phased manner and avoiding bunching of applications in the last quarter of the financial year.
- Introduction of Screening/Task Force Committee and phasing out of individual applications in favour of groups.
- Timely release of subsidy.
- More effective co-ordination between NGOs, BDOs and bank officials.
- Creation of awareness of the scheme among BPL families and to motivate them to avail the benefits of the scheme.
- Due publicity of the Scheme should be given by the State Publicity Departments.

Beneficiaries have suggested that there should be a single contact agency for them and banks should not wait for the release of subsidy for disbursing loans.

ANNEXE-II

North Eastern Region

The study covered 27 branches of commercial banks in 7 select districts of the States of Assam, Meghalaya, Mizoram, Nagaland and Tripura and 6 branches in 2 select districts of Arunachal Pradesh and Manipur. The findings of the study are enumerated below.

Reasons for the delay between receipt of loan applications and sanction

- Bunching of applications by the Sponsoring Agency.
- Non-completion of pre-sanction visit by the bank officials due to poor accessibility and security reasons.
- Incomplete documentation.
- Non-availability BPL lists in the branches.
- Shortage of staff in most of the branches.
- Lack of awareness of the guidelines by both the Banks and Government Officials.

Reasons for the gap between sanction and disbursement of loans

- Non-completion of formalities by the beneficiaries.
- Non-release of subsidy by DRDA.
- Beneficiaries not approaching the bank for availing the loan even after repeated reminders.
- Shortage of approved suppliers of the machinery and goods.
- Training programme not launched / not completed.
- Beneficiaries wanted only subsidy and not the loan; the reason being that they could not market the products profitably resulting in likely default in repayment.

Reasons for the rejection of loan applications

- Loan proposals were unviable/un-bankable and lacked potential.
- Beneficiary and /or his/her family were found to be defaulter.
- Projects/schemes for which loans were sought were not properly drawn up or chalked out.
- Beneficiaries were found to be entrepreneurs but sought loans for livelihood. No project details were submitted.
- Formation of groups was less than six months.

Most of the banks were reluctant to sanction loans under Government Sponsored Programmes due to poor recovery of the loans leading to mounting NPAs.

Additionally, a special study had been conducted in the states of **Arunachal Pradesh** and **Manipur**, covering one district and 3 branches of commercial banks mainly for the purpose of finding out the reasons for the poor take off of credit under SGSY in these two States. The reasons revealed by the study are as under:

- Difficulty in forming SHGs due to scattered location of households in the rural areas and their remoteness from the branches and lack of understanding by the Officials, both banks and Government on grading procedures of SHGs.
- Limitations in identifying the key activities, which are economically viable (due to the existence of peculiar land tenure system where there is no distinct individual holding restricting transfer of holding.)
- Reluctance on the part of banks to finance projects under SGSY due to bad recovery experience under the erstwhile IRDP.
- Lack of co-ordination between the banks and Govt agencies. The SGSY Committee has not been constituted in the district.
- In the State of Manipur no application had been sponsored during the year 2002-2003 to the branches covered under the study.
- The groups have not reached the stage of credit linkage.