

CHAPTER 1

AGRICULTURE, CREDIT AND LAND
DEVELOPMENT BANK

Chapter - V

Availability of agricultural credit from various sources need not necessarily lead to an increase in the agricultural output.

Criteria of Sound Agricultural Credit

A number of criteria of sound agricultural credit must be followed in order to bring about a lasting, positive change in the agricultural sector. Some of the criteria that can be followed include :

1. Credit should be granted for a sufficiently long period, commensurate with the length of the operation which it is designed to facilitate.
2. It should be granted at a low rate of interest.
3. It should be adequately secured, in order, more particularly, to avoid any abuse of credit facilities, but the security should not necessarily be material.
4. The security should, if necessary, be in the form of a personal credit secured mainly by the borrower's moral standing and farming ability.
5. It should be adapted to the average yield and capacity for the repayment of the farmers, particularly during periods of economic depression.

6. It should be placed in the hands of institutions, the directors of which have received special training and had actual banking experience.
7. The credit facilities must be used for productive purposes and the borrower must have the facility of repaying only when his need is over.
8. The terms and conditions of credit should be such as can keep down the cost of procurement and management of such credit.

The Rural Credit Survey Committee has stated the following main requirements of institutional system of rural credit :

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 coordinated not only internally in relation to the different institutional sectors pertaining to short-term, medium-term and long-term credit but also with complementary institutional 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 of the 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 producers 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.

One of the important institutions advancing financial assistance to the farming community, in Independent India, following general criteria of sound agricultural credit are the Land Development Banks.

Land Development Banks

Land Development Banks are the institutions which provide long term finance to Agriculturists for agricultural credit needs which may be for seasonal agricultural operations as well as for various long-term needs for development of land and agricultures. Those banks in fact, provide finances mainly for the repayment of old debts, purchase of land, under-taking land improvement measures and redemption of mortgage on agricultural land. Such loans are comparatively large and may run for 10 to 15 years and even more.

Need for Land Development Banks

The need for such banks arose because of the following reasons :

- i. Primary Credit Societies, because of their poor resources, could not give loans to the cultivators for long periods.
- ii. These societies also did not possess expertise for valuation, title deed etc. Thus, the assessment of landed property became difficult.

- iii. The abolition of Zamindari system and the restrictions imposed on the dealings of money-lender made it difficult for the cultivators to get term loans for their needs.
- iv. Increases in agricultural production and productivity require long-term finance which was not available from the commercial Banks till recently.

As a result of these, the necessity for developing Land Development Banks was felt.

Organisational Structure

Land Development Banks are organised on cooperative basis. The structural pattern of these banks falls into one or other of the following categories :

- i. Federal Types

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Under which the Central Land Development Bank works at the top level and the primary Land Development Bank (L.D.B.) at the base level. This type of pattern is available in Andhra Pradesh, Assam, Harayana, Kerala, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil-Nadu, and West Bengal.

- ii. Unitary Types

Under which the Central Land Development Bank advances loans directly to individuals operating through

branches and agencies. This pattern prevails in Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh.

iii. The Central Land Development Bank operates through branches as well as primary Land Development Bank.

The Primary Land Development Banks are generally organised to serve the whole of the district or a group of talukas; while the Central Land Development Banks open their branch offices at the regional or district levels with a view to centralising their administrative functions. It may be stated that L.D.Bs have two-tier structure in most states with Central Land Development Banks at the state level and primary land development banks at the block/tehsil /sub-division/district levels.

Objectives and Functions

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The main objectives of Central Land Development Banks is to provide long-term finance either to the primary land development banks affiliated to them or to finance directly through their branches. These banks also undertake the following functions.

- i. To grant loans to primary land development banks or individuals through their branches on the mortgage of un-encumbered property to which the borrower member has a clear title,

- ii. To float debentures for raising necessary funds for which the state governments guarantee for the repayment of principal and interest.
- iii. To establish branches/sub-offices or new primary land development banks to facilitate its business.
- iv. To acquire immovable properties and construct buildings.
- v. To encourage the spirit and practice of thrift, mutual help and self-help in the members.
- vi. To act as a link between the long-term banking on the one hand and the Reserve Bank of India and the government on the other.
- vii. To mobilize rural savings and to stimulate capital formulation in the agricultural sector by the issue of debentures.
- viii. To protect the farmers from the atrocities of the money lenders and from the alienation of land to help them in effecting permanent improvements on their lands.
- ix. To supervise, and inspect and guide the primary Land Development Banks and verify utilisation of loans.

- x. To form all such functions as may be conducive to the funds fulfillment of the above objects. ?

These banks usually grant funds for :

(1) redemption of the old debts; (ii) improvement, reclamation, and development of land (iii) purchase of agricultural machinery and equipments, (iv) other productive purposes like sinking and repair of well and (v) redemption of mortgage on agricultural lands.

On the recommendation of Rural Credit Survey Committee greater emphasis has begun to be given on reorienting their loaning (politics) and to encourage loans for productive purposes. Hence the original name Land Development Banks." In fact, the Central Land Development Banks form the axis around which the entire long-term banking structure in the country revolves. policies

Area of Operation

The area of operation is usually neither too large as to become unwieldy nor too small as to be uneconomic or non-viable unit. In the states like Maharashtra, Tamil-Nadu, and Karnataka the banks work at taluka level. In other states Primary Land Development Banks have opened branches at district levels, only Gujarat has branches extending upto taluka level or even below. In Uttar Pradesh about half the member of branches of the Central Land Development Banks serve one tehsil

each and the remaining longer areas.

Management

The management of the Land Development Banks vests in a Board of Directors consisting of 7 to 9 members. In some states 2 to 3 directors are nominated by the Government. In case of Primary Land Development Banks one director is nominated by the Central Land Development Bank. The members of the Board work for 3 years.

Financial Resources

The primary land development banks obtain their finances from :

(i) Share Capital, (ii) Loans from Central Land Development Banks, (iii) Admission and other fees, (iv) borrowings from other agencies.

On the other hand the Central Land Development Banks get their funds from (i) Share capital, (ii) floating of debentures on the security of its assets and of mortgage bonds transferred by primary Land Development Banks ^{to} it; (iii) loans from state Bank of India on the guarantee of State Governments, (iv) admission and other fees (v) grants and subsidies (vi) deposits and (vii) other funds.

The work of raising funds is left mostly to the Central Land Development Bank. The Primary Land Development Bank neither accepts deposits nor issues debenture.

The primary Land Development Banks raise their share capital by issue of shares to the members in certain proportion to their borrowings from the Bank. In most states, the linking of share capital borrowings at primary levels is 5 percent of the loan taken. In Maharashtra it is 10 percent.

The Central Land Development Banks raise resources mainly through issue of ordinary rural and special development- debentures. The ordinary debentures are issued to the general public institutions and ~~individuals~~ individuals. These are treated as trustee securities and are guaranteed by the State Governments. These are subscribed by the Reserve Bank of India, State Bank of India, Cooperative Banks, Commercial Banks and the Life Insurance Corporation.

Rural Debentures are floated to raise funds for sanctioning loans to agriculturists for productive purposes for a period of 6 to 7 years against the mortgage of land. Much progress could not be made in this respect. Special Development Debentures are issued for providing finance to the agriculturists under special agricultural development or land improvement programmes.

Loaning Policy

The Central Land Development Banks provide ~~to~~ 70 percent of their loans for productive purposes. Loans are advanced for productive purposes, for periods ranging between 10 and 20 years. In some states, it is 7 years,

in others, 12 years and in others 15 years.

The maximum amount of loan that a member is entitled to get from the Central Land Development Banks varies from state to state, ranging from Rs.10,000 to Rs.25,000/-. The loans are given on the mortgage of non-encumbered property to which a borrower has a clear-title. Lands offered as security may be wet lands (having permanent source of irrigation) garden lands (The land on which perennial or seasonal fruits are grown) well irrigated dry lands (i.e. land irrigated by pucca wells) and dry lands (i.e. land fed by rains).

The Central Land Development Banks have the power to recover their loans by (i) distraint and sale of produce and standing crops on hypothecation and (ii) sale of their mortgaged land itself without intervention of the courts.

The rate of interest charged differs in different states. The rates of interest charged by Central Land Development Banks is 1 percent higher than the rate repayable on debentures. The Primary Land Development Banks keep a margin of 1 and $1\frac{1}{2}$ per cent and hence their lending rates are higher than those of the Central Land Development Banks. As most of the Land Development Banks, issue debentures at $5\frac{1}{2}$ percent to $6\frac{1}{4}$ percent the ultimate rate of interest paid by the farmers ranges between 7 percent and 9 percent per annum.

There has been a steady progress in the loaning business of Land Development Banks, the total loan disbursements raising from Rs.11.82 crores. In 1960-61 to Rs.215 crores in 1975-76 the loaning operation reached to Rs.231 crores. and

The lending programme of the Land Development Banks is fixed on the basis of their post performance in recovery at the primary/branch level. Recovery of over 75 percent entitles the primary/branch to be "unresistricted" lending while a recovery of less than 40 percent reduces the programme to nil. The Debenture Norms Committee in the Reserve Bank of India regulates the application of the norms of recovery on a uniform basis for all lending programmes of the Land Development Banks.