CHAPTER VI
OVERVIEW, CONCLUSIONS AND SUGGESTIONS;
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(1) General observations

The study of the different aspects of the organisation and working of the Bank showed that the Bank had emerged, within a decade of its founding, as an organised institution in the cooperative sector in the State of Gujarat for providing long term credit to farmers for the development of agriculture through a network of branches by adopting the unitary pattern of land development banking. Now it has accumulated a very long experience of about three decades in the field, developing its own culture, tradition and bias. For years until recently it made tremendous progress for providing investment finance for the development of agriculture, despite several weaknesses and deficiencies. The capital assets created by the Bank's loans in the farm of Gujarat numbering 2.98 lacs wells, 2.06 pumpsets, 9762 tractors and other land improvement works - has indeed been an achievement even though some loans were found misutilised resulting in a burden to the loanees.

The overall career of 28 years of the Bank since its inception in 1951 to the year 1979 may broadly be divided into five phases: The first phase from 1951 to 1955 was the stage of beginning; the second from 1956 to 1961 was a period of steady progress; the third from 1961 to 1971 was a decade of expansion at great speed; the fourth from 1971
to 1975 was a period of adjustment to new discipline of lending and of new problems faced; and, the fifth stage from 1975 to 1979 was a period of decline and working under severe constraints. Looking to the numerous problems faced by the Bank and the multiple constraints under which it is working, it can be assumed that the sixth stage from 1980 to 1983 will be a period of rehabilitation and consolidation and that it will be decisive for the destiny of the Bank.

(2) Problems of Agricultural Credit

One hand, emphasis is placed on the need for extended agricultural credit under planned development programmes; on the other a prime medium of channelising the credit like the Bank is decaying and sinking after a long standing. Credit is certainly an essential for the development of agriculture, but it is not the only input for the purpose. Unfortunately, too great an emphasis was laid on it, without taking into account the credit absorbing capacity of the agricultural industry, the inherent defects regarding the uses to which it was put, the weaknesses of the users of credit, the handling capacity of the managing institution and the poverty of the rural economy in which it was spread. All these have raised numerous problems. Such situation may occur in a developing economy under certain circumstances but it is high time to set things right on the basis of hard lessons learnt.
(3) **Loaning business of the Bank**

Out of the loans totalling Rs. 211.80 crores given by the Bank during its career of 28 years, those of nearly Rs. 157.34 crores (i.e. 81%) had been given only during ten years from 1965-66 to 1974-75. In other words the credit had expanded irregularly without any long term credit plan. Secondly, the proportion of loans given for different purposes inter se had not been reasonably maintained. Out of Rs. 211.80 crores, the largest share amounting to Rs. 80.85 crores had been given for purchase of oil engines, electric motors and pumpsets, followed by Rs. 71.65 crores given for new wells and repair of old wells. These constituted 72% of the total. The heavy loaning for oil engines, electric motors and pumpsets was mainly due to the organised canvassing by the concerned machinery manufactures and dealers, coupled with the insistence of composite loans of wells and pumpsets under the loan agreement with International Development Association. Many pumpsets were found to have been sanctioned without the completion of the construction of wells and that also without striking enough subsoil water suitable for agriculture.

It is true that a pumpset is necessary to lift water speedily for optimal utilisation of the well constructed for irrigation purposes. But, here, in many cases the cart was put before the horse as the demand was artificially boosted up the compulsive IDA loan condition profitably.
manipulated by vested interest. Such non-plan lending generated the crises (a) of overdues and (b) of overexploitation of sub-soil water resulted in decrease in such traditional lending.

Thirdly, it was found that the loaning business had got concentrated only in a few districts, with 55% of the total loan percolating in six districts only, viz, Bhavnagar, Junagadh, Rajkot, Mehsana, Banaskantha and Sabarkantha, while only 45% had gone to the remaining eleven districts. This gave rise to regional imbalances. Granted that the potentiality of backward districts to absorb loans would be poor, but, the Bank's endeavour to cover such districts under equitable lending was also found to be inadequate, if not lacking.

(4) Loaning policy and procedure

The salient features of the loaning policy of the Bank which are contained in numerous circulars requires to be codified in a manual, after the deletion of non-effective circulars. A simplification of elaborate and cumbersome loan sanctioning procedure also must be undertaken under the process so that, while all necessary information is obtained, avoidable details are omitted. Moreover, the rigidity of appraisal methodology of loan application based on norms should be made flexible in relation to the individual loan cases. The formula of land valuation, which is based on standard value per acre, is not scientific; for the plots of land situated in different villages within the same Taluka are
not necessarily of the same value. It needs to be replaced by the income generating capacity of the particular farmholdings of the concerned loan applicant. Again, while the margin of 50% of the loan on land valuation as in force at present requires some change due to increase in prices of land and it should be reviewed periodically. Moreover, the period of loans should not be pegged to that of debenture; it should be longer so that it worked as a cushion in the years of scarcity.

(5) Project approach in lending

The Bank has adopted the project approach in lending since 1970-71 particularly with the entry of World Bank Credit Project for farm finance in Gujarat. Since then a decade has lapsed and by the time the Bank has got enough experience in project lending. The Bank is preparing different type of agricultural credit projects on the grounds of technical viability, financial feasibility and organisational capacity. But the weakest aspects were organisational deficiencies and implementable incapability. Moreover the project should be viewed in its totality while here only the investment finance of long term nature was provided for a given project. In a project all type of financial needs including crop loan, working capital finance and follow up services at a right time and in required quantity should be provided by a single agency which is feasible only under an integrated cooperative credit structure, sound enough at a base level.
Moreover there must be sound infrastructure to provide ancillary services required for agricultural and rural development under the project approach.

(6) Importance of proper utilisation and supervision on loans

It was found that the loans were misutilised in some cases. The supervision machinery to check the end use of loans should be made sufficient, strict and effective. Measures to ensure proper utilisation should also be adopted by improving the loan disbursement system. In general, the chief cause of temptation for misutilisation of loans is the depressed overall economic positions of the farmers. The only long-term solution of the riddle is (i) the inclusion also of consumption finance in the total credit demand and (ii) the dispensing of the whole of it through a single agency.

(7) Regulations on advances by the Reserve Bank of India

As the loaning business of the land development banks in the country grew, the RBI introduced, in 1971-72 regulations on the advances of such banks, since they were not under its statutory control. The objectives behind the move were to improve the recovery performance, to minimise the level of overdues and to lay emphasis on production-oriented lending. The analysis in this study has given ample evidence to show that objectives of improving recovery performance of the Bank had not been achieved. On the contrary,
the recovery performance had deteriorated from year to year after the introduction of such regulations. The consequen-
tial ill-effect of this was the closure of 126 branches in
for loaning, resulting in serious contraction in the loaning
business of the Bank. Branches having unrestricted programmes
could not fulfil their targets as an unfortunate climate was
created that future lending operations had been stopped by
the Bank. In all, about 59000 loan accounts had been closed,
and share capital amounting to Rs. 2.40 crores had been
withdrawn by members during the period from 1972-73 to 1978-
79. This meant a severe blow to the working of the Bank.

It is true that credit—and especially the agricultural
credit—must be regulated; but the measures should be creative
and not destructive. Of all, a central bank of the country
like RBI should not have extended its tentacles to the taluka
level to regulate credit in our vast country like India. Even
the relaxations such as rescheduling of loans given here and
there had proved partly and could not serve the desired
effect. The practical remedy lies in the replacement of exis-
ting regulations by an overall credit control at the state
level, by prescribing a total target of loaning in consonan-
ce with the agricultural development programme of the state
and by leaving the branchwise loaning to the discretion of the
LDBs. In our case the Bank has got long and deep experience,
and it is bound to refrain itself in the grant of loans in
the areas where recovery is poor.

(8) **Diverfication of lending and limitations thereon**

Looking to the steadily declining trend in lending, especially for traditional purposes like well and pumpsets— it is imminently essential for the Bank to diversify its lending activities in new channels. It has been found that the Bank did make an imaginative bid in this regard by formulating 72 different schemes, but it could not make much headway as very little finance was provided (i) owing to ineligibility of branches for advancing loans and (ii) because some of the purposes fell within the purview of medium term loans, grant of which could be made only under an integrated credit structure.

(9) **Recovery performance and problems**

The recovery performance was poor especially in the famine years of 1972-73 and 1974-75, and it had deteriorated thereafter. The percentage of overdues was only 13.8% in 1968-69 had gone up, year by year to 75.1% at the end of 1978-79. The amount of overdues constituted about 66% of the loan outstanding as on 30th June 1979. The overdues mainly concentrated in five districts had swallowed almost the entire disposable owned funds of the Bank. The loaning business of the Bank was also adversely affected to a great extent owing to increasing number of non-eligible branches
for lending due to poor recovery performance.

Mounting overdues has, of late, been greatest riddle of the Bank threatening its very existence. Hence field-studies were conducted in search of the causes of defaults in repayment of loans. Though on a small base, they are representative in character. They have led me to conclude (i) that cent percent and regular recovery of loans given in an industry like agriculture which is primarily dependent upon the vagaries of nature and which is handled by men with poor resources-is impossible (ii) that the RBI regulations were the major hurdle, (iii) that some administrative weaknesses and organisational deficiencies were responsible for poor recovery and (iv) above all, the consumption expenditure, low farm managerial accumen and in some cases, roguery resulted in defaulted repayments. The solution lies in an integrated and concerted drive in regard to both preventive and remedial measures.

(10) Preventive and remedial measures

Preventive measures for avoiding the occurrence of overdues as well as remedial measures for their arrest have been suggested. These include strengthening of recovery machinery, taking stern action of recovery against wilful defaulters, persuasive measures against viable defaulters, improving of loan procedure and recasting of loan policy, strengthening the measures to ensure proper utilisation of loans and keeping lively contact with loanees. High rates
of penal interest on overdues and disqualification of management of a defaulted branch or the bank are not found to be justifiable or practical steps. Rescheduling of loan accounts on a mass scale have also not proved to be fruitful because some of the loans given to farmers having no intrinsic capacity to repay will never be realised even after rescheduling. Far from it keeping the defaulters continuously under the burden of debts for long periods means nothing, to put it succinctly; for the amount of overdues continuing for over five years had grossed Rs. 9 crores by 30-6-1979. Hence scaling down and writing off agricultural debts in selected cases of marginal & small farmers and of defaulters with poor resources in backward area is suggested as a way out.

It is often argued that if debts are scaled down or written off once, it will prevent the farmers attitudenally to anticipate the repetition of the event. This is stretching the logic too far. For, if sick units in the manufacturing sector could be given special treatment for their rehabilitation, often at great cost, the “operation major” to rehabilitate loanees, as last resort when other measures have failed, after 3 decade career of the Bank is certainly not unjustified. A fresh start will certainly rejuvenate the Bank and the rural borrowers. And, the potential of the Bank is still dependable. Even now, the recovery performance of the Bank may not be said to be irreconciliably poor; for the mean of percentages of recovery of the Bank from 1960-61 to 1978-79 comes to 64 and the total amount recovered comes to 186 crores (including
interest) against loans amounting to a total of Rs. 211 crores. The recovery of the Bank will continue to pour in even after a segments of the frozen debts are scaled down and written off.

(11) Raising of financial resources

The Bank raised its working capital through various sources, amongst which debenture was the main one. It had collected Rs. 198 crores from different types of debentures during its career of 28 years upto 1979. Generally it did not encounter difficulties in getting subscription towards its debenture. The system of direct financing to the Bank through loans should be introduced to replace the system of refinancing under the procedure of debenture floatation which will lessen the dependence of the Bank on constant overdraft by seeking working capital for day-to-day affairs. The strengthening of the owned funds does seem to be low. However, the ratio of owned funds to borrowed funds came to 1:7.5 as on 30-6-1978 which was the same as it was in 1960-61, though there were fluctuations in between.

(12) Investment of owned funds and overdraft operations

A meagre amount of owned funds to the tune of Rs. 0.76 crores had been invested in block assets as on 30-6-79 while most of the amount to the tune of Rs. 10.51 crores had been invested in loaning, most of which had got blocked up in overdues. This adversely affected the liquidity of the Bank which was revealed from the continuously heavy dependence of
the Bank on overdrafts for its day-to-day working. During the year 1978-79 alone it paid Rs. 91.98 lacs towards interest on overdraft. This came to about 8% of the total expenditure for the year. This not only was a high cost proposition but also was unbusiness like as the interest rates earned on loans transacted from out of the overdraft funds were less than those paid thereon. The perennial solution of the problem lies only in maintaining its liquidity through the liquidation of blocked loans and thereby reducing its dependence on overdraft at least to a reasonable extent.

(13) Management of funds

As the Bank is handling huge financial resources in loans, recovery, debenture collection, investments, receipt and payment and has a statewide span and complex network, efficient handling of funds is impossible. Eventhough it has to keep a constant vigil on cash flows, funds flows, involvement of owned funds, liquidity, overdraft operations, investment opportunities etc. One of the strange things which was found during this study was that the accounts of all the funds were maintained at Rajkot office, while they were managed by the Ahmedabad office. The result was a time-leg in terms of a constant watch on the affairs. It was also queer that a stupendous monolithic financial organisation like the Bank had not filled up a separate post of Manager, Accounts, since last four years from 1975, nor it had got a separate post like Controller of Finance.
(14) **Margin of profit**

The Bank had been working on a margin between the rate of lending and that of borrowings. Manifestly it seemed to be $3\frac{1}{2}\%$ as the rate of interest on debenture was about 7%; while that on loans was $10\frac{1}{2}\%$. In actual practice it was not so as the margin got reduced to a great extent because of three factors: Firstly the Bank had to pay brokerage, underwriting commission and discount at the time of raising debentures. These cut the margin by about $1\%$ Secondly the Banks got finance under the system of refinancing under which, it had at first, to grant loans from the funds obtained through overdraft bearing a comparatively higher rate of interest. Thirdly, as the owned funds of the Bank had been blocked up and were not available for the day-to-day working, the Bank had to depend heavily on overdraft—particularly during the last 2 years, the interest expenses on which also reduced the margin of income. It is recommended, therefore, that the gross margin of $3\frac{1}{2}\%$ requires to be increased by raising the rate of lending and/or by reducing the rate on borrowing. It is argued that, while concerted efforts must be made to prune the administrative expenses everywhere, the inherent difficulty of bringing down the administrative cost, once up, has to be accepted as a fair accomplier.

(15) **Administrative cost**

The Bank was found to have a very high cost of administrative. Taking 1960-61 as a base year, the administrative
cost had gone up to 4 times in 1965-66, 15 times in 1970-71, 18 times in 1975-76, and 24 times in 1978-79. As percentage of working capital it was 1% in 1960-61, 1.1% in 1965-66, 1.4% in 1970-71, 1.2% in 1975-76 and 2.1% in 1978-79. In relation to the loaning business, for every one hundred rupees of loans, it came to Rs. 96 in 1978-79. In such a serious state of affairs, the Bank shall have to undertake a planned increased its loaning business and reduce its costs in all possible segments and at all levels, to be in consonance with its earnings.

(16) Problems of administration

The Bank was found to be facing problems with administration, particularly from the year 1972 when union of employees was formed. In this age, the right of employees to unionise cannot be denied. But, the move meant a new lesson for both the employees and the management. The management became alert about governing the labour laws, as the employees became alert about their rights. However during the process the fundamental principle that the industrial peace was a precondition for the achievement of the prime objectives of the institution got shelved. The employees pressing for their rights should also be sincere about their duties. At the same time, the management should also be cordial towards and considerate in regard to the satisfaction of the genuine needs of the employees. During the period of four years of struggle between the management and the Union until the
Charter of Demand of the Union was satisfied under Consent Award, the industrial peace was greatly disturbed. This was reflected in the working of the Bank, and it has, since then, been facing various problems including those related to transfer of employees, departmental enquiries, grievances from the Union, labour cases in the Industrial Courts and retrenchment of surplus staff. Worst of all, the mutual faith and commonness of interest in the efficient working and operating results of the Bank have been eroded. It is high time that, both the management and the union sit together to solve their problems and reestablish industrial harmony and mutual faith for the benefit of all. All will be the losers if one or the other party thinks in terms of prestige issues.

(17) Rajkot office of the Bank

The Registered Office of the Bank was at Rajkot since its inception. It was shifted to Ahmedabad in 1961 in consequence of the changes in the bylaws of the Bank extending its jurisdiction to the newly created State of Gujarat. Thereafter the Ahmedabad Office was gradually equipped with different sections within the period of six years but even until March, 1981 it is not equipped with fullfledged Accounts and Recovery section. Consequently, delays occur in decision-making, problems of coordination and time-lags in execution and control arise, the administrative work of the Bank gets dislocated and, occasionally, gets paralysed, and the cost of administration rise. It is incumbent upon the top
policy-makers to restructure the two offices, using strategies, techniques and skills pertaining to authority decentralisation and scientific departmentation & work copilations taking the employees in confidence where transfers are involved. Also it should not be impossible to settle the issues related to some personality, differences and authority-relationship by making special provision for the exeptional cases by retaining their personal designation-status-pay scales complement as long as they remain with the institution. Otherwise the rationalisation must be made operative as a whole.

(18) Need of system approach

The Bank as an organised body performs various functions. Some of the important areas of activities such as procedure of loaning and supervision, system of maintaining accounts, compilation of statistical data etc. were studied with special reference to system analysis. From the study it was found that some of the system were functioning poorly. It is suggested that the Bank should prepare manuals for loaning, supervision, recovery, accounts and compilation of statistical data. Moreover, the consistency must be preserved while preparing final accounts of the Bank and utmost care should be taken while drafting circulars.

(19) Viability of the Branches of The Bank

The question of viability of Branches became significant particularly after the entry of the World Bank in the field of farm finance in our country. Different studies were
undertaken to evolve the norms of viability. The Committee on Cooperative Land Development Banks (1975), after a detailed study had come to the conclusion that a Branch of a Central Land Development Bank or a Primary Bank affiliated to a Central Land Development Bank, to be viable must have a loan outstanding of Rs. 35 lacs.

As a result of my detailed investigation of the question of viability of branches of the Bank from the viewpoint of loan outstanding, loaning business of the past three years, and the profit-making capacity, it was found that 23 branches of the Bank were quite non-viable and having no potentiality at all of being viable in near future. However, the Bank did not pay attention to the issue for three to four years. It was as late as in the year of 1979-80 that the Bank took decision to close down about 40 branches at a time. Such a 'block-closure' not only would affect the working of the Bank but also might be resisted by those who are affected. Instead the process of closing of branches should have been planned and gradual-spread over the period of past three to four years-beginning with quite non-viable and non-potential ones.

(20) The Epilogue

Unfortunately the position has got so worsened now, that the Bank has itself become, it seems for certain, non-viable. The closure of the Bank cannot be imagined; nor can it be the solution of the impasse. Integrated and coordinated steps as proposed earlier in this Thesis, including the
acceptance of the policy of an integrated cooperative credit structure sound at the base level, should go a long way in lifting the institution from out of the labyrinth. The road is steep and peak to be reached is very high. It requires caution, perseverance and patience—in addition to rational and integrated steps of rehabilitation in various ways—to set the house in order. But, then, enough talents and goodwill are surely available amongst both the management and the employees to rise to the occasion.