

CHAPTER 5

CHANGE OF OWNERSHIP OF TEA GARDENS - SICKNESS OF GARDENS

The history of tea industry in India was originally associated with British enterprise. They had established sterling companies registered in the United Kingdom. Agents were employed by these companies in Calcutta to implement the policies and programmes formulated by the Board of Directors. Besides these companies had experienced planters who submitted reports regarding the position of tea in India to the members of the board in London. These agents sponsored tea estates registered in India with rupees capital in order to purchase some of the sterling tea estates or to start new ones of their own. "Thus, there grew a large number of rupee companies managed by the same managing agents, who looked after the interests of the sterling estates. With the development of joint stock companies in India, Indian business houses also began to participate in the plantation industry". (1)

5.1 FACTORS OF OWNERSHIP CHANGE

First World War: The industry, which was mainly under the ownership of foreign companies, began to develop. The first world war of 1904 dealt a severe blow. At the end of the war, the industry made rapid progress due to rapid expansion of export market and increase in consumption of tea in India. The situation could not exist for long. In 1919 and 1920, a serious slump occurred owing to excessive supply and steep fall in prices. This compelled the sterling companies to reduce their number of estates by transferring them to the Indian companies. "Between 1911 and 1921, the number of tea estates owned

by foreign public limited companies in India fell from 66% to 55% percent of the total and the number owned privately from 19 percent to 11 percent. (2)

World Trade Depression: The situation was further aggravated when the world trade depression of 1929 reduced consumption of tea. The stocks continued to pile up till 1932. The market was so depressed that it was unremunerative to all who were engaged in tea industry. (3) Some of the foreign tea companies were sold out to Indians.

Second World War: The transfer of ownership from foreign to Indian companies started during the Second World War (1939 - 1945). (4) The heavy demand of skilled personnel in the armed forces siphoned off managerial staff of tea estates. A large number of labourers working in tea gardens of Assam and West Bengal were diverted to the construction of roads, bridges in different parts of North East India. Cost of production rose throughout the years in the early post war periods. Wages rose sharply due to increase in the cost of living, which changed the method of payment to workers. The managers of the estates had to arrange supplies of essential commodities to the workers at concessional prices. Some of the old and small tea estates mainly owned by foreign interests sold out their estates to Indians as they could not maintain large profits and repatriate to the United Kingdom.

Post World War II: The government set up a number of reconstruction committees to plan for post-war development. This prompted changes in ownership patterns from foreign to Indian hands. "A Consultative Committee was set up under the Chairmanship of Sir Ardeshir Dalal in July 1944. The reports on the progress of Reconstruction

Planning 1944 recommended that profit motive maybe harnessed to social needs". (5) It envisaged outright nationalisation of the industry in the interest of co-ordinated development. This led to the fear of nationlisation in the minds of foreign companies and they transferred their ownership. 'A good many tea estates owned by foreigners were purchased by Indians'. (6)

5.2. CHANGE OF OWNERSHIP AFTER INDEPENDENCE

The coming of independence in 1947 brought about a change in the ownership pattern and introduced one of the most compelling causes of state intervention and activity. The Capital Issues (Control) Act 1947 imposed restrictions for all companies registered in India or abroad in respect of bonus issues of all types of securities. The Foreign Exchange Regulation Act 1947 and Import Export Control Act of 1947 further affected the foreign tea companies by controlling foreign exchange operation and restricting import of any commodity required for tea processing and manufacturing. The Acts secured the domestic market for local producers and utilised the foreign exchange in national manner. The foreign tea companies experienced difficulties in expanding tea cultivation and had to sell some of their tea estates to Indians."(7) 'The decline of the London Auction Market and coming up of the Calcutta Auction Market in 1947 were interpreted as a warning for the British planters to leave. Thus the post 1947 environment was ripe for the transfer of ownership'. (8) The records available with the Cost Account Section, Tea Board, Calcutta reveals the following information as regards transfer of tea gardens from the foreign ownership to Indian nationals in North Bengal during 1946 - 57. Act of 1947 further affected the foreign tea companies by controlling foreign exchange operation and restricting import of any commodity required for tea processing and

manufacturing. The Acts secured the domestic market for local producers and utilised the foreign exchange in national manner. The foreign tea companies experienced difficulties in expanding tea cultivation and had to sell some of their tea estates to Indians.”(7) ‘The decline of the London Auction Market and coming up of the Calcutta Auction Market in 1947 were interpreted as a warning for the British planters to leave. Thus the post 1947 environment was ripe for the transfer of ownership’. (8) The records available with the Cost Account Section, Tea Board, Calcutta reveals the following information as regards transfer of tea gardens from the foreign ownership to Indian nationals in North Bengal during 1946 - 57.

Table V.01: Transfer of tea gardens from the foreign ownership to Indian nationals in North Bengal during 1946 - 57

Sl.No.	Name of Estate	Dist	Sub-Div	Area In Hect	Effective Date of Sale
1.	Makaibari	Dar	Kurseong	312.96	1.1.1.1948
2.	Goomtee	Dar	Kurseong	139.51	20.3.1950
3.	Moondakothi	Dar	Darjeeling	520.27	1.12.1954
4.	Chongtong	Dar	Darjeeling	431.17	1.12.1954
5.	Dooteriah	Dar	Darjeeling	525.54	1.12.1954
6.	Kalejvalley	Dar	Darjeeling	266.60	1.12.1954
7.	Ambootia	Dar	Kurseong	309.91	12.3.1954
8.	Phuguri	Dar	Kurseong	240.29	1/12.1954
9.	Kumai	Dar	Kalimpong	287.05	1.1.1954
10.	Goodhope	Jalp	Jalpaiguri	406.47	1/1/1954
11.	Rangliot	Dar	Darjeeling	75.22	30.6.1956

Altogether 122 gardens were put on sale between 1947 and 1976 for all the North Bengal gardens, which accounts for more than 41 percent of the total number of the tea gardens of North Bengal. The position of Darjeeling Hill is as follows: (9)

Table V.02: The percent of total number of the tea gardens of North Bengal

No. of Tea Gardens	97
No. of Gardens affected by change of ownership	54
Percentage of the total No.	55.67 %

The table shows that in three decades the ownership of more than half of the tea gardens in the district has changed. This is an indicator of the unrest of the industry.

Dr. Manas Dasgupta has noted the change of ownership from 1949 to 1970. (10)

Table V.03: Change of Ownership from 1949 To 1970

Categories	Ownership in 1947		Ownership in 1970	
	Indian	Non Indian	Indian	Non Indian
1. Proprietary	31	8	32	-
2. Private	1	-	12	-
3. Public Ltd.	11	10	41	-
4. Sterling	-	40	-	16
	43	58	85	16
	Total 101		Total 101	

The proprietary estates declined giving place to the private and public limited companies. The British proprietary virtually disappeared and the position was taken by the Indians. The increasing rate of Indian participation since depression and then after independence became very clear.(11)

Another feature that we come across is the direction of change among various forms of ownership in Darjeeling tea estates. (12)

Table V.04: Direction of change in ownership (1947-70) of Darjeeling tea estates

From /To	Indian Proprietary	Rupee pub Ltd	Rupee Pvt.Ltd	Total
British Proprietary	6	2	-	8
Indian Proprietary	10	1	3	14
Rupee Pvt.Ltd	1	-	-	1
Rupee Public Ltd.	1	-	4	5
Sterling companies	1	2	2	5
Total	19	5	9	33

“Of the 33 estates taken as sample, the direction of change revealed 19 estates have come under Indian proprietors from their British counterpart, Joint Stock companies, both Rupee and Sterling, and from Indian proprietors themselves.

This is the trend of change since 1947”. (13)

The techno - Economic survey of Darjeeling tea industry sponsored by Manufacturing and Marketing Consultant, has given a breakdown of the number of gardens functioning on various forms of ownership. (14)

Table V.05: Ownership pattern of the estates

Public Ltd.Co.	No. Of Co	No. Of estate	Hect	Percent hec.	Av.Yield (kg)
Co. with 1 estates					
Each	18	18	3702		64
Co. with 2 estates					
Each	2	4	342		929
Co. with 3 estates					
Each	1	3	690		645
Co. with 4 estates					
Each	1	4	951		952
Total	22	29	6285	36 %	745
Private Ltd.Co					
Co. with 1 estate					
Each	10	10	2740		764
Co. with 2 estate					
Each	1	2	305		525
Co. with 3 estate					
Each	2	6	1333		774
Total	13	18	4378	24 %	750

<u>Proprietary</u>					
<u>/Partnership Co</u>					
Co. with 1 estate					
Each	13	13	2472		579
Co. with 2 estate					
Each	1	2	420		690
Total	14	15	2892	15 %	595
	No.of Co.	No.of Estate	Area Under Tea (Hect)	Percent	Av. Yield Hect (kg)
Fera(Public)Co.Ltd.					
Co. with 1 estate each	1	1	260		1038
Co. with 2 estate each	1	2	603		882
Co. with 3 estate each	1	3	856		1028
Co. with 4 estate each	1	4	846		809
Total	4	10	2565	14 %	922

The data suggest that the ownership pattern is perhaps consistently correlated to the yield pattern of the states. Thus FERA companies (earstwhile sterling) show the highest yield, followed by public and private limited companies. The last in the league are the partnership, proprietary firms. There are distinct and marked gaps in yield among these three categories-172kgs.per hectare between FERA and Indian companies, and 150kgs.per hectare between Indian companies and partnership firms. An obvious conclusion flowing from the above yield differentials is that the managerial practices and

methods followed ought to have been progressively better as one moved from partnership firms to Indian companies to FERA companies. (15)

Even as late as 1950 non-Indian ownership accounted for 80 percent of the acreage under tea. The sterling companies claimed 63.93 percent of the acreage and non-Indian owned Rupee companies covered 16.90 percent of total acreage was controlled by the Indian owned companies. Ownership of tea plantation appears to have changed very substantially between 1950 and 1972. In hill areas of Darjeeling even in 1953 the sterling Companies accounted for 32.26 percent of total planted area but in 1972-73 the corresponding percentage was 15.42. (16)

Table V.06: Planted area under Tea by Company Type, 1953 and 1972

Company Type	Percentage of under tea	
	1953	1972
1. Sterling Company	32.26	15.42
2. Rupee Company	42.98	48.34
3. Private Ltd. Company	5.52	20.88
4. Proprietary	19.24	15.36
Total	100.00	100.00

The frequent changes of ownership have brought a new class of persons in the gardens. The ownership of tea gardens began to move gradually from the houses of early adopters to moneylenders and speculators. (17) In some cases, the beharees who were the ration suppliers to the gardens became the owners. 'In some cases, the 'Beharees' came up and settled for supply of country made liquors (known in the local parlance as

'Rakshee') which could not be made by the labourers themselves although they were very fond of it. Licences were issued to the 'Beharees' who became very rich and started their own tea plantations especially at Kurseong. Downhill, known as Doomaram was started by Doomram Bharosaylal and Mohan Majhua and Narbada by Gogaram. Mr. Jainarayan Pradhan, who was the Vice-Chairman of Kurseong Municipality, planted the last gardens named chaitaypani in 1920. (18)

It is equally important to understand the composition of owners, as this influenced the policy of management, and how the owners administered the gardens. The labourers had to undergo through a period of uncertainty and change of fortune.

There was a sharp fall in the total number of people employed and quite a large number labourers became surplus. This resulted in the low bargaining power of the labourers. In matters of recruitment for the supervisory and clerical posts, the local people were also given preference by the British Management. But under the new management since Independence, supervisory staff, clerical staff, and all managerial staff were brought more or less from outside the district as a matter of policy. Consequently the doors of employment had been closed for the Nepalese in the garden. The employment of labour in the tea gardens drastically fell in 1971 census in comparison to 1961 census. The total tea plantation labour according to 1971 census was 56990 indicating a fall of 7 percent in comparison to 1961 census. Dr. Dasgupta has highlighted the fall in employment in Darjeeling tea gardens. (19)

Table V.07: Total number of people employed

	1961	1971	1981
Darjeeling Hills	60979	56990	44021

The comparative analysis shows that over the period the fall in employment is about 15,000 over the three decades. The community-wise direction of change of ownership of tea gardens in Darjeeling Hills is another feature which has affected the nature of management and the resultant impact on the tea gardens and the economy of the Darjeeling hills.

Table V.08: Community wise direction of change, 1947-70

From To	Bengali	Marwari	Gujrati	British	Others	Total
Bengali	5	1	1	-	-	7
Marwari	-	8	1	-	-	12
Gujrati	-	1	1	-	-	2
British	1	10	-	-	1	11
Others	-	-	-	-	1	1
Total	6	20	3	-	4	33

It is revealed that during the period the highest number of estates transferred is from British ownership followed by Marwari ownership. Another important feature is the inter community and intra-community change of ownership. Intra community change is of much greater significance than inter-community change. Tea is an agro-based industry and huge investment is required for maintenance of plant and machinery and crops. The unsteady owner of short duration was hesitant to invest in the long run prospect. "The transitory entrepreneurs sitting on the fence for a better sale price of the garden"⁽²⁰⁾ took little interest in rejuvenation of the garden and siphoned off the income to other parts of the country where they had other business interests.

“An analysis of 27 joint stock companies of Darjeeling reveals that between 1940 and 1970, while the number of non-Indian directors declined from 112 to only 11, the number of Indian directors showed a corresponding increase from 6 to 85 in the same period. Of these Indian directors, the number of directors with ‘merchant’ background shot up from 2 in 1940 to 83 in 1965 and they completely changed the nature of management of tea gardens”.(21) The frequency of changes proved to be disastrous for the tea industry. It is found out that ownership having Marwari background changed more frequently than others.

5.3. CHANGES OF OWNERSHIP AND SICKNESS OF THE TEA INDUSTRY IN DARJEELING HILLS:

The Plantation Inquiry Commission in 1956 first stated that the tea estates in India can be broadly classified according to the following types of ownership.

1. Small holding which may be anything from 1 to 100 acres owned by proprietors. These again may be sub-divided into:
 - a) Those where only cultivation of tea is carried on and green leaf is taken to neighboring factory of tea.
 - b) Those where both cultivation and manufacturing of tea are undertaken.
2. Estates over 100 acres which are owned by proprietors (Indian or Non Indian) having facilities for manufacturing of tea.
3. Estates owned by limited liability companies registered in India with rupee capital (controlled by Board of Director whether Indian or Non Indians) this again is sub-divided into public and private limited companies.

4. Estates owned by limited liability companies with rupee capital and managed by managing agents (having mixed board of Indians and Non Indians and shares holding by Indians and Non Indians)
5. Estates owned by limited liability companies registered in United Kingdom with sterling capital. (22)

The tea Board conducted two surveys and classified the selected tea estates according to different types of ownership, viz. Sterling and rupee company. (23)

The coming of Independence brought about a change in the ownership pattern and introduced one of the most compelling causes of state intervention. The Foreign Exchange Regulation Act of 1973 stated that foreign tea companies should be converted into Indian Tea companies with Indian participation not less than 26 percent of the equity of the company. The major objective of numerous legislations and policies were to discipline private enterprise with reasonable profit.

The pattern of management in Industry had undergone significant changes within a period of seventeen years from 1959 to 1975. The percentage to total tea estates controlled by individuals or companies increased during four periods of time except in 1975. This increase was due to decline in share of total tea estates under the management of foreign and Indian agency houses. The share of total tea estates under the management of individuals or companies declined in 1975 because of increase in a large percentage of tea estates under the management of both directors/ managing partners / joint owners and relative fall in the share of total estates controlled by both foreign and Indian agency houses. The percentage increase of total tea estates under the management of individuals was 6.5 percent during the period 1959 to 1965 and 9.7 percent between 1965 and 1969. This is due to decline of tea estates controlled mainly by foreign agency houses to the

extent of 2.3 percent between 1959 and 1965 and 7.8 percent between 1965 and 1969. In terms of area, it was observed that percentage of total tea area under the management of individuals or companies increased by 6.8 percent and 14.4 percent during the period 1959 to 1965 and 1965 to 1969. This is because of decline in area by 5.2 percent and 1.6 percent under the management of foreign and Indian agency houses respectively between 1959 and 1965 and 11.9 percent and 2.5 percent between 1965 and 1969. They are under tea controlled by individuals or companies was reduced by 31 percent during 1969 to 1975 because of increase in area of 46.5 percent under the different management and decline of 15.5 percent under the management of both foreign and Indian agency houses. Thus the share of tea estates under the ownership of foreign companies had diminished in both absolute and relative terms and the major portion of tea estates came under the ownership of Indian companies. (24)

Besides change in ownership from foreign to Indian companies, it was revealed that some of the foreign tea companies merged with stronger tea companies in order to economise the expenditure, reduce cost of production and improve the quality of tea. According to Tea Board, there were fifty companies, which had either been merged with other companies or formed under new names during the period 1955-1975. Some of the foreign companies were formed as holding controlling estates of more than 1000 hectares. These mergers, of course, brought monopolistic tendencies. Some of the tea estates in Assam and West Bengal were taken over by the respective governments and West Bengal Tea Development Corporation was formed to look after these estates.

Indianisation due to Foreign Exchange Regulation Act of 1971 of the sterling companies had introduced radical changes both in structure and organization of industry. The practice of running the tea estates through the agency houses began to decline. Thus

proprietary rupee concerns. There has been a pronounced trend of foreign capital moving out of the Indian tea industry with the abolition of managing agency system and the enactment of Foreign Exchange Regulation Act, Company Act 1956, Industrial Policy resolution 1956 and Monopolies and Restrictive Trade practices Act 1969 since the fifties and sixties. Merchants and financiers who became the new owners of tea estates were primarily interested in quick profits. Gardens passed on from experience planters to traders, contractors, who knew nothing about tea. The British expertise was lost which resulted production. One of the major reasons for sickness in the Darjeeling tea industry was the "disinvestment by British tea companies and disposal of marginal units to local traders who did not possess either managerial or technical skills and were in the main interested in short term gains."(26)

In the case of tea estates containing old age bushes, the new buyers hardly made an attempt to replant, keeping in view the high cost structure. Majority of the tea gardens contains plants belonging to the uneconomic age group of more than seventy years. The tea plants of Darjeeling hill areas have by and large crossed the age of full bearing. (27)

The TM and MC in Techno-Economic Survey of Darjeeling Tea gardens have highlighted the age classification of plant population of sample gardens in the following manner. (28)

Table V.09: Age classification of plant population for the sample gardens

Age of plants	Below 10 yrs.	10-25 yrs.	26-50 yrs.	51-70 yrs.	71-100 yrs	
More than 100 yrs						
Area (%)	3.4	8.0	7.5	21.9	34.6	24.6

It can be seen from the above table that nearly 60 percent of the total area under tea for the sample gardens contain plants belonging to the uneconomic age group of more than 70 years. Further, nearly a quarter of the area under tea contains plants, which are more than 100 years old. The average yield for the sample gardens works out to about 700-kgs.per hectare, which is less than half of the all India average yield of 1525 kgs. per hectare.(29) Replantation of bushes with an age of 100 years or more is a matter of considerable urgency for the long term prosperity of Darjeeling tea industry. As is revealed in the table, 80 percent of the bushes belong to the age group of over 50 years or so.

‘Sterling companies have a high percentage of old bushes because they were the first to start the plantations in Darjeeling. Between 1964-65 and 72-73, the proportion of old bushes increased both in the case of private limited companies and the proprietary estates. In the case of private limited companies. The share of hectareage with tea bushes over 50 years increased from 66 percent in 1964-65 to 82 percent in 1972-73. For proprietary gardens, the same proportion increased from 53 percent in 1964-65 to 66 percent in 1972-73.

Area wise, a higher proportion of old tea bushes were found in those blocks, which had an early start in tea plantations than others. These included Darjeeling, Kurseong, Pulbazar, Jore-Bungalow, Rangli-Rangliot and Kalimpong. Between 1964-64 and 1972-73, the proportion of hectareage with tea bushes over 50 years declined only in two blocks, namely Mirik and Gorubathan. (30)

From the thirties till the present day, acreage and employment in tea industry have shown a declining trend. “In the district of Darjeeling alone, there were 20,000 hectares under tea in 1978. But by 1979 acreage under tea had declined to barely 18,000 hectares.

Moreover, given the rising trend of 'vacancy ration' in tea gardens, which today is around 20 percent, not more than 14,000 hectares are actually under tea. About 5600 hectares actually disappeared in the forty year period 1939-40 to 1979-80."(31) Several factors can be attributed to the sickness of the gardens. These are

1. Managerial instability owing to II world war.
2. Heavy losses incurred as a consequence of price slump in the early fifties.
3. Disinvestment by British companies after the enactment of various legislations by the government to reduce concentration of economic power in the hands of few.
4. Sale of marginal units to local traders whose sole motive was short run goal of profit maximisation at the cost of the gardens' health and vitality.
5. Low yields, high cost of planting affecting adversely the developmental activities.
6. Imposition of high rates of direct and indirect taxes dampened the spirit of investors.

The structural changes in the tea industry brought in numerous problems. The Indian companies were indebted to banks for purchase of the foreign tea estates at a high rate of interest. It was alleged that the foreign gardens were sold off one by one on the basis of inflated prices than what had been the book value. The book value, of course, generally showed less than the real value. (32) As a consequence, many estates were faced with strained labour-management relation for want of money to pay better wages to the employees as compared to foreign companies. "Too many changes in managers and subordinate staff of the Indian owned tea estates complicated the problem". (33) "The unstable tenure of the managers affected long term stability of gardens and accountability

became diffused". (34) "The average tenure of a manager of Darjeeling rarely exceeds seven years in the same garden."(35) In many gardens 'munshis' instead of the managers became the real authority who could manipulate accounts". (36)

Indian owners of tea estates, by and large, tended to be more exploitative than their foreign counterparts. 'While most foreign tea companies rarely paid their shareholders dividends not more than twenty percent per annum, some Indian companies were known to pay their shareholders dividends as high as 200 percent a year', (37) and no provision was made for long term development of the gardens. The quick profit tendency of the new planters made many gardens sick or uneconomic. At least twelve gardens have been abandoned by their owners; among them are Rohini, Dumaram, Chaitaypani, Avonggove, Anselgunj, Shivakhola, Simring, Damsang and others.

The new owners of tea gardens systematically stripped off the gardens of their assets, siphoned off the surplus to other industries in other metropolitan cities like Bombay, Delhi, and Rajasthan.

"The Techno-Economic Survey carried out by CMPO in 1975 identified thirty eight gardens as sick and uneconomic gardens, which accounted for 6638 hectares of planted area under tea, representing 38 percent of planted area under tea in the hill areas. The total output of these gardens in 1972-73 was 4 million Kgs, which constituted 36 percent of the total output". (38) 'Out of these 38 uneconomic gardens, ten were small gardens with less than 120 acres under tea.'(39)

Uneconomic size of the garden is regarded as one important cause of economic weakness. 'For hill areas of Darjeeling, the optimum size of a tea garden is regarded to be 122-162 hectares (300-400 acres). Out of the 38 economically weak tea gardens 10 were below 122 hectares and 15 were above 162 hectares in size. Thus 13 gardens within the

size range of 122-166 hectares were also uneconomic. Moreover, there are 15 other tea gardens with size of each below 122 hectares which are not regarded as uneconomic.'(40)

The change of ownership affected the stability of gardens, and management went to the hands of retailers, wholesale traders and hotel proprietors. The poor management gave rise to a centralized policy. The local managers were unable to take decisions regarding replantation, rejuvenation because 'the Indian directors with merchant background were not used to delegating powers to their managers'. (41)

The tea plantation industry from its very inception was under professional management which initiated the development of this industry and thus it reached a high level in respect of area and production. Since Independence, the role played by the professionals, known as the managing agency system began to decline gradually when the government started the socialistic pattern of society as the objective of social and economic pattern of the society. These objectives exercised considerable impact on the pattern of management in the tea plantation industry. The agency house had to be recognised not only to facilitate economic growth but also to satisfy social needs. The socialistic goal is implied in the emphasis on expanding governmental activities in respect of finance and also planning some curbs on the activities of the managing agents. This created financial and liquidity crisis after the end of managing agency system. To control the activities of managing agencies, different regulation were adopted. The liquidity needs of the tea industry arise mainly for short-term and long-term requirements for development finance. As regards finance, the Tea Board, Reserve Bank of India, Agricultural Refinance and Development Corporation and other institutions came forward for the development of the industry. The Techno-Economic Survey CMPO 1975 has recorded that 'Darjeeling tea gardens received long term finance almost entirely from

the Tea Board, The West Bengal State Financial Corporation reportedly being more interested to confine its operation in and around Calcutta than in the hills of Darjeeling.

(42)

Quantum of term loans or subsidy provided by the Tea Board to the Darjeeling tea gardens under different financing schemes is small. This is reflected in the table below:

Table V.10: Long term finance provided by Tea Board to Darjeeling Hill Area Tea Gardens upto 31.3.74

Scheme Sanctioned (Rs.Lakhs)	No. Of Gardens	Amount
1.) Tea Machinery under Hira-purchase Scheme	41	82.81
2.) Tea Plantation finance Scheme	10	42.60
3.) Replanting Subsidy Scheme	28	4.40

Tea in Darjeeling is a seasonal crop. Borrowing for tea begins in and around January but the finished products are lifted by the buyers starting from June onwards. The sale proceed flow in by steps and usually the full realisation of the sale proceeds takes place much after the beginning of the borrowing season.

Much of the tea industry need for short-term finance is met by the commercial banks against hypothecation of the crop. The gardens' Title Deeds are also usually required to be deposited with these banks as collateral security. Thereby restricting the gardens to obtain loans from other sources. Many gardens have been deprived of much needed finance for the development of the tea industry. (43)

This together with the fact of 'receiving' sale proceeds long after the plucking creates a shortfall of the needed financial accommodation.

5.4. FINANCING THE DEVELOPMENT EXPENDITURE

While the pattern of financing the development expenditure could not be obtained from the gardens, a fair idea of this pattern is obtainable from published sources.

Firstly, it is well known that the tea industry had traditionally relied on its own funds for any developmental work rather than on external sources. This was primarily because the normal avenues of long term loan assistance were not open to the tea industry until the late Seventies. Thus banks were usually unwilling to undertake term financing to Tea because of the long gestation period and uncertainties of price and production. Similarly, large-scale financial assistance could not be obtained from such financial institutions as IDBI, ICICI, and IFCI because of the agricultural nature of operations of the tea industry.

Until very recently, the only source, which the tea industry could rely on, was the Tea Board through its Tea Plantation Finance Scheme (1963) and its Tea Machinery and Irrigation Equipment Hire Purchase Scheme (1961-62). The Replantation Subsidy Scheme was introduced only in 1968-69. While the Tea Plantation Finance Scheme was initiated with a corpus of Rs. 5 crores, the Hire Purchase Scheme was introduced with a corpus Rs. 2 crores for tea machinery and Rs. 2 crores for irrigation equipment. The present corpus stands at Rs. 14.60 crores for Tea Plantation Finance and Rs. 35 crores for Hire Purchase. Thus with such limited means of external finance available, it is no wonder after the comparatively recent advent of ARDC (now NABARD) into tea financing that more tea companies have started relying on term borrowings as a means of financing developmental activities. The Debt: Equity ratio figures for the tea industry compared to some other industries and all industries as released by the Reserve Bank of

India in its studies of large and medium companies given below will amply illustrate the position:

Table V. 11: Debt as a Percentage of Equity

Year	Tea	Sugar	Jute	Engineering	Cotton Textile	Shipping	All Industries
1970-71	7.7	25.7	32.7	35.0	50.7	99.3	38.2
1971-72	7.8	21.8	24.5	34.5	57.5	97.4	36.6
1972-73	8.4	20.3	30.6	33.5	60.7	113.1	35.7
1973-74	9.3	30.4	25.4	39.7	49.7	123.8	41.4
1974-75	8.0	34.9	19.3	39.3	53.2	118.1	38.7
1975-76	9.3	39.6	22.0	39.5	59.7	144.0	40.8
1976-77	11.0	44.1	32.1	45.1	73.5	171.6	46.8
1977-78	13.4	47.2	81.3	47.9	89.2	194.9	48.7
1978-79	19.1	71.7	306.7	49.5	81.0	283.6	48.0
1979-80	24.3	93.1	65.7	48.9	90.0	256.1	51.1
1980-81	48.4	81.8	51.5	51.8	101.6	179.3	57.1

(Sources – Tea Board Statistics)

While the above figures may help us in obtaining an understanding of the extent of debt in the tea industry as compared to other industries and the trends over the years, it does not indicate in what proportion the development expenditure as estimated earlier has been financed through external and internal sources.

It has, however, already been indicated that the external finance mainly came from the Tea Board and NABARD. The level of financial assistance, which has been made available from the Tea Board, is as follows:

Table V.12: Tea Board Finance 1971-72 to 1981-82

(Rs. in Lakhs)

Year	Tea Board			Total
	Tea Plantation Finance	Hire Purchase	Replantation Subsidy	
1971-72	25.88	94.41	29.56	149.85
1972-73	14.57	142.02	29.56	186.15
1973-74	17.22	90.71	26.91	134.84
1974-75	10.23	85.19	25.80	121.22
1975-76	14.52	102.40	28.90	145.82
1976-77	30.81	119.80	34.19	184.80
1977-78	48.25	200.58	29.26	278.09
1978-79	51.43	276.90	48.47	376.80
1979-80	55.86	426.89	56.86	539.61
1980-81	65.73	153.88	67.68	287.29
1981-82	46.93	326.31	61.04	434.28
Total	381.43	2019.09	438.23	2838.75

(Sources – Tea Board Statistics)

The corresponding year-wise figures of disbursements made by NABARD are unfortunately not available. However, the total disbursement made by ARDC/NABARD upto 1981-82 was Rs. 2, 876, 27 lakhs. The breakdown of funding of total development expenditure between 1971-72 to 1981-82 into its external and internal sources is as follows:

Table V. 13: Total development expenditure: The funding

	Rs. in lakhs	Rs. in lakhs
1. External Sources		
a) Tea Board	2838.75	
b) ARDC/NABARD	2876.27	5715.02
2. Internal Generation		23315.42
Total		29030.44

While there may be some dispute on the above figures since term loans from banks and capital issues have not been considered, it may be reasonably assumed that the amounts raised through these sources could not have been very significant. Therefore, it may be stated approximately 20 percent of financing for development has been through external sources.

While on the subject of financing development through external borrowings, it may be interesting to find out how far it has been feasible for the tea industry to depend on such sources. From the industry-wise figures of debt as a percentage of equity shown earlier, it may be noted that in recent years the tea industry has shown a marked tendency to go in for larger term borrowings. Thus, between 1970-71 and 1980-81 debt proportions in the tea industry, has increased seven times while the increase obtained for other industries (with the exception of sugar) has been less than two fold. Considering the agricultural nature of its operations, the high taxation rate and the inherent instability of prices, there may be some justification for a fear as to whether a permanent debt equity ratio of 1:2 is not already too high. One is only too aware of the Textile industries. These industries have and are able to price their products in line with inflationary trends.

The tea industry has a creditable record of ploughing back internal resources. While it has begun to show an interest in external borrowings, now made available to the industry on a scale not known before, it still has to live with the traditional constraints in committing itself to loans – both production and prices are unpredictable according to the vagaries of nature and market factors beyond its control. Without assured debt servicing capacity, it will be prudent resources to the maximum extent.

Thus, if some Rs. 300 crores was invested over on 11 year period, and the external sources of funding was only 20 percent of the total outlay, one wonders whether Seventh Plan estimate of an external funding of Rs. 600 crores or 67 percent of the total outlay of Rs. 900 crores is not only rather ambitious but also unrealistic and highly risk prone in the sense that it might push large sections of the industry into sickness. (44)

Long-term finance is needed for replanting old bushes, planting and extension, construction of labour and staff quarters, medical facilities. With increasing competition in the world tea market, and steady rise in the costs of production, the need for replanting old bushes, adopting scientific methods of cultivation and modernisation of both field and factory machineries have assumed paramount importance. Hence, the question of finding adequate supplies of long-term finance at reasonable costs is in the forefront.

The first concrete step towards providing need-based working capital finance to the tea industry was taken way back in 1971 with the setting up of the Dutt Committee, under the Chairmanship of Shri B.K.Dutta, the then custodian of United Bank of India. The Dutt Committee endeavored to formulate a uniform policy for short term financing. The main features of the Committee's recommendations which were accepted by the Reserve Bank of India and implemented from March 1972, were linking up the cash credit limit with the gross sales turnover and also the cost of production, restriction on

drawal of funds which was to be regulated by monthly drawing schedule and, in case of deficit, sanction of Tera Loan against the deficit amount so as to enable the unit to avail of working capital limit in full. (45)

However, even after the implementation of the Dutt Committee recommendations, different banks continued following different methods and the industry remain dissatisfied on the pattern of financing by banks. The Tandon Committee was set up subsequently, to review the entire system of granting and follow-up of bank credit to the industrial sector in general and not particularly to the tea industry did not come out with any specific recommendations for the improvement in the system of lending to the tea industry. As a result of this and also in view of the continued dissatisfaction of the tea industry over non-uniform implementation of the existing norms by the banks, the Reserve Bank of India set up another committee under the Chairmanship of Shri K.B.Chore in October 1980 to reassess the entire position relating to financing of tea industry. The Committee submitted its report in October 1981 and revised guidelines based on the recommendation of the committee, the Reserve Bank of India issued the recommendation in 1982. The recommendation even today forms the backbone of the system of bank lending to the tea industry. The Chore Committee classified the borrowers into four categories namely, large borrowers, bought leaf factories and tea traders. The committee introduced the concept of margin to be provided by the borrowers. The committee also recommended introduction of monthly cash budget, based on which drawings were to be allowed subject to the overall limit to be determined at the beginning of the season. The committee recommended that cash credit should not exceed 75 percent of peak deficit for large borrowers. They were expected to provide from their long term resources, funds equal to at least 25 percent of the amount of peak deficit. For small

borrowers, the committee recommended working capital limit to be fixed on the basis of per acre scale of finance as may be determined by an area committee. Advances to the bought leaf factories holding registration certificates as small-scale industrial units should be eligible for classification as priority sector advances. (45) The planters complained that the banks followed diverse practices in the implementation of the norms of the Chore Committee. They felt the norms were restrictive in terms of objectives and scope and hence did not fulfil their needs. All these factors led to uncertainty and sickness of gardens. Accordingly, a sub-committee comprising the representatives of Reserve Bank of India, NABARD, Banks, Tea Board and the Tea industry was formed. Following the recommendations of the sub-committee, the Reserve Bank of India, advised the banks in December 1989 to follow a new system of financing, based mainly on the Chore Committee's recommendations with the following modifications:

1. Revenue inflows and outflows are to be shown separately in the Cash budget. The units were expected to meet the capital outflow from the capital inflow.
2. Diversion of short-term fund for long term uses were not permitted except in the cases where permission is obtained from the banks for a temporary period pending release of sanctioned development schemes under NABARD Refinance.
3. Provision for continuous updating/revision of cash budget and allowing drawing based on actual, against the budgeted deficits of inflows and outflows.
4. Provision for charging penal rate of interest in case of non-submission of stipulated reports and returns.
5. Outflows for production should be broadly in conformity with the area-wise standard unit cost to be fixed by a committee comprising of the representatives of Reserve Bank of

India, NABARD, Banks and the tea industry, which will meet every year under the convenorship of Tea Board. (46)

5.5. SUMMARY

The beginning of the history of tea in Darjeeling Hills can be credited to the British who endeavoured to nourish and develop the industry into what it is today.

The industry received sudden setback during the first world war of 1904. However, the situation changed after the end of the war owing to rapid expansion of export market. The transition from war to peace was marked by a short-lived but serious depression in the tea industry.

The onset of Second World War altered the whole pattern of demand and supply. The transfer of ownership from foreign to Indian companies started during the Second World War. Changes in ownership pattern received further impetus after the termination of II world war, when the government set up a number of reconstruction committees to plan for post war development. After independence, the socialistic concept of mixed came into existence characterised by planning and control of the economy and the gradual Indianisation of foreign investment in the country. The mixed economy also led to a plethora of legislations and controls affecting all aspect of tea industry. The introduction of the government's five year plans led the agency houses to believe that they would no longer be free to pursue their self interests unfettered, rather they would have to abide by the government policies and programmes. The most crippling of regulations came in the form of provisions of Indian Companies Act 1956 and its 1960 amendment, particularly the sections relating to managing agency. The foreign owned tea

companies were compelled to sell the gardens to the Indians. The proposed action of Indianisation of sterling companies took into effect from December 1976 onwards. This led to significant changes in structure and organisation of Darjeeling tea industry. There was a smooth switchover from British to Indian management. The frequent changes of ownership resulted in complete stagnation of the industry, and gradually sickness enveloped the entire industry. Sickness in gardens become a common phenomenon owing to a combination of factors like, Old Age of bushes, speculative character of merchant background planters, Bank finance and Liquidity crisis, and labour unrest.

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