CHAPTER 6
LENDING OPERATIONS - FOLLOW-UP, SUPERVISION AND ALLIED MATTERS

SYNOPSIS

6.1 Organisation of Lending in UCBs

6.2 Supervision of Loans

6.3 Factors Influencing Loan Policy in UCBs

6.4 Priority Sector Lending by UCBs

6.5 Comparative Study of Selected UCBs and Commercial Banks

6.6 General Information of Selected UCBs

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6.1 Organisation of Lending in UCBs:

The principal responsibility for formulating a loan policy for a bank and its implementation lies with the Board of Directors. Since the members of the Board are pre-occupied with other important activities, they do not attend the day-to-day lending functions of the bank. Generally, they constitute a separate lending body, known as the credit department, to carry on loan policies which they formulate.

Broadly speaking, the credit department of a bank performs the following functions:

1. It receives loan applications;

2. It collects credit information about the applicants;

3. It investigates the credit worthiness of applicants;

4. It grants the loan;

5. After granting the loan it supervises the credit by visiting the borrowers. If there is something wrong, a bank calls the borrowers and asks for their unsatisfactory performance.

6. It maintains records of credit information and revises them constantly so that bank officers may come to know the status of their accounts.
In an ideal situation, the credit policy statement is usually prepared by the Board of Directors, and its implementation is done by the loan committee because in most banks, all the Directors do not meet each week. All the loan applications are received by the credit department, which are then referred to the concerned individual loan officer possessing the sanctioning authority. They are referred to the loan committee. This loan committee consists of the Chairman of the Board, two or three Directors and one or two senior loan officers. Besides approving or recommending action on specified credit applications, the committee makes a complete report on all the applications handled each week or month, as the case may be, and the decision rendered to the Directors under whose supervision it operates.

The organisational set up of the loan function in a bank would depend upon a number of factors, including the size of the bank, the magnitude of the loan portfolio and its composition, and the attitude of the Board of Directors towards the extent of the authority delegated.

In small bank, Manager performs all the necessary credit functions, and routine functions also. There is little or no specialisation. Manager is responsible for securing the credit information that is necessary and for maintaining his own credit files.

At the other extreme, in larger size of banks, the loan function is highly departmentalised. There are separate lending officers.
6.2 Supervision of Loans:

In order to ensure the end use of the loan, it is necessary for the bank to keep track of the loans outstanding. It keeps in touch with the borrowers during the life of the loan. The supervision of the loan is the responsibility of more than one department of the bank. The credit department regularly obtains the financial reports of customers indebted to the bank and analyses them to assess the progress made by the customers. The lending officer keeps track of his clients. When special problems arise in connection with outstanding loans, they are referred to the higher echelons of bank management, as in the case of new loans. Usually, the outstanding loans are supervised in the following ways:

(i) Inspections:

Terms of financial and technical officers visit the borrowers' firm to find out how the customers' affairs are developing. The borrower is required to maintain records showing the utilisation of the disbursed loan, and the operations and financial working of the firm. In addition to a close scrutiny of these records, they make a physical verification of stock. Frequent visits to the borrowers enable the bank to discover such things as may not be reflected in their financial statements. Frequent supervision can check misuse of finance. After disbursing the loan if inspector visits to the borrower he can prevent unproductive activities from the finance.
(ii) Obtaining half-yearly and yearly financial reports:

Where the bank has provided term loans, the assisted firms are required to send half-yearly and yearly financial reports and circulars and minutes of shareholders' meetings to the bank. The credit department carefully studies and analyses these to assess the progress of the assisted concerns, their profitability and other financial aspects.

While obtaining the reports, the credit department has to ensure that the liquidity position is maintained in accordance with the loan agreement, that property is kept in good condition, and that profits have been distributed according to the terms of the agreement.

(iii) Obtaining budgetary report:

A budgetary report is an effective tool in the hands of a bank to supervise long-term loans. Budgets are valuable only if used. The bank should require the borrower to submit budgetary reports which show the actual results. If the budgetary report discloses disappointing results, then the bank should ask the borrower to explain the reasons.

6.3 Factors Influencing Loan Policy in a Bank:

The important factors which affect the determination of the loan policies of a bank are:
(i) Capital position:

The capital position of the bank is probably the most important factor influencing its loan policy. As observed earlier, capital provides the cushion which absorbs the losses that may occur. It serves as a protective factor against losses for depositors and guarantees funds for the creditors. A bank with the strong capital position can assume more credit risks than one with a weak capital position. Accordingly, the former can follow a liberal lending policy and provide different types of loans, including long-term loans promising higher interest rates, which the latter cannot do because of the greater risk involved.

(ii) Deposit variability:

Banks that have experienced erratic movements in their deposits will have to follow a conservative lending policy. They cannot afford to incur undue risks by extending their term lending facilities. A similar policy should also be followed where banks are faced with declining deposits. In a refreshing contrast with this, a liberal lending policy can be pursued by banks whose deposits show little or no fluctuations, and which can easily predict the fluctuations in deposits and loan demands, and make a provision for them in their secondary reserve. Banks whose deposits have shown a rising tendency in the past, and which expect the rising trend to persist in future, can also be liberal in their loan policy.
(iii) State of local economy:

In formulating the lending policy, the banker should keep in mind the economic conditions that prevail in the region served by the bank. A bank operating in an area which is subject to seasonal and cyclical fluctuations can ill afford to adopt a liberal policy because that would entail the hazards of liquidity. But in a stable economy, where the possibility of fluctuations in the level of deposits and loan demands is limited, the banker may follow a liberal loan policy.

(iv) Ability and Experience of Loan Officers:

The loan officers of a bank play a significant role in the execution of its loan policies. The Board should, therefore, consider the skill and competence of its loan officers while laying down a poor policy. Most of these banks have abstained from consumer lending and term lending to business enterprises because they are ill-equipped with skilled personnel.

(v) Competitive position:

In formulating loan policy, the management should give consideration to the competitive position of the bank. Where a bank finds that strong competing institutions exist, say, in the field of term lending and the management feels that it cannot afford to provide loans on the term that are offered by the other existing institutions, it might follow a policy of refraining from entering the sphere of term loans.
Credit needs of the area served:

The credit needs of the area served by the bank would also influence its loan policy. A bank is supposed to meet the loan demands of all the local borrowers, who present logical and economically sound loan requests, the grant of which is not contrary to prudent banking practices. If this cannot be done, there will be little justification for an institution to exist in that region.

6.4 Priority Sector Lending by UCBs:

Social control was followed by the nationalisation of the major commercial banks on the 19th July, 1969 with three main objectives. Firstly, to open new bank offices in rural and semi-urban areas. Secondly, to provide funds for all productive purposes irrespective of size and social status of borrower, and thirdly, to give priority in lending to weaker sections. Six more major private commercial banks were nationalised on the 16th April, 1980 to make banking sector serve the smaller, illiterate and assetless persons who were scattered in large number of tiny villages in the country.

Among the various measures being adopted for achieving the goal of social banking with focus on economic upliftment of the vulnerable, but vital sections of the society the concept of priority sector was evolved and it was revived from time to time to make necessary changes. The banks were advised to deploy their resources for lending to the priority sector.
The concept of priority sectors was evolved on the basis of what was considered to be, hitherto, neglected sector or the economy and it was formalised in 1972 in the light of the report submitted by Informal Study Group on Statistics relating to advances to priority sectors constituted by the RBI in May 1971. These, hitherto, neglected sectors were given due priority not because of their tremendous potential employment generation and various other benefits they confer on the weaker sections, but also because of their significant contribution to the national income.

The meaning of the priority sectors was elaborated at the conference of custodians of the nationalised banks held in New Delhi in July 1980 by the Finance Minister in the following words:

"When we talk of priority sectors the emphasis is on the needs of the common man, the man who is engaged or is willing to be engaged in a productive endeavour which is socially useful and economically viable, but is handicapped for lack of finance on reasonable terms."

The priority sectors for lending can broadly be divided into three groups as follows:

I. Agriculture
   A. Direct
   B. Indirect

II. Small-scale Industry
In view of the objective to serve the heitherto neglected sectors of the economy. Comprising mainly of weaker sections of the society, UCBs also have been asked to lend to sections of the society laying more emphasis on priority sector lending.

In accordance with the national objectives, the RBI has instructed the UCBs to ensure that not less than 60% of their total loans and advances should go to priority sectors.

In context with the priority sector lending by UCBs, the list of priority sector items as under:

1. Advances to individuals for activities allied to agriculture.

2. Loans and advances to cottage small-scale industries and equipment/systems for the development of new and renewable sources of energy.

3. Advances made to a road and water transport operators.

4. (i) Private retail traders dealing in essential commodities (fair price shops);

   (ii) Other private retail traders with credit limit not exceeding Rs.50,000/-.
5. Small business enterprises.

6. Professionals and self-employed persons.

7. Educational loans.

8. Housing loans not exceeding Rs.25,000/-.

To evaluate the lending operations of UCBs in the area of priority sector lending an attempt has been made to work out the proportion of priority sector lending to the total loans and advances of all the UCBs, not only in Gujarat, but relative region-wise figures also have been worked out. More information has been analysed by collecting purpose-wise data in priority sector lending. Such information has been collected and tabulated for two years (1984-85 and 1993-94) and it has been presented in the table 6.1. The analysis and the interpretation of the data given in the table would reveal in the following:

1. Against the target fixed to lend 60% of its advances in the priority sector. UCBs in Gujarat have been seen operating vigorously to achieve these target because while in 1984-85 the proportion of priority sector advances the total advances stood at 59.10 per cent. The proportion of priority sector advances to the total in 1993-94 stood at 56.96 per cent.

2. Among the four regions while the proportion of priority sector lending of C.G. region recorded highest (i.e. 37.41% in 1984-85 and 32.76% in 1993-94), the lowest,
## Table 6.1

Regionwise Comparative Study of Priority Sector lending by UCBs in Gujarat (in percentage)

<table>
<thead>
<tr>
<th>Priority Sectors</th>
<th>Gujarat</th>
<th>Saurashtra &amp; Kutch Region</th>
<th>North Gujarat Region</th>
<th>Central Gujarat Region</th>
<th>South Gujarat Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Allied Agricultural Activity</td>
<td>-</td>
<td>2.44</td>
<td>-</td>
<td>1.75</td>
<td>-</td>
</tr>
<tr>
<td>3. Road &amp; Water Transport operators</td>
<td>10.24</td>
<td>17.48</td>
<td>13.00</td>
<td>9.77</td>
<td>22.36</td>
</tr>
<tr>
<td>4. Retail traders Essential Commodities</td>
<td>43.14</td>
<td>2.83</td>
<td>25.28</td>
<td>0.75</td>
<td>37.26</td>
</tr>
<tr>
<td>5. Other Retail Traders</td>
<td>-</td>
<td>16.97</td>
<td>-</td>
<td>20.21</td>
<td>-</td>
</tr>
<tr>
<td>7. Professionals &amp; self employed Persons</td>
<td>3.70</td>
<td>7.17</td>
<td>4.77</td>
<td>7.40</td>
<td>7.62</td>
</tr>
<tr>
<td>8. Educational loans</td>
<td>0.15</td>
<td>0.40</td>
<td>0.27</td>
<td>0.06</td>
<td>0.86</td>
</tr>
<tr>
<td>10. Consumption loans</td>
<td>1.66</td>
<td>0.17</td>
<td>0.56</td>
<td>0.17</td>
<td>3.07</td>
</tr>
<tr>
<td>% of Priority Sector to the total advances</td>
<td>39.10</td>
<td>56.96</td>
<td>8.84</td>
<td>10.31</td>
<td>9.10</td>
</tr>
</tbody>
</table>

Source: = Field work
was seen in case of S.G. region (i.e. 4.86% in 1984-85 and 6.80% in 1993-94). Whereas S & K region and N.G. region have recorded somewhat similar trend as regards their operations towards priority sector lending. While the proportion of S & K region priority sector lending to the total lending rose from 8.84 per cent (in 1984-85) to 10.31 per cent (in 1993-94), the proportion of priority sector lending to the total lending in N.G. decline from 9.10 per cent (in 1984-85) to 7.09 per cent (in 1993-94).

3. The purpose-wise priority sector lending in 1984-85 reveals that the proportion of retail traders (essential commodities) constituted highest (43.14%) followed by cottage and small-scale industries (26.88%), small business entrepreneur (11.09%), road and water transport operators (10.24%), and the proportion of other purposes like professionals and self-employed persons, housing, consumption and educational loans found below 4 per cent.

4. As against this in 1993-94, the proportion of priority sector lending by UCBs constituted highest for small and cottage industries (24.44%) followed by road and water transport operators (17.48%), other retail traders (16.96%), housing loan (8.99%), professionals and self-employed persons (7.17%) and the proportion of other purposes found below 3 per cent.
5. Region-wise figures of priority sector lending for various purposes during 1984-85 and 1993-94 have been given in the table and they are self-explanatory.

Thus, UCBs in Gujarat have been seen working in the right direction since they have been seen very close in achieving the targets fixed for them to attained 60% of their total lending to the priority sectors. It has also been seen that among the various regions, UCBs belonging to C.G. region have substantially contributed towards achieving these targets and the other UCBs and UCBs of other regions are trying their best to achieve the target.

6.5 Comparative Study of Selected UCBs and (State Bank of India) Commercial Bank:

While studying the lending operations of UCBs in Gujarat, it is necessary to know the operations done by schedule commercial banks in this field. Hence, an attempt has been made here in subsequent paragraphs to compare the lending operation and its various facets of selected UCBs, with the lending operations made by State Bank of India. As the representative of the public sector banks possessing a vast network and sound footing in Gujarat.

The comparative study of the working of SBI and selected UCBs in Gujarat during the period from 1984-85 to 1993-94 has been provided in table 6.2. The analysis of which would yield the following:
Table 6.2

Comparative Study of Selected Banks and State Bank of India

<table>
<thead>
<tr>
<th>Years</th>
<th>Selected Banks</th>
<th>State Bank of India</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Deposits</td>
<td>Advances Out</td>
</tr>
<tr>
<td></td>
<td>Standing (%)</td>
<td>Standing (%)</td>
</tr>
<tr>
<td>1984-85</td>
<td>1875829</td>
<td>1550055</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(82.63)</td>
</tr>
<tr>
<td>1985-86</td>
<td>2138214</td>
<td>1801552</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(94.25)</td>
</tr>
<tr>
<td>1986-87</td>
<td>2156991</td>
<td>2029771</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(96.47)</td>
</tr>
<tr>
<td>1987-88</td>
<td>2439336</td>
<td>2284501</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(93.50)</td>
</tr>
<tr>
<td>1988-89</td>
<td>2678431</td>
<td>2503411</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(93.46)</td>
</tr>
<tr>
<td>1989-90</td>
<td>2872224</td>
<td>2763278</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(96.28)</td>
</tr>
<tr>
<td>1990-91</td>
<td>3164778</td>
<td>3003671</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(94.98)</td>
</tr>
<tr>
<td>1991-92</td>
<td>3313403</td>
<td>3239588</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(97.77)</td>
</tr>
<tr>
<td>1992-93</td>
<td>3852827</td>
<td>3476521</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(99.23)</td>
</tr>
<tr>
<td>1993-94</td>
<td>4283760</td>
<td>3730824</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(98.73)</td>
</tr>
</tbody>
</table>

(%) = Bracket Percentage indicate the percentage and the total Deposits to advance.
(%) = Percentage indicate the percentage to total advance.
Source - Field Work
1. The total amount of deposits mobilised by the selected UCBs stood at Rs. 18,75,829 thousand in 1984-85, it rose to Rs. 42,03,760 thousand in 1993-94. Thus indicated 2.24 fold growth during the period under study.

2. Against this the SBI in Gujarat could mobilise resources by way of deposits to the tune of Rs. 65,38,800 thousand in 1984-85, and it increased to Rs. 1,87,59,400 thousand in 1993-94. Thus SBI exhibited by 2.87 fold growth during the period.

3. The comparison of the quantum of total advances lent by UCBs indicated that in 1984-85 the amount of loans issued by UCBs stood at Rs. 15,50,055 thousand, it rose to Rs. 37,30,240 thousand in 1993-94. Thus showing 2.41 fold growth during the period between 1984-85 and 1993-94.

4. As against this the loans issued by SBI in Gujarat stood at Rs. 42,35,300 thousand in 1984-85 and it increased to Rs. 1,67,61,000 thousand in 1993-94, indicating 3.96 times growth during the period.

5. The absolute figures of loans outstanding for selected UCBs in 1984-85 in 1984-85 stood at Rs. 5,37,977 thousand, rose to Rs. 10,67,972 thousand in 1993-94. Thus it indicated 1.99 fold growth during the period under study.
6. Similarly in the case of loan outstandings of SBI in Gujarat, while stood at Rs.16,28,896 thousand in 1984-85, it increased to Rs.55,21,073 thousand in 1993-94, exhibiting 3.39 times growth during the period under study.

7. The total amounts of recovery of selected UCBs stood at Rs.6,86,902 thousand in 1984-85, it increased to Rs.18,05,215 thousand in 1993-94. Thus it shared 2.63 fold growth during the period under review.

8. As against this the SBI could recovered Rs.13,21,413 thousand in 1984-85. This amount rose to Rs.65,97,129 thousand in 1993-94. Thus it indicated 4.99 times growth in recovery during the period between 1984-85 and 1993-94.

9. The total amount of overdues for selected UCBs which stood at Rs.3,67,289 thousand in 1984-85 rose to Rs.9,03,768 thousand in 1993-94. Thus indicating 2.46 fold growth during the period under study.

10. Similarly in the case of overdues in SBI, stood at Rs.13,71,814 thousand in 1984-85, it rose to Rs.49,16,001 thousand in 1993-94, exhibiting 3.58 times growth during the period.
CREDIT-DEPOSIT (CD) RATIO :

The information pertaining to the percentage of advances to the deposit of selected UCBs and SBI in Gujarat during the period between 1984-85 and 1993-94 have also been presented in the table 6.2 which reveals:

1. The average CD ratio of selected UCBs stood at 91.81 per cent. Against this the CD ratio of SBI was of the order of 78.63 per cent. Thus the proportion of CD ratio of selected UCBs found higher as compared to that of SBI.

2. The trend of CD ratio in selected UCBs showed a fluctuating trend. Against this the SBI showed a somewhat stable trend during the period from 1984-85 to 1993-94.

OUTSTANDINGS TO ADVANCES RATIO :

The table 6.2 also indicates the outstanding percentage to the advances which provide the following results:

1. The absolute figures of outstanding of selected UCBs indicated an increasing trend, except 1988-89. Against this, the outstanding of SBI exhibited a continuous increasing trend during the period under study.

2. While the average ratio of outstanding to advances of selected UCBs stood at 30.00 per cent is found 35.74 per cent for SBI.
3. Whereas, the outstanding percentage showed a fluctuating trend in both during the period under review.

Recovery Performance:

The table 6.2 exhibits that the recovery performance of selected UCBs found better during the period between 1984-85 and 1993-94. The average of recovery to advances ratio of this banks stood at 44.77 per cent, whereas the similar ratio for SBI worked out to be 35.69 per cent. Thus selected UCBs have exhibited better recovery performance than SBI during this period.

Overdues to Advances Ratio:

The average proportion of overdues to advances of selected UCBs found 23.84 per cent and for SBI group stood at 30.44 per cent during the period under study. Thus the comparative proportion revealed that SBI has more proportion of overdues.

6.6 General Information of Selected UCBs:

General information of the selected UCBs indirectly affecting the working of UCBs in general has been given in table 6.3. The region-wise analysis of the table is done as under:

Saurashtra & Kutch Region:

1. It shows that seven banks were selected from this region. Out of the seven selected banks from this region, two banks were established between the years 1901 to 1950, and rest five banks were established in the years between 1951 to 1975.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number of Establishments of Main Bank</th>
<th>Number of Population covered by Bank Audit Class</th>
<th>Number of Staff in the Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Region of Selected Banks</td>
<td>Before 1960</td>
<td>1960 to 1965</td>
<td>1966 to 1970</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1900</td>
<td>1950</td>
<td>1975</td>
</tr>
<tr>
<td>Samranbtra</td>
<td>7</td>
<td>-</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>A. Butch</td>
<td>PB</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>North</td>
<td>6</td>
<td>-</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>Gujarat</td>
<td>PB</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Central</td>
<td>10</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Gujarat</td>
<td>PB</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>South</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Gujarat</td>
<td>PB</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>1</td>
<td>4</td>
<td>18</td>
</tr>
<tr>
<td>PB</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

PB: Per Bank

Source - Field Work

359
2. The selected UCBs were having 14 branches at the end of March 1994.

3. Among these seven banks, four banks covered 50,001 thousand to 1 lakh population and three banks' coverage of population found more than 1 lakh.

4. Out of seven banks while six banks acquired `A' audit classification. The remaining banks were classified into `B' audit class.

5. One hundred-six members were on the Board of Directors, of these selected banks. It means per bank on an average there were 15 members on the Board.

6. As regards the number of staff members serving at the end of March 1994 in selected banks. The total was 469, in which 44 loan officers, 63 loan supervisors, 287 others and 70 peons were employed in the banks.

North Gujarat Region:

1. For this region, out of six selected banks, five banks were established between 1951 to 1975 years, and rest one bank was established between 1976 to 1994.

2. Selected UCBs of this region have not any branch.

3. All these six banks covered 50,001 thousand to 1 lakh population and acquired `A' grade audit class.
4. The total number of members on the Board of Directors of these banks were 56. Thus, on an average, nine members were on the Board.

5. Two hundred one persons were working on the staff of these banks at the end of March 1994, comprising of 7 loan officers, 15 loan supervisors, 140 other staff and 39 peons.

Central Gujarat Region:

1. Out of 10 banks, one bank was established before 1900, two were between 1901 to 1950, five were between 1951 to 1975 and two were between 1976 to 1994 years.

2. Selected UCBs of this region have 29 branches.

3. Among these banks, one bank covered 1 thousand to 50,000 population, three banks were covered 50,001 thousand to 1 lakh, six banks were covered more than 1 lakh population at the end of March 1994.

4. Out of 10 banks, 9 banks acquired 'A' audit classification, the remaining bank was classified into 'B' audit class.

5. One hundred ten members were on the Board of Directors of these selected banks. It means per bank they were 11 members on the Board.

6. As regard the number of staff members serving at the end of March 1994 in selected banks. The total was 1023, in which 49 were loan officers, 64 were loan supervisors, 735 were as other staff and 175 were peons.
South Gujarat Region :

1. Out of 3 banks, all banks were established between 1951 to 1975 years.

2. These banks have only one branch.

3. Out of three, two banks covered 50,001 to 1 lakh population; and one bank covered more than 1 lakh population.

4. All these banks acquired 'A' audit classification.

5. Thirty-six members were on the Board of Directors in selected banks. It means there were 12 members on the Board.

6. As regards the members of staff, there were 98 staff members. Out of these, 8 were loan officers, 9 were loan supervisors, 65 were other staff and 16 were peons.

Information about Directors

Table 6.4 gives information regarding the number of Directors and their age and education, which reveals as under:

Saurashtra & Kutch Region :

1. There were 106 Directors in selected banks.

2. Regarding the classification of their age group is as under:
### TABLE 6.4
Age & Education of Directors in the Selected Banks

<table>
<thead>
<tr>
<th>Selected Directors</th>
<th>Region</th>
<th>Number of Years 21 to 30</th>
<th>Number of Years 31 to 40</th>
<th>Number of Years 41 to 50</th>
<th>Number of Years 51 to 60</th>
<th>Number of Years 61 &amp; above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saurashtra</td>
<td>7</td>
<td>105</td>
<td>11</td>
<td>45</td>
<td>34</td>
<td>15</td>
</tr>
<tr>
<td>Kutch</td>
<td>100</td>
<td>10.39</td>
<td>43.4</td>
<td>32.06</td>
<td>14.15</td>
<td>7.54</td>
</tr>
<tr>
<td>North</td>
<td>6</td>
<td>65</td>
<td>7</td>
<td>22</td>
<td>22</td>
<td>14</td>
</tr>
<tr>
<td>Gujarat</td>
<td>100</td>
<td>10.77</td>
<td>33.05</td>
<td>33.05</td>
<td>21.53</td>
<td>6.15</td>
</tr>
<tr>
<td>Central Region</td>
<td>10</td>
<td>115</td>
<td>10</td>
<td>45</td>
<td>42</td>
<td>18</td>
</tr>
<tr>
<td>Gujarat</td>
<td>100</td>
<td>8.73</td>
<td>39.13</td>
<td>36.53</td>
<td>15.65</td>
<td>7.03</td>
</tr>
<tr>
<td>South</td>
<td>3</td>
<td>36</td>
<td>2</td>
<td>16</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Gujarat</td>
<td>100</td>
<td>5.56</td>
<td>44.44</td>
<td>33.33</td>
<td>16.67</td>
<td>2.78</td>
</tr>
<tr>
<td>Gujarat</td>
<td>26</td>
<td>322</td>
<td>36</td>
<td>129</td>
<td>116</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>9.32</td>
<td>40.06</td>
<td>34.16</td>
<td>16.46</td>
<td>6.83</td>
</tr>
</tbody>
</table>

Source - Field Work
### North Gujarat Region:

1. There were 65 Directors in selected banks.

2. Regarding the classification of their age group is as under:
   - 21 to 30 years age group — 11 Directors
   - 31 to 35 years age group — 46 Directors
   - 46 to 60 years age group — 34 Directors
   - above 61 years age group covered only 15 Directors.

3. According to their education they are classified as:
   - 8 Directors having primary education;
   - 43 Directors having education up to secondary level;
   - 35 Directors having graduate; and
   - 20 Directors possessing post-graduate qualification.

### Central Gujarat Region:

1. There were 115 Directors in selected banks.

2. Regarding the classification of their age group is as under:
   - 21 to 30 years age group — 7 Directors
   - 31 to 45 years age group — 2 Directors
   - 46 to 60 years age group — 22 Directors
   - above 61 years age group — 14 Directors

3. According to their education they are classified as:
   - 4 Directors having primary education;
   - 32 Directors having education up to secondary level;
   - 21 Directors having graduate; and
   - 9 Directors having post-graduate education.
2. Regarding the classification of their age group is as under:
   - 21 to 30 years age group - 10 Directors
   - 31 to 45 years age group - 45 Directors
   - 46 to 60 years age group - 42 Directors
   - above 61 years age group - 18 Directors

3. According to their education, it is as under:
   - 9 Directors having primary education;
   - 43 Directors having secondary education;
   - 50 Directors having uptograduate; and
   - 13 Directors having education upto post-graduate level.

South Gujarat Region:

1. There were 36 Directors in selected banks.

2. Regarding their age group, they were as under:
   - 21 to 30 years age group - 2 Directors
   - 31 to 45 years age group - 16 Directors
   - 46 to 60 years age group - 12 Directors; and
   - above 60 years age group had only 6 Directors.

3. According to their education, it is as under:
   - 1 Director had primary education;
   - 17 Directors having upto secondary education;
   - 14 Directors having graduate degree; and
   - 4 Directors having post-graduate degree.

Thus, overall picture of selected banks in Gujarat shows that, out of 332 Directors, majority of them belonging to the age
group of 31 to 45 years; and regarding education majority possessed education upto secondary level.

Information About Meetings:

Table 6.5 indicates the number of meetings held by the selected banks during the years. Its analysis reveals that:

1. In S & K region, 71.43% of the banks arranged 12 to 20 meetings during a year; and 28.57% per cent banks arranged 21 to 30 meetings.

2. In N.G. region, 33.33 per cent banks arranged 12 to 20 meetings; and 66.67 per cent banks arranged 21 to 30 meetings during a year.

3. In C.G. region, 20 per cent banks arranged 12 to 20 meetings, 60 per cent arranged 21 to 30 meetings; and 20.00 per cent arranged more than 31 meetings during a year.

4. In S.G. region, 33.33 per cent banks arranged 12 to 20 meetings and 66.67 per cent banks arranged 21 to 30 meetings during a year.

Thus, all the 26 selected banks in Gujarat, 10 banks arranged 12 to 20 meetings, 14 banks arranged 21 to 30 meetings and only 2 banks arranged more than 31 meetings during a year.
Table 6.5

Number of Board’s Meeting In The Selected Banks

<table>
<thead>
<tr>
<th>Meetings</th>
<th>Number of Meetings</th>
<th>12 to 20</th>
<th>21 to 30</th>
<th>31 &amp; ABOVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Region</td>
<td>of Meetings</td>
<td>1 2 4</td>
<td>5 6</td>
<td></td>
</tr>
<tr>
<td>----------</td>
<td>--------------------</td>
<td>----------</td>
<td>----------</td>
<td>------------</td>
</tr>
<tr>
<td>Saurashtra &amp; Kutch</td>
<td>% 100.00 71.43 28.57</td>
<td>7 5 2</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>North Gujarat</td>
<td>% 100.00 33.33 66.67</td>
<td>6 2 4</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Central Gujarat</td>
<td>% 100.00 20.00 60.00 20.00</td>
<td>10 2 6 2</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>South Gujarat</td>
<td>% 100.00 33.33 66.67</td>
<td>3 1 16</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Gujaratt</td>
<td>% 100.00 36.46 53.85 7.69</td>
<td>26 10 14 2</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

% indicate the proportion of meetings held in a year.

Source - Field Work
Information About Salary & Scale:

Table 6.6 provides the information regarding the salaries and scale of selected banks.

1. In S & K region, out of seven selected banks, five banks' employees were satisfied with their salaries and scale. But two banks' employees were not satisfied with their salaries and scale. Out of unsatisfied banks' employees, 14.28 per cent banks' employees favour of new pay settlement; and 14.28 per cent favoured salary and scale according to co-operative rules and regulation.

2. In N.G. region, out of six banks, the employees of three banks were satisfied and rest three were not satisfied. Regarding not satisfied 16.66 per cent banks' employees favour to 'New Pay Settlement' formula and 16.67 per cent banks' employees favoured to 'According to Co-operative Rules and Regulation' formula, rest 16.67 per cent favoured to 'Give all facilities according to co-operative rules' formula.

3. In C.G. region, out of ten banks, 4 banks' employees were not satisfied with their present salaries and scale. Out of them 20 per cent banks' employees, demand for new pay settlement, another 20 per cent demands according to co-operative rules and regulations; and rest 10 per cent favour to give all the facilities according to co-operative rules.

4. In S.G. region, out of three majority of employees (2 banks) were not satisfied with their present pay-scale. Out of them
<table>
<thead>
<tr>
<th>Region</th>
<th>Number Satisfied or not</th>
<th>Demand for New Pay</th>
<th>According to Co-Operative rules &amp; Regulation</th>
<th>Give all facilities according to Co-Operative rules</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gujarat</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Kutch</td>
<td>% 100.00</td>
<td>71.44</td>
<td>28.56</td>
<td>14.28</td>
</tr>
<tr>
<td>Ujjain</td>
<td>10</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Ujjain</td>
<td>% 100.00</td>
<td>60.00</td>
<td>40.00</td>
<td>2.00</td>
</tr>
<tr>
<td>South</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Ujjain</td>
<td>% 100.00</td>
<td>33.33</td>
<td>66.67</td>
<td>33.33</td>
</tr>
<tr>
<td>Ujjain</td>
<td>26</td>
<td>15</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>% 100.00</td>
<td>57.69</td>
<td>42.31</td>
<td>19.23</td>
</tr>
</tbody>
</table>

Source - Field Work
33.33 per cent banks’ employees demand for new pay settlement, and 33.34 per cent banks demand according to co-operative rules and regulations.

5. The overall situation shows that out of 26 banks, 11 banks’ employees were not satisfied with their salaries and among them majority were demand new pay settlement and according to co-operative rules and regulations.

Special Incentives for Better Work:

Table 6.7 exhibits the information regarding special incentives for better work done by an employee. It shows that:

1. In S & K region,
   - 28.58 per cent banks adopted ‘Give Special Certificate’ to the Employees’ and ‘Their Advances are Sanctioned Immediately’ formula.
   - 14.28 per cent banks adopted formulas as under:
     (i) providing scholarship and books to their children, (ii) consider for promotion, and (iii) give special increment to the employee.

2. In N.G. region,
   - 33.33 per cent banks provided formula as under:
     (i) give special certificate to the employees;
     (ii) providing scholarship and books to their children.
### Table 6.7
Special Incentives for Better Work in Selected Banks

<table>
<thead>
<tr>
<th>Region</th>
<th>Number Give</th>
<th>Their advances are sanctioned to the Employee immediately</th>
<th>Providing Scholarship &amp; Books to their Children</th>
<th>Consider for Promotion</th>
<th>Give Special Increment to the Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saurashtra &amp; Kutch</td>
<td>7 % $100.00$</td>
<td>28.58</td>
<td>28.58</td>
<td>14.28</td>
<td>14.28</td>
</tr>
<tr>
<td>North</td>
<td>6 % $100.00$</td>
<td>33.33</td>
<td>-</td>
<td>33.33</td>
<td>16.67</td>
</tr>
<tr>
<td>Gujarat</td>
<td>10 % $100.00$</td>
<td>30.00</td>
<td>30.00</td>
<td>-</td>
<td>30.00</td>
</tr>
<tr>
<td>South</td>
<td>3 % $100.00$</td>
<td>-</td>
<td>33.33</td>
<td>33.33</td>
<td>33.33</td>
</tr>
<tr>
<td>'Uj.rajat</td>
<td>26 % $100.00$</td>
<td>26.93</td>
<td>23.07</td>
<td>16.38</td>
<td>23.08</td>
</tr>
</tbody>
</table>

Source - Field Work
372

16.67 per cent banks adopted formula as under:
(i) consider for promotion;
(ii) give special incentives to the employees.

3. In C.G. region,

- 30 per cent banks provide formula as under:
  (i) give special certificate to the employee;
  (ii) their advances are sanctioned immediately;
  (iii) providing scholarship and books to their children.
  (iv) Only 10 per cent banks adopt 'Give Special Increment to the Employee' formula.

4. In S.G. region,

- 33.33 per cent banks provide formula as under:
  (i) Their advances are sanctioned immediately;
  (ii) Providing scholarship and books to their children.

- 33.34 per cent banks adopted formula as under:
  (i) consider for promotion;
  (ii) give special increment to the employee.

5. Above all, majority banks provide 'Give Special Certificate to the Employee' scheme for incentives and only 11.54 per cent banks adopted 'Give Special Increment to the Employee' formula for incentives.
Suggestions for Improving Management Services in Selected Banks:

The table 6.8 shows the information about the suggestions for improving management services in selected banks.

1. In S & K region, out of 7 banks, 4 banks suggest 'collect complete information and checking before advancing'; 3 banks suggest 'give full authority to Manager', 2 banks suggest 'co-ordination between management and staff members must be there'; and 1 bank suggest 'for fast implementation arrange more and more meetings'.

2. In N.G. region, 50 per cent bank suggest that 'collect complete information and checking before advancing', and 'give full authority to Manager'; 33.33 per cent bank suggest that 'co-ordination between management and staff must be there'; and 'no political interfearance is there'; and 16.67 per cent banks suggest that 'for fast implementation arrange more and more meetings'.

3. In C.G. region, 60 per cent banks suggest that 'collect complete information and checking before advancing'; 40 per cent suggest that 'give full authority to Manager' and 'no political interfearance is there'; 50 per cent banks suggest that 'co-ordination between management and staff must be there'; and 20 per cent bank suggest that 'for fast implementation arrange more and more meetings'.

4. In S.G. region, 66.67 per cent banks suggest that 'collect complete information and checking before advancing'; 33.33
Table 6.8
Suggestions for Improving Management Services in Selected Banks

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Selected information banks</th>
<th>Complete collection</th>
<th>Give full Co-ordination authority to manager</th>
<th>No political interference &amp; Staff interference is there</th>
<th>For fast implementation arrange more and more meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saurashtra &amp; Kutch</td>
<td>% 100.00</td>
<td>57.14</td>
<td>42.86</td>
<td>28.57</td>
<td>14.28</td>
</tr>
<tr>
<td>North Gujarat</td>
<td>% 100.00</td>
<td>60.00</td>
<td>50.00</td>
<td>33.33</td>
<td>33.33</td>
</tr>
<tr>
<td>Central Gujarat</td>
<td>% 100.00</td>
<td>60.00</td>
<td>40.00</td>
<td>50.00</td>
<td>40.00</td>
</tr>
<tr>
<td>South Gujarat</td>
<td>% 100.00</td>
<td>66.67</td>
<td>33.33</td>
<td>33.33</td>
<td>33.33</td>
</tr>
<tr>
<td>Gujarat</td>
<td>% 100.00</td>
<td>77.69</td>
<td>42.31</td>
<td>38.46</td>
<td>30.77</td>
</tr>
</tbody>
</table>

Source - Field Work
375

per cent banks suggest that 'give full authority to Manager', 'co-ordination between management and staff must be there', 'no political interference is there'; and 'for fast implementation arrange more and more meetings'.

5. Above all, regarding all selected banks, majority banks (i.e. 57.69 per cent) suggest that 'collect complete information and checking before advancing'; and only 19.23 per cent banks suggest that 'for fast implementation arrange more and more meetings'.

6.7 Other Factors Affecting Lending Operations of UCBs:

While undertaking financing activity, the UCBs in Gujarat have to face competition. There are some factors such as:

1. Competition of other lending agencies;
2. Rate of interest charged on the loans;
3. Poor resource mobilisation;
4. Political pollution in top management;
5. Absence of professionalisation of management;
6. Weak performance of bank employees;
7. Mounting overdues;
8. Loose contacts with the borrowing co-operatives; and
9. Lack of perspective planning affect the financing of the UCBs, which are discussed hereafter in detail.

1. Competition of other lending agencies:

Other lending agencies are as under:
(i) public sector commercial banks;
(ii) regional rural banks;
(iii) industrial co-operatives; and
(iv) district central co-operative banks.

(i) Public Sector Commercial Banks:

UCBs are agency for providing credit. Commercial banks, particularly those in the public sector, occupy a commanding position in the banking system in the country. They are very active in the field of financing. The UCBs organisationally and financially to face the aggressive competition from the commercial banks, both in the mobilisation of deposits resources and provision of credit. The commercial banks provide both direct financing and indirect financing. Under the direct financing they provide ST loans, crop loan and term loans for varying periods. Besides the commercial banks extend indirect finance to PACs. The commercial banks became successful due to their strong organisational base and the competence of their staff, who were comparatively more qualified and trained and who are more acquainted with the procedural requirements of lending. In Gujarat, there were 3401 commercial banks. All the banks covered Rs.14,080 crore of deposits and the advances was Rs.9,376 crore.

(ii) Regional Rural Banks (RRB):

The RRBs have been introduced into the rural banking structure since October 1975 and given the status of a scheduled commercial bank. Established through an Act of Parliament (RRB
Act, 1976), they carry an advantageous position since they possess a blend of rural experience of co-operative system and the commercial and professional touch of commercial banks in as far as deposit mobilisation, dealing with money market etc., is concerned. The main objective of RRBs is to help develop the rural economy for providing credit and other facilities for agriculture, trade, industry and other productive activities in rural areas, particularly to the small and marginal farmers. The RRBs are supposed to finance priority sectors in general and weaker sections in particular. They are also expected that the business of the RRBs should be transacted in the local language.

(iii) Industrial Co-operative Banks (ICBs):

In view of the inability of the central co-operative banks to cater fully to the credit needs of the industrial co-operatives, the ICBs have been established in many States. Since these banks give financial assistance to the industrial co-operatives, it is necessary to understand the very meaning of an industrial co-operative which is "an undertaking of craftsmen or skilled workers engaged in the cottage or small scale industries to undertake production, purchase of supplies and raw materials, marketing of products and supplying other services to its members."

(iv) District Central Co-operative Banks (DCCBs):

The DCCBs play pivotal role in the three tire structure of agricultural co-operative in India.
The main object and function of DCCBs is to meet the credit requirement of member societies.

DCCBs finance agricultural credit societies for production purposes, marketing societies for marketing and supply operations, and industrial and other societies to meet their working expenses.

Eighteen DCCBs were working with their 1017 branches in Gujarat. DCCBs could mobilised the deposits to the tune of Rs.2006.40 crores, and the amount of loan disbursed by them stood at Rs.1494.04 crores.

2. Rate of Interest charged on the loans:

Another important factor which directly affect the finance of the UCBs is the rate of interest charged on the loans for various purposes by the UCBs.

3. Poor Resources Mobilisation:

Since the deposits constituted the major source of raising funds for the UCBs in Gujarat, they should make vigorous efforts to boost their deposit mobilisation activity to strengthen their financial position.

The comparison of the deposit mobilisation activity of the public sector commercial banks and UCBs revealed that the UCBs in Gujarat were lagging behind as compared to the performance of the public sector commercial banks.
4. Political Pollution in Top Management:

The working of UCBs in Gujarat indicated a political pollution in top management especially in the various facets of lending to the borrowers.

5. Absence of Professionalisation of Management:

Professionalisation of management is one of the most important and urgent needs of the co-operative organisations. In the past achievement of the UCBs several shortcomings and defects have come to light. Large reliance on outside resources, inadequate supervision and control over utilisation of resources, regional imbalance, large overdues and insufficient attention to modern management are some of these shortcomings which need to be remedied, if the large targets set up for co-operatives. For this purpose there is need for not only maximising resource mobilisation, but also for a more efficient professionalised management of co-operatives.

6. Weak Performance of Bank Employees:

The performance of the bank employees was not found quite satisfactory. The recruitment of the staff is not always fair and impartial, social, political considerations often vitiate the atmosphere. There are several aggravating factors such as lower pay-scales, promotion chances are less, lack of social prestige. Regarding these reasons, performance of employees are poor.
7. Mounting Overdues:

The mounting overdues in the UCBs dispensing ST and MT credit in the country have been causing serious concern to the Government of India, the RBI, the State Governments and the co-operative credit institutions. There are some other factors also responsible for mounting overdues such as natural calamities, misuse and diversion of loan amount, unrealistic scale of finance, political participation etc.

8. Loose Contacts with the Borrowing:

The efficiency of an UCB depends upon the closeness of the relations between the various borrowers and bank. It has been found that there was absence of machinery to form regular contacts with the borrowers. The supervisors or/and the inspectors of the banks visit to the borrowers on the occasion of either the disbursement or recovery of the loans or they pay visits for the credit/inspection purposes.

9. Lack of Perspective Planning:

Another area which may be highlighted in the context of the working of the UCBs in Gujarat is the perspective planning of these banks. It has been observed that the UCBs in Gujarat have remained somewhat passive in relation to the adoption of perspective planning for improving their operations in Gujarat.
6.8 CONCLUSION :

1. As regard the priority sector lending like the commercial banks, the UCBs have also been asked by the RBI to lend a specific portion of their total lending to the priority sectors advances. According to the guidelines issued by the RBI, the UCBs are expected to lend 60% of their total advances to the loanees belonging to priority sector.

2. An attempt has been made by the researcher to find out the percentage of such financing made by UCBs in Gujarat during 1984-85 and 1993-94, which revealed that the UCBs in Gujarat found working very close to attain their target of lending to the priority sector. Variation were seen among UCBs to attain these targets. It was observed that C.G. region's UCBs were found more active to attain their targets and the performance of UCBs belonging to S.G. region found quite poor.

3. The comparative analysis of loaning operations of selected UCBs and SBI in Gujarat during the period between 1984-85 and 1993-94 revealed that the selected UCBs in Gujarat had to face serious competition from the SBI, which possess sound foot-work in relation to the geographical network of its branches and its activities including mobilisation of deposits and disbursement of loans.

4. It was observed that efforts of SBI towards the improvement of its image especially in the field of rural finance was more or less successful. It may be due to its strong organi-
sational base and the competence of its staff, who are comparatively more qualified and trained in performing the task assigned to them, and who are more acquainted with the procedural requirement of lending. In this context, we may say that the time has ripen for UCBs to learn a lesson from the SBI (commercial banks) for improving their lending performance for this purpose, the UCBs have to undertake concentrated efforts in the various fields of their activities like the organisational set up, the monitoring machinery, recruitment, and training of their staff and would themselves in such a way that they would also be in a better position to undertake their operations.

5. But the comparison of selected UCBs and SBI revealed somewhat different trend as regards to their recovery performance and the way in which they have tackled their overdues. The proportion of recovery of UCBs found higher (44.77%) than that of SBI (35.69%).

6. Hence, as regards the overdue and recovery performance was concerned, the UCBs in Gujarat found in much better position than the SBI.

Certain matters like no. of branches, the composition of Board of Directors, the education acquired by Directors, their age-wise classification etc. directly or indirectly affected the lending operations of the UCBs. These factors have been tabulised in the form of General Information and then the tables have been analysed which revealed that:
1. Out of 26 banks, 18 were established during the period between 1951 and 1975.

2. Twenty-six selected banks were operating with their 44 branches.

3. Out of 26 selected banks, 24 banks obtained 'A' audit class and remaining two were grouped in 'B' audit class.

4. Out of the total 1791 staff members, 108 were loan officers, 158 were loan supervisors, 1227 were other staff, and the no. of peons stood at 300.

5. As regards the age and education of Directors, majority of Directors belonged to the age group 31 to 45 years, and majority of them were possessing education upto secondary level.

6. Out of the employees of 26 banks, 11 banks' employees were not satisfied with their present salary scheme. Only five banks adopted some incentives schemes for their employees for showing better recovery performance.

7. Some banks gave some suggestions like:
   - 'Give full authority to Manager';
   - 'No political interfearance is there'; etc.

   to improve the lending performance of thel banks.
1. Note: Though there are certain constrains in making such comparisons as both the banks, their nature and area of operations are different. But to understand the impact of the working of public sector commercial banks, such comparison has been made and only those parameters which are comparable have been taken into account.