CHAPTER - II : COOPERATIVE LAND DEVELOPMENT BANKS AND AGRICULTURAL DEVELOPMENT

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CHAPTER - TWO

COOPERATIVE LAND DEVELOPMENT BANKS AND AGRICULTURAL DEVELOPMENT

I. NEED FOR INSTITUTIONAL CREDIT SUPPLY

The Indian economy is essentially a agricultural based economy. Agriculture contributes nearly 45% of National Income and nearly 70% of India's population, depends upon agriculture for their living. Its share in India's exports in the early period of development it was also important and even today its share in our exports is important. Majority of the Indians stay in rural areas and therefore, their source of income is directly related to agriculture. In addition the industrial development of India is also related to agriculture as agricultural sector provides raw materials as well as a market for industrial production. Moreover, agro based industrialisation also depends upon agricultural production. In such circumstances, increased agricultural production and growth in agricultural productivity are very essential for sustained economic development of India.

For increased agricultural growth provision of credit to the majority of Indian farmers is one of the factors which is important. The average Indian farmer is poor and hence has no sufficient finance to undertake improvements on his land. Provision of adequate and timely credit is important because with credit land improvements and adoption of new farm technology is possible. For the provision of adequate and timely credit institutional credit supply is necessary as the private agencies more or less exploit the farmers. Institutional credit supply will assure sufficient and reasonable credit supply to Indian farmers. Even before Independance the British Government as a part of their economic policy were trying to develop the cooperative banking structure as an institutional agency for agricultural credit supply, to remove the farmers from the vicious circle of indebtedness. Under planned economic development the Indian Government through Cooperative Banks, Nationalised Banks, Regional Rural Banks etc., has developed a multi-institutional approach to provide credit to farmers. Development of institutions helps the farmers in two ways -

(1) It reduces their dependance on private agencies who exploit them.

(2) It ensures sufficient credit supply at reasonable rate of interest and conditions to the farmers moreover when the institution providing agricultural credit are developed on cooperative basis the farmers themselves are associated with their establishment and organisation.

The importance of institutional credit supply was given ~~the~~ due importance when agricultural strategy for development were implemented under planning in India. Upto 1969 the cooperative banking structure was given the sole responsibility of providing agricultural credit. After 1969 the multi-agency approach was adopted under which along with cooperative banks, nationalised commercial banks, regional rural banks, S.F.D.A. and M.F.A.L. agencies worked together to provide agricultural finance. At present a separate agricultural national bank NABARD is also working to co-ordinate and assist these agencies providing agricultural credit to farmers.

By and large these institutional agencies are expected to perform the following functions :

(1) To facilitate and encourage savings and their mobilization for productive investment.

(2) To reduce the cost of credit administration.

(3) To pool the risks of lenders.

(4) To increase competition between private money-lenders and effectively counter the local monopolies which may of them enjoy.

(5) To help farm families fully to understanding the opportunities which uses of credit afford and in this way as well as by flexible repayment provisions.

(6) To minimise the risks of the losses by borrowers.[1]

The All India Rural Credit Survey Committee had stated the following main requirements of institutional system of rural credit.[2]

(1) It should be associated with the policies of the state.

(2) It must be an effective alternative to the private agencies of credit.

(3) It should have the strength of adequate resources and of well trained personnel.

(4) The system has to be co-ordinated not only internally in relation to the different institutional sectors pertaining to short term, medium term and long term credit but also with complimentary institutional

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1. Rural Progress through Cooperatives, United Nations, 1954, quoted in B.S. Mathur, 'Land Development Banking in India', 1974, p.8.

2. Report of the All India Rural Credit Survey Committee, Vol. II (1954), p.162.

arrangements for marketing, processing and other important economic activities of the cultivator.

(5) While providing adequately for essential items of consumption, its main concern should be with loans for production.

(6) The period and rate of interest of different types of loans should be related to purposes for which they are borrowed.

(7) The type of security should be such that as large a number of solvent producers as possible can avail themselves of credit on the basis of such security.

(8) A large part of the credit should be advanced to the producer on the strength of his anticipated crops.

(9) The credit agency should be in a position to co-ordinate its activities with those of all the important institutional agencies including government.

(10) It should also be one which disburses its credit in a positive and constructive way and constantly has in mind the borrower's legitimate needs and interests.

(11) It should exist in the village in some form of association of the producers who borrow.

II. LONG TERM FINANCE AND AGRICULTURAL DEVELOPMENT

Normally there are four important ways of classifying agricultural credit -

(1) Periodwise, purposewise, securitywise, creditorwise. However, periodwise classification is commonly followed and according to it agricultural credit is classified as short-term credit, medium term credit and long-term credit. Short-term credit is given for seasonal agricultural operations which help the farmer in his crop-production and also satisfy some of his consumption needs. They are provided for a period of less than 12 months and the repayment is normally done through the annual income of the farmer. Short-term loans are given for purchase of seeds, fertilizers and other farm inputs. In India short-term loans are also provided without security in the form of croploans. These loans have to be provided as quickly as possible and should carry a lower rate of interest.

Medium-term loans are given for a period between 12 months to 5 years. These loans are given for minor land improvements and purchase of agricultural implements. Medium term loans can be broadly classified into two categories according to the purchase for which they are given .

(1) Those connected with maintenance or replacement of existing production assets.

(2) Those which are given for financing new investment for improving the productive capacity of the farm.

Long-term loans are given for a period between 5 to 20 years. Long-term loans are given to undertake permanent improvement on land which in the long run increases agricultural productivity. Permanent land improvements are necessary in a developing economy if agricultural production is to increase over a period of time. Development of irrigation, farm mechanisation, application of new technology all require long term finances. Long-term loans given to farmers are relatively more in amount and their repayment is done normally through the net savings of the farmers. Their repayment also starts after a time period and the repayment is spread over a number of years. Long-term loans are mainly security oriented and are not given before proper scrutiny of purpose valuation of security and credit worthiness of the farmer is ascertained. The purpose for which long term loans are provided are broadly as follows -

(1) Digging and repairs of wells, tanks etc.
(2) Preparation of land for irrigation.
(3) Reclamation, bunding and land improvement.
(4) Construction of farmhouses, cattle sheds, and machine sheds.
(5) Horticulture.
(6) Purchase of oil engines.
(7) Purchase of tractors and other agricultural heavy machinery.

(8) Purchase of machinery for crushing sugarcane, manufacturing gur or khandsari.

(9) Purchase of land for consolidation of holdings.

(10) Erection or repairing of house for agricultural purposes.

(11) Purchase or acquisition of title to agricultural lands by tenants and

(12) Liquidation of debts.

An analysis of the above purposes indicates that long-term loans lead to land improvements, increase water availability and develop ancillary activities which in the long-run increase farm production and productivity which is basic and crucial for agricultural growth in a developing economy. Moreover, such improvements increase the farmers income and help him to live a better standard of living. Such developments also lead to cash-crop cultivation, multiple cropping pattern, and double cropping which increase farm production. Application of mechanisation and adoption of new farm technology also can be encouraged through provision of long-term finance. Thus, long-term finance and agricultural growth are closely related. Long-term credit supply thus, becomes a crucial factor on which agricultural growth depends.

III. NEED FOR SEPARATE COOPERATIVE LAND DEVELOPMENT BANKS IN INDIA

As noted above, long-term finance thus, is a crucial aspect of agricultural credit lending. Due to the importance of long-term finance it became important to develop a separate institutional agency for its supply as the existing institutional agencies, namely private agencies, cooperative credit societies, commercial banks etc. were not considered suitable and adequate to meet the long-term credit needs of the farmers. Credit supplied by money lenders is costly and has not proved beneficial to the farmers as it hardly provides any incentive to effect improvement on the land. The main objective of the credit provided by them is not to increase agricultural production but to bring the farmers in the grip of perpetual indebtedness.

Moreover, the private money lenders will neither grant loans for sufficiently long periods nor will be willing to accept part payment which will be within the means of borrowers.

The commercial banks could not supply long-term credit, as most of them depend on short term deposits. These banks cannot afford to lock-up their short-term reserves in long-term loans. Mortgage lending is against the principles of deposit banking. Moreover, private commercial banks in India, prior to nationalisation were more interested in financing trade, industry and commerce rather than agriculture as it was more safe and profitable for them to undertake this type of financing. As in case of commercial banks the resources of both state and cooperative banks mainly consists of short-term deposits and short-term borrowings from the Reserve Bank of India. So it is not possible to lend long-term loans from short term resources. Moreover, the responsibility of long-term finance, would also over burden them.

The primary credit society, by its very nature is not suitable for the supply of large and long-term credit. The funds of the society are made up of short-term loans and deposits and mostly limited in volume. Redemption of large old debts and investments in permanent improvements to lands require large sums of money for long periods.

In the early stages of the development of the cooperative movement in India, the primary credit societies supplied short and long-term loans. The loan was usually sanctioned for a year and then it was renewed from year to year, as a matter of course it became a long-term loan. The result of this policy was that a large number of farmers came to grief and the number of defaulters mounted. Thus, it came to be known that primary credit societies were not a proper agency for supplying long-term credit. In addition the primary cooperative societies were not performing their functions in a satisfactory-manner and in such a situation, burdening them with the role of long-term lending would put more pressure on their performance. Long-term lending in addition required competent and trained staff in the field of valuation, verification of records, etc. which was not available with the cooperative banks. Due to all these factors, in India, separate cooperative land development banking structure was evolved to provide the much needed long-term finance to Indian farmers, whose main objective was to attract long-term loans through issue of debentures and invest them in long-term advances to farmers. Creation of separate land development banking structure was recommended by various committees. As early as 1926 the Registrar's Conferences strongly recommended the formation of land mortgage bank on cooperative basis. The Royal Commission on Agriculture, the Central Banking Enquiry Committee, the Rural Banking Enquiry Committee all favoured the creation of Cooperative Land Mortgage Bank to provide long-term finance to Indian farmers. The All India Rural Credit Survey Committee also stated that, "Strong Central and Primary Land Mortgage Banks were one of the foremost needs of the countries agricultural development."[3] Based on these recommendations the two tier structure of Cooperative Land Mortgage bank developed in India. Through which long-term loans were provided to Indian farmers. Upto 1969 they were the only agencies alongwith State Bank of India who provided long-term loans to agricultural but after the adoption of multy agency approach for agricultural lending. Nationalised Banks also provide long-term credit to Indian farmers.

IV. LONG-TERM AGRICULTURAL CREDIT POLICY IN INDIA

(a) Cooperative banking structure developed in India as a official policy since 1904. In the initial period the primary cooperative credit societies undertook mixed banking and provided long-term loans. However, there performance as far as long-term lending was not satisfactory. Therefore, separate Cooperative Land Mortgage Banks were established whose formation was strongly recommended by the MacLagan Committee (1915). In the beginning the Land Mortgage Banks, mainly provided loans for redemption of old debts and mortgage of land. The Registrar's Conference, 1926 laid down the following conditions for which long-term loans were to be provided -

(1) The redemption of land and houses of farmers.

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3. Report of the All India Rural Credit Survey Committee, Vol.I, p.437.

(2) Improvements on land and method of cultivation.

(3) Liquidation of old debts and

(4) Purchase of land in special cases.

In the initial period these banks provided more loans for redemption of old debts and neglected loans for productive purposes.

(b) Policy ~~in~~ during Planning Period

After-Independance and with the adoption of planning in India, more importance was given for capital investment in long-term lending. The All Indian Rural Credit Survey Committee, wanted reorientation of the lending policy of the Land Mortgage Bank and wanted them to provide more loans for productive purposes. The Committee stated that priority in long term lending should be given for loans for land improvements and purchase of agricultural machinery. The Central Land Mortgage Banks were asked to guide the Primary Land Mortgage Banks in this respect. The Reserve Bank of India stated that the following were the productive purposes for which 80 percent of the total loans of Land Mortgage Banks should be reserved.

(1) Sinking of irrigation wells.

(2) Repairs and construction of tanks for agricultural purposes.

(3) Purchase of oil engines, electric motcrs, and pumpsets.

(4) Bunding and levelling of lands.

(5) Purchase of tractors and other agricultural machinery.

(6) Construction of pucca farm houses, cattle sheds etc.

(7) Raising of fruit gardens.

As a part of this policy to stress the productive nature of its loan financing the name of the cooperative land mottgage banks were changed to Cooperative Land Development Banks. As a result of this policy in later years we find the LDBS providing more loans for productive purposes rather than redemption of old debts.

Since 1967-68 the LDBS in India have adopted production oriented system of lending under which 80% of their loans are for productive purposes.

The main features of production oriented system of lending are as indicated below :

1) Fixing of norms regarding cost of development for different purposes for which investment credit is to be provided.

2) Assessment of the repayment capacity of borrowers taking into account the cropping pattern to be adopted.

3) Calculating the eligibility of loans with reference to the repaying capacity arising out of the incremental income expected to be generated after undertaking the proposed development subject to the outlay on the development envisaged, instead of merely on the basis of the value of security.

4) Fixing of the period of the loan with reference to the repaying capacity of borrowers in such a manner that it does not exceed the useful life of the asset created out of the loan instead of fixing a uniform period according to the purposes of the loan.

The banks continued to follow the policy of giving priority in the sanction of such loans which directly help in increasing the agricultural production.

Since the Second Five-Year Plan the LDBS have also given more attention for development of minor irrigation through digging of new wells, electrification of wells, development of lift irrigation etc. To help the LDBS in financing minor irrigation projects the Agricultural Refinance Corporation was established in July, 1963. The Corporation helped the LDBS to finance the lift irrigation projects by providing refinance facility and development of area development schemes, loans for lift irrigation schemes, since 1960's became the most important purpose of lending by LDBS. Thus

LDBS have contributed significantly in the development of minor irrigation schemes.

(c) The Project Approach

Upto the 1970's loans for productive purposes were given to farmers mostly on individual basis. However, in recent years the LDBS have, adopted "the project approach" under which the LDBS are expected to develop integrated finance scheme by which the natural resources of a particular area are fully utilised. The LDBS select an area having homogenious natural factors which can be developed by financing their developments. Loans given on project basis develop the entire area and benefit all the farmers in that area. Thus, area development leads to development of economic infrastructure, marketing and processing all which bring about regional development by which all farmers are benefited.

(d) Emphasis on Diversification of Loans

Emergence of various institutions, particularly commercial banks and regional rural banks in the multi-agency set-up in the field of rural credit and sub-soil water resources being limited and there being no scope for exploitation of underground water in certain areas, dwindled the scope for development of minor irrigation in certain areas. Consequently, loaning operations of many LDBS declined. Therefore, LDBS have undertaken diversification of their loans to other productive purposes.

In November, 1973 the Reserve Bank of India suggested the new lines of investment available to Banks. Moreover, The Madhava Das Committee (1975) recommended that each Central Land Development Banks should build up a portfolio of viable and diversified pattern of schemes. In 1978, Shri Ramkrishayya, Deputy Governor of Reserve Bank of India also referred to the need for diversification of lending policy to Land Development Banks.

Under diversified lending policy, Land Development Banks propose to finance -

(1) Dairy farming; (2) Piggary; (3) Fisher~~ies;~~ y
(4) Poultry farming; (5) Sheep raising;
(6) Gobargas plants; (7) Construction of godowns and cold storage plants; (8) Processing of farm produce through agro-based small industries; (9) Agro Service Centres;
(10) Market yards; (11) Rural Cottage Industries; (12) Rural artisans etc.

which are so essential for integrated rural development.

Besides, undertaking financing of various diversified purposes subordinate to agricultural, the Banks are also expected to provide, on a selective basis, short-term credit support alongwith investment credit for realising the full benefits from capital investment. Progress in this direction has by and large being satisfactory.

(e) Assistance to Small Farmers and Weaker Sections

Now a days as part of Sixth and Seventh Plan strategy more and more loans are being provided by the Land Development Banks to small and marginal farmers and other economically weak and backward sections of the farming community. Recently the Land Development Banks Federation has taken a decision in the context of 20-Point Economic Programme requiring member banks to provide 50% of their loans to weaker sections and small farmers. A determined bid is made to identify such farmers and help them by meeting their developmental credit needs. Thus, Land Development Banks have taken steps to develop social banking in rural areas in keeping with the Government Policy for upliftment of the poorer sections in rural areas.

(f) Loans Without Mortgages

The Land Development Banks provide loans only against security of land. Land as security has lost significance as loans are provided on the incremental income criteria under the production oriented system of lending adopted by the Land Development Banks.

In the context of need for diversification also, it has become necessary to do away with mortgages as cover of loans. Advancing loans without mortgages is a significant change which the long term-credit sector is seriously examining today and if given in effect would enable them to cover a large number of farmers who have for various reasons, not been able to take advantage of Land Development Banks credit so far.

(g) Integration of Short and Long-Term Credit

After several experiments on the structural aspects in the field of agricultural credit, a new thinking at certain levels has been directed towards integration of short and long-term credit structure and routing credit through one agency. For various reasons and on various grounds the Land Development Banks and their Federation are not in favour of such a move, though a Committee has been constituted under the Chairmanship of Dr. Hazari, Dy. Governor of the Reserve Bank of India to examine the feasibility of integrating the two credit structures. This Committee recommended the integration of short and medium term cooperative credit structure. CRAFICARD also strongly argued that in the matter of dispensing long term credit, PACS should act as agents of Land Development Banks. In the past committees after committees have come out with recommendations advocating separate agency for developmental credit because of intricacies involved in raising funds and disbursing term loans, primary credit societies through which it is envisaged to provide all types of credit, are weak and ineffective to handle even provision of short term credit. Functional agency like the Land Development Banks for developmental credit is considered more desirable for undertaking intensive development of agricultural than the multipurpose agencies, unless the experiments proved otherwise.

The Committee on Cooperative Land Development Banks (1975) recommended that wherever viable primary credit societies have been set-up and they have adequate full-time and trained staff, including technical staff, such societies may take up provision of long-term loans also.

At the conference of Registrars of Cooperative Societies held in June, 1969 it was suggested that a pilot scheme should be drawn for the integration of short-term, medium-term and long-term credit structure, whereby long-term loans could be channelised through the service cooperatives.

The National Commission on Agriculture (1971) and the Banking Commission (1972) have suggested setting up of farmers service societies and rural banks respectively and their taking up, as agents of Land

Development Banks, the work of providing long-term loans to cultivators. In some states as in case of Maharashtra the PAC's are acting as an agent of Land Development Banks on limited scale.[4]

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4. During the latter part of Sixth Five Year Plan in Maharashtra, an attempt was made to give long-term credit through related PAC's to facilitate the farmers to obtain credit through a single window. However, there would be limitations on the long-term lendings by the District Central Cooperative Banks as NABARD would make reimbursement facility available to those Banks where recovery percentage would be 60% and above, Source : Annual Plan, 1987-88, Government of Maharashtra, p.62.