CHAPTER II

LOAN POLICY, PROCEDURE AND OPERATIONS

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(1) Introduction

In their career of about three decades from 1920, the Land Development Banks in our country had used to give loans to the farmers for two purposes only, viz., (i) for the repayment of old debts, and (ii) for the redemption of their mortgaged lands from the Shahukars and money-lenders. Their progress was very slow with regard to number, coverage, lending activities and working in general till our country got independence. With the implementation of the recommendations of Rural Credit Survey Committee in 1954, which emphasised the grant of loans for land improvement works, and with the cooperative movement getting an important place in the planned economic development of our country, the time was ripe to mould their loan policy to suit the new objectives.
Since the beginning of the second five year plan, in particular, the Reserve Bank of India was engaged in an exercise (a) to evolve production-based lending for short term as well as long term agricultural credit, and (b) to get such policy adopted by the State Cooperative Banks as well as by the State Land Development Banks. Before discussing the loaning policy as evolved in the Bank, it is essential to consider the objectives of a sound loan policy and the important issues pertaining to the loaning policy of agricultural financing agencies.

(2) Objectives of sound loan policy

A well established sound loan policy in Land Development Banks is a precondition for their efficacious loaning operations. Its objectives should include:

i. Loans should be given for the creation of capital assets on land, which might help generation of additional income sufficiently for long period.

ii. Peculiarities of the industry of agriculture, for the development of which finance is to be applied, must be preconceived while moulding the loan policy.

iii. The loans must be productive, i.e. they should help produce more from the land and the loaning transaction must be in the interest of the loanees, the banker and the nation as a whole.
iv. The period of a loan should be sufficiently long so as to enable the loanee to repay the loans easily by annual instalments. It should not be linked rigidly to the useful life of an asset or to the period of debentures as unusual eventualities might occur during the long period range.

v. The appraisal methodology of a loan proposition should be simple and flexible. It should not be too much sophisticated nor should it be confined too rigidly to the norms evolved.

vi. A loan should be given at a rate that can be afforded by the farmers as a class.

vii. The quantum of a loan should be decided on the basis of income generating power of a loan proposition, coupled with the repaying and absorbing capacity of the intending borrower, in relation to the project.

viii. The loan sanctioning procedure should be simple. However it should not be too simple to leave required things; nor should it be too rigid to get superfluous information resulting in delays.

ix. The loans should be secured enough, but too much stress on security should not be given so as to exclude the small farmers from their purview.
x. There must be adequate administrative machinery to supervise the loaning operations constantly and to create lively contact with the borrowers so that the proper end use of credit and the recovery are ensured.

xi. The Bank's approach towards credit to farmers must be an integrated one that would help coordinate short term credit, marketing of produce and allied services needed for agriculture.

xii. Credit should enable the farmer to achieve self sufficiency in due course; it should not make them depend on it permanently.

A sound loan policy should not only be based on safety of money and potential profit generation but also should be consistent with the peculiarities of the industry like agriculture and be dynamic and responsive to the changing genuine needs of the farmers.

(3) Evolution of the loan policy of the Bank

The loan policy of the Bank was in the process of moulding to attain its present shape until the imposition of production oriented system of lending by RBI in the year of 1969-70. For promoting the role of developmental banking without deviating from these objectives of sound loan
policy it is essential to consider the factors that affect it. The factors are internal and external. As these banks are democratic bodies it has to be responsive to the needs of their members, and the loan policy gets affected by internal pressures. Externally, most of the lending criteria are governed by the direction and guidance from higher authorities like RBI, ARDC and the State as well as Central Governments.

The loan policy of the Bank gets evolved from time to time through various decisions taken by the Loans and other Committees as also the directions received from higher authorities. The decisions taken are not always preconceived. Sometimes they are taken hurriedly or without visualising their future effects. Usually they are taken objectively and as practical solutions of problems faced. Some of the decisions have been found moulded by trial and error and have proved costly. Briefly stated, the approach of the Bank Management behind all such decisions has been to increase its loaning business and to meet the needs of the farmers. It is necessary to have a system of objective review of the loan policy, but this has been a rare phenomenon.

The loan policy of the Bank, as evolved until now has not got codified in a manual form. Hence, numerous circulars issued on this count have been studied by me. Its different components emerging from the study are enumerated hereinbelow:
(1) Purpose of loan.
(2) Period of loan.
(3) Rate of interest on loans.
(4) Annual date for repayment.
(5) Criteria of creditworthiness of loanee.
(6) Land and collecteral security against loan.
(7) Formula of valuation of land.
(8) Margin of loan and calculation of loan limit.
(9) Norm to decide cost of development.
(10) Scale of finance for different purposes of loan.
(11) Criteria to judge economic feasibility of loan proposition.
(12) Principles of estimating the repaying capacity of a borrower and norms thereof.
(13) Guidelines to verify technical feasibility of a loan proposition.
(14) Terms and conditions of various schemes to be financed.
(15) Guidelines for scrutinising the title and tenure of land to be hypothecated.
(16) Acceptability of land as a first mortgage and search of encumbrances.
(17) Execution of mortgage deed and other documentation at the time of giving loan.
(18) Easy availability of revenue records.
(19) Proportion of shareholding to loan amount.
(20) Contribution of applicant's share towards cost of development.
(21) Procedure of loan sanctioning and the time limit for the dispose of loan application.
(22) Powers of inspection of loan application and appraisal methodology.

(23) Loan sanctioning powers and delegation thereof.

(24) Procedure of loan disbursement.

(25) Measures to ensure proper utilisation of loans.

(26) Procedure to verify utilisation of loans.

(27) Inspection and renewal fees & other charges to be levied on the applicant.

(28) Punitive measures for misutilisation of a loan.

(29) Remedial measures in case where a loan proposition fails or is found infructuous.

(30) Time limit during which a loan proposition should be completed.

(31) Resanctioning or renewal of sanctioned loan if not taken in time.

(32) Procedure and documentation for a group loan.

(33) Procedure of calculation of loan limit at the time of second or subsequent loan on the same land.

(34) Release of land taken under mortgage.

(35) Procedure of loan to be given to cooperative society or body corporate.

(36) Preparing the list of approved dealers or contractors from where machinery is to be purchased at prescribed price or by whom the work is to be carried out.

(37) Acceptability or otherwise of the crop loan given by agricultural cooperative credit societies to applicant.

(38) Relaxation in loans to small farmers and to members of scheduled castes and tribles.
(39) Loan for purchasing occupancy rights to tenants.

(40) Loans for land improvement works carried out by government under command area development scheme of irrigation projects.

(4) Production oriented lending system

Since the beginning of planned economic growth, the lending activities of land mortgage banks in India had a fundamental shift from the traditional pattern of lending for nonproductive purposes to that for production based purposes, such as sinking of new wells, installation of oil engines, digging of shallow tubewells, etc. This was given a further fillip by the recommendations of Rural Credit Survey Committee (1954) which emphasised that the land mortgage banks should give loans for land improvement works and such other productive purposes. Thereafter, from the commencement of the second five year plan, the loaning business of land mortgage banks grew faster. (It needs to be clarified here that it should not be assumed that the loaning policy of the land mortgage banks was security oriented only because security was the main consideration for the loans to farmers. The nomenclature of these banks itself was suggestive of the fact that they were meant for giving loans on the mortgage of land. Moreover, the farmers had got no security other than land to offer. Again, debentures could be floated by such banks only against the collection of mortgages of land; hence security of land had automatically to be given due importance).
No doubt, in the earlier years, the lending by such banks was unsystematic; also, the loan sanctioning procedure was a time consuming process. Moreover, loans were given without examining the technical feasibility of loan propositions, nor was there a proper system of checking the end use of credit. Hence the need arose to rationalise the lending procedure of land mortgage banks and make lending production oriented. While RBI did emphasise this point informally upon them, the progress was found to be slow. Hence it introduced a regulatory measure from 1967-68, when it was ordained that the support to ordinary debentures of land development banks would be made available from institutional investors only to the extent of loans given for productive purposes and that, too, for identifiable productive purposes. It issued a circular in 1969 in which various features of production oriented system of lending was particularised. Another circular was issued by it in 1971, wherein various measures were described to rationalise the lending procedure for adoption of land development banks in the country.

In this system the main emphasis is on the economic feasibility of a loan proposition rather than on the valuation of land. Economic feasibility of the proposed project is estimated on the basis of the potential of additional income generating power of that project to be financed. If the incremental income is expected to be sufficiently more than the amount of instalment to be fixed for the repayment of loan, such loan proposition would be considered economically
feasible. Thus the anticipated increase in net income of an applicant becomes the criterion for a loan sanction. It has also been an accepted procedure in the system that areawise norms of repaying capacity should be evolved on the basis of incremental income expected to be generated instead of appraising the loanee individually. Here, the incremental income is defined as the difference between the additional expected income from the land that would benefit by the improvement arising out of proposed investment over the income from such land earned prior to the improvement.

Moreover, the period of loan under this system is fixed on the basis of the useful life of an asset created from the loan coupled with the repaying capacity and not according to the purpose or amount of loan to be given. The main object behind fixing loan period on such a base is to have a quick turnover of the amount recovered instead of blocking it for an abnormally long period as in the past.

Again the norms regarding the cost of development for different purposes for which loans are to be given are fixed on the basis of local conditions with reference to the constituents of the cost to be incurred for such works of development.

The system has been criticised on various counts:

The economic aspect of a loan proposition has been overstreassed. The economic feasibility and repaying capacity have been bunched up. In an industry like agriculture which
is mainly dependent upon vagaries of nature and in which the risk element is high and uncertain, such a sophisticated method of economic appraisal will not be practical proposition mainly because the bulk of the Indian agriculturists are not accustomed to maintaining accounts of their operations on a scientific basis and the estimates of future probable income, too, may not be reliable. If the cost of agricultural operations prove to be higher or the loanee fetches lower yields or prices than anticipated, the estimates of incremental income will go wrong. Moreover, economic feasibility applies to a loan proposition while repaying capacity applies to a borrower. The linking up of the divergent concepts is not scientific. They would need to be appraised separately; for the loan is to be given for the proposed development, while recovery is to forthcoming from the borrower's total future incomes and not from the incremental income generated from such development only. The incomes of a loanee from all the sources will constitute a common pool from which he will meet his various obligations partly or fully, according to his scale of preferences if provided, again, there is a surplus. Hence for judging the repaying capacity of an intending borrower, a number of factors like his preexisting liabilities, his mode of living, likely rise in his standard of living due to additions in income resulting from proposed development, likely loss of income during years of drought, famine, depressed prices of agricultural produce and unforeseen expenditure in the family during pendency of the
loan period, shall have to be taken into consideration. The repaying capacity of an individual borrower cannot be judged through the one-sided application of norms. He is a character of nature and has to be appraised individually. At the most, norms can give some guidelines or indications. As will be seen later, one of the attributes of increase in overdues of the Bank is fallacious judgement about repaying capacity of the borrowers.

As regards the fixing of loan period, much stress is laid on the economic aspect, quick turnover of money, and effective life use of assets created out of the loan. Now, during the continuance of the loan tenure, it may happen that there are one or two years of scarcity or semi-scarcity. During that period, the machinery purchased or improvement made may remain idle to some extent, and the anticipated income may not be generated. It is true that scarce resources should be used optimally. But when quick turnover of resources is not always feasible even in organised industries, its expectation in an industry like agriculture, where the scale of operations of bulk of the farmers is small, their capital management and other resources are limited, and the incidence of the vagaries of nature is heavy, may not be quite rational. The very idea behind long term agricultural loans as distinguished from seasonal and medium term loans is to facilitate their repayment in appropriate instalments by the borrowers. They should not be made too easy nor too
difficult. The need for rescheduling of loan accounts of defaulters to extend the period of unpaid instalments of loans due to scarcity and other reasons is one significant pointer to the very difficult task of anticipating and measuring probable eventualities.

Examining the implementation of the production oriented loaning system, the Committee on Cooperative Land Development Banks (1975) observed: "...it will be seen that while land development banks in the cooperatively less developed states have not evolved procedure for introduction of production oriented system of lending, even in cases of banks in the developed states there are several weaknesses in the implementation of the production oriented system of lending." *

During the field studies I examined 50 Appraisal Forms in different areas which were filled in under this system to estimate the economic feasibility of various loan propositions, especially of Tractor & Tubewell. Out of them, 36 were found defective. As such these forms are required to be made simple to fill in. Another serious constraint in the implementation of this system is the gap of communication. The concepts underlying this system were not taught properly to the key men like supervisors, valuers and inquiry officers at the base level, who are responsible for implementing this system, until the introduction of training programme undertaken

recently. As this is the state of affairs, the system needs to be (i) reconsidered in the light of experience gained and (ii) made simple.

(5) Comparision of the lending system of the Bank with the system of production oriented lending

We shall now examine the comparative characteristics of the two systems in a columnar form:

<table>
<thead>
<tr>
<th>Production oriented system</th>
<th>Lending system of the Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. It lays emphasis on the economic feasibility of loan proposition on its sophisticated calculation taking into account pre and post development cropping patterns.</td>
<td>1. Economic feasibility was examinined by the Inspecting Officer by envisaging the future probable income to be generated from the proposed investment.</td>
</tr>
<tr>
<td>2. It does not require the security to be disposed with at all.</td>
<td>2. Security of land was one of the main considerations. The capital value of land was taken into account.</td>
</tr>
<tr>
<td>3. Loan for productive purposes and that only for identifiable productive purposes is given under this system.</td>
<td>3. Nearly more than 85% of the loans were given for identifiable productive purposes.</td>
</tr>
</tbody>
</table>
4. Loan eligibility is considered on the basis of loan feasibility, and not on land valuation.

5. Repaying capacity of a borrower is equal to the economic viability of loan proposition.

6. About seventy-five percent of incremental income only from the benefiting area is considered as repaying capacity.

7. Creditworthiness of the applicant is judged on economic considerations only.

4. Loan limit was calculated on the basis of valuation of land, but the amount recommended to be sanctioned was decided on the basis of repaying capacity coupled with creditworthiness of the applicant.

5. Repaying capacity of an applicant was separately estimated by considering income from all the sources and expenditure at all levels in all respects.

6. Repaying capacity was arrived at by calculating the average of surplus of income from all the sources over expenditure on all sides during past 2-3 yrs.

7. Creditworthiness of the applicant was estimated on the basis (a) of transactions with cooperative
8. Period of loan is fixed tightly in accordance with the economic life of the asset created out of loan coupled with the rate of return on investment to repay the loan.

9. Valuation of land is eight times the net post development income.

10. It requires the evolution of norms for the cost of development.

8. Period of loan was fixed according to the amount of loan as well as the purpose of loan, taking also into consideration the probable period of scarcity.

9. There were as many as 16 formulae of land valuation which were changed from time to time to give enough loans to applicant. Nowhere in India was the system of average of four values found. This was very practical.

10. The cost of development was decided upon the basis of estimate of cost of works to be obtained from locally available technical authorities.
11. There is no distinction between loan limit & loan eligibility.

11. Loan eligibility was distinctly different from loan limit.

12. Loan is sanctioned only if found technically viable.

12. Technical aspects of proposed loan was seen in crude form.

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(6) **Discounted cash flow theory on capital investment in agriculture**

The lending system has been made more sophisticated under the project approach, especially after the entry of World Bank in the field which gives long term loans for investment in agriculture of our country. Under the system, economic feasibility of a given credit project is calculated by applying discounted cash flow theory to judge the return on capital investment. A given project is judged financially viable only if the internal rate of return on investment of the project comes to 15% or more. A cash flow chart is prepared for the whole period of economic useful life of an asset to be created and the amounts of estimated income and expenditure are discounted at a rate of 15% for arriving at the present worth. If the present worth of income is more than that of expenditure, the net present worth would be positive, the benefit-cost ratio will be 1 or more than 1 and project will
be adjudged financially feasible. The theory is applied to find out the economic feasibility of given project as a whole for its submission to Agricultural Refinance and Development Corporation for approval.

It may be reiterated that such a sophisticated method of calculating return on investment to judge economic feasibility of a project, consisting especially numerous small units, is not practicable in Indian Conditions, even after applying the Sensitivity Test.

(7) **Formula of land valuation**:

Margin of loan and loan limit

As said earlier, the land has been considered as security for the grant of loans to farmers. Its importance continues to be accepted even under the production oriented system of lending. The Committee on Integration of Cooperative Credit Institutions has recommended the grant of loans, without insisting on land as security, against hypothecation of movable property, by creating a special charge known as GEHAN. These recommendations are yet under consideration of land development banks. As land possesses the characteristics such as productivity, fertility, immovability, marketability and durability, it is considered the best security. Moreover, debentures floated by the Bank are backed by mortgages of land collected by it while advancing loans on the security of land.
While granting loans against any commodity - whether movable or immovable - its valuation has to be done to fix up the amounts keeping reasonable margins. Different methods are evolved by different land development banks for the valuation of land. Standardised methods have been evolved for the purpose, instead of assessing the value of individual plot or survey number arbitrarily.

As far as the Bank is concerned there have been in all, 16 different formulae to assess the land value in different areas. Among them, three formulae were considered most significant and applied in most of the cases. These were:

1. Land Revenue Multiple System.
2. Standard Value per Acre System.
3. Average of Four Values System.

(i) Land Revenue Multiple System: Here, land was valued by using prescribed multipliers to the amount of land revenue of the land to be taken on mortgage. The multipliers were progressively increased from 90 to 500.

(ii) Standard Value per Acre System: Under this system, the assessment was done on the basis of a table of value per acre fixed by the Bank for different talukas. For this purpose the whole State of Gujarat was divided into 201 different blocks generally at taluka
level, and the value per acre of land fixed for different block ranged from Rs. 300 to Rs. 4500.

(iii) Average of Four values System: Here the land to be mortgaged was assessed by arriving at an average value per acre through the application of four different formulae as under.

A. Assessment by revenue multiple system.
B. Assessment by average revenue multiple system.
C. Assessment by registered sale value.
D. Assessment by PANCH of the village.

The values arrived at in each were totalled and divided by four to strike the average per acre. This proved to be a practical composite method in which an inbuilt check was exercised to attain objectivity.

After assessing the value of land by any of the above methods, the cost of proposed development is added to it for capitalising it, and 50 percent of the amount so arrived was considered as the loan limit. The loan was granted within that ceiling subject to repaying capacity, cost of development and amount applied for. In the beginning the margin of loan was fixed at 60 percent. Subsequently it was gradually reduced to 33 percent. It was later resettled at 50 percent, the figure presently in vogue.

The approach has been criticised as being obsolete and unscientific in that the revenue of land, which was
settled long back, cannot be taken as a base, and that a single standard value fixed per acre of land located in different villages of a taluka may not correctly reflect the quality differentials of the holdings. While theoretically there is a force in the criticism, in practice the approach can be said to be both unavoidable and fairly satisfactory. There was no proper guidance in the beginning, nor any precedents to be followed. In the absence of better alternatives, the different systems of land valuation as adopted by the Bank were considered reasonable and utilitarian. The RBI had suggested that the land be assessed at eight times the post development net income. In practice, not much difference was found to be there in the ultimate figures. And the question of valuation of land, now, has only a historical value because of the shift from security oriented to production oriented lending.

(8) Loan sanctioning procedure of the Bank

The Bank had its own procedure of sanctioning of loans from time to time. The procedure in operation as at present can be divided into nine stages as follows:

i. Receiving of loan application, with required literature, at the branch level.

ii. Field inspection of loan application by Branch Agent/Branch Supervisor.
iii. Submission of inspected loan applications to Branch Committee for consideration and recommendation for sanction.

iv. Onward transmission of recommended loan applications from the Branch to the concerned District Office.

v. Table scrutiny of loan applications by the District Office.

vi. Submission of the scrutinised loan applications to the District Committee for sanction.

vii. Returning the sanctioned loan applications to respective Branches along with the order of terms of sanction.

viii. Intimation by the Branch Office to the applicant, fixing the date for payment along with the loan sanctioning order containing terms of sanction.

ix. Compliance of terms of sanction and execution of the mortgage deed by the applicant and disbursement of loan amount by the Branch either fully or in instalments.

The procedure as stated above is self-explanatory and requires no elaboration. However, it may be added that the loan sanctioning powers have been decentralised and delegated to District Committees since 1975-76, before which all the
loan applications had to be sent to the Head Office for final sanction. One of the striking things that was found during field study was the reluctance of some District Offices to utilise the loan sanctioning powers delegated to them and they continue to send loan applications to Head Office for final sanction. Moreover it was also found that eventhough, the powers of loan sanctioning have been decentralised, sufficient knowledgable personnel to scrutinise the loan applications before sanction at District Offices were not provided by the Head Office.

A special mention needs to be made here about the delays that occurred and the numerous literature that had to be attached to the loan application. My case-study shows that 92 days were taken, on an average, in 1968-69 for the disposal of a simple case. The number was 66 days in 1972-73, 52 days in 1975-76 and at present it takes nearly 38 days on an average. This period can be further reduced. Again it was found that literature, numbering 24 different types of loan papers has to be attached to an application, depending upon the nature of the loan. It is cumbersome for the applicant and is time-consuming also for the Bank, when the loan business has, of late, become competitive and costly.

(9) A. Loaning business of the Bank

The Bank provides long term agricultural loans to farmers for undertaking various land improvement works and allied activities in the agricultural industry. As stated
earlier, it had started its loaning business in the year of 1951-52, when loans were given to tenants for purchasing ownership rights from landlords under the provisions of the Saurashtra Land Reforms Act of 1949. Since 1953-54, it started giving loans for various land improvement works. Initially, loans were granted for construction of new wells and repairs of old wells for irrigation purposes. As technological changes occurred in agriculture especially as a result of the introduction of high-yielding varieties of seeds and mechanisation of farming, the demand for loans for pumpsets, tractors etc. got a boost. As the Bank was more or less the sole financing agency in the sphere, its loaning business had a progressive growth until the government adopted multiagency approach coupled with regulations on advances by RBI. The canvassing of business by machinery manufacturers and dealers especially in oil engines, electric motors, tractors and machinery spare parts, served to give a sprout to such borrowings.

Since 1971-72, the loaning business of the Bank got regulated under the Regulations of Advances as introduced by RBI. Thereafter its Loans Programme was conditioned by the recovery performance of the Bank. As the recovery percentage of the Bank began to dwindle especially during the famine years of 1972-73 and 1974-75, the loaning business of the Bank was adversely affected. The second chief factor for the contraction of the business was related to over
exploitation of the sub-soil waters in many parts of the state reducing borrowings for construction of new wells and tubewells. The statistical data about the amounts of loans advanced annually, the cumulative amounts and the outstandings thereof (on 30th June) are presented in Table II.1.

An analysis of the figures shows that: the highest amount of loan in any year was to the tune of Rs. 22.29 crores in 1968-69; the loaning business was concentrated in the years 1967-68 to 1972-73 during which period it had totalled Rs. 116.85 crores—nearly 56% of the total amount of loans of Rs. 211.80 crores advanced in 27 years since the Bank's inception; the business of the Bank had ebbed from the year of 1975-76, and touched the rock bottom of a mere Rs. 3.03 crores in 1978-79, the figure that was less than that in 1960-61, when Gujarat State was born.

(9) B. Purposewise loans given by the Bank

The purpose for which the Bank can give long term agricultural loans have been enumerated in Section 116 of the Gujarat Cooperative Societies Act. (Addition of new purpose for the long term loans within the overall policy of agricultural development of the State have been made through the amendment of the Act.) The grant of loans for various land improvement works made by the Bank can be classified
### Table II.1

Loans advanced, yearwise cumulative amounts and loans outstanding from 1960-61 to 1978-79

(Amount in Rs.'000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans advanced during the year</th>
<th>Cumulative amount of loans</th>
<th>Loans outstanding at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since inception to 1959-60</td>
<td>107965</td>
<td>72021</td>
<td></td>
</tr>
<tr>
<td>1960-61</td>
<td>37591</td>
<td>145557</td>
<td>100842</td>
</tr>
<tr>
<td>1961-62</td>
<td>31368</td>
<td>176925</td>
<td>119809</td>
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<tr>
<td>1962-63</td>
<td>56912</td>
<td>233837</td>
<td>163775</td>
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<tr>
<td>1963-64</td>
<td>63592</td>
<td>297429</td>
<td>203677</td>
</tr>
<tr>
<td>1964-65</td>
<td>70502</td>
<td>367931</td>
<td>242789</td>
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<tr>
<td>1965-66</td>
<td>102461</td>
<td>470392</td>
<td>317115</td>
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<tr>
<td>1966-67</td>
<td>86922</td>
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<tr>
<td>1967-68</td>
<td>166992</td>
<td>724306</td>
<td>483994</td>
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<tr>
<td>1968-69</td>
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<td>657378</td>
</tr>
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<td>1969-70</td>
<td>210831</td>
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<td>1970-71</td>
<td>218780</td>
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<td>1971-72</td>
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<td>1972-73</td>
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<td>1978-79</td>
<td>30319</td>
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</tr>
</tbody>
</table>

Source: Annual Reports of the Bank.
in five major categories as follows:

i. Minor irrigation such as construction of new wells, repairs and deepening of old wells, construction of deep tube wells, installation of pumpsets on wells to be fitted with oil engines or electric motors, installation of cement pipe line for distribution of water in the field, lift irrigation from river, nala or ponds, etc..

ii. Farm mechanisation such as purchase of tractor & its implements, power tiller, thresher, trailer etc..

iii. Land improvement works like land levelling, preparing KYARI, Contour Bunding, Construction of field canal, construction of farm house, cattle shed, godown etc.

iv. Activities allied to agriculture such as purchase of milch cattle, dairy development, fruit plantation etc..

v. Purchasing of ownership rights under tenancy legislations.

The purposes can also be divided into productive and non productive ones. Purposes which relate to production are said to be productive purposes, such as loans for sinking wells and installation of oil engines, while
purposes which are not relating to production are said to be non-productive, such as loans for the purchase of land, for occupancy rights and for redemption of old debts. Productive purposes are also further subdivided into identifiable productive purposes and non identifiable productive purposes. Levelling of land, soil conservation, bunding, etc. are productive purposes but they are not directly responsible for the increase in production. Hence, they are treated as non identifiable productive purposes. Sinking of wells or installation of pumpsets, etc. are directly connected to increasing production. Therefore they are termed as easily identifiable productive purposes.

The Bank had started its loaning business by giving loans to tenants for purchasing occupancy right for lands, and for redemption of old debts. Thereafter, the loans for productive purposes of various type of land improvement works amongst which construction of wells and installation of pumpsets occupied a prominent place. Table II.2 presents the data pertaining to purposewise loans advanced by the Bank upto 30-6-1979.
Table II.2

Purposewise loan given by the Bank upto 30-6-1979

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Purpose of loan</th>
<th>Amount Rs. in Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Construction of new wells and repair of old wells</td>
<td>72.00</td>
</tr>
<tr>
<td>ii.</td>
<td>Installation of pumpsets</td>
<td>81.00</td>
</tr>
<tr>
<td>iii.</td>
<td>Purchase of tractors</td>
<td>29.00</td>
</tr>
<tr>
<td>iv.</td>
<td>Purchase of occupancy rights to tenants</td>
<td>6.00</td>
</tr>
<tr>
<td>v.</td>
<td>Other purposes</td>
<td>23.00</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>211.00</strong></td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Bank.
As revealed from the data, the lion's share of the Bank's loaning went to productive purposes like wells and pumpsets (72%), which was followed by the tractors (14%). As the water level of wells and tubewells began to go down in recent years the loaning for wells and pumpsets has faced a tremendous shrinkage. Now 47 Talukas in the State have been closed down for further digging of wells as they are declared over exploited by the Ground Water Resources and Development Corporation. Consequently, the Bank had to resort to diversification of its lending activities. It prepared many new schemes, but the scope for further lending has been found limited owing to the regulations of advances imposed by RBI coupled with competition of commercial banks in the field.

(9) C. Distributwise loans given by the Bank

In the beginning the loaning business of the Bank was confined to 5 districts of its jurisdiction in Saurashtra State, viz., Rajkot, Junagadh, Bhavnagar, Jamnagar and Surendranagar. Subsequently from 1958-59 two more districts—Amreli and Kutch—were included under its jurisdiction. After the formation of Gujarat State in 1960, the Bank's jurisdiction was extended to the whole state, and the remaining districts were gradually covered by the end of 1963-64. As such the Saurashtra region of Gujarat State had the advantage of very early start in the field. Again, the number of agriculturists
benefitted was relatively small in the backward districts like the Panchmahal and Kutch. Moreover, as the Bank was getting sufficient business from some territories, it was not found to have been keen to balance its loaning business among all parts of the State. (of course, the potentialities of loan business do vary from district to district) Consequently serious regional imbalances in the loaning business of the Bank have occurred. The data regarding the district-wise loan advanced by the Bank up to 30-6-1979 are exhibited in Table II.3.

(9) D. Impact of the loans given by the Bank

The Bank has disbursed loans amounting to Rs. 211 crores by the end of June, 1979, for different purposes including Rs. 72 crores for wells numbering 2.98 lacs, Rs. 81 crores for pumpsets numbering 2.06 lacs, Rs. 29 crores for tractors numbering 9762, and Rs. 29 crores for all other purposes. This has definitely made a substantial contribution to the economic development of the State. It has augmented agricultural production in the State. It has generated additional income in the rural areas, the economic rate of return achieved by the capital assets created through the Bank's loans having been estimated at about 24 percent. About 65% of the Bank's loans were advanced for the purpose of minor irrigation works like construction of new wells, repairs and deepening of old wells, and installation of pumpsets for irrigation. It is
Table II.3

Districtwise cumulative loans and loan outstanding as on 30-6-1979.

(Figure in Rs. 'ooo)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of district</th>
<th>Cumulative loans</th>
<th>Loans outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Rajkot</td>
<td>204775</td>
<td>59888</td>
</tr>
<tr>
<td>2.</td>
<td>Junagadh</td>
<td>119446</td>
<td>43348</td>
</tr>
<tr>
<td>3.</td>
<td>Bhavnagar</td>
<td>150130</td>
<td>46974</td>
</tr>
<tr>
<td>4.</td>
<td>Jamnagar</td>
<td>123142</td>
<td>32281</td>
</tr>
<tr>
<td>5.</td>
<td>Surendranagar</td>
<td>93522</td>
<td>35001</td>
</tr>
<tr>
<td>6.</td>
<td>Amreli</td>
<td>119573</td>
<td>32355</td>
</tr>
<tr>
<td>7.</td>
<td>Kutch</td>
<td>43588</td>
<td>20220</td>
</tr>
<tr>
<td>8.</td>
<td>Ahmedabad</td>
<td>97184</td>
<td>32002</td>
</tr>
<tr>
<td>9.</td>
<td>Mehsana</td>
<td>247047</td>
<td>76162</td>
</tr>
<tr>
<td>10.</td>
<td>Sabarkantha</td>
<td>169029</td>
<td>68356</td>
</tr>
<tr>
<td>11.</td>
<td>Banaskantha</td>
<td>173027</td>
<td>79722</td>
</tr>
<tr>
<td>12.</td>
<td>Panchmahal</td>
<td>42316</td>
<td>18023</td>
</tr>
<tr>
<td>13.</td>
<td>Bharuch</td>
<td>52821</td>
<td>24742</td>
</tr>
<tr>
<td>14.</td>
<td>Vadodara</td>
<td>118275</td>
<td>59885</td>
</tr>
<tr>
<td>15.</td>
<td>Kheda</td>
<td>109410</td>
<td>43944</td>
</tr>
<tr>
<td>16.</td>
<td>Surat</td>
<td>69079</td>
<td>33580</td>
</tr>
<tr>
<td>17.</td>
<td>Valsad</td>
<td>51591</td>
<td>25467</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Bank.
estimated that the additional irrigation area covered by wells constructed with the help of the Bank's loans comes to about 51% of the total irrigated area in the State. The Bank has given loans to about 6.12 lacs cultivators whose standards of living might have improved, apart from the positive accelerative impact on the circular economic flows in the villages. They have also helped increase employment opportunities for agriculturists as well as agricultural labourers. It has been estimated that about 7 crores man-days per year were generated by the Bank's loans. They have encouraged the promotion and expansion of new industries for manufacturing oil engines, electric motors, tractors, cement pipes and drilling of tube wells as also those manufacturing related product lines and those providing repairs, maintenance and servicing. The commercial activities and trading, transport, financing, insurance, warehousing etc. agencies, too, have got founded and expanded in different cities and towns in the state. The contribution of the Bank's loaning business in generating new employment opportunities as well as industrial and economic advance has been really great, though it is impossible even to make rough estimate thereof in financial computation.

At the same time, the wastage involved should not be lost sight of. Those loanees who misutilised the loan or whose loans had been turned infructuous were unproductive and suffered as individual borrowers. On the other side,
unrecovered amounts of the Bank's loans which have been reflected in overdues, have meant freezing or wiping out of capital for current consumption. They may have been also contributive to inflation to some extent. The computation of the wastage/losses on such counts, too, is impossible. But, the recent severity of nonrecoverable overdues of the Bank, that have thrown it in doldrums, is reflective of the gravity of the situation.

(10) World Bank Credit Project

It is necessary to make a special study of the World Bank Credit Project as it has had a far-reaching impact on the Bank's functioning over the years.

In December 1968 an Agricultural Credit Mission of the International Bank for Reconstruction and Development (World Bank) visited our country to review the possibilities of developing the agricultural credit programme and to identify participation. The mission reviewed the existing banking system for providing agricultural credit and the potential for development of agriculture by undertaking a study of five States, viz., Punjab, Haryana, Gujarat, Andhra Pradesh and Madras, and assessed the suitability of financing institutions for implementing agricultural credit projects. It identified two projects suitable for World Bank finance - one, for minor irrigation and farm mechanisation in Gujarat and, the other, for farm mechanisation alone in Punjab.
On receiving the report from the World Bank Reconnaissance Mission, the Government of India asked the Gujarat Government to ask the Bank to prepare the agricultural Project. Accordingly, the Bank in consultation with the State Government prepared a draft project involving a financial outlay of Rs. 30.58 crores for providing loans to cultivators of nearly 63 Talukas of the State for undertaking minor irrigation works viz., construction of 16675 wells, installation of 25885 pumpsets, preparation of 40 lift irrigation schemes on river banks, construction of 1200 tubewells and purchase of 2200 tractors and its implements for farm mechanisation. The project was modified later and the whole of the State was covered under the project area, with total financial outlay of nearly Rs. 50 crores.

The project so prepared by the Bank was submitted to the World Bank through government of India. It was appraised by the Appraisal Mission of the latter in July, 1969, which gave it a priority in our country and recommended it for sanction because of its (Gujarat State) agricultural potential, existing well-developed infrastructure and a well-functioning statewise institutional credit system." Thus Gujarat was the first in the country to avail of agricultural credit from International Development Association of the World Bank. Yes, the Appraisal Mission had reduced the physical targets of wells and pumpsets on account of technical feasibility of subsoil water, while some new allied
purposes were recommended to be added after conducting on-the-spot appraisal in consultation with the Bank, Agricultural Refinance Corporation, and the State Government. As such, the targets finally fixed by the Appraisal Mission were for 10,000 new wells with pumpsets, installation of 9000 pumpsets on existing wells, transformation of about 1800 old wells into dug-cum-bore wells fitted with pumpsets, installation of 2600 shallow tubewells, 1200 deep tubewells, 40 schemes for lift irrigation on banks for river, purchase of 8 drilling rigs and 2200 tractors, with the total financial outlays of Rs. 42 crores so as to cover nearly 52 Talukas of the State.

This project had commenced from June 1970 for a period of 3 years at first. Subsequently, the period was extended up to 30th June, 1975 and targets were also changed. Again, in the beginning the area of this project was confined to 52 Talukas but later it was extended to the whole state excluding the area where technical clearance about subsoil water was not available from the Ground Water Directorate.

According to the Terms of Agreement, about 55% of the total cost of the project was to be made available from the World Bank as a long term interest-free loan with service charge of 3/4%, for the period of 50 years to the government of India in dollar currency. The government of India was to lend it to the Agricultural Refinance Corporation at a rate of 4.5% for a period of 9 years, while the Agricultural
Refinance Corporation was to re-lend it to the Bank in the form of subscription towards Special Debentures to be floated by the Bank bearing interest at 6.5%. The Bank was to use the funds for disbursing loans to cultivators at the interest rate of 9% for a period of 7 years for single unit loans and for a period of 9 years for composite unit loans.

The remaining amount of 45% of the project cost was to be contributed by the State Government, Agricultural Refinance Corporation and ultimate beneficiaries together, as their involvement towards the total cost of the Project. The share of the ultimate borrower towards the cost of proposed development investment for minor irrigation works was originally fixed at 15% but was subsequently reduced to 10%. That towards the purchase of tractors was originally fixed at 25% but was subsequently reduced to 15%. The other terms of the project were relating to spacing criteria between two wells, density criteria for tubewells, and minimum financial rate of return to borrowers at 15%.

As the Bank had no experience of dealing with the World Bank it encountered many difficulties while implementing the project and the credit documents with World Bank were required to be amended nearly seven times viz., in November 1970, February, 1971, April, 1972, May, 1972, November, December, 1973 and June 1974 with reference to the decrease in percentage of down payments, relaxation in loaning to.
small farmers and farmers falling under the area of small Farmers Development Agencies, relaxation in requirement of land holding for tractor loans, reallocation of project fund due to dropping of further lending for tractors, extension of project period, etc.

A series of other impediments had to be faced by the Bank. During the project period, two years-1972-73 and 1974-75-were of severe droughts, which affected the recovery of the Bank and the percentage of overdues had shot up to 74% at the end of 1975. During this period, the inflationary trends in the economy aggravated by shortages of cement, iron & steel, fertilisers, power supply, etc. too, adversely affected the project implementation. The political upheaval added fuel to the fire of instability. The internal administration of the Bank was, during the second half of the project period, much disturbed due to agitation of the members of the employees' union for pressurising the charter of demand for improving their pay scales and service conditions.

However, despite the uncountrollables, the Bank did complete the project—even if not exactly as planned. Many alterations with reference to area, purpose of loan, physical outlays, terms of lending, etc., had to be made. Thus: Loaning for 2200 tractors was envisaged but after giving loans for 800 tractors, the programme had to be dropped due to difficulties of procurement of tractors. Loaning to
drilling contractors for purchase of drilling rigs could not be undertaken at all. Loaning for 1200 tubewells was envisaged, but loans for only 453 tubewells were given as technical clearance for construction of further tubewells were not available due to want of subsoil water. As a result, the funds had to be reallocated. Moreover, the time limit was also a constraint for implementation. In the first year of the beginning of the project in 1970-71, very little progress was made. Therefore, the time limit was extended upto 30th June, 1975 and the coverage was extended to the whole State. As the loans for pumpsets was compulsory with new well, some pumpsets were found installed on incomplete wells to achieve the targets in stipulated time. Spacing criteria between two wells were resisted by farmers though the reasons underlying this term was justifiable. As the Ground Water Directorate was newly established, it could not go deep into the technical matter of recharge of subsoil water and the spacing criteria were hurriedly evolved. As the Bank had to familiarise itself with the new concept of project approach and had to abide by the criteria under project lending, it had to face consequential resistance from the borrowers, which called for considerable effort in the execution of the project.

The physical and financial targets achieved on completion of the project are summarised in Table I1.4.
Table II.4.

Physical and financial targets achieved under World Bank Project

<table>
<thead>
<tr>
<th>Purpose of loan</th>
<th>Unit for which loans given</th>
<th>Amount of loans disbursed (Rs. in '000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Construction of new wells</td>
<td>40907</td>
<td>145269</td>
</tr>
<tr>
<td>2. Installation of pumpsets on existing wells</td>
<td>36821</td>
<td>197851</td>
</tr>
<tr>
<td>3. Wells &amp; Pumpsets</td>
<td>8534</td>
<td>42149</td>
</tr>
<tr>
<td>4. Deep tubewells</td>
<td>453</td>
<td>14735</td>
</tr>
<tr>
<td>5. Lift irrigation</td>
<td>243</td>
<td>3662</td>
</tr>
<tr>
<td>6. Tractors</td>
<td>800</td>
<td>31888</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>435554</strong></td>
</tr>
</tbody>
</table>

Source:- Bank's records.

The total cost of whole the project had come to Rs.50.37 crores, including the amount of down payments contributed by the loanees in addition to the Bank's loans of Rs. 43.56 crores as above.

It was found on completion of the project that the financial rate of return to the borrower-farmer had been of a very low of 12% in the case of well and pumpset in hard rock area (instead of 26% as estimated) but there was no variation from the estimate for the alluvial area as it came
to about 34%. Again the gap in case of the tractor loans was found to be wide because financial rate of return to the farmers came to only 16%, instead of 30 to 40% as estimated. It was found from my study of more than 50 cases of tractor loans that the increase in cropping intensity had been varying from 4 to 9% only and that the main source of income of the tractor loanee was not enhanced production but transportation and customer services coupled with saving from high cost of tilling their own land. In the draft project the cropping intensity of tractor loanee was worked out at as much as 40%. There were a few such high return cases. But they were more of an exceptional type.

It can be said in retrospect that the rosy picture drawn at the time of the preparation of project, which estimated higher rates of return, on its completion had not materialised in the majority of loan cases. The detailed study of 50 cases financed under the project, during field visit conducted in different districts of the State, has brought to light the following reasons in general, for rates of return lower than anticipated:

1. Low increase in cropping intensity than expected.
2. Insufficient availability of water in wells.
3. Installation of pumpsets on incomplete wells and wells having no sufficient water.
4. Lower yield per acre than estimated.
v. High cost of seasonal agricultural operations resulting in high cost of production.

vi. Nonutilisation of tractors to their fullest capacity of 1400 hours a year.

vii. Shortfall in the income of tractor from customer services than anticipated.

viii. Partial misutilisation of loans, in some cases.

However, it must also be noted that very good return - as high as 43% - were noticed in some cases of wells and pumpsets. Some farmers who were found to have incurred costs of construction on wells higher than the loan sanctioned by the Bank, too had short returns up to 32%. Some tractor loanees were found getting most of their income from transportation and from customer services rather than from their own farming. This did boost up the rates of return. At the same time it is interesting to note that three loanees of tractor loans, during field study, were found telling that they did not receive cash payment from the farmers who were given their tractors on hire and such charges remain unpaid continuously for 3 years and are likely to be turned unrecoverable. Most of the loanees of wells and pumpsets, contacted during the field-visits, had reportedly got higher returns not because of augmented yield per acre but because of increase production due to more coverage of crop area, though not as anticipated, coupled with high prices of produce.
Despite the constraints, obstructions and weaknesses, on the whole, the Bank completed this project to the satisfaction of the World Bank and enabled the government of India to earn foreign exchange on easy terms. The Bank also learnt new lessons, especially in regard to lending under the new concept of project approach, by dealing with the World Bank. Though, in actual practice, much of the lending was sporadic rather than pre-planned, in regard to the terms of lending, it was exactly as prescribed under the project approach which regulated loaning business.

(11) A. **Importance of proper utilisation of loans**

It is very essential that the loans given by the Bank are utilised for the purpose for which they are granted. If a loan is utilised properly and the proposed improvement on land is done successfully, additional income will be generated through the enhanced agricultural productivity and production. The recovery of the loan, too would be easy. Loans become unproductive and unrecoverable if they are not utilised properly. They become a wasteful expenditure instead of building up income generating assets.

It has been found in some cases that the loans advanced by the Bank have been misutilised either partially or fully. This was taken note of with grave concern by the Chairman of the Bank in his speech while presenting the
Annual Report for the year of 1973-74 to the General Body of the Bank in these words: "Moreover, events causing worries are that the loans given in some parts of our state have not been utilised for the purpose for which they were given. Long term loans given has been found burdensome to borrowers and have created serious problems on the overall financial arrangement of the Bank."

It has not been possible to estimate the actual absolute amount involved in the cases where partial or complete misutilisation of loans was involved; for, it would have required case-by-case verification of all accounts throughout the period of 27 years. My general estimates based on a sample check has led me to estimate that an average of five percent of the amount of loans given may be considered as misutilised, giving a figure of Rs.10 crores. According to the estimate roughly arrived by RBI Officials, the amount was of about Rs.8 crores which was calculated on the basis of overdue amounts of loans that came to Rs.9.91 crores, where more than five instalments had remained unpaid upto 30-6-1978. It was gathered during this study that the Bank had taken up the work of verification of misutilisation of loans in some districts before the Chairman made aforesaid statement in the annual general meeting. This was a very serious problem confronting the Bank. It also resulted in poor recovery. It is not enough to take note of such state of affairs. Measures must be taken to
ensure the non repetition of such 'misbehaviour' by the 
loanees in future.

It has been claimed that 95% of the loans advanced by 
the Bank are used for productive purposes and most of them 
are for identifiable productive purposes. But examining the 
implementation of loaning operations and the result of the 
impact of loans and taking into account the concern as 
reflected in the Chairman's Speech, it was certain that the 
picture was not satisfactory. Yes, the loans given for 
productive purposes may not always yield results. Even then, 
the importance of ensuring proper utilisation of loans must 
be viewed with all seriousness.

(11) B. Manner of and factors responsible 
for the misutilisation and under- 
utilisation of loans

As this is a very important issue, it was thought necessary to study as to how and under what circumstances 
the loans given to farmers were misutilised - partially or fully. I made a study of 500 loan cases in which the loans 
were misutilised by visiting various villages situated in 
different branches numbering to 20 falling under 10 district 
of the Bank. They included Karjan and Nasvadi in Vadodara 
district, Anand and Kapadvanj in Kheda district, Dahod and 
Shahera in Panchmahal district, Deesa and Kankrej in - 
Banaskantha district, Junagadh and Una in Junagadh district, 
Bhavnagar and Talaja in Bhavnagar district, Jamnagar and
Jodia in Jamnagar district, Bhuj and Mandvi in Kutch district, Gondal and Jasdan in Rajkot district and Himatnagar and Bayad in Sabarkantha district. The study involved analyses of loan files and discussions with the loanees as well as the field staff of the Bank.

The results of many on-the-spot study as above are summarised below in a five category classification:

(A) Case of loans given for the purposes of digging and constructing of new wells, repairs of old wells, boring in wells etc.:

i. In some cases of loans given for new well, the loanee either did not do anything or dug a small pit of five to seven feet depth (instead of digging a complete well) against the amount of first instalment received from the Bank and never obtained the subsequent instalments for the purpose. In a few other case, the loanee also managed to get the second instalment by manipulative tactics, but never proceeded further in regard to the construction of the well. A scrutiny of the records brought out that the utilisation report of first instalment, which is to be filled up in Form no.8, was defective.

ii. In some cases the amount of loan received by the loanees for the purpose of new wells were found
m to have been utilised for repairing of old wells, the loans were thus partially misutilised.

iii. In many cases, the loans given for new well were partially misutilised by digging a well with lower dimensions, particularly in depth and diameter with cost lower than that approved in the inspection report.

iv. In many cases the construction works of new wells were not carried out according to the specifications shown in the inspection report, or Kacha work instead of pakka construction were undertaken.

v. In some cases, after the well was dug, the masonry and R.C.C. construction work, as required, was never carried out.

vi. In many cases the repairs to old wells, for which the loans were advanced, were either not carried out at all or were not done in accordance with the specifications shown in the loan inspection report.

vii. In varying number of cases, the loans taken for digging a bore in the existing well were not utilised for carrying out the work at all; or, the works was not done in accordance with the given specifications—specially of size of the bore,
length of pipe inserted, its diameter, quality of the pipe inserted vis-a-vis that billed for.

viii. In some places the wells bored long before were shown to obtain loans for new ones, through deceptive certification.

ix. In some cases of dug-cum-bore wells, the amounts of expenditure incurred were of less than the amounts obtained as loans. In one case a bogus bill for the purchase of pipes from a non-existent dealer was found passed for payment.

(B) Cases of loans given for installation of pumping sets generated by oil engines or electric motors on the well for lifting water for irrigation purpose:

i. In some cases the loanees had not purchased any oil engines or electric motors at all though the funds were obtained by producing bogus bills for purchases. In one case it was found that the loanee had soon after purchasing the oil engine, sold it back at a lower price to the same dealer. (It could have been a preconceived deceptive transaction)

ii. In some cases the loanees were found to have kept installed oil engines which were with them for post two to three years and sold the newly purchased oil engine, by taking loans, to other farmers
to utilise the money for other purposes.

iii. In some cases the loanees had purchased old oil engines eventhough they were given loans for purchase of new oil engines so as to pocket the difference.

iv. In three cases the loanees had, instead of installing the oil engines on their wells in the field, attached it to their floor mill located in the bazar of respective villages. Out of these three cases, the permission to attach the oil engine with the floor mill was granted in one case by the Bank subject to (a) floor mill should be in the field in which the oil engine installed on well and (b) oil engine can be used for floor mill if it is first utilised fully for lifting water from the well for irrigation purpose. But both these conditions were found violated.

v. In some cases, non required accessories were purchased out of the loan funds to satisfy the billing requirements initially, and later on they sold out to other farmers in the village or sold back to the same dealers.

vi. In two cases the loanees had got installed their oil engines on the wells of rear-neighbourhood farmers, and not on their own wells. My
investigation showed that, in one of these cases, the oil engine was given on hire, and that in the other case, it was done in return of 1/5th of the yearly produce for a continuous period of three years.

vii. In one case of composite loan for well and pumpset, the bill for the purchase of the oil engine was produced by the loanee before completing the well for obtaining the loan for oil engine. Thereafter the same engine was sold to his brother-in-law at a lower price. The loanee had then started to lift water by COSH.*

viii. In one case the loan for oil engine was given before the completion of the well. It was installed on a kacha foundation on the well to lift water which had been struck during the process of digging. After the well was dug completely, the oil engine was sold away and water had began to be lifted with "COSH".

ix. In many cases the expenses incurred on construction of the machine room were lower than the amounts.

* An indigenous method of lifting water with the help of a receptacle made of leather drawn by ropes and bullock power.
x. In some cases, the loanee did purchase electric motors with the loan taken from the Bank, but they could not be installed on their wells due to non-availability of electric connection. Hence, they were sold back either to dealers or some other farmers but the realisation thereof remained with the loanees.

(C) Cases of loans given for installing cement pipe lines in the fields for distributing water for irrigation purpose:

i. In some cases the pipe lines were not installed at all.

ii. In most of the cases, the pipe lines installed were not of the required length and sizes as shown in the map.

iii. In some cases the loans were taken for installing the pipe lines that were already in existence for the past.

(D) Cases of loans taken for constructing farm houses, Kyari etc:

The works were rarely done in accordance with the specifications shown in the inspection report.

(E) Cases of loans taken for tractors & its implements:
i. In one case, the loanees had sold the newly purchased tractor to somebody else, while retaining the registration in his name with the Regional Transport Office.

ii. In some cases, the loanees purchased old plough and cultivator eventhough the loans were given for new purchases and thereby they pocket the differences.

iii. Few cases in which the Bank granted loans to purchase old tractors, the prices paid by the loanees to the sellers of the old tractors were less than the amount of loans disbursed.

iv. In three cases, the loanees had given up their tractors' use in favour of their creditors until the heavy amount of private debts, orally incurred by them, are repaid fully with the condition not to charge interest on the dues for the period for which the tractors are used by creditors.

v. In some cases of loans taken jointly by more than two loanees, some of the co-partners to the joint loans had relinquished their proprietary interest in the tractor, in favour of other co-partners, by taking agreed amount from them, pending the amounts of their respective loan instalments unpaid to the Bank.
One important point which must be noted, here, that the cases of misutilisation of loans as studied above should be treated as illustrative. They are certainly representative, though not exhaustive.

Break up of 500 cases of misutilisation of loans, as studied above, on the basis of purposewise classification of loans, are as follows:

<table>
<thead>
<tr>
<th>Purpose of loans</th>
<th>No. of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Digging and constructing of new wells, repairs to old wells, boring in the wells etc.</td>
<td>200</td>
</tr>
<tr>
<td>B. Installing of pumping sets with oil engine or electric motors and accessories etc.</td>
<td>200</td>
</tr>
<tr>
<td>C. Installing of cement pipe lines in the field for distributing water for irrigation</td>
<td>50</td>
</tr>
<tr>
<td>D. Constructing of farm houses, preparing Kyari and other land improvement works</td>
<td>25</td>
</tr>
<tr>
<td>E. Purchasing tractors and its implements.</td>
<td>25</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>500</strong></td>
</tr>
</tbody>
</table>
All the above cases were financed during the period from 1965 to 1975. While referring the cases where mis-utilisation of loans were happened, it was found that the cases of mis-utilisation were much more during the first half of the decade than the later half. Moreover, it was also found that the mis-utilisation of loans with reference to number of cases and amount thereof was highest in the purpose of loans given for wells—construction of new wells, repairs of old wells, dug-cum-bore wells, boring in existing wells.

During the field visits for the study of misutilisation of loans, it was happened to meet many other loanees of the Bank and in rare cases it was also found that the amounts spent for proposed improvement were larger than the loans given by the Bank.

The study brought to the limelight the fact that the factors responsible for the misutilisation of funds should be classified in two groups—those related to the lender, the Bank, and those related to the borrowers.

(A) Factors for which the Bank should own responsibility:

i. Defective measures to ensure proper utilisation of loans.

ii. Insufficient supervision for verification of the utilisation of loans.
iii. Weak and unsystematic procedure of verification of utilisation of loans.

iv. Defective scrutiny of loan application.

v. Ambiguously drawn up specification of the work of proposed improvement.

vi. Defects in the lending policy of the Bank.

vii. Target-oriented lending.

viii. Untimely advancement of loans.

ix. Advancing of loans in the years of scarcity and semi-scarcity.

x. Insufficient amount of loans sanctioned for the proposed improvement.

xi. Involvement of the Bank's Staff in irregular and manipulated transactions of loaning and their connivance for the defective compliance of the terms of sanction of loans before it is to be disbursed.

xii. The lack of punitive measures and their delayed implementation in the cases already detected.

xiii. The lack of lively contact with borrowers by the Bank's staff.
xiv. The lack of coordination between short term and long term credit structure.

xv. The lack of imparting education regarding the value of proper utilisation of loans.

B. Factors for which the borrowers should be held responsible: The temptations for misutilisation by the borrowers came from

i. Heavy indebtedness.

ii. Unlimited financial needs.

iii. Expenditure on social custom and wasteful expenditure.

iv. The lack of arrangement to get consumption finance.

v. The lack of arrangement to get crop loan and working capital funds with the required amount in time for agricultural operations.

vi. Non-commercialisation in the business of agriculture.

vii. The lack of the saving habit.

(11) C. Diverted use of amounts of misused loans

If any solutions are to be thought of for the serious problem, a study of how the amounts of the loans were diverted
to other purposes might be enlightening. Hence a special field study was undertaken by depth-interviewing, in confidence of all 500 loanees where loans were misutilised as referred above.

At first, I tried to find out the exact amount of the loan that was misutilised. Thereafter, I tried to discover from the loanee concerned, by taking him in confidence, as to where the amount so availed was actually spent. Finally, I divided the alternative use-directions in eight areas.

While it is recognised that the sample is relatively small, owing to the time energy-expense constraints, the results have certainly, dependably, indicative of the factual position. The breakup of every 100 rupees (misused) in alternative use-directions, on an average, should the pattern as reflected in Table II.5.

While the Table indicates the average use of Rs.100, I came across some typical variations in individual cases. For example, one loanee spent Rs. 72 towards repayment of old debts, while another one had used Rs.64 to meet Rs. 47 towards agricultural operations while many had not spent anything in this area.

Suggested Measures: The problems is serious. It requires a multi-pronged tackling. One. The Bank itself must plug in the loop holes in its policy-making and implementation of the programmes. Two. A stronger and more efficient
### Table II.5

Diverted use of amounts of misutilised funds of loans

<table>
<thead>
<tr>
<th>Area</th>
<th>Alternative use-direction</th>
<th>Amount Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>For repaying the debts to Shaukars, relatives, village traders, government and cooperatives.</td>
<td>29</td>
</tr>
<tr>
<td>2</td>
<td>For expenses on social customs &amp; occasions.</td>
<td>15</td>
</tr>
<tr>
<td>3</td>
<td>For expenses of family maintenance</td>
<td>14</td>
</tr>
<tr>
<td>4</td>
<td>For expenses relating to seasonal agricultural operations.</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>For purchase of bullocks, cows etc. and for building repairs.</td>
<td>6</td>
</tr>
<tr>
<td>6</td>
<td>For expenses on travelling &amp; getting loans etc.</td>
<td>19</td>
</tr>
<tr>
<td>7</td>
<td>For lending to other farmers.</td>
<td>2</td>
</tr>
<tr>
<td>8</td>
<td>For other miscellaneous</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
utilisation-supervision structure must be created by the Bank. Three. The Bank must bring to books its own employees, field and supervisory staff, who are found to be conniving at or actively associating themselves with the loanees in the misuse, misapplication and diversion of funds to other channels—of course not on hearsay. Four. The chief temptation for misuse of funds in many cases comes from nonavailability (i) of consumption finance to meet family maintenance and social expenditure needs and (ii) of current needs of funds for agricultural operations. The integrated credit approach taking the borrower as a composite unit alone is the permanent solution, as a better alternative, of the problem in the long run.

(11) D. Infructuous investment and non-use of loan

Another serious problem confronting the Bank in its loaning operations is the infructuous investment or non-use of assets created out of loans. During the field study. I came across many cases in which, while the amount of loan given to the farmers had been utilised properly, the investment had failed at the outset to generate any additional income. In other cases the anticipated additional income had ceased accruing or had declined—within only two to three years after the new investment was made, with the result that the assets so created were found to be useless or non-paying during the pendency of loans. Such cases were of the following nature:
i. In the case of a new well, water was not struck at all after digging it to a required depth.

ii. Water struck in the well was not suitable for irrigation purposes.

iii. Water struck in the well was not in sufficient quantity and failed to irrigate the required acreage to generate anticipated income.

iv. In the case of composite loans, an oil engine or electric motor became idle if water was insufficient.

v. Water might be sufficient in a newly constructed well in the beginning, but it disappeared after three to four years and the pumpsets installed became idle.

vi. The water level in a tubewell was enough in the beginning but it went down after four or five years. This was so, particularly in Mehsana district, where many tubewells were found idle aggravating the loans overdues.

vii. The oil engines and tractors became idle after 3 to 4 years where the loanees did not have enough funds for operating and maintaining such machinery.
viii. The pipelines network became idle or useless if there was not enough water in the well or tube-well feeding it.

ix. A composite unit, or well with pumpset, became idle or useless if cheap canal water was available subsequently.

x. The loans became 'non-used' if electric motors got burnt out or oil engine got torn out by accident. And the loanees did not have, in most cases, any access to credit for their installation or repairs.

xi. Sometimes non-availability of technical guidance turned the investment into non-fruitful one.

As per the rough estimate made by the Bank from the applications of loanees, whose investments had turned infructuous with special reference to subsoil water, the number of cases came to about 12000 wells, 600 borings and 140 tubewells. No exact data were available about the cases where investment had turned infructuous for other purposes. As income generating stopped, the recovery of such accounts was poor. The amounts involved in such cases are also very high. I was given to understand that the government had prepared a scheme under which a subsidy was to be given if a well failed. But no loanee has reportedly yet received
any such amount for credit of dues to their loan accounts. The scheme stands to reason and if implemented speedily, it will give relief to loanees as also to the Bank. But such subsidies can be only a palliative where even technically feasible proposition may fail; and they will be a burden on the indemnification against such failures. (2) stricter control should be established on the grant of loans; in no case should a scheme technically not feasible, be sanctioned for advancing a loan. A greater vigilance and scrutiny on the part of the certifying authorities may reduce—if not entirely eliminate—the burden on this count.

A. **Regulatory control of Reserve Bank of India on the advances of Land Development Banks**

With a view to improving the recovery performance of Land Development Banks and thereby to minimise the levels of overdues as also to laying emphasis on production-oriented lending, the RBI introduced regulatory control over the advances of Land Development Banks since 1971-72. These regulations are generally known as financial discipline, as they are not backed by any statutory provisions. Accordingly the lending programmes of the latter have been linked up with their respective recovery performances. The quantum of lending programme of a Land Development Bank for the year to come is decided on the level of its overdues in the preceding, year, and the yearly debenture floatation programme is approved on the basis of the percentage of
overdues that remain at the end of the year vis-a-vis the demand of concerned branch of Central Land Development Bank (in unitary structure) or a Primary Land Development Bank (in a federal structure). Thus either a branch or a primary bank has been considered as a unit for judging recovery performance as well as eligibility of lending programme.

The norms for considering the lending programme of a branch/primary bank as were effective from 17-7-1975 * to 2-1-1979 ** are exhibited in Table II.6.

Table II.6.
Eligibility criteria for loan programme as prescribed by RBI from 17-7-1975

<table>
<thead>
<tr>
<th>Range of overdues at the primary/branch level as percentage to demand for the year</th>
<th>Eligibility of programme as percentage of loans issued during the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-25</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>26-35</td>
<td>80</td>
</tr>
<tr>
<td>36-45</td>
<td>70</td>
</tr>
<tr>
<td>46-55</td>
<td>60</td>
</tr>
<tr>
<td>56-60</td>
<td>50</td>
</tr>
<tr>
<td>61-100</td>
<td>Nil</td>
</tr>
</tbody>
</table>

* Circular No. ACD/LDB/98 D/175-76 dt. 17-7-1975 issued by Agricultural Credit Department, Reserve Bank of India, Bombay.

** The modification made effective from 3-1-1979 will be referred to later.
As per the above norms a branch/primary which had got overdues of more than 60% were not eligible for fresh advance, while those with overdues between 25% to 60% were eligible for getting restricted lending programme as per the slabs. Only those branches/primaries which made recoveries up to at least 75% were eligible for unrestricted loaning programmes.

Moreover, it was stipulated that if the government of the concerned state had contributed share capital of primary/branch to an extent not excluding 10 percent of the demand, that would be considered as notional recovery and thereby the overdues of the primary/branch would also be treated as decreased to that extent. Therefore the eligibility of a primary/branch can be fixed at an appropriate higher level where government share capital contribution was there. This relaxation of notional increase in recovery percentage was provided with a view to covering more primaries/branch under lending programmes of higher slabs. However, usually the state government are indifferent in this regard, or the process is tardy. Hence, in effect the provision itself became notional.

It should also be noted here that a revised programme of lending was given in the year of 1976-77 as more branches became eligible for lending due to notional increases in the percentages of recovery in consequence of the segregation of the loan accounts, effected by scarcity in preceding years.
The norms for the loaning programme as modified by Reserve Bank of India (vide: its circular letter No.ACD/LDB/ 1306-H-46 dt. 3-1-1979) and brought in force with effect from 3-1-1979 are reproduced in Table II.7.

Table II.7.

<table>
<thead>
<tr>
<th>Range overdues as percentage to demand at primary/branch level on the basis of average of last three years overdues at the end of cooperative year or previous year's overdues whichever is less</th>
<th>Eligibility to draw funds as average of loans issued by primary/branch during the preceding 3 years or loans issued during the previous year whichever is higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-25</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>26-30</td>
<td>100 percent</td>
</tr>
<tr>
<td>31-35</td>
<td>90 percent</td>
</tr>
<tr>
<td>36-40</td>
<td>80 percent</td>
</tr>
<tr>
<td>41-45</td>
<td>75 percent</td>
</tr>
<tr>
<td>46-50</td>
<td>70 percent</td>
</tr>
<tr>
<td>51-55</td>
<td>65 percent</td>
</tr>
<tr>
<td>Above 55</td>
<td>NIL</td>
</tr>
</tbody>
</table>
These norms take into consideration average overdues of the past 3 years instead of the immediately proceeding. Hence the loaning programme has also to be based on the average of the last three years instead of last one year. Moreover, the number of slabs has been increased to 8 from 6, but, the percentage of overdues for nil programme has been lowered to 55 instead of the former 60. In practice it has not made any notable change and has proved to be an academic exercise only.

(12) B. Decreased eligibility and dwindling loan business of the Bank and its Branches

Unfortunately the regulatory control over the advances has adversely affected lending programme of the Bank to a very great extent, as will be observed from the details pertaining to the eligibility of branches for the purpose, presented in Table II.8.
Table II.8
Branches' eligibility for the Loaning Programme

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of branches having unrestricted lending prog.</th>
<th>No. of branches having restricted lending programme</th>
<th>No. of branches having no lending programme</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>Nil</td>
<td>176</td>
<td>6</td>
<td>182</td>
</tr>
<tr>
<td>1973-74</td>
<td>Nil</td>
<td>176</td>
<td>6</td>
<td>182</td>
</tr>
<tr>
<td>1974-75</td>
<td>Nil</td>
<td>169</td>
<td>13</td>
<td>182</td>
</tr>
<tr>
<td>1975-76</td>
<td>Nil</td>
<td>169</td>
<td>13</td>
<td>182</td>
</tr>
<tr>
<td>1976-77</td>
<td>10</td>
<td>46</td>
<td>126</td>
<td>182</td>
</tr>
<tr>
<td>1976-77</td>
<td>78</td>
<td>79</td>
<td>25</td>
<td>182</td>
</tr>
<tr>
<td>Revised Programme</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1977-78</td>
<td>13</td>
<td>86</td>
<td>83</td>
<td>182</td>
</tr>
<tr>
<td>1978-79</td>
<td>31</td>
<td>83</td>
<td>68</td>
<td>182</td>
</tr>
</tbody>
</table>

Source: Bank's records.

It can be seen from the Table that the number of branches having unrestricted lending programme was nil in the first four years and was very small later (except in 1976-77). Moreover, the number of branches having restricted lending programme, too, is decreasing. In addition: The branches having unrestricted lending programme could not lend much. Some of the branches having some lending programme could not
avail of it as technical clearance for sub-soil water was not available. It was also noticed during the field studies that, in consequence, the farmers got a wrong impression that the branch of the bank was closed down for loaning; hence, even if a fresh programme was approved, the lack of timely information diverted the farmers to the State Bank or other nationalised banks for obtaining agricultural finance.

Again, due to the RBI regulations not only did the lending programme of the Bank got squeezed but also did its loaning business shrink, as it could not advance loans to the extent it recovered which will be seen from the figures given in Table II.9.

Table II.9.
Comparative statement of loan advanced and loan recovered from 1973-74 to 1978-79

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of loan advanced</th>
<th>Amount of loan recovered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973-74</td>
<td>99734</td>
<td>193317</td>
</tr>
<tr>
<td>1974-75</td>
<td>120747</td>
<td>98895</td>
</tr>
<tr>
<td>1975-76</td>
<td>65093</td>
<td>221473</td>
</tr>
<tr>
<td>1976-77</td>
<td>35020</td>
<td>179357</td>
</tr>
<tr>
<td>1977-78</td>
<td>41248</td>
<td>176364</td>
</tr>
<tr>
<td>1978-79</td>
<td>30318</td>
<td>159540</td>
</tr>
</tbody>
</table>

Source: Annual Report of the Bank
A severe negative impact of these regulations got reflected in the exodus of members. The loanees clearing their loan accounts discontinued the membership of the Bank for two reasons: (i) They knew that the Bank might never be in a position to give fresh loans to them (ii) They did not get any return or got a very low return on the amounts of their shares subscription. The figures in Table II.10 give ample evidence of the gratuity to thousands of old members leaving the Bank.

Table II.10

Discontinuing membership from the Bank for the year from 1974-75 to 1978-79

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of members discontinued</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>7012</td>
</tr>
<tr>
<td>1975-76</td>
<td>9222</td>
</tr>
<tr>
<td>1976-77</td>
<td>9749</td>
</tr>
<tr>
<td>1977-78</td>
<td>20017 *</td>
</tr>
<tr>
<td>1978-79</td>
<td>6725</td>
</tr>
</tbody>
</table>

Source: Annual report of the Bank.

* The high number is due to the transfer of loanees' accounts who were given tenancy loans.
Result? The Bank's long-standing contact with the agricultural community are breaking. There has been a limited scope for traditional lending. The overall effect is reflected in the decrease in loaning business of the Bank, despite many schemes for diversified lending prepared by the Bank.

(12) D. Targets and achievement of the loan business

The years since 1974-75 have witnessed a perilous increased in the shortfalls in this regard as reflected in Table II.11.

Table II.11
Targets and Achievement of Loan Business for the year from 1974-75 to 1978-79

<table>
<thead>
<tr>
<th>Year</th>
<th>Target of Loaning Rs. in Lacks</th>
<th>Achievement i.e. Loans advanced Rs. in Lacks</th>
<th>Percentage of achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>1900</td>
<td>1207</td>
<td>63</td>
</tr>
<tr>
<td>1975-76</td>
<td>1600</td>
<td>651</td>
<td>40</td>
</tr>
<tr>
<td>1976-77</td>
<td>1400</td>
<td>350</td>
<td>25</td>
</tr>
<tr>
<td>1977-78</td>
<td>1300</td>
<td>412</td>
<td>31</td>
</tr>
<tr>
<td>1978-79</td>
<td>1200</td>
<td>303</td>
<td>25</td>
</tr>
</tbody>
</table>

Source:— Bank's records.
E. The question of unit for eligibility criterion

For judging the eligibility for new finance on the performance of recovery, the branch in unitary structure and a primary bank is a federal structure is taken as a unit. Due to this criterion, the individual villages which have better recovery performance than that of the latter as a whole, will also not be eligible for fresh finance beyond the branch/primary eligibility level. There is no justification in debarring better-performing villages thus in penalising them for the fault of the other villages in the same jurisdictional areas. This has a multiplier effect; for, the farmer's performance, later, also gets adversely affected on almost a continuing basis. Moreover, such type of collective punishment will not improve the recovery performance of whole the branch/primary.

A special study was undertaken in some of the branches having no lending programme in 1976-77 because of its overall performance was below the minimum standard prescribed, even when some of the villages within their folds, individually did have better record and it was proved beyond doubt that the RBI regulations, in effect, amounted to mass punishment, wherein the sufferers were the better performing villages, and to a chain dampening reaction at the cost of both the villages concerned and the Bank.
It was reported that the Bank had requested RBI to fix villagewise loaning programme instead of considering the whole branch as a unit or, if it was not feasible, to sanction loaning programme on the basis of groups of villages in relation to their recovery performances. It was suggested that, for the purpose, a branch be notionally divided into two blocks—one, consisting of villages giving good recovery and, the other, consisting of villages giving poor recovery, so that at least the villages in the first block would get some lending programmes instead of none at all. The RBI was willing to accept the request on condition that there would be no change in the groups, once formed, but this was an irrational condition in that the performance-volatility of different villages could not be static phenomenon, and unless a practical flexibility was provided for, the weakness from which the present system of branchwise uniting would manifest in the blockwise uniting, of course at one level lower!

(12) F. A critique of the RBI regulatory control on advances

It can be said without reservation that insofar as Gujarat State was concerned, the objectives of the RBI regulations on the advances of Land Development Banks were not achieved because the recovery performance of the Bank deteriorated over the years since the introduction of the regulations. It is true that RBI did, from time to time make
relaxation within the framework of the financial discipline. But these were sporadic and patchy, with not much advantage. While the RBI as also the Land Development Banks were certainly right when they got worried about the mounting overdues and non-recovery and the disruption in the recovery-lending cycle of development credit, the RBI cure has proved to be an annihilator of the patient rather than ailment.

The Bank-like its compatriots in other states—has learnt a hard lesson. Its sufferings have been aggravated during the past few years of the operation of the RBI regulations. They have made it more sick. It is true that the scarce financial resources of the country should be used with due care and the recovery of which must be the concern of all. But as the regulatory measures have not achieved result it is high time to reconsider them all. It is not enough to give some concessions here and there. They have failed. A fresh approach needs to be decided upon.

The Bank has got enough experience during its career of 28 years as an institutional financing agency. It has built up its own standing. Its debentures are not only guarantee but also assured of redemption with sufficient funds specially built up for the purpose.

The riddle is certainly complex and complicated. There can be no single and simple solution thereof. But, though difficult, it is not insoluble. I would venture to
propose following approach and measures as a way out of the labyrinth.

The RBI regulations under which the eligibility and quantum of lending programme of a branch/primary are decided upon should be lifted. It is not fair and equitable for a country's central bank like RBI to decide the quantum of loans to be advanced in remote tehsils in a vast country like India. It should be enough for it as a monetary controlling authority, to give loaning as well as debenture flotation programmes at the level of Central Land Development Bank of a state as a whole. The decisions with regard to allocation of branch/primarywise loaning programmes should be left to the later; only general guidelines may be provided for their self-discipline. There is an inbuilt check whereby they will not be able to grant loans where recovery is poor; and even if on emergent occasions they have to do so, this will have to be backed by its own funds.

The recovery performance is judged only on the basis of percentage of recovery against demand. This criterion requires modification with special reference to the calculation of the amount of demand taking into account the following in particular:

1. Demand of overdues where recovery of accumulated overdues is very hard.
ii. Demand of loans given under special circumstances, such as loans given in the years of scarcity, the recovery of which will be very poor.

iii. Demand of loans given for land development works carried out not by the loanees but by the government to which most of the loanees are not agree and hence, the recovery of such loan is very hard.

iv. Demand of loans given for purchasing tenancy rights, the recovery of which is quite low.

v. Demand of loans given from owned funds of the Bank for which debentures have not been floated.

vi. Demand of loans for which the Bank has made provision for doubtful debts, that amount should be deducted.

vii. Demand of loans, the accumulated effective mortgages of which have been deducted from the 'cover' by the RBI while permitting debenture floatation &

viii. Demand of loans given for wells and tubewells, some of which have been failed mainly due to nonavailability of sub-soil water.

As the 'demand' is composed of different constituents and the recovery in each constituent requires
reconsider the concept of demand. It is not enough, nor reasonable, to reduce the demand by a flat rate of 20% of the accumulated overdues.

(13) Diversification of lending by the Bank and limitations thereon

The Bulk of the lending of the Bank consisting of 73% of the total advance made up to 30-6-1979 - had been done for the purpose of minor irrigation such as construction of tubewells, and installation of pumpsets. It was pointed out by the Ground Water Directorate in 1972-73 that the levels of sub-soil water were going down progressively for long and that it was alarmed at its new exploitation. It was found in 1972-73 that in nearly 47 Talukas (out of 185) of the State of Gujarat, the underground water resources were being over exploited and that there was no further scope for digging new wells and deep tubewells. The number of such over-exploited areas had shot up especially after the severe drought in the year 1972-73 and 1974-75. Consequently advances of loan for the purpose of new wells and pumpsets were reduced considerably since 1974-75 as will be noticed from the Table II.1.
Table II.12

Amount of loans advanced for the purpose of wells & pumpsets for the year from 1974-75 to 1978-79

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of loans given for wells and pumpsets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>715.61</td>
</tr>
<tr>
<td>1975-76</td>
<td>280.32</td>
</tr>
<tr>
<td>1976-77</td>
<td>107.61</td>
</tr>
<tr>
<td>1977-78</td>
<td>126.60</td>
</tr>
<tr>
<td>1978-79</td>
<td>76.04</td>
</tr>
</tbody>
</table>

Source: Bank's records.

As the lending business for the traditional purposes sagged, the Bank was compelled to diversify its loaning activities. The RBI, too, had emphasised the need for diversification as early as in 1973 and had circulated to all LDBs in the country a list of different purposes such as dairy development, poultry, land levelling, soil conservation and bunding, reclamation of saline land, lift irrigation from rivers and plantations in which loan-inroads could be profitability made by them.

The need to explore alternative avenues for maintaining the levels of lending and earnings was long realised by the Bank but the scope for such diversified lending was found to have been limited by various constraints. My
detailed inquiry in this regard revealed the following:

i. The purposes for which the Bank can give loans have been enumerated in section 116 of the Gujarat Cooperative Societies Act. Addition to the list can be effected only by amending the Act, the process of which is lengthy. The Bank has moved the state government to modify the Act for the inclusion of the new purposes for long term agricultural advances. It may be suggested that the State Government should use the enabling provision of the act, whenever need arise, for inclusion of new purpose by issuing notification avoiding delay.

ii. Loans for purchase of carts with tyres, loans for poultry, loans for gobar gas plant, loans for purchase of milch cattle, etc., are of the nature of medium term loans. They are being covered by the loaning business by District Cooperative Banks and Commercial Banks, leaving very little scope for LDB's entry. Again, there will be an overlap, apart from unpropriety on the grounds of principles.

iii. The Bank gives loan on the security of land, while intending borrower applying for loans for any purpose under diversified lending may not have sufficient security of clear title to offer. As a result, loan...
will be limited to agriculturists having land. The Bank has tried to attract landless labourers to avail of the benefits of its loans if they can provide sureties possessing land. The impact has not proved encouraging.

iv. For availing of refinance facilities, the Bank shall have to prepare special schemes under the project approach for giving loans for any of the purposes shown under diversified lending. Such schemes are very difficult to prepare for all the purposes, for, loaning for some of the purpose like loans for cart with tyres has to be decided upon sporadically. Even then the Bank prepared 72 different type of schemes during the period from 1975-76 to 1978-79, involving the total financial outlay of Rs. 41.98 crores were sanctioned by the Agricultural Refinance and Development Corporation, 15 schemes for the financial outlay of Rs. 2.79 crores were withdrawn and 4 schemes for the amount of Rs. 0.68 crores were pending sanction. The progress of the implementation of the scheme was slow due to (i) stiff terms of sanction, and (ii) the wrong impression created that the loaning business has been stopped by the Bank.
v. Under the regulations of advances the numbers of branches (i) that were closed down for loaning business and (ii) that were run for restricted loaning business were on increase year after year. That limited the lending. Again, some of the sanctioned schemes could not be implemented due to nonavailability of lending programmes.

Finally, even though there is a need and scope for lending for different purposes, the lending operations proved to be limited under various constraints as discussed above. It must be clearly stated here that too much stress of unplanned credit is also not desirable. If lending is done hastily, for its own sake, it may aggravate the problem of overdues in future, and the loans may turn unproductive. It is in the striking of a balance that the intelligence of the policy-makers and the business acumen of the Bank employees will be on test.