Chapter - X

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OBSERVATIONS AND SUGGESTIONS

An in-depth study about the role of Uttar Pradesh Co-operative Village Development Bank Ltd. in Agricultural Development has been made in relation to long term credit to agriculture sector. A brief resume of the main findings of the study, and a few suggestions based on the findings are presented in the chapter.

Uttar Pradesh State economy has been predominately an agricultural economy. Agriculture has the potential of contributing significantly to the State economy by providing employment to a large chunk of its population, by supplying raw material for industries and enriching the State excheque. In fact, the process of development of the economy improves the inter dependence between agricultural and industrial sectors. Agriculture provides raw material to agro based industries and agricultural production is materially dependent on the rapid increase in the production of inputs supplying industries.

It is a significant fact that agriculture occupies a central place in the State income but its performance has been far from satisfactory. The agricultural sector grew at a rate much below the potential, the growth rate hardly kept pace with the population growth and requirements of the economy. The impact of new technology has not been sufficient to transform the agricultural
sector. The rapid growth of population on the one hand inadequate
growth of agriculture on the other hand threatens to cripple the
economy of the State.

Despite the fact that the factors responsible for
backwardness of agriculture are legion, the problem of capital
investment in agriculture is of paramount importance. It is with
the help of necessary capital investment that production and
productivity of agriculture can be improved. However, majorities
of agriculturists are generally poor and are unable to finance their
agricultural activities. Therefore, credit assumes great
significance. If we are all concerned about increased total
agricultural output in the short time, we must provide credit first
and for most of the borrowers as, that will enable them to have
more labour saving equipment, more plants and fertilizers.
Moreover, credit should be accessible, cheap, safe as well
productive, credit becomes a bottleneck to production if not
available at the right time, in quantity needed and in the required
constitutional forms, when technology of agriculture is
sufficiently advance and other factors are present for
transformation of stagnant agriculture. Hence, new institutional
forms and additional capital may be needed at this stage for
expanding technology and raising the levels of production.

The farmers of the State do not know institutional credit for
capital investment in agriculture till the organisation of Land
Development Bank in 1959. Before this agency, various
Government departments were providing loans to these farmers but
the quantum of credit available was limited and it resulted in
adverse effect on our agricultural development in the State. With
the development of new technology in agriculture, the need of having institutional arrangement the provision of long-term credit was unavoidable. Keeping this in view, the State Government in March 1959 established a State level agency on co-operative basis for providing long-term credit and investment finance for agriculture, and allied activities. The agency was formed in the name of “Uttar Pradesh State Co-operative land Mortgage Bank.” Initially the role of Land Development Bank was almost negligible because the various Government departments were providing similar credit facilities to the farmers for the purpose identical to those for which LDB was advancing loans. In due course of time, the State Government issued a directive stopping direct lending by Government departments and directed that all long-term credit for agriculture development shall be the sole responsibility of Land Development Bank.

For the attainment of main objective of financing the farmers, it started mobilisation of the resources rigorously through the issue of shares, debentures and utilisation of its own reserve. On account of the heavy rush of farmers for crop and related capital investment, the Bank had to resort to debenture issues for generating more and more funds. Uttar Pradesh Cooperative Development Bank Ltd. has, in spite of limited availability of resources worked for promoting the economic interests of its members and more particularly to cater the long-term credit needs of its members for agricultural development. The scheme it has framed include purchase of land, purchase of tractors, pumpsets, sinking of wells, levelling of lands etc. The Bank has provided
finance to the tune of Rs. 5702.85 Crores till the end of March 2002.

Success in the recovery of advance given depicts the healthy working of a Bank. It is a backbone of the Bank on which the entire financial structure sustains. Till 1990-91, the recovery position of the Bank used to be not less than 65 to 70 percent but after 1991, the recovery started increasing. Its recovery percentage increase from 70 percent in 1991-92 to 86 percent in 2001-2002 which showed it good performance.

Thus, Uttar Pradesh State Village Development Bank Ltd. which is one of the most suitable agencies for providing rural credit in the State has to play a decisive role in future loaning programmes of the State. The problems which are faced by lenders and borrowers are as follows:

Problems from the Lender’s Point of View

Following are the main, problems facing the Bank from lender’s point of view:

(1) **Drawing and Disbursement:**

At present drawing and disbursement powers of the “NABARD” are vested with the Mumbai Office. The release and remittance of the funds at present is done at Mumbai Office which is thousands of Kilometers from Lucknow. This has created lot of problems for the Bank and thousands of rupees are lost in transit while remittances are made at Mumbai Office or when funds are released by them to State LDB. At times, delay in the receipt of funds from
“NABARD” paralyses this whole institution and brings the working stand still

(2) **Inadequate State Capital Contribution:**

Participation of the Government in the Share Capital Contribution is not adequate. Bank has raised its own share capital at Rs. 167.69 crore whereas State Government’s participation is very low. Normally there should have been equal participation of the State Government towards the share capital of this institution. Gap in the share capital participation of the State Government indirectly effects of the prosperity and smooth functioning of the Bank.

(3) **Poor Management:**

State Cooperative Village Development Bank has failed to achieve its objectives in letter and spirit. The executors failed to execute the plans formulated by Management Committee because such plans are not based on appropriate planning premises. It has also observed that most of the executors of these plans are not well versed with latest controlling devices which are essential for the proper implementation of the plans.

(4) **Lack of Proper Co-operation:**

The present hierarchy system suffers from proper co-operation of the organisation leaving most of its programmes ineffective. There is wide gap between Management Committee at the top and other executors at District and Tehsil levels. It was observed that in some cases, decision taken at the higher level management are communicated to the District and Tehsil level Officers at the time when they
had lost their sanctity. At the same time the officers working at the District and Tehsil level branches of the Bank do not submit their necessary business reports well in time, with the result the problems in the functioning of State Cooperative Village Development Bank multiply year after year; making the system disfunctional.

(5) Lack of Selection and Training:

The personnel working in the Bank in various ranks find themselves in dole drums as they are not clear about their roles. In some cases the persons appointed are in no way fit to the satisfaction of the job. However, their selection is made on the basis of understanding which they have with members of Managing Committee. This defective method of the selecting persons for the Bank under study have been responsible for the unsatisfactory growth and functioning of the said Bank. The situation is more aggravating because branches working in rural areas totally unaware of rural development and agricultural finance. Urban people appointed in rural branches find it difficult to cope up with the environment prevailing in the development work and are always looking for an opportunity to get themselves transferred to urban areas having better facility. All this ill-equipped, ill-qualified and ill-experienced staff bares the very spirit of LDB’s philosophy in Uttar Pradesh.

(6) Lack of Review on the Loaning Procedures:

Even though Uttar Pradesh has tried to provide quite laborate and simple procedures for the advancement of loans, yet, there should be a regular system of review on the
functioning of such procedures. The changed circumstances require changes in the procedures also. And as such, a regular review of loaning procedure is necessary.

(7) **Lack of Deposit Mobilisation:**

The deposit mobilisation by credit co-operative lags behind while other financial institution is keeping pace with the overall growth of the co-operative movement. Since the credit co-operative enjoy Government patronage, special efforts are required to boost up the deposits.

(8) **Lack of Planning:**

There is no systematic planning to work out the requirements of credit in a year for every district as well as for the State as a whole. It has been noticed that the optimum level of investment recommended for a particular scheme in not properly followed by the farmers.

**Problems From Borrowers Point Of View**

Undoubtedly the loaning business of this Bank has been satisfactory during the past four decades but while conducting the detailed study of this institution at macro as well as at micro level by observations, interviews and discussions, it was observed that the farmers were unhappy with the functioning of the Bank because of the problems faced by them, in approaching the Bank for farm financing. Some of the problems of para-mount nature are as follows:

(1) The Bank has a very elaborate and comprehensive procedure for sanctioning of loans. This often results in the time lag between the sale of application and actual disbursement of
loan. The comprehensive procedure requiring a long time lag in the sanction of loans breeds corruption also.

(2) It is observed in some cases that the farmer who is supposed to provide full information to the banker in unable to disclose his plans, assets, liabilities etc., because banker speaks more than the borrower. Banker tries to put forth his knowledge before the borrower. This is due to poor listening skill of some bankers.

(3) Before disbursement of loan to the farmer by the Bank, its viability is not carefully judged. Test of returns and risk bearing ability is left to nature, thus putting the Bank into risk.

(4) It is generally observed that credit reports of the farmers are cooked up in order to oblige them by giving loan. Moreover, such credit reports are never change every year, hence puts the Bank at disadvantage.

(5) There is common complaint that there is always invoicing. But rarely, it is seen any body rectifying this error by reducing the amount of loan. Sanctioning is done as invoice value knowingly that it is than the actual.

(6) Fixation of instalments with the borrower's is done arbitrarily in many cases. It is not based on incremental income with the result farmer find it difficult to repay the instalment and thus tries to find out excuses for not paying in time.

(7) In some cases equitable mortgage is done with duplicate copies of title deeds, which is not desirable.
(8) Loan amount is disbursed to the borrows or transfer to his saving bank account thus having no control over the drawing and the purpose for which the loan is taken.

(9) Period of repayment is fixed in many cases without linking it with the harvesting season or time of cash inflow, there by facing problems, both by banker and borrower.

(10) Identification of the borrower, his antecedents rarely done, and if done, it is rarely put in black and white, thus keeping everybody in dark about the source of identification.

Mere identification of problems is not the end in itself so far as the working and functioning of Uttar Pradesh State Cooperative Village Development Bank Ltd. is concerned. It, therefore calls for concerted efforts to minimise and even in certain cases eradicate the bottlenecks so far as to gear-up smooth functioning of the Bank and to ease the borrowers in procuring loan term finance for the development of agrarian economy of this State. In view of these problems, the following measures are suggested for putting the Bank under study on sound rails:

Suggestions

(1) It is suggested that drawing and disbursing powers which are centralised with the NABARD at Mumbai may be decentralised not only to the Central Office of Village Development Bank put even at district level branches.

(2) The participation of Government in the share capital contribution of the Bank is not adequate. It is suggested that there should be an equal participation of the State Government to wards the share capital of this institution.
Like all other credit co-operative institutions, the functioning of general body and district level committees should be made effective by giving them freedom in functioning and providing co-operative education especially on the role to be played by them in the proper implementation of plans. The managing director at the central level should encourage the members to actively participate in the meetings of the general body as well as of managing committee.

The guidelines issued by the NABARD in its 10-point action programme for the rehabilitation of weak branches needs the implementation by Bank at its priority. The central idea of this programme should be to improve the recovery position of weak branches and simultaneously the organisational, financial and managerial functions. State Government and the Bank should jointly frame the schemes to rehabilitate the sick branches. For ensuring the smooth and efficient functioning of various branches, some norms for minimum loaning business and income should be fixed along with a ceiling on expenditure keeping in view the level of business and income.

It has been observed that the Bank is following an elaborate and complicated procedure in sanctioning of loan. As far as procedure adopted for lending, the processing of applications starts at the supervisor’s level. There is however, no arrangement for the branches of the Bank staff operating in various districts, to involve themselves in project identification. Under the present practice, the responsibility
for sanctioning loan is vested with the central office. The role of the branch managers of the Bank seems to be only link between Head Office and the farmer. To simplify the procedures, more powers be given to branch office’s for sanctioning loan is vested with the central office. The roles of branch managers for sanctioning loans up to fixed limit say up to Rs. 15,000 only. So that the poor farmers may not loose much more time in following his case.

(6) The system of follow up of utilisation of loans by the supervisors also called for certain radical improvements. At present, supervisors do visit loaness and record in their visit diaries of such activities. However, the periodicity of such visits and in particular, the contents of their reporting in the diaries left room for improvements. In particular the stage of progress of the implementation of the scheme/investment at the field level does not get reported. In order to improve the system, the following suggestions for proper functioning of the Bank are:

(i) The periodicity of the supervisor’s visits to the concerned farmer should be more frequent as per specific time schedule, immediately following the release of the loans to ensure that the loans released get committee to the works for which they are released. This by itself will help checking tendencies for possible mis-utilisation.

(ii) The reporting by the supervisor in the field dairy shall invariably give the level of progress noticed by them in respect of the individual items of work taken up at the
farmers level and not merely a calendar of visits of the supervisor as is done now in most cases.

(iii) The official of the Bank should check the visit diaries of supervisors periodically and also undertake random visits to the loanees, which will act as a safeguard against possible wrong reports by supervisors.

(iv) The general manager if not managing director also should select periodically on random basis some of the loan cases financed by Bank and visits the loanees along with the branch manager and the concerned field supervisor.

In short, for making the system more efficient, there should be effective system of checks and counter checks by different functionaries of the Bank starting right from district co-operative Village Development Bank level up to the central co-operative Village Development Bank Level. This along can create the needed awareness on the part of all functionaries in the Bank and the loanees at the field levels about the seriousness attached to the implementation of the programmes and recovery of dues.

(7) Banker may try to understand at least the working apart of the purpose for which loan is sought for. If information is needed from outside say for example ground water level, suitability of soil for certain specific crops etc., should be collected before hand.

(8) Before financing one may look into the fact, that what has been planned by the borrower can be executed and see whether it comes under the schemes framed by the Bank. If yes, how and if no, why? The technical committee of the
Bank in this regard needed can suggest any adjustment with reasons.

(9) It is usually observed that before disbursement viability of loan is not carefully judged. It is suggested that expenses and income should be based on actual rather fictitious figure and profitability should be judged carefully.

(10) Since credit reports provide a good information on financial as well as status of the borrower, it should never be cooked up; facts should be known even if advance is to be given, so that necessary precautions are taken. Secondly it will never remains the same e.g. cash balance would never be the same in the beginning and in the end, so are the credit reports.

(11) It has been observed that farmers suffer due to shortage of working capital, therefore, giving working capital in cases when term loans are given assumes significance. Any lapse in this may result into non-repayment of loan instalment due to non-functioning of the assets resulting from lack of working capital funds.

(12) To avoid the over invoicing, the banker should try to know the actual price of an asset i.e., tractor, tube-wells, pumpsets, trucks etc. by personally visiting to the dealers offices for a cross check. Tagging arrangements between the dealer and the borrower credit should be need based.

(13) Equitable Mortgage should be created with original title deeds. Such mortgage should be created as per thew law not by ones whims.

(14) It must be observed carefully that villagers are identified before advancing loans to them at the time of executing the
documents, to avoid cases of impersonation and also to keep in recoveries.

(15) The functioning of the Bank has been suffering to a considerable extent on account of its entanglement with polities. This is not a healthy sign for smooth and proper working of the Bank. Therefore, sincere efforts should be made to avoid the politics and create true spirit of co-operation in the affairs and functioning of the Bank. The State Government must give some guidelines and norms to be adopted by the Bank for keeping politics away from the affairs of the Bank so that its co-operative character and spirit remain intact.

(16) The Bank, as a rural credit agency, has a distinct and vital role to play in the context of effective implementation of integrated rural development programmes (IRDP). While other financing agencies under this programme cover both agriculturists and non-agriculturists like agriculture labourers, village artisans and other weaker sections, the Village Development Bank which has hitherto provided credit to agriculturists only should also provide loans to non-agriculturists especially the rural poor to better link them with the mainstream of rural development. In addition, the Bank should also provide loans for development of rural industries.

(17) It has been found that the illiteracy has been one of the major problems for the Bank to achieve its objectives. The illiterate and ignorant farmers should be made aware of the banking facilities available in their areas. As most of the
rural people are illiterate and ignorant about the policies of the Bank, the Bank should frame different programmes and schemes explaining the importance of the land development financing. These programmes should be broadcast. This will play an important role in the development of both the Bank and the beneficiaries.

(18) The opposition political parties misguide the illiterate and poor farmers by talking about the remission or deferment of loans by the State Government. Non-recovery of loans causes strain not only on the resources of the lending agencies but it also creates problems for the borrowers who are denied further loans without repaying the previous ones. The recovery position can be improved by properly educating the borrowers about the importance of repayment of loans and the positive role of the political parties.

The aforesaid suggestions once implemented sincerely and effectively the Bank will flourish. Its role and assistance in the development of the depressed agricultural economy of the State will become much more significant and appreciable. To give boost to the Agriculture, Horticulture, Sericulture etc. needs the mechanisation and rationalisation of agriculture, which demands heavy capital investment. The Uttar Pradesh State Co-operative Village Development Bank Ltd. has first, to overhaul and rationalise itself in the light of the recommendations given in the preceding lines, then only it can be helpful to farmers and the State positively.