

**LONG-TERM FINANCE FOR
AGRICULTURE IN INDIA :
LAND DEVELOPMENT BANKS**

**DISSERTATION SUBMITTED IN PART
FULFILMENT OF THE COURSE FOR
THE DEGREE OF
MASTER OF PHILOSOPHY
OF THE
UNIVERSITY OF POONA**

BY

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PUNE - 411 004**

1979-1980

P R E F A C E

There have been significant changes in the functioning of Land Development Banks particularly since 1950. This work aims at reviewing these developments and, is, in a sense, a critical commentary on their functioning.

It was indeed a great privilege to carry out this work under the able guidance of Professor B.S.R.Rao. I sincerely thank him for his critical comments and valuable suggestions during this study.

I would like to thank the authorities of the Gokhale Institute of Politics and Economics, for awarding me one year U.G.C. Teacher Fellowship and all other facilities during the course.

I thank Shri G.C.Kadhe for the neat typing of the dissertation.

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March, 1981.

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CHAPTER I

INTRODUCTION

India is primarily an agricultural country and agricultural sector is the mainstay of the national economy, accounting for almost half of its national income and three quarters of its working force. In such a predominantly agricultural country, improvement in agricultural productivity in the early phase of economic development is of paramount importance as this provides the base for industrial expansion. Jacob Viner argues that a high degree of industrialization is not necessary for raising per capita income of a country. This can be achieved also also by improving agriculture. "Dominantly agricultural countries are generally found to be poor", he argues, "not because they are agricultural but because their agriculture is backward".¹

Wilfred Malenbaum has expressed the view that irrespective of whatever success India might achieve on the industrial front in solving the balance of payments problems, its economic progress would depend largely

¹ Viner Jacob, International Trade and Economic Development, 1952, p. 62.

on the development of agriculture.² Hence, the agricultural sector of our economy needs careful handling and planned stimulation as otherwise it can arrest the development of the entire economy.³

The Planning Commission of India has also emphasized, "...that without a substantial increase in the production of food and raw materials needed for industry, it could be impossible to sustain a higher tempo of industrial development. It is necessary, however, on economic as well as on other grounds, first of all to strengthen the economy at the base and to create conditions of sufficiency and even plenty in respect of food and raw materials".⁴

Indeed, rapid development and growth of agriculture has been one of the principal tasks in which India has been engaged over the last three decades. This requires application of science and technology to land, by adopting innovations, which usually require a shift to the use of modern farming inputs from the traditional ones. The introduction and adoption of modern farm technology in farming business involve purchase of modern farm inputs like quality seeds, fertilizers, machinery and equipments, etc., which

2 Malenbaum Wilfred, Prospects for Indian Development, 1962, p. 219.

3 Schultz, T.W., The Economic Organization of Agriculture, 1953, p.3.

4 Government of India, Planning Commission : The First Five Year Plan, 1952, p.44.

results in a significant demand for funds.

However, a large proportion of Indian agriculturists consists of farmers with a small land base. The produce of their land is hardly sufficient to maintain their families. It is, therefore, usually difficult for them to spare adequate funds for purchasing inputs and implements so necessary for the adoption of modern farm technology; sometimes, their incomes are insufficient for meeting even current consumption expenses. Besides, they find their funds inadequate to finance agricultural operations even under traditional methods of farming.

Thus it is obvious that in our country, internal sources of funds can at best meet only a part of the demand for funds by agriculturists and a major share has to come from external sources. Therefore, credit becomes essential for farming, particularly so where modern methods have to be used. Nicholson's observation in this regard as early as in 1897 is still pertinent: "The lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenures nor the position of agriculture, affects the one great fact that agriculturists must borrow".⁵ The peasantry of India is no exception. This has been amply borne out by records of heavy rural indebtedness,

⁵ Nicholson, F.A., Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency, 1897, p.46.

historically described in the words, "a farmer is born in debt, lives in debt and dies in debt".

For instance, the Famine Commission in its enquiry in 1880 found that two-thirds of land-holders were involved in debt, but of which one-third had the power to redeem. Sir Frederick Nicholson, in his enquiry in 1895, estimated that the debt relating to Madras Province was Rs. 45 crores. On the basis of this, Sir Edward MacLagan estimated the all-India debt to be Rs. 300 crores in 1911. P.J. Thomas in 1941 estimated the rural indebtedness to be Rs. 1200 crores.⁶ According to the Reserve Bank of India's (RBI) All India Debt and Investment Survey 1971-72, the total cash dues outstanding against rural households as on 30 June 1971 amounted to Rs. 3,752 crores.⁷ The average debt per rural family increased from Rs. 526 in 1951-52 to Rs. 708 in 1961-62 and further to Rs. 4,871 in 1971-72.

Agriculture involves 'production by masses' in contrast to 'production for masses' in the industrial sector; ^{this} creates typical problems for the lending system. Each country, therefore, will have to design a suitable farm credit system which meets the local needs, evolve the right type of lending policies and procedures and

6 Thomas, P.J., The Problem of Rural Indebtedness, 1941, p.19.

7 Reserve Bank of India, All India Debt and Investment Survey (1971-72), Bombay, 1976, p.93.

inculcate monetary discipline among the borrowing farmers.

To quote from the All India Rural Credit Survey Committee Report (1954), "A proper system of rural credit is basic to the development of agriculture and, therefore, to the prosperity of the country as a whole".⁸ All this has to be done meticulously for getting optimum benefit from the scarce resources invested in agriculture. Hence, the problem of farm credit is not merely the availability of the required quantum of funds, but its proper allocation and monitoring so as to meet fully the needs of productive credit of all farmers, and in particular of small farmers.

Among the types of credit required by farmers, the pressing need is the provision of long-term credit, as the same is not available relatively readily to them. Long-term credit is of fundamental importance particularly in our country, where both in terms of methods and techniques of cultivation, as well as in terms of social and economic status of farmers, agriculture has never been considered an 'industry' and did not receive adequate institutional farm finance. The gap in the past was filled by money-lenders.

The need for long-term credit for agriculture was emphatically stated by the RBI as early as 1936, in its

⁸ Reserve Bank of India, Report of the All India Rural Credit Survey Committee, Vol. II, Bombay, 1954, p.136.

Preliminary Report. The report observes : "...long-term credit is more important and if any effective steps are to be taken to make the agriculturists credit-worthy, this is the first problem which is to be tackled".⁹ The primary need is, therefore, to provide long-term credit to the farmer in such a way as to make the capital thus provided available to him for a duration long enough to cover the period of production, for which it is asked, and to enable repayment out of the income so earned from the sale of produce.¹⁰

As a result of the increased indebtedness among cultivators, and since a suitable credit system had not come into existence in the country then, the government set up its own machinery for meeting the long-term credit needs of cultivators, from out of the state funds under the Land Improvement Loans Act, 1883, popularly known as the 'taccavi' system. However, the facilities offered under this Act were not availed of by cultivators to an appreciable extent due to the latter's lack of knowledge about the available facilities and due to defective implementation by the officials. Further, loans for redemption of prior debts for which long-term loans were mainly required by

9 Reserve Bank of India, Preliminary Report, Bombay, 1936, p.12.

10 Tardy, M. Louis, Ibid., p.35.

cultivators were excluded from the purview of the Land Improvement Act in most of the provinces causing inconvenience to the agriculturists. Thus, taccavi system had not succeeded because of its own limitations.

The 'taccavi' system was criticized by the All India Rural Credit Survey Committee (1954) which says, "in practice taccavi is apt to be little less than the ill-performed disbursement of inadequate moneys, by an ill-suited agency. It would not be far from truth to say that the record of 'taccavi' is a record of inadequacies".¹¹ Dr. V.R. Joshi and Dr. K.D. Vasva¹² also expressed a similar view. According to them, inadequacy of credit, redtapism, bureaucratic attitude of government machinery and rampant corruption are the major limiting factors of taccavi loans made available to the farmers.

The moneylending system which, for a long time, was the main source of finance for agriculture was found to be defective. The Royal Commission on Agriculture (1928) reported that uncontrolled usury was one of the worst evils from which the Indian cultivator had to suffer.¹³ The All India Rural Credit Survey Committee (1954) observes

11 Reserve Bank of India, General Report of the All India Rural Credit Survey Committee, Vol. II, Bombay, 1954, p.199.

12 Joshi, V.R. and Vasva, K.D. "Superiority of Cooperatives in Farm Financing", Indian Cooperative Review, January 1979, p.179.

13 The Indian Year Book, 1929, p.432.

the almost complete dependence of cultivators on non-institutional credit agencies. The borrowers were subjected to usurious rates of interest ranging from 25 to 70 per cent, and unfavourable terms and conditions which often led not only to chronic indebtedness but also to sale of land for repayment of debt. Therefore, it was generally believed that in India private agencies like money-lenders cannot be fitted into any scheme of rural credit meant to serve the needs of rural development. Money-lender seldom cares about the purpose for which he lends out and frequently encourages his clients to continue borrowing as long as they could give additional security. The moneylending legislation proved to be ineffective and hence efforts were concentrated on finding a suitable system, an alternative to private moneylenders, for providing institutional credit to farmers.

The failure of the taccavi system in providing adequate credit to farmers and the drawbacks of the money-lending system prompted the government to turn their attention to the cooperative system of agricultural credit. Prof. D.R. Gadgil observed that cooperation would provide the best and the most lasting solution for the problems of agricultural credit in particular and those of the rural economy in general.¹⁴

¹⁴ Report of the Committee of Direction on Cooperative Farming, 1965.

During the last nearly eight decades the agricultural credit movement expanded far and wide and covered almost all the villages in our country, it suffered from numerous limitations such as (i) non-viability of a large number of agricultural credit societies; and (ii) slackness in recovery of dues, resulting in mounting overdues. Despite these pronounced weaknesses^{of} the cooperative credit movement, the Planning Commission had reaffirmed its faith in the cooperative enterprises as, "cooperation represents institutionalisation of the principle and impulse of mutual aid. It has the merit of continuing freedom and opportunity for the small man with the benefit of large-scale management and organization. Cooperation is, therefore, eminently suited to bring about the desired socio-economic changes in the context of the existing conditions in the country. There is no other instrument as potentially powerful and full of social purpose as the cooperative movement, and included the building up of a strong and viable cooperative sector as one of the major objectives of our national policy in the Fifth Five Year Plan...."¹⁵

The increasing importance of cooperatives in financing agriculture is provided in Table 1.1. It is noted that the

15 Quoted in Joshi, V.R., and Vasva, K.D. "Superiority of Cooperatives in Farm Financing", op.cit., p.182 from "Progress of Rural Banking", Capital, 3 June 1978, pp. 1065-66.

TABLE 1.1

Borrowings of Agriculturists : Sourcewise

Credit Agency	(Percentages)		
	1951-52 ^a	1961-62 ^a	1971-72 ^e
<u>Non-Institutional Agencies :</u>			
1. Agricultural Money-lenders	24.9	36.0	23.0
2. Professional Money-lenders	44.8	13.2	13.1
3. Traders and Commission Agents	5.5	8.8	8.4
4. Others	17.5	23.3	24.0
	<u>92.7</u>	<u>81.3</u>	<u>68.5</u>
<u>Institutional Agencies :</u>			
5. Cooperatives	3.1	15.5	22.5
6. Governments	3.3	2.6	7.1
7. Commercial Banks	0.9	0.6	2.4
	<u>7.3</u>	<u>18.7</u>	<u>31.5</u>

Note : The data are as on 30 June 1952, 1962 and 1972.

Source : * Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, p.100.

f All India Debt and Investment Survey (1971-72), Indebtedness of Rural Households and Availability of Institutional Finance, Reserve Bank of India, 1977, p.40.

contribution of the cooperatives increased considerably from 3 per cent on June 30, 1951 to 16 per cent at the end of June 1961 and further to 23 per cent as on June 30, 1971. The contributions by other institutional agencies - government and commercial banks - to the total borrowings have shown only a marginal increase from 3 per cent to 7 per cent and 1 per cent to nearly 2 per cent, respectively, between 1951-52 and 1971-72.

In India, since the beginning of economic planning, the Cooperative Land Development Banks have been chosen to provide long-term farm credit to farmers, for purchase of modern farm assets, for undertaking farm development programmes such as land improvement, land levelling, contour bunding, digging of wells and other minor irrigation works, horticulture, poultry and creation of other assets of long-term nature such as tractors, pumpsets, combined harvestors, etc. It is, however, in the sixties that cooperative land development banking movement has become an effective force, influencing agricultural development of the country. Therefore, it becomes pertinent to examine its efficacy as a lending system and ^{an} ~~a~~ instrument of economic planning geared to achieve rapid agricultural progress.

PLAN OF STUDY

The second chapter traces the origin of Land Development Banking in India so as to present the study in proper historical perspective. The trends in the growth of the number of banks, membership of Central Land Development Banks (CLDBs) and Primary Land Development Banks (PLDBs) are also outlined in the chapter.

The third chapter is devoted to an analysis of the sources of funds of Land Development Banks (LDBs). The trends in the growth of working capital of the Banks are examined for the period 1950-51 to 1977-78.

The fourth chapter reviews the lending policies of the LDBs and undertakes a comprehensive analysis of the growth of their loan portfolio. The chapter also contains a discussion of the purposewise distribution of credit advanced and an assessment of the recovery performance of LDBs.

The fifth chapter briefly outlines the main problems faced by the LDBs in their operations.

CHAPTER II

EVOLUTION, STRUCTURE, AND OBJECTIVES OF LAND DEVELOPMENT BANKS

With the introduction of the cooperative movement in the country in 1904, it was felt that the cooperatives would be in a position to provide both long-term and short-term credit needs of cultivators. However, it was soon realised that primary agricultural credit societies, which were permitted to advance long-term loans upto a prescribed level, along with short-term loans, were not in a position to meet the needs for long-term finance. In view of this, F.R. Hemingway, the then Registrar of Cooperative Societies, Madras, proposed in 1919, a scheme for raising long-term funds by the issue of debentures on the basis of the mortgages taken from the members of rural societies of unencumbered immovable property through the same cooperative machinery which dealt with the short-term banking. But this was found to be defective, since it involved mixing of long-term funds with short-term funds and transfer and retransfer of mortgages. All this led to the creation of a special agency for exclusively handling long-term finance, viz., Land Mortgage Banks (LMBs).

EVOLUTION OF COOPERATIVE LAND DEVELOPMENT
BANKING IN INDIA

The first ever cooperative LMB organized at Jhang in Punjab in 1920 and the second such bank was started at Nowgaon in Bengal. Assam started its first LMB at Gauhati in 1926 and the second one at Sylhet in the following year. By the year 1926, sufficient thinking had taken place in the country and the ideas regarding a separate agency in the form of cooperative land mortgage banks had crystallised.

A conference of the Registrar of Cooperative Societies held in Bombay in 1926 took note of the developments in the organization of LMBs and recommended that such banks should be organized under the Cooperative Societies' Act. The subject received the attention of the Royal Commission on Agriculture (1928) and the Indian Central Banking Enquiry Committee (1931); these bodies made several recommendations, in addition to generally endorsing the recommendations made by the Conference of the Registrar of the Cooperative Societies in 1926.¹

It may be noted that in the initial stages of their development, primary banks in Madras started raising resources by floating debentures, but this created confu-

¹ A summary of the recommendations is available in the Report of the Committee on Cooperative Land Development Banks, Reserve Bank of India, Bombay, 1975, pp.12-13.

sion. It led to the setting up of the Townsend Committee on Cooperation by the provincial government of Madras in 1927 which recommended the formation of a Central Land Mortgage Bank (CLMB). The Committee opined that the debenture issue by a strong central institution, borrowing on behalf of all the primary land mortgage banks (PLMBs), would be more acceptable to the public than the unorganized and piecemeal issue of debentures by the primary banks scattered over different parts of the Presidency. The recommendations of the Townsend Committee were accepted by the then Madras government and the Madras Cooperative Land Mortgage Bank was established in 1929.

Immediately thereafter, in the thirties, when there was a general depression in the country, the need to save lands of cultivators from the hands of moneylenders was keenly felt and LMBs provided loans for this purpose on a large scale.

However, with the outbreak of World War II in September 1939 and the consequent rise in prices of land as well as of agricultural produce, the economic condition of cultivators improved to some extent and many cultivators were able to clear off their dues out of the increased income or by sale of a portion of the land at favourable prices without having recourse to borrowing from LMBs. Another factor which had an adverse effect

on the transactions of LMBs was the working of debt legislation in several parts of the country under which past debts of cultivators were scaled down and were made payable in easy instalments. Further, the government had covered a part of the field of LMBs by providing funds and other facilities to cultivators for improvement of land in furtherance of their Grow More Food Campaign. Thus, the period of World War II (1939-45) and a few years thereafter witnessed a general shrinkage in the business of LMBs.

In the post-war years, however, farmers' borrowings from LMBs increased significantly because of a number of factors. One of them was the increasing cost of living and the high prices of agricultural implements and other equipments which could not be met from the own resources of cultivators despite the high prices of agricultural produce. Another reason which influenced the demand for long-term loans was that with the introduction of active debt relief measures in various provinces and states during the period, the private sources of credit were dried up to some extent and agriculturists had to look mainly to cooperative organizations.

India's attainment of independence in 1947, introduction of economic planning in 1951 and the government's encouragement to production of foodgrains made cultivators conscious of the benefits of land improvement for which they

required financial assistance.

Out of the total working capital of nearly Rs. 8.7 crores, Madras LMB's share was Rs. 6 crores (constituting about 70 per cent) at the end of June 1954. Its loans amounted to Rs. 1 crore out of the advances of all LMBs totalling Rs. 1.4 crores (forming about 71 per cent) during the year 1953-54. Of the other provinces in which LMBs made some progress, mention may be made of Mysore and Bombay provinces.

At the end of June 1954, there were in all, nine CLMBs - one each in Ajmer, Andhra, Bombay, Hyderabad, Madras, Mysore, Orissa, Saurashtra and Travancore-Cochin. The real growth of LDBs, as they are called today, started after the All India Rural Credit Survey Committee Report (1954), wherein a more positive and developmental role was envisaged for CLMBs instead of acting as institutions for redemption of debt. The Committee's recommendations are summarized below:²

(1) Each State should have a CLMB. The state governments should review their tenure and tenancy laws and take steps to eliminate such features in them as, without being essential to policy, are a hindrance to the development of land mortgage banking;

² Reserve Bank of India, The General Report of the All India Rural Credit Survey Committee, Bombay, 1954, p.228.

(ii) CLMBs should issue debentures for varying periods in conformity with the purpose of loans. There should be provision for issue of special development debentures which may be purchased in whole or in part by the RBI from out of its National Agricultural Credit (Long-term Operations) Fund;

(iii) The state governments should contribute to the share capital of CLMBs at least upto 51 per cent to enable them to borrow and to lend adequately;

(iv) LMBs should orient their operations to production and should give first priority to applications for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipment and other productive purposes. LMBs should be recognized as government's agency for the distribution of productive long-term loans in areas newly brought under irrigation wherever such a step is practicable.

(v) Apart from the different forms of state assistance already mentioned, there should be :

- a) provision of requisite staff for valuation of land, examination of schemes for land improvement, assessing technical soundness, etc.,
- b) provision of overdraft facilities,
- c) exemption of stamp duty, registration fee, etc.,
- d) special legislation for facilitating work of LMBs, and

- e) special assistance to LMBs in the underdeveloped areas with regard to their administrative costs to enable them to function on an economic basis.

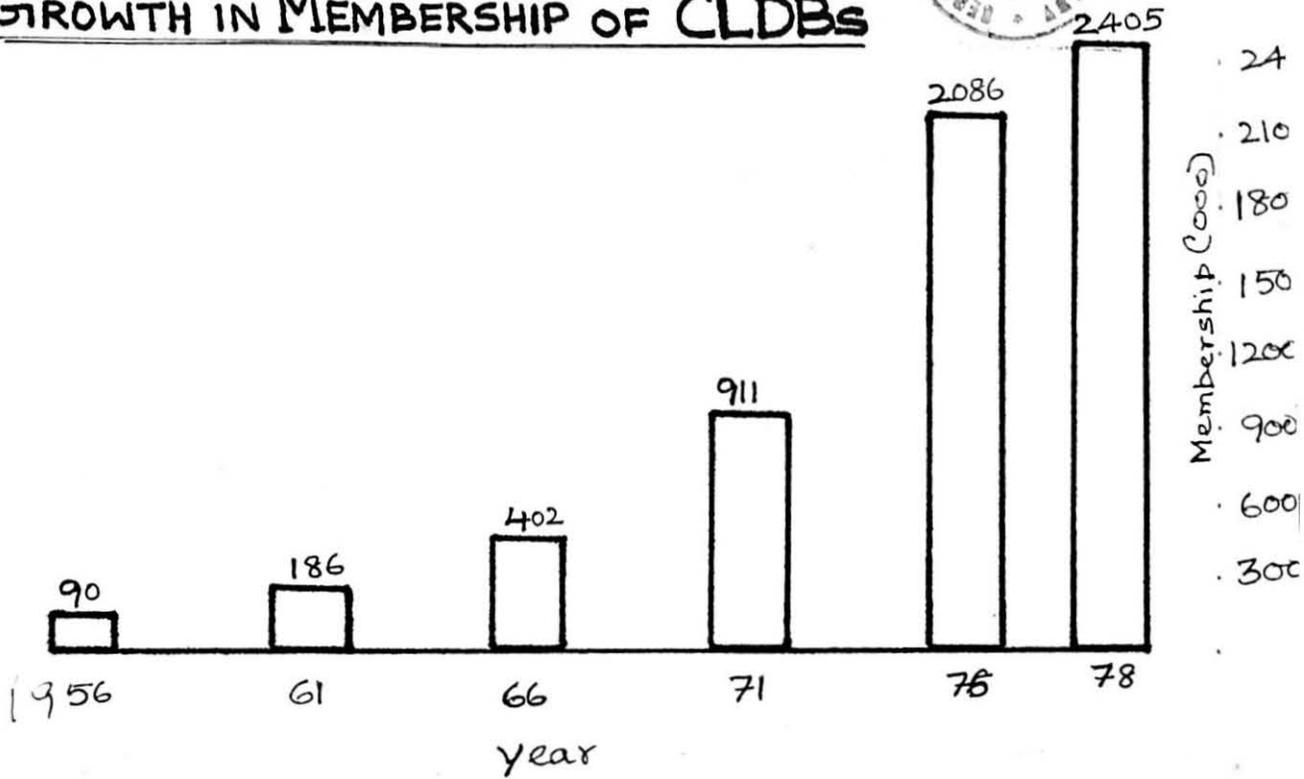
The above recommendations of the Committee, thus, assigned the LMBs the role of supplying development finance to farmers. Hence, the year 1954 has been a landmark in the history of cooperative land development banking in the country shifting the emphasis from land mortgage banking to land development banking. The CLDBs have been organized in all the major States of the country and also in some of the smaller states and union territories. As on 30 June 1978, there were CLDBs in 18 States and in one Union territory out of 21 States and 9 Union territories. In addition, there were separate land development banking sections in the State Cooperative Banks of two Union territories.

The progress made by CLDBs since 1950-51 in terms of number of banks and membership is shown in Table 2.1. It can be seen from the table that the number of CLDBs increased from 5 to 19 between 1950-51 and 1977-78; the membership increased from 9,000 to about 24 lakhs during the same period.

The regular membership per CLDB had registered a rise from 10,000 to 48,000 and further to 1,27,000 as on 30 June 1961, 1971 and 1978 respectively. The membership figures of CLDBs shown in Table 2.1 include both nominal



GROWTH IN MEMBERSHIP OF CLDBs



GROWTH IN MEMBERSHIP OF PLDBs

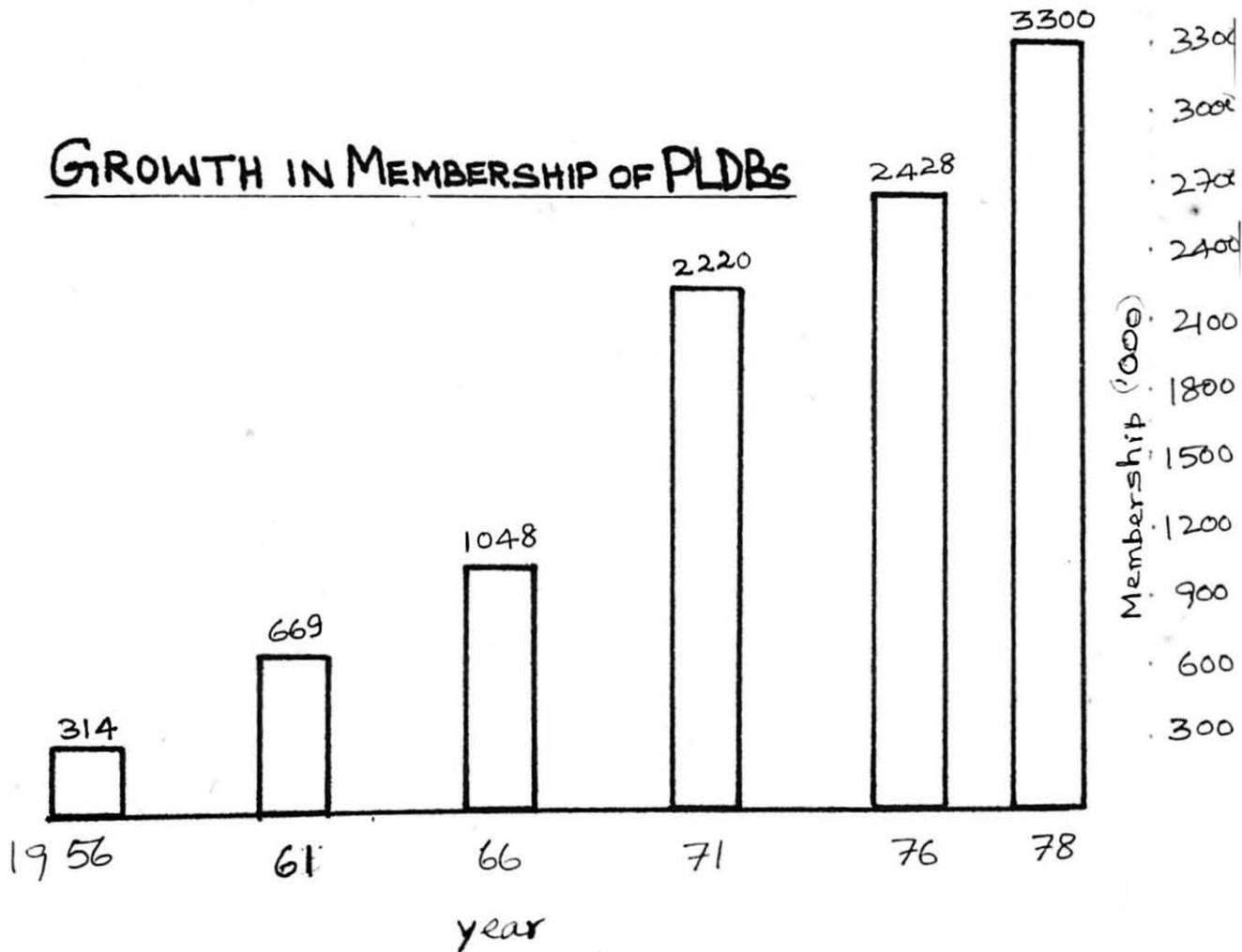


TABLE 2.1

Number of Banks and Membership of Central Land
Development Banks and Primary Land Development Banks

As on 30 June	Central Land Development B a n k s		Primary Land Development B a n k s	
	No. of Banks	No. of regular membership ('000)	No. of	No. of regular membership ('000)
1951	5	9	286	215
1956	9	90	316	314
1961	18	186 †	463	669
1962	17 †	193	536	852
1963	19	233	571	1051
1964	18 *	266	583	1278
1965	18	308	643	1493
1966	18	402	673	1048 *
1967	19	466	707	1255
1968	19	538	731	1452
1969	19	657	740	1733
1970	19	795	809	1980
1971	19	911	865	2220
1972	19	1056	869	2483
1973	19	1839	855	2138
1974	19	2011	857	2305
1975	19	2086	872	2428
1976	19	2171	890	2622
1977	19	2263	892	3042
1978	19	2405	889	3300

Source : Statistical Statements relating to the Cooperative
Movement in India, Part I : Credit Societies, various
issues, issued by the Reserve Bank of India, Bombay.

† Andhra and Hyderabad CLMBs were merged into one.

* The dormant, CLMB of Ajmer was excluded from the data.

and regular members for the years 1951 and 1956; and regular members from 1961 to 1978.* As on 30 June 1978, out of the total membership of about 24.34 lakhs, the nominal members constituted about 26,000.

In the case of FLDBs, the number of banks increased from 286 as on 30 June 1951 to 889 as on 30 June 1978. During the same period the membership increased from 2.15 lakhs to 33 lakhs. As on 30 June 1978, the number of nominal members of the FLDBs was 23 lakhs apart from regular members numbering 33 lakhs.

STRUCTURE OF LAND DEVELOPMENT BANKING

The structure of Land Development Banking, as it has emerged over the years, is not uniform throughout the country. While in a large number of States there is a federal set-up i.e., a CLDB at the State Level and affiliated primary banks at the district or taluka levels, some States have adopted a unitary system in which the CLDB itself is operating through its branches at the district, tehsil or block level. There are, however, two Union territories viz., Delhi and Goa, Daman and Diu in which instead of a separate LDB, the long-term credit needs of cultivators are met by a land development banking section of the concerned Cooperative Bank. Table 2.2 shows the organizational arrangements for provision of long-term credit to cultivators in various

* Separate data for regular and nominal members is available since 1961.

TABLE 2.2

Organizational Arrangements for Provision of Long Term Credit
in various States/Union Territories as on 30 June 1978

B a n k	Land Development Banks			
	Central Land Development Banks		Primary Land Development Banks	
	No. of Regional Offices	No. of branches including Head Office	No. of branches	No. of branches including Head Office
Andhra Pradesh	-	19	205	205
Assam	-	2	17	17
Bihar	5	129	-	-
Gujarat	4	201	2	2
Haryana	-	1	30	30
Himachal Pradesh	1	16	1	3
Jammu & Kashmir	2	22	-	-
Karnataka	-	20	176	141
Kerala	7	8	33	42
Madhya Pradesh	8	2	45	292
Maharashtra	6	296	-	-
Orissa	-	11	55	-
Punjab	1	44	43	43
Rajasthan	6	7	35	102
Tamil Nadu	-	14	223	331
Tripura	-	1	-	-
Uttar Pradesh	10	222	-	-
West Bengal	1	2	24	40
Pondicherry	2	1	-	-
Delhi	-	-	-	-
Goa, Daman & Diu	-	-	-	-
Total	53	1018	889	1248

Source : Statistical Statements relating to the Cooperative Movement in India, 1977-78, Part I : Credit Societies, issued by the Reserve Bank of India, Bombay.

States on 30 June 1978.

Among the 19 CLDBs, as mentioned earlier, federal structure is followed in 10 States viz., Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Tamil Nadu. In one Union Territory, viz., Pondicherry and six States, viz., Bihar, Gujarat, Jammu and Kashmir, Maharashtra, Tripura and Uttar Pradesh, there is a unitary structure for Land Development Banking. Two States - Himachal Pradesh and West Bengal - follow a mixed type of organizational pattern.

The two structures have their own advantages and disadvantages. The main advantages of the federal structure are : responsiveness to local needs, capacity for gathering resources and facility for recovery of loans due to intimate contacts with the local non-officials. On the other hand, the main advantages claimed for the unitary structure are facility of operation and unified control.

Regarding the operational structure, the All India Rural Credit Survey Committee (1954) recommended that, in the initial stages, the CLDBs might operate through a network of branches and, when adequate business is developed, primary banks might be organized. The Committee on Taccavi Loans and Cooperative Credit (1962) observed that ".... the ultimate structure in any State should be a federal one...." The All India Rural Credit Review Committee

(1969) had also endorsed the views of the Taccavi Committee.³

The Committee on Cooperative Land Development Banks (1975) made a few specific suggestions on the basis of its studies made in regard to Andhra Pradesh and Gujarat as examples of federal and unitary structures, respectively. In the case of unitary structures, the Committee made the following suggestions:

(a) Constitution of branch committees having representatives from various tehsils/blocks and of different categories of cultivators especially small and marginal farmers in the scheme formulation and implementation, mobilizing resources and recovery of loans;

(b) Provision of competent and trained staff in the branches; and

(c) Introduction of suitable schemes for giving incentives to the staff of the branches who do well in regard to recovery of loans or mobilization of resources.

In the case of the federal structure of the Land Development Banking, the paramount need is to ensure that

(a) the CLDBs have control over secretaries and other personnel of primary banks such as, Land Valuation Officers,

(b) the staff of the primary banks do not take a partisan view of their work, e.g., by colluding with local

³ Reserve Bank of India, Report of the All India Rural Credit Review Committee, Bombay, 1969, p. 748.

non-officials; and

(c) there are avenues for promotion of staff.

OBJECTIVES OF CENTRAL LAND DEVELOPMENT BANKS

The chief objectives of a CLDB are to raise long-term funds to finance the PLDBs affiliated to it to enable them to lend its agriculturist members on mortgage of lands and immovable properties owned by them. It undertakes :

(a) to float debentures on the security of its assets and of mortgage bonds transferred by PLDBs to it, and on such terms and conditions as laid down in the Act and rules;

(b) to receive deposits (preferably long-term);

(c) to grant loans to PLDBs in accordance with its bye-laws;

(d) to establish branches, offices, or sub-offices to facilitate its business;

(e) to acquire such immovable properties and construct such buildings as may be considered necessary for the efficient and smooth conduct of its business;

(f) to appoint suitable staff to conduct its affairs;

(g) to inspect the PLDBs and the lands mortgaged to them through competent staff;

(h) to do all other things incidental to or conducive to the above objects.

VIABILITY OF BRANCHES

In the sixties, the problem of viability of the primary unit of the cooperative land development banking

structure was rightly highlighted. The need to assess viability before a new PLDB or a branch of a CLDB is opened was felt even in the past. For instance, as mentioned earlier, the All India Rural Credit Survey Committee (1954) made a suggestion that in the initial stages, it would be preferable to open a branch of the CLDB and later convert it into a full-fledged primary bank after sufficient loaning business had been developed. However, in some states the programme of opening of new primary banks was undertaken, at times, along with the opening of the CLDB, while in some other cases, the opening of the primary banks was treated as part of the programme for providing banking facilities in rural areas instead of basing such a decision on considerations of viability. For example, if branches of a CLDB or primary banks are operated in the tribal areas or at places where certain legal restrictions are imposed on the right of alienation of lands or on free sale of lands, there may not be any chance of these branches or primary banks achieving viability in the foreseeable future.

The establishment of the Agricultural Refinance Corporation* (ARC) in July 1963 underlined the importance of viability of primary banks inasmuch as adequate and competent staff was needed for enabling the banks to undertake implementation of special schemes of agricultural development especially in matters such as processing of loan

* Agricultural Refinance Corporation was renamed as Agricultural Refinance and Development Corporation on 15 November 1975.

applications. The Committee on Cooperative Land Development Banks (1975) also discussed this problem at length.⁴ The Committee pointed out that a large number of branches of the CLDBs or the PLDBs would be required to cope up with the increasing quantum of loan business and to undertake more diversified functions in future so that they can play an important role in the modernization of agriculture.

The Committee specifically envisaged the following functions to be performed by the branches of the LDBs;

(a) Identifying development projects, which need credit, within the area of operation;

(b) Impressing upon the farmers, especially small farmers, the need to avail of long-term loans for adoption of innovations in agriculture;

(c) Processing and appraisal of loan applications. This would include several aspects such as verification of the project cost, evaluating the technical feasibility of the project to be financed, fixing standards in terms of acreage for the purpose of furnishing security for loans, working out the economic viability of the loan proposals and estimating the incremental income arising from the use of the loans;

(d) Follow-up work including physical checking of

⁴ Details are available in the Report of the Committee on Cooperative Land Development Banks, Reserve Bank of India, Bombay, pp. 104-119.

the assets created out of the Bank loans;

- (e) Prompt and timely recovery of loans;
- (f) Mobilization of rural savings by sale of rural debentures or collection of fixed deposits;
- (g) Maintaining proper accounts and other records.

The Committee also laid the norms of viability with regard to minimum staff necessary for technical guidance, adequate supervision and efficient administration; maintenance of adequate resources and payment of a reasonable dividend.

In this connection reference may be made to the estimate of income and expenditures of a Primary Bank worked out by the Committee on Cooperative Land Development Banks. According to the Committee, Primary bank is expected to attain viability with a loaning business (outstandings) of Rs.35 lakhs which would give an income of Rs. 0.52 lakh (assuming a margin of net profit of 1.5 per cent) enabling the bank to maintain a reasonably adequate staff for undertaking various items of work as also for making provisions for various reserves like reserve fund, bad and doubtful debts reserve, etc., and declare a modest dividend.

On the basis of the above norm of Rs.35 lakhs of loans outstanding for making a branch viable, Mrs. Elavia⁵ examined the viability position with regard to Gujarat State. It was found that out of the 182 branches in the

5 Elavia (Mrs.), "The Study of Cooperative Land Development Banking in Gujarat", Faculty of Commerce, M.S.University of Baroda, 1979, pp.139-140.

State, 121 were viable; 24 were potentially viable; 36 were non-viable; and one branch was not covered since it was newly organized.

We may note that the norms of viability may vary from State to State and from time to time. For instance, in Tamil Nadu, a study undertaken by the RBI in 1979 indicated 17 primary banks at the block level had no chance of achieving viability. However, subsequently, new items of investment in agriculture were identified in the areas served by these banks and 7 out of these 17 banks were found to be viable. Similarly, it is possible that some banks which are viable today may become non-viable later. This can happen either due to the shortage of loaning business for minor irrigation works which is at present one of the major items of financing by LDBs or lack of positive efforts by the banks to locate alternative avenues of profitable investment.

Thus, it may be pointed out that as some viable banks may become non-viable, and vice-versa, viability has to be determined upon continuous evaluation. The LDBs should strictly adhere to the norms. The state government and CLDB must follow the norms in regard to the organization of new branches of the CLDB and new PLDBs. As regards the existing primary banks and branches of CLDBs which do not satisfy the norms, the State government and the CLDBs should have a plan of action for bringing these banks/branches at least upto the standard within a period of

3 years. If a primary bank/branch of a CLDB is set up in areas which are inhabited by tribal population or other weaker sections of the community where loaning operations may be slow, the CLDB branch/primary bank should be provided with necessary financial and other support by the state government or by the CLDB to enable it to maintain adequate staff from the very beginning so that it becomes viable within a period of 3 years.

We may mention the interest rate structure to be followed by the LDBs as per the instructions of the ARDC since this factor impinges on their viability. In respect of all schemes sanctioned on or after 13 August 1974, the ARDE's refinance rate to the eligible institutions was $7\frac{1}{2}$ per cent per annum for minor irrigation and land development schemes and 8 per cent per annum for other types of schemes. The lending rate to be charged to the ultimate borrowers by the financing institutions was $10\frac{1}{2}$ per cent and 11 per cent per annum for the above purposes respectively. In the case of small farmers especially in regard to schemes for poultries, dairying and animal husbandry, the PLDBs were allowed to charge $10\frac{1}{2}$ per cent per annum, if they so desired .

Following the decision of the Government of India to exempt ARDC for a period of 5 years from 1978-79 from payment of the Corporation Tax and to effect $\frac{1}{2}$ per cent reduction in the rates of interest on its loans, the

Corporation reduced the rates of interest under its schemes as shown in Table 2.3 with effect from 15 March 1979.

Table 2.3

Changes in Interest Rate Charged by LDBs
effective from 15 March, 1979

	(Rate per cent)			
	<u>Old rates of interest</u>		<u>Revised rates of interest</u>	
	On refinance to eligible institutions	To ultimate borrowers	On refinance to eligible institutions	To ultimate borrowers
1. Minor irrigation and land development	7.5	10.5	6.5	9.5
2. Diversified purposes :				
a) Small farmers	8	11	6.5	9.5
b) Others	8	11	7.5	10.5

Source : 'Annual Report' for 1979-80 issued by the Agricultural Refinance and Development Corporation, Bombay.

The RBI had also advised the SLDBs and the commercial banks to charge the same rates to their ultimate borrowers on term loans for agriculture and allied purposes for periods not less than 3 years, irrespective of whether they avail of refinance from ARDC or not.

CHAPTER - III

SOURCES OF FUNDS FOR LAND DEVELOPMENT BANKS

The main sources of funds for LDBs are debentures - ordinary, special and rural - share capital, ~~fixed~~ sinking fund and ^{fixed} deposits. funds. The funds from the above sources constitute the working capital of the LDBs.

It can be noticed from Table 3.1 that the working capital of CLDBs has increased considerably from nearly Rs. 8 crores as on 30 June 1951 to about Rs. 2,082 crores by the end of June 1978, with an annual compound growth rate of 22 per cent during the twenty-eight years covered in the study. However, the growth rate was not uniform throughout the period; the compound growth rate which was 20 per cent per year during 1951-61 rose significantly to 33 per cent per annum during 1961-71. The growth, however, slowed down in the last seven-year period - it was only 12 per cent per annum between 1971 and 1978.

The working capital of PLDBs rose from nearly Rs. 7 crores to Rs. 896 crores between the end of June 1951 and 1978, indicating a compound growth rate of about 19 per cent per annum. It may be noted that the working capital of PLDBs declined to Rs. 520 crores at the end of June 1973 from about Rs. 618 crores as at the end of June 1972, because of

WORKING CAPITAL OF CLDBs AND PLDBs

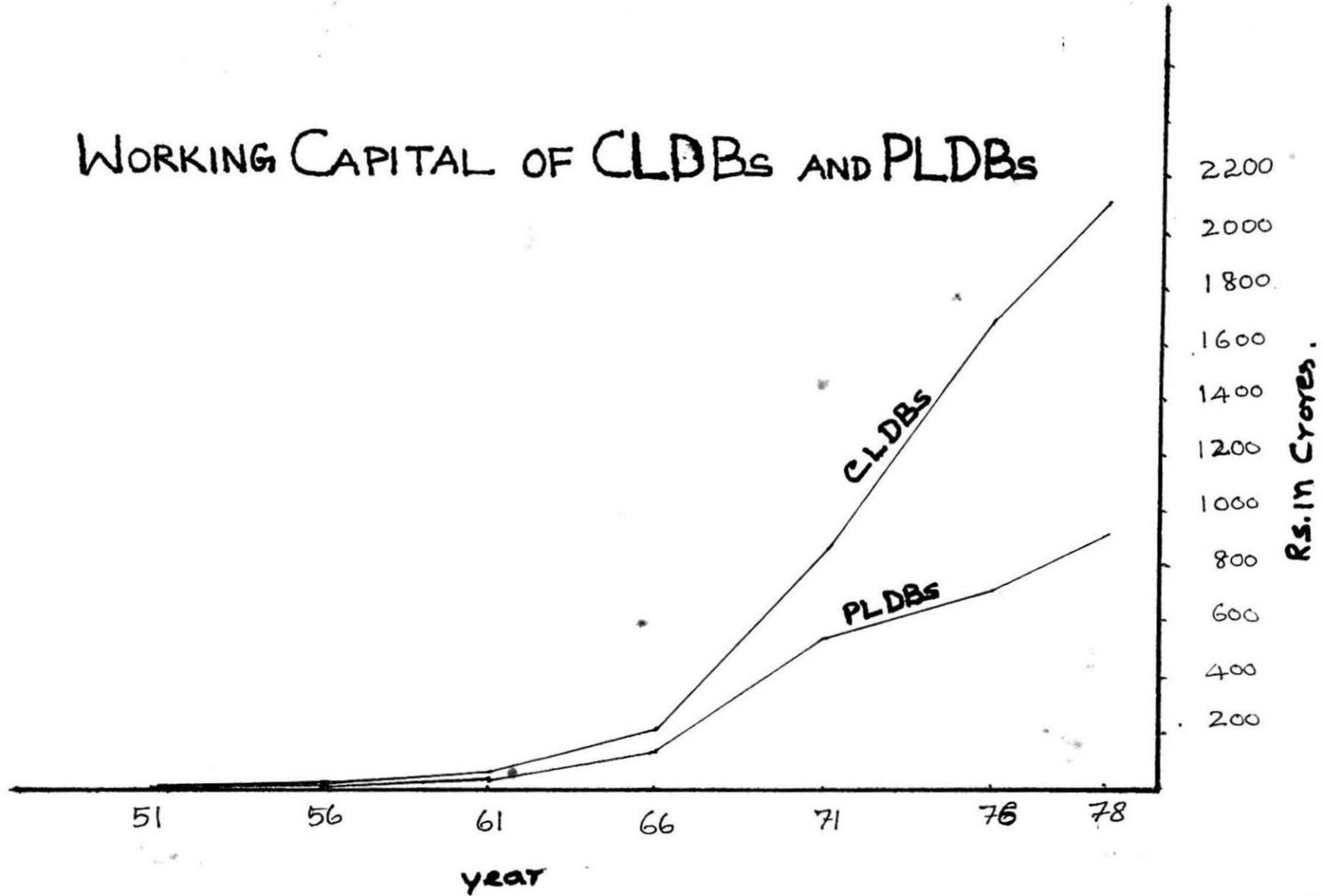


TABLE 3.1

**Growth of Working Capital of Central Land Development Banks
and Primary Land Development Banks**

(Amount in Crores of Rupees)

As on 30 June	Central Land Development Banks	Primary Land Development Banks
1951	7.72	6.66
1956	18.52	11.33
1961	47.60	26.99
1962	61.70	38.31
1963	85.85	55.02
1964	114.13	74.84
1965	150.04	99.99
1966	206.59	136.93
1967	263.58	173.59
1968	346.70	223.40
1969	488.19	309.75
1970	638.32	403.92
1971	841.22	550.66
1972	1016.50	617.94
1973	1202.07	519.76
1974	1368.11	558.73
1975	1502.19	616.16
1976	1667.29	704.23
1977	1917.96	815.48
1978	2082.12	896.45

**Source : Statistical Statements relating to the Cooperative Movement
in India, various issues, Part I, Credit Societies, issued
by the Reserve Bank of India, Bombay.**

the merger of PLDBs of Maharashtra into the State CLDB in 1972-73.

It may be pointed out that between 1950-51 and 1977-78, the average amount of working capital per regular member of the PLDBs increased to Rs. 2,717 from Rs. 310; in the case of CLDBs there was a marginal rise from Rs. 8,578 to Rs. 8,657; and in the case of LDBs as a whole, it increased from Rs. 642 to Rs. 5,221. The working capital per member of the CLDB remained stationary because the annual growth rate of membership and working capital were more or less uniform (22 per cent per annum), whereas, in the case of PLDBs, the annual growth rates of membership and the working capital were 10 per cent and 19 per cent respectively.

In the next few sections each source of funds of LDBs and its relative importance in the total for the reference period (1950-51 to 1977-78) are discussed.

DEBENTURES

Debentures constitute the most important source of working capital of the LDBs. From Table 3.2, which provides debentures outstanding of CLDBs, it is clear that debentures constituted nearly 81 per cent to the working capital at the end of June 1978. The share of debentures remained more or less stationary at approximately 84 per cent during the study period.

The issue of debentures is governed by the provisions of the respective LDB Act of each State. At present only

TABLE 3.2

Outstanding Debenture of Central Land Development Banks

(Amount in Crores of Rupees)

As on 30 June (1)	Debenture amount outstanding at the end of the year (2)	Column 2 as percentage of working capital (3)
1951	6.75	87.4
1956	14.94	80.7
1961	36.53	76.7
1962	47.74	77.4
1963	68.19	79.4
1964	92.59	81.1
1965	124.72	83.1
1966	178.37	86.3
1967	232.02	88.0
1968	299.55	86.9
1969	426.11	87.3
1970	570.80	39.4
1971	724.90	86.2
1972	879.83	86.5
1973	1015.04	84.4
1974	1143.28	83.6
1975	1253.94	83.5
1976	1383.82	83.0
1977	1590.51	82.9
1978	1690.59	81.2

Source : Statistical Statements relating to the Cooperative Movement in India, various issues, issued by the Reserve Bank of India, Bombay.

CLDBs are empowered to issue debentures. Debentures are issued with the prior permission of the trustee (normally the Registrar of Cooperative Societies in a State acts as the trustee) on the security of mortgages and other assets transferred by the PLDBs and of the other properties of the CLDBs.

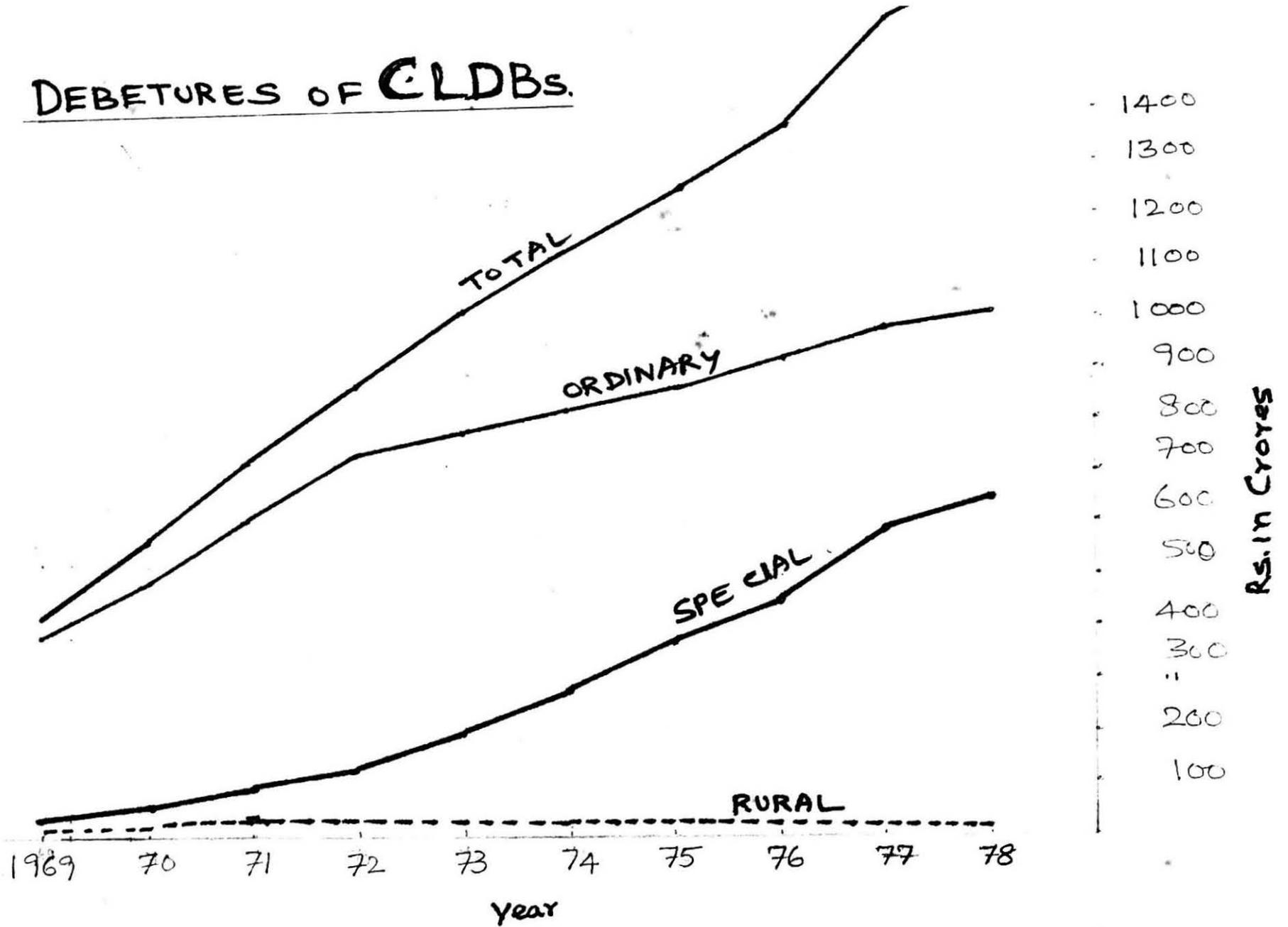
Debentures in the past were normally issued for a uniform period of 20 years in almost all the States. When the emphasis for advancing loans has been shifted to productive purposes, LDBs started floating debentures for shorter periods also. From the marketing aspect also issue of debentures for shorter periods is considered advantageous from the view point of short-term investors.

The main subscribers to the debentures issued by the CLDBs are institutional agencies such as the RBI, State Bank of India (SBI), Life Insurance Corporation of India (LIC), commercial and cooperative banks. Part of the subscription to rural debentures comes from individuals also. An important feature of the debenture floatation programme is that each CLDB lends support to the debentures floated by other CLDBs. This support to each other is possible as they are allowed to invest upto 50 per cent of the sinking funds maintained by them in the debentures issued by other CLDBs.¹

1 Reduced from 60 per cent with effect from December 2, 1979 vide Reserve Bank's circular No. ACD/LDB/784/B. 3-74/5 dated 2 December 1974.

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DEBITURES OF CLDBs.



In order to make the debentures attractive certain additional features have been introduced from time to time. One of the important features introduced in November 1964 (following the RBI's suggestion) was the guarantee given by the State Government to the repayment of the principal and interest on the debentures. Commercial banks were permitted to issue loans on the pledge of these debentures. These debentures are also made negotiable.

There was a phenomenal increase in the debenture collections of LDBs between 1951 and 1978 as shown in table 3.2. It can be noticed that debenture amounts outstanding have increased from Rs. 7 crores to nearly Rs. 1,691 crores between 1950-51 and 1977-78, implying an average annual compound growth rate of nearly 22 per cent. The annual average rate of growth which was about 18 per cent at the end of June 1951, increased to 35 per cent at the end of June 1971; it then dropped to 11 per cent at the end of June 1978. However, the share of debentures in the working capital remained stationary. This is because (i) the growth rate of debentures and working capital were more or less equal and (ii) since debentures formed an overwhelmingly proportion of the working capital.

As mentioned earlier, debenture capital is raised by LDBs by floating three types of debentures viz., ordinary, special and rural. Each type of debenture and its share in the total may be further discussed here. The data with regard to the three types of debentures issued by CLDBs for the period

1969-70 to 1977-78 are given in table 3.3*.

Ordinary Debentures

Ordinary debentures form the main component of the debenture capital of the LDBs in India. During the past, when the loans were issued mainly for clearing old debts, Provident Fund Commissioner, Charity Commissioner, Insurance Companies and Government were the main subscribers to ordinary debenture issues. With the increase in the requirements of funds especially after the assignment of a new role for LDBs in accordance with the recommendations of the All India Rural Credit Survey Committee (1954), it was felt that these debentures need much wider support than before. The support came from the RBI, SBI and other Commercial Banks. After the nationalisation of the fourteen major commercial banks in July 1969, their support to the debentures improved considerably.

Table 3.3 provides information on the amount of ordinary debentures issued and the percentage of ordinary debentures in the total debentures issued by CLDBs for the year 1968-69 to 1977-78. It can be noticed that the relative importance of ordinary debentures in the total showed a continuous decline from nearly 89 per cent in 1968-69 to 61 per cent in 1977-78. The decline was more pronounced in 1972-73 and

* Separate data with regard to each category of debentures are available from 1969.

TABLE 3.3

Debentures Issued by Central Land Development Banks
during 1968-69 to 1977-78

(Amount in Crores of Rupees)

Year *	Ordinary Debentures	Special Debentures	Rural Debentures	Total
(1)	(2)	(3)	(4)	(5)
1968-69	378.0 (88.7)	32.3 (7.6)	15.9 (3.7)	426.1 (100.0)
1969-70	490.7 (86.0)	62.6 (11.0)	17.5 (3.1)	570.8 (100.0)
1970-71	613.0 (84.6)	92.9 (12.8)	19.0 (2.6)	724.9 (100.0)
1971-72	735.9 (83.6)	123.9 (14.1)	20.0 (2.3)	879.8 (100.0)
1972-73	779.2 (76.8)	217.1 (21.4)	18.8 (1.9)	1015.0 (100.0)
1973-74	837.1 (73.2)	288.1 (25.2)	18.1 (1.6)	1143.3 (100.0)
1974-75	864.7 (69.0)	372.2 (29.7)	17.1 (1.4)	1253.9 (100.0)
1975-76	916.4 (66.2)	452.6 (32.7)	14.8 (1.1)	1383.8 (100.0)
1976-77	987.8 (62.1)	591.7 (37.2)	11.0 (0.7)	1590.5 (100.0)
1977-78	1022.5 (60.5)	658.5 (37.2)	9.7 (0.6)	1690.6 (100.0)

Note : * Year ending on 30 June.

Source : Statistical Statements relating to the Cooperative
Movement in India, issued by Reserve Bank of India,
Bombay.

1973-74, primarily as a result of floatation of special development debentures for implementing the refinance schemes of ARDC, particularly under the International Development Association (IDA) projects. The existence of heavy overdues at the primary bank/branch level in several States is another reason for the decline in the share of ordinary debentures.² Because of the overdues, the loaning operations of the PLDBs/branches of CLDBs had to be restricted leading to the inability of the CLDBs to have adequate securities supporting the issue of ordinary debentures.

The Working Group set up by the Government of India on 11 April 1972 for formulating proposals regarding development of cooperatives in the Fifth Plan estimated that LDBs would be advancing investment credit of the order of Rs. 1,500 crores during the Plan period - Rs. 1,100 crores by way of loans under ordinary programmes and Rs. 400 crores by way of loans under the ARC-refinanced schemes. According to the estimates made by the Group, resources totalling Rs. 1,100 crores for loans under ordinary programmes were to be raised in the following manner.

² Reserve Bank of India, Review of the Cooperative Movement in India (1972-74), Bombay, 1976, p.130.

	Rupees in Crores
Owned funds	45
Rural debentures/Deposits	35
State Co-operative Banks and Others	70
Sinking fund	350
SBI/Commercial Banks/LIC/RBI	450
Central Government/State Governments	150
Total	----- 1,100 -----

It may be noted that the target for ordinary debentures in the Fifth Plan has since been reduced from Rs. 1,100 crores to Rs. 600 crores because of the anticipated increase in lending under ARC-refinanced schemes from Rs. 400 crores to Rs. 900 crores.

Special Debentures

According to one of the recommendations of the All India Rural Credit Survey Committee Report (1954), there was need for LDBs to provide loans for productive purposes in view of considerable potential for agricultural programmes (such as construction of major and medium irrigation projects) and the scope for development of plantation and horticulture crops. In order to meet the credit needs for such developmental purposes, the need for the mobilization of resources through the issue of special development debentures arose.

Following the recommendations of the All India Rural Credit Survey Committee (1954), the RBI decided in 1962 to

provide support to LDBs in respect of debentures floated under special schemes, which could not be financed from normal sources on account of the large outlay involved or because of the terms and conditions of repayment. Such assistance was in addition to the support which the RBI was providing to the ordinary debentures floated by LDBs. However, the rate of progress in this regard was slow.

With the establishment of the ARC in 1963, the special debentures got a fillip. The special debentures are issued by LDBs to the extent of loans advanced to them by the ARC. Such advances are given for financing specific schemes of agricultural development which have been approved by the ARC. Each series of special debentures is subscribed to by ARC and State Governments. The contribution of the State Government is envisaged with a view to ensuring its technical help in the implementation of development projects and since LDBs usually do not have technical staff of their own.

It may be seen from table 3.3 that the share of special debentures in the total debenture collections has shown a gradual increase. Their share in the total, which was nearly 8 per cent in 1968-69, increased considerably during the reference period of the study and stood at nearly 39 per cent in 1977-78.

Rural Debentures

The All-India Rural Credit Survey Committee (1954) felt that there was good scope for LDBs to mobilize and collect

rural savings in view of rising level of prices of agricultural products and productivity. The type of debentures issued by LBSs at that time were not considered suitable for the purpose. Hence, a new type of debentures called, "rural debentures" were issued. The above Committee outlined the main features of rural debentures as under:

"These 'Rural Debentures' should, as far as possible, be for specific projects of development in which the villager is interested in different degrees according as they are of direct benefit to him, or of benefit to those with whom he shares a fellowship of interest because of their belonging to his district or region or State. Thus, if the purpose of the debentures is to provide loans to the cultivators in his own locality to prepare their lands for the higher productivity made possible by a minor irrigation work of the district, this may be of more or less direct appeal to the local cultivator; at the same time, a debenture similarly relates to some important and much publicized major irrigation work established in his State may have an appeal for him which is less direct, but not necessarily less strong. Just as the debentures intended to draw savings from the money market are issued during the slack season when money is available with the market, so should these rural debentures, as far as possible, be issued at the time of harvest and sale of crop when money is available with the agricultural classes. So also, in regard to period

of repayment etc., these debentures should be so designed as to suit the requirement of the rural investor".³

In accordance with the above recommendation, the CLDBs were advised to float rural debentures for mobilizing rural savings. In pursuance of this, the RBI formulated a scheme in 1957 and recommended it to these banks. One of the salient features of the scheme was that the LDBs could grant loans, against mortgages of land, for productive purposes for periods of 6 or 7 years.* On a review of the above scheme by the RBI, it was noticed that the progress was far from satisfactory. The main difficulty experienced by banks was their inability to issue loans for 7 years, the demand at that time being mostly for loans for 15 years or more. A revised scheme was, therefore, drawn up by the RBI in September 1958, according to which CLDBs were empowered to issue loans for periods extending upto 15 years and, on the strength of these mortgages, issue a series of rural debentures divided into two parts. One part for 7/15th of the total amount was to be for 7 years and be made available for subscription by only individuals in rural areas and the

3 Reserve Bank of India, The General Report of the All India Rural Credit Survey Committee, Bombay, 1954, p.489.

* More details are available in the Report of the Committee on Cooperative Land Development Banks, Reserve Bank of India, 1975, p. 177-178.

remaining part was to be for 15 years to be subscribed to entirely by the RBI.

It can be seen from table 3.3 that the annual collections from rural debentures showed a decline. Their contribution to the total debenture collections, which was nearly 4 per cent in 1968-69, gradually declined - it was less than 1 per cent of the total during 1976-77 and 1977-78. Barring a few banks, for instance, in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Punjab, Tamil Nadu and Uttar Pradesh, the performance of the remaining banks in the floatation of rural debentures was poor.

The main reasons for the failure of the banks to float rural debentures for substantial amounts were the low rate of interest on debentures, considerable expenses involved in sending money orders on account of half-yearly interest payable to debenture-holders, competition from other institutions, etc.⁴ According to the All India Rural Credit Review Committee (1969), the main reason for the failure of the scheme for rural debentures has been the lack of serious efforts on the part of CLDBs in this direction. Primary banks are more concerned in achieving targets for loan disbursements rather than helping the CLDBs in the sale of rural debentures.

⁴ Reserve Bank of India, Review of the Cooperative Movement in India (1972-74), Bombay, 1976, p.132.

Expert Committees like the All India Rural Credit Review Committee (1969), and the Working Group on Rural Debentures (1971) have recommended the continuance of the scheme by LDBs in view of its potential for tapping rural savings. The conference of State Ministers for co-operation held in New Delhi in January 1973 was also in favour of continuing the scheme.*

The ordinary debenture programme of the CLDBs for the year 1974-75 was linked with their achievements in mobilizing rural savings from individuals by way of rural debentures/ fixed deposits. It was decided that in the case of the CLDBs which failed to achieve the allotted quota of rural debentures during 1973-74 there would be a cut in the support from institutional agencies towards the ordinary debenture programme of the banks for 1974-75 to the extent of 10 times the difference between the amount required to be mobilized from the individuals and the amount actually collected in the prescribed manner, subject to a maximum of Rs. 200 lakhs for each bank.

The entire scheme of rural debentures was, however, reviewed by the Agricultural Credit Board of the RBI at its meeting held on 7 August 1975 where it was decided that the scheme of rural debentures may continue to be undertaken on

* Details are available in the Report of the Committee on Cooperative Land Development Banks, 1975, p.176-194.

on a voluntary basis by the LDBs instead of being mandatory as heretofore. Under the revised scheme, rural debentures floated by CLDBs would not carry the State Government's guarantee and there will be no contribution from the RBI.⁵

Having discussed the relative importance of the different debentures, we can briefly discuss the types of subscribers to the debentures issued by LDBs during 1969-70 to 1977-78. The relevant information is furnished in table 3.4. It is clear that the ARC's share had increased considerably from about 18 per cent in 1969-70 to nearly 51 per cent in 1977-78 whereas the shares of SBI, Government of India, State Governments, Commercial banks, Cooperative institutions and Public had shown decline during the same period. The share of sinking fund investments remained more or less the same. The share of the LIC showed an increase, from nearly 9 per cent in 1969-70 to nearly 11 per cent in 1974-75; since then, it declined and constituted only 1 per cent of the total in 1977-78.

INTERIM FINANCE

Before we discuss the other sources of funds for LDBs, such as Share Capital and Sinking Fund, we may consider the nature and importance of interim finance.

5. Reserve Bank of India, Review of the Cooperative Movement in India (1974-76), Bombay, 1978, p.140.

Debentures, as discussed in the preceding pages, constitute the most important source of fund for LDBs for obtaining long term funds required for disbursement of loans to agriculturists. Debentures are floated on the strength of previous accumulation of mortgages. In order to obtain mortgages, CLDBs have to depend on interim accommodation since their owned funds are generally inadequate. The RBI helps the LDBs in securing interim accommodation for their loaning operations from the State Cooperative Bank (SCB) or the SBI and its subsidiaries.

The practice adopted by most of the CLDBs in collecting mortgages first by issuing loans with the help of their owned funds and interim accommodation is essential, because, confidence of the long term investors was necessary to make the debentures a success. It is mortgages first collected that would provide security and create confidence among the investors. It can be argued that the Government guarantee could inspire confidence. But even State Government would like to give guarantee on the basis of unencumbered mortgages.

The All India Rural Credit Review Committee (1969) observed that interim accommodation was obviously necessary for the smooth flow of long term credit. It also felt that such accommodation should be adequate in amount and carry reasonable rate of interest. The Committee (1969) was of the view that at that time LDBs had no problem with regard to obtaining sufficient interim accommodation. The SBI or one of its subsidiaries was providing these facilities to all

but two States against the guarantee of the concerned State government, charging a rate of interest of 7½ per cent. The total of such limits and outstandings thereunder stood at Rs.16.1 crores and Rs.11.4 crores respectively, as at the end of December 1968. Of the two CLDBs which were not financed by the SBI, the one in Assam was not floating debentures at that time and the other in Maharashtra looked to the local SCB for this facility. As larger lending programme came to be undertaken in the later years, the requirements by way of interim accommodation were expected to substantially go up.

The LDBs in 1973 had to undergo difficulties in securing interim accommodation, because the RBI did not allow more than three floatations of ordinary debentures in a year and the reduction in commercial Banks financial support due to the RBI's control on the former. The Committee on Cooperative Land Development Banks (1975) suggested that under such events, the RBI might permit an additional floatation of debentures in a year by those CLDBs which depend on intern accommodation for their loaning operations. It also suggested that the LDBs should carefully plan the deployment of their own resources in a profitable manner and make determined efforts to reduce their dependence on interim accommodation which is costly.

SHARE CAPITAL

Share capital constituted the second most important source of working capital of CLDBs. Every individual is required to purchase at least one share of Rs.10 to enrol as a member. Further, the primary banks collect share capital

TABLE 3.4

Debentures Issued by Central Land Development Banks -
Shares of Various Subscribers, 1970-1978

Year ending June 30	(Amount in Crores of Rupees)										
	Life Insurance Corporation	State Bank of India	Reserve Bank of India	Agricultural Refinance Corporation	Govt. of India	State Governments	Commercial Banks	Cooperative Institutions	Public	Sinking Fund Invest- ments	Total
1970	13.4 (8.8)	6.0 (3.9)	5.2 (3.4)	26.7 (17.6)	14.1 (9.3)	20.8 (13.4)	32.7 (21.5)	6.6 (4.3)	11.1 (7.3)	15.8 (10.4)	152.0 (100.0)
1971	11.9 (7.5)	6.1 (3.9)	5.4 (3.4)	26.6 (16.8)	17.4 (11.0)	23.9 (15.1)	29.4 (18.6)	6.8 (4.3)	7.5 (4.7)	23.5 (14.9)	158.0 (100.0)
1972	10.9 (6.6)	5.6 (3.4)	5.2 (3.1)	28.4 (17.2)	18.7 (11.4)	25.7 (15.5)	24.1 (14.6)	8.8 (5.3)	7.2 (4.4)	30.5 (18.1)	165.2 (100.0)
1973	10.7 (5.9)	4.0 (2.2)	1.4 (0.0)	86.3 (47.7)	11.5 (6.3)	23.8 (13.2)	18.9 (10.4)	5.8 (3.2)	4.9 (2.7)	13.8 (7.6)	180.9 (100.0)
1974	12.0 (7.4)	4.3 (2.7)	0.4 (0.0)	77.8 (48.2)	7.4 (4.6)	17.0 (10.6)	11.4 (7.1)	3.5 (2.1)	2.3 (1.4)	25.4 (15.7)	161.4 (100.0)
1975	16.5 (10.6)	3.6 (2.3)	-	77.0 (49.6)	7.0 (4.5)	16.7 (10.7)	11.3 (7.3)	4.3 (2.8)	3.5 (2.3)	15.4 (9.9)	155.2 (100.0)
1976	14.8 (7.8)	3.9 (2.1)	-	99.1 (52.3)	5.9 (3.1)	21.8 (11.5)	16.0 (8.4)	4.4 (2.3)	3.9 (2.1)	19.7 (10.4)	189.4 (100.0)
1977	15.6 (6.9)	4.6 (2.0)	-	126.7 (56.2)	6.0 (2.6)	24.8 (11.0)	11.7 (5.2)	3.0 (1.3)	1.2 (0.5)	31.9 (14.1)	225.4 (100.0)
1978	2.3 (1.0)	5.0 (2.5)	-	111.9 (56.6)	7.0 (3.5)	22.6 (11.4)	12.1 (6.1)	36.0 (18.2)	0.2 (0.0)	0.6 (0.0)	197.6 (100.0)

Note : Figures in the bracket indicate percentage to the total debenture amount.

Source : Statistical Statements relating to the Cooperative Movement in India,
Part I, Credit Societies, various issues, issued by the Reserve Bank
of India, Bombay.

at the rate of 5 per cent of the loan amount from individual borrowers. These banks, in turn, purchase shares of CLDBs to the extent of 4 per cent of their borrowings.⁶

The All-India Rural Credit Review Committee (1969) recommended that bigger cultivators should make a larger contribution towards the share capital of LDBs. On the basis of this suggestion, the Gujarat State Co-operative Land Development Bank required cultivators to make a contribution of 5 per cent for loans upto Rs. 5,000 and 7½ per cent for loans of higher amounts.

Table 3.5 gives data pertaining to paid up share capital of the CLDBs between 1950-51 and 1977-78. It can be seen from the data in the table that the paid-up share capital of the CLDBs increased from about Rs. 31 lakhs at the end of June 1951 to Rs. 119 crores as on 30 June 1978, registering a compound growth rate of nearly 24 per cent per annum.

The increase in the share capital could be mainly attributed to the increase in the number of members and the rise in their borrowings from the LDBs. It may be noted that share capital as percentage of working capital rose from 4 per cent to nearly 6 per cent between 1950-51 and 1977-78.

⁶ The Reserve Bank of India suggested on 9 July 1973 that the contribution of primary banks in the share capital of CLDBs might be fixed at 3 per cent of the borrowings of Primary banks instead of the earlier 4 per cent.

TABLE 3.5

Growth of Paid-up Share Capital and Sinking Fund
of the Central Land Development Banks

(Amount in crores of rupees)

As on 30 June	Share Capital	Col.(2) as percentage of working capital	Sinking Fund	Col.(4) as percentage of working capital
(1)	(2)	(3)	(4)	(5)
1951	0.31	4.0	1.02	13.2
1956	0.79	4.3	4.06	21.9
1961	4.33	9.1	6.91	14.5
1962	5.73	9.3	10.92	17.7
1963	7.81	9.1	14.67	17.1
1964	9.59	8.4	20.56	18.0
1965	11.92	7.9	28.39	18.9
1966	15.39	7.5	38.07	18.4
1967	18.93	7.2	49.41	18.7
1968	24.10	7.0	63.26	18.2
1969	30.94	6.3	86.12	17.6
1970	38.86	6.1	118.03	18.5
1971	48.88	5.8	157.54	18.7
1972	57.62	5.7	205.50	20.2
1973	79.46	6.6	258.84	43.2
1974	67.91	5.0	324.98	40.8
1975	93.27	6.2	372.00	41.0
1976	98.70	5.9	390.22	42.2
1977	111.50	5.9	520.56	42.5
1978	118.90	5.7	551.90	43.1

Source : Statistical Statements relating to the Cooperative Movement in India,
Part I, Credit Societies, various issues, issued by the Reserve Bank
of India, Bombay.

SINKING FUND

Sinking fund is a device which has been created to redeem the debentures at the time of maturity. The period for which a sinking fund is created depends upon the period for which debentures are issued. It is built up by paying into it every year out of loan collection, a sum equivalent to the amount of each series of debentures divided by the number of years for which the series has been issued. The accretions to sinking fund are used for investment in Government securities, bank's own debentures, etc. The debentures are covered by mortgages transferred in favour of the LDBs by borrowers.

In the initial years, some banks issued debentures throughout the year and redeemed them in instalments before their maturity. Following the circular issued by the RBI in 1936 on 'The Financing of Land Mortgage Banks in India', CLDBs started maintaining sinking fund for each series of debentures.

Sinking fund was invested in the beginning in Government securities which yielded low income to the banks. Hence, the RBI in 1964 fixed the pattern of investment of sinking fund which was revised in 1971. The suggested pattern⁷ is given below:

⁷ Report of the Committee on Cooperative Land Development Banks, Reserve Bank of India, Bombay, 1975, p.174.

- (a) Not less than 20 per cent should be invested in Government and other trustee securities including bonds issued by the ARC subject to the stipulation that at least 10 per cent should be invested in Government securities,
- (b) Upto 60 per cent of the balance in the sinking fund may be invested in the Bank's own debentures or in the debentures of sister LDBs in other States; and
- (c) Upto 20 per cent of funds may be invested in fixed deposits with the State Cooperative Banks and, under certain conditions, with commercial banks.

Table 3.5 gives the information regarding the share of Sinking fund in the working capital of the CLDBs. It may be noted that the sinking fund increased from Rs. 1 crore as on 30 June 1951 to Rs. 552 crores as on 30 June 1978, with an annual compound growth rate of about 25 per cent. The share of Sinking Fund in the working capital of LDBs which stood at nearly 13 per cent at the end of June 1951 increased to nearly 27 per cent at the end of June 1978.

FIXED DEPOSITS

In 1969, LDBs approached the RBI to permit them to accept fixed deposits for the purpose of mobilization of rural savings besides the collections they make by issuing rural debentures. They argued that LDBs would be in a position to make good collections by way of fixed deposits and cited as evidence the success achieved by the rural branches of the nationalised banks in this respect. Secondly,

TABLE 3.6

Disbursement of Refinance by Agricultural Refinance and Development Corporation - Agencywise

(Amount in Crores of Rupees)

Agency	Upto 30 June 1969	- Year ending 30 June -									Upto 30 June 1978
		1970	1971	1972	1973	1974	1975	1976	1977	1978	
State Land Development Banks	27.85 (91.4)	26.75 (93.5)	26.65 (87.0)	28.39 (81.2)	86.14 (91.5)	77.76 (79.5)	77.06 (72.4)	99.09 (57.9)	126.70 (57.4)	111.94 (47.8)	688.27 (65.6)
Scheduled Commercial Banks	1.06 (3.5)	0.56 (2.0)	2.78 (9.1)	3.26 (9.3)	4.49 (4.8)	17.36 (17.7)	27.87 (26.2)	70.75 (41.3)	92.98 (42.1)	120.26 (51.3)	341.43 (32.5)
State Cooperative Banks	1.56 (5.1)	1.29 (4.5)	1.19 (3.9)	3.33 (9.50)	3.51 (3.7)	2.72 (2.8)	1.47 (1.4)	1.31 (0.8)	1.14 (0.5)	2.10 (0.9)	19.62 (1.9)
Total	30.47 (100.0)	28.60 (100.0)	30.62 (100.0)	34.98 (100.0)	94.14 (100.0)	97.84 (100.0)	106.40 (100.0)	171.15 (100.0)	220.82 (100.0)	234.30 (100.0)	1049.32 (100.0)

Disbursement of Refinance by Agricultural Refinance and Development Corporation - Purposewise

(Amount in Crores of Rupees)

Purpose	Upto 30 June 1969	- Year ending 30 June -									Upto 30 June 1978
		1970	1971	1972	1973	1974	1975	1976	1977	1978	
Minor irrigation	12.81 (42.1)	22.33 (78.1)	23.06 (75.3)	26.74 (76.4)	84.08 (89.4)	85.30 (87.1)	83.78 (78.7)	108.18 (63.2)	142.10 (64.4)	143.27 (61.1)	731.58 (69.7)
Land development/reclamation/Soil Conservation/Command Area Development	13.88 (45.5)	3.32 (11.6)	4.37 (14.3)	2.37 (6.8)	2.30 (2.4)	1.78 (1.8)	2.01 (1.9)	4.92 (2.8)	5.97 (2.6)	4.08 (1.8)	44.72 (4.3)
Farm Mechanisation/Agro-Service Centres	0.14 (0.5)	0.16 (0.6)	0.11 (0.4)	0.36 (1.0)	2.18 (2.3)	3.75 (3.9)	12.23 (11.5)	45.75 (26.7)	51.77 (23.4)	28.75 (12.3)	145.38 (13.8)
Plantation/Horticulture	2.07 (6.8)	1.50 (5.2)	1.99 (6.5)	2.05 (5.9)	1.49 (1.6)	2.19 (2.3)	2.00 (1.9)	3.07 (1.8)	5.16 (2.3)	7.87 (3.4)	29.52 (2.8)
Others	1.57 (5.0)	1.29 (4.5)	1.09 (3.6)	3.46 (9.9)	3.99 (4.2)	4.82 (4.9)	6.38 (6.0)	9.23 (5.4)	15.92 (7.2)	30.33 (21.4)	98.12 (9.4)
Total	30.47 (100.0)	28.60 (100.0)	30.62 (100.0)	34.98 (100.0)	94.14 (100.0)	97.84 (100.0)	106.40 (100.0)	171.15 (100.0)	220.82 (100.0)	234.30 (100.0)	1049.32 (100.0)

Figures in parentheses are percentages of the total.

Source : Annual Reports, Various Issues, issued by Agricultural Refinance and Development Corporation, Bombay.

they pointed out that such deposits would reduce their dependence on interim accommodation (normally provided by the state co-operative banks and the SBI and its subsidiaries), for which they were paying high rate of interest of 8½ to 9 per cent.

The RBI in June 1971, permitted CLDBs to accept fixed deposits from individuals subject to conditions such as:

- (i) The period for which fixed deposits may be accepted may not be less than one year and exceed two years; and
- (ii) The bank pays interest at not more than 7 per cent per annum on deposits for one year and 7½ per cent per annum on deposits for more than one year but upto two years.*

During the years 1971-72, 1972-73 and 1973-74, CLDBs had collected fixed deposits of Rs. 55 lakhs, Rs. 171 lakhs and Rs. 158 lakhs respectively. In Assam no fixed deposit was collected. During 1973-74 the highest amount of Rs. 66 lakhs was collected by Uttar Pradesh Bank and the lowest amount of Rs. 26,000 was collected by Himachal Pradesh Bank. Thus, the scheme has achieved only a limited success.

So far we have seen in detail the sources of funds for LDBs. It is also worth noting that in recent years, PLDBs have come to occupy an important position in the long-term cooperative credit structure and they are no longer mere agencies to disburse funds on the basis of loan sanctions

* Details are available in the Review of the Cooperative Movement in India (1970-72), Reserve Bank of India, 1974, p.102.

accorded by CLDBs.

FLOW OF FUNDS BETWEEN CLDBs AND PLDBs

Generally, the flow of funds between a CLDB and PLDB and vice versa takes place on account of the following factors:

CLDB to PLDBs	PLDBs to CLDBs
i) Funds for issuing loans	i) Recoveries from borrowers
ii) Subsidies on account of staff	ii) Amount collected on account of rural debentures and fixed deposits
iii) State Government contribution to share capital (if indirect)	iii) Interest on loans
iv) Commission on brokerage on amounts collected for rural debentures or fixed deposits	iv) Share money
v) Subsidies towards loan amounts received from Small Farmers Development Agencies (SFDA)/ Marginal Farmers and Agricultural Labourers Development Agencies (MFAL)	

Taking into account the various items involved in the flow of funds between these institutions, primary banks should invariably follow the procedure of first using their own funds and later the funds provided by the CLDB for their

loaning operations. Besides, they should be prompt in remitting the amounts received by them on account of recoveries from cultivators to the CLDB. The CLDB should help primary banks in making an analysis of cash in-flow and out-flow, taking into account each bank's requirements of funds for issuing loans and the recoveries effected.

DISBURSEMENT OF REFINANCE BY THE AGRICULTURAL
REFINANCE AND DEVELOPMENT CORPORATION

The RBI and the Government of India actively considered the establishment of the ARC in the sixties as the availability of funds in financing of agriculture was inadequate. The Corporation has been mainly set up to meet the special requirements of major projects for increased agricultural production. The schemes for which the Corporation is expected to provide refinance will have to be well-defined projects in conformity with the provisions of the Five Year Plans and will have to be compact in area economically paying, susceptible of close and intensive supervision. The schemes proposed for financing by the Corporation include:

- (a) financing of the reclamation and preparation of land, so that facilities for irrigation are fully utilised;
- (b) financing the development of specialised crops such as arecanut, coconut, cashewnut, and cardamom orchards;
- (c) development of mechanised farming, use of electricity through tube wells, pump sets; and

(d) development of animal husbandry, dairy farming, poultry farming, etc.

The ARC commenced its business in 1963 with an authorized share capital of Rs. 25 crores and a paid up capital of Rs. 5 crores. During 1975 the authorized share capital has been raised to Rs. 100 crores. The Corporation is also empowered to borrow from the RBI, Government of India; it can issue bonds and debentures carrying the guarantee of Government of India.

The Corporation provides assistance mainly by way of refinance to CLDB, State cooperative banks and scheduled banks. As the CLDBs raise their resources by the floatation of debentures, the assistences provided by the Corporation to them may generally take the form of subscription to their debentures.

The refinancing operations of the Corporation picked up only after 1967-68. Table 3.6^{*} indicates agencywise and purposewise disbursement of refinance by ARDC. The total disbursement increased considerably, from Rs. 30 crores as on 30 June 1969 to Rs. 1,049 crores as on 30 June 1978 with an annual compound growth rate of 48 per cent. Out of its total disbursement, the share of LDBs formed about 66 per cent. It may be noticed from the table that disbursements to LDBs rose from Rs. 28 crores to Rs. 688 crores between the end of June 1969 and 1978. However, the share of LDBs in the total declined from 91 per cent to 66 per cent between 1969

* Please refer page 54.

and 1978; while the share of commercial banks increased from 4 per cent to 33 per cent during the same period.

It may further be noted from the table that the share of minor irrigation showed a tremendous increase from 42 per cent to nearly 70 per cent between 1969 and 1978. The share of farm mechanization increased from 0.5 per cent to 14 per cent; but the share of land development, however, declined from 46 per cent to 4 per cent during the above period.

The corporation has been trying to reduce the disparities in agricultural development among different regions of the country. During 1977-78, 7 new districts came under the refinance operations of ARDC by the sanction of schemes in backward districts for the first time. As at the end of March, 1978, only 32 districts spread over 15 states/union territories remained to be covered by ARDC schemes. Further, the Corporation has agreed to provide, as a special case 100 per cent refinance facilities in respect of technically viable schemes sponsored by the SFDA or MFAL agencies through the eligible institutions.

The year ended 30 June 1980 witnessed considerable growth in disbursement, reaching a level of Rs. 412 crores as against Rs. 285 crores during the preceding year. This implies a growth of 45 per cent as compared with 22 per cent in 1978-79 and 6 per cent in 1977-78. Out of the total disbursement of Rs. 412 crores during the year 1979-80, minor irrigation constituted Rs. 227 crores (55 per cent).

The cumulative disbursements since inception reached Rs. 1,738 crores (excluding short-term finance of Rs. 9 crores) at the end of June 1980. The ARDC as on 30 June 1980 covered 4814 blocks (96 per cent) out of the total of 5004 by one type of scheme or the other.

From the foregoing discussion, it is clear that the funds for LDBs have increased considerably during the reference period. Debentures constituted and continues to form a major share in the working capital throughout the period. It may be noted that in recent years because of the emphasis on the developmental activities, the importance of special debentures has shown significant improvement. Rural debentures and fixed deposits as sources of finance for LDBs have evoked only limited appeal. Another notable feature is that the share of refinance to commercial banks by the ARDC had increased while the share of LDBs showed a decline.

CHAPTER IV

LOANING POLICY AND PERFORMANCE OF LAND DEVELOPMENT BANKS

This chapter is devoted to a quantitative and qualitative appraisal of credit advanced by LDBs. To provide a proper perspective to such an analysis, a brief discussion of the main planks of the lending policy of LDBs is presented at the outset. Thereafter, a quantitative analysis of credit is attempted with a view to measuring the increase in the quantum of credit and the number of borrowers during the reference period.

As noticed in the second chapter, the All India Rural Credit Survey Committee (1954) had recommended that the LDBs should concentrate their attention on providing loans for productive purposes, as the demand for loans for minor irrigation works, land levelling in the command areas of major and medium irrigation projects, horticulture and plantation development, etc., was considerable. Again, with the establishment of the ARC and the stipulation of the RBI in 1967-68 that institutional support to ordinary debenture issues of LDBs would be forthcoming only if at least 80 per cent of their loans were for production purposes. Subsequently, on 23 May 1969, the RBI instructed each LDB to issue loans to the extent of at least 90 per cent for productive purposes of which at least 70 per cent

should be for easily identifiable productive purposes.

A broad classification of the loans for identifiable productive, non-identifiable productive and other purposes is given below :

A. Identifiable Productive Purposes

- (i) Sinking of new wells,
- (ii) Construction of new tanks to conserve water for wet cultivation,
- (iii) Boring and deepening of, reconstruction of, or repairs of, old wells,
- (iv) Purchase and installation of pumpsets (diesel or electrical), etc., and
- (v) Construction of godowns, cattle-sheds and farm houses, etc.

B. Non-identifiable Productive Purposes

- (i) Levelling, bunding and reclamation of land,
- (ii) Soil conservation by terracing,
- (iii) Construction of drainage channels to prevent flooding or bunding to prevent land erosion; and
- (iv) Preparation of land for orchards, plantations, etc.

C. Purposes not falling under A or B above and classified as Non-Productive Purposes

- (i) Loans for redemption of prior debts/mortgages,
- (ii) Purchase of tenancy / ownership rights,
- (iii) Purchase of land; and
- (iv) Others.

It may be pointed out that the High Yielding Varieties programme for increased agricultural production launched in 1966-67 generated demand for long-term loans from small farmers for making arrangements for assured irrigation or other measures for enabling them to undertake improvements in farming techniques. The small farmers found it difficult to get loans for undertaking on-farm investment especially because of the security bias in the lending policies of the banks. The RBI, therefore, advised CLDBs to give up the security-oriented procedure and adopt an income-oriented lending system. In other words, the banks were expected to give loans to any cultivator, notwithstanding the size of his holding, provided the proposed investment resulted in adequate incremental income which enable him to repay the loan in a reasonable period.

The instructions issued by the RBI to LDBs in regard to streamlining the loaning policy and procedures after 1970 have been generally on the lines recommended by the All India Rural Credit Review Committee (1969). Among the measures suggested by the Committee special mention may be made of those relating to small farmers. At a meeting convened by the RBI in Bombay in February 1973, the LDBs agreed that loans granted by them to small farmers should not be less than 20 per cent of the total loans advanced during the year.

Another financial discipline introduced among the LDBs in 1971-72 by the RBI relates to the reimbursement of funds by CLDBs to PLDBs or branches of CLDBs by linking the quantum of funds to be provided to the overdues at the primary level. The formula laid down for 1974-75 indicates, for instance, that

- (a) only PLDBs having overdues upto 15 per cent of the demand are eligible for full reimbursement; and
- (b) PLDBs having overdues exceeding 50 percent of demand as at the end of the previous cooperative year are not, as a general rule, eligible for reimbursement from CLDBs in excess of 25 per cent of the loan programme.

Yet another important development has been the introduction of uniform lending procedures by LDBs for similar purposes. This follows ~~yet~~ another discipline to which mention may be made was the stipulation made in the agricultural credit project agreements with IDA that the banks implementing the project schemes should observe the same terms and criteria for lendings outside the project areas as similar lendings in project areas.

Let us now analyse the progress in regard to implementation of the policies. The Study Teams constituted by the Committee on Cooperative Land Development Banks to examine the working of LDBs in cooperatively less advanced states, viz., Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Orissa, Rajasthan,

Tripura and West Bengal have pointed out that banks in these states have not been able to make any significant progress in the implementation of the production-oriented lending system due to several factors, the chief among them being lack of adequate staff, especially trained staff, and absence of proper appreciation of the system by the management of the LDBs and the boards of directors.¹

In three states, namely, Andhra Pradesh, Tamil Nadu and Karnataka, CLDBs had shown impressive record in the switch-over to production-oriented system of lending. It is observed that while the LDBs in the cooperatively less developed states have not evolved procedures for introduction of the production-oriented system of lending, even in the case of banks which achieved considerable success, there are several weaknesses in the implementation of this system of lending. The deficiencies generally observed in the case of the latter related to :

- (a) absence of norms :
 - (i) for investment credit to be provided for various purposes;
 - (ii) for working out repaying capacity in different areas and for different purposes, and for minimum size of holdings

¹ Reserve Bank of India, Report of the Committee on Cooperative Land Development Banks, Bombay, 1975, p.201.

needed for sustaining the investment credit for various purposes;

- (b) lack of a proper system for working out eligibility of loans on the basis of incremental income; and
- (c) fixing the period of loans for different purposes on a uniform basis instead of relating it to the repaying capacity of the borrower.

The issue regarding the security for loans provided by LDBs was examined by the All India Rural Credit Review Committee (1969) which was of the view that mortgage of security was necessary.²

One of the important developments subsequent to the recommendation of the above Committee relates to the entry of commercial banks especially after the nationalization of 14 commercial banks in July 1969 in financing of agricultural development schemes and other priority sectors. In the case of commercial banks, the loan procedures generally provide for sanction of term loans without mortgage of land upto a specified limit, say, Rs. 3000 to Rs. 3500 for certain purposes such as purchase of pumpsets and power-tillers.

² Reserve Bank of India, Report of the All India Rural Credit Review Committee, Bombay, 1969, p.780.

In this regard, a study of the role of farm credit to the farmers and mobilizing their savings in Basti district of U.P. pointed out that about 7 per cent of the farmers took loan from Government, 12 per cent from cooperatives, 15 per cent from LDBs and 66 per cent from commercial banks. It was observed that marginal and very small farmers (0 - 1.5 hect.) benefitted more from cooperatives as compared to other categories of the farmers.³

QUANTITATIVE EXPANSION OF CREDIT

The credit given by the CLDBs underwent a phenomenal expansion between 1950-51 and 1977-78. Table 4.1 shows advances made annually by CLDBs during the years 1950-51 to 1977-78. During 1977-78, loans advanced by these banks amounted nearly to Rs.239 crores as against about Rs. 1 lakh during 1950-51, with an average compound growth of 43 per cent per annum. It can be noticed that loans advanced during 1966-67 compared to 1965-66 rose marginally by Rs. 2.5 crores. This is mainly because the LDBs experienced shortage of agricultural resources as a result of the curb imposed on the support-programme of debentures by the RBI in that year. During the two year period 1966-68, the participation of LDBs in the agricultural programmes

3 Misra, J.P., and others, "Institutional Finances in Agriculture and Its Impact on Productivity, Level of Income and Rural Savings", Indian Cooperative Review, Oct.1978, pp 74-78.

* Include advances to (i) Primary banks and Societies and (ii) Individuals.

LOANS ADVANCED BY CLDBS AND PLDBS

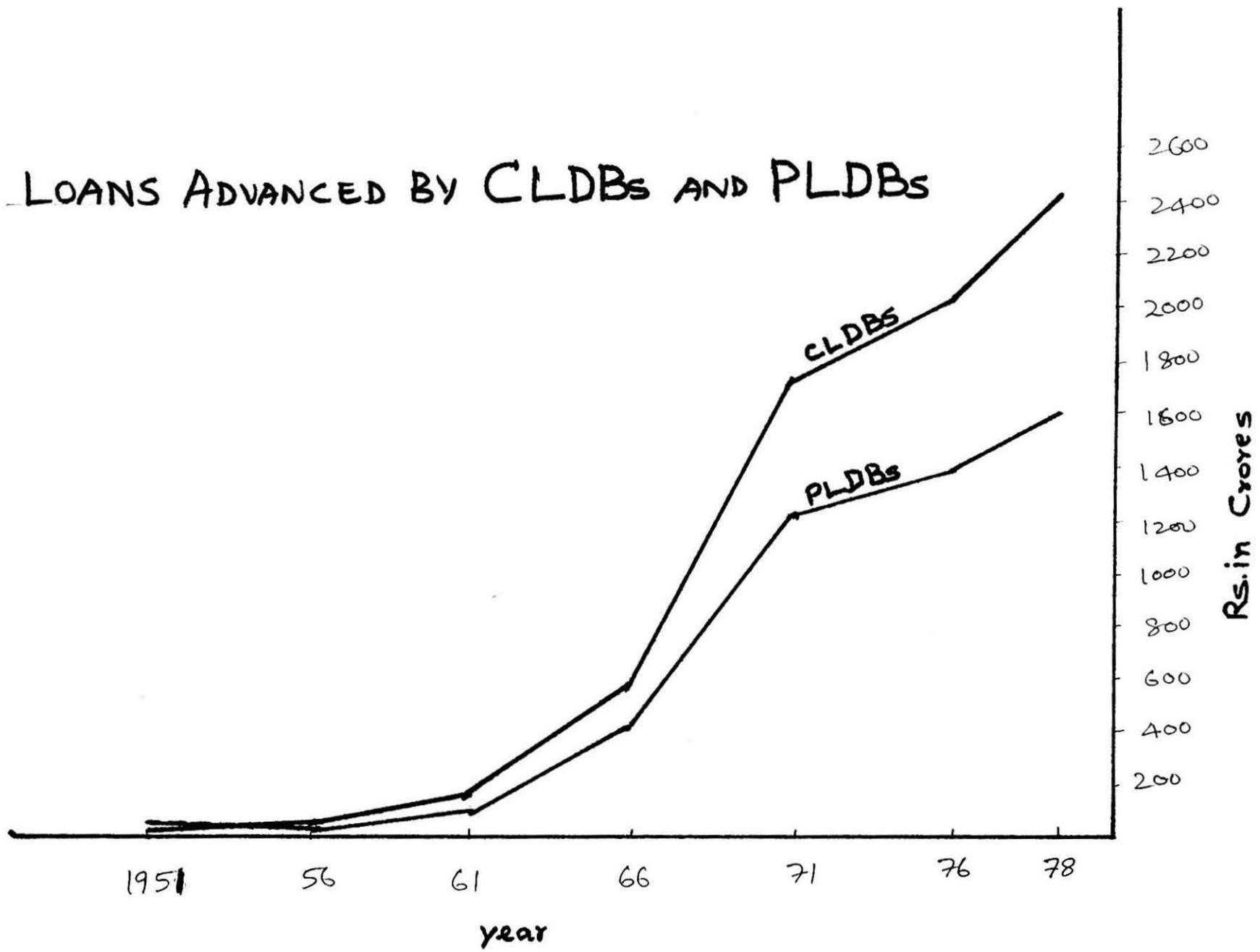


TABLE 4.1

Loans Advanced by Central Land Development
Banks and Primary Land Development Banks

(Amount in crores of Rupees)

Year ending 30 June	Central Land Development B a n k s	Primary Land Development B a n k s
1951	0.01	1.30
1956	2.83	1.74
1961	11.62	7.17
1962	14.75	12.59
1963	24.62	19.19
1964	29.58	23.21
1965	37.41	30.83
1966	56.41	41.23
1967	58.85	40.84
1968	92.41	64.90
1969	143.62	103.76
1970	153.26	113.22
1971	168.28	118.94
1972	145.75	104.49
1973	171.43	101.63
1974	146.68	95.81
1975	183.84	111.18
1976	204.93	136.00
1977	248.93	191.54
1978	238.72	160.01

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, various issues, issued by the Reserve Bank of India, Bombay.

increased considerably, in keeping with the increasing tempo of agricultural development. For instance, loans advanced by CLDBs increased considerably from Rs. 59 crores in 1966-67 to Rs. 92 crores during 1967-68. In 1971-72, there was again a significant decline in credit; this was due to the introduction of the stipulation regarding technical clearance in case of loan proposals for minor irrigation prior to their sanctioning.

Although the quantum of loans advanced by the CLDBs increased from nearly Rs. 146 crores in 1971-72 to Rs. 171 crores in 1972-73, there was a decline in the succeeding year to Rs. 147 crores. The primary reasons for this decline were : reduced scope for loaning for minor irrigation purposes, lack of diversification of loaning operations of banks and high level of overdues of the PLDBs and of the CLDBs. The fall in the loans advanced was significant in the case of state LDBs in Andhra Pradesh, Gujarat, Punjab, Tamil Nadu and Uttar Pradesh.

In the case of PLDBs the loaning operations have increased enormously from nearly Rs. 1 crore during 1950-51 to Rs. 160 crores during 1977-78, with an annual compound growth rate of 19 per cent. Total loans issued by these banks during 1975-76 amounted to Rs. 136 crores as against Rs. 96 crores issued during 1973-74. A number of PLDBs/branches were having heavy overdues which impaired their eligibility for borrowing from the CLDBs.

At the end of June 1976, a total number of 82 PLDBs/branches was not eligible for any finance, whereas 492 PLDBs/branches had restricted eligibility for such finance⁴

Further it may be pointed out from Table 4.2 that the loans outstanding of CLDBs have increased from Rs. 6 crores as on 30 June 1951 to Rs. 1,305 crores as on 30 June 1978, with an annual average compound growth rate of 21 per cent. In the case of PLDBs, loans outstanding increased from Rs. 6 crores as on 30 June 1951 to Rs. 735 as on June 1978, with an annual compound growth rate of about 19 per cent.

The progress of LDBs during the plan periods may also be mentioned here. According to P.V.Prabhu, the LDBs could achieve the target during successive plans till 1968-69, but there had been a short-fall in performance during the Fourth and Fifth Plan periods. Two main reasons can be attributed to the set-back in performance during the period from 1969-70 to 1977-78 viz., the emergence of various institutions in the field of agricultural credit like commercial banks and regional rural banks due to acceptance of multi-agencies approach in the field of rural credit as a policy followed by the RBI and the ARDC and regulation of advances in relation to recovery performance.

⁴ Reserve Bank of India, Review of the Co-operative Movement in India (1974-76), Bombay, 1978, p.128.

LOANS OUTSTANDING OF CLDBs AND PLDBs

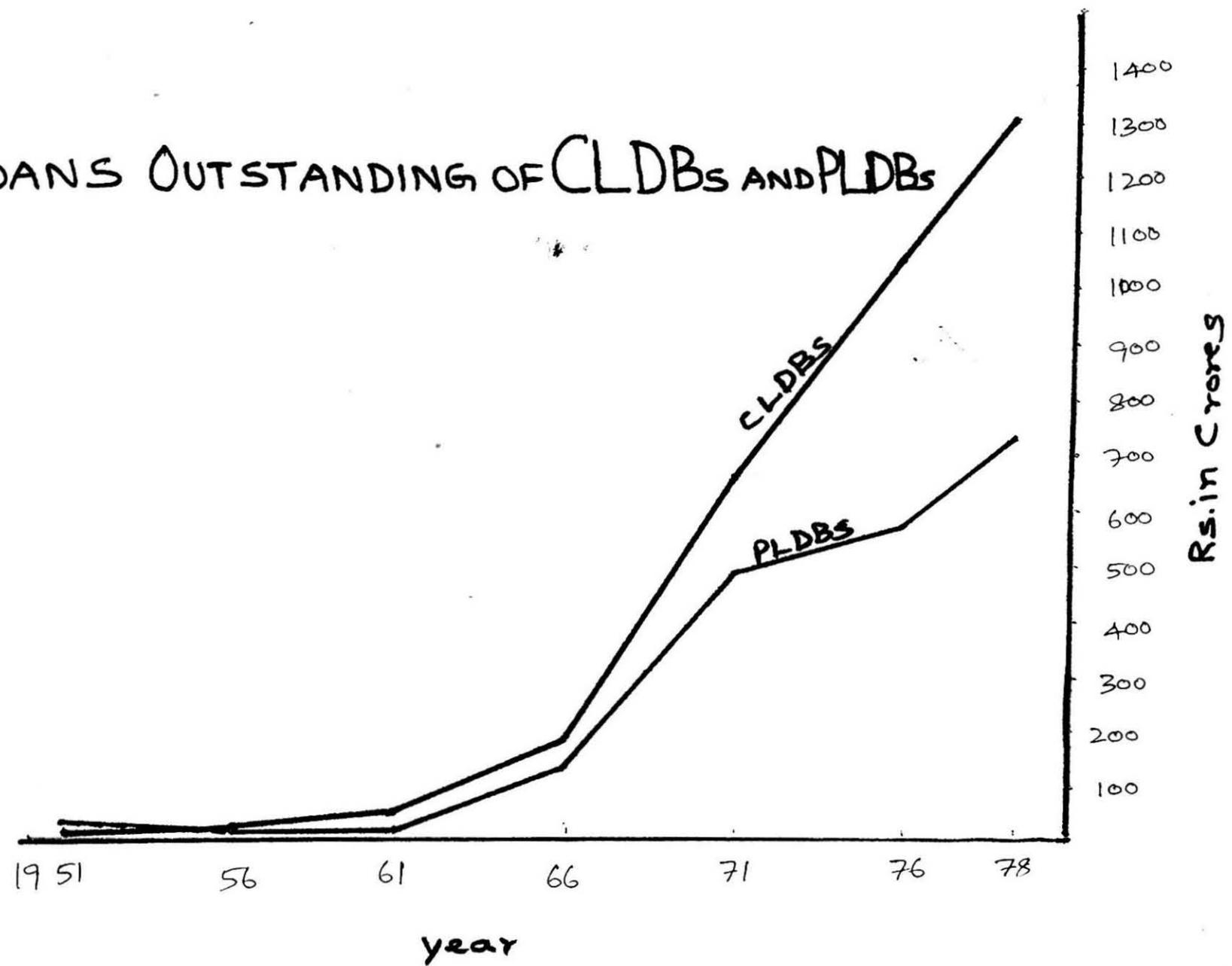


TABLE 4.2

Loans Outstanding of Central Land Development Banks
and Primary Land Development Banks

(Amount in Crores of Rupees)

As on 30 June	Central Land Development Banks	Primary Land Development Banks
1951	5.98	6.26
1956	13.08	10.51
1961	36.61	24.66
1962	47.90	35.28
1963	67.89	51.36
1964	90.18	69.06
1965	117.57	93.00
1966	167.26	124.33
1967	207.36	154.67
1968	278.29	203.50
1969	395.06	285.56
1970	511.98	366.87
1971	637.65	488.27
1972	728.83	563.37
1973	849.21	446.82
1974	914.07	471.50
1975	992.54	518.10
1976	1068.70	576.10
1977	1210.73	666.67
1978	1304.82	735.21

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, various issues, issued by the Reserve Bank of India, Bombay.

The Sixth Plan, in order to fulfil its objectives such as achievement of full employment in rural areas in the year through productive programmes, decentralization of economic development and opportunity to weaker sections of the community, cooperatives will have an important role to play. Keeping these aspects in view, a loaning target of Rs. 2,500 crores is envisaged for the LDBs during the Sixth Plan period (1978-83), divided into Rs. 1,000 crores of normal lending and Rs. 1500 crores of advances under ARDC-refinance schemes.⁵

REGIONAL COVERAGE

An important feature of the operations of the LDBs during the reference period of the study is worth noting. Over the last decade the regional coverage by the LDBs was broadened. It can be noticed from Table 4.3 that in 1955-56 four states, viz., Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu accounted for a bulk, nearly 84 per cent of the total advances. Their share in the total declined from 71 per cent in 1965-66 to 52 per cent in 1970-71 and further to 36 per cent in 1977-78. On the other hand, states like Bihar, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan, Uttar Pradesh and West Bengal had shown an upward trend which can be noticed

5 Prabhu, P.V., "Cooperative Credit for Agriculture - Role of Land Development Banks", Indian Cooperative Review, Jan.1979, pp.144-154.

TABLE 4.3

Share of Selected States in the Aggregate Loans
Advanced by Central Land Development Banks

(Amount in Crores of Rupees)

States	Year ending 30 June					
	1956	1961	1966	1971	1976	1978
Andhra Pradesh	0.60	1.84	11.22	20.08	29.71	51.00
Gujarat	1.04	3.76	10.25	21.88	6.51	4.12
Maharashtra	0.15	2.15	15.20	18.80	23.12	14.61
Tamil Nadu	0.57	1.98	3.36	26.01	14.90	13.29
(A) Total	2.36	9.73	40.03	86.77	74.24	83.02
(B) All India	2.83	11.62	56.41	168.28	204.93	238.72
Percentage of (A) to (B)	83.84	83.69	70.99	51.57	36.2	34.8

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

from Table 4.4 which provides state-wise data regarding disbursement of loans by the CLDBs. However, in several states like Assam, Himachal Pradesh, Jammu and Kashmir, Orissa and Pondicherry, the movement is in its infancy. With a view to promoting development in the less developed areas, the ARDC had taken measures during the period 1974-76 such as conducting preinvestment surveys of development of horticulture, plantations and forests, and provision of incentive by granting upto 90 per cent of loan assistance for all purposes in the eastern and north-eastern states. IDA projects were sanctioned in some of these states like Uttar Pradesh, Madhya Pradesh, Bihar, West Bengal and Orissa, concentrating the programme on certain districts.

As at the end of June 1976, 1083 schemes of agricultural development with the ARDC's commitment of Rs. 493 crores were sanctioned in the less developed states, while disbursement made in respect of these schemes stood at approximately Rs. 187 crores as on that date.

PURPOSEWISE ADVANCES

From the data on purposewise classification of loans advanced by CLDBs provided in Table 4.5, it is seen that the emphasis in lending has progressively shifted from non-productive to productive purposes. In 1950-51, loans for productive purposes accounted for

TABLE 4.4

Fresh Loans Advanced by Central Land Development Banks - Statewise

(Amount in Crores of Rupees)

- Year ending 30 June -

S t a t e s	1961		1978	
	Loans Advanced	Percentage to total loans	Loans Advanced	Percentage to total loans
Andhra Pradesh	1.84	15.8	51.00	21.4
Assam	-	-	0.89	0.4
Bihar	0.03	0.3	7.13	3.0
Gujarat	3.76	32.4	4.12	1.7
Haryana	-	-	16.49	6.9
Himachal Pradesh	-	-	0.38	0.2
Jammu & Kashmir	-	-	0.20	0.1
Karnataka	0.97	8.3	13.76	5.8
Kerala	0.20	1.7	8.31	3.5
Madhya Pradesh	0.07	0.6	10.49	4.4
Maharashtra	2.15	18.5	14.61	6.1
Orissa	0.13	1.1	6.23	2.6
Punjab	0.31	2.7	16.26	6.8
Rajasthan	0.05	0.4	14.06	5.9
Tamil Nadu	1.98	17.0	13.29	5.6
Tripura	0.03	0.3	0.01	..
Uttar Pradesh	0.11	1.0	51.11	21.4
West Bengal	0.01	0.1	10.32	4.3
Pondicherry	-	-	0.06	..
Total	11.62	100.0	238.72	100.0

- Nil . .. Negligible

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

TABLE 4.5

Loans Advanced by Central Land Development Banks - Purposewise

(Amount in crores of Rupees)

Purpose	- Year ending 30 June -					
	1961	1966	1971	1976	1977	1978
A. Loans for productive purposes :						
i) Land Improvement	4.65	14.39	8.97	11.03	22.29	12.43
ii) Sinking of and repairs to wells	-	17.05	57.32	61.80	80.92	64.23
iii) Purchase of machinery	3.45	16.13	74.09	89.16	100.41	119.94
iv) Construction of Godowns and Farm Houses	-	-	0.74	12.44	4.27	5.75
v) Other purposes	0.35	5.04	24.84	6.43	12.44	24.56
	8.45	52.61	165.96	180.86	220.33	226.91
B. Loans for unproductive purposes:						
i) Redemption of debt	3.08	3.37	0.84	1.78	0.50	2.11
ii) Purchase of land & purchase of tenancy rights	0.09	0.43	1.48	1.21	10.90	3.48
	3.17	3.80	2.32	1.99	11.40	5.59
C. Total Loans Issued	11.62	56.41	168.38	183.85	248.93*	238.72
D. Percentage of A to C	73	93	99	98.37	95.4	97.7
E. Percentage of B to C	27	7	1	1.63	4.6	2.3

† Break-up of Rs.6.23 crores in respect of Orissa not available

* Break-up of Rs.17.20 crores in respect of Tamil Nadu not available.

Source : Statistical Statements relating to the Cooperative Movement in India,

Part-I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

43 per cent of the total as against 57 per cent for unproductive purposes. By 1960-61 the share of loans for productive purposes increased to nearly 73 per cent; it increased to 93 per cent in 1965-66 and further to 99 per cent in 1970-71. During 1977-78, about 98 per cent of the total advances were given for productive purposes.

The results of a case study made by the National Council of Applied Economic Research in regard to the purposewise distribution of loans from selected LDBs for the three years, 1968-69 to 1970-71, are shown in Table 4.6.

The important purposes for which loans were generally granted were :

- (i) sinking and repair of wells, tubewells and tanks; and
- (ii) purchase and installation of pumpsets and purchase of farm machinery.

The first category was most important in the states of Andhra Pradesh, Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Mysore, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. In Haryana loans on this account formed as much as 69 per cent of the total lendings. In Maharashtra, Madhya Pradesh, Uttar Pradesh and West Bengal such loan formed more than 50 per cent of the total quantum of loans advanced by the selected banks. The proportions were, however, relatively low in the case of banks in Assam, Bihar, Jammu and Kashmir and Kerala.

TABLE 4.6

Purpose-wise Percentage Distribution of Loans Disbursed by Land Development Banks

(Average over three years - 1969-71)

	Number of banks considered	Sinking and repair of wells, tube-wells, tanks, etc.	Pump-sets, diesel oil engines, electric motors, pipelines, threshers, machinery, etc.	Tractors and tractor implements	Leveling, bunding, reclamation, terracing, fencing, etc.	Construction of farm houses, cattle sheds, godowns, etc.	Orchards, plantations, and horticulture	Redemption of debt	Purchase of land	Others and unspecified	Total for all purposes
1. Andhra Pradesh	10	43.8	27.7	7.3	7.0	4.6	1.5	1.5	-	8.1	100.0
2. Assam	3	0.1	-	2.3	29.1	-	37.1	4.5	1.8	25.1	100.0
3. Bihar	3	20.1	5.4	66.1	4.6	-	-	0.6	-	3.2	100.0
4. Gujarat	7	42.1	48.8	6.7	0.3	0.4	-	0.2	-	1.5	100.0
5. Haryana	3	68.9	1.2	22.5	2.3	0.8	-	0.6	3.7	-	100.0
6. Himachal Pradesh	1	26.1	22.7	-	8.9	24.4	6.3	6.1	5.5	-	100.0
7. Jammu and Kashmir	1	10.4	8.1	77.5	0.5	-	3.5	-	-	-	100.0
8. Kerala	4	8.6	2.7	Neg.	21.7	1.9	65.1	-	-	-	100.0
9. Madhya Pradesh	6	61.2	12.9	24.0	1.4	-	-	-	0.5	-	100.0
10. Maharashtra	4	65.0	25.1	2.9	6.4	-	-	-	-	0.6	100.0
11. Mysore	8	39.3	8.6	2.6	26.6	-	2.7	-	-	21.1	100.0
12. Orissa	2	34.6	20.2	7.8	5.4	3.7	28.2	0.1	-	-	100.0
13. Punjab	6	48.3	0.1	44.6	1.9	2.2	0.5	1.3	1.1	2.1	100.0
14. Rajasthan	3	41.5	13.3	24.4	4.3	0.4	-	-	-	15.1	100.0
15. Tamil Nadu	6	46.2	31.9	5.4	11.9	2.3	-	2.0	0.3	-	100.0
16. Uttar Pradesh	11	59.5	37.9	2.0	0.3	0.3	-	-	-	-	100.0
17. West Bengal	3	52.4	9.4	0.1	32.8	5.1	-	0.1	-	-	100.0
ALL BANKS	81	53.3	19.6	14.5	6.3	1.2	2.4	0.5	0.5	1.8	100.0

Source : Credit Requirements for Agriculture, National Council for Applied Economic Research, New Delhi, 1974, p.96.

For the sample banks taken together, the percentage of loans provided for the first purpose was higher than 50 per cent.

The second purpose, viz., purchase and installation of pumpsets and purchase of farm machinery, turned out to be the most important for borrowings from the selected LDBs in Gujarat. And such loans ranked second in relative importance in the case of the banks in Andhra Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh. Taking into account all the selected banks, borrowing for this purpose accounted for about one-fifth of the total disbursements. The combined percentage for the selected banks for the above two purposes was about 73.

Turning to loans taken for land improvement, levelling, bunding, reclamation, terracing and fencing, it is seen that these constituted the second most important category in Assam, Kerala, Mysore and West Bengal. Further, in all other States, excepting Tamil Nadu and the four States mentioned above, the relative importance of this type of loans was rather low - particularly in Gujarat, Haryana, Jammu and Kashmir, Madhya Pradesh, Punjab and Uttar Pradesh.

In Assam and Kerala, loans for plantation, orchards and horticulture (mainly under AIC schemes) formed the most important category. - The share of such loans in the total was about two-thirds in Kerala and well over one-third in Assam. Loans for construction of farm houses, godowns, cattle-sheds, etc., were very low in all States except Himachal Pradesh.

On the basis of the analysis of purposewise distribution of loans from the sample LDBs in various States, some broad conclusions can be drawn. In the first place, loans for irrigation purposes were overwhelmingly important. This is in conformity with the guidelines issued by the RBI according to which the LDBs were generally required to earmark at least 70 per cent of their loan amounts for identifiable productive purposes including minor irrigation as part of a production oriented system of lending as mentioned earlier. In Assam and Kerala, the two States where plantations are important and where the need for development of irrigation facilities is less pronounced, loans for development of plantations considered as 'non-identifiable productive' by the RBI have been the most important.

The importance of loans taken for the purchase of tractors in Punjab and Haryana is understandable in the context of the rapid agricultural progress witnessed in these two states and the relatively large average size of farm holdings in them. It can also be seen that for banks located in the rice-growing tracts of eastern and southern India, as also in the two States of Western India, viz., Maharashtra and Gujarat, tractor loans have been much less important compared with those located in the wheat-growing areas in the north.

VALUATION OF LAND

The vital issue of valuation of land arises as this forms the principal source for the loan irrespective of the purpose for which it is sanctioned. The LDBs follow different methods in the valuation of land. They are required to ensure that no loan exceeds 50 per cent of the value of the hypotheca. For the purpose of valuation, in many banks, account is taken of the cost of improvement made, so that the value of the hypotheca is generally increased by the amount of the loan. For example, if the value of land is Rs.5,000 and a loan of Rs.3,000 is given for sinking a new well or purchasing an oil engine, the total value of the hypotheca for the purpose of the loan is taken at Rs.8,000 and the loan eligibility on the basis of this valuation is put at Rs.4,000. However, some banks such as the Tamil Nadu LDB, follow the practice of granting a loan upto 75 per cent of the value of land, when the loan is utilised for land improvement.

Another method of valuation is to use the sales statistics of land of comparable soil structure and fertility in the area, in the recent past. It is observed that in actual practice, the sales statistics obtained often refer to either small pieces of land or such plots of land as are strictly not comparable, e.g., sale price of land without well irrigation facilities cannot be considered as a reliable measure of the prevailing value of land with irrigation facilities. Further, sales statistics are

not reliable because very often than not the recorded prices are kept low for escaping payment of the full stamp duty. Thus, sole reliance on such sales statistics would lead to misleading and at times arbitrary conclusion.

Yet another method is the valuation of land as a multiple of the land revenue payable in respect of land proposed to be mortgaged. This method, for instance, is followed in Maharashtra State. The multiple of land revenue has been increased progressively from 100 times to 500 times and there is a proposal to raise it further. Presently, in Maharashtra, in regard to loans for tractors, land is valued at 500 times the land revenue and 75 per cent of this value is the ceiling for the sanction of loan to a farmer who possesses a minimum of 8 acres of irrigated land and 20 acres of unirrigated land. However, land revenue has ceased to be of any guide because the assessment had been made several decades ago and does not take into account the various technological and other changes that have taken place in recent years. Wherever the land revenue payment is taken as the basis, the multiple used for valuation had to be raised from time to time.

Again, some of the LDBs resort to the market value as assessed by the local people, which at times turns out to be hypothetical and exaggerated. Whatever method is

followed, the idea appears to be to value land in such a way that the proposed amount of loan is, by and large, accommodated. If the valuation is too liberal, the bank may have to suffer a loss in case it has to proceed against the mortgaged property which fails to fetch even the amount of loan outstanding with interest; if the valuation is too conservative, the borrower may not be able to raise an amount necessary to meet the outlay on the proposed improvement or development.

Yet another method of valuation of land, following the guidelines issued by the RBI in a circular, ACD.LDB. No. 625 B. 8-72/3 dated 24th October, 1972, is the adoption of net income concept for valuation. Taking into account the fact that uncertainties in agriculture being much greater than in commerce and industry, a person investing in land will expect to be compensated additionally for these uncertainties. It was suggested that the valuation of land may be done at eight times the net post-developmental income from agriculture (i.e. on the assumption of 12½ per cent return on the investment). Fifty per cent of this valuation may be treated as the outer limit for a loan with reference to security.

It is hoped that this basis would facilitate granting term loans even to most of the deserving small farmers.

It may be concluded that it would be appropriate not to place too much reliance on valuation of the properties to be mortgaged in granting a term loan. If the repaying capacity is estimated with reference to the incremental income and is found adequate for the repayment of a loan within a reasonable period, the loan may be advanced requiring the borrower to mortgage that much land which receives benefit from the improvement directly and also hypothecate the oil engine, electrical motor, tractor, etc., in favour of the bank. Under production-oriented system of lending, the value of security offered should not determine either the quantum of loan or the period of loan. These will have to be determined with reference to the outlay and the repaying capacity. Because of the rule that the amount of the loan should be within 50 per cent of the value of hypotheca, the general tendency is to revise the standards of valuation upwards without any scientific basis or to bring in the process of valuation subjective considerations which would improve the valuation.

FINANCE TO SMALL FARMERS

So far the discussion, in general, related to the loaning operations of the LDBs to all borrowers. Now let us discuss the vital subject of financing small farmers who, as mentioned earlier, have not been able to take sufficient advantage of the introduction of the High Yielding Varieties programmes and undertake permanent improvements to their lands mainly due to their inability to obtain loans from institutional sources.

It may be recalled that the All India Rural Credit Review Committee (1969) had recommended the organization of SFDA and MFAL projects as also reorientation of the loan policies and procedures of LDBs, so that small farmers could avail themselves of the financial assistance provided by cooperative banks. In order to review the position, the Committee on Cooperative Land Development Banks constituted a study group. The data, as given by the Committee on Cooperative Land Development Banks(1975) relating to loans advanced to individuals during 1971-72 according to size of ownership-holding, indicate that the financial assistance provided to cultivators having holdings of less than 2 hectares accounted for about 21 per cent of the total loans issued by LDBs, although they constituted 62 per cent of the total cultivating households in the country.*

* More details are available in the Report of the Committee on Cooperative Land Development Banks, 1975, Bombay, pp.214-216.

Table 4.7 provides the information regarding the loans advanced by CLDBs holding-wise during the years 1969-70 to 1977-78. It may be noticed that during 1969-70 and during 1977-78 loans issued for holdings below 2 hectares constituted about 25 per cent and 29 per cent respectively. Loans for holdings between 2 and 4 hectares declined from 26 per cent during 1969-70 to 16 per cent during 1977-78. It may also be noted that the share of holding group of 4 - 8 hectares, declined considerably from 30 per cent during 1969-70 to 10 per cent during 1977-78.

However, in regard to the definition of small farmers, it is important to note the stand of the ARDC which has been paying special attention to cater to their needs since the commencement of its first credit project in 1975. During 1974-75, for the purpose of the on-going IDA Projects 'small farmer' has been defined as one having a post-development net income of Rs.3,400 with a ceiling of Rs.10,000 for the cost of investment. Small farmers, as defined in this manner, are eligible for concessionary lending terms, viz., lower down payment and longer maturity period of loan. This definition was later modified and made more liberal. The term 'small farmer' was defined to cover any farmer cultivating land providing a pre-development net return to family resources to such farmer and his family not exceeding Rs.2,000 based on 1972 prices. This amount can be adjusted to take care of any price changes during

TABLE 4.7

Loans Advanced by Central Land Development Banks - Holdingwise Classification

(Amount in Crores of Rupees)

S i z e	- Year ending 30 June -								
	1970	1971	1972	1973	1974	1975	1976	1977	1978
Upto 1 hectare	8.33 (9.44)	11.58 (11.47)	7.70 (5.91)	10.55 (5.81)	6.87 (4.34)	10.15 (5.62)	11.45 (5.32)	19.62 (7.05)	29.21 (12.3)
1 - 2 hectares	13.60 (15.40)	22.29 (22.08)	19.61 (15.04)	27.52 (15.14)	19.64 (12.43)	26.81 (14.83)	32.12 (14.92)	32.68 (11.75)	37.65 (15.8)
2 - 4 hectares	22.77 (25.79)	27.83 (27.58)	30.50 (23.39)	43.64 (24.0)	29.67 (18.77)	37.30 (20.64)	44.22 (20.53)	31.24 (11.23)	38.59 (16.2)
4 - 8 hectares	26.59 (30.11)	25.50 (25.27)	20.89 (19.09)	34.53 (18.99)	19.56 (12.38)	23.50 (13.00)	33.30 (15.47)	26.67 (9.59)	24.56 (10.3)
Above 8 hectares	17.02 (19.27)	13.72 (13.59)	11.86 (9.09)	20.77 (11.43)	12.02 (7.61)	17.10 (9.46)	26.38 (12.25)	28.28 (10.17)	49.33 (20.7)
(Break-up of loan not available)	-	-	39.82 (30.54)	44.77 (24.63)	70.32 (44.48)	65.89 (36.45)	67.88 (31.52)	139.59 (50.20)	58.56 (24.62)
Total	88.31 (100.0)	100.91 (100.0)	130.38 (100.0)	181.78 (100.0)	158.08 (100.0)	180.75 (100.0)	215.35 (100.0)	278.08 (100.0)	237.90 (100.0)

Source : Statistical Statements relating to the Cooperative Movement in India,

Part I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

subsequent years by applying the Consumer Price Index Numbers for Agricultural Labourers for the state in which the land is situated*. For the purpose of determining the said net return to family resources, 'land' shall include all lands actually cultivated by the farmer whether owned or otherwise. The 'net return to family resources has been defined as gross family income from land less costs actually incurred (including cash value of the farmer's own input, including cash value of the farmer's own input, including seed, fertilizer, hired human labour, hired bullock labour, feed consumed by family bullocks, irrigation charges, land revenue, interest on crop loan and rent on leased land.

The problems faced by small farmers obtaining financial assistance from LDBs as identified by the Study Group of the Committee on Cooperative Land Development Banks (1975) were as follows :

- (1) Small farmers find it difficult to obtain legal documents required for executing mortgage deeds which results in considerable delay in sanctioning of loans and, in some cases, even denial of loans.
- (2) Inadequate valuation of security adversely affects the loan eligibility of small farmers.
- (3) Small farmers find it difficult to pay various types of fees, the amount of down payment, share capital, etc.

* The corresponding income was Rs.3,200 in December, 1979 on the basis of the All India Agricultural Labour Consumer Price Index.

(4) Small farmers need a longer period for repayment of their loans.

(5) Small farmers need loans for repayment of old debts and purchases of ownership rights if they are to avail themselves of long-term loans for development purposes.

However, the CLDBs were required to ensure that at least 20 per cent of their advances go to small farmers. Till 31st March 1976, the ARDC was providing 100 per cent refinance to SFDA / MFAL sponsored schemes, to provide an incentive to the member-banks to finance a large number of small farmers. With the increasing involvement of banks for expanding flow of credit to small farmers, the Corporation decided that with effect from 1st April 1976 the extent of refinance available for SFDA/MFAL schemes may be reduced to 90 per cent for all purposes.

The Draft Sixth Plan document envisages doubling of the present level of agricultural credit in about three years. In the light of satisfactory performance in regard to loans advanced to 50 per cent of the total credit advanced to small farmer during 1977-79, corporation proposes to improve this coverage to 60 per cent gradually over the next few years. ARDC will be actively involved in the implementation of the Integrated Rural Development Programme in various blocks as part of the strategy for promoting small farmer development.

DISBURSEMENT AND REPAYMENT OF LOAN

We may now discuss how actually loans are disbursed and the repayment of loan is calculated. As regards the disbursement of loan, firstly, the manner of arriving at loan eligibility on the incremental income (difference between post-development net income and pre-development net income) is done. After calculating the incremental income of a farmer, the loan eligibility is worked out taking into account the period of repayment and the rate of interest.

We may discuss here the pattern of disbursement of loans, illustrating with the practice of the Maharashtra LDB. In the case of new wells, loans are disbursed in three instalments, i.e., 40 per cent, 30 per cent and 30 per cent. In the case of dugwell improvement loan, the amount is disbursed in two instalments of 40 per cent and 60 per cent. The second or third instalment, as the case may be, is to be disbursed after ascertaining through the Enquiry Officer or any other officer authorized to issue work completion certificate, that the loan amount already disbursed has been properly utilized. Such authorized officer has to submit his report periodically until the completion of the well.

The disbursement of second/third instalment need not wait until the borrower makes an application for the same. If the work done by the borrower reveals that the earlier instalment is fully utilized by him subject to

a margin of 10 per cent, than the subsequent instalment can be released.

The disbursement of loan for the purchase of oil engines or electric motor shall not be made in cash, but in the form of a certificate. This certificate is addressed to the supplier who will receive payment from the Bank directly. However, the amount required for shelter and foundation for the above mentioned purpose may be disbursed to the borrower in cash.

The disbursement of pipeline loans shall be made in two instalments. The first instalment pertains to the cost of pipelines. The second instalment to cover the remaining items of work shall be disbursed to the borrower by cheque. After the first instalment is disbursed, the borrower shall commence the excavation work within eight days and entire development work shall be completed within a period of six months.

Before discussing the other aspect, namely, repaying capacity, we have to consider the gestation period - time gap between the sanction of a loan and the commencement of returns from the project. The gestation period depends on the type of crops and the purpose for which loan is sanctioned. Normally, the gestation period allowed by LDBs in the case of well loan is two years and the interest charged is 10½ per cent. Banks do not observe any gestation period in the case of loans for tractors,

pumpsets, dairying, etc. In the case of dug-wells, two years is the gestation period observed and in the case of lift irrigation the period varies between one year and five years depending upon the volume of work and the area to be covered. For plantations, gestation period varies between 3 years and 9 years; for example, coconut plantation carries a gestation period of 9 years.

The repayment period of loans for dugwells and dugwell improvement is 9 years including a gestation period of 2 years for all farmers other than small farmers. For small farmers this period is upto 15 years including a two-year gestation period. This period of repayment shall be applicable to the total loan inclusive of the loan component of oil engine or electric ^{motor} pump and for land development.

It is observed that for calculating repaying capacity, off-farm income is taken into account by some banks and very often it is because of this that there is adequate repaying capacity. Generally, there is no evidence to prove the correctness of the figure of the off-farm income. Sometimes adequate repaying capacity is shown by deflating the family expenditure or even the current farm expenditure. Thus off-farm income and family expenditure are often manipulated to show adequate repaying capacity and justify the sanction of the long-term loan.

The period of the loan should be fixed taking into account the repaying capacity of the borrower and the useful

life of the asset created out of the loan. For loans for machinery and equipment, the maximum period suggested is 10 years and for loans for wells and land levelling, reclamation, building, etc., 15 years as the maximum period of the debentures which constitute the principal source of their funds is 15 years although the assets created out of the loan may be of a semi-permanent nature. But within the ceilings as indicated above, the actual has to be fixed on the basis of the borrower's repaying capacity.

The repayment capacity of the farmers may be considered in terms of the following four factors :

- (1) Repayment capacity should be measured exclusively in relation to the total current income of the farm family (B)
- (2) It should take into account the minimum consumption needs of the farm family (C)
- (3) A desirable margin to take care of improvement in the level of living, adverse weather, cost-price relation, increase in liabilities, etc., has to be provided (L_1), and
- (4) repayment obligations in respect of pre-existing liabilities have to be taken into account (L_2).

Now we can define the annual repayment capacity (R) as the excess of a farmer's total estimated annual current income (Y) over the sum of expenditure on minimum annual need-based level of living (L), the margin to take care of increased consumption, etc. (C), and the repayment due

on pre-existing liabilities (L_2) during the period of repayment of the project loan. It may be symbolically expressed as :

$$R = [Y - (C + L_1 + L_2)]$$

If the estimated 'R' is equal to or greater than the annual repayment to be made, then the farmer is assumed to be in a position to repay the project loan.

OVERDUES OF LAND DEVELOPMENT BANKS

Having discussed the repaying capacity, let us analyse the overdues position of LDBs and its causes. The overdues of LDBs which showed significant increase in the past few years, is a matter of grave concern, especially because loans are expected to be given to cultivators primarily for productive purposes. In fact, the overdues to LDBs in States such as Assam, West Bengal, Tripura, Rajasthan and Himachal Pradesh are so heavy that their capacity to provide investment credit has been seriously affected.

From the information on the level of overdues of CLDBs and PLDBs between 1950-51 and 1977-78 provided in Table 4.8, it may be seen that the overdues of CLDBs

TABLE 4.8

Overdues Position of Central Land Development Banks
and Primary Land Development Banks

(Amount in Crores of Rupees)

As on 30 June	Central Land Development Banks	Primary Land Development Banks
1951	0.01	0.08
1956	1.15	0.24
1961	1.22	0.64
1962	1.57	0.90
1963	1.75	1.23
1964	1.92	2.18
1965	1.75	2.40
1966	3.06	4.42
1967	4.53	5.74
1968	2.27	5.93
1969	3.81	7.06
1970	5.41	9.80
1971	11.06	17.47
1972	12.54	17.60
1973	40.71	17.52
1974	41.71	19.73
1975	54.96	24.76
1976	63.72	30.59
1977	93.91	51.68
1978	127.39	61.86

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

increased from Rs. 1 lakh as on 30 June 1951 to Rs. 127 crores at the end of June 1978, with an average annual compound growth rate of nearly 40 per cent. In the case of PLDBs also the overdues showed a rising trend in many States; the aggregate amount of overdues increased from Rs. 64 lakh on 30 June 1961 to nearly Rs. 62 crores as on June 1978 with an annual compound growth rate of 29 per cent.

Table 4.9 provides information on the percentage of overdues to demand of CLDBs in various states between 1969-70 and 1977-78. The percentage which was 23 as on 30 June 1970 shot up to 39 as on 30 June 1978. A comparison of the position in regard to overdues as percentage to demand between 30 June 1971 and 30 June 1978 indicate that there was an increase in the percentage in almost all states except Assam, Kerala, Punjab and Pondicherry. Among the other states, the growth was high in Tamil Nadu, Gujarat, Maharashtra, Orissa and Tripura.

The percentage of overdues to demand in the case of PLDBs which was nearly 32 as on 30 June 1970, increased to 43 as on 30 June 1978 (Table 4.10). Further, there was a decline in the percentage in the case of Himachal Pradesh, Karnataka, Kerala and West Bengal.

TABLE 4.9

Proportion of Overdues to Demand of Central Land Development Banks - Statewise

Sr. no.	S t a t e	- Overdues as Percentage to Demand as on 30 June -							
		1971	1972	1973	1974	1975	1976	1977	1978
1.	Andhra Pradesh	1.5	7.6	19.5	14.3	12.3	12.1	13.0	25.1
2.	Assam	57.5	63.0	68.4	62.3	74.4	48.3	45.1	35.0
3.	Bihar	31.6	39.0	42.1	41.6	41.6	41.7	64.6	67.2
4.	Gujarat	5.3	25.4	61.2	47.5	74.2	57.9	63.5	68.8
5.	Haryana	N11	N11	N11	N11	N11	N11	N11	N11
6.	Himachal Pradesh	48.4	69.2	83.6	56.1	58.4	51.4	63.3	57.2
7.	Jammu & Kashmir	18.1	29.7	30.6	35.8	36.3	45.9	39.4	29.1
8.	Karnataka	35.9	27.6	32.8	22.7	30.3	37.9	50.6	48.1
9.	Kerala	43.3	26.7	36.5	39.2	35.7	20.9	16.3	10.6
10.	Madhya Pradesh	42.2	37.3	28.1	39.5	32.3	30.7	48.8	52.1
11.	Maharashtra	49.0	32.1	84.8	44.5	56.2	62.1	62.6	58.1
12.	Orissa	12.7	23.9	44.3	50.8	58.5	58.5	67.3	40.1
13.	Punjab	N11	N11	3.7	7.2	1.9	3.7	11.2	3.7
14.	Rajasthan	15.1	32.2	48.0	50.6	47.4	23.7	83.0	40.0
15.	Tamil Nadu	2.8	2.2	5.7	5.1	12.9	23.2	44.6	76.1
16.	Uttar Pradesh	18.2	12.7	25.3	21.0	23.9	23.9	24.2	26.3
17.	West Bengal	32.7	33.0	41.3	24.9	24.9	0.9	0.5	10.7
18.	Pondicherry	24.0	41.3	45.9	40.0	52.3	50.7	57.5	6.2
19.	Tripura	57.8	65.1	81.0	72.9	79.8	76.9	29.5	84.1

	All India	26.1	19.2	45.4	35.6	39.6	35.3	41.3	38.9

Source : Statistical Statements relating to the Cooperative Movement in India, Part I, Credit Societies, Various Issues, issued by the Reserve Bank of India, Bombay.

TABLE 4.10

Proportion of Overdues to Demand of Primary Land Development BanksOverdues as Percentage to Demand
as on 30 June

State	1971	1972	1973	1974	1975	1976	1977	1978
1. Andhra Pradesh	12.8	11.7	27.7	23.3	23.0	28.6	32.0	28.7
2. Assam	67.8	70.2	72.0	72.0	72.0	67.7	62.3	57.6
3. Gujarat	60.0	63.1	66.2	74.9	72.0	72.0	85.9	91.3
4. Haryana	Nil	0.2	0.3	0.6	2.4	0.5	4.1	6.4
5. Himachal Pradesh	24.4	43.3	24.5	31.9	12.6	33.1	22.6	3.9
6. Karnataka	47.8	43.0	46.6	39.3	42.1	44.0	54.9	54.4
7. Kerala	37.1	32.8	42.3	45.8	32.0	32.0	29.8	22.4
8. Madhya Pradesh	38.3	48.8	46.8	50.1	50.3	42.3	58.2	52.3
9. Maharashtra	53.5	39.2	-	-	-	-	-	-
10. Orissa	46.1	55.2	54.4	54.2	62.6	32.5	53.4	32.2
11. Punjab	3.6	2.6	10.7	11.5	14.0	12.6	21.7	16.4
12. Rajasthan	36.0	47.7	53.4	48.7	40.0	28.9	37.6	43.4
13. Tamil Nadu	17.5	18.8	21.3	20.0	40.7	31.4	49.4	77.2
14. Uttar Pradesh	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
15. West Bengal	55.7	63.3	57.2	43.8	31.3	24.3	25.5	30.3
All India	31.7	26.8	27.3	44.0	42.5	36.7	42.5	41.1

Source : Statistical Statement relating to the Cooperative Movement in India, Part-I, Credit Societies, Various Issues, Issued by the Reserve Bank of India, Bombay.

A field study conducted on behalf of the Committee on Cooperative Land Development Banks, 1975, reveals that the problem of overdues in LDBs is common to all states. It was found that the overdues were high even in the case of States where the banks were undertaking intensive loaning operations under AIC-refinanced schemes; for example, States like Andhra Pradesh and Punjab which adopt detailed appraisal of loan proposals and undertake better supervision over the use of investment credit by the beneficiaries. While overdues are found to be low in the case of some banks in backward and scarcity areas (e.g. Chandragiri in A.P.), they are heavy in the case of banks which operate in an economically developed area (e.g. Patiala in Punjab). The other reasons for the increase in the overdues were natural calamities like floods or droughts, wilful defaults on the part of the borrowers, misutilization of loans or investments proving infructuous, unsound lendings and laxity in supervision.

A high level of overdues in a CLDB not only erodes its own funds, but also affects its credit-worthiness with institutional investors which lend support to the debentures floated by the bank. Besides, a continuous rise in overdues over a period of years will compel the bank to make good, from its own funds, any shortfall in the sinking fund commitment. Such a situation is

already being faced by banks of at least four States, Assam, Himachal Pradesh, Tripura and West Bengal. Thus, heavy overdues in CLDBs not only lock up their owned funds, but also jeopardise their financial position seriously thereby crippling their ability to provide long-term credit for agricultural development.

In the case of primary banks, a high level of overdues is considered particularly serious because they do not have adequate owned funds to absorb heavy overdues. It further affects adversely not only the loaning programmes undertaken by CLDBs but the latter's profit-earning capacity as well (because of substantial reduction in interest income.).

Causes of Overdues

The causes of overdues identified by the field study conducted by the Committee on Cooperative Land Development Banks (1975) relating to defaulting cultivators who had taken loans from 26 primary banks are listed in Table 4.11. It is seen that of 1291 defaulting cultivators, 446 cultivators (or 35 per cent of the total) gave crop failure, as the cause for default in repayment of loans. However, this cause accounted for 19 per cent of the total amount defaulted. Next in importance was wilful default, accounting for 20 per cent of the total number. On the other hand this reason was responsible for 30 per cent of the total amount defaulted by far the most important reason for default classified by amount. As regards, misutilization of loans

TABLE 4.11

Reasons for Default Mentioned by Cultivators in Andhra Pradesh, Madhya Pradesh,
Punjab and Rajasthan

(Amount in thousands of rupees)

	Defaulting cultivators					Amount involved in default				
	Andhra Pradesh	Madhya Pradesh	Punjab	Rajas- than	Total	Andhra Pradesh	Madhya Pradesh	Punjab	Rajas- than	Total
1. Crop failure due to drought and other natural calamities	370	36	24	16	446 (34.53)	285	24	44	25	378 (19.15)
2. Infructuous investment	31	12	1	24	68 (5.27)	22	9	1	50	82 (4.16)
3. Wilful default	76	69	48	59	252 (19.52)	77	86	187	236	586 (29.70)
4. Misutilization of loans	74	38	36	40	188 (14.46)	65	31	97	89	282 (14.29)
5. Laxity in supervision	10	5	-	8	23 (1.78)	5	2	-	23	30 (1.52)
6. Stiff terms of lending	3	4	2	-	9 (0.70)	-	2	4	1	7 (0.36)
7. Unsound lending in past	6	-	-	-	6 (0.47)	7	-	-	-	7 (0.36)
8. Miscellaneous	61	13	216	9	299 (23.16)	52	16	497	36	601 (30.46)
	631	177	327	156	1291* (100.0)	513	170	830	460	1973 (100.0)

*Includes 12 cases of default due to more than one reason.

Source : Report of the Committee on Cooperative Land Development Banks,
Reserve Bank of India, 1975, Bombay, p.243.

as a cause for default, it was of equal importance (14 per cent of the total) in regard to both the number of defaulters and the amount defaulted. Miscellaneous reasons accounted for 23 per cent of the total defaulters and 30 per cent of the total amount defaulted.

P.V.Prabhu⁶ expressed similar views with regard to factors responsible for growing volume of overdues which include natural calamities like droughts and floods, increasing cost of investment and purchased inputs, price fluctuation in agricultural produce, social and economic conditions of farmers, political interference, unhelpful attitude of state government, misutilisation or under-utilisation of loans, lack of administrative efforts on the part of banks management, wilful defaults, etc. It is apparent that while the banks have to gear their supervision machinery and make concerted efforts for recovery including taking coercive measures against wilful defaulters such efforts have to be matched by invoking active support and assistance of the state governments.

DIVERSION OF LOANS

The LDBs impact on the farm economy has been far below expectations.⁷ This has happened mainly because LDBs advances have not been entirely used for the stipulated purposes but have been diverted. The term

6 Prabhu, P.V., "Cooperative Credit for Agriculture - Role of Land Development Banks", op.cit., pp.144-154.
 7. Bhat, M.L., "Diversion of Long-Term Agricultural Finance "(A Study of Past Trends and Future Strategy), Economic and Political Weekly, 1971, 9 Oct., p.2151-2158.

'diversion' connotes the use of funds (in part or full) for purposes (desirable or undesirable) other than for which the loan was originally sanctioned. This is actually the difference between the total amount borrowed from the Bank and the total amount utilised for the approved agricultural purposes. The diversion of long-term loans were observed to be of three types :

(a) when LDB deducts a certain amount (between 5% and 15%) out of the sanctioned loan by way of share capital, compulsory purchase of rural debentures, etc.;

(b) when it takes place in lieu of intended purpose (on investment); and

(c) when loans made available are in excess of or short of actual requirements.

A reference may be made here to a study of M.L.Bhat in regard to diversion of long-term agricultural finance in 10 selected districts of five states.

The author is of the opinion that even in the same state, there was considerable diversity in priorities accorded to the different loan purposes in the selected districts. For instance, 51% of funds were given for land improvement in Bilaspur district (MP), whereas sinking and repairing of wells and redemption of debt received highest priority in Katlam district of the same State.

Of the States studied, the diversion of funds was highest in Madhya Pradesh, and 37 per cent of the total amount of loan obtained by selected borrowers was diverted. The proportion was much higher (41%) in Bilaspur district of the same State. The corresponding percentages in Assam and Orissa were 21 and 23 respectively. Diversion of funds was the lowest (9%) in Andhra Pradesh.

There were generally four important factors to which such diversions may be attributable.

- (i) Absence of effective supervision;
- (ii) Inability of LDBs to make reliable estimates of the cost of a project which gave scope for lending more or less than what was required;
- (iii) Restrictive lending policies which led to granting loans without fully taking into account the cost and;
- (iv) the delay in disbursement of loans.

The long-term loan for purposes other than pumpsets and machinery, is given in two instalments. The last instalment of the loan is advanced on the basis of a certificate from village officials. It is alleged that officials issue prescribed certificates indiscriminately, quite often without ascertaining the facts, because, they cannot risk unpopularity among the villagers. Again, it is pointed out that most of the LDBs (e.g. Andhra Pradesh, Orissa and Madhya Pradesh) advance loans

for levelling of land, raising of seed beds, bunding and drains, without any examination. Similarly, loans were advanced for 'protection of land from floods' (e.g. Assam) to individual borrowers. It is not clear how an individual borrower can construct flood protection bunds without pooling with farmers in the neighbourhood. Moreover, loans for sinking of wells have been advanced in areas where well irrigation is either impracticable (for instance, hilly areas of Gujarat) or unsuitable (for example, Madhya Pradesh).

Thus LDBs will have to take various corrective measures both on organizational as well as at procedural levels to improve their operations and to put a stop to the prevalent misutilization.

CHAPTER V

PROBLEMS OF LAND DEVELOPMENT BANKS

This chapter identifies and examines some of the main problems of personnel management, co-ordination arrangement of the LDBs on the one hand and various departments of the state governments and institutions like the RBI, the AIC, etc., on the other.

PROBLEMS OF MANAGEMENT

A review of the staff position in LDBs indicates that in terms of functions, conditions of service, methods of recruitment, training, etc., there is considerable heterogeneity among the various states. "In fact it will not be an exaggeration to say that at present land development banks have hardly any definite policy regarding staff including that at the higher levels. For instance, there were only two out of 19 CLDBs which had their own chief executive officers."¹

In brief, LDBs are leaning heavily for their staff requirements such as managers, secretaries, auditors, and chief executive officers on the state governments,

¹ Reserve Bank of India, Report of the Committee on Cooperative Land Development Banks, Bombay, 1975, p.272.

particularly on the staff belonging to the Cooperative Department.

As regards the middle management personnel required at regional levels for executive, operational and supervisory purposes, the LDBs, by and large, have their own staff. At the field level i.e. at the district/sub-division/tehsil/block level, the staff entrusted with the task of promotional work, scrutiny of loan applications, disbursement of loans, verification and recovery of loans, has been directly recruited by the banks. However, for the staff required to perform functions such as public inquiries and recoveries, the LDBs continue to heavily depend either on the Revenue Department or on the Cooperative Department. There are a few states such as Assam, Bihar, Jammu and Kashmir, Tripura and West Bengal, where the LDBs depend on the Cooperative Department even for the services of clerks and typists.

The need for improving the quality and quantity of the staff in LDBs has been rightly emphasized. For example, the All India Rural Credit Review Committee(1969) pointed out that apart from taking various steps to secure the services of competent staff, there was need for proper training in order to enable these banks to undertake in a systematic manner, various functions such as appraisal of loan applications both from the financial and technical standpoints, follow-up action such as

supervision over use of loans, recovery of loans, etc. It was also suggested that LDBs might introduce a management cadre in PLDBs.

Reference may be made here to some of the developments in the recent years. Firstly, the introduction of the production-oriented lending system requires LDBs to improve considerably their operations such as appraisal of loan proposals from the technical and financial aspects, working out economics of the projects to decide about their being bankable or otherwise, fixing repayment period of loans on a scientific basis, etc.

Secondly, while sanctioning agricultural credit projects in several of the States, the IDA has referred to the urgency as also the need for LDBs to have competent staff with a view to enabling them to undertake effective participation in project financing.

Thirdly, in recent years, LDBs have been experiencing a decline in their loaning operations in some areas mainly as a result of their emphasis on financial assistance for minor irrigation works such as sinking of wells, installation of tube-wells, etc., which depend on the availability of ground water resources. In the light of the above developments, LDBs should reorient suitably their policies regarding recruitment and training of various categories of staff. In this context, the RBI and the AIC have recommended to LDBs in 1973 a scheme of management trainees

the essential features of which were :

(1) Each bank should have a team of officers who will be able to assist the managing director or the general manager and will eventually be able to take up senior level executive positions in the bank, including that of the chief executive.

(ii) To start with, the bank may recruit 2 to 4 management trainees, etc.

Presently, the training for the personnel of LDBs are available at :

- (a) the Reserve Bank College of Agricultural Banking, Poona ;
- (b) Cooperative Training Centres run under the auspices of the Committee for Cooperative Training, where special courses in land development banking are conducted; and
- (c) internal staff training schemes organised by some of the CLDBs as in Maharashtra.

It may be pointed out that the Committee for Cooperative Training may consider conducting a variety of functionally oriented courses at their training centres run by the State Cooperative Unions. The subject matter and contents of the functionally-oriented courses, recommended above for personnel at different levels, are listed below :

- (i) special course for accountants of the primary banks;
- (ii) special course in loan appraisal for field personnel like supervisors;
- (iii) familiarisation course in technical matters like study of contour maps, ground water development, study of revenue records, study of aspects like extending electric connections in rural areas, etc., and
- (iv) familiarisation course for recovery of dues including,
 - (a) coercive measures,
 - (b) collection at procurement centres, where monopoly procurement is introduced, and
 - (c) efforts at linking credit with marketing.

Role of Technical Cells

The need for technical cells in LDBs arose with the emphasis on production-oriented lending, and especially after the establishment of the AaC. The scheme for technical personnel in LDBs aims at providing a nucleus of technical competence in the banks to help the officers of banks in dealing with schemes, bringing about liaison with the technical departments of the State government including the state groundwater directorate and bodies such as the state electricity boards and guiding the field staff of the primary banks on technical aspects of

the terms and conditions of the loans and compliance thereof. Depending upon the size and scope of developmental schemes financed, the bigger PLDBs may also have one or two technical officers for field work.

COORDINATION

Co-ordination between the LDBs and state cooperative banks, commercial banks and government departments is required at the State, district and block levels for the proper formulation of schemes and their successful implementation. Arrangements for coordination at the State level and, in some cases, at the district level as well have been made in almost all States. The Agricultural Production Commissioner or Development Commissioner of the State is usually the Chairman of the coordination committee at the state level which includes senior officers of the various departments and agencies, like Agricultural Department, Co-operative Department, Irrigation Department, State Electricity Board, etc. The Coordination Committees at the State and district levels should include a senior officer of the CLDB.

ROLE OF THE RESERVE BANK OF INDIA

The role of the RBI, in so far as the long term cooperative credit structure is concerned, is broadly divided into : (i) financing functions, and (ii) promotional, advisory and coordinating functions. As regards financing functions in relation to long-term credit, it subscribes

to the ordinary and rural debentures floated by the LDBs and provides loan from its Long Term Operating Fund to the State governments for making contribution to the share capital of the CLDBs and PLDBs. Under the promotional, advisory and coordinating functions come various activities such as periodical inspection of banks, visits to banks by its officers, etc. Another area in which the RBI is assisting the LDBs is the training facilities provided for their officials at the College of Agricultural Banking at Poona.

The Committee on Cooperative Land Development Banks (1975) stressed the need for the RBI's role and in this regard the following recommendations were made :

(a) The RBI may make available to the National Cooperative Land Development Banks Federation, a panel of names of officers suitable for being appointed as chief executive officers in the CLDBs.

(b) The Bank may introduce a detailed scheme for regular inspection of at least the bigger PLDBs. This is essential in view of the large amounts provided by the primary banks for investment in agriculture and also with a view to improving the operational efficiency of the banks;

(c) The Bank may expand the facilities for training in land development banking at the College of Agricultural Banking, Poona;

(d) The Bank may conduct regular inspections of CLDBs at least once in 18 months instead of much longer intervals as at present.

ROLE OF THE AGRICULTURAL REFINANCE
AND DEVELOPMENT CORPORATION

The ARDC has played a valuable and pioneering role in the introduction of scientific methods for appraisal of loans by CLDBs in formulating viable schemes and in increasing the long-term resources for investment in agriculture. However, there is need for the ARDC to take more active interest in the actual working of the LDBs and in improving their methods of working. For this purpose, the ARDC may help each CLDB in preparing a staff development plan, including technical staff, and the most appropriate staff set up. The ARDC can also help the banks actively in identifying new areas of investment to enable them to maintain the momentum in their loaning operations.

The ARDCs relationship with the LDBs can be further strengthened by providing orientation training facilities to the management trainees or senior executives of the LDBs.

ROLE OF THE NATIONAL COOPERATIVE
LAND DEVELOPMENT BANKS FEDERATION

The Federation is doing commendable work in matters such as ensuring coordination between the banks and the Government of India, the RBI, the ARDC, the LIC and the

SBI and other commercial banks in regard to support to the debentures floated by the member banks. The Federation should have a Division of Studies and Research headed by a senior officer who will be helped by other officers and supporting staff. The Division should undertake detailed studies of the various aspects of the working of LDBs especially in the cooperatively weak States and make detailed suggestions for improving their operational efficiency including simplification of procedures - a sphere in which very little study has been done by any agency.

LEGISLATION

In the initial stages of development, when the first few LMBs were organised at selected places in the erstwhile Madras Presidency (1925-27), they were registered like any other agricultural credit society without any special privileges or rights. Following the recommendations of the Townsend Committee on Cooperation in Madras (1927), separate legislation in favour of LMBs was enacted in 1934 in the form of the Madras Land Mortgage Banks Act. In later years, other states either followed the practice of the Madras State i.e. enacted a separate legislation or provided a separate chapter in the Cooperative Societies Act in regard to the working of these banks. Out of the 7 CLDBs actively functioning in 1954, 3 States viz., Andhra Pradesh, Madhya Pradesh and Madras had separate

Land Mortgage Banks Acts, while in two other States, viz., Mysore and West Bengal, the Cooperative Societies Act contained separate chapters in regard to the working of these banks.

The All India Rural Credit Survey Committee (1954) favoured separate legislation for LDBs on the lines of the Madras Act of 1934. However, the Committee on Cooperative Law (1957) which reviewed the position in this behalf expressed the view that there was no particular advantage in enacting a separate Act on the subject and that the special facilities required by these banks could as well be provided for in a separate chapter in the Cooperative Societies Act. At present there is separate legislation relating to LDBs in eight States viz., Assam, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. In the remaining States, the Cooperative Societies Act contains necessary provisions regarding these banks.

In some States, the Cooperative Societies Act also contains a provision in regard to the recovery of overdue amount as arrears of land revenue; for instance, sections 101 and 102 of Andhra Pradesh Cooperatives Act, 1964. The present legal framework appears to be adequate to enable the PLDBs to effect recoveries from defaulting cultivators. The difficulty, however, arises either because the primary banks do not take prompt steps for

initiating legal action against defaulting cultivators or the procedure prescribed for the purpose under the Rules or by the Cooperative Department is time consuming. The lacuna in the legal framework may be pointed here. In the Cooperative Societies Act or Land Development Banks Act in some States such as Punjab and Madhya Pradesh, certain deficiencies have been found which are either coming in the way of prompt action being taken by the banks or creating certain impediments in the way of legal action to be taken against defaulting cultivators; for instance, Section 12 of the Punjab Cooperative Land Mortgage Banks Act, 1957, and Section 18(2) of the Madhya Pradesh Cooperative Land Development Bank Act, 1966. In Delhi, the Cooperative Societies Act, 1972, does not contain any provision for distraint and sale of produce of the mortgaged property.

The Committee on the Cooperative Land Development Banks (1975) suggested the following coercive measures to be taken by the LDBs against defaulting members :

- (1) The State Governments may make provisions for :
 - (a) recovery of overdues from borrowers as arrears of land revenue by issue of a certificate by the Registrar of Cooperative Societies; and

- (b) empowering the Board of the CLDB and Trustee to resort to distraint and sale of the crop on the mortgaged property in case the management of the primary bank is indifferent.
- (ii) The state government may make provisions in the legal framework for the Trustee (Registrar) issuing a certificate on his own motion for recovery of overdue loans of CLDBs as arrears of land revenue.
- (iii) Provision may be made in the legal framework for disqualification of the board of directors of a PLDB, if overdues in the bank are over 60 per cent and persist for a period of two years.

The above provisions are important particularly in view of the rising trend in overdues of LDBs as seen in Chapter IV.

It may further be pointed out that in many States in which land reforms legislation has been enacted, one of the objects was to fix a ceiling on individual land holding. This has created, in some instances, a sense of uncertainty in the minds of the borrowers from the LDBs. In a few States such as Jammu and Kashmir, Himachal Pradesh, Orissa and West Bengal, the land reform legislation does not provide for transfer of liability

on account of the loan from the LDBs to the person who acquires the surplus land consequent upon the enforcement of land ceilings. This may affect the interests of the banks in case there is default by borrowers.

Further, provision may be made for delegation of the power of the officials of the Revenue and Cooperative Department to the officials of the LDBs for effecting distraint and sale of the crop of the mortgaged property.

CHAPTER VI

CONCLUDING REMARKS

In the preceding chapters of the study, various aspects of functioning and progress of the LDBs in our country are examined. In this chapter, a brief resume of the main findings of the study is presented and suggestions are made in regard to the efficient functioning of LDBs.

Long-Term Agricultural Finance by the Cooperative Land Development Banks which helps capital formation in agriculture by providing the required investment finance, is very essential from the view point of raising agricultural production and thus promoting the country's economic development.

Efficient functioning of LDBs is related to its structure and organization. At present though both unitary and federal structures co-exist, there is a pronounced tendency towards adoption of the federal structure. Irrespective of the structure followed a proper flow of funds between CLDBs and primary branches must be maintained to ensure smooth business operations.

The loaning operations of CLDBs and PLDBs slowed down during the 1971-78 period compared to the earlier decade. One of the main factors for this situation is

the growth of overdues which in their turn depend upon several factors such as natural calamities, lack of proper and efficient management of funds, lacunae in the present legal framework and poor administration. It is essential to tone up the efficiency in the working of CLDBs and PLDBs particularly the recovery performance which may help mitigate the problem of overdues. It may be emphasized here that the greater role has to be played by the primary banks as these are agencies which are in direct contact with the customers in regard to implementation of the policies.

The heavy overdues have led to considerable reduction in the working capital of both CLDBs and PLDBs and curtailment of their lending operations. The secular rise in overdues of PLDBs has also adversely affected their ability to borrow from CLDBs. In turn, CLDBs' power to raise financial resources through issue of debentures is affected due to shortage of securities required as backing.

Attempts should be made to increase the working capital of the LDBs by approaching the RBI, State Governments, the ARDC, etc., for more funds. It may be pointed out that in this regard rural debentures and fixed deposits programmes of CLDBs should be made attractive for securing more funds through mobilization of rural savings.

The problem of overdues may also transfer the viability of branches. In the sixties and since the inception of

ARC, viability of branches was rightly highlighted to cope up with the increasing quantum of loan business and to undertake more diversified functions in future for modernizing agriculture. It is important to note that at the end of June 1978, LDBs' share from the ARDC declined while the share of commercial banks improved considerably. This is evident that the LDBs' lack of efficiency was mainly due to its present lending procedures. It is high time that LDBs should diversify their lending operations by providing loans for activities such as , poultry farming and dairying .

Diversion of loans by farmers, which appears to be a common practice may aggravate the problem of overdues and also hinder an estimated progress. The scope for diversion arises because of improper appraisal of land, untimely lending, laxity in supervision, etc. Hence, it is necessary to give importance for valuation of land and in this regard we can go in for an 'Indian Institute of Land Valuation' in line with Appraisal Institute of Canada or the American Institute for Real Estate Appraisers. The LDBs may augment their supervisory staff wherever the existing staff is found inadequate for processing of the loan cases and supervision of credit as also improve the quality of staff by arranging for their training.

The LDBs may consider amending the by-laws to abolish the requirement of a certificate from the village / local officials as a proof of utilization of loans since generally

such certificates are proved to be false.

To conclude : LDBs could make a significant increase in their operations within a short span of three decades for which they deserve credit. However, much remains to be done in the years to come in terms of the quality of performance.

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