

CHAPTER - 2

HISTORY AND DEVELOPMENT OF THE STATE CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANK LTD. (SCARD Bank Ltd)

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HISTORY AND DEVELOPMENT OF STATE CO-OPERATIVE AGRICULTURAL AND RURAL DEVELOPMENT BANK LTD.

Germany is considered as the birth place of state co-operative Agricultural & Rural Development Banking (Land Mortgage Bank or Land Development Bank). In order to provide large fund to farmers, the first 'Land schaft' was created in Silesia in 1769. The success of Silesia Land Schafled to the organisation of similar institutions for providing long term credit to farmers in various parts of Germany.

The development and the usefulness of the land credit institutions for supplying long term credit to farmers in Germany, has wielded great influence on other countries.

Sweden occupies second place in the world for organising Agricultural and Rural Development Banks.

In England under the 'Agricultural Credit Act' 1928. The Agricultural mortgage corporation was established to provide long term credit to farmers. Before this corporation, three companies viz - Land Improvement Company (1853), Scottish Drainage & Improvement company (1856) and Land Loan and Enfranchisement Company (1860) were provided long term loans.

In France long term credit is supplied by the 'Credit Foncier De France' which was established in 1852.

In Denmark 'Mortgage Association' of Denmark was established in 1861, in Japan 'Hypotec Bank of Japan' was established in 1896, and in U.S.A. 'Federal Land Banks and National farm Loan Association' was established in 1916 to provide farm mortgage credit.

2.1 NATIONAL LEVEL (India)

It was in 1863 that the first land mortgage bank, called the 'Land Mortgage Bank of India Ltd' was established by an English Company.

The loans were granted for seven years and the rate of interest varied between 8 and 10 percent. The bank carried on a profitable business throughout the India. There after its loan operations declined and the bank was closed shortly after 1885.

The first Co-operative Agricultural and Rural Development Bank saw the light of the day in Punjab when 1920 such a bank was organised at Jhang. Its membership was confined to land owners and agricultural credit societies. Loans were made for the redemption of loan for the liquidation of unsecured debts and for the improvement of unsecured debts and for the improvement of land. The individual loans were allowed upto 30 times of land revenue paid by the borrower. By 1931 there were 12 Co-operative Agricultural and Rural Development Banks in Punjab. These banks were,

however, far from successful. The depression, with the accompanying fall in land values and the existence of the Land Alienation Act mainly accounted for their failure, to which the defaults of directors and honorary workers who were themselves large borrowers also contributed.

In Bengal the first Agricultural & Rural Development Bank was registered in 1924 at Naogaon in the district of Rajshahi and other at Bhola in the district of Bakargani in 1927. Both these banks were limited liability institutions registered under the Co-operative societies act. In Assam the first Agricultural & Rural Development Bank was started in 1926 at Gauhati and the second one at Sylhet, in the following year. The Kamnyp Agricultural & Rural Development Bank at Gauhati was meant to provide loans for trade, commerce & industry.

The real beginning of the Agricultural & Rural Development Banking in India was marked by the establishment of the Central Land Mortgage Bank in Madras in 1929 for Centralising the issue of debentures and for Co-ordinating the working of primary banks in that province. This gave considerable impetus to organisation of new primary banks and within 10 years the number of such banks in Madras increased from 10 to 119.

In Bombay the formation of Agricultural and Rural Development bank was suggested as early as 1923 but the scheme could materialise by 1929. These banks advanced loans for the improvement of land and methods of cultivation. The installation or purchase of costly agricultural plants and machinery the redemption of mortgaged lands and houses and liquidation of old debts and the purchase of land for purposes of land improvement or for making better cultivation possible in the general interest of the community. These banks were authorised to advance loans to a maximum of 50 percent of the value of the encumbered land or in special circumstances of house property. The period of loan was from 10 to 30 years.

In other provinces the technique of Agricultural and Rural Development banking was either in adequately developed or hardly developed at all.

During the post independence period the war time phenomenon of restricted demand for loan was reversed. This was due to food shortage which assumed serious proportions and call for all out efforts for increasing agricultural production. Large-scale improvement in land and methods of cultivation assumed greater importance and land mortgage banks which had so far confined their attention to financing the discharge of old debts were required to play an effective part in providing finance in connection with land improvements also.

The period 1930-39 was one of the trials and tribulations for the land mortgage banks which were just beginning to function. They were organised in all the major provinces. Towards the middle of 1939 there were 226 Agricultural and Rural Development Banks with a membership of 80,000.

The period 1939-50 comprised of the war and the post-war period. The war period was comparatively one of stability for the Agricultural and Rural Development Banks. Since the membership of the central and primary Agricultural and Rural Development Banks increased.

2.2 STRUCTURE OF THE BANK

The co-operative credit structure for long term credit is both of federal type and unitary type. Federal type is one which operates through primary Agricultural and Rural Development Banks, the primary Agricultural and Rural Development Banks operate at district or taluka level. Where they directly deal with the farmers. These primaries have federated into the state Agricultural and Rural Development Banks at the state level. The State co-operative Agricultural and Rural Development Banks take care of them both in terms of finance and organisation. In Maharashtra before amalgamation this system was adopted.

TABLE NO. - 2.1
STRUCTURAL SET-UP OF THE A & R D BANKS IN INDIA
As on 30.6.1985

Sr. No.	Name of the State/Union Territories	Year of establishment	Structure	Operational Units			Total	Supervisory Units Regional Division District Office
				No. of Branches of CLDB	No. of Primary Banks	No. of Branches of Primary Banks Sub-branches		
1	2	3	4	5	6	7	8	9
1	Andhra Pradesh	1962	Federal	-	218	3	221	22
2	Assam	1955	Federal	-	21	-	21	-
3	Bihar	1957	Unitary	164	-	-	164	46
4	Gujarat	1961	Unitary	182	-	-	182	17
5	Haryana	1966	Federal	-	38	-	38	3
6	Himachal Pradesh	1961	Mixed	17	1	5	23	-
7	Jammu & Kashmir	1962	Unitary	26	-	-	26	2
8	Karnataka	1929	Federal	-	177	-	177	19
9	Kerala	1956	Federal	-	32	24	56	8
10	Madhya Pradesh	1961	Federal	-	45	305	350	8
11	Maharashtra	1935	Unitary	321	-	5	326	35
12	Orisa	1938	Federal	-	54	-	54	10
13	Pandicherry	1960	Unitary	1	-	-	1	2
14	Punjab	1958	Federal	-	44	-	44	-
15	Rajasthan	1957	Federal	-	35	90	125	8
16	Tamil Nadu	1929	Federal	-	183	-	183	14
17	Tripura	1960	Unitary	1	-	-	1	3
18	Uttar Pradesh	1960	Unitary	250	-	-	250	55
19	West Bengal	1958	Mixed	2	24	24	50	1
*State Co-op Banks								
20	Delhi	1963	Co-op. Banks	1	-	-	1	-
21	Goa	1963	- " -	1	-	-	1	-
22	Nagaland	1971	- " -	1	-	-	1	-
Total				967	872	456	2295	253

Source : National Co-operative Agricultural and Rural Development

Banks Federation Ltd., Bombay

Unitary type structure is one where in the state Agricultural and Rural Development Banks deals with the Farmers directly through its branches at district or taluka level. The main difference between a primary Agricultural and Rural Development bank and a branch of central Agricultural and Rural Development Bank is that the primary bank is an independent corporate body while the branch of ARD Banks is only an administrative unit operating under the control of the head office. This means that the primary bank is the institution which directly collects the mortgages, lends and recovers, loans in its limited area while in the unitary system it is the state Agricultural and Rural Development Bank which has to deal with a large number of ultimate borrowers.

In india, the structure of Agricultural and Rural Development Banks is one of the following four categories.

- 1) The usual type with the Central Agricultural and Rural Development Bank at the top and the Primary Agricultural and Rural Development Bank at base.
- 2) The Central Agricultural and Rural Development Bank advancing loans directly to the farmers operating through branches.
- 3) The Central Agricultural and Rural Development Bank operating through branches as well as primary banks.

4) The Central Agricultural and Rural Development Bank operating through separate departments of Central Co-Operative Bank of the State.

There is, thus no uniformity in India about the structure of Agricultural and Rural Development Bank.

Table No. 2.1 shows the structural set up of the Agricultural and Rural Development Banks in India. In 10 states the federal nature is applied, in 7 states unitary nature is applied, in two states mixed nature is applies. Mixed nature means central co-operatives banks gives long term loans to cultivators or farmers. In Delhi, Goa and Nagaland the state co-operative Bank providing long term credit to farmers through a separate department.

The Maharashtra Government changed the unitary structure with effect from May 1, 1973. It made a rapid progress in the loan operation and occupied the second position in respect of the loans disbursement in 1982-83 against fifth position occupied prior to this change, i.e. in the year of 1971-72.

The committee on co-operative Agricultural and Rural Development Bank (1975) has examined the relative advantages and disadvantages of the unitary and the federal structure of SCARDB and observed that " the main advantages of the federal structure as pointed out by the various committees are responsiveness to local needs, capacity for gathering resources and facility of recovery of loan due to

intimate contracts with the local non-official. The main advantages claimed for the unitary structure are facility of operation and unified control. We feel that the both the systems have their own advantages and disadvantages.

2.3 MAHARASHTRA STATE LEVEL

The subject of the formation of Land Mortgage Banks in Bombay province was first considered at the Gujarat Divisional Co-operative conference held in April 1923. In 1926 J.A.Madan, Esquire, then Registrar of co-operative societies submitted to Government a scheme for the institution of Land Mortgage Banks. Subsequently Government approved of the registration of three Land Mortgage Banks as an experimental measure. One of these banks was registered at Dharwar and the second at Broach in the year 1929. Both these banks had an area of operation coterminous with a revenue district. The third bank was started at Pachora in East-Khandesh district and had its area of operations restricted to one taluka.

The members of these experimental banks was restricted to borrowers only, but intending borrowers were permitted to be enrolled as members. The Board of Directors of the banks however, included (1) a nominee of the Registrar (2) a nominee of the Bombay Provincial co-op. Bank and (3) a person elected by the debenture holders residing within the area of operation of the bank. The functions of the Board were advisory and were confined to recommending of loans which were finally sanctioned by the Bombay provincial Co-Operative Bank and the Registrar. The limit of the individual loan was fixed at Rs. 10,000.

The experimental banks were financed by the Bombay Provincial Co-Operative Bank out of funds raised by the issue of debentures. Government purchased the debentures of the bank to the extent of Rs. 2 lakhs. Government also defrayed for one year the cost of employment of a land valuation officer appointed under each of the three banks.

The period which followed the organisation of these experimental banks was one of severe economic depression. The persistent fall in the prices of agricultural produce reduced the net profits of agriculture and increased the burdon of agricultural debts the demand for long term loans, both for redemption of old debts and for land improvements increased in volume and intensity and in 1933 Government appointed a committee to examine the question of development of land mortgage banking primarily with a view to relieve agricultural indebtedness. The report of that committee which was presided over by K.L.Punjabi, Esquire I.C.S. the then Registrar of co-operative societies, Bombay province, emphasised the necessity for the organisation of central Land Mortgage Bank for the province and recommended the extension of the land mortgage banks movement on well defined lines.

As a result of the recommendations of the Land Mortgage Committee, Government permitted the registration of 10 primary banks in the year 1935 of these, 3 were in

Karnataka division, 3 in Maharashtra division , 2 in Khandesh division and 2 in Gujarat division, only such of the area as were geneally immune from famine and scarcity were selected for the establishment of these new primary banks Government also permitted, in the year 1935, the registration of the Bombay Provincial Co-operative Land Mortgage Bank. The bank was formally opened by His Excellency the Governor of Bombay on 15th January 1936 and was fortunate in having as its first President, the late Sir Labubhai Samaldas, one of the eminent founders of the Bombay Provincial co-operative Bank.

Recently, with the initiation of the debt relief legislation in the province the need for an increase in the number of Primary Land Mortgage Banks was felt and four more banks were allowed to be established. Of these, two were in Dharwar district in the Karnataka division and two in Thana and Kolaba districts of the Kokan division. Thus at the end of June 1947, there were, in Bombay Province, 17 primary banks, of which 14 were started under the new scheme and 3 under the old scheme. The banks started under the old scheme have now adopted the new model by laws and their existing liabilities to the Bombay Provincial Co-Operative Bank are being gradually transferred to the Bombay Provincial Co-operative Land Mortgage Bank.

Membership in a primary bank in Bombay Province is of two classes, viz, A & B. Both borrowing and non

borrowing members fall in class A. An applicant for membership is required to state in his application as to whether he intends to join as a borrowing member or as a non borrowing member. A borrowing member may be admitted to membership on his paying the full face value of at least one share of Rs. 5. While a non borrowing member is required to subscribe for and pay the full face value of at least 10 shares of Rs. 5 each, before he can exercise the right of a member. Again borrowing and non borrowing members from separate constituencies for the election of the Board of Directors.

At the end of June 1942 the 17 primary land Mortgage banks in the province had 3869 'A' class borrowing and 895 a class non borrowing members. The paid up share capital held from borrowing members was Rs. 216470 and that held from non borrowing members was Rs. 129845. The outstanding from members at the close of the year amounted to Rs. 3331203. The overdues amounted to Rs. 67463 against principal and Rs. 47749 against interest and constituted an unfavourable feature of the working of some of the banks.

TABLE NO. 2.2

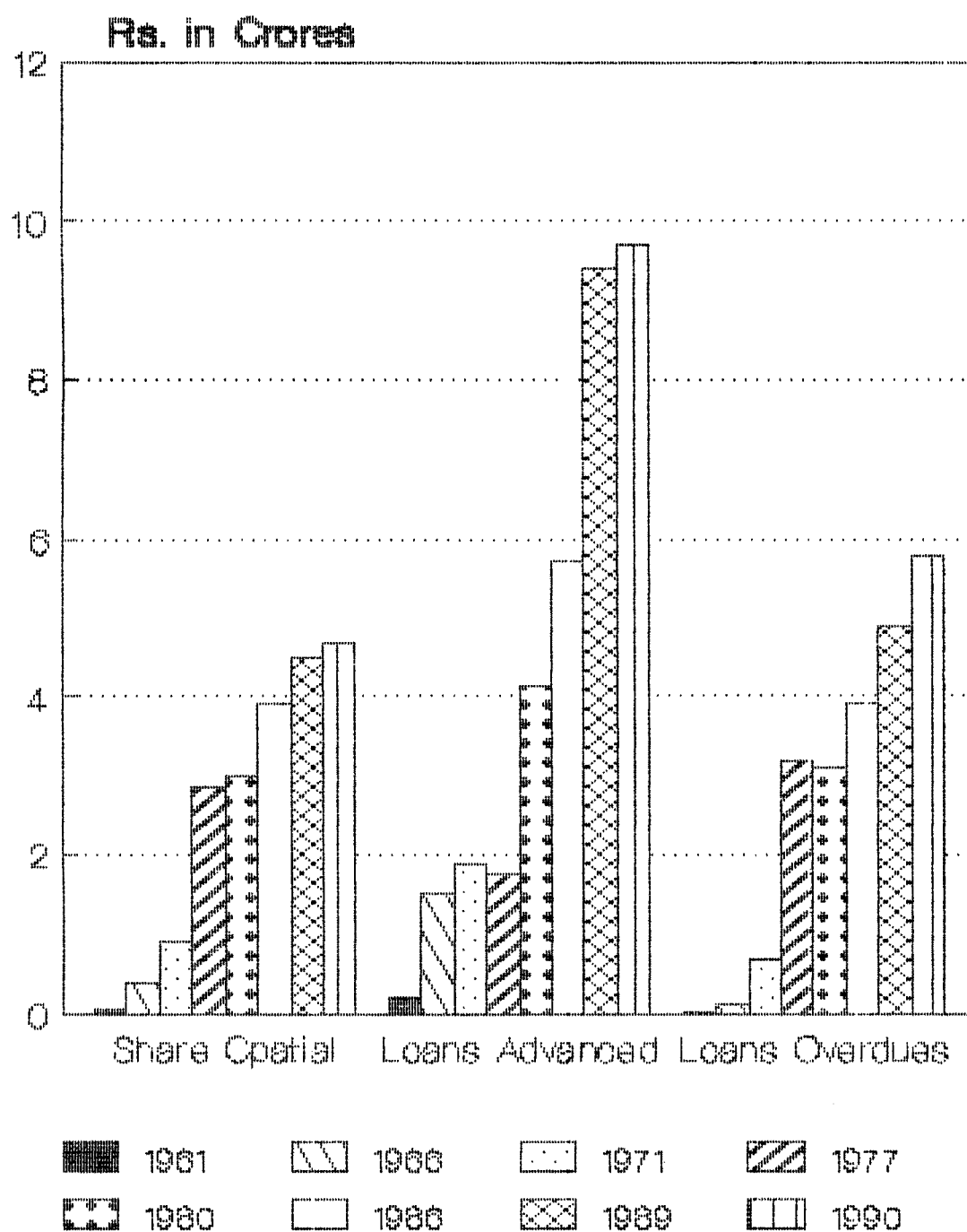
**Progress of the Maharashtra State Co-operative Agrucultural
and Rural Development Bank Ltd., Bombay Head Office**

Sr. No.	Details	1961	1966	1971	1977	1980	1986	1989	1990*
1.	Membership	8	5	55	708	736	870	902	910
2.	Share Capital	51	372	887	2866	3005	3931	4507	4664
	of which Government	20	110	110	603	603	493	493	493
3.	Owned funds	53	399	1051	3636	4396	9572	11707	12745
4.	Borrowing Outstanding	658	5160	14511	20268	19481	35480	48779	56695
5.	Working Capital	746	5984	15752	28537	29395	49478	65634	70000
6.	Loans Advanced	215	1520	1880	1769	4133	5722	9391	9718
7.	Loans Recovered	44	369	745	1463	2218	3184	4156	3532
8.	Loans Outstanding	576	4606	11556	16127	19482	35628	49246	55432
9.	Loans Overdue	23	123	686	3176	3097	3905	4905	5782
10.	Percentage of Overdues to Outstanding	4.0	-	5.9	-	-	10.9	10.9	10.4
11.	Debentures Issued	350	1375	2320	1597	2969	4973	7749	9389
12.	Debentures Redeemed	NIL	13	158	1009	2154	3971	4291	3668
13.	Debentures Outstanding	536	4996	14484	20236	19437	34315	45427	51147
14.	Demand	N.A.	-	1337	5974	4130	7089	7245	9314
15.	Collection	N.A.	-	681	2209	2218	3184	3252	3472
16.	Percentage of Collection to Demand	N.A.	-	50.9	-	-	44.9	44.9	37.3
17.	Amount of Profit	1	24	7	85	155	7	2	5
18.	Amount of Loss	-	-	-	-	-	-	-	-

Reference - Co-operative Movement at a glance in Maharashtra
State.

Note : 1. Rs. in Lakh
2. N.A. - Not Available
3. Membership in Thousands
4. * - Provisional

Progress of the MSCARD Bank Ltd., Bombay.



2.4 PROGRESS OF THE MSCARD BANK LTD, BOMBAY

Table No. 2.2 describes the performance of the MSCARD Bank Ltd., with help of the indicator given in that table. It is observed that membership of the bank was stable till 1971. It showed its faster growth from 1980. Onwards the membership was 7.36 lakhs which increased to 9.10 lakhs in 1990. It is a permanent feature of the capital structure of MSCARD Bank Ltd., that more than 80% of the share capital is owned by the cultivators, which is increasing at slower rate from 51 lakhs in 1961 to 887 lakhs in 1971. In 1990 share capital was 4664 lakhs, whereas the working capital is increasing at faster rate from Rs. 293.95 crores in 1980 to 700 crores in 1990. It is interesting to note that the loaning operations of the MSCARD Bank are quite satisfactory. The amount of long term loan advanced by MSCARD Bank increased from 41.33 crores in 1980 to 97.18 crores in 1990.

2.5 AMALGAMATION AND REORGANISATION

The Maharashtra State Co-operative Land Development Bank Limited, Bombay as it existed before 1st May 1973, was an Apex Bank for the various Primary Land Development Banks at the district level with their branches in the talukas. The Apex Bank and the Primary Land Development Banks functioned as separate legal entities under the Maharashtra State Co-operative Societies Act. The set up was essentially

federal in nature with the common objectives of land development increase in agricultural productivity and diversification of agriculture. The Apex Bank raised funds needed by the primaries for loaning and exercised general control over them to ensure proper administration and effective realisation of the objectives.

In the context of the implementation of the Maharashtra Agreement (Maharashtra Agricultural Credit Project) between the state of Maharashtra and International Development Association, the Government of Maharashtra considered that it is essential in the public interest and in the interest of the Co-operative movement that all the Primary Land Development Banks in Maharashtra should be amalgamated with Maharashtra State Co-operative Land Development Bank Ltd., Bombay and that the State Co-operative Land Development Bank should be properly reorganised. After following the procedure prescribed in sub-section (2) of section 18 of the Maharashtra co-operative societies Act, 1960 and in exercise of the powers conferred by section 18 read with sections 112 and 144-A of the Act and Rule 17 of the Maharashtra co-operative societies Rules, 1961, the Government of Maharashtra issued the order dated 26th April 1973 (Government of Maharashtra, Agriculture and co-operation Department, order No. LDB-1472/32688-C-1, dated 26th, April 1973).

The important provisions of which were as under -

1) As from the 1st, May 1973 all Primary Land Development Banks (P.L.D.Banks) were deemed to be amalgamated with the Maharashtra State Co-operative Land Development Bank Ltd (M.S.C. LD Bank Ltd.) Bombay and the registration of those P.L.D. Banks stood cancelled from that date.

2) As from the 1st, May 1973

a) All the Assets and Liabilities of these P.L.D.Banks stood transferred to and rested in the M.S. C.L.D> Bank Ltd.

b) All persons who were members of these P.L.D. Banks before the 1st, May 1973, were deemed to be duly admitted members of the M.S.C.L.D. Bank Ltd. and acquired all rights privileges and liabilities of members of the M.S.C.L.D. Bank Ltd. under the Maharashtra Co-operative Societies Act 1960, the Maharashtra Co-operative Societies Rules 1961 and the Banks Bye-laws made there under.

c) All persons who were officers and servants of these P.L.D. Banks immediately before the 1st, May 1973 became the officers and servants of the M.S.C.L.D. Bank Ltd., and on the then existing terms and conditions of service.

d) The M.S.C.L.D. Bank Ltd was required to open its branch offices at all places where these P.L.D. Banks had their Head or Branch office in each district. Advisory committees were to be constituted to advise and assist the Manager in each district, in the exercise of his powers and performance of his duties in the event of difference of

opinion or any matter between the committee and the manager. The Manager is required to refer the matter to the Board of Directors whose decision is final.

e) A Board of Directors presided over by a Chairman was constituted with over all powers of superintendence, control and direction of the Banks affairs and activities subject to the provisions of the Maharashtra co-operative societies Act, 1960, the Maharashtra state co-operative societies Rules, 1961 and the banks bye-laws.

f) An executive committee of the Board of Directors was formed with powers to exercise all the powers of the Board and to be in charge of day to day management.

2.6 SHOLAPUR DISTRICT LEVEL

Every farmer requires two types of loans 1) short term loan 2) Long term loan. Before establishment of the Sholapur District Co-operative Land Mortgage Bank, farmers were taking long term loans from Sholapur District Central Co-operative Bank. In the Sholapur District Central Co-operative Bank, there was separate department for sanction of long term credit. At that time, the Sholapur District Central Co-operative Bank was working as a agent of Bombay State Co-operative Land Mortgage Bank. At that time sanction of loan was in the hands of Bombay state co-operative land Mortgage Bank. By this reason much time was required to

sanction the loan so farmers were unhappy and were not satisfied for taking loans from the Sholapur District Central Co-operative Bank.

The conference of District field workers was held at Sholapur in January 1958. In that conference all the members of conference discussed on establishment of separate institution for long term finance and they had taken decision regarding establishment of the Sholapur District Co-operative Land Mortgage Bank. For the establishment of the Sholapur District Co-operative Land Mortgage Bank, Co-operative workers, Co-operative Department and Sholapur District Central Co-operative Bank had made efforts. They succeeded in their efforts. The Sholapur District Co-operative Land Mortgage Bank Limited was established on 1st January 1959. This Bank was registered under co-operative societies Act 1961. The registration no of the bank was 24690/1-1-1959. After the establishment of bank, the bank was started for sanctioning loans to digging the wells and reconstruction of wells. Government loans were also given by this bank at that time. In the year 1959-60 the bank was given loan for 105 new wells and for 15 old wells for repairing.

For the establishment of the Sholapur District Central Co-operative Land-Mortgage Bank Limited, following persons have made efforts Shri Shankarrao Mohite-Patil, Shri. Kisanlal Marwadi, Shri. Ganapatrao Sathe, Assistant Registrar co-operative societies and District Project Officer.

The first Board of Directors were as follows :-

- 1) Shri K.R.Marwadi - Chairman
- 2) Shri G.D.Sathe - Director
- 3) Shri J.H.Girame - Director
- 4) Shri N.M.Jagtap - Director
- 5) Shri S.N.Mohite - Director
- 6) Shri M.L.Patil - Director
- 7) Shri R.S.Dhavate - Director
- 8) Shri S.N.Chandane - Director
- 9) Shri B.V.Bagal - Director
- 10) The Registrar, Co-op.societies Sholapur
District (Ex - Officio)
- 11) The District Project Officer, Sholapur
District (Ex - Officio).

Shri B.V. Bagal was the nominee of Bombay State Co-operative Land Mortgage Bank Limited. Shri B.B.Ligade was the first General Manager of the Bank. At the first some years the bank had been taken loan from the Bombay state co-operative Land Mortgage Bank Ltd and was giving loans to the famers. On the 1st May 1973 this bank was amalgamated with the Maharashtra State Co-operative Land Development Bank Limited , Bombay.