CHAPTER -I

INTRODUCTION

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Long-term loans are meant to be paid over a period longer than five years, may be 10, 20 or even more years. Most of their uses relate to the basic factors of agriculture namely land, and for this reason many prefer to designate these loans as real estate loans. Among the uses, the principal ones are : purchase of farm or buying of additional land; financing of buildings relating to farm-operations like storage or even for residential purpose on the farm; provision of drainage, reclamation of land; and other improvements, digging and repairs of wells, installation of lift-irrigation schemes, construction of godowns, development of horticulture etc. These uses of long-term credit are such that repayments cannot be made in a few years, but have to be spread over very many years. In short, credit is of paramount significance for agriculture.

Two-tier Structure for Long-Term Credit :

The nature of Long-term credit being different from that of short and medium term credit, a separate organisation, called Land Development Bank (LDB) (formarly Land mortgage Bank) has come into existence. Structurally it is a two-tier system. At the apex of the structure is the apex bank, i.e., a central land development bank in each State. Below that, i.e.,at the second tier level there are District or Taluka level primary banks. This is a federal set-up. In some States, however, there are no primary banks. The State LDB does the financing through its District Level branches and a network of sub-branches at Taluka or below Taluka-level. This is unitary structure. Thus there are these two types of structures.

Long-term financing in India dominated till today by co-operative Land Development Banks, (LDB). The first Land Development Bank then known as Land mortgage Bank was established in this country at ' Jhang' in 1920. Some more banks of this type were established before the depression of 1930 but were closed down as they were not successful. Actually the real beginning of land development banks on organised basis was from 1920 when a bank of this type was established in Madras. In this regard the Reserve Bank of India, in its report on " Review of Co-operative Movements(1930-40)", States that " successful land mortgage banking in India dates back to 1929 when the Central Land Mortgage Bank was established in Madras to controllize the issue of debentures and to co-ordinate the working of primary banks", but it received a set-back again during world War II. In 1985-86, there were 1784 primary and 19 Central Co-operative Land Development Banks working in the country.

Moneylenders usually hesitate to lend money for long term needs. The commercial banks too generally issue loans for short or medium term to the farmers. The primary co-operative credit societies collected loans from the central co-operative banks on short term securities and so do central bank. Thus existing institutions were not of much use for the farmers in the case of long term loans. Therefore, the idea of land mortgage banks was given shape in 1926 in the Registrars' Conference. Regarding the need for land mortgage banks, the Rural Credit Survey Committee (RCSC) Stated: " The Strong Central and Primary Land Mortgage Banks are one of the foremost needs of the country's agricultural development today". On the recommendation of the RCSC the original name " Land Mortgage Bank " was changed to " Land Development Bank".

The suggestions made by the All India Rural Credit Review Committee 1969 may also be noted. The Committee stated : " The present lending policies and procedures of the LDBS should be reviewed in a comprehensive manner and revised in all necessary aspects so as to bring them in line with the requirements of sound investment credit and to ensure the optimum use of scarce long term resources. In particular these banks should go into technical feasibility of the imorovement or investment to be financed, the economic viability of the proposition in relation to the size of holding and the nature of farm business of the borrowers, the increase in production and time expected for the result from the investment and for repayment from funds so generated, the period for which the loan may be sanctioned and the extent to which the cultivators of different classes may be expected to finance such outlay from their own resources. The land development banks should take up the scheme of rural debentures in right earnest and should make determined efforts to collect rural saving from cultivators". It may be noted at this stage that the LDB's main resources came from issue of debentures & the rural debentures were meant to be issued to the individuals in rural area.

Multi-agency approach :

Multi-agency approach in the field of agricultural credit is accepted as a policy by the Central government in the late 1960s.

As a result, there are a number of institutions in the field providing credit and services to the farmers. Multi-agency approach was accepted in view of the fact that no single agency was in a position to cater to the growing needs of farm sector. Consequently commercial banks entered the field of agricultural credit in a big way , particularly after the nationalisation of 14 major banks in the country in 1969. Lateron, in the 1970s, were established the Regional Rural Banks (RRBs). Commercial, particularly nationalised banks started providing all types of loans viz., short , medium and long term in 1969. The state co-operative banks provide short and medium term loans and land development banks long term loans, despite the fact that commercial banks provide developmental finance and the short term credit structure provides medium-term loans for developmental purposes, the business of land development banks has in no way shrinked. They have withstood competition in-spite of several restrictions and constraints imposed on them. Even to-day the loan advanced of long term co-operative credit structure account for a major portion of the total long term developmental finance being provided for agricultural development in the country. When the commercial banks, RRBS etc. took up financing farmers, it was expected that these organisations would play supplementary role considering the immense potentiality and almost unlimited credit requirements of farmers. It was never envisaged to support any of the existing agencies. Under the multi-agency approach, there is no reason as to why the land development banks should not be allowed to function as specialised agency to provide long-term developmental finance. It will be in no way advantageous or desirable to disturb the present arrangement for the sake of establishing one contact point at the primary level.

Commercial Banks & Agricultural Credit :

A worthy mentioning activity of commercial banks has been to help the farmer with small means of perhaps no means. For an urban-oriented banking institution, this is novel in practice but beneficial in effect. In this connection a special mention may also be made of farmers' service Societies. Banks render a lot of help in the establishment and running of these societies by making contribution to the part purchase of their shares, and in meeting the remuneration of their managing directors for a period of three years. These societies provide short, medium and long term advances to their members who are mostly small farmers. Another medium for helping small farmers has been the extension of finance on group basis. For example a small farmer, with tiny piece of land, cannot use economically a pump set, or a small tubewell, even if finance is given and even if potential for water exists. In such cases the plot of land with irrigation potential is identified. Farmers with adjacent small plots of five to seven acres in a compact unit are located, and encouraged to form groups for obtaining the irrigation facilities collectively. The burden of loan is also apportioned among the members of the group as per the size of individual holding in a command area. This enables farmers to make optimum utilisation of the irrigation work. Economic feasibility thus assured, commercial banks provide much of the cost of aquiring equipment.

Commercial banks have been meeting the needs of agriculture, both directly and indirectly, direct financing is both short term of seasonal type and medium term. The former, normally repayable within a period of one year, and sometimes extending to 18 months in special cases, is meant for the purchase of inputs, like seeds, fertilizers, pestisides etc., as also to meet the expenses of cultivation such as cost of labour, irrigation charges etc. Medium term loans, repayable over a period of around 5 years, are supplied for the purchase of tractors and other agricultural machinery.

Besides the direct finance for agriculture and allied activities commercial banks finance agriculture indirectly. This they do by making provision of credit to activities closely bearing on agricultural operations. These include provision of financial assistance to individuals and agencies for such purposes; distribution of fertizers, and other agricultural inputs; energisation of wells, loans to producers of sugarcane through sugar factories; loan to farmers through agricultural credit societies. These credits have the effect of facilitating operations of farmers, and, therefore, in essense, if not in form, are like direct financing of agriculture.

Regional Rural Banks (RRB) :

These banks came into existence some 12 years back, the first bank having been established in 1976. RRB provides banking services to a class of borrowers, namely small/marginal farmers, artisans etc; in

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the rural area, to whom institutional credit was hitherto not available. These banks have been sponsored both by the Government, as also by commercial banks. This is mostly to fill the gap in the credit set-up at the intermediate level. At the base level, the co-operative credit structure constituted of Primary Agricultural Credit Societies (PACS) and Farmers' Service Societies (FSS), is to remain in fact. Wherever PACS and FSS can be effectively organised these will, as before form the base of credit structure. RRBS, will function at the intermediate level. As such its status can be linked to central co-operative Banks (CCBS), which operate over and above the institutions at the base. It is a gap-filling institution both where co-operative credit is weak institutionally, as also where co-operative credit is inadequate for the rural needs.

For the first 3 to 5 years the rural bank should be allowed concessional refinance facilities that are now available to the co-operative banks. Such concessional credit facilities should mainly be restricted to that class of farmers, small artisans, industralists, etc. whose annual income individually does not exceed a given specified amount. The bank should be free to charge economic rates of interest to that class of farmers whose operations are large and who can do without subsidized credit. RRBs numbered 159 in March 1984 with a branch net-work of 8213 branches covering 281 districts in the country. The Dantwala Committee on RRBs rightly observed that within a short span these banks have demonstrated their capability to serve the purpose for which they were established

Agricultural Finance Corporation of India (AFC)

A notable development in the field of institutional finance for agriculture was the establishment of the Agricultural Finance Corporation Ltd. in April 1968. It was promoted by the Indian Banks Association with a view to financing priority agricultural projects and helping commercial banks to participate actively and extensively in the development of agriculture.

Agricultural Refinance and Development Corporation of India(ARDC)

The Agricultural Refinance of Development Corporation (ARDC) was set up in 1963. The prime objective of this corporation is to provide medium and long term credit by way of refinance or otherwise for the development of agriculture. It will help to remove regional imbalances by promoting agricultural development in neglected areas. Alongside this, special attention will be paid for promoting the interest of small and marginal farmers. With the establishment of ARDC, the long term lending for agricultural development received a new orientation. It became more and more and more scientific (with the introduction of concepts like repayment with the help of incremental income etc) and production-oriented as against the original security oriented lending. ARDC was lateron merged with NABARD.

National Bank for Agriculture and Rural Development(NABARD).

NABARD was created under an Act of Parliament and came into existence on July 12, 1982. NABARD was, therefore, designed as

Apex institution in the sphere of agriculture and rural development by merging together the Agriculture credit Department of the RBI which supervised agricultural credit and the ARDC.

Under Sec.25 of the National Bank for Agriculture and Rural Development-Act of 1981, NABARD will provide long term loans and advances by way of refinance.

NABARD, like RBI, will extend loans and advances to State Government for period not exceeding 20 years to enable them to subscribe directly or indirectly to the share capital of the co-operative sector. It will also give long term loans directly to any institution approved by the Government of India. It will also contribute to the share capital or investment in securities of any institution concerned with agricultural and Rural Development. NABARD gives long term loans and advances by way of refinance to LDBS, scheduled Banks, RRBS, SCBS and other financial institutions.

District Central Co-operative (DCC) Banks and Long-Term finance :

DCC Banks have been organised since the passing of the co-operative societies Act of 1912. As for the importance of these co-operative banks, the All India Rural Credit Survey Committee remarked " The position of Central Co-operative Banks is of crucial importance in the co-operative credit structure. They form an important link between the State Co-operative Banks and the Primary Agricultural societies at the base".

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The loans supplied by the DCC Banks reach the members through Primary Agricultural Credit Society or any other type of society.

Kolhapur District Central Co-operative Bank Ltd.,Kolhapur (henceforth called " The Bank") entered the field of long term financing during the year 1982-83.

The Bank has been allowed by the Commissioner for co-operation and Registrar, Co-operative Societies, Maharashtra State, Pune to work as Land development Co-operative Bank under Sec. 142 of the Maharashtra Co-operative Societies Act (MCS Act) 1960. This is to be explained later in Chapter No.III.

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