Chapter – 6

PROBLEMS AND FINDINGS
This chapter presents the practical problems faced by the beneficiaries, the various problems as brought to knowledge by different newspapers and journals, the opinion of experts on the role of the Bank, the difficulties faced by the Bank in generating additional employment opportunities in the rural sector of the State and the areas which are still to be worked upon encountered during the research work.

6.1 Problems Faced By Beneficiaries:

- The Organizational setup of the Bank is such that the schemes are made directly by the Head Office, as per the suggestion and recommendation of NABARD and are directed for implementation in the rural areas through the branches. As such these schemes lack the fulfillment of demand at grass root level. The schemes are left at the mercy of the field officers and the BDOs, who seems to be not fully aware of the problems of the villagers/farmers. There is no provision of a separate department neither at regional, district or head office level to analyse the financial status and the requirements of the farmers before granting loan, thus the schemes are not implemented in its true spirit.

- The registration fees for mortgage of land upto a loan of Rs.5,00,000 is free and thereafter the farmers have to bear stamp duty. This was one reason, which made borrowers to restrict their borrowings to below Rs.5,00,000.

- Except achieving the overall loan targets of the branch managers were not giving adequate attention to the sector wise achievement of targets. Thus, schemes like Bio Gas, Fisheries,
Animal Husbandry and Infrastructural Development, etc. were neglected and Minor Irrigation, Tractor, Non Farm Sector and Transport Schemes were given priority.

- To improve the overall profits the Bank has not diversified its funds in such schemes which are considered more viable and commercial. Branches are required to finance only such schemes and activities approved by the Head Office. Except for Farm Mechanisation and Rural housing the unit cost for all other activities are less than Rs.5 lakhs. In case of Plantation and Horticulture, where the loans may be disbursed for more than Rs. 5 lakhs per borrower, the Bank has not taken up commercial financing in this sector.

- During the personal visits paid to the various branches, it was found that the Bank used to grant loan and advances only to those farmers/villagers who required loan upto Rs. 5 lakhs, by mortgaging with only a collateral security of not less than double the worth of irrigated land, whereas in the nationalized and other regional rural Banks having rural branches, would grant loan for the same amount at lesser value of land mortgage and also adopt the concept of secondary security by hypothecation of the assets purchased. This complexity of lending deprives a farmer from getting loan from the Bank at cheap a rate of interest. As a result, farmers fall into the clutches of private moneylenders, who charge a heavy rate of interest. This anomaly should be rectified.

- As per the NABARD norms, one field officer is required to serve 750 accounts. But because of high loan cost and low margins on an
average one officer has to cater to more than 2000 accounts, because of which the efficiency level of the staff and the contact level with the farmers/beneficiaries is reduced considerably. This generates a huge gap between the two affecting the proper follow up of loan accounts on one side and creating better understanding with the beneficiaries on the other hand.

- The cost of funds of the Bank is fairly high; the Bank mobilizes its resources by floating of Debentures which are mostly subscribed by NABARD (96%). Presently the rate of refinance is 9%, but because of the high cost of funds the Bank has no option but except to increase the rate of interest on lending to 12%. As a result the farmers show less interest in availing credit from the Bank. The rate of interest in commercial Banks is low.

6.2 Problems As Presented Through Different Newspapers and Journals:

The Bank Journal, December, 2009

The LT Structure has done commendable work in speeding up capital formation in agriculture. The performance of ARDBs, however, started declining since the latter part of 90s mainly due to inherent deficiencies associated with their design, as non-resource based specialized term lending agencies, severely restricting their ability to meet the financial services needs of members adequately, in competition with other rural financial institutions. These deficiencies, coupled with impairments and infirmities in key areas of their working, due to factors internal as well as external, to the system resulted in drastic deterioration of the financial health and viability.
of these institutions during the last 10 years or so. The recovery percentage was 65.57% at Apex level and 86.8% at ultimate borrowers' level as on 30th June 2008. NPAs as percentage of loans outstanding which stood at 35.91% as on 31st March 2007 increased to 40.35% as on 31st March 2008. Of the 15 SCARDBs, only 12 SCARDBs are having positive net worth. 4 SCARDBs have not reported the data. 7 SCARDBs (Bihar, Karnataka, Maharashtra, Orissa, Pondicherry, Uttar Pradesh & Jammu & Kashmir) incurred losses in 2007-08 as against 6 SCARDBs in 2006-07.

Loan recovery in the sector has been badly affected after the announcement of ADWDR Scheme in February 2008. Frequent natural calamities affecting crops, Government interferences in the recovery process have also contributed to the trend of increasing overdues and NPAs.

Sahkari Shakti, 04th, March, 2010

The Managing Director of UPSGVB has expressed deep concern regarding the misappropriation of funds and serious irregularities in disbursement of loan in more than 500 cases. In connection to this two officials have been terminated and a sum of Rs.16.50 lakhs has been recovered from them. The MD said that the loans were sanctioned mortgaging those lands which were not belonging to beneficiaries. He strongly said that no relaxation would be there for those who would be found guilty of any misconduct in their duty.

Jagran Beuro, 29th, January, 2007

The Finance Minister, Government of India, had announced a relief package of Rs.4850 crore for improving the condition of Long Term Credit Cooperative Societies. The finance minister has shown his deep
concern regarding the poor condition of these apex rural financing bodies. He said that proper lassoing between the Centre and State Governments is a must to frame a common minimum programme for the upliftment of these State governed cooperative societies. He has forced the issue by mentioning that during the meeting held with the State ministers for cooperative societies, a consensus has been achieved on various issues, still few are yet to be resolved. But he was very hopeful.

Hindustan, 10th March, 2010

The economic upliftment of the rural masses has been the prime objective of UPSGVB since its inception, still various schemes of the Bank has been full of setbacks. While the rural poor, weaker sections and the poorest of the poor have more or less remained where they were in last fifty years. The NABARD in its latest directives has asked the Bank to identify beneficiaries properly and help the needful. The Minister for State Cooperative Societies has announced a discount of 3% on lending’s given by UPSGVB from 9th, February, 2010. He has also announced that the system of holding minimum of ten shares of the Bank to become its member has been abolished; instead of this a share worth Rs.100 has to be taken up to hold the membership. It was also brought to our notice that the Bank shall reduce the rate of interest on present loans by 2% and those beneficiaries who have been paying their instalments on time, will get an additional discount of 1%. He further confirmed that a rebate of 50% to 60% would be provided under One Time Settlement scheme. He has instructed the MD of UPSGVB to take all required measures for improving the performance of various schemes, and programmes of the
Bank and to try there best to support the poorest among the poor in rural areas of the State.

Rashtriya Sahara, 10th June, 2010

Revival package for LTCCS by Government of India-

The Union Cabinet cleared the Revival Package for LTCCS on 26th February 2009. The package aims at reviving the LTCCS and making it well managed, member centric and vibrant. Financial assistance to bring PCARDBs and SCARDBs to an acceptable level of financial health, introducing legal and institutional reforms to facilitate PCARDBs and SCARDBs to function as autonomous member centric institutions and steps to improve governance in these institutions are the three main components of the package. The package includes a special provision for funding the overdues under pre 1997 farm sector loans issued by the LTCCS which were not covered under the ADWDR Scheme 2008.

Ministry of Finance had subsequently appointed a Committee under the chairmanship of Shri. G C Chaturvedi, Additional Secretary (Financial Sector Service) to examine the need for implementing a revival package for LTCCS in the context of strengthening of STCCS and opening of rural branches aggressively by Commercial Banks & RRBs. The above Committee in its final meeting on 5th June 2010 has also recommended for implementing the revival package for LTCCS as recommended by Vaidyanathan Task Force II. It is expected that the process of implementing the revival package for LTCCS will be initiated soon.
NABARD REPORT

NABARD Instructed All LTCCS to Constitute a Fraud Risk Group-

State-run, Nabard, in view of the present volume and magnitude of fraud cases and amounts outstanding, has asked LTCCS to urgently constitute a Fraud Risk Group (FRG), consisting of senior officials. Few societies have adopted modified guidelines issued by Nabard to prevent frauds. A common thread running through fraudulent transactions is forging of cheques, drafts, credit advice and instrument of funds transfer and in credit areas through fake security documents. Owing to a lack of proper governance, the financial system has been used as a conduit for unhealthy activities. Consequently, irregularities in securities and Banking transactions affect both financial and moral values.

The FRG would review pending fraud cases more critically and identify the loopholes and suggest measures for plugging them. The FRG would also identify the reasons contributing to pending fraud cases and suggest appropriate steps for their early closure. All Banks have been asked to take suitable steps and instruct the staff involved in the tabulation of data to exercise greater care and caution while compiling and forwarding fraud-related returns.

6.3 Opinion of the Experts about the Role of the Bank:

- There are no serious efforts for the deposit mobilisation shown by the Bank. The Bank had not made any serious efforts to avail off the aforesaid facility of resource mobilisation. The reason for low enthusiasm in mobilisation of deposits seems to be high cost, lack
of proper assets liability management, etc.

- Experts have expressed their concern that the Bank is not maintaining a proper data on its purpose wise, region wise loan disposal and outstanding.

- It was also noticed that the targets set by the head office for sectoral disbursement are not adhered to. Thrust is given on the achievement of overall targets.

- Due to lack of proper training programmes, refresher courses for staff organised by the Bank from time to time the branches often continue to charge same rate of interest as indicated in the loan document. They do not change to current rate of interest as and when it is revised.

- The earnings from investments show a declining trend because of declining liquidity of the Bank.

- The diversification of loans portfolios shows a disparity. As a result there is a slow progress in respect of High Value Advances.

- There is no aggressive technique or proper initiative taken by the Bank which could be helpful in giving momentum to the primary objective of the Bank of generating self employment in the State.

- Lack of proper membership drive is one of the reasons for poor customer service expressed by one economist. He added that the Bank is not showing enthusiasm in providing timely assistance or adequate finance as per the requirement of borrowers and marketing his products. Thus they are unable to attract specially educated youth of the villages towards these schemes.
• Mostly the borrowers/beneficiaries do not want to work according to project guidelines of the proposed loan once the full amount is sanctioned. This is the area in which the Bank officials must keep a vigilant eye, so that the beneficiaries do not misuse the funds and could repay their loans in time. This would affect the recovery rate of the Bank and reduce the increasing NPA’s of the Bank.

• During the interview with the villagers, it was brought to notice that during the credit camps organised by the Bank, there is misappropriation of funds as the major portion of loan is distributed to large land holders. Thus the marginal/ small farmers and landless labours are not much benefitted.

• Experts have criticized the Banks working on various policy matters, NABARD expects the Bank to function on professional lines. But the board of management of the Bank is completely nonprofessional. Hence it is difficult for the Bank to have professional management. Because of this, there is lack of developed HRD policies in the Bank.

• The Bank lacks clear-cut promotion policy, transfer policy, incentive policy, reward and punishment policy. The management is more influenced by political consideration rather than the work of employees.

• Poverty in the rural sector comes in the way of proper utilisation of loan for the projects it has been sanctioned. More than 50% of the borrowers do not utlise loans in the projects identified. Either they sell the project at the dealer level or sell it within the first year at the village level. The money thus received is used so as to fulfill
various social obligations. Due to which there is no incremental income from the project because of which the borrowers find it extremely difficult to repay the loan.

- Concerns has been expressed by some experts that the inefficiency and the slackness of the Sale Officer appointed by the State government has resulted in delaying the recovery process and that instead of appointing a government nominee an officer from the Bank itself may be appointed as sale officer.

- The exclusivity in dealing with only long term loans also creates a pressure in terms of resource mobilisation and management of liabilities. Although the Bank has started Fixed Deposit scheme and Double Profit deposit scheme, but there is no counter balancing mechanism within the Bank that drives prudent fund management.

6.4 Problems Faced by the Bank in Generating Employment Opportunities in the State:

- India being an agricultural country, about 70% of its population depends upon agricultural and allied activities. Since independence, great thrust has been to develop literacy rate in the country and various schemes were introduced to improve the literacy rate amongst the uneducated youth. For this purpose, the government also encouraged the Banks to provide educational loans, both in urban, as well as, rural areas. The Bank under study has also made efforts in this direction by implementing certain schemes which are meant only for educated rural youth. During the study, it was observed that the Bank has to face certain problems in granting loans and advances to the educated youth for often, the parental
land to be mortgaged had already being pledged under an old loan, which restricts the Bank officials in extending their support.

- The Bank exists in its present form as a non resource based institution and therefore could not build up its own resources, unlike other commercial Banks, therefore it could not extend its operations into diversified areas of financial needs of borrowers.

- Mostly the beneficiaries are uneducated and illiterate therefore the money is not utilised by them in accordance with the project lines.

- People want the loan only in cash and not in kind. They want the loan in cash so that they could utilise the money in various unproductive household activities. Often it is also observed that the loans are raised so as to get the subsidy which completely ruins the objectives of the Bank.

- Dependency on subsidy linked schemes, through government sponsoring agencies only for both farm and non farm sector to earn income, has reduced the area of operation of the Bank.

- Although the Bank has introduced various schemes to generate self employment opportunities for educated unemployed, but the response of the educated youth is not commendable. They were seen to be reluctant in approaching the Bank for financial assistance. This was mainly due to cumbersome formalities and the amount of loan given under various schemes is not substantial as per the requirement of project.

- The branches are under the influence of District administration in
disbursement of loans. The District administration fixes high targets under Government Sponsored schemes for the Bank; most of these cases are not thus Bankable.

- The average cost of fund for the Bank is 7.5% whereas the average cost of fund for other Commercial Banks is 3.5%. The Bank not having full Banking status results in increasing cost of funds for lending, due to which the farmers find it more convenient to approach commercial Banks for their requirements.

- Identification of beneficiaries is not proper because of which the loan accounts proving bad and doubtful is on a high. This results in increasing NPA of the Bank.

- The State Government has imposed a number of restrictive measures in the recovery of loan, corrosive measures below Rs.1 Lakh is banned, 95% of the Bank loan are below Rs. 1 lakh, as such it is becoming increasingly difficult to recover loans. In addition to this farmers having land less than 3.125 acres cannot be auctioned. Stoppage of corrosive measures is responsible for the steep deterioration in recoveries which is making the Bank turn into a sick unit and deviating it from the path of achieving the goal of increasing additional self employment for different types of activities for rural masses.

6.5 Areas Still to be worked upon as Encountered during the Research Work:

- Business of the Bank faces a set back because of the branches mostly being located in remote areas of the Town/Tehsil/Block. The branches are not modernised and lack suitable ambience to
attract the customers. Lack of proper working environment for the employees also affects their working. It was also found that due to the branches not being located on the main roads with well connective transportation facility the Bank is unable to increase its deposit mobilisation schemes (Fixed Deposit scheme). The farmers feel unsafe in bringing cash to such branches.

- As per the Bank policy, during last two decades or more the branches have almost stopped seeking cooperation from the BDOs and other Development Departments of the State structure. This has adversely affected the business of the Bank, mainly because the Bank has deficiency of staff to cater to the needs of all. These bodies helped the Bank employees in bringing more and more loan cases to the Bank and that too free of any charges. This policy of the Bank needs revision.

- The Bank has a very ordinary inspection and audit department at H.O. level. It does not have the concurrent audit system. In fact only internal audit system is followed at H.O level by the employees of inspection and audit department. There is no provision of external audit by experts (Charted Accountants).

- There is no training programme beyond the level of Managers and therefore, the middle and top management of the Bank are not sensitized to issues related to Human Resources Development Funds, Assets and Liability Management, Investment and Industrial Relations etc.
• **Deployment of staff in different regions** is found, **not according to the amount of resource mobilised by the region**. In some regions specially those which are well developed like Kanpur, Lucknow, Varanasi, Allahabad, Agra, Meerut etc the staff was found to be high in number, as compared to others where there is acute shortage of staff. This is adversely affecting the growth plans of the Bank and due to work pressure; employees are also losing their enthusiasm.

• During the interview with the Bank employees it has been observed that **the Bank Management had not been pragmatic and judicious in its promotion policy**. At one point of time, Accountants were promoted as Field Officers and later both these posts were treated at par. This led to claimants from two lines to be promoted as Managers, which is creating unnecessary competition in promotion criteria and the employees quoted that they have lost all hopes of any further promotion and thus they lack in zeal towards their duty.

• **Lack of decentralized lending powers of the branch managers** is affecting the growth programmes of the Bank.

• **Due to the absence of block guarantee/timely annual guarantee from Government of Uttar Pradesh**, the Bank is resorting to overdraft facilities to meet the fund requirements for loaning operations at very high cost of interest. This results in reduction of profits for the Bank.

• **Not having Elected Board of Management in tune with the Principles of Co-operation and democratic functioning of the**
institution is one of the major problems of the Bank which needs immediate follow-up.

- A State level Implementation and Monitoring Committee (SLIC) has been set up by various State LTCCS under the revival package as suggested by Vaidyanathan committee which needs to be implemented by the Bank under study.

- The Bank is excluded from the purview of BR Act 1940 (AACS). As such, the RBI has no control over the Bank even when it has been permitted, albeit in a limited manner, to access deposits accepted by the Bank from the public.