CHAPTER III

A BRIEF REVIEW OF LONG_TERM CO-OPERATIVE CREDIT POLICY.

3.1 Long_term co-operative Credit Policy in India.

3.2 R.B.I.and Long-term Credit.

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3.1 LONG TERM CREDIT POLICY:

The long term credit policy of Indian can be studied as follows:-

(A) PRE INDEPENDANCE POLICY:

Co-operative movement was started in 1904 as money lenders dominated the rural credit scense. Initially co-operative banking of mixed[1] type was set up. However, its long-term wing was not satisfactory for following reasons.

1. Inadequacy of competent staff with co-operatives to . Examine title deeds of properties to be mortgaged.
2. Short and medium term nature of its funds.
3. Conflict of interest of Banks with that of land lords.[2]

Therefore, LMBS were set up consequently upon recommendation of Maclageon committee (1915).

In the beginning LMBS advanced loans mainly for redumption of prior debts and mortgage of land.

The Registrar's Conference (1926) set forth the following objectives for which LMBS should provide loans.

1. The redumption of the land and houses of agriculturists.
2. The improvement of land and methods of cultivation.
3. The liquidation of old debts and
4. The purchase of land in special cases.

'The Central Banking Enquiry Committee accorded top priority to the redumption of land and liquidation of old debts.'

The LMBS continued to issue loans for redumption of prior debts. These banks were reluctunt to give loans for land improvement because of the additional cost involved and the lack of trained staff.

(B)POLICY IN PLANS: RE-ORIENTATION OF POLICY:

After independance and with the advent of Economic planning, emphasis was laid for financing capital investments in agriculture.

In 1954, 'The All India Rural Credit Survey Committee' pointed out the need of reorienting the loan policy of LMBS. Theyrecommended "As a first step towards increasing the number of productive loans the LMBS should give first priority to applications for loans for improvement of land and purchase of agricultural machinery and equipmmentsaa and other productive purposes."

The committee recommended to gear up the machinery of the LMBS to be fully responsive to the need of a new change in their policy and operations.

The central LMBS were also urged upon to make their policy of 'priority of production' clear to the primary LMBS.

Following are considered as productive purposes by the RBI.

1. Sinking of irrigation wells 2. Repairs and construction of tanks for agricultural purposes 3. purchase of oil Engines, Electric Motors and pumpsets. 4. Bunding & lands 5. Purchase of tractors and other agricultural machinary 6. construction of Pucca Farm houses, cattle sheds etc.

7. Raising of fruit garddens etc.

The R.B.I.announced that at least 80% of the total loans issued by a central LMBS should be for productive purposes, if they were to be eligible for debenture support from the RBI, SBI and LIC[3].

In keeping with this policy and to laying stress on their developmental role, the LMBS were advised to change their respective names from LMBS to LDBS. Consequently, LMBS changed their names from LMBS to 'Land Development Banks.'

As a result, there was a shift in emphasis in favour of loans for improvement of agricultural lands and productive purposes instead of those for repayment of old debts and redumption of mortgages of land.

(I) EMPHASIS ON LOANS FOR PRODUCTIVE PURPOSES:

LDBS adopted production oriented system of lending in 1967-68. Under this system banks agreed to advance atleast 80% of their loans for productive purposes. In 1968-69 LDBS agreed that they would advance not less than 90% of loans for productive purposes of which 70% would be for easily identifiable productive purposes. The R.B.I.broadly classified various productive purposes as-

1. Identifiable productive like digging of wells, installation of machinery like electric motors, pumpsets, tractors etc.
2. Non-Identifiable productive like land improvement, land development etc.and,

3. Non-Productive like repayment of old debts.

The main features of production oriented system of lending are 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 in to account the cropping pattern to be adopted.
3. Calculating the eligibility of loans with reference 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 purpose 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.

(II) EMPHASIS ON MINOR IRRIGATION:

In the second and subsequent five year plans more stress was laid on to increase agricultural production by a better production methods and larger irrigation facilities consequently the LDBS accorded priority to loans for minor irrigation and land development purposes.

The real fillip to the lending of these banks for minor irrigation came with the establishment of 'Agricultural Refinance Corporation' in July 1963. The Corporation not only actively assisted in the formulation of area development schemes but also provided reimbursement on a liberal scale.

Of all the purposes, minor irrigation received the highest priority and greatest attention from the LDBS as over 70% of loans provided by them accounted for sinking of wells and installation of pumping equipments. It is estimated that the LDBS which have financed over 16 lakh wells and 10 lakhs pumping sets would have helped irrigate about 11 million acres of land.,[4] thus contributing in no small measures to the increased farm production.

(III) THE PROJECT APPROACH:

Even, the development loans have, till recently been advanced by the Land Development Banks, mostly to individual landholders, the latter trend was to give a new dimension to the operation of the land development banks through what is known as "project Approach". Under that strategy the banks are expected to promote integrated type of schemes which may exploit the natural resources of a fairly compact area. The bank selects an area having homogeneity in respect of the developmental scheme to be taken in hand e.g. on area, which after survey is found to bear sufficient quantity of sub-soil water may be selected for the development of irrigation potential through tubewells.

'Loans advanced on individual basis help only in increasing agricultural production. Loans advanced on project basis will develop not the individuals scattered all over the state, but the individuals concentrated in a compact area[5].' The all round increase in production in the entire area will, in turn, encourage the development of ancillary facilities like marketing, processing, sophisticated storage etc. which will enable the farmer to get a better return from his increased production. It was considered that thus project approach will also helpful from social point of view in so far as it will cover all farmers in the area including the smaller ones.

(IV) EMPHASIS ON DEVERSIFICATION OF LOANS.

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

In Nov.1973, the RBI suggested the new lines of investments available to banks. Moreover, 'The Madhava Das Committee'(1975) recommended that each central LDB should build up a portfolio of viable and diversified pattern of schemes. In 1978, Shri Ramkrishnayya, Deputy Governer of RBI also referred to the need for diversified lending policy for LDBS.

Under diversified lending policy, LDBS proposes to finance -

1) Dairy farming (2) Piggary (3) Fisharies (4)Poultry farming (5) Sheep reasing (6) Gobergas plants (7)Construction of godowns and cold storage plants (8) Processing of farm procedure 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 subsdiary to agriculture, the banks are also expecting to provide, on a selective basis, short-term credit support along with investment credit for realising the full benefits from capital investment[5].

Some begining is made in this direction and soon the LDBS Expect to provide credit to the farmers for some of the subsidiary activities like dairy development, Gobargas plants etc., which it is hoped, besides raising production, will result in improving the economic conditions of the farmers considerably.

(V) ASSISTANCE TO SMALL FARMERS AND WEAKER SECTIONS:

'The committee on co-operative Land Development Banks' (1975) recommended that the objectives of these banks should be to cover as large a percentage of small farmers as possible. In the earlier days of history of LDBS only big farmholders took advantages of loans from the LDBS. Studies conducted by the 'All India Rural Credit Review Committee' (1969) showed that an overwhelming majority of the loans have been taken by those who are having more than 5 acres of land. The financial assistance provided to cultivators having holdings of less than 2 hectores accounted for 21 percent[7] of the total loans issued by the LDBS, although they constituted near about 2/3 of the total cultivating household in the country.

But now a days more and more loans are being provided by the LDBS to small and marginal farmers and other economically weak and backward sections of the farming community. Recently the LDBS Federation has taken a decision in the context of 20 point economic programme requiring member bank 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.

(XVI) 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 landing adopted by the LDBS.

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 it is given effect to; would enable them to cover a large number of farmers who have for various reasons, not been able to take advantage of LDB'S credit so far.

(VII) INTEGRATION OF SHORT AND LONG TERM CREDIT:

After several experiments on structural aspects in the field of agricultural credit, a new thinking at certain levels has been directed towards integrations of short and long term credit structure and routing credit through one agency.[8] For various reasons and on various grounds the LDBS 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 RBI to examine the feasilibility of integrating the two credit structures. This committee recommended the integration of short and medium term co-operative credit structure. CRAFICARD also strongly urges that in the matter of dispensing long term credit, PACS should act as agents of LDBS[9]. In the past committees after committies have come out with recommendations advocating seperate 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 LDBS for developmental credit, is considered more desirable for undertaking intensive development of agriculture than the multipurpose agencies, unless the experiments proved otherwise.

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

'At the conference of registrars of co-operative societies held in June 1969, it was suggested that a pilet scheme should be drawn for the integration of short medium and long term credit structure, whereby long term loans could be chanmelised through the service co-operatives.

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 LDBS, the work of providing long term loans to cultivators.

(VIII) RECOMMENDATIONS OF 'THE GROUP ON LONG TERM AGRICULTURAL CREDIT (9th Co-operative Congress 1982) 10

1. The LDBS will have to further inteensify their diversified lending for non-land based purposes in order to provide employment apportunities and to supplement income of farmers.
2. The LDBS should intensify their efforts further and make positive efforts to increase the share of loans to weaker sections from 50% to the level of 75%
3. The congress recalls that the LDBS federation and the 8th Indian Co-operative Congress had opined for classification of agricultural credit in to production credit,

Working Capital and Capital and investment credit since the present classification according to period of loans was found unscientific and confusing. The congress therefore, urges upon the RBI to take a decision in this regards so that LDBS could provide all type of investment credit irrespective of period constraint.

4. LDBS have a distinct and vital role to play in the context of effective implementation of 'Integrated rural Development'(IRD) programmes. Since identified beneficiaries under IRD cover both farmers and non-farmers like agricultural labours, village artisans and other weaker sections, the LDBS which hitherto provided credit only to farmers, should also extend credit support to non-farming sections of rural poor to bring them into the mainstream of development.

5. The functional co-ordination between LDBS and PACS tobe established for retaining investment credit envisaged several advantages both to credit institutions and the borrowing farmers.

   'The Sivaraman Committee constituted to Review the Arrangements for Institutional Credit for Agricultural and Rural Development'(CARFICARD) has recommended such functional co-ordination on a pilot basis. Thefore, the congress urges up on both the credit sectors that steps should be taken immediately for implementing the scheme of functional co-ordination in regard to retailing of investment credit of LDBS through the agency of PACS.

6. To tackle the problem of increasing overdues the LDBS

should take steps to strengthen their supervision machinary and entire appropriate system of supervision and verification of loan utilisation.

7. In the context of increasing emphasis on schematic approach and project lending under ARDC refinance, (Agri-Refinance Development Corporation) (NEW NABARD) which involves technicalties and adoption of scientific norms, the congress recommends LDBS should review the position of needs of technical personnel and chalkout a provramme to strengthen the technical staff at various levels.

8 RBI and the ARDC imposed restrictions on LDBS regarding loan advances. This restrictions are laid on such primary LDBS or branches whoes overdues are exceeding 26% Congress recommends that this discipline governing regulations of overdues imposed on LDBS should not come in the way of providing adequate credit support to the target group of small farmers & weaker sections of the community.

3.2: <u>R.B.I. AND LONG TERM CREDIT:</u>

Originally the R.B.I.was restricted not to provide finance for more than 9 months and that too only for agriculture and marketing of crops for short period. But through a series of procedural changes and legislative amendments in the Bank Act and the establishment of -

"The National Agricultural Credit (Long term Operations) fund," it has sought to arrange for an efficient supply of long term credit to the agriculturists.The RBI grants long term credit under section 17(4 A) as determined under sec.46 A2 (a), Section 46 A2(c) and

and Section 46 A2(D) of the RBI Act.

All India Rural Credit Survey committee recommended to The R.B.I.to create, the above mentioned fund for granting long-term loans to the state Govt.e to enable them to participate in the Share Capital of the Co-operative institutions. Accordingly 'The National Agricultural Credit (Long-Term Operations) fund was set up in July 1956. A part of the profits of the RBI was annually set apart in this fund to meet the financial needs of LDBS.[11] The R.B.I utilises this fund for following purposes.

1. Provision of long term loans to state governments to enable them for contributing to the share capital of the State and Central Co-operative Banks and the central Land Development Banks.
2. Provisions of long term loans to central co-operative Land Development Banks.
3. Purchase of debentures of Central Co-operative Land Development Banks.

In 1957 'Rural Debenture Scheme' was started ~~the R.R.I.~~ on the initiative of the R.B.I.[12] Under this scheme the debentures were issued by the central Land Development Banks. The unsubscribed debentures were taken up by the R.B.I.provided at least 1/3 of the subscribed amount was taken by the public.

Since 1958-59, two types of debentures have been issued, one for a 7 years period for the public and another for a 15 ~~days~~ years period for the R.B.I.

Although the R.B.I.had been providing funds from its

National Agricultural Credit (Long term Operations) fund for financing special schemes of agricultural development, the needs could not be adequately met. Therefore, 'The Standing Advisory Committee of the R.B.I.on Agricultural Credit asked the bank to consider, the idea of setting up a specialised agency. Accordingly, 'Agricultural Refinance, Development Corporation" was set up on 1st July 1963. 'The National Agricultural Credit (Long term operations) fund was transferred to NABARD[13] with the creation of it.

The National Bank for Agriculture and Rural Development (NABARD) was set up on July 10, 1982.[14] It has taken over 'The Agricultural Refinance Development Corporation as well as the refinancing functions from R.B.I.in respect of State Co-operatives banks and regional rural banks.

The NABARD provides long term a loans and advances by way of refinance to LDBS, for promoting agricultural rural development. The period of long term advances will not exceed 25 years. For its term loan operations NABARD will draw funds from the Govt. the World Bank and other agencies.

Thus, the role of the R.B.I.in respect of long term credit has been very important. It has taken various measures mainly establishment of NABARD and other measures for improving quality and working of co-operatives so as to facilitate adequate and smooth flow of credit to agricultural sector.

: REFERENCES :

1. Mixed Banking is that banking under which banks make both short term as well as long term loans.
2. Conflit of interest was due to the fact that the Banks wanted to assist in the redumption of mortgage where as the landlords wanted to persists in their retentiom.
3. R.B.I.:Review of the co-operative movement in India, 1964-66 P.62
4. Sami Uddin and Mahfoozur Rahman:Co-operative sector in India, 1983. P.161
5. R.D.Bedi:Theory, History and practice of co-operation, 1974. P.314
6. Sami Uddin and Mahfoozur Rahman:Co-operative sector in India 1983 P.160
7. Dr.B.S.Mathur:Co-operation in India, 1977 P.305
8. Sami Uddin and Mahfoozur Rahman:Co-operative Sector in India 1983 P.162
9. Dr.T.N.Hajela; Principles, Problems and practice of co-operation 1986 P.344
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11. P.C.Battacharya:The role of a Central Bank in a developing economy commerce pamphlet 6, 1968 P.6.
12. R.B.I.:The Reserve bank of India-Functions and working 1970 P.114

13. R.B.I.Report on currency and finance 1981-82 P.198-199

14. NABARD was set up with a view to the providing of long term finance to the LDBS to enable them to Finance major projects of agricultural development on the recommendations of CRAFICARD.: Dr.T.N.Hajela: Principles problems and practice of co-operation 1986 P.344

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