

PART III

FINDINGS AND SUGGESTIONS

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MAIN FINDINGS AND SUGGESTIONS

III.1 AGRICULTURE

III.1.1

In Agriculture sector the recovery per cent to demand varied between 30 per cent and 59 per cent amongst the five bank-groups in Valsad district and 30 per cent and 59 per cent in Surat district. Bank-I had the highest contribution towards the parameters demand, recovery, outstanding credit and number of branches followed by Bank IV, Bank II, Bank III and Bank V in descending order in both the districts. Overall recovery was higher in Valsad (53%) than in Surat (41%).

The lower recovery in Surat district was due to poor recovery by Bank I, which contributed maximum in all other parameters. The higher recovery in Valsad district was also due to the fact that Bank I performed well in this district. In other words the performance of the district depended mainly on the performance of Bank I with respect to recovery, as its contribution towards other parameters was much higher compared to other Banks (Ref. Sec.II. 1.1).

III.1.2

The Analysis of Variance revealed that the performances of the banks with respect to recovery varied significantly. The performance across the years were, however, not found to be statistically significant, although there appeared to be an increasing trend in recovery per cent over the years. Further analysis (Critical Difference Analysis) revealed that Bank I, Bank IV and Bank V in Valsad district and Bank IV in

Surat district were in the best performance group, whereas Bank III in Valsad district and Bank I in Surat district were identified as the poorest group and Bank IV was amongst the best in both the districts. Bank I performed relatively well in Valsad district but poorly in Surat district. (Ref. Sec.II. 1.2)

III. 1.3

Correlation and Regression Analysis revealed that there was a high linear positive correlation between outstanding credit and demand. About 93 per cent of total variation in demand could be explained by the linear relationship between demand and outstanding credit for the cases in Valsad district. The corresponding figure for Surat district was about 78 per cent (Ref. Sec.II. 1.3).

III. 1.4

In both the districts the proportion of overdues was highest in the age group of above three years and upto one year. Bank-wise comparison showed that the proportion of overdues above three years was more than 40 per cent in the case of Bank I and Bank IV in Valsad district and all the banks except Bank V in Surat district. Further analysis (Correlation and Regression Analysis) revealed that there was significant negative linear relationship between overdues above three years and recovery. As overdue per cent above three years increased, recovery per cent generally decreased (Ref. Sec.II.1.4).

III 1.5

Scheme-wise Analysis of Demand and Recovery for sample

beneficiaries indicated that the overall recovery was only about 12 per cent in the case of Valsad district and 48 per cent in the case of Surat district. The poor recovery for sample beneficiaries in Valsad district was due to the fact that the scheme Fishery accounted for only 36 per cent of total recovery while it accounted for as high as 86 per cent of total demand. The main reason for higher overall recovery in Surat district as compared to Valsad district was higher contribution to demand as well as to recovery by the scheme Poultry. The reasons for better performance under purposes other than Fishery and Crop Loan were adequate income generation in a good number of cases and better project formulation and implementation of two Poultry projects, in which case there was 100 per cent recovery. There were in all 13 reasons for defaults. There are certain reasons which were typical to certain schemes. For instance 'Crop Failure' was one of the major causes in the case of irrigation and crop loan scheme, 'mismanagement' in the case of Poultry and 'death of cattle' and 'second cattle not financed' in the case of Dairy. Diversion of funds, Crop failure, Mismanagement by Co-operative Society, Death of cattle and second cattle not financed were the major reasons of default. These five out of 13 reasons (38%) accounted for 63 per cent of the cases of default (Ref. Sec.II. 1.5).

III.1.6

Simple Linear and Multiple Correlation and Regression Analysis were carried out to find out the factors which had

significant effect on the recovery.

The analysis revealed that in Valsad district the factors X8 (Ratio of Earning Members to total number of members), X5 (No. of visits by bank staff) and X9 (Ratio of irrigated land to total land except for Fishery and Poultry) had individually high correlation (73% to 81% contribution) with recovery in the case of the beneficiaries under Agriculture in Valsad district. Further analysis showed that of the nine independent or controllable variables considered, three variables X8, X5 and X6 (Total advances outstanding per no. of bank staff) taken together explained about 95 per cent of the total variation by the Multiple Linear Regression Equation, when all schemes were considered together. Of the nine variables X9 was not relevant to scheme Poultry and Fishery. When the data corresponding to all the schemes excluding Poultry and Fishery were considered, three independent factors X5, X2 (Distance of bank from residence) and X9 turn out to be significant factors in the Linear Multiple Regression Analysis (94.2 % contribution). Similar analysis for Surat district showed that the single factor X5 turned out to be the significant factor accounting for the 75 per cent variation in the recovery when all schemes were considered together, while the factors X5, X2 and X9 together had significant effect (82% contribution) on recovery when the scheme Poultry and Dairy were excluded.

The above findings by and large point out the importance of the three controllable factors X8, X5 and X6 if all the

schemes are considered together and the factors X5, X2 and X9 when the schemes Fishery and Poultry are excluded (Ref. Sec.II. 1.6).

III.1.7

Opinion survey of the beneficiaries for reasons of default (Pareto Analysis) revealed that three reasons, viz., insufficient income, problem of implementing the scheme and production less than expected together accounted for about 84 per cent responses in Valsad district and 65 per cent in Surat district (Ref. Sec.II. 1.7).

III.1.8

Opinion survey of the financing officers to ascertain the factors of poor recovery (Pareto Analysis) revealed that the lower priority given to follow-up work due to inadequate staff was the most influencing factor of poor recovery. The other important factors were target oriented lending, false propaganda by leaders for relief of debt, repayment attitude of the borrowers and diversion of funds. These five factors taken together accounted for about 62 per cent of the grand score (Ref. Sec.II.1.8).

III.1.9 Field Study at Branch Level Further indicated that -

1. In both the districts branches reported that the field staff was inadequate at the branch level to keep pace with the pre-sanction appraisal and post-disbursement supervision for increased agricultural advances and they gave first priority to routine work. As such they could not spare more time for pre and post sanction appraisal work (Ref. Sec.II. 1.9).

2. In Valsad district branches reported that targets assigned to the branches were unrealistic. This adversely affected the quality of lending and resulted into increased defaults. Next in the order of their influence were the factors such as non-co-operation by government agencies, ~~negative~~ attitude of the beneficiaries to treat loans at par with subsidy which is not repaid and borrowing by beneficiaries mainly to get subsidy which is linked with bank loans. In Surat district also, branches reported that borrowers solicit loans only for getting subsidy. The other factors, viz., Government agencies not co-operating in making lending schemes successful and borrowers treating loans at par with subsidy adversely affected the recovery performance of banks (Ref. Sec. II.1.9)
3. In both the districts 91 per cent branches did not conduct any recovery studies and no attempt had been made by them to organise recovery camps. A few such branches which had organised recovery camps reported that the results were encouraging.
4. Both in Valsad and Surat districts branch managers/agricultural officers relied mainly on issuing notices instead of making sincere efforts to improve recoveries by personally contacting the borrowers. Their efforts to obtain support from government and

other agencies for effective recovery had not been successful mainly due to the apathy of government agencies and inadequacy of efforts at the level of banks (Ref. Sec. II.1.9).

III.2 SMALL SCALE INDUSTRY (SSI)

III.2.1

In Small Scale Industry, the recovery per cent to demand varied between 15 per cent and 43 per cent amongst the five bank- groups in Valsad district and between 37 per cent and 56 per cent in Surat district. It was further seen that in both the districts the contribution of Bank I was the highest in terms of demand, recovery and outstanding credit as well as number of branches; its performance in recovery was relatively poor particularly in Valsad district. The performance of Bank III was poor in recovery and its contribution to other parameters was also very low in both the districts. A comparison between the performance of Valsad and Surat districts showed that the overall recovery was higher in Surat (46%) than in Valsad (30%). The difference is also statistically highly significant. The lower recovery in Valsad district was due to poor recovery performance of all banks compared to Surat district and the main reasons for good performance in Surat district by banks was due to the borrowal firms in the Textile Industry, whose performance remained good compared to the firms in Chemical and Engineering Industry, which were larger in number in Valsad district (Ref. Sec. II.2.1)

III.2.2

The Analysis of Variance revealed that in Valsad district, the performance of the banks with respect to recovery varied significantly but the performances across the years were however, not found to be statistically significant, whereas in Surat district the differences across the banks and across the periods were not found to be statistically significant, eventhough there were apparent differences amongst the banks. This appears to be due to large random variation. On the whole it was found that in both the districts Bank IV performed relatively well (44% in Valsad and 56% in Surat), while Bank III performed poorly (15% in Valsad and 37% in Surat). (Ref. Sec. II.2.2).

III 2.3

Correlation and Regression Analysis revealed that there was a curvilinear relationship between outstanding credit and demand in Valsad district and linear relationship in the case of Surat district. By and large, if outstanding credit increases demand generally increases (Ref. Sec. II.2.3).

III.2.4

In Valsad district the proportion of overdues was the highest (58.2 %) in the age group of one to three years followed by above three years, whereas in Surat district the proportion of overdues was highest (40.2 %) in the age group of above three years. Bank-wise comparison showed that Bank II in both the districts, Bank III in Valsad district and Bank IV in Surat district had high proportion of overdues in the age group of above three years. There appeared to be a negative

linear relationship between recovery (%) and overdue (%) above three years, although the degree of relationship was not high (Ref Sec. II.2.4).

III.2.5

The industry-wise recovery analysis revealed that the recovery was about 55 per cent for all the sample beneficiaries taken together in both the districts. The 'contribution to recovery' was very poor by all industry except Chemical and Engineering in Valsad district. Whereas in Surat district the Textile Industry performed extremely well and its 'contribution to recovery' was quite high compared to its 'contribution to demand' which was also much higher compared to other industries. There was nil contribution by the lone sample Flour Mill while its contribution to demand was next to the Textile group.

The reasons for better performance in Engineering, Textile and Computer industry had been due to good planning, technical and professional experience, adequate generation of funds, good quality of product, and, timely finance provided by banks. The major reasons for irregular repayment in the same industry were diversion of funds, inadequate generation of funds, financial problem and shortage of raw materials together accounted for 68 per cent of the total causes of default (Ref. Sec.II.2.5).

III.2.6

The study of relationship (Correlation and Regression Analysis) between recovery and influencing factors for poor

recovery has revealed that the variable X3 (No. of follow-up visits) alone explained 87 per cent of variation in recovery in the case of sample beneficiaries in Valsad district and about 82 per cent in Surat district. Further analysis (Linear Multiple Correlation and Regression Analysis by step-wise method to examine the effects on recovery of all the independent variables taken together) showed that in the case of Valsad district the variable X3 (No. of follow up visits) only was significant factor whereas in the case of Surat district the variable X3 and X2 (professional experience of the managing person) became significant. These two factors taken together explained about 84 per cent (R^2) of the total variation in recovery in Surat district. Chi-square Test revealed that there was a highly significant association between stock inspection and recovery. When stock inspection was regular, recovery was high in a large percentage of cases (about 79%) in both the districts. A similar analysis carried out to test the association between the follow-up work in the form of machinery inspection and recovery revealed that when follow-up work in the form of machinery inspection was regular, recovery was high in a significantly large proportion of cases (about 78%). It was further observed that when capacity utilisation was low, recovery per cent was also low in most of the sample cases (about 94%) (Ref. Sec. II.2.6).

III.2.7

In Valsad district, in the opinion of the beneficiaries, lower generation of funds was the predominant factor for

default in repayment of loan. Next to this was stiff competition prevailing in the market and problem of managing the business such as marketing/labour/administrative problems, were also responsible for default. These five reasons taken together accounted for about 68 per cent of the responses whereas in Surat district problem of managing the business was the predominant factor followed by the stiff competition prevailing in the market, overdue due to non-performing assets and lower generation of fund. These four reasons taken together accounted for about 76 per cent of the responses. It is further noted that the reasons viz problem of managing the business and stiff competition prevailing in the market were the common major reasons of the default in both the districts (Ref. Sec. II.2.7).

III.2.8

Opinion Survey of the financing officers to ascertain the factors responsible for poor recovery (Pareto Analysis) revealed that 'Lower Priority given to follow-up work due to inadequate staff' was the most important factor for poor recovery followed by ineffectiveness of legal avenue to recover loans, diversion of funds and wilful default; each accounting for more than 8 per cent and together accounting for 43 per cent of the total score (Ref. Sec. II.2.8).

III.2.9

Field Study at branch level further indicated that in both the districts branches reported that the field staff was inadequate at the branch level to keep pace with the pre-

sanction appraisal and post-disbursement supervision for increased SSI advances and they gave first priority to routine work and as such they could not spare more time for pre and post sanction appraisal work.

In Valsad district 60 per cent branches did not carry out stock inspection and inspection of machinery regularly, whereas in Surat district also 60 per cent branches did not carry out stock inspection and 40 per cent branches did not carry out machinery inspection regularly. It showed that post-disbursement follow-up was poor.

In both the districts most of the branches did not review accounts regularly. Also most of the branches were irregular in giving notices for frequent return of cheques, whereas in both the districts branches were not obtaining undertaking from the borrowers to the effect that the value of their plant and machinery did not exceed the prescribed limits and in both the districts most of the branches were not following banks' guidelines strictly with regard to lending function to the SSI. In both the districts branches did not conduct any recovery studies even from the data collected for the purpose of computing recovery for submission to the higher authorities. It was also observed that not a single branch could organise recovery camps.

In Valsad and Surat districts, Branch Managers/Financing Officers relied more on issuing notices to the defaulting borrowers and did not try to personally contact them and

convince them to repay the loan (Ref. Sec. II.2.9).

III.3. OTHER PRIORITY SECTOR (OPS)

III.3.1

In Other Priority Sector in Valsad district Bank I had maximum share in demand, collection, outstanding credit and number of branches, it recorded a modest percentage of recovery at 46.70. Bank IV, Bank II and Bank V ranked second, third and fourth in terms of demand, collection and outstanding credit. Bank III proved to be the poorest performer with respect to recovery and had least contribution in respect of demand, recovery and outstanding credit. In Surat district the overall recovery was 47.40 per cent with maximum being about 59.0 per cent achieved by Bank IV and minimum being 38.0 per cent recorded by Bank III. Other banks, viz., Bank I, Bank II and Bank IV had almost average per cent of recovery around 47.40 per cent. Bank I had the maximum contribution in case of other parameters followed by Bank IV, Bank II, Bank III and Bank V. The overall performances between the two districts were of the same order (around 48.0%) (Ref. Sec. II.3.1).

III 3.2

The analysis (Analysis of Variance) of the data on Bank-wise and year-wise recovery for Valsad district revealed highly significant difference across the Bank groups as was found in the case of both Agriculture and SSI, whereas in Surat district the difference across the banks with respect to recovery was not so significant. Further analysis revealed

that somewhat significant differences were observed across the years in Valsad district. It was also revealed (from Critical Difference Analysis) that Bank V performed relatively well and Bank III performed poorly in both the districts (Ref.Sec. II.3.2).

III 3.3

Correlation and Regression Analysis revealed that there was a linear positive correlation between outstanding credit and demand in Valsad district and curvilinear relationship in the case of Surat district. The proportion of total variation in demand explained by the linear regression of demand on outstanding credit was 92 per cent in Valsad district, while the non-linear regression in the case of Surat district explained 98 per cent of the total variation in recovery (Ref.Sec. II.3.3).

III.3.4

A good feature that came to notice about the overall performances of the sample branches in Valsad district was that, the proportion of overdues in the age-group above three years (22.4%) was lower compared to that in the lower age-group (about 38 to 40 %). The pattern was however somewhat different in the case of Surat district, where the proportion of overdue above three years (34.5 %) was lower compared to that for the age-group one to three years (41.1%) but higher compared to that for the age up to one year (24.4%). Bank-wise summary revealed that Bank III in both the districts had higher proportion of overdues in the age-group of above three years viz. (50% in Valsad and 72% in Surat)

which resulted in poor recovery performance. (11.7% in Valsad and 9% in Surat).

A diagrammatic presentation (Scattered Diagram) did not indicate any association between overdues above three years and recovery (Ref. Sec. II.3.4).

III.3.5

Activity-wise recovery for all sample beneficiaries taken together was between 33 per cent and 35 per cent in Valsad and Surat districts. The activity 'Provision Store' had the highest contribution to both demand (33.7%) and recovery (66.6%). For this activity the proportion of recovery to demand was also high (65.2%) in Valsad district. The activity, 'Road Transport Operator' contributed maximum to recovery as well as to demand (about 52.9%), while recovery to demand was to the extent of only 33.5 per cent. The activity 'Provision Store' followed 'Road Transport Operator' in respect of contribution to recovery and demand (20 to 22%), while recovery from this activity was to the extent of 31.5 per cent in Surat district.

The reason for better performance in activities like Carpenter, Sewing machine, Provision store and Pan-Bidi Stall had been **adequate income generation**. As against this, the main reasons for irregular repayment were **wilful default, inadequate income and diversion of funds**. These three out of six reasons (50%) accounted for 80 per cent of the causes of default (Ref. Sec. II.3.5).

III.3.6

Simple Correlation and Regression Analysis revealed that the factor **X2** (Ratio of number of earning members to family size) and **X3** (Number of follow-up visits by Bank staff) had positive correlation with recovery. Further analysis (Linear Multiple Correlation and Regression Analysis by step-wise method) revealed that the factors **X2** and **X3** had significant positive effects on recovery in both the districts. The factor **X4** that is, outstanding credit per bank staff had also additional effect (negative) in Surat district (Ref. Sec. II.3.6).

III.3.7

Opinion Survey of the beneficiaries for reasons of default (Pareto Analysis) revealed that insufficient income was the predominant factor for default in both the districts, followed by problem of implementing the schemes and exigencies in the family / social needs, in Valsad district. These three factors taken together accounted for as high as 89% of the responses. In the case of Surat district, insufficient income, clearing of earlier debts, exigencies in family / social needs and problem of implementing the schemes were the major reasons. These four factors taken together accounted for about 88 per cent of responses, in Surat district.

To sum up, the common major reasons of defaults in both the districts were **insufficient income, problems of implementing**

the scheme, and exigencies in the family / social needs
(Ref. Sec. II.3.7).

III.3.8

Opinion Survey of the financing officers to ascertain the factors responsible for poor recovery in both the districts (Pareto Analysis) revealed that 'lower priority given to follow-up work due to inadequate staff' was the most influencing factor for poor recovery. The other important factors cited were target oriented lending, false propaganda by political leaders for relief of debt, repayment attitude of the borrowers, diversion of funds and ineffectiveness of legal measures. These six factors, according to the perception of financing officers, accounted for 69 per cent of the grand score (Ref. sec. II.3.8).

III.4 TOTAL PRIORITY SECTOR

III.4.1

In Total Priority Sector, recovery performance varied considerably from 25.5 per cent (Bank III) to 53.5 per cent (Bank IV), in Valsad district and from 36.52 per cent(Bank I) to 55.19 per cent (Bank IV) in Surat district. The contribution of Bank I was the highest in terms of demand, recovery and outstanding as well as number of branches, however, its performance in recovery was relatively poor in both the districts. Bank IV was the second in terms of other parameters but remained first in terms of recovery in both the districts (Ref. Sec. II.4.2).

III.4.2

The Analysis of Variance showed that in both the districts

there were significant differences across the banks, but no significant differences were, however, found across the years. It was also observed from further analysis (Critical Difference Analysis) that Bank IV performed relatively well in both the districts, while the performances of Bank III in Valsad and Bank I in Surat were the poorest (Ref. Sec. II.4.3).

III.4.3

It appears from the trends in the recovery per cent in different sectors that there had been some increase in recovery (%) in Agriculture since 1985 in both the districts but the recovery in 'Other Priority Sector' which was initially higher compared to Agriculture and SSI, declined gradually, particularly in Surat district. Recovery in SSI had been consistently lower in Valsad district with a declining trend, whereas in Surat district the overall recovery level was higher compared to Valsad district and remained more or less at the same level except in 1986 and the level of recovery remained almost static at around 43 per cent for the Total Priority Sector in both the districts.

It was observed that on the whole the recovery performance in Agriculture showed improvement over the years. On the other hand, while the performance in 'other priority sector' sharply declined from a level of 55 per cent in 1984 to 44 per cent in 1988, the recovery performance in SSI sector remained more or less at the same level, i.e., at around 39 per cent during 1984 to 1987 but declined to the level of 34

per cent in 1988.

The recovery performance in Total Priority Sector varied between 41 per cent and 45 per cent during 1984 to 1988 (Ref. Sec. II.4.4).

III.4.4

It was revealed from the trend in outstanding credit, demand; recovery and overdue that the outstanding credit increased sharply from about Rs 322 crore in 1984 to as high as Rs. 617 crore in 1988 in the two districts taken together. There was also a huge and increasing gap between outstanding amount and demand and it could be further seen that although both demand and recovery had been increasing, the recovery was not increasing at the same rate of increase as demand. As a result, the overdue amount had shown an increasing trend (Ref. Sec. III.4.5).

III.4.5

The Guidelines given by the RBI have not adequately been followed by the banks. The study revealed that banks have not provided staff according to the business of the branch and the job-role, functions and responsibilities of the staff have not been clearly defined. The organisational strength remained weak and has not been strengthened to the extent necessary for the better recovery performance. The study also revealed that a schematic approach in lending to clusters of borrowers of villages was not adopted to facilitate effective supervision. The approach of the Government agencies was just to sponsor applications in bunch and that too without

adequately examining the technical feasibility and economic viability of the loan proposals. Recovery performance of the branches were not constantly and closely reviewed by the controlling offices and separate recovery cells had not been set-up as per the guidelines of RBI (Ref. Sec. II.5).

III.5 SUGGESTIONS AND CONCLUSION

Based on the findings of the field study, the following suggestions may be offered to improve the recovery performance :

1. The study has clearly revealed that banks have not clearly and elaborately defined the functional profiles of each category of field staff meant for persuing different activities related to priority sector lending. The situation coupled with the shortage of staff at the branch level, resulted in the utilisation of field staff for performing the routine work in the branch at the cost of the work associated with priority sector lending, for which they were appointed. It is, therefore, suggested that adequate field staff for priority sector lending should be provided adequately to meet the related staff needs in branches and in controlling offices to prevent diversion of their time and energy from their own job-roles to routine of the branch. It is suggested that the job-roles of each category of field staff should be elaborately specified and their performance should be evaluated on those parameters

more specifically. A high weightage should be given in their performance evaluation to these parameters. In specifying the job-roles, the following jobs should be included and given adequate weightage :

- i. Appraisal of loan proposals in detail both in qualitative and quantitative terms along with the verifications of information given in the proposals. To enable them to perform this function effectively, the flow of loan proposals should be controlled and if due to certain reasons a large number of proposals for appraisal flow in during a particular period, more staff should be put on the job using the concept of queing theory, so that the quality of appraisal is not adversely affected. In each region or zone, therefore, some staff should be kept on such jobs from where they may be temporarily shifted to meet such exigencies of unforeseen work - load. However, it is a difficult matter and requires a detailed HRD planning.
- ii. After a loan proposal is sanctioned, disbursement of loan and its monitoring during the post - disbursement period should be the specific responsibility of field staff. Where possible, standard monitoring schedules and monitoring information system should be

developed and vigorously implemented. At present this area is very weak in the banks for various reasons.

There is a need to develop a cadre of 'credit monitors' in the banks to ensure effective credit monitoring through comprehensive integrated training in pre-sanction appraisal, disbursement, and post - disbursement monitoring.

In the placement of staff for field work, the attitudes and the capabilities of the employees must be the guiding factors. Also, the field staff should be given sufficient motivation to perform this non-conventional difficult function more effectively. The performance of field staff should be evaluated mainly on the parameters of their job roles, and in internal promotion also, adequate weightage should be given to the same.

2. To improve the quality of priority sector lending which has a significant bearing on the recovery of loans, the designing of lending schemes, appraisal techniques, procedures for disbursement of loans, and monitoring of the end use of credit and recoveries should be based on applied research and frequent exchange of information within and amongst the banks in each region and across the regions. The uniform

guidelines and methods should be adapted in each region to match the behaviour pattern of the people specific to the regions and schemes.

3. It should be the responsibility of the controlling offices to ensure that appraisals of loans proposals, disbursement of loans and the post - disbursement monitoring of loans is done by each branch strictly in accordance with the prescribed norms and guidelines, and that too, in time. The branch managers must also be held responsible for the delay, lapses or inadequacies in the flow of information on different aspects of priority sector lending from branch to the controlling offices, which in turn should also be held responsible for any lapses in monitoring and recoveries in their command areas. The idea of providing monetary and non-monetary incentives, for ensuring high standards in the quality of lending and monitoring, should be considered by the bank at the policy level. The system of reward and of punishment must be balanced. This aspect should be considered in the bipartite agreements between staff unions and the managements in banks.
4. In order to improve efficiency, comprehensive computer based information and monitoring system should be designed and introduced at the earliest.
5. At present, efficiency of branches is evaluated on the basis of aggregate values of performance parameters

and past experience along with comparison with the other branches. It is suggested that efficiency measurement indices should be developed, keeping into consideration the structural aspects of relevant variables. To improve the quality of lending, efficiency of personnel and other related matters, it is strongly suggested that the Banks should have separate research and development cells (R&D Cells) at the Zonal and Central Office levels. It is not clear whether the RBI or even the Department of Banking at the Government of India have such research and development wings to provide a rational basis for the formulation of different guidelines and operating norms. As and when necessary, specialised consultancy services may be obtained from experts in the field outside the Banks.

The RBI should appoint an expert committee to examine this aspect of research and development (R&D) and outside consultancy for improving the overall efficiency in banks.

6. This study has revealed that inspite of long experience of lead banks in the preparation of credit plans for their command areas, the plans prepared are not really based on the effective environmental scanning and the genuine credit - needs under different schemes of banks and government sponsored programmes. A uniform stereotyped pattern is visible

in designing credit plans which are merely target-oriented than potential-oriented. It is the possibilities of exploitation of the potentials in area which must be used to determine the targets. While, in all district credit - plans, more than proportionate space is given to the profile of the districts, yet each factor of profile is not scientifically synchronised with the performance targets which are generally determined on historical basis. The concept of area planning should be properly exploited in determining the performance targets of banks. Contingency and emergency plans to meet the situation arising out of natural calamities and other unforeseen developments are found completely missing in the credit plans of banks. It is suggested that such contingency planning should be made an integral part of performance planning or budgeting in banks. For certain well-experienced contingency situations, alternative strategies of handling the same should be thought out and guidelines to meet the abnormal situations should be prepared well in advance and given to the implementing offices alongwith annual performance plans. For working out the details of such 'exigency plans', the Indian Banks' Association should appoint an expert committee and bank should also appoint at the central and regional levels expert groups to guide in the formulation of

such plans for the banks as a whole as well as for their different regions.

7. It has been observed that although there is a system of yearly review of accounts as per the guidelines, in practice, such a review is not carried out in time in most of the branches in respect of a large majority of the accounts. It is suggested that the review exercises should be carried out systematically atleast once a year, in time, in the case of small accounts, and on a quarterly basis in the case of other accounts.
8. Support of District Administration and Government Agencies is essential for successful implementation of the various lending schemes of banks. This support is totally and conspicuously absent at present and must be made in-built in the system.

To ensure that the Government agencies forward only such proposals which are genuine, production-oriented, need-based and in accordance with the norms, the RBI and the Government should jointly define the responsibility of such sponsoring agencies and there must be an outside audit on the performance of such agencies in this respect. Recovery of advances should be made the joint responsibility of the sponsoring agency and the lending bank. Details of such a model of joint responsibility should be worked out at the earliest. It may be important here to understand that

the banks, either in public sector or in private sector, are deploying funds, mobilised from the society in the form of deposits. While there are some institutional devices available in the country to protect the interests of the depositors, the best way to protect their interests is to ensure high operational efficiency and operational profitability in banks. Banks should not be used as instruments of political gain and they must be allowed to work on established business ethics and norms.

Government should be called upon not to vitiate the recovery climate by announcing debt - reliefs or similar concessions. On the other hand, Government and its agencies should make positive efforts to make the recovery climate conducive to timely repayment of loans.

9. Adequate and continuous efforts should be made to educate the borrowers in the end-use of credit for repayment of loans.

On the whole, in priority sector, the recovery performance of the public sector banks has not been satisfactory. If the present rate of growth of the overdues is not arrested and suitable remedial measures are not initiated the situation will become unmanageable and disastrous. Besides making organised and well planned serious efforts to recover the loan

arrears, the quality of lending must be improved and suitable system for the realisation of the dues should be made an in-built part of credit management. The planning process at the level of banks should be streamlined for exploring the potential and proper utilisation of the given infrastructure. Long term strategic planning must be initiated soon and the required organisational modifications should be ensured to meet the foreseeable gigantic credit needs of the Priority Sector by the turn of the century. For this an integrated functional model must be developed by effectively involving the banks, the Governments and the policy making bodies. Applied relevant research using appropriate methodology should be undertaken on a continuing basis to ascertain the strengths and weaknesses of the existing credit delivery system. Authorities must take research based decisions in policy formulation and its implementation. The information system evolved by Reserve Bank of India under the service Area Approach should be sincerely implemented as it will be immensely useful in continuous evaluation of lending by the different banks. A suitable and effective planning, execution and monitoring system should be developed for meeting the future managerial and environmental challenges. Comprehensive research exercises on credit management should be initiated, at different levels of the banking system. Such exercises

should also focus their special attention on the costs and returns aspects of providing adequate staff for effective supervision and follow-up. It would also be desirable if the researches indicate specifically the sources of meeting the costs involved in providing adequate staff for effective supervision and follow-up work.