
**REPORT OF THE
COMMITTEE ON
CO-OPERATIVE
LAND DEVELOPMENT
BANKS**



**BOMBAY
RESERVE BANK OF INDIA
AGRICULTURAL CREDIT DEPARTMENT**

Co-OPERATIVE land development banks provided Rs 775 crores as loans during the Fourth Plan as compared with Rs 170 crores in the Third Plan. The Fifth Plan expects that these banks will provide Rs 1500 crores as long-term loans to cultivators for investment in agriculture. Against this background, in March 1973, the Governor of the Reserve Bank of India constituted a Committee on Co-operative Land Development Banks under the chairmanship of Shri K. Madhava Das, Chief Officer, Agricultural Credit Department, Reserve Bank of India. The other members of the Committee were Shri B. S. Viswanathan, Chairman, Karnataka State Co-operative Land Development Bank; Shri S. B. Saran, Registrar of Co-operative Societies, Uttar Pradesh; Shri J. G. Kanga, Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra; Shri N. Krishnamurthi, Deputy Secretary, Department of Community Development and Co-operation, Government of India; and Shri S. T. Khushalani, Director (Co-operation), Planning Commission, Government of India. Shri K. N. Saksena, Deputy Chief Officer, Reserve Bank of India, Agricultural Credit Department, was the Member-Secretary of the Committee.

The Report of the Committee, which was unanimous, was submitted to the Reserve Bank in December 1974. This publication contains the Report of the Committee. Appendixes reproducing the reports of the study groups and study teams set up by the Committee, are contained in a separate book.

The main task entrusted to the Committee was the examination of the co-operative land development banking structure in 9 co-operatively less advanced states and 9 smaller states and union territories. The main theme of the Report, therefore, is in regard to the co-operative land development banking structure in the co-operatively less advanced states of Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal. As regards the 9 smaller states and union territories of Manipur, Meghalaya, Nagaland, Andaman & Nicobar, Arunachal Pradesh, Delhi, Goa, Daman & Diu, Mizoram and Pondicherry, the Committee has stressed that the existing state co-operative banks or new state co-operative banks, when set up, should undertake the provision of long-term loans also to

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BOMBAY
RESERVE BANK OF INDIA
AGRICULTURAL CREDIT DEPARTMENT

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CHAPTER 1

INTRODUCTION

Co-operative land development banks have been playing an important role in the provision of long-term credit to cultivators for investment in agriculture. Their operations received substantial encouragement after the establishment of the Agricultural Refinance Corporation (ARC) in July 1963. During the Fourth Five Year Plan (1969-70 to 1973-4) these banks provided loans aggregating Rs 775 crores as compared with Rs 170 crores during the Third Plan (1961-2 to 1965-6). The Fifth Five Year Plan (1974-5 to 1978-9) provides for nearly 100 per cent increase in the loaning operations of land development banks and has envisaged an important role for the banks in each state, in meeting the long-term credit needs of cultivators. The target for long-term credit expected to be provided by the co-operative land development banks in the Fifth-Plan is Rs 1500 crores. In several states, land development banks have either participated or are participating in the financing of cultivators under the agricultural credit projects sanctioned by the International Development Association, an affiliate of the World Bank. In other states also they will be required to play a similar role in financing the projects which are under negotiation. It is against this background that it was considered necessary that a thorough examination of the various aspects relating to the working of land development banks might be undertaken in order to identify the specific problems or areas where there was need for improvement and the measures required to be taken for the purpose. The Governor, Reserve Bank of India, therefore, constituted in March 1973, a Committee on Co-operative Land Development Banks with the following members:

- | | |
|--|----------|
| 1. Shri K. Madhava Das ¹
Additional Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bombay | Chairman |
| 2. Shri Udaybhansinhji
Chairman
All-India Central Land Development Banks
Co-operative Union Ltd
Bombay | Member |

¹ Chief Officer since 1 August 1974.

- | | | |
|----|--|----------------------|
| 3. | Shri B. S. Viswanathan
Chairman
Mysore State Co-operative Land Development
Bank Ltd., Bangalore and
Member, Board of Directors
Agricultural Refinance Corporation | Member |
| 4. | Shri S. B. Saran ¹
Registrar of Co-operative Societies.
Uttar Pradesh
Lucknow | Member |
| 5. | Shri V. C. Pande
Special Secretary to the Government of Rajasthan
Special Schemes
Agriculture
Jaipur | Member |
| 6. | The Commissioner for Co-operation and Registrar
of Co-operative Societies
Maharashtra
Poona | Member |
| 7. | Shri N. Krishnamurthi
Deputy Secretary
Department of Community Development and
Co-operation
Government of India
New Delhi | Member |
| 8. | Shri S. T. Khushalani
Director (Co-operation)
Planning Commission
Government of India
New Delhi | Member |
| 9. | Shri K. N. Saksena
Deputy Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bombay | Member-
Secretary |

2. Shri Udaybhansinhji attended only the first meeting of the Committee as, unfortunately, he passed away in July 1973. We desire to place on record our deep sense of sorrow and loss over his sad demise. In Shri Udaybhansinhji's death, our Committee lost a very knowledgeable

¹Shri Saran took over later as the Additional Secretary, Finance Department and is currently Commissioner and Secretary, Education Department, Government of Uttar Pradesh.

colleague who had first hand experience of the working of the erstwhile Saurashtra Central Co-operative Land Mortgage Bank Ltd. and later of the Gujarat State Co-operative Land Development Bank Ltd. as also in his capacity as the Chairman of the All-India Central Land Development Banks Co-operative Union Ltd., had a deep insight into the problems of all the land development banks in the country.

3. The Government of Maharashtra had indicated to the Reserve Bank of India that their Commissioner for Co-operation and Registrar of Co-operative Societies may be nominated on the Committee by designation instead of by name. In view of this, Shri M. S. Palnitker associated himself initially with the work of the Committee and later his successor, Shri J. G. Kanga, became a member of the Committee.

4. Shri V. C. Pande could not find time for the Committee's work due to other important pre-occupations relating to his charge, mainly the formulation of projects for financial assistance from the World Bank. Later, consequent upon his deputation to the Government of India as Joint Secretary in the Ministry of Commerce, Shri Pande expressed his inability to continue as a member of the Committee. His resignation was accepted by the Chairman in consultation with the Reserve Bank of India on 19 August 1974.

Terms of Reference

5. The terms of reference of our Committee are reproduced below:

- (i) To examine the relative advantages and disadvantages of the unitary and the federal structure of co-operative land development banks and recommend with reference to conditions obtaining in each state/union territory the structure which is more suitable from the point of efficient administration, effective supervision over the end use of credit and prompt recovery of the dues.
- (ii) To examine the position of the co-operative land development banks in Assam, West Bengal, Bihar, Orissa, Rajasthan, Jammu & Kashmir and such other less advanced states and suggest steps for strengthening them including financial and other assistance from the government and the Reserve Bank.
- (iii) To examine whether with particular reference to smaller states it will be advantageous to make the state co-operative bank undertake also the responsibility to provide long-term credit through a separate department and, if so, the conditions under which this arrangement could be brought about.

- (iv) To suggest standards of viability for primary land development banks/branches of the state land development bank having regard to the minimum staff necessary for technical guidance, adequate supervision and efficient administration, the necessity for maintaining adequate reserves (including the bad and doubtful debt reserve) and payment of a reasonable dividend.
- (v) To examine the possibility of using primary agricultural credit societies as channels for the provision of long-term credit and in case this is considered feasible and desirable whether the societies should act as mere agents or receive funds directly from the state or primary land development banks.
- (vi) To examine the need for a closer nexus between the long and short-term co-operative credit institutions with a view to ensuring adequate production credit support to borrowers of on-farm investment credit from the long-term institutions.
- (vii) To examine the existing procedure for ascertaining whether loans already granted by the land development banks have been utilized for the purposes for which they were obtained and to review the progress made by these banks in implementing the production-oriented system of lending as advised from time to time by the Reserve Bank and suggest measures for improving the quality of the loans advanced.
- (viii) To study the problems of financing small farmers and recommend the ways in which the needs of such farmers may receive due priority so that they may reap the benefits of long-term investment credit.
- (ix) To examine the position of overdues in the land development banks and analyse the causes thereof and suggest measures, administrative and legislative, for preventing their recurrence.
- (x) To consider the problems arising from the failure of crops and suggest measures for relief to the borrowers from the land development banks affected by such failure and for assistance to the banks themselves in meeting their commitments to the sinking fund or towards interest on the debentures.
- (xi) To examine the adequacy or otherwise of the sources of funds for the business of the land development banks and suggest measures to augment the sources, if those indicated are not considered adequate.
- (xii) To review the schemes of rural debentures and fixed deposits and suggest the ways by which these could become an

important source of funds for the land development banks and a significant method of mobilizing rural savings.

- (xiii) To suggest measures for tackling the problem of idle funds in the state and primary land development banks.
- (xiv) To review the sinking fund investment policy of the land development banks and suggest ways to maximise the return on the investments.
- (xv) To consider any other problems which are relevant to the above terms of reference and make recommendations.

6. Under item (xv) we considered it necessary to include a few more aspects of the working of the banks, viz., the policy regarding appointment of management personnel and arrangements for co-ordination between the land development banks and other institutions.

WORK OF THE COMMITTEE

Procedure

7. Considering the comprehensive nature of the terms of reference and the fact that some of the terms needed very detailed examination, we decided to profit from the long experience of certain persons associated with the working of land development banks. Thus, three Study Groups were constituted to deal with item (viii), viz., problems of financing small farmers (Chairman: Smt S. Satyabhama); item (xiv), viz., sinking fund investment policy (Chairman: Shri V. P. Malhotra); and item (xv), viz., policy regarding management personnel and co-ordination (Chairman: Shri Jayakumar Anagol). The detailed composition of the membership of these three Study Groups is given in Annexure 1. Each Group collected detailed data from the land development banks and had detailed discussions with the concerned officials of the state governments and the banks. The Study Group on financing of small farmers undertook a few fields studies.

8. In regard to item (ii), viz., the position of land development banks in the co-operatively less advanced states, it was decided to constitute a Study Team for each of the states. Each Study Team set up for examining the position of the land development banks in the co-operatively less developed states comprised the Deputy Chief Officer/Assistant Chief Officer of the regional office of the Agricultural Credit Department of the Reserve Bank of India serving the concerned state (convener), the Registrar of Co-operative Societies or his nominee, the Managing Director/General Manager/Secretary of the central co-operative land development bank and the officer-in-charge of the regional office of the

Agricultural Refinance Corporation. The details of the composition of the membership of the Study Teams are given in Annexure 2. The Secretariat of the Committee prepared detailed guidelines and proformas and supplied the same to the conveners of each Team. The plan of study included, among other things, assessment of the overall working of the land development banks in the provision of investment credit for agriculture, visits to the primary banks and discussions with officials and non-officials. During the course of the studies, the Chairman and the Member-Secretary of the Committee met the Team conveners for exchange of views.

9. Our Committee also decided that field studies should be conducted in some of the states in order to get first hand information about the availability of short-term loans to the borrowers of land development banks and in regard to the causes for overdues in the land development banking structure. Besides, our Committee directed the Secretariat to issue a general questionnaire to the central co-operative land development banks in the country. The Secretariat also made use of the considerable data, reports on studies, inspection reports, etc., available in the Agricultural Credit Department of the Reserve Bank of India, Bombay, especially in its land development banks division.

Field Studies

10. Field studies were conducted with the help of the officers of the Agricultural Credit Department of the Reserve Bank of India and the Agricultural Refinance Corporation. The Secretariat of the Committee prepared detailed guidelines and proformas for the purpose of these studies. The field studies in regard to availability of short-term credit to the borrowers of the land development banks were conducted in three states, viz., Andhra Pradesh, Haryana and Uttar Pradesh, while those in regard to the causes of overdues were undertaken in four states, viz., Andhra Pradesh, Madhya Pradesh, Rajasthan and Punjab. Apart from these, a few other studies such as the one regarding the advantages or disadvantages of the federal and unitary structures in Andhra Pradesh and Gujarat and another study regarding the working of the land development banking section in the Delhi State Co-operative Bank were also undertaken.

General Questionnaire

11. The Secretariat of the Committee prepared a general questionnaire together with suitable proformas (reproduced in Annexure 3) and issued the same to all the central co-operative land development banks

and to such of the state co-operative banks which were providing long-term credit in their respective states. The main purpose of issuing the questionnaire was to obtain basic information relating to the banks, the important developments in regard to the land development banking structure in the state, the progress made in loaning operations during the Plan periods, the proposals under the Fifth Plan, as also the views of the respondents on various aspects having a bearing on the terms of reference.

Meetings of the Committee

12. Our Committee had in all four meetings as under :

<i>Meeting</i>	<i>Place</i>	<i>Date</i>
First	Bombay	25 April 1973
Second	Calcutta	8 April 1974 to 11 April 1974
Third	New Delhi	7 August 1974 to 9 August 1974
Fourth	New Delhi	16 December 1974

13. The draft report was finalized by our Committee at the fourth meeting held in New Delhi on 16 December 1974 and signed by the members. The Chairman was authorized at this meeting to make minor drafting and other changes in the light of the discussions before submitting the Report to the Governor of the Reserve Bank of India.

During the course of our meetings at Calcutta and New Delhi, we had detailed discussions on the more important of the observations and suggestions contained in the reports of the Study Teams on the working of the land development banks with the Chairmen and other non-official representatives of the land development banks and Agricultural Production Commissioners/Development Commissioners, Secretaries of Finance and Co-operation Departments, the Registrars of Co-operative Societies and other officers from Assam, Bihar, Orissa, West Bengal, Tripura, Rajasthan, Madhya Pradesh, Himachal Pradesh and Jammu & Kashmir.

Pattern of Report

14. Besides this Report which contains our observations and recommendations on various items of the terms of reference, it has been considered necessary to give separately by way of Appendixes, after suitable editing, copies of the reports of the Study Teams and Study Groups constituted by our Committee. Under the general pattern of

our Report, there is one chapter for dealing with one or more related items of the terms of reference. It has also been considered necessary to give a historical retrospect in regard to land development banking since its inception when initially a few primary banks were set up in the erstwhile Madras State and the Punjab, as also to refer to the developments in regard to legislation dealing with long-term financing by co-operative banks in various states. Thus, apart from the introductory chapter and a chapter each on the historical retrospect, legal framework, and our concluding observations there are ten other chapters dealing with the various items of the terms of reference as under:

	Items of the Terms of Reference	Subject
Chapter 3	(i)	Structure of land development banks
Chapter 4	(iii)	Land development banks in smaller states
Chapter 5	(ii)	Position of land development banks in co-operatively less advanced states
Chapter 6	(iv)	Norms for viability of primary banks and branches of the central land development banks
Chapter 7	(v)	Channelling of long-term credit through primary societies
	(vi)	Need for closer nexus between the long-term and short-term co-operative credit institutions
Chapter 8	(xi)	Adequacy or otherwise of the sources of funds for the business of land development banks
	(xiii)	Problem of idle funds
	(xiv)	Sinking fund investment policy
Chapter 9	(xii)	Schemes of rural debentures and fixed deposits
Chapter 10	(vii)	Production-oriented lending system and follow-up measures
	(viii)	Problems of financing small farmers
Chapter 11	(ix)	Problems of overdues
	(x)	Problems arising from failure of crops
Chapter 12	(xv)	Management personnel and co-ordination.

15. In preparing our Report, we have made full use of the reports of the Study Groups and of other concerned material available in other reports prepared in connexion with the work of our Committee.

Acknowledgements

16. We wish to record our appreciation of the valuable guidance provided in our deliberations by our colleagues Shri M. S. Palnitker, who ceased to be a Member of our Committee after he relinquished the post of Commissioner for Co-operation and Registrar of Co-operative Societies. We are deeply thankful to the officers of the state governments and the chairmen of the central land development banks and other non-officials who made it convenient to meet us for discussions on important aspects relating to the reorganization of land development banks in their respective states. A list of these co-operators and officers is given in Annexure 4. We should like to express our sense of gratitude and high appreciation to the chairmen and members of the various Study Groups, who readily agreed to the assignment entrusted to them and took considerable pains in order to make a detailed study of the subjects referred to them. The names of the members of Study Groups are in Annexure 1.

17. We wish to thank Dr C. D. Datey, Executive Director, Reserve Bank of India and Shri M. A. Chidambaram, Managing Director, Agricultural Refinance Corporation for making available to us the services of their officers as also for other help in the work of the Committee. We should like to express our deep gratitude to Shri R. M. Halasyam, Legal Adviser and other officers of the Legal Department, Reserve Bank of India, who helped the Committee in the examination of certain legal issues. We also thank the Registrars of Co-operative Societies and other officers of the Co-operative Departments and the Managing Director/General Manager/Secretary of the central land development banks as well as the officers of the Agricultural Credit Department, Reserve Bank of India and of the Agricultural Refinance Corporation who, as members of the Study Teams, took considerable trouble in fulfilling their assignments. We are equally thankful to the officers of the Agricultural Credit Department, Reserve Bank of India, and of the Agricultural Refinance Corporation who conducted various field studies on behalf of our Committee. A list of these officers is given in Annexure 5.

18. We should like to place on record our high appreciation of the ungrudging and devoted assistance we have received from Shri G.

Balasubramanyam,¹ Assistant Chief Officer, Shri I. D'Souza,² Assistant Chief Officer (later Deputy Chief Officer), Shri U. D. Rao, Rural Credit Officer and Shri N. B. Multani³ and Shri A. V. Deshmukh⁴, Economic Assistants in our small Secretariat who undertook the examination and analysis of the voluminous data, and assisted in the preparation of the report with alacrity and efficiency.

19. Finally, the rest of the Members of the Committee should like to express our deep appreciation of the prodigious labour of an excellent quality put in by our colleague and Secretary Shri K. N. Saksena in the drafting of our report and preparation of notes and other material for our Committee.

¹Worked up to 15 July 1974.

²Worked up to 4 May 1974.

³Worked from 4 June 1974.

⁴From 20 May 1974.

CHAPTER 2

LAND DEVELOPMENT BANKS: A RETROSPECT

TOWARDS the close of the nineteenth century when indebtedness was growing among cultivators and the co-operative credit system had not yet come into existence in the country, the government set up its own machinery for meeting the long-term credit needs of cultivators from state funds under the Land Improvement Loans Act, 1883. However, the facilities offered under this Act were not availed of by cultivators to any appreciable extent due to their lack of knowledge of these facilities, and dilatory ways in which applications for loans were handled by the revenue departments through which such loans were administered. Further, loans for redemption of prior debts for which long-term loans were mainly required by cultivators were excluded from the purview of the Land Improvement Loans Act in most of the provinces under the rules framed by them.

2. With the introduction of the co-operative movement in 1904 it was felt that it would be in a position to provide both the long-term and the short-term credit needs of cultivators. However, it was soon realized that primary agricultural credit societies which were permitted to advance long-term loans along with short-term loans up to a prescribed level were not in a position to undertake long-term financing. These societies depended largely on the higher financing institutions, viz., central co-operative banks which could provide only short-term funds. It was, therefore, not possible for the societies to advance long-term loans out of the resources made available to them by the banks. Moreover, primary societies were not in a position to assess the value of land correctly or examine the titles of the borrowers. They were also not in a position to meet their outside obligations when borrowers were unable to pay. Wholesale evictions of borrowers from lands and forced sales of land brought more difficulties in their train as, in a period of depression, no buyer could be found for the properties purchased by societies. Co-operators and administrators, therefore, came to the conclusion that separate institutions were necessary for the provision of long-term credit.

Organization of Land Development Banks

3. The earliest efforts in the direction of setting up of special land mortgage banks were made in Punjab, the first co-operative land mortgage bank having been organized at Jhang in 1920. Madras followed suit by organizing 2 banks of that type in 1925 and, by 1927, 10 such banks were established. In Bombay, 3 banks were organized at Pachora, Broach and Dharwar in 1929. The movement gradually spread in these as well as in other provinces. In the initial stages of their development, primary banks in Madras started raising resources by floating debentures, but this created certain problems and resulted in the setting up of the Townsend Committee on Co-operation by the provincial government of Madras in 1927. One of the important recommendations of this Committee was that a provincial land mortgage bank should be set up for floatation of debentures, instead of individual primary banks floating such debentures. The recommendations of the Townsend Committee were accepted by the government and the Madras Co-operative Central Land Mortgage Bank was established in 1929.

4. The Conference of the Registrars of Co-operative Societies which was held in 1926 in Bombay took note of the developments in the organization of land development banks and recommended that such banks should be organized under the Co-operative Societies Act. The subject also received the attention of the Royal Commission on Agriculture (1928) and the Indian Central Banking Enquiry Committee (1931) and both these made several recommendations in addition to according their general approval to the recommendations made by the Registrars' Conference in 1926. A brief summary of the recommendations on land mortgage banks made by the Registrars' Conference in 1926, the Royal Commission on Agriculture (1928) and the Indian Central Banking Enquiry Committee (1931) is given below :

- (i) Land mortgage banks should be organized under the Co-operative Societies Act. Their area of operation should not be too large as to become unwieldy nor too small as to be uneconomic. Careful preliminary enquiry should precede their organization.
- (ii) The principal objects for which loans may be advanced by the land mortgage banks should be (a) redemption of land and houses of agriculturists; (b) improvement of land and in methods of cultivation; (c) liquidation of prior debt and (d) purchase of land in special cases.
- (iii) Loans should not exceed half the value of properties. Each bank should provide in its by-laws a minimum and maximum

up to which it may advance individual loans. The minimum should be such as to repay the cost of the transaction to the bank.

- (iv) Land mortgage banks should provide a suitable agency for distribution of loans under the Land Improvement Loans Act, 1883.
- (v) No loan should be advanced which is not economically profitable to the borrower.
- (vi) The amount and period of loan should be fixed with due regard to the repaying capacity of the borrower and also to the purpose for which the loan is advanced.
- (vii) Under the existing circumstances, the period of loans should not exceed 20 years.
- (viii) The primary credit society should be consulted and its opinion obtained in the case of a loan application received from a member of the society.
- (ix) Debentures should be issued by a central financing body which may be called a Provincial Land Mortgage Corporation. Interest on debentures should be guaranteed by the government and they should be added to the list of trustee securities.
- (x) The government should grant subsidies to land mortgage banks in the initial stages of their working. All existing concessions in the form of stamp duty, registration fees, etc., should be continued in favour of land mortgage banks.
- (xi) Land mortgage banks should be given power of foreclosure and sale without recourse to civil courts subject to certain safeguards.
- (xii) Provincial co-operative banks should not function except as a temporary measure as central land mortgage banks for the province, but there is no objection until the Provincial Land Mortgage Corporation is established in a province to the provincial co-operative bank financing primary land mortgage banks with long-term capital specially raised for the purpose.

PRE-1954 POSITION

5. The real beginning in the field of land mortgage banking was made with the organization of the central land mortgage bank in Madras in 1929 for issue of debentures and for co-ordinating the working of primary banks. The decade which followed witnessed the organization of similar institutions in Bombay (1935) and Orissa (1938) as well as in Mysore (1929) and Cochin (1935) which at that time were known as Indian states. While the banks in Mysore and Bombay were organized

on the lines of Madras to finance primary banks, the land mortgage banks in Orissa and Cochin financed their members directly. In other areas, central land mortgage banks did not exist for several years although there were primary land mortgage banks to grant long-term loans. Bengal had 5 land mortgage banks which were all financed by the provincial co-operative bank. The primary banks in the Central Provinces and Berar organized in 1933 were also financed by the provincial co-operative bank through a separate department with funds obtained from debentures floated for the purpose. The few primary banks in United Provinces, Assam and Ajmer-Merwara were small institutions obtaining funds from the public and loans from central co-operative banks. In Baroda State, the 2 primary land mortgage banks, one at Baroda and the other at Navsari, issued debentures guaranteed by the state government. The Travancore Credit Bank was established in 1938 under a special legislation to provide both long-term and short-term finance for agriculture as well as industry in the Travancore State.

6. With regard to loaning operations, in the thirties, when there was a general depression in the country, the need to save lands of cultivators from passing into the hands of moneylenders was keenly felt and land mortgage banks 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 land mortgage banks. Another factor which had an adverse effect on the transactions of land mortgage banks 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. Also, the government had covered a part of the field of land mortgage banks by providing funds and other facilities to cultivators for improvement of land in furtherance of their Grow More Food campaign. Thus, the period of the World War II (1939-45) and a few years thereafter witnessed a general shrinkage in the business of land mortgage banks.

7. In the post-war years, however, the need to borrow from land mortgage banks arose once again due to a variety of reasons. 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 factor 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 had dried up to some extent and cultivators had to look mainly to co-operative organizations for their long-term as well as short-term credit requirements. Moreover, the attainment of independence of the country in 1947 and the introduction of planned economic development from 1951 onwards as well as the encouragement given by the government to stimulate production of foodgrains made cultivators conscious of the benefits of land improvement for which they required financial assistance.

8. Among the provinces in which land mortgage banking made considerable progress in the initial stages up to 1953-4, Madras occupied the pride of place. The long-term credit structure in the province owed its success, among other factors, to the cautious lending policy pursued by primary banks and the active interest taken by the provincial government. Mysore was one of the few states where land mortgage banking made considerable headway. In Bombay Province also land mortgage banks had recorded some progress. Table 1 gives some details.

TABLE 1
PROGRESS OF PRIMARY LAND MORTGAGE BANKS AS ON 30 JUNE 1953

PROGRESS OF FARMY LAND MORTGAGE BANKS AS ON 30 JUNE 1955					Rs Lakhs	
		No. of Banks	Member- ship	Working Capital	Loans Advanced	Loans Outstanding
Madras	..	130	158043	606.55	104.36	560.93
Mysore	..	80	34922	109.90	18.25	102.16
Bombay	..	19	28040	95.03	12.76	81.11
All-India	..	301 ¹	244617	866.30	146.18	793.79

¹Includes land mortgage bank sections in central co-operative banks in Madhya Pradesh.

9. At the end of June 1954, there were in all 9 central land mortgage banks—one each in Ajmer, Andhra, Bombay, Hyderabad, Madras, Mysore, Orissa, Saurashtra and Travancore-Cochin. In Madhya Pradesh, a department of the Madhya Pradesh Co-operative Bank functioned as the central land mortgage bank. The number of primary banks in different parts of the country as on 30 June 1954 was 304, which included land mortgage banking sections of 13 central co-operative banks in Madhya Pradesh. Details in respect of all the central land mortgage banks and the primary banks for the years 1938-9 and from 1945-6 to 1953-4 are given in Tables 2 and 3.

All-India Rural Credit Survey Report (1954)

10. The All-India Rural Credit Survey Committee (1954) appreciated the role of land mortgage banks in the development of agriculture but

TABLE 2
POSITION OF CENTRAL LAND MORTGAGE BANKS: 1938-9 TO 1953-4

											Rs Lakhs
		1938-9	1945-6	1946-7	1947-8	1948-9	1949-50	1950-51	1951-2	1952-3	1953-4
Number of Banks		5	5	5	5	5	5	5	6	8 ¹	10 ¹
Membership (thousands) ..		3	6	6	7	8	9	10	35	36	50
Owned Funds		17.91	41.71	44.61	47.59	50.90	55.68	64.83	80.85	90.27	103.49
Deposits and Other Borrowings ..		33.15	25.39	42.54	50.95	19.55	49.50	32.47	152.94	99.61	144.13
Debentures		197.89	397.45	429.03	425.60	526.90	581.75	674.76	782.79	1040.98	1145.04
Working Capital ..		248.95	464.55	516.18	524.24	597.35	686.94	772.06	1016.58	1230.86	1392.66
Fresh Advances ..		72.62	54.29	62.74	77.59	103.40	101.08	132.93	250.65	170.57	192.40
Recoveries ..		11.91	36.20	32.56	34.92	39.55	38.58	45.69	43.61	68.91	99.49
Loans Outstanding		230.16	312.49	342.72	385.38	449.24	511.72	597.77	805.33	937.71	1035.16
Overdues		0.09	0.44	0.46	0.65	2.53	1.66	0.88	3.61	31.13	31.46

¹Includes the land mortgage bank section of the Madhya Pradesh State Co-operative Bank.

TABLE 3
POSITION OF PRIMARY LAND MORTGAGE BANKS: 1938-9 TO 1953-4

POSITION OF PRIMARY LEND MORTGAGE BANKS, 1938-9 TO 1953-4											Rs Lakhs
		1938-9	1945-6	1946-7	1947-8	1948-9	1949-50	1950-51	1951-2	1952-3	1953-4
Number of Banks	.. ..	221	284	268	260	263	283	286	289	301 ¹	304 ¹
Membership (thousands)	.. ..	76	136	139	150	172	186	215	214	245	265
Owned Funds		26.26	45.54	46.16	48.14	54.30	60.02	68.70	75.45	88.56	96.25
Deposits and Other Borrowings	.. ..	253.30	319.57	348.28	385.63	451.06	517.33	588.43	675.50	769.36	851.20
Debentures	.. ..	6.45	7.67	6.50	6.50	9.05	8.76	8.59	8.54	8.38	7.81
Working Capital	.. ..	286.00	372.78	400.94	440.27	514.39	586.09	665.72	759.49	866.30	955.26
Fresh Advances		78.01	58.11	66.75	82.90	114.00	101.11	129.02	129.59	146.18	140.50
Recoveries	.. ..	14.61	36.94	32.74	35.12	48.19	40.24	46.05	48.46	53.88	60.59
Loans Outstanding	.. ..	261.74	334.54	358.62	404.57	476.20	534.37	626.41	696.48	793.79	878.86
Overdues		11.51	4.07	3.37	3.05	4.07	5.11	8.29	9.21	14.20	16.08

¹Includes land mortgage bank sections in central co-operative banks in Madhya Pradesh.

PRE-1954 POSITION

was critical of their working, particularly in regard to the raising of resources, delay in the sanction of loans, limited purposes for which loans were sanctioned, methods followed therefor and the absence of co-ordination among the various agencies concerned with the disbursement of long-term credit. The Committee observed that the land mortgage banking system in the country raised inadequate funds in a manner ill-related to demand and usually lent them in a manner unco-ordinated with development; acted as if prior debts, and not production, had prior claims on its attention; reached mainly the large cultivator and reached him late.¹ The more important of the recommendations of the Committee in respect of land mortgage banks are summarized below:²

- (i) Each state should have a central land mortgage bank. 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 hindrance to the development of land mortgage banking. Where land reforms necessitate restrictions on the mortgaging of title, the scope of such restrictions should be the minimum necessary. Further, any special procedure for registration of mortgages under the land reform acts (and the general procedure for registration of mortgages of land) should be made simple, cheap and expeditious. Similarly, the provisions of the law should ensure that the title passed is as clear and as secure as possible.
- (ii) Central land mortgage banks should issue debentures for varying periods in conformity with the purpose of the loans. Further, to fit in with the requirements of rural investment, central land mortgage banks should float Rural Debentures. The Reserve Bank of India and the State Bank of India should take positive steps for the creation of an effective market for the debentures of the land mortgage banks. There should be provision for issue of special development debentures which may be purchased in whole or part by the Reserve Bank of India from out of its National Agricultural Credit (Long-term Operations) Fund.
- (iii) The government should contribute to the share capital of central land mortgage banks at least up to 51 per cent to enable them to borrow and to lend adequately.

¹ *The General Report* (1954) of the All-India Rural Credit Survey Committee, published by the Reserve Bank of India, Bombay, p. 228.

² *Ibid.*, pp. 549-551.

- (iv) Land mortgage banks 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. The banks should evolve a machinery for achieving co-ordination of credit with planned agricultural development, assessment of technical soundness of projects and verification of use of credit. There should be proper arrangements for supervision of the utilization of the loans granted by the banks. In the context of land mortgage banks providing development loans, the state government should guarantee, for a specified period, the difference between the value of the land before the improvement is effected and after it has taken place. Land mortgage banks 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 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 working of land mortgage banks and (e) special assistance to land mortgage banks in the underdeveloped areas with reference to their administrative costs in order to enable them to function on an economic basis.

AFTER 1954

11. In pursuance of the recommendations of the All-India Rural Credit Survey Committee (1954), emphasis was shifted from land *mortgage* banking to land *development* banking and central land development banks were organized in all the major states of the country and also in some of the smaller states and union territories. As on 30 June 1973, there were central land development banks in 18 states and 1 union territory out of the total of 21 states and 9 union territories. In addition, there were separate land development banking sections in the state co-operative banks of 2 union territories. Table 4 indicates the progress made by the central land development banks during the period 1953-4 to 1972-3. The bank-wise position is given in statements 1 to 19.

TABLE 4
POSITION OF CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS: 1953-4 TO 1972-3

	Rs Lakhs							
	1953-4	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
1. Number of banks ..	10	9	18	18	19	19	19	19
2. Membership (thousands) ..	50	91	187	403	796	912	1057	1840
3. Owned Funds	103.49	132.23	543.97	1803.98	4554.89	5798.46	6998.72	9774.47
4. Deposits and Other Borrowings	144.13	226.02	563.20	1017.50	2197.35	2438.98	2677.77	3830.30
5. Debentures Outstanding ..	1145.04	1494.38	3652.90	17837.23	57080.17	72490.24	87982.45	101504.15
6. Working Capital	1392.66	1852.63	4760.07	20658.71	63832.42	84122.26	101649.59	120207.30
7. Fresh Advances	192.40	283.04	1162.09	5641.21	15326.24	16827.93	14575.02	17143.06
8. Recoveries ..	99.49	137.45	303.23	1100.17	3541.56	3753.90	5273.21	4901.82
9. Loans Outstanding ..	1035.16	1308.21	3661.22	16326.04	50969.49	63765.20	72882.98	84920.53
10. Overdues	31.46	115.13	121.92	304.97	541.18	1106.41	1254.08	4071.47

TABLE 5

POSITION OF PRIMARY LAND DEVELOPMENT BANKS: 1953-4 TO 1972-3

	Rs Lakhs							
	1953-4	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
1. Number of Banks ..	304 ¹	302 ¹	463	673	809	865	869	855
2. Membership (thousands) ..	265	314	669	1048	1980	2219	2483	2183
3. Owned Funds	96.25	103.46	245.73	1273.28	3757.97	4767.62	5485.03	4259.32
4. Deposits and other Borrowings	851.20	1011.52	2453.03	12419.53	36633.61	44912.84	55562.50	43980.35
5. Debentures ..	7.81	7.62	—	—	—	—	—	—
6. Working Capital	955.26	1134.85	2698.77	13692.82	40391.58	55066.24	67352.08	51976.47
7. Fresh Advances	140.50	173.64	716.82	4122.50	11322.14	11893.59	10448.65	10162.97
8. Recoveries ..	60.59	79.91	173.00	998.70	3273.67	3765.99	4804.20	4473.25
9. Loans Outstanding ..	878.86	1051.14	2466.10	12433.32	36687.37	44827.09	56336.89	44681.89
10. Overdues ..	16.08	23.78	64.35	441.82	979.48	1746.53	1760.43	1751.71

¹Includes land development bank sections of central co-operative banks in Madhya Pradesh.

AFTER 1954

12. It will be seen that there was general progress in the working of these banks, especially after 1965-6. The owned funds, i.e., broadly share capital and reserve funds of the banks, which stood at Rs 1 crore as on 30 June 1954 rose to Rs 98 crores as on 30 June 1973. The progress made by the banks in mobilizing resources was noteworthy inasmuch as the debentures outstanding stood at Rs 1015 crores as on 30 June 1973 as against Rs 11 crores as on 30 June 1954. A very disquieting feature was, however, the increase in the level of overdues. The overdues of the central land development banks totalled Rs 41 crores as on 30 June 1973 forming 45 per cent of the demand as compared with Rs 0.31 crore forming 3 per cent of the outstandings in 1954.

13. The long-term credit structure at the primary level also developed during this period. As against 304 primary banks at the end of 1953-4, the number of such banks at the end of 1972-3 was 855. Table 5 gives the financial and other particulars of primary land development banks for the years 1953-4, 1955-6, 1960-61, 1965-6 and 1969-70 to 1972-3. The state-wise and year-wise position of these banks is furnished in statements 1 to 19.

14. It will be seen that there has been striking progress in the accretion of owned funds and loans issued by the primary banks during the period 1953-4 to 1972-3. The owned funds increased from Rs 1 crore as on 30 June 1954 to Rs 43 crores at the end of June 1973. During the same period, loans outstanding increased from Rs 9 crores to Rs 447 crores. In the case of primary banks also, an unhealthy feature of their working was a rising trend in overdues, especially during the past few years. The amount of overdues of primary banks increased from Rs 0.16 crore in 1954 to Rs 17.52 crores in 1973 forming 27 per cent of the demand for 1972-3.

15. The progress made by land development banks under the Five Year Plans in regard to the issue of debentures and provisions of loans is indicated in Table 6. It will be seen that the progress made by banks in mobilizing resources as also in giving loans to cultivators was very significant during the Third Plan and thereafter.

Agricultural Refinance Corporation and Land Development Banks

16. The All-India Rural Credit Survey Committee (1954) had urged that land development banks should not only accord priority to

TABLE 6
LOANING OPERATIONS OF LAND DEVELOPMENT BANKS DURING PLAN PERIODS

	Target for Loans to be Issued	Debentures Issued*				Loans Issued to Individuals
		Ordinary	Special	Rural	Total	
First Five Year Plan (1951-2 to 1955-6) ..	—	8	—	—	8	11@
Second Five Year Plan (1956-7 to 1960-61)	25@	22	—	3	25	37@
Third Five Year Plan (1961-2 to 1965-6) ..	150@	127	9	10	146	166@
Annual Plans (1966-7 to 1968-9)	275	223	27	8	258	300
Fourth Five Year Plan (1969-70 to 1973-4)	900	549	273	6	828	775+

*Figures relate to the co-operative years (July-June).

@Outstanding at the end of the Plan period.

+ Provisional figure.

production in their lending operations but also formulate and finance schemes of productive long-term lending in areas which had been or were shortly to be brought under irrigation as well as in some of the Community Development Project areas. The Committee on Co-operative Credit (1960) also stressed the need for arrangements of a permanent nature and on a sizeable scale for long-term and medium-term loans for promoting agricultural development.¹ It was, however, felt that the existing institutions could not provide finance for schemes of land development under the command areas of major and medium irrigation projects and schemes, especially those for plantations and horticultural crops, because of the large outlay involved or special terms such as long gestation period. Moreover, these schemes required co-ordination not only between the different development departments of the state governments but also between land development banks and short-term credit institutions. While the Reserve Bank agreed to provide financial assistance out of its National Agricultural Credit (Long-term Operations) Fund for a few schemes, the need was felt for a separate institution to undertake this specialized work. The Reserve Bank's erstwhile Standing Advisory Committee on Agricultural Credit in its nineteenth meeting held in Bombay on 6 and 7 December 1961 urged the Reserve Bank to take a lead in establishing an institution

¹Report of the Committee on Co-operative Credit (1960), published by the Government of India, p. 164.

for stimulating long-term investment in schemes of agricultural development. These were some of the developments which led to action being taken by the Government of India and the Reserve Bank of India for the establishment of the Agricultural Refinance Corporation by an Act of Parliament under the Agricultural Refinance Corporation Act, 1963.

17. The setting up of the Corporation on 1 July 1963 gave a fillip to the loaning operations of land development banks which continue to be the major beneficiaries of the refinance facilities provided by the Agricultural Refinance Corporation. The details of the refinance provided by the Corporation to central land development banks for various types of schemes since its inception in 1963 are given below :

TABLE 7
REFINANCE PROVIDED BY THE AGRICULTURAL REFINANCE CORPORATION TO
CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS

		Rs Crores							
Scheme		1963-4 to 1967-8	1968-9	1969-70	1970-71	1971-2	1972-3	1973-4	Total
Minor Irrigation	..	1.29	11.53	3.32	22.38	24.88	81.00	74.73	219.13
Land Development and Soil Conservation	..	10.09	3.76	22.26	3.25	2.26	1.86	1.29	44.77
Farm Mechanization	..	0.03	0.11	0.11	0.11	0.36	2.25	0.23	3.20
Plantation and Horti- culture	.. ..	0.49	0.55	1.06	0.91	0.89	1.03	1.51	6.44
Total	.. ..	11.90	15.95	26.75	26.65	28.39	86.14	77.76	273.54

Source: The figures have been compiled on the basis of Annual Reports of the Agricultural Refinance Corporation.

18. During the period 1963-4 to 1973-4, the Agricultural Refinance Corporation had disbursed a total sum of Rs 317 crores to the various eligible institutions, viz., central land development banks, commercial banks and apex co-operative banks. The financial assistance provided to land development banks formed as much as 86 per cent of the total disbursements of the Corporation as on 30 June 1974. The progress made by the Corporation in recent years is noteworthy, particularly since the implementation of a number of agricultural credit projects by the financing banks.

Agricultural Credit Projects

19. The sanction of agricultural credit projects by the International Development Association (IDA) and the International Bank for

Reconstruction and Development (IBRD) owes its origin to a visit by a Mission of the World Bank in November 1958 which reviewed the position of agricultural credit institutions and on-farm investment requirements in selected parts of the country in order to identify the high priority agricultural credit projects. At the end of June 1974, the IDA/IBRD had sanctioned 18 projects involving a total financial assistance of Rs 285 crores to ARC. Out of these projects, 10 projects were agricultural credit projects, 2 command area development projects, a dairy project, 2 market yard projects, an apple processing and marketing project, an agro-aviation project and a seed development project. The participation of land development banks has been envisaged in all but the last 5 mentioned projects. Details of the various agricultural credit projects sanctioned by the IDA/IBRD up to 30 June 1974 in which land development banks are major participants are given in Annexure 6.

SALIENT FEATURES OF WORKING

A reference may be made next to certain important features of the working of land development banks.

(i) *Resources*

20. From the very beginning, debentures constituted the main source of funds for land development banks. Barring a few primary banks, as in Baroda and Madras, which issued debentures, the debentures in other states were issued by the central or provincial land development banks. This was natural because as the apex organization, on account of its superior position in the money market, a central land development bank could approach a wider circle of investors, float the debentures in sizeable amounts at regular intervals and make suitable arrangements for their redemption. Except the Bombay Provincial Co-operative Bank Ltd. which met the credit requirements of the primary banks before the central land development bank came into being in 1935 by the issue of 'bearer bonds', the other central land development banks preferred to issue 'registered' bonds. The advantage in issuing registered bonds was that the holders were fully protected in case the scrips were lost. All transfers were required to be registered in the names of transferees by execution of transfer deeds. The bearer bonds did not provide such protection but only offered easy negotiability by endorsement and delivery. In order to suit different types of investors in the country and for attracting rural savings, the debentures were issued by banks in smaller denominations. These practices, in view of their distinct advantages, have not undergone any basic change up to this date.

21. The period of debentures was initially up to 15 or 20 years as the loans issued for different purposes were normally within such periods. In recent years, however, ordinary debentures were being floated for 10, 12 or 15 years and in the case of special development debentures for 7 years or 9 years, with emphasis being laid on provision of loans by land development banks based on the cultivator's repaying capacity and the useful life of the asset. The debentures continued to carry the guarantee of the concerned state government in regard to the payment of interest and repayment of principal. By virtue of such a guarantee, they were treated as trustee securities. Land development banks generally floated the debentures at rates comparable to those on government securities and as such they found a reasonably good market. Despite these advantages, the amount of debentures floated by the banks was not sizeable in the initial years. At the end of 1948-9, the amount of debentures floated by the 5 central land development banks in existence was Rs 5.27 crores only of which Rs 4.21 crores were accounted for by the Madras Co-operative Central Land Mortgage Bank Ltd.

22. The assured support of the Reserve Bank of India from 1948 and of other public sector institutions as well as governments in later years up to a certain percentage of the debenture issues was of considerable help to the banks. Mention may be made here of the fact that the debentures floated by land development banks were required to be supported by the mortgages created out of loans, which inspired confidence among the investors which was very essential for the success of the debenture floatations.

23. In the matter of raising resources by floatation of debentures, land development banks have continued to receive support from the State Bank of India and other commercial banks, the Life Insurance Corporation, the Government of India and the state governments and also the Reserve Bank of India. Commercial banks have been lending sizeable support to the debentures floated by land development banks since the introduction of social control in 1967 which was followed by the nationalization of the 14 bigger commercial banks in July 1969.

24. A scheme of rural debentures on the basis of the recommendations of the All-India Rural Credit Survey Committee (1954) for the mobilization of rural savings was formulated by the Reserve Bank of India in November 1957. A detailed account of the working of the scheme has been given in chapter. 9.

(ii) Sinking Fund

25. With regard to the redemption of debentures, the Madras Co-operative Central Land Mortgage Bank used to utilize in the beginning, its principal collections in withdrawing the debentures by lot every year. By doing so, it could redeem the debentures which had been issued at a comparatively higher rate of interest in the past. This method of redeeming debentures by lot each year caused considerable inconvenience to the investors and, therefore, subsequently, the central land development bank in Madras made the debentures non-redeemable for the first 10 years after their issue and the principal collections were utilized in creating sinking fund for the amortization of the debentures as and when they matured. The central land development banks in Bombay, Madhya Pradesh and Mysore, however, fixed a definite period of maturity for their debentures and for redemption thereof built up a sinking fund or debenture redemption fund out of the principal collections of loans every year. The sinking funds were not to be used for re-lending, but were to be invested in government securities, debentures of other land development banks or in their own debentures. In order to bring uniformity in the procedures followed by central land development banks, the Reserve Bank indicated in a note circulated in 1936 among the state governments and banks the detailed procedure for constituting sinking funds and the manner in which the amount held in the funds should be invested. These aspects were reviewed in later years by the Reserve Bank. The details are included in chapter 8.

(iii) Loaning Policies

26. The loans issued by land development banks particularly in the early years of their organization were substantially for the purpose of repayment of old debts. This was inevitable as land development banks were started during the period of depression with the main object of saving the cultivators from losing their lands on account of inability to repay the loans obtained from moneylenders at exorbitant rates of interest. However, even after the problem of liquidation of long standing debts ceased to be a major one in the changed conditions, viz., the scaling down of debts by legislative measures and the rising prices of agricultural produce in post-war years, land development banks continued to issue loans for redemption of old debts. In the erstwhile Bombay State, however, a substantial portion of the loans was being advanced for land improvement which included construction of wells, bunding and purchase of agricultural machinery. To stimulate the grant of loans for land improvement, the banks in Bombay offered concession

in interest rates to the ultimate borrower, the government agreeing to make good the difference between the normal lending rate and concessional rate. In the erstwhile Saurashtra State, there was the problem of conferring occupancy rights on tenant cultivators and the then Saurashtra Central Co-operative Land Mortgage Bank Ltd. disbursed loans totalling Rs 2.54 crores during 1951-4 for enabling farmers to purchase occupancy rights under a scheme of financial assistance for this purpose implemented by the state government.

27. The All-India Rural Credit Survey Committee (1954) had recommended that land development banks 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. As referred to earlier in this chapter, the establishment of the Agricultural Refinance Corporation in 1963 gave an added need for adoption by banks of a production-oriented lending system. However, the progress in this direction by banks in several states was generally not satisfactory. In view of this, in 1967-8, the Reserve Bank laid down a stipulation that support to ordinary debenture issues of land development banks from the various institutions would be forthcoming only if at least 80 per cent of their loans were for productive purposes. Subsequently, on 23 May 1969, detailed instructions were issued by the Reserve Bank to the Registrars of Co-operative Societies regarding the procedure to be followed in this behalf. Each land development bank was expected 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. The banks were also advised in regard to the methods to be followed for laying down regional norms relating to scale of financing for different items of investment and for working out repaying capacity of the borrowers.

28. These instructions have been revised from time to time, but the main objective that each bank should bring in at least 90 per cent of its lendings for productive purposes or, in other words, loans for purposes such as repayment of old debts and purchase of land should be reduced to 10 per cent of its total loans, has remained. The Reserve Bank has also been advising banks from time to time in regard to the need for reorienting loaning policies and procedures with a view to (a) reducing the time-lag between receipt and sanction of loan applications, (b) ensuring proper appraisal of each loan proposal so that an adequate amount is provided for the proposed investment and (c) fixing the period of loans on a realistic basis to avoid hardship to the borrowers

in repaying the loan. The high-yielding varieties programme for increased agricultural production launched in 1966-7 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. Experience had, however, shown that, by and large, 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 Reserve Bank, therefore, advised central land development banks 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 to enable him to repay the loan in a reasonable period.

29. In order to facilitate exchange of views among the bank officials, the Reserve Bank has been holding periodical seminars of chief executive officers of central land development banks and providing training facilities at its training centre at Poona, namely, the College of Agricultural Banking.

30. Another financial discipline introduced among the land development banks in recent years by the Reserve Bank relates to the linking of financial assistance from central land development banks to their branches and primary banks to their recovery performance. This is expected to stimulate a drive for recoveries, with the active involvement of both the banks and governmental machinery.

31. Yet another important recent development has been the introduction of uniform lending procedures by land development banks for similar purposes, following the stipulation made in the agricultural credit project agreements with IDA that the banks implementing the project schemes should observe the same lending terms and criteria for similar lendings outside the project areas. Apart from bringing about uniformity in lending norms, this stipulation has contributed to qualitative improvements in the working of land development banks such as the building up of technical competence by appointing agricultural economists, credit specialists, etc.

32. The instructions issued by the Reserve Bank of India to land development banks 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. In pursuance of the Committee's recommendations, land development banks agreed at a meeting convened by the Reserve Bank of India in Bombay in February 1973 that loans granted by them to small farmers should not be less than 20 per cent of the total loans advanced during the year. Concessions regarding the share capital contribution and down payments by small farmers as well as in regard to the period of loans to them are being provided by land development banks. Further, if farmers are unable to provide sufficient landed security, some state governments, such as Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Uttar Pradesh and Tamil Nadu have agreed to provide a guarantee to land development banks to cover the deficit in security.

33. Mention may also be made here of the action taken by the state governments, in pursuance of one of the recommendations of the Committee on Takavi Loans and Co-operative Credit (1962), to allocate a part of *taccavi* funds for contribution to debentures of land development banks, instead of dispensing agricultural credit direct to cultivators.

(v) Legislation

34. Following the recommendation of the All-India Rural Credit Survey Committee (1954) some of the state governments, viz., Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Rajasthan have passed necessary legislation specifying the developmental purposes for which loans can be given by land development banks and have further provided that, where land development banks have issued loans for developmental purposes, they will have first charge on the land offered as security for loans ranking next only to land revenue. In addition, some state governments have passed legislation so as to enable land development banks to advance loans quickly. Maharashtra was the first state to pass the necessary legislation in 1961 followed by Andhra Pradesh, Tamil Nadu, Gujarat, Karnataka and Madhya Pradesh. The important provisions in this legislation relating to the speedy disposal of loan applications are: (1) the verification of the borrowers' title to the land by issue of public notice calling upon the concerned persons to present their objections, if any, to the land offered as security and (2) registration of the mortgages in the revenue sub-registrar's office by merely sending a copy of the mortgage deed within the prescribed time.

Assistance by the Reserve Bank from the Long-term Operations Fund

35. In pursuance of one of the recommendations of the All-India Rural Credit Survey Committee (1954), the Reserve Bank started

advancing loans from its National Agricultural Credit (Long-term Operations) Fund to the state governments from 1957 to enable the governments to subscribe to the share capital of central land development banks. Following one of the recommendations of the All-India Rural Credit Review Committee (1969), the Reserve Bank agreed to provide loans from the year 1969-70 to state governments for the purpose of their participation in the share capital of the primary land development banks also. The total amount of such loans provided by the Reserve Bank to the state governments for enabling them to contribute to the share capital of central land development banks and primary banks was Rs 13.33 crores and Rs 1.88 crores during the period 1957-8 to 1973-4 respectively.

National Co-operative Land Development Banks Federation

36. The All-India Central Land Development Banks Co-operative Union Ltd. (now renamed as the National Co-operative Land Development Banks Federation Ltd.) was established in 1960. The Federation has been rendering useful service to its member-banks. Apart from holding seminars and discussions on important problems relating to the operational policies and procedures of the member-banks, it has been undertaking special studies in respect of the working of land development banks in the co-operatively less developed states and making useful suggestions for the reorganization of the banks. Moreover, the Federation, in consultation with the Reserve Bank, has been helping the member-banks in organizing the necessary support to the debentures floated by them. It is also maintaining close liaison between its members on the one hand and the Reserve Bank of India, the Agricultural Refinance Corporation, the Government of India and the various state governments on the other.

37. It will be seen from this very brief account of the co-operative land development banking movement in the country since its inception in 1920 up to the present time that the progress made, particularly since 1954, has been very striking and commendable not merely in quantitative terms, i.e., loans provided, but also qualitatively, i.e., introduction of uniform terms of lending, basing loaning operations on technical scrutiny and financial analysis on a scheme-by-scheme basis, bringing the total lending operations of the banks under a common discipline, improvements in the quality of methods of appraisal of loan applications and strengthening of the staff of the banks. With all this very commendable record, however, the land development banking movement since 1969-70 has been faced with the serious problem of

overdues. Unless this problem is tackled by each bank firmly and purposively and brought under control quickly, there is a danger of the land development banking structure becoming weak and unable to render help to cultivators as it has been doing so far with commendable success.

CHAPTER 3

STRUCTURE FOR LAND DEVELOPMENT BANKING

THE following items of our terms of reference are inter-connected:

- (i) To examine the relative advantages and dis-advantages of the unitary and the federal structure of co-operative land development banks and recommend with reference to conditions obtaining in each state/union territory the structure which is more suitable from the point of efficient administration, effective supervision over the end use of credit and prompt recovery of the dues.
- (ii) To examine the position of the co-operative land development banks in Assam, West Bengal, Bihar, Orissa, Rajasthan, Jammu & Kashmir and such other less advanced states and suggest steps for strengthening them including financial and other assistance from the government and the Reserve Bank.
- (iii) To examine whether with particular reference to smaller states it will be advantageous to make the state co-operative bank undertake also the responsibility to provide long-term credit through a separate department and if so, the conditions under which this arrangement could be brought about.

This chapter deals with item (i) and covers states not falling under items (ii) and (iii) which are dealt with in separate chapters, viz., 5 and 4. Thus, the states covered in this chapter are Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, Tamil Nadu and Uttar Pradesh. However, for the purpose of a general reference to the structure as a whole, we have dealt with the position in all the states and union territories.

2. The structure for land development banking, as it has emerged over the years, is not of a uniform pattern throughout the country. While in most of the states there is a federal set-up, i.e., a central land development bank at the state level and affiliated primary banks at the lower levels, some states have adopted a unitary system in which the central land development bank itself is operating through its branches at the district, tehsil or block level. There are, however, two union territories in which, instead of a separate land development

banking structure, the long-term credit needs of cultivators are met by a land development banking section of the state co-operative bank. Table 1 shows the organizational arrangements for provision of long-term credit to cultivators in various states as at the end of June 1973.

TABLE 1
ORGANIZATIONAL ARRANGEMENTS FOR PROVISION OF
LONG-TERM CREDIT IN VARIOUS STATES/UNION TERRITORIES AS ON 30 JUNE 1973

State/Union Territory	No. of Offices of CLDB*		No. of PLDBs+	No. of Branches of PLDBs	Land Development Banking Section in State Co-operative Bank
	H.O./Regional Offices/Dist. Offices	Branches			
1	2	3	4	5	6
1. Andhra Pradesh	11	—	184	—	—
2. Assam	1	—	16	—	—
3. Bihar	1	87	—	—	—
4. Gujarat	19	182	4**	—	—
5. Haryana	1	—	29	—	—
6. Himachal Pradesh	1	12	1	2	—
7. Jammu & Kashmir	1	20	—	—	—
8. Karnataka	20	—	175	—	—
9. Kerala	4	—	22	—	—
10. Madhya Pradesh	8	—	43	174	—
11. Maharashtra	1	27@	—	—	—
12. Orissa	1	—	55	—	—
13. Punjab	1	—	41	—	—
14. Rajasthan	6	—	35	—	—
15. Tamil Nadu	12	—	223	—	—
16. Tripura	1	—	—	—	—
17. Uttar Pradesh	1	203	4**	—	—
18. West Bengal	1	2	21	—	—
19. Delhi	—	—	—	—	1
20. Goa, Daman & Diu	—	—	—	—	1
21. Pondicherry	1	—	—	—	—

* Central land development banks.

+ Primary land development banks.

@ With about 270 sub-branches.

** Old primary land development banks.

3. Out of the 21 states and 9 union territories, there are central land development banks in 18 states and 1 union territory. Among these, the federal structure is obtaining in 10 states, viz., Andhra Pradesh, Assam, Haryana, Karnataka, Kerala, Madhya Pradesh, Orissa, Punjab, Rajasthan and Tamil Nadu. In 1 union territory, viz., Pondicherry and 6 states, viz., Bihar, Gujarat, Jammu & Kashmir, Maharashtra, Tripura and Uttar Pradesh there is a unitary structure for land development banking. Two states, viz., Himachal Pradesh and West Bengal follow a mixed type of organizational pattern. In Himachal Pradesh there is a primary land development bank in Kangra District which previously formed part of the Punjab and branches of the central

land development bank in the remaining areas of the state. Similarly, in West Bengal, in Purulia and Darjeeling Districts there are branches of the central land development bank and in the remaining districts the federal structure is prevalent. Of the states having a federal structure, Andhra Pradesh, Karnataka and Tamil Nadu have brought the primary banks to tehsil or even to block levels, but other states have organized the primary banks generally at the district or sub-divisional levels with their branches at tehsil or block centres. The central land development banks in Andhra Pradesh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Rajasthan and Tamil Nadu have opened offices at the regional or district centres with a view to decentralizing their administrative functions. Among the states having a unitary structure, it is only in Gujarat that branches of the central land development bank have been organized at tehsil level. Elsewhere, the branches of central land development banks are located mostly at the district or the sub-divisional level. In 2 union territories, viz., Delhi and Goa, Daman & Diu, long-term loans to cultivators are provided through the land development banking section of the state co-operative bank. Arrangements for providing long-term credit for agriculture through co-operative institutions are yet to be made in 3 states (Manipur, Meghalaya and Nagaland) and 6 union territories (Andaman & Nicobar Islands, Arunachal Pradesh, Chandigarh, Dadra & Nagar Haveli, Lakshadweep and Mizoram). The following paragraphs deal very briefly with the position regarding the structure of land development banking in the various states and union territories.

STATE-WISE POSITION

Andhra Pradesh

4. The present central co-operative land development bank came into existence in March 1962 consequent upon the merger of the Andhra Central Co-operative Land Mortgage Bank Ltd. and the Hyderabad Central Co-operative Land Mortgage Bank Ltd. which were serving the Andhra and Telengana regions respectively. The erstwhile Andhra Central Co-operative Land Mortgage Bank Ltd. had come into existence in 1953 as a result of the formation of a separate Andhra State and the bifurcation of the Madras Central Co-operative Land Mortgage Bank Ltd.

The land development banking structure in the state is federal in nature as was obtaining in the erstwhile Madras State. As on 30 June 1973, there were 184 primary land development banks generally organized at the rate of one bank for each tehsil. However, some banks

covered only part of a tehsil while in the case of a few other banks, their area of operation extended to 2 tehsils where the potential for providing loans was relatively low. In addition to its head office, the central land development bank was having 10 regional offices as on 30 June 1973 for the purpose of supervision over the primary banks and looking after the implementation of the special schemes refinanced by the Agricultural Refinance Corporation.

Assam

5. The co-operative land development banking structure in Assam is of a federal type. The Assam Co-operative Central Land Mortgage Bank Ltd. was organized in 1955 and 16 primary banks were affiliated to it as on 30 June 1973.

Bihar

6. The central land development bank was registered in December 1957. As on 30 June 1973, it had 87 branches. Out of these, 4 branches covered one district. In the districts where special schemes of agricultural development with financial assistance from the Agricultural Refinance Corporation were under implementation, more than one branch was operating.

Gujarat

7. Gujarat has a unitary structure for land development banking. The present Gujarat State Co-operative Land Development Bank Ltd. was formed in May 1960 out of the Saurashtra Central Co-operative Land Mortgage Bank Ltd. which was established on 6 September 1951. As on 30 June 1973, the central land development bank was having 182 branches, 17 district offices and 1 regional office. All the 184 tehsils in the state except the area in the hilly Dang District inhabited mostly by tribal people were covered by the branches of the central land development bank. In the Dang District, no branch of the bank has been opened so far. There were also 4 old primary banks in the state in the area covering the districts of Baroda, Broach, Kaira and Surat which were transferred to Gujarat on the re-organization of the erstwhile Bombay State in 1960. These banks were being continued pending the settlement of the issue regarding the division of assets and liabilities between the Gujarat State Co-operative Land Development Bank Ltd. and the Maharashtra State Co-operative Land Development Bank Ltd.

Haryana

8. The central land development bank came into being after the re-organization of the erstwhile Punjab State in 1966. The state is having a federal structure as it was obtaining in the composite Punjab State. As on 30 June 1973, there were 29 primary banks. In 1971, the state government decided to have a unitary structure for land development banking, mainly with a view to improving the efficiency of the primary units, but this proposal was not pursued.

Himachal Pradesh

9. As on 30 June 1973, the Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd. set up on 6 February 1961 was having 12 branches serving a major part of the state. Besides, there was a primary bank which was transferred to the state consequent upon the transfer of the Kangra District to Himachal Pradesh following the re-organization of the erstwhile Punjab State in 1966. The primary bank had two branches at Nurpur and Una.

Jammu & Kashmir

10. The state is having a unitary structure for land development banking. As on 30 June 1973, the Jammu & Kashmir State Co-operative Land Development Bank Ltd. set up on 4 October 1952 was having 20 branches. One more branch was opened in September 1973 in Leh District.

Karnataka

11. The state has a federal structure for land development banking. As on 30 June 1973, there were 175 primary land development banks. The Mysore (now Karnataka) State Co-operative Land Development Bank Ltd. set up on 25 November 1929 was also having 19 district offices, i.e., one office for each of the districts.

Kerala

12. As on 30 June 1973, there were 22 primary land development banks affiliated to the Kerala State Co-operative Land Development Bank Ltd. which was formed in 1956. This bank came into being as a result of the re-organization of the erstwhile Travancore Credit Bank organized in 1938 to provide short-term and long-term loans both for agriculture and industry.

Madhya Pradesh

13. There is a federal structure for land development banking in Madhya Pradesh. The central land development bank is of recent origin having been established in March 1961. Before that period, long-term loans were provided by the Madhya Pradesh State Co-operative Bank Ltd. through a separate land development banking section. As on 30 June 1973, there were 43 primary banks organized at the rate of one bank for a district, operating through branches opened at tehsil and, in a few cases, at block level. As on 30 June 1973, there were 174 such branches of the primary banks. The Madhya Pradesh State Co-operative Land Development Bank had 7 divisional offices to inspect and control the working of the primary banks.

Maharashtra

14. The Bombay State Co-operative Land Mortgage Bank Ltd. started functioning in 1936. The name of the bank was changed to the Maharashtra State Co-operative Land Development Bank Ltd. in 1971. Till recently, 27 primary banks organized at district level with about 270 branches were affiliated to it. However, consequent upon a decision taken in October 1972 by the state government to have a unitary structure, all the primary units were merged with the state co-operative land development bank. According to an ordinance issued by the state government on 21 October 1972, the main objective in having the unitary structure was to improve the administrative efficiency and financial capacity of the land development banks at the lower level.

Orissa

15. The Orissa State Co-operative Land Development Bank Ltd. was organized in 1938. To begin with, its area of operation was very limited. But it was gradually extended to the entire state. Initially, the bank was catering for the long-term credit needs of cultivators directly through its branches and the agency of the central co-operative banks. Subsequently, starting from the year 1960-61, primary banks were organized and, as on 30 June 1973, there were 55 such banks.

Pondicherry

16. The Pondicherry State Co-operative Land Mortgage Bank Ltd. started functioning in 1960. The bank has no branch. It provides long-term credit to cultivators directly.

Punjab

17. The Punjab State Co-operative Land Mortgage Bank Ltd. was organized in 1958. In the beginning, the bank operated through central co-operative banks for disbursement of loans to cultivators. From 1962 onwards, the central land development bank started operating through newly formed primary banks whose number was 41 as on 30 June 1973.

Rajasthan

18. The Rajasthan Central Co-operative Land Mortgage Bank Ltd. was organized in 1957. From the very beginning, the state is having a federal structure for land development banking and, as on 30 June 1973, there were 35 primary banks.

Tamil Nadu

19. In the erstwhile Madras State, 12 primary banks were organized even before the central land development bank came into being in 1929. The state is having a federal structure of land development banking and, as on 30 June 1973, there were 223 primary banks. Prior to December 1966, the area of operation of a primary bank was confined, by and large, to a revenue *taluk* and the number of the primary banks was 106. In 1969, the state government decided to organize primary banks at the block level and in pursuance of this decision, 60 new banks were set up in 8 districts before the end of December 1969, 7 banks during 1969-70 and 50 during 1970-71. Thus, the total number of primary banks increased quickly from 106 at the beginning of December 1969 to 223 as on 30 December 1970. However, no new primary bank at the block level is now being set up.

Tripura

20. The Tripura Co-operative Land Mortgage Bank Ltd. was established in 1960. Before this bank was organized, the state co-operative bank itself was providing long-term loans to cultivators for investment in agriculture. The central land development bank is providing loans directly to cultivators. It has no branches.

Uttar Pradesh

21. The central land development bank in Uttar Pradesh was set up on 12 March 1959. One of the main factors contributing to the late organization of the bank was that the Zamindari Abolition Act in the state placed certain restrictions on the transfer of land by *sirdars*, i.e.,

cultivators having ownership rights. The necessary amendments to the Act for removing such restrictions were passed in 1958. There is a unitary structure for land development banking in Uttar Pradesh. As on 30 June 1973, there were 203 branches of the central land development bank.

West Bengal

22. The West Bengal Central Co-operative Land Mortgage Bank Ltd. was registered on 7 January 1958. In all districts other than Purulia and Darjeeling, where there are special problems of tenancy and land mortgage, the apex institution operates through 21 primary banks at the district and sub-divisional levels. The Purulia and Darjeeling Districts are served by the branches of the central co-operative land development bank.

STUDIES IN ANDHRA PRADESH AND GUJARAT

23. We should like to refer next to the findings of the studies conducted on behalf of our Committee in respect of the land development banking structure in Andhra Pradesh and Gujarat which are good examples of the working of the federal and unitary systems respectively. These studies have revealed that the federal structure of land development banking in Andhra Pradesh has a very useful record of service to cultivators to its credit. The primary banks disburse on an average long-term loans amounting to Rs 15 crores to Rs 20 crores in a year both under ordinary loans and special loans refinanced by the Agricultural Refinance Corporation. The Andhra Pradesh Co-operative Central Land Mortgage Bank was the first bank to avail itself of financial assistance from the Agricultural Refinance Corporation on a sizeable scale. Till 30 June 1974, the total quantum of the refinance availed of by it was of the order of Rs 32 crores or about 10 per cent of the total disbursements made by the Corporation. Taking into account the position regarding disbursements made by the Agricultural Refinance Corporation in various states till the end of June 1974, the quantum of refinance availed of by the bank in Andhra Pradesh ranks third, the first and second positions being held by Gujarat (13.4 per cent) and Tamil Nadu (12.8 per cent). The progress made by the land development banking structure in Andhra Pradesh is mainly due to the stimulus provided by the local leadership which is associated with primary banks. As against these advantages of the federal system, the main weakness in the structure in Andhra Pradesh has been the ineffective control exercised by the apex institution on the primary units. The business managers of the Andhra Pradesh Co-operative Central Land Mortgage

Bank who are in overall charge of the primary banks have no effective control over the supervisors of these banks. Some of these supervisors have not shown a proper sense of responsibility in regard to field investigations at the appraisal stage and issue of verification reports and have taken a partisan view in collusion with some of the non-officials connected with the primary banks.

24. Next, as regards the Gujarat State Co-operative Land Development Bank, this institution with its 182 branches has made a significant contribution in the development of agriculture in Gujarat by providing long-term loans to cultivators for investment in agriculture. Some of the factors which have contributed to this success are a well-informed board of directors and the helpful attitude of the state government. An equally important factor has been the alacrity with which the branch committees have discharged their functions in collaboration with the local leadership. The bank disburses on an average about Rs 15 crores to Rs 20 crores to cultivators for investment in agriculture every year. It occupies the first position among central land development banks in regard to the refinance availed of from the Agricultural Refinance Corporation, the total amount drawn till 30 June 1974 being Rs 42.56 crores or 13.4 per cent of the total disbursements of the Corporation. Our study, however, points out that despite all these achievements, there are certain deficiencies which are mainly the result of the unitary structure of land development banking. The more important of these deficiencies are lack of proper supervision due to the vast area covered by the bank which has contributed to the increasing trend in overdue and laxity on the part of the staff. A major factor contributing to such laxity has been the fact that the bonus and other benefits which the staff get depend upon the overall profits of the bank instead of the profits of the branches in which they are working.

RECOMMENDATIONS

25. In the preceding paragraphs, we have referred to the present set-up of land development banks in various states and union territories and also to the findings of the special studies in respect of land development banking structures in Andhra Pradesh and Gujarat undertaken on behalf of our Committee. We now proceed to give our recommendations in regard to the unitary and federal systems as also about the structure considered suitable. However, before doing so, we should like to address ourselves to the question as to why importance should be attached to the structure of land development banking. Till 1954-5, land development banks were providing long-term credit to cultivators mainly for

redemption of old debts. There has been a significant change since then. The banks are now required not only to provide loans for enabling cultivators to make investment in agriculture but also to play a promotional role in the formulation of suitable schemes of agricultural development. Their methods of work especially in regard to appraisal of loan proposals have become more systematic than ever before. Further, the considerable increase in the financial assistance provided by these banks in recent years calls for greater vigilance and more effective supervision over the use of credit by the ultimate beneficiaries. Besides, in order to ensure successful implementation of schemes, the banks have to enlist the co-operation of local leadership. Obviously, all these factors emphasize the need for evolving a suitable structure in order to enable land development banks to stimulate interest of the local non-officials, mobilize resources to meet the growing demand for investment credit, conduct proper appraisal of loan proposals and effectively supervise the proper utilization of loans.

26. The various Committees which had occasion to give their opinion in regard to the structure for land development banking have generally favoured a federal structure. For instance, the Rural Credit Survey Committee (1954) recommended that, in the initial stages, the central land development bank might operate through a network of branches and, when adequate business is developed, primary banks might be organized. The Committee on Takavi Loans and Co-operative Credit (1962) observed that "....the ultimate structure in any state should be a federal one...." The All-India Rural Credit Review Committee (1969) endorsed the views of the Takavi Committee referred to above as the following extract from the Committee's Report will show:

We consider that, on balance, a federal system equipped with a cadre of managers of primary land development banks under the administrative control of the central land development bank offers a better alternative than a unitary structure. This preference is particularly strengthened by the consideration that the lending operations of these banks in the coming years will not only be quantitatively of larger dimensions but also, as we shall show, qualitatively more complex. If the technical feasibility and economic viability of the projects financed and the proper use of loans are to be ensured, it is imperative that there should be the maximum decentralization, with local leadership and personnel being fully involved in the operations of lending, supervision and recovery. This, in turn, requires that institutions at the primary level develop a personality of their own. The primary banks should also help to

develop the capacity to absorb, to some extent, the overdues which might increase in the context of the large expansion of credit and to mobilize resources by way of subscription to rural debentures from out of the increased agricultural incomes expected to result from the investment in agriculture. Finally, as it is at the district or lower levels that co-ordination between the long-term credit structure and the government machinery in the Agriculture and Irrigation Departments is most needed, it is an advantage to have an independent unit at the primary level.¹

27. The main advantages of the federal structure as pointed out by various Committees are: responsiveness to local needs, capacity for gathering resources and facility of recovery of loans due to intimate contacts with the local non-officials. The main advantages claimed for the unitary structure are facility of operations and unified control. We feel that both the systems have their own advantages and disadvantages as has been revealed by the studies in Andhra Pradesh and Gujarat which are having federal and unitary structures respectively from the very beginning. In both these states, the long-term co-operative credit structure has made commendable progress by providing financial assistance to cultivators for investment in agriculture. At the same time, certain deficiencies have come to the surface in the structure in both the states such as inadequate control over the staff of primary banks and lack of initiative taken by the branch staff. The study in Gujarat has revealed that the advantages which have been pointed out by the earlier Committees as inherent in the federal structure, such as local knowledge can be secured in the unitary structure as well by suitable organizational arrangements. For instance, one of the major reasons for the progress made by the Gujarat State Co-operative Land Development Bank is the constitution of branch committees for exercising control and also for dealing with aspects such as recovery of loans and implementation of special schemes at the field level. Similarly, the problem of control over the field staff which arises in the federal structure can be solved by introducing suitable cadres under the control of the central land development bank resulting in unified control which is one of the major advantages claimed for the unitary structure.

28. After taking into account all these aspects we are of the view that no change in the existing structure for land development banking in the 9 states referred to in this chapter is called for. These states are: Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab and Tamil Nadu

¹*Report of the All-India Rural Credit Review Committee* (1969), published by the Reserve Bank of India, Bombay, p. 748.

which are following the federal pattern and Gujarat and Uttar Pradesh which are following the unitary pattern. As regards Maharashtra, the results of the change-over from a federal to a unitary structure in 1972 are yet to be assessed. Thus, what matters in these states is the question of the measures taken to strengthen the existing structures. Our suggestions which are applicable to both the federal and unitary structures relate to the setting up of regional/divisional offices of the central land development bank with technical and other staff to provide necessary support to its branches/primary banks in the matter of scheme formulation and implementation and also to ensure effective control on the staff at the field level, introduction of suitable training programmes for the staff in primary banks/branches and satisfactory arrangements for securing co-ordination between primary banks/branches on the one hand and other institutions and departments of the state government on the other.

Our specific suggestions in regard to the unitary structure are: (a) constitution of branch committees having representatives from various tehsils/blocks and of different categories of cultivators especially small and marginal farmers, including those belonging to scheduled castes and tribes in order to enlist the support of local non-officials 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 land development banking what is of paramount importance is to ensure that (i) the central land development bank has control over secretaries and other key personnel of primary banks such as land valuation officers; (ii) the staff of the primary banks do not take a partisan view of their work, e.g., by colluding with local non-officials and (iii) there are avenues for promotion for the staff. These objectives can be achieved by having a scheme of common cadre under which control of the key personnel of primary banks who are placed in a cadre vests in the central land development bank. We have dealt with this subject in some detail in chapter 12. Apart from introducing the scheme of common cadres, central land development banks, in a federal structure, should enlist the support of the non-official directors of primary banks in the formulation and implementation of schemes and also in recovery work. Such involvement has been generally lacking so far, the schemes being treated largely as departmental schemes although they are supposed to have emanated from the banks themselves.

CHAPTER 4

ARRANGEMENTS FOR PROVISION OF LONG-TERM AGRICULTURAL CREDIT IN SMALLER STATES

THIS chapter deals with the arrangements for provision of long-term agricultural credit in the smaller states and our recommendations thereon with reference to item (iii) of our terms of reference which reads as follows:

To examine whether with particular reference to smaller states it will be advantageous to make the state co-operative bank undertake also the responsibility to provide long-term credit through a separate department and, if so, the conditions under which this arrangement could be brought about.

The smaller states and union territories in respect of which the position regarding arrangements for provision of long-term finance for investment in agriculture has been examined by us are: Andaman & Nicobar Islands; Arunachal Pradesh; Delhi; Goa, Daman & Diu; Himachal Pradesh; Manipur; Meghalaya; Mizoram; Nagaland; Pondicherry and Tripura. We have not examined the position in respect of 3 union territories, viz., Chandigarh, Dadra & Nagar Haveli and Lakshadweep in view of their limited area and the limited scope for agricultural development. Out of the 11 states and union territories for which the position regarding long-term financing has been examined by us, separate central co-operative land development banks are already functioning in 2 states, viz., Himachal Pradesh and Tripura and 1 union territory, viz., Pondicherry. The working of the land development banks in Himachal Pradesh and Tripura has, however, been examined separately in pursuance of item (ii) of our terms of reference and our views are given in chapter 5. Thus, leaving these 2 states, there are 3 states and 6 union territories in respect of which the arrangements for provision of long-term credit for investment in agriculture have to be considered. This is dealt with in this chapter. Whenever we refer to states and union territories in this chapter, therefore, the reference is to these 3 states, viz., Manipur, Meghalaya and Nagaland and 6 union territories, viz., Andaman & Nicobar Islands; Arunachal Pradesh; Delhi; Goa, Daman & Diu; Mizoram and Pondicherry. Before giving our recommendations, we should like to refer briefly to the general position of long-term credit in these states and union territories.

STATE-WISE POSITION

Andaman & Nicobar Islands

2. The Islands can be broadly divided into two groups—the Andaman group and the Nicobar group. The Andaman group consists of about 455 islands of which 17 are inhabited. The Nicobar group comprises 120 islands of which only 12 are inhabited. These two groups are separated from each other by a channel. According to the 1971 Census, the territory has a population of a little over 1 lakh and the total geographical area is 8293 square kilometres. In all, there are 390 villages in the islands. The Andaman & Nicobar groups are different from each other in many respects. The Andamans are generally hilly and covered with dense forests, whereas the Nicobars are often characterized by low lands. Out of about 0.16 lakh hectares of land which are available for cultivation, the area at present under cultivation is 0.11 lakh hectares only. Paddy is the main crop grown in the islands. Research undertaken by the Rubber Board and the Indian Council of Agricultural Research has indicated that there is potential for development of rubber plantations and the growing of certain types of fruits in the islands.

3. An apex co-operative bank was established on 6 January 1965. The financial particulars in respect of this bank for the years 1969-70 to 1972-3 are given in Table 1.

TABLE 1
ANDAMAN & NICOBAR STATE CO-OPERATIVE BANK LTD—PARTICULARS¹

Item	Rs Lakhs			
	1969-70	1970-71	1971-2	1972-3*
Paid-up Share Capital	2.95	3.30	3.62	3.97
Reserve and Other Funds	0.03	0.13	0.19	0.40
Loans Advanced:				
Short-term	1.60	5.05	5.42	N.A.
Medium-term	—	1.26	0.90	N.A.
Long-term	—	—	—	—
Loans Outstanding:				
Short-term	3.77	5.14	3.76	5.02
Medium-term	0.05	1.29	1.92	6.17
Overdues	1.22	1.51	1.92	1.76
Overdues as percentage to Demand	N.A.	10	26	N.A.
Profit (+)/Loss(—)	(—)0.09	(+)0.06	(+)0.06	N.A.

*Provisional figures

¹The source for particulars relating to the working of state co-operative banks and central land development banks given in this chapter is the *Statistical Statements relating to the Co-operative Movement in India*, published by the Reserve Bank of India, Bombay.

These particulars indicate that the overdues in the bank have been showing an increasing trend. The bank is not at present providing long-term loans to cultivators for investment in agriculture.

4. The Islands were served by 3 branches of the State Bank of India and a branch of the Syndicate Bank as at the end of 1973. The State Bank of India is the lead bank for the area. According to data available, up to March 1973, these banks did not provide any long-term loans for investment in agriculture.

Arunachal Pradesh

5. Situated in the north-eastern corner of the country, Arunachal Pradesh is a mountainous region with hills and green valleys. Formerly known as NEFA (North-East Frontier Agency) it was renamed Arunachal Pradesh in January 1972. The geographical area of the territory is 83,578 square kilometres of which the net sown area is 0.70 lakh hectares. There are 2,973 villages with a total number of 2.14 lakh cultivators. The main crop grown in the territory is paddy which accounts for nearly nine-tenths of the area. Other crops grown are millets, maize, barley, cotton, tobacco and sugarcane. Reference may be made here to an industrial potential survey undertaken in 1970 by a study team sponsored by some of the term-lending institutions and published by the Industrial Development Bank of India. Relevant extracts from the report on the survey are reproduced below:¹

....agriculture remained practically unexplored and unattended to up to 1946 and very little was known about the conditions in the interior. Even now reliable statistics are not available. There are no records of land utilization, cropping pattern, yields, production, etc.

Though the extent of area that can be brought under cultivation cannot be estimated without a proper survey, the Study Team feels that it is possible to set up a 1000 hectare farm in the foothills of Lohit District.

An approach may be made to ARC for providing finance for the above scheme. The State Farms Corporation may be approached for initiating the scheme. The Study Team is conscious of the present land tenure system (which is accepted more by custom and tradition than by official records) and would, therefore, advocate establishment of such farms in government-owned lands. The

¹*Industrial Potential Survey—Arunachal Pradesh—Report of a Study Team*, published by the Industrial Development Bank of India, 1972, pp. 20-23.

tribals at this stage may not entertain the idea of large co-operative farms.

The area under the foothills are also suitable for sugarcane.... Surveys will have to be made to locate adequate irrigation facilities for meeting the requirements of a compact area of 2000/2500 hectares....

There is good scope for horticulture in NEFA. The climatic and soil conditions favour the raising of a wide variety of fruits and vegetables. In the valley areas and foothills, tropical fruits like oranges, pineapples, bananas and pears are grown. Production of pineapples is expected to be 5,000 tonnes per annum.

The potentialities for development of animal husbandry and poultry in NEFA are, however, good taking into account the demand for livestock products from the defence personnel. Viable schemes may be sponsored in the private or co-operative sector at suitable locations such as Bomdila, Tezu and Ziro.

6. There is no apex co-operative bank in Arunachal Pradesh. The state was, however, served as at the end of June 1973 by 5 branches of the State Bank of India which is the lead bank in 5 districts, namely, Kameng, Lohit, Siang, Subansiri and Tirap. No long-term loans had been given by the State Bank of India in the Territory till March 1973 for investment in agriculture.

Delhi

7. The Union Territory of Delhi has an area of 1485 square kilometres. Out of the total population of 40.66 lakhs (1971 Census), 10 per cent or 4.07 lakhs is rural. The cultivable area in the territory forms about 52 per cent of the total and the net area sown is 0.77 lakh hectares. Wheat is the principal crop accounting for about 50 per cent of the total cropped area. Other crops grown include bajra, jowar, barley, gram, sugarcane and vegetables.

8. The Delhi State Co-operative Bank Ltd. which was established in 1953 has a separate land development banking section to provide long-term finance to cultivators. The bank started giving long-term loans from September 1963 onwards. The financial particulars in respect of the bank for the years 1969-70 to 1972-3 are given in Table 2.

The long-term loans provided by the bank have shown a downward trend from 1971-2 onwards, which is explained by the fact that

TABLE 2
DELHI STATE CO-OPERATIVE BANK LTD—PARTICULARS

				Rs Lakhs			
Item				1969-70	1970-71	1971-2	1972-3*
Paid up Capital	..	..	..	33.18	37.54	41.34	45.14
Reserve and Other Funds	..	..	..	18.34	29.03	34.28	39.61
Loans Advanced:							
Short-term	..	..	..	369.22	206.92	257.13	298.61
Medium-term	..	..	..	11.98	8.05	11.45	21.70
Long-term	..	..	..	18.82	28.10	21.17	19.63
Loans Outstanding:							
Short-term	..	..	..	215.60	234.08	256.67	272.89
Medium-term	..	..	..	67.18	67.86	69.17	76.93
Long-term	..	..	..	35.40	58.23	70.33	80.65
Overdues	..	..	..	64.53	108.90	86.91	76.24
Overdues as percentage to Demand	..	..	..	N.A.	44	34	26
Profit	..	..	..	1.55	0.73	0.07	0.47

*Provisional figures

there is a growing tendency for urbanization. Further, the union territory is served by branches of several commercial banks which are providing long-term loans to cultivators. As at the end of June 1973, the commercial banks (including the State Bank of India and its subsidiaries and nationalized banks) were having 455 branches in the union territory. The total outstandings of medium and long-term loans provided by all these banks as on 30 March 1973 amounted to Rs 180.53 lakhs.¹

Goa, Daman & Diu

9. Goa, Daman & Diu formed a separate union territory in 1963. The territory comprises 3 land blocks separate from each other. The total geographical area is 3,813 square kilometres of which about 1.33 lakh hectares are cultivated. Paddy is the main crop of the territory covering 0.52 lakh hectares. Other crops include cashewnut, coconut and fruits. There is, however, considerable potential for development of fisheries and plantation crops such as arecanut and cashewnut.

10. The Goa State Co-operative Bank Ltd. was established on 7 November 1963. The operations of the bank for the years 1969-70 to 1972-3 are given in Table 3.

¹The source for this and other figures of term loans of commercial banks for agriculture and allied activities given in this chapter is the article on "Agricultural Advances of Public Sector Banks—Analysis" published in the RBI Bulletin, April 1974.

TABLE 3
GOA STATE CO-OPERATIVE BANK LTD—PARTICULARS

	Rs Lakhs			
Item	1969-70	1970-71	1971-2	1972-3*
Paid-up Capital	13.54	14.92	16.84	19.46
Reserves and Other Funds	1.09	1.80	2.17	5.26
Loans Advanced: ..				
Short-term	59.32	99.27	125.64	124.84
Medium and Long-term	6.50	54.03	45.97	38.22
Loans Outstanding:				
Short-term	34.96	35.01	75.58	78.37
Medium and Long-term ..	27.60	51.16	61.36	70.84
Overdues	6.26	12.08	12.86	21.59
Overdues as percentage to Demand	N.A.	21	43	34
Profit	0.58	1.26	1.49	2.09

*Provisional figures

The bank started providing long-term agricultural loans only from 1968. It has so far financed cultivators to the tune of about Rs 2.00 lakhs for long-term purposes such as construction of wells, bunds, planting of coconut trees and purchase of pumpsets and oil engines. There is no proposal under consideration for setting up a separate land development bank in the territory.

11. As at the end of June 1973, the commercial banks (including the State Bank of India, the State Bank of Saurashtra and nationalised banks) had 125 branches. As on 30 March 1973, the outstandings of medium-term and long-term loans granted by these banks to cultivators stood to Rs 62.01 lakhs.

Manipur

12. Manipur is situated in the eastern ranges of the Himalayas. Formerly a union territory, it was accorded full-fledged statehood in January 1972. The state has a distinct geographical entity—a fertile valley in the middle surrounded by hills on all sides. The total geographical area of the state is 22,356 square kilometres. Out of 1.81 lakh hectares available for cultivation, the net area sown was 1.79 lakh hectares. The main crops of the state are paddy and maize. Other important crops grown are peas, mustard, chillies, bajra, sugarcane and cotton. Owing to the varied climate and high altitudes, the hills in Manipur are suitable for horticultural crops such as pineapple, orange and peaches. Reference may be made to an industrial potential survey

undertaken in 1970 by some of the term lending institutions under the aegis of the Industrial Development Bank of India. Relevant extracts from the survey report in regard to the potential for agricultural development in Manipur are reproduced below:¹

- (i) In the valley the soil is fertile, enriched by the silt deposits and is good for raising crops like paddy and sugarcane. Settled cultivation is practised in this part. The territory is self-sufficient in its staple food, viz., rice and even exports rice to the neighbouring state of Nagaland. However, the pressure on agricultural land is heavy. The present techniques of production are quite primitive. With sufficient irrigation facilities and use of modern implements and fertilizers, the territory can be developed into a rice surplus area. Shifting cultivation (jhumming) is practised in the hilly areas and hence the yields of foodgrain crops are very low.
- (ii) Paddy yields compare favourably with the all-India average, but taking into account soil conditions and other factors, they could be doubled, with improved agricultural practices.
- (iii) Until 1955, there was practically no area under systematic irrigation in Manipur. Since then, about 14,000 hectares were brought under irrigation. Studies of irrigation potential have not been made. But looking to the perennial streams throughout the territory, it is possible to make use of surface water through lift irrigation. With the availability of irrigation, multiple cropping may be possible on a wider scale.
- (iv) In the hill areas, a variety of fruits like pineapples, oranges and other citrus fruits are grown. But because of non-availability of statistics, no exact idea about the quantities can be had. There is scope for development of orchards on a scientific basis with a view to improving the quality as well as the yields of different fruits.

13. The Manipur State Co-operative Bank was established on 2 July 1956. The financial particulars in respect of the bank for the years 1969-70 to 1972-3 are given in Table 4. At present, the bank is not providing long-term loans to cultivators.

14. As at the end of June 1973, the commercial banks (including the State Bank of India and the nationalized banks) were having a total

¹*Industrial Potential Survey—Manipur, Report of a Study Team*, published by IDBI, 1972, pp. 7, 16 and 19.

TABLE 4
MANIPUR STATE CO-OPERATIVE BANK LTD — PARTICULARS

				Rs Lakhs			
Item				1969-70	1970-71	1971-2	1972-3*
Paid-up Capital	..	..	..	12.93	15.45	18.07	20.73
Reserve and Other Funds	..	..	..	4.91	7.77	9.41	12.12
Loans Advanced:							
Short-term	..	..	..	12.54	48.19	73.07	62.37
Medium-term	..	..	..	0.10	—	0.18	0.10
Loans Outstanding:							
Short-term	..	..	..	40.90	38.95	60.27	81.87
Medium-term	..	..	..	0.23	0.21	0.34	0.44
Overdues	..	..	..	36.53	34.41	40.16	55.30
Overdues as percentage to Demand	..	..	..	N.A.	82	55	92
Profit (+)/Loss (—)	..	..	..	(+)0.17	(—)0.17	(—)0.56	(+)0.68

*Provisional figures

number of 9 branches. The United Bank of India was the lead bank for the state. An amount of Rs 0.60 lakh was outstanding as on 30 March 1973 representing the medium and long-term loans provided by these banks for investment in agriculture.

Meghalaya

15. Meghalaya which became a full-fledged state on 20 January 1972 occupies an area of 22,489 square kilometres and has a population of 10.12 lakhs. Eighty-six per cent of the population lives in villages. Agriculture is the main occupation of the people and accounts for nearly four-fifths of the total working force. Out of the total area, the land available for agriculture is only 13 per cent. Paddy is the major foodcrop, other important crops being maize, jute and *mesta*. There are many orchards where fruits such as oranges, pineapples, plums and peaches are grown.

16. The Meghalaya State Co-operative Bank Ltd. was established on 16 February 1971 when the state had autonomous status within Assam. The bank's financial particulars for the years 1971-2 and 1972-3 are given in Table 5.

The bank is not providing long-term loans to cultivators. There is no proposal under consideration for setting up a separate land development bank in the state.

TABLE 5
MEGHALAYA STATE CO-OPERATIVE BANK LTD — PARTICULARS

								Rs Lakhs	
Item								1971-2	1972-3*
Paid-up Capital								17.27	22.96
Reserve and Other Funds								0.01	0.15
Loans Advanced:									
Short-term								49.40	113.06
Medium-term								3.85	0.71
Loans Outstanding:									
Short-term								22.21	84.10
Medium-term								3.38	2.38
Overdues								4.57	23.83
Overdues as percentage to Demand								84	74
Profit								0.22	0.58

*Provisional figures

17. As at the end of June 1973, the commercial banks (including the State Bank of India and nationalized banks) were having 17 branches in the state. An amount of Rs 0.31 lakh was outstanding as on 30 March 1973 representing the medium-term and long-term agricultural loans provided by these banks.

Mizoram

18. Mizo Hills District, which was set up within the state of Assam in April 1954, attained the status of a union territory in January 1972 and was named Mizoram. The total geographical area of the state is 21,087 square kilometres. The main crops grown in the territory are rice and maize. Other important crops are cotton, vegetables and tobacco.

19. There is no apex co-operative bank in the state. As at the end of June 1973, the State Bank of India had a branch in the territory at Aijal. No long-term loan had been given by the bank till 30 March 1973 for investment in agriculture.

Nagaland

20. Nagaland was made a separate state on 1 December 1963. It has an area of about 16,527 square kilometres. Only about one-fourth of the 1.00 lakh hectares of land reported under cultivation is under terraced or permanent cultivation. The rest is under *jhums* or shifting cultivation. Paddy is the main crop of the state. Other important crops

are maize, pulses, oilseeds and sugarcane. An industrial potential survey was undertaken in the state in September 1970 under the aegis of the Industrial Development Bank of India. We give below the extracts from the survey report having a bearing on the potential for agricultural development in Nagaland:¹

No survey has yet been made to ascertain groundwater potential in the state. The Study Team suggests that exploitation of groundwater potential should be given high priority.

In order to make terrace cultivation more attractive, the Study Team feels that there is need for a revision in the subsidy to a higher amount. In the alternative, the state should take upon itself the entire burden of the cost of terracing and then recover the cost over a period of seven to ten years by means of a suitable land improvement tax. If schemes for terrace construction are prepared in concentrated areas, the ARC may be approached for refinance facilities.

It has the potentiality to grow a variety of fruits and vegetables suitable for sub-tropical to temperate climate. The valleys are ideally suited for growing oranges, pineapples, bananas and pears. Financial assistance for development of viable plantation and horticultural schemes could be sought from the ARC.

There are good potentialities for the development of animal husbandry and poultry in Nagaland and viable schemes sponsored in Nagaland and viable schemes sponsored by the co-operative sector could be financed by the apex bank under refinance facilities from the Reserve Bank/Agricultural Refinance Corporation.

21. The Nagaland State Co-operative Bank Ltd. was established on 4 November 1966. Salient particulars of its working are shown in the Table 6. The Nagaland State Co-operative Bank had not provided long-term loans to cultivators according to data available up to 30 June 1973. There is no scheme under consideration for setting up a separate land development bank in Nagaland.

22. As at the end of June 1973, the State Bank of India and Allahabad Bank were having 6 branches in the state. The State Bank of India was the lead bank for the 3 districts of Kohima, Mokokchung and Tuensang. No long-term loans for investments in agriculture had been provided by these banks till March 1973.

¹ *Industrial Potential Survey—Nagaland, Report of a Study Team*, published by IDBI, 1972, pp. 18-20.

TABLE 6
NAGALAND STATE CO-OPERATIVE BANK LTD—PARTICULARS

				Rs Lakhs	
Item				1969-70	1970-71
				1971-2	1972-3*
Paid-up Capital	..	..	..	7.38	7.75
Reserve and Other Funds	..	..	..	0.09	0.97
Loans Advanced:					
Short-term	..	..	..	9.54	76.24
Medium-term	..	..	..	3.34	1.25
Loans Outstanding:					
Short-term	..	..	..	9.75	10.23
Medium-term	..	..	..	1.02	1.25
Overdues	..	..	..	1.78	3.95
Overdues as percentage to Demand	..	..	..	N.A.	79
Profit	..	..	..	0.61	0.58

*Provisional figures

Pondicherry

23. The geographical area of the territory is 480 square kilometres. Of the total cultivable area of 0.49 lakh hectares, 77 per cent or 0.36 lakh hectares are under cultivation. The main crops of the state are paddy, bajra and sugarcane.

24. Pondicherry is having a separate central co-operative land development bank which was established on 4 January 1960. The financial particulars of the bank are given below:

TABLE 7
PONDICHERRY CENTRAL LAND DEVELOPMENT BANK LTD—PARTICULARS

				Rs Lakhs	
Item				1969-70	1970-71
				1971-2	1972-3*
Paid-up Capital	..	..	..	7.57	8.13
Reserve and Other Funds	..	..	..	0.68	0.99
Loans Advanced	..	..	..	11.73	12.27
Loans Outstanding	..	..	..	37.91	47.86
Overdues	..	..	..	0.76	0.73
Overdues as percentage to Demand	..	..	..	30	24
Profit	..	..	..	0.59	0.44

*Provisional figures

The loans advanced by the bank increased from Rs 11.73 lakhs during 1969-70 to Rs 18.15 lakhs in 1971-2 but declined to Rs 10.69 lakhs during 1972-3. The bank has so far issued debentures for Rs 69.65 lakhs.

25. As at the end of June 1973, 9 commercial banks including the State Bank of India and some of the nationalized banks were having 25 branches. An amount of about Rs 66 lakhs was outstanding as on 30 March 1973 representing the medium-term and long-term loans for investment in agriculture provided by the commercial banks.

26. From the brief account given above regarding the arrangements for provision of long-term finance in the smaller states and union territories, the following points emerge:

(i) In Pondicherry, a central co-operative land development bank is functioning and it is providing long-term loans to some extent.

(ii) In Delhi and Goa, Daman & Diu, the state co-operative banks are providing long-term agricultural loans to cultivators through a separate land development banking section.

(iii) In the remaining smaller states and union territories, viz., Andaman & Nicobar Islands, Arunachal Pradesh, Manipur, Meghalaya, Mizoram and Nagaland, there were no arrangements in the co-operative banking sector for provision of long-term loans to cultivators for investment in agriculture. Out of these 6 states and union territories, in 3 states, viz., Manipur, Meghalaya and Nagaland and 1 union territory, viz., Andaman & Nicobar Islands, state co-operative banks are existing. However, in all the 6 states and union territories banking facilities are generally in the initial stages of development. The industrial potential surveys undertaken in Arunachal Pradesh and Nagaland under the auspices of the Industrial Development Bank of India have indicated that although there is scope for agricultural development in these areas, the present level of agricultural growth is very low and may not need, at present, a credit structure separately set up for providing long-term loans to cultivators.

Study of the Land Development Banking Section in the Delhi State Co-operative Bank Ltd.

27. A study of the working of the land development banking section in the Delhi State Co-operative Bank Ltd. was undertaken on behalf of our Committee with a view to assisting us in dealing with the subject of arrangements for provision of long-term agricultural credit in smaller states. The study indicated that there was no need to have a separate land development bank in Delhi. In view of the conditions obtaining in the union territory, i.e., a limited number of villages, rapid urbanization and chances for employment of cultivators' dependents in the metropolis, the state co-operative bank itself can meet the limited needs

of cultivators for long-term financing. However, the bank's overall performance has not so far been satisfactory inasmuch as the long-term loans provided by it amounted to about Rs 80 lakhs till 30 June 1973 and its overdues were as high as 45.9 per cent of the demand for 1972-3. The progress made by the bank in the matter of implementation of the production-oriented lending system was also not satisfactory.

RECOMMENDATIONS

28. In the light of the findings of the study initiated by us in regard to the arrangements for provision of long-term credit for agriculture in Delhi and taking into account the agro-economic conditions obtaining in various smaller states, we feel that in these states and union territories, it will be wasteful to have a separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture. Our specific recommendations, state-wise, are as under:

(1) In the case of Pondicherry where a central co-operative land development bank is functioning, it is observed that the loaning business of the bank has been showing a declining trend and during 1972-3, it had come down to Rs 11 lakhs. The overdues of the bank are on the increase and as on 30 June 1973 they formed 46 per cent of the demand for 1972-3. The bank's membership was less than 3,000 (individuals) as on 30 June 1973. We feel that there is no need for a separate land development banking structure in Pondicherry and necessary steps may be taken by the state government to merge the central land development bank with the state co-operative bank in order to have a unified co-operative credit structure which will be in a position to function more effectively.

(2) In the case of Delhi and Goa, Daman & Diu, the state co-operative banks are already providing long-term loans though the amounts involved are not very significant. In the case of Nagaland also, the state co-operative bank is reported to be implementing a scheme for financing sugarcane development sanctioned in 1972-3 by the Agricultural Refinance Corporation although the progress in its implementation is reported to be very slow. The bank has also not established a separate land development banking section. We suggest that all the 3 state co-operative banks, viz., Delhi, Goa, Daman & Diu and Nagaland, should be encouraged to undertake financing of the long-term credit needs of cultivators based on viable schemes of agricultural development. The concerned state governments should provide them with the necessary support, financial and administrative, in this direction. Further, the

Delhi State Co-operative Bank is having certain weaknesses such as vulnerable financial position and heavy overdues. The state government has to take suitable steps to improve the financial position and working of the bank and follow the detailed advice given by the Reserve Bank of India in the matter.

(3) In Andaman & Nicobar Islands, Meghalaya and Manipur, state co-operative banks have already come into existence, but they are not providing any long-term loans to cultivators. These banks may be encouraged by the state governments concerned to undertake financing of the long-term credit needs of the cultivators, based on specific schemes for productive lending. Since the working of the Manipur State Co-operative Bank in particular is not satisfactory due to heavy overdues and erosion in the value of assets, the state government has to take necessary steps to strengthen its financial position and improve its operational efficiency on the lines indicated by the Reserve Bank of India.

(4) In Arunachal Pradesh and Mizoram, there are no state co-operative banks at present. The concerned state governments may consider the desirability of establishing such banks in these states. In due course, when agricultural development gains momentum, suitable steps may also be taken to enable these banks to undertake provision of long-term loans for agriculture.

29. In the case of all the smaller states and union territories referred to above for which we have recommended that either the existing state co-operative banks should be encouraged by the governments to take up the provision of long-term credit for agriculture or new state co-operative banks, when set up, should undertake the provision of long-term credit also, it will be necessary to ensure the necessary legal framework as well as other prerequisites referred to below, in order to facilitate the working of these arrangements on satisfactory lines:

(1) Separate Land Development Banking Section

30. State Co-operative Banks in Delhi and Goa are already having a separate land development banking section but the state co-operative banks in Andaman & Nicobar Islands, Manipur, Meghalaya and Nagaland do not have a separate land development banking section. As the provision of long-term loans by these banks gathers momentum, we recommend that these banks also should have separate land development banking section.

(2) *Legal Framework*

(a) By-laws

31. The by-laws of the state co-operative bank should have specific provisions for: (i) giving long-term loans for periods up to 25 years for investment in agriculture or allied activities; (ii) security to be obtained for these loans; (iii) raising of resources by floating debentures or by way of loans; (iv) creation of sinking fund for amortization of debentures; (v) powers to the Board or Committees for sanction of long-term loans and (vi) having a trust deed stipulating conditions for issue of debentures.

(b) Co-operative Societies Act

32. The Co-operative Societies Acts should provide for: (i) issue of long-term loans by the state co-operative bank for agricultural development; (ii) the period of such loans; (iii) issue of debentures by the bank on government guarantee for repayment of the principal and payment of interest thereon; (iv) appointment of the Registrar of Co-operative Societies as the Trustee for debentures to be issued and his power; (v) simplified procedure for public enquiry for verification of the title to land; (vi) assistance to be given by the revenue authorities for issue of non-encumbrance certificate, etc.; (vii) specific powers to the bank for proceeding against the defaulting cultivators for recovery of loans; (viii) right of the bank for acquiring ownership of land in satisfaction of its dues; (ix) sale of land by the bank; (x) procedure for mortgage of land for bank's loans and non-applicability of certain provisions of the Transfer of Property Act, 1882 such as disposal of property by the bank without intervention of the courts and acquisition of the land by the bank in satisfaction of its dues; (xi) precedence of recovery of the bank's dues over all other loans (except the dues to the government) and (xii) power of the bank for recovery of its dues from the crop in the case of tenant cultivators and of cropsharers before all other claims.

(3) *Exemption from the requirements of the Banking Regulation Act and the Reserve Bank of India Act*

33. In the case of a scheduled state co-operative bank, section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and section 42(1) of the Reserve Bank of India Act, 1934, are relevant. They provide for maintenance of liquid assets and cash reserves according to specified norms in respect of all outside liabilities. Similarly, in the case of a non-scheduled state co-operative bank,

sections 18 and 24 of the Banking Regulation Act *ibid* are applicable in this regard. These require maintenance of cash reserves and liquid assets in respect of all outside liabilities which will include debenture liability also. In the case of the Delhi State Co-operative Bank, the Government of India, on the recommendation of the Reserve Bank, have exempted the bank in terms of Notification No. F.8/3/74-AC dated 27 April 1974 from the requirement regarding maintenance of liquid cover and cash reserves on account of the debenture liability for a period of 5 years from the date of publication of the Notification in the Official Gazette, as the bank is already maintaining a sinking fund for the amortization of debentures. The banks in other states which take up long-term financing should, therefore, seek exemption from the statutory requirements referred to above in respect of debenture liability, if they maintain sinking fund for amortization of debentures. They have to approach the Registrars of Co-operative Societies in this matter so that the Registrars in turn can move the Reserve Bank for initiating suitable action to get such exemption from the Government of India.

(4) *Interim Accommodation*

34. There should be arrangements either with the state government or with the State Bank of India or other banks to provide interim accommodation to the state co-operative bank for enabling it to issue loans for collecting mortgages against which it can float debentures.

(5) *Policy and Procedure for Sanction of Loans*

35. The Board of the bank should frame, for the use of the land development banking section, detailed policy and procedures for sanction of loans taking into account the instructions on the subject issued by the Reserve Bank of India, the Agricultural Refinance Corporation and the Co-operative Department. Care will have to be exercised while preparing the various forms and accounting procedures to ensure that these provide for proper methods for appraisal of loan proposals. At the same time, the procedures should be simple enough to ensure that the entire process from receipt to sanction of loan applications is quick.

(6) *Close Link between Bank and State Government*

36. There should be close link between the state co-operative bank and the various government departments dealing with agriculture and

horticulture, animal husbandry, fisheries, co-operation and finance and bodies such as the state electricity board and state groundwater directorate/board. In order to ensure co-ordination, a senior officer of the government should act as the convener of the state level committee to be constituted for ensuring flow of institutional finance for agricultural development in the state.

(7) *Personnel*

37. The land development banking section should have adequate organizational arrangements for various items of work such as preparation of schemes, canvassing of loan applications, economic and technical appraisal of loan proposals, supervision over utilization of loans, recovery of loans and maintenance of accounts. One of the senior officers of the bank having general training in land development banking and especially in project formulation and appraisal methods should be in charge of the land development banking section. He will work under overall control of the managing director or general manager/secretary of the bank.

(8) *State Aid*

38. Apart from the assistance to be provided by the state government on the lines referred to earlier, its aid will also be necessary in respect of the following:

- (a) Long-term loan of Rs 5 lakhs to Rs 10 lakhs to the state co-operative bank to enable it to commence long-term lending.
- (b) Continuing guarantee for the debentures to be floated by the bank for raising resources.
- (c) Guarantee for interim accommodation required by the bank and other guarantees, if any, required to facilitate grant of loans to small farmers.
- (d) Subsidy towards the cost of the additional staff maintained by the bank for undertaking provision of long-term finance to cultivators till it develops adequate business to earn enough for maintenance of the additional staff.
- (e) Assistance from the revenue authorities to the bank's staff in obtaining non-encumbrance certificates, verification of the title to lands and for registration of mortgage of lands and also in effecting recoveries by coercive means.

CHAPTER 5

LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

THIS chapter deals with our observations and recommendations on item (ii) of our terms of reference which requires us to:

examine the position of the co-operative land development banks in Assam, West Bengal, Bihar, Orissa, Rajasthan, Jammu & Kashmir and such other less advanced states and suggest steps for strengthening them, including financial and other assistance from the government and the Reserve Bank.

As regards such other less advanced states, we considered it necessary to treat three more states, viz., Himachal Pradesh, Madhya Pradesh and Tripura as belonging to this category. Thus, the position of banks in 9 states was to be examined by our Committee and recommendations were to be made for their reorganization. As stated in Chapter 1, our Committee had constituted Study Teams for examining the working of the banks in each of these states. Subsequently, we had detailed discussions on the more important of the observations and suggestions made by these Study Teams, with the representatives of land development banks and the concerned state governments. Details regarding the working of land development banks in each of the 9 states are given in Annexures 7 to 15. The detailed reports of the Teams, as edited and abridged, are given separately as Appendixes in a separate volume. Before dealing with our recommendations it is necessary to refer to the general position of the working of the land development banking structure in these 9 states.

GENERAL POSITION

(i) *Limited Coverage of Cultivating Households*

2. Data relating to coverage of cultivating households by land development banks are given in Table 1.

The proportion of cultivating households covered by the land development banks in all the 9 states is extremely limited although most of the banks have been in existence for over a decade or even longer,

TABLE 1
COVERAGE OF CULTIVATING HOUSEHOLDS BY LAND DEVELOPMENT BANKS

State	Cultivating Households (thousands) (1961)	Membership (individuals) of PLDB/CLDB (1973) No.	Percentage of Cultivating Households covered by the Membership of Land Develop- ment Banks
Assam	1490	9,182	0.6
Bihar	5690	1,06,488	1.9
Himachal Pradesh	475	6,345	1.3
Jammu & Kashmir	475	25,790	5.4
Madhya Pradesh	4175	1,43,919	3.4
Orissa	2385	90,786	3.8
Rajasthan	2545	1,07,456	4.2
Tripura	140	1,543	1.1
West Bengal	3005	37,528	1.2
All-India	46,930	39,76,826	8.5

Source: Census of India 1961, Vol. I; Part III (i) and (iii)—Household Economic Tables and Statistical Statements relating to the Co-operative Movement in India, 1972-3.

e.g., over three decades in the case of Orissa. There are several reasons for the poor coverage of the cultivating population by land development banks in the less advanced states. The more important of these are: (a) inadequate staff for extension work; (b) restrictions on the right to mortgage lands in the case of members of the scheduled castes and tribes; (c) legal restrictions on the free sale of land; (d) absence or incomplete nature of the records of title to lands; (e) procedural delays in sanction of loans by banks; (f) provision of *taccavi* loans or loans for development of horticulture, etc., to cultivators directly by the state governments in some of the states, viz., Himachal Pradesh, Jammu & Kashmir, Assam and West Bengal and (g) lack of necessary initiative and drive on the part of the board of directors and the staff in the banks.

(ii) *Weak Capital Structure*

3. Table 2 gives the position of owned funds, i.e., share capital and reserves of the land development banks in the 9 states.

4. The capital base of even the central land development banks in all the 9 states except Bihar and Madhya Pradesh was very weak despite substantial contribution by the concerned state governments. The share capital owned by the state governments as a proportion of the total share capital of the banks varied from 29 per cent to 70 per cent. It was over 30 per cent in the case of as many as 8 banks. For all the central land development banks except those of Madhya Pradesh and to some extent Orissa, the statutory reserve fund and other

TABLE 2
OWNED FUNDS OF LAND DEVELOPMENT BANKS AS ON 30 JUNE 1973

State	Central Land Development Banks				Primary Banks				
	Total paid-up Share Capital	Share Capital contributed by the State Government	Reserves	Owned Funds (cols. 2+4)	No.	Paid-up Share Capital	Reserves	Owned Funds (cols. 7+8)	Owned Funds per Bank
1	2	3	4	5	6	7	8	9	10
Assam	17	11 (65)	1	18	16	10	2	12	1
Bihar	299	85 (29)	11	310	—	—	—	—	—
Himachal Pradesh	19	8 (42)	1	20	1	3	—	3	3
Jammu & Kashmir	28	10 (36)	—	28	—	—	—	—	—
Madhya Pradesh ..	247	135 (55)	41	288	43	339	21	360	8
Orissa	127	59 (46)	22	149	55	127	5	133	2
Rajasthan ..	143	55 (31)	13	156	35	177	6	183	5
Tripura	2	2 (70)	—	2	—	—	—	—	—
West Bengal ..	85	55 (65)	3	88	21	49	11	60	3

Figures in brackets indicate the percentage to the total paid-up share capital.

reserves were also relatively meagre. Thus the position regarding owned funds of the central land development banks was generally very weak and consequently their capacity to absorb the impact of overdues was severely limited. The studies undertaken in connexion with our work have revealed that in the case of the central land development banks in Assam, Himachal Pradesh, Tripura and West Bengal the owned funds have been substantially eroded on account of heavy overdues and in the case of Assam, Himachal Pradesh and West Bengal, due also to the substantial contribution from their owned funds which had to be made towards sinking funds because of poor recoveries. Such a situation affects the profits of these banks and also their capacity to raise resources.

5. In the case of primary land development banks, the average owned funds per bank worked out to an insignificant figure in the case of all the states, varying from about Rs 1 lakh in the case of primary

banks in Assam to Rs 8 lakhs for banks in Madhya Pradesh. Thus, the primary banks have hardly any capacity to absorb heavy overdues which most of them are having. In several instances, the primary banks have become almost dormant. A weak capital structure, coupled with heavy overdues, results ultimately in default by the primary banks in making repayments to their apex institution. The cumulative effect of defaults by several primary banks is the shortfall in recoveries at the level of central land development banks which, in turn, will necessitate contribution to be made from their own resources towards their sinking funds. Such a situation is being faced in an acute manner by the central land development banks in at least three states, viz., Assam, Himachal Pradesh and West Bengal.

(iii) *Poor Performance in Raising Resources*

6. The details regarding the programmes for ordinary debentures approved by the Reserve Bank of India and of the actual floatations during the last three years by the central land development banks are given below:

TABLE 3
ORDINARY DEBENTURES FLOATED BY CENTRAL LAND DEVELOPMENT BANKS

Rs Lakhs									
State	Debenture Programme			Total for 3 years	Debentures Floated			Total for 3 years	
	1971-2	1972-3	1973-4		1971-2	1972-3	1973-4		
Assam	20	20	30	70	20	10	—	30	
Bihar	650	875	1235	2760	731	1121	824	2676	
Himachal Pradesh ..	50	45	45	140	38	17	—	55	
Jammu & Kashmir ..	50	55	65	170	27	59	36	122	
Madhya Pradesh ..	650	1020	1375	3045	551	601	716	1868	
Orissa	500	450	615	1565	293	211	271	775	
Rajasthan	320	380	380	1080	296	210	166	672	
Tripura	—	10	20	30	—	—	—	—	
West Bengal	200	270	290	760	94	90	72	256	

During 1971-2 to 1973-4 the Tripura Central Co-operative Land Mortgage Bank did not float any debentures. The Assam and Himachal Pradesh banks have not floated any debentures during 1973-4. In the remaining states, with the exception of Bihar, where the performance of the bank was relatively satisfactory, viz., Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan and West Bengal the banks failed to achieve the targets for floatation of ordinary debentures during 1973-4, and were thus unable to even utilize fully the support assured by various institutions for their debentures. If we exclude Bihar and Madhya Pradesh, the total amount raised by floating ordinary debentures during the period of three years, viz., 1971-2 to 1973-4 by the banks in

the 7 remaining states varied between Rs 0.30 crore and Rs 7.75 crores, which is an insignificant amount considering the scope for agricultural development in these states.

7. The main reasons for this unsatisfactory performance are : (a) failure on the part of the banks to rationalize their loan policies and procedures in order to reduce delays in processing and sanctioning loan applications; (b) inadequate staff for undertaking appraisal of loan proposals; (c) lack of arrangements for identifying new items of investment; (d) lack of co-ordination between the banks and the Agriculture and Horticulture Departments of the state governments and (e) lack of interest and initiative on the part of the board of directors and the staff of the banks in enrolling more members, particularly small farmers and making determined efforts to bring them within the banks' lending operations.

8. The performance of the banks in all the states except to some extent in Bihar, Madhya Pradesh and Rajasthan in availing themselves of refinance from the Agricultural Refinance Corporation is also unsatisfactory. The details regarding the number of schemes of agricultural development sanctioned, the total financial outlay involved and the total refinance availed of from the Agricultural Refinance Corporation since its inception in 1963 are given below:

TABLE 4
REFINANCE AVAILABLE OF BY THE CENTRAL LAND DEVELOPMENT BANKS FROM THE
AGRICULTURAL REFINANCE CORPORATION

State							Rs Lakhs	
							No. of Schemes sanctioned by ARC up to 30 June 1974	Total Financial Outlay involved
Assam	..	..	..	..	..	..	1	5
Bihar	..	..	..	..	..	..	12	3813
Himachal Pradesh	..	..	..	..	..	..	1	39
Jammu & Kashmir	..	..	..	..	..	..	4	138
Madhya Pradesh	..	..	..	..	..	..	90	5918
Orissa	..	..	..	..	..	..	14	627
Rajasthan	..	..	..	..	..	..	38	2477
Tripura	..	..	..	..	..	..	—	—
West Bengal	..	..	..	..	..	..	13	297
								18

The banks in Assam and Tripura have not so far taken any advantage of the refinance facilities provided by the Agricultural Refinance Corporation. The banks in Himachal Pradesh, Jammu &

Kashmir, Orissa and West Bengal have floated debentures for insignificant amounts under the ARC-refinanced schemes. According to ARC's Annual Report for 1973-4, the refinance availed of by the central land development banks in these 9 states amounted to Rs 26 crores constituting only 9 per cent of the total refinance provided by it to all the central land development banks in the country since the ARC's inception in 1963, despite the fact that the Corporation has been assisting, through its Consultancy Services and Regional Offices, the banks in Assam, Bihar, Orissa, Tripura and West Bengal in the formulation of suitable schemes of agricultural development.

(iv) *Low Level of Loaning Operations*

9. Table 5 gives details regarding the loans disbursed to individuals and loans outstanding for the years 1970-71 to 1972-3 in respect of the primary banks/central land development banks in these 9 states:

TABLE 5
LOANS DISBURSED AND OUTSTANDINGS FOR THE YEARS 1970-71 TO 1972-3

State	No. of Primary Banks/ Branches of CLDB as on 30 June 1973	Loans Disbursed during			Loans Outstanding as at the end of		
		1970-71	1971-2	1972-3	June 1971	June 1972	June*
							1973
Assam	16	13	10	16	41	49	62
Bihar	87	688	947	1219	1454	2305	3356
Himachal Pradesh	13	39	35	13	129	160	167
Jammu & Kashmir	20	53	50	65	201	240	290
Madhya Pradesh	43	575	765	1227	2071	2643	3625
Orissa	55	436	248	281	1290	1474	1627
Rajasthan	35	486	345	248	1187	1418	1658
Tripura	1	—	—	—	4	4	4
West Bengal	23	(0.44) 123	(0.09) 82	(0.36) 83	474	521	554

*Provisional figures

The maximum amount disbursed by any of the banks during the period 1970-71 to 1972-3 in all these states did not exceed Rs 13 crores. If we leave out Bihar and Madhya Pradesh, the maximum amount lent during any year between 1970-71 and 1972-3 was less than Rs 5 crores. The average amount lent by a primary bank/branch of the central land development bank during the year 1972-3 was Rs 1 lakh and less in Assam, Himachal Pradesh and Tripura, above Rs 1 lakh and up to Rs 5 lakhs in Jammu & Kashmir, Orissa and

West Bengal, above Rs 5 lakhs and up to Rs 15 lakhs in Bihar and Rajasthan and above Rs 15 lakhs in Madhya Pradesh (Rs 28 lakhs). The average outstanding in these states as on 30 June 1973 worked out to Rs 41 lakhs as against the All-India average of Rs 61 lakhs.

10. The poor performance of land development banks in the matter of provision of long-term credit is reflected in the following details regarding the number of cultivators who were given loans:

TABLE 6
NUMBER OF CULTIVATORS FINANCED BY LAND DEVELOPMENT BANKS DURING 1972-3

State	No. of primary banks/branches of central land development bank as on 30 June 1973	1972-3	
		No. of cultivators financed	Average per bank/branch
Assam	16	425	27
Bihar	87	23899	275
Himachal Pradesh	13	471	36
Jammu & Kashmir	20	2655	133
Madhya Pradesh	43	31164	725
Orissa	55	9323	170
Rajasthan	35	11297	323
Tripura	1	13	13
West Bengal	23	2805	122

The average number of cultivators financed by a primary bank or branch of the central land development bank varied from 13 to 725 during 1972-3. This is very low.

11. The Report of the Working Group on Co-operation for Formulation of the Fifth Five Year Plan (1973) has observed that, on the basis of the long-term loans outstanding as on 30 June 1971, the All-India average investment of long-term credit provided by central land development banks works out to Rs 46 per hectare. As against this, the average outstandings per hectare in the case of the central land development banks in these 9 states is less than Rs 30. Loans outstanding per hectare in respect of the central land development banks in each of these states are given in Table 7.

12. The position has not changed much during the subsequent years inasmuch as on the basis of outstandings of long-term loans as on 30 June 1973 the average outstanding per hectare in the case of the central land development banks in these states was still less than Rs 30. From this, it is clear that the extent of financial assistance provided by the land development banks for enabling cultivators to make investment

TABLE 7
LOANS OUTSTANDING PER HECTARE

State	Loans outstanding per hectare as on 30 June 1971 Rs
Assam	2
Bihar	17
Himachal Pradesh	24
Jammu & Kashmir	28
Madhya Pradesh	11
Orissa	21
Rajasthan	9
Tripura	2
West Bengal	8

Source: *Report of the Working Group on Co-operation* (Fifth Five Year Plan) published by the National Co-operative Union of India, New Delhi, p. 65.

in agriculture in these states is miserably poor. The main reasons for this poor performance as seen from our Study Teams' reports are operational weaknesses of the banks, failure on their part to rationalize their loan policies and procedures and to have adequate staff for appraisal of loan proposals and lack of determined efforts on the part of the banks' boards of directors and staff to extend long-term credit to eligible cultivator-members, especially small farmers.

(v) *Rising Trend in Overdues*

13. The position of overdues at the primary level in the long-term co-operative credit structure in the 9 states has been showing a disquieting trend, as is illustrated by the following table:

TABLE 8
OVERDUES IN LAND DEVELOPMENT BANKS AGAINST INDIVIDUAL MEMBERS

State	Rs Lakhs					
	Overdues as on			Overdues as percentage of demand		
	30-6-71	30-6-72	30-6-73	30-6-71	30-6-72	30-6-73
Assam	3	4	6	68	70	72
Bihar	59	63	123	32	39	42
Himachal Pradesh	9	17	27	49	69	84
Jammu & Kashmir	2	3	5	18	30	31
Madhya Pradesh	120	145	175	38	49	47
Orissa	53	88	135	46	55	54
Rajasthan	46	102	161	36	48	53
Tripura	—	—	1	58	65	81
West Bengal	(0.33)	(0.41)	(0.51)	39	55	61
West Bengal	39	55	61	56	63	57

In Assam, Himachal Pradesh, Tripura and West Bengal the overdues as on 30 June 1973 had reached alarming proportions. The reports of the Study Teams have stated that the prevalence of overdues is due mainly to lack of adequate arrangements for supervision over utilization and recovery of loans. This situation has stood in the way of the primary banks getting the state governments' contribution towards their share capital and also in getting full refinance from their apex financing institutions.

(vi) *Viability of Banks*

14. On the basis of the assessment made by the Study Teams regarding the viability of primary banks/branches of the central land development banks, the following position has emerged:

TABLE 9
POSITION REGARDING VIABILITY OF PRIMARY BANKS/BRANCHES OF THE CENTRAL
LAND DEVELOPMENT BANKS

State	No. of primary banks/ branches of central land development bank	No. of primary banks/branches of central land development bank considered as		
		Viable	Potentially viable	Non- viable
Assam	16	2	2	12
Bihar	87	37	32	18
Himachal Pradesh	1 Primary 13 Branches*	—	1	—
Jammu & Kashmir	20	8	3	9
Madhya Pradesh	43	9	16	18
Orissa	55	10	28	17
Rajasthan	35	24	3	8
West Bengal	21 Primaries 2 Branches	9	3	11

*Viability of branches was not assessed

The various assumptions made by the Study Teams while assessing the viability of primary banks and branches of the central land development banks generally conform to the various norms followed for the studies undertaken by the Reserve Bank of India. These assumptions briefly are: (a) projection of figures relating to loaning business over a period of 3 years and (b) margin of profit at the rate of 1 to 2 per cent on the lendings, so that earnings would be adequate to meet the expenditure on the required staff, premises, etc., as well as build up reserves and declare a reasonable rate of dividend to the members.

15. The position of profit or loss in the primary banks in 6 states, viz., Assam, Himachal Pradesh, Madhya Pradesh, Orissa, Rajasthan and West Bengal where there is a federal structure of land development banking is shown below :

TABLE 10
POSITION OF PROFIT/LOSS IN PRIMARY BANKS DURING 1972-3

State	Rs Lakhs			
	Profit		Loss	
	No. of Banks	Amount	No. of Banks	Amount
1	2	3	4	5
Assam	8	0.20	8	0.58
Himachal Pradesh	1	0.08	—	—
Madhya Pradesh	35	18.32	8	2.63
Orissa	46	15.71	9	2.82
Rajasthan	31	8.60	4	1.22
West Bengal	13	8.37	8	1.69

It will be seen that most of the banks in these states except in Madhya Pradesh, Orissa and Rajasthan were working at a loss. Even in the case of the banks working at a profit in Rajasthan and Orissa, this position was not real because they were taking overdue interest to the profit without making provision therefor.

16. The central land development banks in five states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal worked at loss during 1972-3. In the case of the central land development banks in Assam, Tripura and West Bengal there were heavy accumulated losses as on 30 June 1973, amounting to Rs 2.21 lakhs for the Assam bank, Rs 0.55 lakh for the Tripura bank and Rs 25.25 lakhs for the West Bengal bank (as on 31 March 1973).

17. Even the central land development banks in Bihar and Orissa would not have shown profits had it not been for the subsidies and grants towards the cost of staff provided to the banks by the concerned state governments.

The foregoing account shows that the central land development banks in 7 out of 9 states, viz., Assam, Jammu & Kashmir, Himachal Pradesh, Rajasthan, Orissa, West Bengal and Tripura are extremely weak institutions.

(vii) *External Factors*

18. We have referred in the previous paragraphs to the various deficiencies in the working of the land development banks in Assam,

Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal. Apart from various internal weaknesses in the structure of land development banking which have contributed to the relative failure of the structure in most of these states, there are certain external factors which have impeded their progress. These are briefly referred to below:

(a) *Natural Calamities*

19. According to the Study Teams' reports, one of the reasons for the rising trend in overdues was the continued drought in Bihar, Madhya Pradesh, Orissa and Rajasthan. While large parts of Rajasthan and parts of Bihar are susceptible to frequent droughts, certain parts of Assam, Bihar and West Bengal have recurring floods. Similarly, the coastal areas of Orissa and West Bengal suffer almost every year from cyclones or tidal waves. To a certain extent, areas affected by natural calamities offer limited scope for agricultural development.

(b) *Scheduled Castes and Tribes*

20. Table 11 gives data relating to the proportion of scheduled castes and scheduled tribes to the total population in the 9 states dealt with in this chapter:

TABLE 11
DISTRIBUTION OF SCHEDULED CASTES AND SCHEDULED TRIBES

State	Percentages		
	Proportion of Scheduled Castes to total Population in the state	Proportion of Scheduled Tribes to total Population in the state	Proportion of Scheduled Castes and Tribes to total Population in the state
Assam	6.1	12.8	18.9
Bihar	14.1	8.8	22.9
Himachal Pradesh	22.2	4.1	26.3
Jammu & Kashmir	8.3	—	8.3
Madhya Pradesh	13.1	20.1	33.2
Orissa	15.1	23.1	38.2
Rajasthan	15.8	12.1	27.9
Tripura	1.3	28.9	30.2
West Bengal	19.9	5.7	25.6

Note: Worked out on the basis of data given in *India, 1974*, published by the Ministry of Information and Broadcasting, Government of India.

In Bihar, Madhya Pradesh, Rajasthan and West Bengal there are certain restrictions on the rights of scheduled castes and tribes to

mortgage lands or on the free sale of lands owned by them. These restrictions have come in the way of land development banks providing financial assistance to scheduled castes and tribes. For instance, in the Santhal Parganas area of Bihar, the central land development bank is still not in a position to give loans for investment in agriculture because of the predominance of tribals in these areas. Similar difficulties are being encountered in parts of Assam (Mikhir Hills and North Cachar Hills area) and West Bengal (Malda, Purulia and Darjeeling Districts).

(c) *Low Level of Agricultural Development*

21. The level of agricultural practices obtaining in an area, pattern of land utilization and extent of available irrigation facilities have a close bearing on the working of the credit structure. Some particulars in this regard in the 9 states, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal are indicated below:

TABLE 12
LAND UTILIZATION AND IRRIGATED AREA

State	Percentages				
	Proportion of the Area under Forests to the Total Area (1969-70)	Proportion of the Irrigated Area to the Total Cropped Area (1969-70)	Proportion of the Cropped Area to the Total Area (1969-70)	Proportion of the Fertilizer Consumption in the State to the Total in the Country (March 1972)	Proportion of Tractors in the State to the Total in the Country (December 1971)
(1)	(2)	(3)	(4)	(5)	(6)
Assam	26	21	35	0.3	1.0
Bihar	17	33	48	4.1	2.6
Himachal Pradesh ..	48	17	16	0.3	1.0
Jammu & Kashmir ..	13	39	4	0.2	0.4
Madhya Pradesh ..	33	7	46	4.5	2.9
Orissa	32	17	54	1.9	1.0
Rajasthan	4	17	42	2.7	5.3
Tripura	61	5	32	—	—
West Bengal ..	13	21	80	3.6	3.4

Source: Figures in columns 2 to 4 have been worked out on the basis of figures given in the *Times of India Directory, 1973*.

It will be seen that agriculture is still, to a considerable extent, on the traditional plane in these states although in recent years it is undergoing changes with the adoption by cultivators of the high yielding varieties programmes.

Role of Land Development Banks

22. In the previous paragraphs we have referred to the extremely feeble role played by land development banks in most of the 9 states and to some of the factors, both internal and external, which have contributed to this situation. However, much is expected of co-operative land development banks in these states in regard to the provision of long-term credit to cultivators under the Fifth Plan. This will be clear from the state-wise accounts of the working of the land development banks in these 9 states given in Annexures 7 to 15. The Working Group on Co-operation for formulation of the Fifth Five Year Plan (1973), while recognizing the deficiencies in the land development banking structure in these states, has envisaged a substantial increase in their loaning programmes under ordinary debentures as under:

TABLE 13
FIFTH PLAN TARGETS FOR ORDINARY DEBENTURES

							Rs Crores	
State							Fourth Plan Likely Achievements	Fifth Plan Targets
Assam	..	..	..	..	..	..	1.27	7.00
Bihar	..	..	..	..	..	..	35.35	77.00
Himachal Pradesh	..	..	..	..	..	..	2.14	8.00
Jammu & Kashmir	..	..	..	..	..	..	2.06	8.00
Madhya Pradesh	..	..	..	..	..	..	40.41	87.00
Orissa	..	..	..	..	..	..	28.99	62.00
Rajasthan	..	..	..	..	..	..	19.43	40.00
Tripura	..	..	..	..	..	..	0.22	2.50
West Bengal	..	..	..	..	..	..	10.40	25.00

Source: *Report of the Working Group on Co-operation (Fifth Five Year Plan)*, 1973, published by the National Co-operative Union of India, New Delhi, pp. 165-166.

23. The targets for ordinary debentures fixed for these states under the Fifth Plan envisage more than 100 per cent increase over the likely achievement during the Fourth Plan. The Fifth Plan prepared by the individual states also provide for sizeable lending programmes by the land development banks in these states, as will be seen from Table 14.

24. Out of the 9 states, 4 states, viz., Bihar, Himachal Pradesh, Madhya Pradesh and Rajasthan are already having projects approved by the International Development Association, while in Assam, Orissa and West Bengal such projects are under formulation or appraisal. In Jammu & Kashmir and Tripura no such projects are under formulation or appraisal. These projects envisage substantial financial assistance from the land development banks for enabling cultivators to make investment in agriculture as can be seen from Table 15.

TABLE 14
TARGETS OF INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT
PROGRAMMES IN DRAFT FIFTH PLAN

State	Commer- cial Banks	Land Development Banks		Others (central co- operative banks)
		Ordinary Deben- tures	Special Deben- tures	
Assam	10.00	14.00		2.00
Bihar	30.00	100.00		10.00
Himachal Pradesh	7.00	5.00		—
Jammu & Kashmir	5.00	4.00		3.50
Madhya Pradesh	52.00	140.00		35.00
Orissa	15.00	81.00		25.00
Rajasthan	55.00	60.00		10.00
Tripura	0.25	2.00	0.20	0.30
West Bengal	116.25	25.00	15.00	—

Main Source: Study Teams' Reports.

TABLE 15
IDA/IBRD PROJECTS UNDER IMPLEMENTATION/FORMULATION

State	Item of Investment.	Total Cost of the Project	IDA/ IBRD Assistance	Date of Expiry
1. Projects already Approved by IDA/IBRD				
Himachal Pradesh	Apple processing and marketing	16.13	9.75	31-12-78
Madhya Pradesh	Minor Irrigation and Incidental Land Levelling	45.20	24.95	December 1976
Bihar	Development of Markets	16.48	11.61	30-6-78
—do—	Minor Irrigation	45.00	24.00	December 1976
Rajasthan	(i) Chambal Command Area Development	9.60	4.1	30-6-81
	(ii) Linking of distributary canals, construction of road, afforestation, on-farm development including land-shaping, reclamation and lining of water courses	31.80	9.70	
II. Projects Under Formulation/Appraisal				
Assam	Pineapple Processing	3.30	—	—
Orissa	Minor Irrigation, etc.	46.83	—	—
West Bengal	—do—	30.00	—	—

25. At the instance of the concerned state governments, techno-economic surveys have been conducted in some of these states by the National Council of Applied Economic Research during the period 1958-1962 and its reports contain information regarding the scope for agricultural development. Estimates regarding investment required in agriculture given in these reports are reproduced in Table 16.

TABLE 16
ESTIMATES OF INVESTMENT REQUIRED IN AGRICULTURE AND ANIMAL HUSBANDRY

State	Rs Crores						
	Agricultural Pro-gramme	Minor Irri-gation	Land Deve-lop-ment	Horti-culture and Plan-tation	Animal Hus-bandry	Fish-eries	Others
1. Assam	173	—	—	—	—	—	—
2. Bihar*	294	—	—	—	6	1	—
3. Himachal Pradesh* ..	4	—	—	—	3	1	1
4. Madhya Pradesh ..	338	—	—	—	—	—	—
5. Rajasthan	508	—	—	—	730	1	10
6. Orissa	309	—	—	—	—	—	—
7. West Bengal	850	—	—	—	145	225	72

*Represents outlay for the Second and Third Five Year Plans

Source: Reports published by the National Council of Applied Economic Research, New Delhi.

RECOMMENDATIONS

26. The preceding paragraphs indicate that while the working of land development banks in all the 9 states, except in Bihar and Madhya Pradesh, relatively speaking, is very poor both in regard to their financial position and operational efficiency, there is large scope for agricultural development in these states for which long-term institutional finance is required. In other words, there is a yawning gap between the performance of the land development banks and what is expected of them. It is against this background that we make our recommendations. In this connexion, we considered the question of an altogether new type of credit structure especially because of the dismal record of land development banks in most of these states and the fact that the progress in the implementation of the suggestions for reform and reorganization of the banks has been very slow. We, however, feel that not only is this outside our terms of reference, but also deserves rejection because, in our view, creation of a new type of credit structure will not result in any appreciable improvement over the present position since we

believe that the co-operative credit structure itself will be able to undertake the tasks expected of it provided it is suitably reorganized or altered in certain structural aspects.

27. The feasibility of bringing in commercial banks on a large scale in the provision of long-term credit as an alternative to co-operative land development banks was also considered and in this connexion the progress made by them in these states was reviewed. The table below gives details of the loans outstanding as on 30 March 1973 on account of term loans (direct finance) provided by the State Bank of India Group and the nationalized commercial banks in the 9 states under review.

TABLE 17

LOANS OUTSTANDING ON ACCOUNT OF TERM LOANS (DIRECT FINANCE) GIVEN BY THE STATE BANK OF INDIA GROUP AND NATIONALIZED BANKS FOR AGRICULTURE AND ALLIED ACTIVITIES AS ON 30 MARCH 1973

							Rs Crores
State							Amount
Assam	..	..	..	..	..	..	0.52
Bihar	..	..	..	..	..	..	6.42
Himachal Pradesh	..	..	..	..	..	..	0.20
Jammu & Kashmir	..	..	..	..	..	..	0.08
Madhya Pradesh	..	..	..	..	..	..	8.12
Orissa	..	..	..	..	..	..	0.31
Rajasthan	..	..	..	..	..	..	10.24
Tripura	..	..	..	..	..	..	0.01
West Bengal	..	..	..	..	..	..	10.60
Total	..	..	..	..	..	..	36.50

Source: Article on 'Agricultural Advances of Public Sector Banks—An Analysis', published in the Reserve Bank of India Bulletin, April 1974.

Out of the total loans outstanding, a little more than one-half was accounted for by loans given by the banks in Rajasthan and West Bengal. The states in the eastern region, viz., Assam, Bihar, Orissa, Tripura and West Bengal accounted for only Rs 17.86 crores out of the total loans of Rs 36.50 crores. As against this total of Rs 36.50 crores, the loans outstanding of the land development banks in all the 9 states stood at Rs 111.28 crores as on 30 June 1973. The state-wise comparison of the figures of loans indicates that the commercial banks have also found it difficult to step up their loaning operations substantially in these 9 states excepting perhaps to a limited extent in Rajasthan and West Bengal. Obviously, commercial banks too are not in a position to get over the various constraints which are affecting the operations of land development banks. Moreover, the approach of commercial banks in providing long-term credit may tend to be

selective as they cannot reach thousands of small and marginal farmers without a widespread network of branches in the rural areas. Thus, the commercial banks, in our view, will also not be able to replace the land development banks in these states for a long time to come.

28. We are thus left with the hard fact that the co-operative land development banking structure in these 9 states will have to be made strong to enable it to undertake the onerous responsibilities cast upon it under the Fifth Plan. In this connexion we should like to point out that out of the 9 states under review in this Chapter, 4 states viz., Assam, Himachal Pradesh, Jammu & Kashmir and Tripura are relatively small states. Further, the working of land development banks in these states is far from satisfactory inasmuch as their financial position has been crippled considerably by heavy overdues. In the case of West Bengal also the position of the land development banks is, by and large, not satisfactory and they have ceased to give any effective support to the programmes of agricultural development in the state. The loans outstanding of the land development banks in these states is very small at a little over Rs 5 crores or below. After considering all these aspects of the matter, we see distinct advantages in an integration of the short-term and long-term co-operative credit structures being brought about immediately in 5 states out of the 9 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal. Without such a merger, the two separate structures in these 5 states do not hold any prospects of becoming strong and effective. We, therefore, recommend that in these 5 states, the state governments should immediately set up committees consisting of representatives of the banks, governments, the Reserve Bank of India and the Government of India to work out the details of the merger. We also recommend that the initiative in the above matter should be taken by the Reserve Bank of India in view of its crucial role in rural credit.

29. However, irrespective of the question of the merger, i.e., whether there is an integrated structure for both short-term and long-term credit or two separate structures, the fact remains that the internal weaknesses of the land development banking structure in all the 9 states will have to be removed without further delay. Otherwise, even if integration takes place, it will be integration of a weak structure with possibly an equally weak short-term co-operative credit structure. This is most undesirable and will, in fact, wreck the successful functioning of the integrated institution. It is, therefore, of utmost importance that without waiting for any further time, the state governments and the banks should address themselves to the task of removing

the weaknesses of the long-term co-operative credit structure in all the 9 states under review.

30. The major deficiencies in the working of land development banks in the 9 states are : a weak capital base, heavy overdues, poor management of funds and inadequate staff for appraisal of loan proposals and supervision. Schemes for removal of these weaknesses will have to provide for financial assistance by the government to the banks for strengthening the capital base of the banks and for maintenance of adequate staff, technical and others. Apart from financial assistance, the state governments should help the banks to recover the overdue loans and also remove legal and other constraints in order to facilitate their working. The banks themselves have to take various steps to tone up their working. This subject of the reorganization of land development banks in the 9 states dealt with in this chapter is set out below under the following broad topics :

- (a) Financial and other assistance from the Government of India and the state governments.
- (b) Financial and other assistance from the Reserve Bank of India.
- (c) General suggestions pertaining to all the banks.
- (d) Specific suggestions relating to the banks in each state.

(a) *Financial Assistance from the Government of India and the State Governments*

31. The land development banking structure in the 9 co-operatively less advanced states in respect of which the position has been examined in this chapter have a number of weaknesses such as heavy overdues, weak capital base to absorb overdues and defective loaning policies and procedures. As a result of heavy overdues the capacity of these banks to provide long-term loans has been affected. It is, therefore, necessary that their overdues should be brought down sharply within a short period of time. Further, there is an urgent need for improving their operational efficiency by equipping them with competent staff. It is against this background that we recommend the following two schemes for financial assistance to the land development banks in the weaker states :

- (1) Scheme for share capital contribution in central and primary land development banks.
- (2) Scheme for giving subsidies to central land development banks for improving their management cadres.

The need for these schemes and their scope are discussed below :

(i) *Scheme for Share Capital Contribution in Central and Primary Land Development Banks*

32. The overdues in the primary banks in Assam, Madhya Pradesh, Orissa, Rajasthan and West Bengal which have a federal structure of land development banking varied from 31 per cent to 72 per cent of the demand as on 30 June 1973. In the case of other states, viz. Bihar, Himachal Pradesh, Jammu & Kashmir and Tripura which have a unitary structure, the overdues against individuals varied from 31 per cent to 84 per cent of the demand as on 30 June 1973. According to the financial discipline laid down by the Reserve Bank, the advances to the primary banks and branches of the central land development banks are reduced in case their overdues exceed 15 per cent of the demand. It is, therefore, clear that in case the lending operations of land development banks in these states are to be stepped up, the position regarding overdues in the primary banks and branches of the central land development banks should be immediately improved. However, a programme for reducing overdues in the normal course in banks takes time and hence some method has to be found to help the banks in these states. It may be pointed out in this connexion that the state governments in Karnataka, Madhya Pradesh and Maharashtra have made share capital contributions from their own resources to primary banks in order to bring down their overdues to a level below 25 per cent. This has been done in compliance with one of the conditions stipulated in the agreements relating to IDA agricultural credit projects in these states for enabling the concerned primary banks to participate in project lending. However, injection of share capital by the state governments from their own resources for notional reduction in overdues at the primary level in most of the co-operatively less advanced states will pose a problem due to constraint on the resources available with the state governments. Further, the Reserve Bank does not provide loans for share capital contributions to state governments for reducing overdues in land development banks. There is also no case for any relaxation in the financial discipline introduced by the Reserve Bank in regard to regulation of advances from the central land development banks to primary banks or branches of the central land development banks on the basis of overdues at the primary level.

33. After considering all aspects we are of the view that the difficulty arising on account of heavy overdues can be got over only by adopting some *ad hoc* arrangement and this could be done only by injection of

share capital by the state government in the primary land development banks in the states which have a federal structure and in the central land development banks in states where there is a unitary structure. Otherwise there is no hope of the land development banks stepping up their current loaning operations. We recommend that the Government of India and the state governments may formulate a scheme under the Fifth Plan for injection of share capital in the primary banks and central land development banks so that their overdues are brought down on a notional basis to the level of 15 per cent. Taking into account the level of overdues at the primary level in these 9 states under review and the fact that in Madhya Pradesh the state government has already provided from its resources share capital in the primary banks, it may be necessary to have such a scheme only in 5 states out of these 9 states. These 5 states are Assam, Himachal Pradesh, Orissa, Rajasthan and West Bengal. The assistance may be provided (i) wherever a satisfactory programme is prepared for the recovery of overdue loans in the banks and (ii) there are prospects of the institution becoming viable in a reasonable period by stepping up its loaning operations. A detailed scheme may be worked out by the Government of India and the state governments concerned in consultation with the Reserve Bank.

- (ii) *Scheme for giving Subsidies to Central Land Development Banks in Co-operatively Weaker States for improving their Management Cadres*

34. Apart from the need to have adequate and competent staff for normal functions such as appraisal and supervision work, there are other spheres in regard to which staff is needed by the banks. Thus, each central land development bank should have a planning division and a technical division for enabling it to undertake on a continuing basis, formulation of suitable schemes of agricultural development and for identifying new items of investment. Moreover, there is an urgent need for having a cadre of management trainees so that in course of time these officers could take up senior positions in the banks including those of chief executive officers as also in equipping the banks with a second line of experienced officers. A reference may be made in this connexion to the scheme suggested in February-March 1973 by the Reserve Bank of India and the Agricultural Refinance Corporation to central land development banks for having management trainees. The putting into effect of these reforms will involve sizeable expenditure which the central land development banks in these states will not be in a position to bear. We, therefore, recommend that the Government of India may help the state governments to formulate a suitable scheme for giving financial assistance to central land development banks, by

way of subsidies for strengthening the position regarding management and other personnel as under:

- (i) for implementing the scheme for management trainees in the central land development banks suggested by the Reserve Bank of India and Agricultural Refinance Corporation and
- (ii) for creating a planning division and a technical division in each central land development bank.

35. The scheme may have to be extended immediately to at least 4 states, viz., Assam, Orissa, Rajasthan and West Bengal. The details of the scheme may be worked out by the Government of India and the state governments concerned in consultation with the Reserve Bank of India and the National Co-operative Land Development Banks Federation. We feel that the provision of financial assistance in the above manner will considerably help in the process of reorganization and strengthening of the central land development banks in the weaker states.

(iii) *Scheme for Assistance to Banks for retrieving their Owned Funds used for meeting Deficit in Contribution to Sinking Fund*

36. An examination of the working of the central land development banks in Assam, West Bengal and Himachal Pradesh indicates that one of the main difficulties confronted by them is in regard to making contributions towards sinking funds, especially when there has been a sharp rise in overdues over a period of years. As a result of poor recoveries, the banks have to make good the deficits in the contribution to sinking funds from their general funds which results in blocking up of their owned funds which, in turn, affects their capacity to raise resources or increase their lending operations. The causes of shortfall in recoveries are relatable primarily to poor management and not to causes such as drought or natural calamities which would justify re-scheduling of loans and postponement of contribution to sinking funds. At the same time, there is need for financial assistance to the central land development banks to help them in getting out of this difficult situation, as a part of the reorganization scheme. We, therefore, recommend that the concerned state governments should provide financial assistance by way of share capital contribution or long-term loans to the central land development banks in Assam, West Bengal and Himachal Pradesh to the extent of contributions made by these banks from their own resources to fill up their sinking funds. This would release their blocked funds and enable the banks to step up loaning

operations. The exact financial commitments on this account may be worked out by the state governments in consultation with the Reserve Bank of India.

(iv) *Scheme for Financial Assistance for Failed Wells*

37. The need for a scheme for financial assistance for failed wells arises because an infructuous investment often results in default on the part of the borrower. In Maharashtra, Karnataka and Gujarat there are schemes for providing financial assistance to borrowers in case the well for which a loan is obtained proves to be infructuous. We recommend that the state governments in the 9 states referred to in this Chapter may formulate suitable schemes for providing financial assistance to borrowers of the land development banks in case the investment proves infructuous. The scheme may be confined to investments in minor irrigation works, especially sinking of wells and tubewells.

(v) *Taccavi Loans for Long-term Investments in Agriculture*

38. In some states, especially Assam, Bihar, Himachal Pradesh, Jammu & Kashmir and Orissa, the state governments give *taccavi* loans to cultivators or provide long-term loans for development of horticulture and plantation crops. The terms and conditions of the loans provided under these schemes are relatively soft as compared with those attached to loans for similar purposes given by land development banks. To take an example, in Himachal Pradesh, the Horticulture Department gave loans for apple gardens for a period of 15 years with deferment for 5 years and the quantum of loans was Rs 750 per acre whereas under the ARC-refinanced scheme for apple orchards sanctioned to the Himachal Pradesh Central Land Development Bank during 1971-2 the period of loan was 14 years with provision for deferment of principal for 11 years and the maximum loan amount was Rs 1,500 per acre. Moreover, in the case of such loans obtained from governments, often there will not be the same pressure for repayments as in the case of loans obtained from banks. Such a situation creates two problems. First, it reduces the scope of institutional finance and, secondly, it vitiates the climate for recovery of the bank loans. In the past, various expert Committees have referred to such adverse repercussions of *taccavi* on institutional credit. For instance, the All-India Rural Credit Review Committee (1969) has observed as under:

“So far as *taccavi* funds meant for financing long-term investment are concerned, the amounts could be utilized for the purchase of

debentures of the land development banks. The state governments should not, in our opinion, impose conditions, e.g., in respect of dates of repayment and the separation of funds from this source all along the line as it might unduly restrict the freedom of the banks to deploy the funds raised from various sources. Nor is it proper that loans for the same purpose by the same institution should carry different rates of interest according to the source of funds. At the same time, with a view to ensuring that the funds go to finance those lines of investment to which the governments attach importance from the point of view of their agricultural plans, the state governments may lay down a condition that the loans advanced in the areas and for purposes specified by government should not fall short of the amounts drawn by the banks on this account.”¹

39. There are two main points emphasized by the Committee in its above recommendation: (i) *taccavi* for long-term loans should be made available through land development banks and (ii) the terms and conditions in respect of these loans when handled either by the state governments’ own departments or banks should not be different in regard to quantum, interest rate and other terms such as period of repayment.

40. We endorse the views expressed above and urge that normally the state governments should not provide long-term loans for agricultural development direct to cultivators. Even where it is considered necessary in exceptional cases for the government to give loans for agricultural development under *taccavi*, the terms and conditions for such loans should not be different from those attached to loans from land development banks for similar purpose, including matters relating to procedures for appraisal of loan proposals, period, rate of interest, etc.

41. There are a few other fields in which the state governments’ assistance is necessary to the land development banks in the 9 states under review. These are:

(i) Assistance by way of subsidy for additional staff in primary banks. It will be helpful if such assistance in the case of banks in these co-operatively less developed states is provided for a period of five years instead of for three years as at present.

(ii) Making available the services of technical and other staff from the various departments of the state governments to help the central land development banks initially to build up planning and technical divisions.

¹*Report of the All-India Rural Credit Review Committee (1969)*, published by the Reserve Bank of India, Bombay, p. 636.

(iii) Helping central and primary land development banks in the formulation of suitable schemes of agricultural development and also in identifying new items of investment in agriculture by cultivators.

(iv) Associating the extension staff in the blocks with the working of banks, especially in matters such as canvassing and preparation of loan applications, ensuring provision of short-term loans to the borrowers of land development banks, etc.

(v) Actively helping banks in effecting recoveries.

(vi) Providing government guarantee, on a continuing basis, for enabling central land development banks to float debentures.

(vii) Providing a guarantee to the State Bank of India group, commercial banks and state co-operative banks for providing interim accommodation to central land development banks.

(viii) Providing guarantee for deficit in security to facilitate financial assistance being provided by land development banks to small and marginal farmers or members of scheduled castes and tribes or crop-sharers or tenant-cultivators.

(b) *Assistance from the Reserve Bank*

42. The reports of our Study Teams on the working of land development banks in co-operatively less advanced states contain various suggestions for assistance from the Reserve Bank. These are summarized below:

(i) Relaxation in the condition regarding loans to state governments for share capital contribution in primary banks, which stipulates that only banks with overdues of less than 15 per cent of demand are eligible for it.

(ii) Relaxation or waiving of the condition in regard to regulation of advances in the areas of primary banks having heavy overdues.

(iii) Relaxation of the condition relating to floatation of rural debentures in the context of the support to the ordinary debenture programmes.

(iv) Permission to banks to give loans for repayment of old debts beyond the limit of 10 per cent of the total loans and enlargement of the list of identifiable productive purposes.

These suggestions are dealt with below, together with our recommendations:

(i) *Relaxation in the Condition for Share Capital Contribution*

43. In so far as the relaxation in the condition regarding the level of overdues for eligibility for share capital participation in primary banks

is concerned, we have suggested in a later Chapter (Chapter 8) that the Reserve Bank may adopt a very liberal attitude. In other words, the Reserve Bank may sanction loans to state governments for share capital participation in respect of primary land development banks if their overdues are even up to 50 per cent of the demand under certain conditions, i.e., (a) where a scheme for reorganization or rehabilitation is prepared to the satisfaction of the Reserve Bank and (b) the primary banks have reasonable prospects of becoming viable units in the opinion of the Reserve Bank.

(ii) *Relaxation in the Condition for Regulation of Advances by the CLDB to PLDBs*

44. As regards the condition regarding regulation of advances in the areas of primary banks having heavy overdues, the Reserve Bank is already allowing certain concessions such as exclusion of overdues arising from drought or floods if the central land development bank can prepare a concrete scheme for re-scheduling the repayment of the affected loans. Further, in the case of areas covered by Small Farmers Development Agency (SFDA)/Marginal Farmers and Agricultural Labourers (MFAL) Projects in the states of Assam, Bihar, Orissa, West Bengal, Rajasthan, Madhya Pradesh, Himachal Pradesh and Jammu & Kashmir, primary banks and branches of the central land development banks can be provided with necessary funds for financing small farmers and marginal farmers identified as such under the scheme, irrespective of their overdues. There is no justification for further relaxation in the discipline introduced in this respect. The land development banks would do well to undertake vigorous campaigns for recovery of overdue loans or to re-schedule the repayment of loans where the default is due to natural calamities as part of a scheme as advised by the Reserve Bank.

(iii) *Rural Debentures*

45. In the matter of floatation of rural debentures and collection of fixed deposits the record of the banks in all these states except perhaps Madhya Pradesh is very unsatisfactory although the targets fixed for them are very low, i.e., 2½ per cent (as against 5 per cent for other banks) of the ordinary debenture programme for the previous year. While the need for mobilizing rural savings cannot be denied, it has to be conceded that the banks which have poor coverage and low level of loaning operations or, in other words, banks which have generally failed to make a dent in agricultural financing, can hardly be expected to achieve any success in this field even if the scheme offers attractive

rates of interest. Moreover, the image of land development banks, particularly in the co-operatively weak states, is more that of lending institutions rather than deposit receiving institutions. We, therefore, recommend that the central land development banks in the eastern region states, viz., Assam, Bihar, Orissa, Tripura and West Bengal and also Rajasthan, Himachal Pradesh and Jammu & Kashmir, may be exempted from the requirement regarding floatation of rural debentures/ collection of fixed deposits even at the reduced rate of 2½ per cent of the ordinary debenture programmes.

(iv) Loans for Repayment of Old Debts

46. As regards permission to issue loans for repayment of old debts in excess of the ceiling of 10 per cent of the total loaning, the Reserve Bank has already agreed in terms of its circular letter No. ACD. LDB. 1340/D1-72/3 dated 2 March 1973 that such loans can be given in certain cases, such as in backward areas and under special schemes of agricultural development, provided these loans are tied down to on-farm investment undertaken by cultivators. Similarly, the Reserve Bank has agreed that central land development banks can suggest to the Bank new items of investment in agriculture on the basis of technical and other studies undertaken by them along with the state governments' concerned technical departments. It is for central land development banks to take the necessary initiative in the matter.

47. We now come to certain general suggestions for improving the working of the land development banking structure in all the 9 states dealt with in this Chapter, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal. This is followed by specific suggestions relating to individual states.

(c) General Suggestions Pertaining to All Banks

(i) Need for Adequate and Trained Staff

48. The central land development banks should make a realistic estimate of their requirements of staff—technical and others—for various functions such as canvassing and appraisal of loan applications, supervision over utilization of loans and recovery of loans. The necessary staff should be recruited early and given suitable training under a phased programme. The need for qualified and trained staff is all the more urgent in the land development banks in the weaker states in view of

the introduction of sophisticated procedures in respect of appraisal of loan proposals, valuation of security, etc. It is also of utmost importance that there should be adequate staff for undertaking various follow-up measures such as verification of the utilization of loans and vigorous extension work to ensure that borrowers obtain the expected benefits by adopting the proposed cropping patterns. The banks should evolve suitable procedures in matters such as verification of loan utilization by the field staff, spot checking of such verification by senior staff, disbursement of subsequent instalments after satisfactory reports regarding utilization of earlier instalments and the timing of recovery drives with the marketing seasons.

(ii) *Rationalization of Loan Policies and Procedures*

49. A reform which is long overdue relates to rationalization of loan policies and procedures on the lines suggested by the Reserve Bank. The ultimate objective should be to evolve procedures which cut down delays in sanction of loans and ensure provision of adequate loans to cultivators for undertaking the proposed developments as also in the financing of all categories of cultivators especially, small farmers. This will not only help the banks in increasing their coverage, but also in expanding their loaning business.

(iii) *Recovery of Overdue Loans*

50. The banks will have to make concerted efforts to improve the position regarding recovery of overdue loans. The causes for default in each case should be analysed and in cases where the default is due to natural calamities, the repayment may be re-scheduled if necessary, as part of a scheme, as advised by the Reserve Bank. In other cases, coercive steps should be initiated without delay and they should be followed up vigorously by the banks. The position regarding recoveries should be reviewed periodically by the boards of the banks and the performance of the staff in regard to recoveries in various regions should be constantly watched. Such periodical reviews will help the banks in taking suitable corrective steps promptly such as appointment of special staff before the situation gets out of control or in punishing staff members who are slack in recovery efforts.

(iv) *Efficient Management of Funds*

51. One of the deficiencies noticed in the working of the banks relates to maintenance of idle funds which results in loss to them. The Reserve

Bank has issued detailed instructions regarding the procedure to be followed for efficient management of funds. These imply discipline on the part of primaries in remitting or crediting the recoveries to central land development banks and strict control on the part of the latter to ensure that the primary banks are put in funds only when loans are to be disbursed by them. It will be very necessary for the banks to introduce procedures on the lines suggested by the Reserve Bank in regard to flow of funds between the central land development banks and primary banks and *vice versa*.

(v) *Co-ordination Between Various Agencies*

52. The lack of co-ordination between the banks and various departments of the state governments and other institutions such as state groundwater directorates and state electricity boards is another aspect of the working of the land development banks which needs to be rectified urgently. Further, there are no satisfactory arrangements for ensuring availability of production finance to the borrowers of land development banks. Our recommendation made earlier in para 28 for the integration of the short-term and long-term co-operative credit structures will bring about the necessary co-ordinary in this regard in the states concerned. As regards co-ordination between the central and primary land development banks and the various departments of the state governments especially those dealing with agriculture, horticulture, animal husbandry, fisheries and irrigation and bodies such as the state groundwater directorates and the state electricity boards, the state governments should activate the state and district level co-ordination committees in which the senior officers of the banks, government departments and bodies such as the state groundwater board and state electricity board should be represented.

(vi) *Introduction of the Scheme of Management Trainees and Cadres of Certain Categories of Officials*

53. The banks are depending mainly on the officers of the state co-operative departments for drawing upon personnel for the posts of chief executive officers and managers of the branches or of the primary banks. While the suitability of these arrangements as a temporary measure is not denied, they cannot be allowed to continue on a permanent basis. The need for the banks to have their own chief executive officers and also to develop a second line of management personnel should be clearly accepted by them and suitable action initiated in this direction without

¹Vide RBI circular letter No. ACD. OPR. 5087/F1-68/9 dated 28 March 1969.

further delay. In this connexion, the banks should take necessary action on the lines suggested by the Reserve Bank in its letter D.O. No. ACD. IL.4175/T9-72/3 dated 7 March 1973 for recruiting management trainees. The fact that the present level of loan business of these banks is low is no excuse for their not implementing the scheme because it is only by having qualified personnel that the banks can function efficiently and expand their operations. The banks cannot also offer the excuse of lack of resources to implement the scheme if our recommendation made in para 34 for a scheme for providing financial aid to co-operative land development banks for employment of certain categories of staff is accepted.

54. The banks will have also to take urgent steps to have suitable cadres for various categories of other officials such as managers/secretaries of branches or primary land development banks and supervisors in primary land development banks/branches.

(vii) *Higher Margin*

55. The margin retained by the primary banks/branches of the central land development banks till recently varied from 1.50 per cent to 2.75 per cent, while at the level of the central land development banks it varied from 1.25 per cent to 3.25 per cent. A reduced margin generally results in the banks' inability to undertake any staff expansion schemes. The Reserve Bank had advised the central land development banks on 16 August 1974 to charge to the ultimate borrowers, a minimum interest at the rate of 10.50 per cent on loans for identifiable productive purposes and 11 per cent per annum for non-identifiable productive purposes. A circular letter has also been issued by the Agricultural Refinance Corporation to central land development banks on 14 August 1974 allowing them to charge an average interest of 10.50 per cent on loans for minor irrigation and land development schemes and 11 per cent on loans for other schemes. The banks have, therefore, in consultation with the state government, to fix their lending rates suitably in order to have adequate margins to enable them to maintain staff of the required strength and quality.

(d) *Specific Suggestions Relating to Banks in Each State*

56. Our specific recommendations relating to banks in each state are given in the ensuing paragraphs, on the basis of the reports of the Study Teams and discussions held with the representatives of the land development banks and state governments.

1. ASSAM

(a) *Legislation*

(1) The state government may amend the Assam Land and Revenue Rules Amendment Act, 1947, so as to provide for unrestricted bidding in the sale of land under distraint and sale for recovery of co-operative dues. Pending this, the state government may stand guarantee for loans issued to cultivators in tribal belts. If, however, such measures are not preferred, the state government may contribute to a risk fund to be specifically created by the land development banks in respect of loans to tribals.

(2) The (Temporary Settled Areas) Tenancy Act, 1971 may be amended suitably so as to avoid a situation where the land development banks will be deprived of their claims over the lands offered as security by an owner cultivator indebted to the banks due to subsequent transfers of such lands to occupancy tenants free from any encumbrances.

(3) The provisions of the Assam Co-operative Land Mortgage Bank Act, 1960 may, by suitable amendments, be brought in line with the Rules framed thereunder so as to enable the land development banks to take suitable measures for recovery of the overdues. In addition, incorporation of the provisions in the Act on the lines of sections 118, 137 and 138 of the Maharashtra Co-operative Societies Act may also be considered with a view to minimizing the time involved in tracing the title and providing long-term loans for investment in agriculture and for the sale of hypotheca as arrears of land revenue, in case of default.

(4) The state government may expedite the work of land settlement. Preparation of records of rights should be completed at least within the period of the Fifth Plan.

(b) *Loan Policy and Procedures*

(5) The central land development bank may create a separate section under the charge of a senior officer to keep a continuous watch over recovery performance. He should organize well-planned recovery drives and initiate steps for taking legal action against defaulters and follow up such efforts.

(c) *Management and Personnel Aspects*

(6) Frequent changes of incumbents to the post of managing director of the central land development bank should be avoided. This post may be filled up by recruiting a suitable candidate from the open market and given orientation training.

- (7) The central land development bank should have a special officer for keeping proper control over the supervisors.
- (8) The central land development bank should constitute a technical cell with an agricultural economist and a hydrologist to start with.
- (9) Provision should be made for including a representative of the state Agriculture Department on the board of the Assam Central Co-operative Land Mortgage Bank.

2. BIHAR

(a) *Legislation*

- (1) The Santhal Parganas Tenancy Act, 1949 may be suitably amended on the lines of the amendments made in the Chotanagpur Tenancy Act, 1908 so that lands situated in the Santhal Parganas District could be transferred by simple mortgage in favour of land development banks and commercial banks.

(b) *Structure*

- (2) Fourteen branches of the bank are found to be non-viable. These branches are: Deoghar, Dumka, Sahebganj, Ranchi, Gumla, Chaibasa, Jamshedpur, Garhwa, Hazaribagh, Daudnagar, Pupri, Kharagpur, Girdih and Dhanbad. They are not able to make appreciable progress in loaning in their area of operations which are inhabited by tribals. The bank may, in future, open new branches in tribal areas only when adequate loaning business is fairly assured.

(c) *Loan Policy and Procedures*

- (3) The bank may grant long-term loans to the *adivasis* in tribal areas in order to enable them to redeem their old debts from local money-lenders, within the overall ceiling of 10 per cent permitted. Such loans should be granted only where the genuineness of past debts is certified by competent authorities of the state government and restoration of land to indebted *adivasis* is effectively assured by such authorities. These loans should be as part of an integrated scheme for agricultural development in these areas.
- (4) Out of 87 branches, in as many as 59 branches, overdues were over 25 per cent of demand as on 30 June 1973. Concerted efforts should be made to realise the overdue loans.
- (5) One of the causes for the rising trend in overdues is the successive crop failure over certain areas since 1966-7. The bank may consider

providing the facility of re-scheduling of repayment of loans in the case of borrowing cultivators affected by natural calamities in such areas as part of a scheme in this behalf.

(d) *Management and Personnel Aspects*

(6) In terms of by-law No. 34(1) of the bank's by-laws, the managing director of the bank is required to be appointed by the state government. The state government may appoint a banking expert, preferably an officer familiar with land development banking, as the managing director of the bank for a period of at least 5 years.

(7) The technical cell in the head office needs strengthening.

(8) Each branch may have a minimum complement of staff comprising a branch manager, land valuation officer, supervisor, accounts clerk, clerk-cum-typist and peon.

(9) There should be one technical supervisor in a branch which has reached a level of loans outstanding of Rs 60 lakhs. There should be a technical supervisor for two or three smaller branches having loans outstanding of less than Rs 60 lakhs.

(e) *State Aid*

(10) The execution of distraint warrants obtained by the branches of the land development bank should be entrusted to the collection squad constituted by the Co-operation Department.

(11) The state government may take early steps to strengthen the Ground-Water Investigation Organization (GWIO) so as to ensure that initially there are at least two divisions—one in North Bihar and another in South Bihar—under the charge of superintending engineers.

(12) In 16 branches of the bank where the state government has been providing the services of a branch manager, a land valuation officer, a clerk and a peon, the bank should be encouraged to have its own staff. The amount of expenditure saved by the state government on such staff may be given to the bank by way of managerial subsidy.

(13) The Co-operation Department may ensure that the audit of the bank (including all the branches) is completed within 6 months of the close of the co-operative year and the audit report is sent to the Reserve Bank of India well in time.

(14) Managerial subsidy for non-viable branches functioning in tribal areas may be provided to the bank for a period of 10 years or till they attain viability whichever is earlier instead of the present period of 3 years.

3. HIMACHAL PRADESH

(a) *Legislation*

(1) The state government may notify the Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd. and the Kangra Primary Co-operative Land Mortgage Bank Ltd. as 'bank' by the issue of a notification as provided under section 2(d)(ix) of the Himachal Pradesh Agricultural Credit Operations and Miscellaneous Provisions (Banks) Act 1973, to facilitate flow of credit for agricultural production to the class or classes of agriculturists not having rights of alienation in land or any interest therein. In the alternative, like provisions may be made in Punjab Co-operative Land Mortgage Banks Act, 1957 as extended to Himachal Pradesh.

(2) The state government may amend the Punjab Co-operative Land Mortgage Banks Act, 1957, as extended to Himachal Pradesh, in order to provide for distraint and sale of produce even when one instalment of loan is in arrears for more than 3 months.

(3) The state government may adopt suitable amendments to the Punjab Co-operative Land Mortgage Banks Act, 1957, as extended to Himachal Pradesh to facilitate quick verification of the title of hypotheca and to remove delays in registration of mortgage deeds.

(b) *State Aid*

(4) The state government may treat the outstanding balance (Rs 6.24 lakhs) of the loan of Rs 12.00 lakhs granted to the bank against the security of unencumbered mortgages as a clean loan so that mortgages to an equal extent could be released to the bank, against which it may float debentures. The state government may also consider whether it can postpone recovery of the loan for 3 years.

(5) The Agriculture Department as well as the Horticulture Department may forthwith discontinue issue of *taccavi* loans for development of land and raising of orchards. The budgetary allocations for the purpose should be made available to the central land mortgage bank on suitable terms and conditions to be settled in consultation with the bank. Similarly, the state government may pass on the Plan provisions for long-term *taccavi* loans to cultivators as long-term loans to the central land development bank.

(6) The services of the government staff may also be placed at the disposal of the land development bank for expediting the scrutiny of loan applications.

(c) *Other Aspects*

(7) A scheme for replantation of tea gardens in Kangra District may be formulated for obtaining refinance facilities from ARC.

(8) The state government may carry out surveys for identification of areas where land reclamation and levelling is possible at economic rates and draw up special schemes for assistance from ARC.

4. JAMMU & KASHMIR

(a) *Legislation*

(1) Under the Agrarian Reforms Act in the state, the ownership of all surplus lands arising from its implementation vests in the state government and there is no provision for enabling a person who has been given such surplus land to mortgage the land in favour of the land development bank for obtaining long-term loans. The Act may be suitably amended for this purpose.

(b) *Structure*

(2) The bank may reorganize its branches in such a manner that they are either viable or potentially viable and the branches so organized may have in the beginning an entire district or 2 to 3 tehsils as their area of operations. Additional branches may be organized only after the volume of business built up in the concerned area is sufficient to warrant the establishment of the branch.

(c) *Loan Policy and Procedures*

(3) The production-oriented system of lending has not been introduced by the bank. The existing procedure of fixing due dates requires to be revised as it does not allow reasonable time to the borrowers to derive benefits from the investment.

(4) The overdues of the bank are showing a rising trend. In this connexion it may be pointed out that the powers expressly vested in the land development bank and the Trustee under sections 81 and 82 of the Co-operative Societies Act as well as Rule 38(ii) of the Rules framed thereunder were not being properly exercised. The bank and the Trustee should take suitable steps in this regard.

(d) *Management and Personnel Aspects*

(5) The senior posts in the bank are presently held by the officers of the Co-operative Department. The bank should build up its own cadre of officers.

(e) *State Aid*

(6) The state government may make additional contribution to the share capital of the bank in order to strengthen its share capital base immediately.

(7) The state government may exempt the debenture transfer deed from stamp duty.

(8) Besides contributing additional share capital, the state government may provide an interest-free long-term loan of Rs. 5 lakhs with a view to serve as a cushion for overdues.

5. MADHYA PRADESH

(a) *Legislation*

(1) The state government may take urgent action for finalizing mutation cases and making the revenue records up-to-date.

(2) In order to enable *patta-holders* who have been given lands on lease by the state government to obtain loans from land development banks for land improvement and minor irrigation works, etc., the period of lease which is 5 years, may be suitably extended and such cultivators may be given a specific right to mortgage the land to the banks.

(3) Section 4 of the Madhya Pradesh Land Development Bank Act, 1966 provides that debentures may be floated by the central land development bank with the previous sanction of the state government and the Trustee. The requirement regarding permission of the state government appears to be unnecessary in view of the fact that the Trustee's permission is to be obtained for each floatation. This generally results in delay in floatation of debentures. The state government may consider making suitable amendment to the Act to do away with the state government's permission in addition to Trustee's permission.

(4) Section 10 of the Act *ibid* may be suitably amended to enable the weaker sections of the farming community like *harijans*, scheduled and backward tribes to obtain loans from the banks to clear the debts incurred for purposes at present not specified therein, and to enable them to secure on-farm investment loans.

(b) *Structure*

(5) The basis on which viability of primary banks was worked out by the Study Team are (a) projection of figures relating to loaning business over a period of 4 years and (b) margin of profit at the rate of 2 per cent on the loanings. The programme of rehabilitation which

at present covers 5 primary banks, viz., Jhabua, Mandsaur, Rajgarh, Ujjain and Vidisha on the basis of overdues, may be extended to all those banks which are considered potentially viable, viz., Barwani, Bhind, Bilaspur, Dhar, Guna, Gwalior, Hoshangabad, Jabalpur, Morena, Narsinghpur, Satna, Seoni, Shajapur, Shivpuri and Tikamgarh. The progress in the implementation of the programme may be reviewed on a quarterly basis by the central land development bank.

(6) The central land development bank may consider the feasibility of providing loans for bunding, for the storage of water for irrigation, especially in Raipur and Durg Districts where there is a keen demand for such loans. A scheme for the purpose may be prepared in consultation with the Agriculture Department of the state government.

(c) *Management and Personnel Aspects*

(7) The practice of electing honorary secretaries in the primary banks may be discontinued by suitably amending the by-laws.

(d) *State Aid*

(8) In regard to the provision of long-term credit in tribal areas, the state government may examine the possibility of channelling the credit provided under the tribal welfare scheme and other schemes through land development banks. In case a concessional rate on such loans is desired by the state government, they may provide suitable subsidies in respect of such loans representing the difference between the normal lending rate of the land development banks and the concessional lending rate.

(9) Section 8 of the Madhya Pradesh Land Development Bank Act, 1966 provides that the state government may constitute a guarantee fund for meeting losses that might arise on account of loans advanced by the bank on the security of mortgages not being fully recovered under certain circumstances. To this fund the central and primary banks are required to contribute at the rate of 2 per cent and 1 per cent respectively of their net profits every year. The central co-operative land development bank has so far made a provision of Rs 1.28 lakhs towards this fund, out of its net profits. The fund may be constituted early at the government level.

(10) The state government may consider giving assistance to the state land development bank in respect of the special staff recruited and to be recruited for the technical cell of the bank under the IDA Project.

(e) *Other Aspects*

(11) Cases for recovery under section 14 of the Madhya Pradesh Land Development Bank Act, 1966 may be prepared and issued by primary banks to the defaulters and the crops distrained well before the harvest.

(12) Progress in recovery under section 14 of the Act *ibid* should be closely reviewed by the central land development bank through its divisional offices.

(13) As the co-operative extension officers at the block level will not be able to attend to the recovery under section 14 of the Act *ibid* in addition to their normal duties, the state government may consider the question of empowering the valuers and the supervisors of the land development banks acting as distrainers in order to facilitate prompt action for effecting recoveries.

6. ORISSA

(a) *Legislation*

(1) The state government may take early steps for amending section 83-B of the Orissa Co-operative Societies Act suitably so as to dispense with the requirement regarding filing of an affidavit (obtained from the court of magistrate) by an intending borrower.

(2) In order to protect the interests of the land development banks it is necessary that the loan amount obtained for development of land should be suitably apportioned and liability thereof passed on to a person to whom surplus land is allotted under the land reforms legislation, viz., the Orissa Land Reforms Act, 1973. For this purpose, the state government may incorporate suitable provisions in the aforesaid legislation.

(3) In the case of unsurveyed and unsettled lands which are mostly in tribal areas, the state government may, with a view to ensuring adequate flow of credit to tribals, arrange for the issue of possession certificates by tehsildars and also agree to stand guarantee to the land development banks for repayment of loan instalments by the tribal members on due dates. The Orissa Co-operative Societies Act may be amended suitably to provide for grant of loans by primary banks on the strength of such possession certificates backed by the guarantee of the state government.

(b) *Structure*

(4) Out of 55 primary banks, 16 banks are considered as non-viable and 11 of these are already covered under the scheme of amalgamation

prepared by the central co-operative land development bank. The scheme may be suitably revised to cover the remaining 5 banks, viz., Gunupur, Nowrangpur, Jharsuguda, Sonapur and Udala. The central land development bank and the state government may pursue vigorous action for completing the reorganization programme as early as possible.

(c) *Loan Policy and Procedures*

(5) Early steps may be taken by the central land development bank to introduce the system of valuation of lands and for calculation of repaying capacity on the lines suggested by the Reserve Bank.

(d) *Management and Personnel Aspects*

(6) The existing staff of the central land development bank is quite inadequate to cope with its growing activities. The administrative, technical and legal departments need strengthening.

(7) The cadre scheme of key personnel has been introduced in respect of post of secretaries and accountants in the primary banks. The scheme may also cover supervisors in the primary banks.

(e) *State Aid*

(8) Pending detailed sub-soil water resources survey, the state government may arrange for *ad hoc* clearance being given by the groundwater directorate so that primary banks may advance loans to cultivators for digging of wells on the strength of such clearance.

7. RAJASTHAN

(a) *Legislation*

(1) In terms of section 43 of the Rajasthan Tenancy Act 1955, a *ghair-khatedar* can now mortgage his holding with prior permission of the district collector or any other authorised revenue officer. The powers to permit *ghair-khatedars* to mortgage their lands may also be delegated to tehsildars in order to save cultivators from travelling long distances which they are forced to do now at times for the purpose.

(2) The government may suitably amend the relevant provision in the Rajasthan Colonization (General Colony) Conditions, 1955, to the effect that the restriction imposed in section 13 of the Rajasthan Colonization Act will not be applicable to the *Khatedar* or a tenant allottee who desires to mortgage his land in favour of co-operative institutions.

(b) *Structure*

(3) The Jaisalmer District, which does not have any primary bank at present, may be served by a branch of the primary bank in the neighbouring district.

(c) *Loan Policy and Procedures*

(4) The central land development bank should take early steps to rationalize its loan policy and procedures on the lines suggested by the Reserve Bank, especially in regard to appraisal of loan proposals, valuation of security and assessment of repaying capacity of the borrowers. It should also lay down scales of financing for various items of investment taking into account the agro-economic conditions and needs of different tracts, with the assistance of the Agriculture Department.

(5) A thorough investigation of the causes of rising overdues in each primary bank should be made by the central land development bank in consultation with the Co-operation Department and the bank should formulate a plan of action with a view to harnessing the efforts of the existing staff more effectively for recovery of overdue loans. Coercive steps should be initiated by the banks against defaulters without further delay.

(6) In the case of defaults due to drought or other natural calamities the banks may provide relief to the borrowers by re-scheduling the loan instalments on the lines indicated by the Reserve Bank, if necessary based on a proper scheme.

(d) *Management and Personnel Aspects*

(7) With the orientation of lending for developmental purposes, the need for proper staffing of the central land development bank and the primary banks has acquired considerable significance and urgency. The requirements in respect of technical and other staff should be worked out by the bank on a realistic basis and early steps taken to recruit and train the requisite staff.

(e) *State Aid*

(8) Pending detailed investigations regarding groundwater resources, the state government may arrange for issue of a general clearance for a specific area by the state groundwater directorate, to enable primary banks to give loans for minor irrigation works under the ordinary lending programmes.

(f) *Other Aspects*

(9) In order to avoid loss on account of interest on idle funds, necessary steps should be taken by the central land development bank to introduce procedures on the lines suggested by the Reserve Bank of remittance of funds between the central land development bank and the primary banks and *vice versa*.

(10) The existing arrangements regarding co-ordination between the central land development bank and the various departments of the state government and other agencies such as the state electricity board have to be suitably improved, both in regard to ARG-refinanced schemes and ordinary schemes.

8 TRIPURA

(a) *Legislation*

(1) The central land development bank may amend suitably by-law No. 40 of its by-laws so as to specify all the different purposes for which loans can be granted by it.

(2) The state government may issue clear instructions to all sub-registrars to issue non-encumbrance certificates on request by the bank. The state government may also permit concessions in the payment of search fees. Further, the bank's staff may be allowed access to the land records for conducting the search regarding title to borrowers' lands.

(b) *Loan Policy and Procedures*

(3) The bank may rationalize its loan policy and procedures on the lines suggested by the Reserve Bank.

(c) *Management and Personnel Aspects*

(4) The bank should make immediate arrangements for appointing additional staff. The present manager is looking after the working of the bank on a part-time basis. The manager should be made a full-time officer of the bank.

(5) An agricultural officer and a civil engineer may initially constitute a technical cell to evaluate and draw up schemes for investment credit in agriculture.

(d) *State Aid*

(6) The state government may subsidize the entire cost of additional staff required by the bank for a period of 3 years beginning from 1973-4 by which time, it is hoped, the bank may attain viability.

9. WEST BENGAL

(a) *Legislation*

(1) The state government may incorporate in the West Bengal Co-operative Societies Act 1973, suitable provision on the lines of section 120 of the Maharashtra Co-operative Societies Act, so as to recognize mortgages in favour of land development banks created against the security of tenants' interest in land and for protecting them in the event of transfer of land by sale.

(2) The state government may make suitable provision broadly on the following lines in the West Bengal Land Reforms Act 1955 (as amended up to 8 February 1971) with a view to facilitating the working of land development banks: (a) payment of compensation of land acquired in excess of the ceiling fixed by the state government may be made to the land development banks, instead of directly to the *rai-yats* and (b) the lessees do not acquire any alienable rights over the lands leased by land development banks in the case of lands acquired by them in satisfaction of their claims.

(b) *Structure*

(3) Instead of opening 17 more primary land development banks at the sub-divisional level during the Fifth Plan period as contemplated by the state government, the pattern of organization at the primary level for some time to come, should be extension of a network of branches of the existing primary land development banks having regard to considerations of viability and proximity to borrowers to facilitate expansion of loan business and better supervision and collection of dues.

(c) *Loan Policy and Procedures*

(4) The central land development bank may encourage joint loans to a group of small farmers for wells and other minor irrigation works.

(d) *Management and Personnel Aspects*

(5) The government nominees on the board of the central land development bank should be senior officers, e.g., (a) Agricultural production Commissioner, (b) Secretary, Co-operation Department, (c) Registrar of Co-operative Societies, (d) Director of Agriculture etc.

(6) The by-laws of the central land development bank may be suitably amended so as to ensure that each branch has a branch committee consisting of about 5 directors elected by the members of the respective

branches and 2 government nominees such as the Assistant Registrar, Co-operative Societies, Deputy Director of Agriculture and Project Officer in the case of SFDA/MFAL districts.

(7) The chief executive officer of the central land development bank should be a senior officer with banking experience and should be equipped with adequate powers of control over the staff. He may be designated as the managing director and thus made an ex-officio member of the board.

CHAPTER 6

VIABILITY OF PRIMARY BANKS

THIS Chapter deals with item (iv) of our terms of reference which is reproduced below:

To suggest standards of viability for primary land development banks/branches of the state land development bank having regard to the minimum staff necessary for technical guidance, and adequate supervision and efficient administration, the necessity for maintaining reserves (including the bad and doubtful debt reserve) and payment of a reasonable dividend.

2. Various Committees and Working Groups appointed in the past have stressed the need to assess the aspect of viability before a new primary land development bank or a branch of a central land development bank is opened. For instance, the report of the All-India Rural Credit Survey Committee (1954) contained a suggestion that in the initial stages it would be preferable to open a branch of the central land development bank and later convert it into a full-fledged primary bank after sufficient loaning business had been developed. This pointed to the need for linking of the programme for opening of a new primary bank to the business potential in the area. The Rural Credit Survey Committee felt that it would be advisable first to develop the loaning business in an area which could be undertaken in a better manner or more effectively by the central land development bank through its branch rather than by a new primary bank which might not be able to employ enough and competent staff for some time. However, in the years that followed, in some states, the programme of opening of new primary banks was undertaken at times along with the opening of the central land development bank, while in other states, new primary banks were opened at the sub-divisional or block levels even when the banks at the district level had not achieved viability or their viability was likely to be affected by the opening of new banks. In the latter case, 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 programme on considerations of viability. Thus, for example, if branches of the central land development bank or primary banks are opened 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, but the opening of new primary banks or branches of the central land development bank may be sought to be justified on the ground that it is necessary to secure the help of local non-officials in providing banking facilities to the tribal population.

3. The establishment of the Agricultural Refinance Corporation 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 applications, supervision over the use of the loans and recovery of the loans in time. In several cases, the banks were not able to strengthen their staff on account of the constraint of resources and absence of a clear staffing policy and programme. This resulted in either slow progress in the schemes or various deficiencies in their implementation. In later years, the rising trend in overdues in the land development banking structure was to a considerable extent due to inadequacy of the staff for supervision in the banks.

4. The need for viability of the primary banks has assumed particular urgency in the context of the agricultural credit projects sanctioned in most of the states by the International Development Association and refinanced by the Agricultural Refinance Corporation. One of the preconditions for participation in the projects is that the banks should be viable units. Such a condition was introduced for the first time in the Agreement relating to the Tamil Nadu Agricultural Credit Project signed on 11 June 1971. The state government had decided to open or had opened a large number of new primary banks at the block level which, it was felt, might affect the viability of even the existing primary banks at the *taluka* level. This stipulation regarding viability of the primary banks which were to participate in project lending became one of the standard conditions in the Agreements executed subsequently in respect of the agricultural credit projects in other states.

STUDIES FOR ASSESSING VIABILITY

Studies made by the Reserve Bank

5. Consequent on the stipulation in the Agreement relating to the Tamil Nadu Agricultural Credit Project referred to above, the Reserve Bank undertook a study in 1971 to assess the viability of primary banks

in Tamil Nadu. Similar studies were later undertaken in 8 more states, viz., Bihar, Kerala, Madhya Pradesh, Maharashtra, Mysore (now Karnataka), Orissa, Rajasthan and Uttar Pradesh. For the purpose of these studies the loaning business of the primary banks was projected over a period of 3 years. Thus, assuming a margin of profit at the rate of 1 to 2 per cent on the lendings, the studies looked into the question whether the earnings would be sufficient to meet the expenditure on the required staff, premises, etc., as well as build up reserves and declare a reasonable rate of dividend to the members. Certain conclusions which could be arrived at on the basis of these studies may be mentioned. These are as follows:

(1) The norms for viability of the primary banks cannot be uniform for all the states.

(2) Although the period of three years for working out projections of loaning business for assessing viability of the primary banks appear to be reasonable, this period may have to be a little longer in the case of some states, especially the co-operatively weaker states.

(3) The assessment of viability of the primary banks refers to a position as on a particular period on the basis of certain assumptions. The position may undergo change should any of the assumptions go wrong or there is material alteration therein.

Study made by the National Co-operative Land Development Banks Federation

6. A reference may be made here to a study undertaken in 1966 by the Committee of the National Co-operative Land Development Banks Federation regarding the working of the land development banking structure in 6 states, viz., Assam, Bihar, Kerala, Rajasthan, Uttar Pradesh and West Bengal and certain recommendations made in 1966 by the Functional Committee on Co-operative Agricultural Credit of the National Co-operative Development Corporation. The studies made by the National Co-operative Land Development Banks Federation indicated that, for a primary bank to function efficiently, there should be a manager, an accountant, two supervisors, a clerk and two peons. The expenditure per annum was estimated at Rs 16,800 as given in the Table on page 107.

7. Assuming that a primary bank retained a margin of at least 1.25 per cent on its loans, the Federation's studies showed that a primary bank would be viable in case it achieved a loan business of Rs 15 lakhs as this gave an income of Rs 20,000 per annum. It was estimated that on the basis of an average loaning business of Rs 3 lakhs, a primary bank would take about 6 years to attain viability.

TABLE
EXPENDITURE OF A PRIMARY BANK

Post							Emoluments per Month	Total for the Year
							Rs	Rs
Manager/Secretary	..	..	..	..	..	..	300	3,600
Accountant	..	..	..	..	..	..	200	2,400
Supervisors (2) and Clerk (1)	..	..	..	..	..	..	150	5,400
Peons (2)	..	..	..	..	..	..	100	2,400
Contingencies, stationery and postage	..	..	..	..	..	..	—	3,000
TOTAL	..	..	..	..	..	..		16,800

Views of the National Co-operative Development Corporation

8. After considering the various factors mentioned above, the Functional Committee on Co-operative Agricultural Credit of the National Co-operative Development Corporation made the following recommendations in 1966 :

- (1) The land development banking structure would ordinarily require a margin of about 3 per cent to meet the overheads and other charges. Of this margin, at least 1.75 per cent should be available to a primary bank.
- (2) The minimum staff required for a primary bank for efficient servicing of its loan business would be one manager, one accountant, two supervisors, one clerk and one peon. This complement of staff would be necessary when the loan business of the bank reaches a level of about Rs 20 lakhs (outstanding). At this level of business, the bank would be in a position to incur expenditure on the staff which would amount to Rs 18,000 per year and also pay a dividend of 4 per cent. The minimum annual loaning should be about Rs 3.7 lakhs for a bank which issues 10 year loans and about Rs 2.6 lakhs for a bank which issues 15 year loans.
- (3) A primary bank should make efforts to reach the optimum level of loaning indicated above in a period of 5 years and at least maintain that level in the subsequent years.
- (4) To start with, however, a primary bank may employ a minimum level of staff depending upon circumstances.
- (5) In the initial years, during which the primary bank is not likely to be a viable unit, the state government should assist it by way of subsidies and grants towards managerial staff and overhead expenses. Such assistance should be available for 3 years on a tapering basis.

- (6) In addition, the state government should continue to make available the services of land valuation officers to the primary banks free of cost.

Views of the Working Group on Co-operation during the Fifth Plan

9. The Working Group on Co-operation for the Fifth Plan has made the following observations in regard to the norms for viability of primary land development banks :

“The existing criterion of Rs 20 lakhs investment for adjudging the viability of primary land development banks/branches of central land development banks no longer holds good and needs to be enhanced to Rs 30-35 lakhs depending on the margin available, Suitable relaxations may be allowed in the case of hilly, tribal and other difficult areas.”¹

The above criterion appears to have been worked out on the assumption that a primary bank might have to incur an expenditure of about Rs 35,000 on staff and establishment as under :

Establishment Charges		Income	
	Rs		Rs
I. Manager (1) @ Rs 500 p.m. ..	6,000	Interest and other income ..	45,000
Technical Supervisor (1) @ Rs 450 p.m. ..	5,400		
Supervisors (2) @ Rs 300 p.m. Clerks (2) and Typist (1) @ Rs 250 p.m. ..	7,200		
	9,000		
Peon (1) @ Rs 150 p.m. ..	1,800		
	29,400		
II. Rent at Rs 250 p.m. ..	3,000		
III. Other expenses ..	2,400		
	34,800		
Net profit c/fd. ..	10,200		
	45,000		45,000
Reserves ..	4,000	Net profit b/fd. ..	10,200
Dividend ..	6,000		
Profit c/fd. ..	200		
	10,200		10,200

¹Report of the *Working Group on Co-operation* (Fifth Five Year Plan) published by the National Co-operative Union of India, New Delhi, (1973), page 58.

For the purpose of the above calculations, the margin for a primary unit was assumed as 1.50 per cent. It was further assumed that a primary bank might declare a dividend of at least 4 per cent.

FACTORS RELATING TO VIABILITY

10. The terms of reference of our Committee require us to lay down norms of viability having regard to the following :

- (1) Minimum staff necessary for technical guidance, adequate supervision and efficient administration;
- (2) the necessity for maintaining adequate reserves (including the bad and doubtful debt reserve);
- (3) payment of a reasonable dividend.

These aspects are discussed in the ensuing paragraphs:

(1) Staff Requirements

11. Before we refer to the staff requirements of a primary bank, it is necessary to enumerate the important functions which the staff is required to undertake. These are broadly :

(a) Promotional role with special reference to identification of the items for which investment credit is required by cultivators in the area of operations of the bank.

(b) Canvassing of loan applications with the assistance of the local extension staff of the state government and increasing membership, especially of small farmers.

(c) Processing and appraisal of loan proposals. A proper scrutiny of loan applications will not only require verification of various particulars regarding title to land, size of landholding, etc. mentioned therein, but also examination in detail of the need for the proposed investment, valuation of land, financial outlay involved and credit requirement therefor, economics of the proposal, incremental income and repaying capacity.

(d) Follow-up action after sanction of loan, i.e., verification of the utilization of each instalment of the loan amount ensuring availability of production credit and other requisites such as fertilizers and seeds and wherever necessary, technical guidance to the borrower in adopting the proposed cropping pattern.

(e) Recovery of loans.

(f) Sale of rural debentures or collection of fixed deposits.

(g) Maintenance of proper accounts and other records.

12. From the various items listed above, it will be seen that the staff of primary banks have to perform a variety of functions which go beyond purely financial ones. A few years ago, a primary bank could manage even with a couple of land valuation officers and supervisors, because all loan proposals were sanctioned by the central institution and the work of the primary banks was confined merely to verification of the particulars furnished in the loan applications. The introduction of the production-oriented lending system and rationalization of loan policy and procedures since 1968-9 have made the work of primary banks complex and technical instead of being confined to the routine dispensation of long-term credit. Thus, apart from the verification of particulars given in the loan applications, a bank has to undertake a detailed appraisal of the proposal for investment credit which needs not only examination of the financial aspects, but also technical aspects. In order to expedite sanction and disbursement of loans, primary banks have been vested with necessary powers to sanction loan applications within specified limits. In other words, primary banks have not only to receive applications, but they have also to complete various formalities and checking procedures and put up the proposals for sanction to their boards of directors. Further, the methodology for appraisal of loan proposals has become quite complex inasmuch as a bank is required to work out the economics of the proposal; incremental income; repaying capacity of the borrower; the period which may be fixed for repayment, including longer periods for small farmers, if required; loan eligibility on the basis of incremental income after the investment is undertaken and the valuation of the land offered as security. In the case of states which have taken up implementation of IDA projects, a far greater responsibility has devolved on the banks in the matter of appraisal of loan proposals and follow-up action. For instance, in the Tamil Nadu Agricultural Credit Project, each loan proposal is required to be examined by an appraisal team comprising a technical officer, a land valuation officer and an official conversant with the methods for working out economics, etc. In other words, the concept of scrutiny of a loan proposal at the level of a primary bank has undergone a radical change.

13. It is in the context of the above that we have to decide as to what should be the minimum requirement of staff for various functions in a primary bank. This is dealt with below :

(i) *Technical Staff*

Technical staff is required for helping the bank in undertaking :

- (a) investigation for identifying the specific items for investment by cultivators;
- (b) technical appraisal of the proposal for investment in agriculture;
- (c) verification of the utilization of loans from the economic and technical aspects and
- (d) provision of technical guidance to the borrowers in carrying out developmental work such as reclamation of land and sinking of wells satisfactorily as also in adopting the proposed cropping pattern to ensure expected benefits.

14. Considering the fact that a primary bank provides financial assistance for various purposes, it may be difficult for it to have technical experts in diverse fields. Moreover, it is not possible for a primary bank to initially bear the expenditure on a large technical staff from the small margin it retains. It may, however, be possible for a bank to appoint a minimum number of technical staff after it has developed a sizeable business turnover in 3 to 4 years. For example, in Andhra Pradesh several primary banks have employed engineering graduates, meeting the cost out of their own resources. In the case of primary banks which cannot afford to appoint their own technical staff they will have to depend upon the government's technical staff. This arrangement can be supplemented with the technical staff which a central land development bank may be able to provide in due course at its zonal offices. With regard to banks which are required to maintain technical staff for the purpose of supervision over the implementation of the special schemes of agricultural development, they can either bear the cost of the technical staff fully, if they can afford it, or share the cost with the central land development bank for an interim period, i.e., until they are in a position to bear the entire cost themselves. Alternatively, the concerned state government will have to provide necessary subsidy to the primary bank for meeting the cost of the technical staff.

(ii) *Staff for Supervision and Administration*

15. The staff required for supervision and administration will comprise managerial and secretarial staff and field staff. The minimum number of staff to be engaged will depend on considerations such as the area of operation and membership, volume of business and transport facilities available. However, a primary bank will normally need a manager or secretary to be in overall charge of the bank, an accountant, one clerk-cum-typist for maintenance of accounts and secretarial work in its office and two peons. For field work, an inspector and four supervisors will be necessary.

16. The need for some of the staff, viz., manager, accountant, clerk and peon as the minimum is well established and need not be elaborated. As regards staff for supervision, it may be pointed out that the ideal arrangement would be to have supervisors at the village level and provide for some higher official who can undertake, on a regular basis, test checking of the cases verified by the village level staff. This is necessary especially because the manager's responsibilities in the office will increase since loan cases up to specified limits are to be sanctioned by the board of a primary bank. It is, therefore, necessary that a primary bank should have at least one inspector to assist the manager or the secretary in the detailed checking of the utilization of loans. This will be in addition to the test checking of loan utilization by the staff of the central land development bank in its zonal or district offices. The services of this official, viz., inspector should also be utilized for mobilizing rural savings and co-ordinating the efforts of the field staff and local government officials for recovery of loans.

17. Every primary bank should have adequate number of supervisors to enable it to undertake not only the work of appraisal and follow-up action effectively but also for schemes formulation and implementation. Apart from basic data regarding suitability of the soil, adequacy of irrigation facilities and the type of development actually needed by cultivators, details on other important aspects such as likely response of cultivators to a scheme are required to be collected by the field staff in the primary banks. The success of a scheme will depend largely on the positive response of the cultivators in the absence of which the scheme will flop or will need frequent rephrasing.

18. The size of staff for supervision will have to be decided with reference to the following considerations :

(a) A supervisor has to deal with appraisal work such as scrutiny of applications, verification of security, calculation of the economics of the proposed investment and assessment of incremental income and repaying capacity for a given number of loan cases during the year.

(b) He has to deal with a certain number of loans which are due for recovery, inclusive of earlier loans, and approach the borrowers at the right time so that there is no delay or default in repayments.

(c) He has to establish contacts with the potential investors in villages with a view to canvassing sale of rural debentures or for collecting fixed deposits for the central land development bank.

(d) The charge of a supervisor, i.e., the number of villages to be covered by him should be fixed suitably taking into account the transport facilities available in the area.

19. In the light of the various studies conducted by the Reserve Bank, it is seen that a supervisor should not be required to deal with more than about 75 new loan cases and 300 old cases. Further, the jurisdiction of a supervisor should not ordinarily exceed 15 villages. The number of loan cases to be dealt with by a supervisor may be more in the area of special schemes of agricultural development because of the compactness of the area. However, taking into account the number of villages in the area of operation of a bank, the number of new cases to be processed and the old cases to be pursued it will be necessary to have at least 4 supervisors to enable the bank to handle 250-300 new loan cases involving a total loan amount of Rs 10.00 lakhs to Rs 12.00 lakhs in a year on the basis of an average of Rs 5,000 per case.

20. On the above basis, the expenditure on the staff would work out to about Rs 35,400 per annum as under :

Category of Staff	Salary and TA for one person per month	Expenditure per year
	Rs	Rs
Manager/Secretary	500	6,000
Accountant	350	4,200
Clerk-cum-Typist	250	3,000
Inspector	350	4,200
Supervisors (4)	300	14,400
Peons (2)	150	3,600
		<hr/> 35,400 <hr/>

The above estimate has been worked out with reference to the minimum staff requirements for a primary bank. There are, however, other factors which have a bearing on the expenditure on staff. For example, in a state where the central land development bank has introduced cadres for managers/accountants/inspectors/supervisors, the salary may be slightly more than assumed above.

(2) *Provision for Reserves*

21. The Co-operative Societies Act in various states provides that co-operative societies shall carry at least one-fourth of the net profits each year to the reserve fund. In some states, there is a provision in the Act/Rules requiring co-operative societies to make contributions to the education fund or the co-operative development fund. Apart from the aforesaid funds required to be maintained under the statute, primary banks may maintain such other funds as may be considered necessary

and prescribed by the central land development bank or the state Registrar of Co-operative Societies. Other funds or reserves which may be maintained are bad and doubtful debts reserve, charity fund, common good fund, risk fund and dividend equalization fund. An examination of the balance sheets of some primary banks indicates that they are generally maintaining only two funds, viz., reserve fund and education fund. In Andhra Pradesh, Madhya Pradesh and Tamil Nadu, primary banks have started maintaining stabilization funds since 1973.

(i) *Bad and Doubtful Debts Reserve*

22. The question arises as to what the other funds are which should be maintained by primary banks and the size of the contribution thereto, besides the reserve fund which is a statutory obligation. In the context of the growing involvement of primary banks in the financing of various types of schemes and the possibility of their taking up dairy and poultry farming and similar schemes where land may not be available as security for loans, they may have to face greater risk in their loaning. Even where land is taken as security, the protection that a bank enjoys may be inadequate as sale of land in rural areas is very difficult. Primary banks in such a context may make a provision, say at $\frac{1}{2}$ per cent of the demand for a year for taking care of loans which might prove irrecoverable. At this rate, a bank having a loan business of Rs 20 lakhs as outstandings, may be required to provide Rs 1,000/- from its net profit towards the bad and doubtful debts reserve. A view may be held in this connexion that the working of the long-term credit structure is different from that of the short-term credit structure in view of the fact that all loans are secured and hence there is no need for such a provision. It has, however, to be recognized that this argument was perhaps justified in the past when the loaning operations of the banks were limited and were mainly for sinking of wells or purchase of agricultural equipment and implements or land development. The need for such an arrangement, i.e., for a bad debts reserve arises particularly in the context of the need for diversification of loaning business of primary banks and the risks attendant thereto. Moreover, constitution of such a fund will result in strengthening of the position of owned funds of the banks, thus helping the banks to some extent in absorbing the impact of overdues.

(ii) *Stabilization*

23. In the context of the increasing trend in overdues, especially due to natural calamities, it is being suggested that land development banks should also have stabilization arrangements on the lines of those obtaining

in the short-term structure for re-scheduling of loans. While formulating programmes for development of co-operatives under the Fifth Plan, the Sub-Group appointed by the Government of India for long-term credit considered a proposal for constituting stabilization funds at various levels by (a) appropriating 15 per cent of net profit, (b) transfer of interest of 3 per cent on the total amount at the credit of the fund at the beginning of the year and (c) by transfer of the amount of dividend payable over and above 3 per cent on the shareholding of the state government in central land development banks and primary banks. The Government of India circulated the above proposals among the state governments and central land development banks in July 1972, and in Andhra Pradesh, Madhya Pradesh and Tamil Nadu, it is reported that primary banks have started constituting stabilization funds out of their profits.

24. There are two questions which have to be examined in regard to the stabilization fund (i) the need for such a fund in the long-term credit structure and (ii) whether the banks would be in a position to have significant amounts in the fund by way of appropriation from their profits. The various aspects relating to the constitution of the stabilization fund have been examined in a later Chapter (Chapter 11). It would, therefore, suffice here to note that the profits earned by primary banks are generally insignificant and as such they will hardly be in a position to build up stabilization fund.

25. From the foregoing, it can be concluded that primary banks will be required to constitute the following reserves :

(a) Reserve fund at the rate of one-fourth of the net profit for each year.

(b) Bad and doubtful debts reserve at the rate of $\frac{1}{2}$ per cent of the demand for the year.

(c) Other funds such as dividend equalization fund and education fund or co-operative development fund at the rates laid down by the Registrar of Co-operative Societies of the concerned state.

(3) *Payment of Dividend*

26. The Co-operative Societies Acts in some of the states prescribe the maximum rate of dividend which may be declared by a co-operative society. In other states, this rate is to be specified by the Registrar of Co-operative Societies. In the context of the working of primary banks it may be mentioned that their profits are generally meagre. Even in the co-operatively well developed states, the dividend declared has not exceeded $6\frac{1}{4}$ per cent per annum. This has, however, been achieved

after a period of several years of growth. It would, therefore, appear that for the purpose of working out viability, payment of dividend at 4 per cent may be quite a reasonable assumption.

ESTIMATES OF INCOME AND EXPENDITURE

27. Having considered the various factors which are relevant for assessing viability of primary banks we give below the estimated requirements on account of various items as under :

Particulars	Amount	
	Rs	
Staff (As in para 20)		35,400
Establishment		
Rent	3,000	
Other Expenses	2,400	5,400
		<hr/> 40,800
Reserves: Reserve Fund, Bad and Doubtful Debts Reserve, Education Fund/Co-operative Development Fund and Dividend Equalization Fund	} To be provided out of net profit	
Dividend		

28. The margin retained by primary banks varies from 1.25 per cent to 1.75 per cent in most of the states and up to 2.5 per cent in a few others. On the assumption that a primary bank will have a margin of 1.5 per cent, it is expected to attain viability with a loaning business (outstandings) of Rs 35 lakhs as this would give an income of Rs 0.52 lakh which will enable the bank to maintain a reasonably adequate staff for undertaking various items of work as also for making provisions for various reserves and declare a modest dividend as under :

Expenditure		Income	
	Rs		Rs
Staff (As in para 20) ..	35,400	Margin of Interest on loans ¹	52,500
Rent (As in para 27) ..	3,000		
Other Expenses (As in para 27) ..	2,400		
Net profit (c/fd.)	11,700		
	<hr/> 52,500		<hr/> 52,500
Reserve Fund ..	2,900	Net Profit (b/fd.)	11,700
Bad and Doubtful Debts Reserve ..	1,700		
Dividend ..	7,000 ^a		
Profit (c/fd. to next year) ..	100		
	<hr/> 11,700		<hr/> 11,700

N.B. ¹ Margin of interest on loans is calculated at 1.5 per cent, assuming the loaning business of Rs 35 lakhs (outstandings).

^a Assuming that the share capital collected from borrowers at the rate of 5 per cent uniformly on the loan outstandings of Rs 35.00 lakhs would amount to Rs 1.75 lakhs, the dividend thereon at the rate of 4 per cent would be Rs 7,000/- (As in para 26).

There are several assumptions on which the above calculations have been made. We may refer very briefly to some of these assumptions :

Growth of Loaning Business

29. Conditions may vary from region to region in regard to the potential for investment in agriculture depending upon factors such as the agro-economic conditions and easy availability of agricultural supplies. It is generally assumed that a primary bank will be able to attain viability in a period of 3 years. But this period cannot be uniform for all the states, as much depends on the growth rate for loaning business. It will not thus be appropriate to lay down a rigid period of three years for a primary bank to attain viability. The period may vary from 3 to 5 years.

Purposes for which Loans are Given

30. In some states there may be sizeable need for investment credit for horticultural development or for plantation crops. While in other states, such credit is needed primarily for investment in minor irrigation works. In the case of loans given for plantation crops or horticultural development, provision has to be made for a suitable period of gestation. It may be necessary to postpone even the recovery of interest in the first two or three years. This will make it more difficult for a primary bank to achieve viability in a few years' time. In other words, primary banks in these areas may take a longer time—beyond even 5 years—to become viable.

Margin Retained by Primary Banks

31. As stated in paragraph 28 the margin of a primary bank varies from 1.25 per cent to 1.75 per cent in most states. For making estimates regarding the income of a bank, we have assumed a margin of 1.50 per cent. This may be even more in states where IDA agricultural credit projects are being implemented and primary banks are required to enhance their interest rates so as to allow a higher margin for assisting the banks to meet the increased expenditure incurred on appraisal and supervision work. We should like to emphasize here that the margin in the rate of interest, i.e., 1.50 per cent to 1.75 per cent at present retained by the primary land development banks is on the low side and in effect acts as a constraint on the banks maintaining adequate and competent staff. In view of the fact that the application of modern technology to agriculture has increased yields of certain crops and

agricultural prices have continued to remain high, there is a case for increasing the margins. We, therefore, suggest that the primary banks should be allowed to retain adequate margins on the rate of interest so as to enable them to employ adequate and competent staff.

NORMS FOR VIABILITY

32. It would thus be evident that the norms for viability cannot be applied uniformly for all states. Further, the norms may undergo changes from time to time. To take an example, in Tamil Nadu, the initial study undertaken by the Reserve Bank in 1971 indicated that 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 shrinkage of loaning business for minor irrigation works which is at present one of the major items of financing by land development banks or lack of positive efforts by the banks to locate alternative avenues of profitable investment.

33. Subject to the various limitations and assumptions referred to above, we are of the opinion that each primary land development bank or a branch of the central land development bank, in order to function as a viable unit, should have a minimum loan business of Rs 35 lakhs worked out as under :

A. Estimated Expenditure and Provisions of a Primary Bank/Branch of Central Land Development Bank

	<i>Amount</i>
	Rs
Cost of staff (As in para 20)	35,400
Establishment Expenses (As in para 27)	5,400
Reserves (As in para 25)....	4,600
Dividend (As in para 26)	7,000
	<u>52,400</u>

(Say, Rs 52,500)

B. Volume of Business Required to Earn Rs 52,500 at
a Margin of Profit of 1.5 per cent Rs 35 lakhs

We recommend that these norms should be followed strictly by the state government and central land development banks at least in regard

to the organization of new branches of the central land development bank and new primary land development banks. As regards existing primary banks and branches of central land development banks which do not come up to these norms, the state governments and the central land development banks should have a plan of action for bringing these banks/branches at least up to this standard within a period of 3 years. The period of 3 years is generally adequate for a primary bank or branch of central land development bank to attain viability except in areas where the growth rate in loaning business is slow because of the poor supporting facilities in the area or the predominance of scheduled castes and tribes or where the nature of agricultural financing requires a very long period of gestation.

34. While the above minimum norm, i.e., each primary land development bank or branch of the central land development bank having a loan business of at least Rs 35 lakhs at the end of 3 years has to be strictly adhered to, there might be some difficulty in complying with this requirement in certain circumstances, e.g., in areas where the growth rate for loaning operations may be slow, but potential is clearly in sight and there is need for development especially in instances where such areas are inhabited by tribal population or other weaker sections of the community. Under such circumstances we suggest that the new primary bank/branch, if set up should be provided with necessary financial and other support by the state government or by the central land development bank in order to enable it to maintain adequate staff from the very beginning itself so that it becomes viable within a period of 3 years with a loan business of at least Rs 35 lakhs.

CHAPTER 7

ROUTING OF LOANS THROUGH PRIMARY CREDIT SOCIETIES AND NEXUS BETWEEN SHORT-TERM AND LONG-TERM STRUCTURES

In this Chapter we propose to deal with items (v) and (vi) of our terms of reference which are inter-connected. These terms require us :

- (v) To examine the possibility of using primary agricultural credit societies as channels for the provision of long-term credit and in case this is considered feasible and desirable whether the societies should act as mere agents or receive funds directly from the state or primary land development banks.
- (vi) To examine the need for a closer nexus between the long and short-term co-operative credit institutions with a view to ensuring adequate production credit support to borrowers of on-farm investment credit from the long-term institutions.

These two terms of reference are dealt with in the ensuing paragraphs.

CHANNELLING OF LONG-TERM FINANCE THROUGH PRIMARY CREDIT SOCIETIES

2. At present, the broad features of the organizational set-up for dispensation of agricultural credit in various states are that there is a three-tier structure for short and medium-term loans and a two-tier structure for long-term loans. There are thus separate structures one of which provides short-term production and marketing credit and finance for meeting medium-term credit requirements up to a limit of 5 years for approved purposes such as for purchase of bullocks and milch cattle, sinking of wells and purchase of pumpsets. A separate structure meets the long-term credit needs of cultivators for development of agriculture. This pattern is generally obtaining in all the states except the smaller ones where long-term loans are also provided by the state co-operative banks.¹

3. The existence of separate structures for short-term and long-term loans creates certain problems such as over-financing or non-availability of production credit to the borrowers of land development banks. It is in this context that a question is raised as to why the village level society

¹ For details, please see Chapter 3.

cannot be used for routing long-term loans also. The entry of commercial banks in the field of agricultural financing has given this aspect greater significance as commercial banks can meet the short-term and long-term credit needs of cultivators. It is also felt that channelling of long-term loans through the primary societies will secure co-ordination between short and long-term credit structures.

Related Aspects

4. The question of feasibility of using primary agricultural credit societies for routing long-term loans to cultivators raises the following main issues :

- (a) When two separate structures have come to exist over a period of several years, is there a real need for using primary credit societies for routing of long-term loans?
- (b) Are primary credit societies suitable for the purpose of channelling long-term loans?

These two issues are discussed below :

(a) Need for Using Primary Societies for Long-term Loans

5. Experience in regard to the working of the co-operative credit structure has shown that even in well-developed states the structures for short-term and long-term credit are working more or less in water-tight compartments. This has resulted in certain problems such as difficulties in assessing the total credit needs of cultivators and non-availability of short-term credit to the borrowers of long-term loans. From the cultivator's point of view he finds it difficult to deal with two institutions, viz., village credit society and the primary land development bank or the branch of central land development bank each of which has its own loan policies and procedures. Another serious problem relates to security. Land is required to be mortgaged or a charge is created thereon for all short-term loans provided by primary societies. For medium-term loans also, beyond a specified limit, security of land is necessary. In fact, in some states where the provision in the Co-operative Societies Act requires making a declaration in favour of primary society for short-term loans, difficulty arises in its compliance due to mortgage of land in favour of land development banks for long-term loans. For instance, in Andhra Pradesh, according to the instructions issued by the Co-operative Department, short-term loans can be issued against second charge on land, but agricultural credit societies are found to be refusing loans to borrowers of land development banks on the ground that in terms of section 36

of the Andhra Pradesh Co-operative Societies Act, 1964 (as amended in 1970) the mortgage in favour of land development banks has priority over that of other institutions. Such a difficulty will not arise if the same institution provides all the credit needs of the cultivators. The financing by commercial banks of all the production and investment credit needs of cultivators is cited as an example in favour of a unified approach for meeting the credit needs of cultivators.

In this context, the feasibility of using the primary agricultural credit society for routing of long-term loans has been suggested. It is claimed that such an arrangement will have several advantages both to the financing institutions and to the cultivators.

(b) Suitability of Primary Credit Society

6. The suitability of the existing primary credit society for channelling long-term credit to cultivators has to be considered in the light of the functions it has to perform and its competence to undertake the same. Another important aspect which has relevance is the operational efficiency and financial soundness of the societies.

7. The functions to be undertaken by primary credit societies in regard to long-term financing would depend upon the question as to whether they will be replacing primary land development banks or they would be merely receiving and disbursing the loan amounts to borrowers purely as agents of primary banks. In the case of the former, they will be required to undertake all the functions which primary land development banks undertake at present, viz., appraisal of loan proposals, valuation of land, follow-up action and effecting recoveries. Considering the complex nature of appraisal of loan proposals and the stage of progress already made in the organization of primary banks and branches of central land development banks, entrusting primary credit societies, as they are constituted and functioning as at present, with these functions is not practicable. In case it is decided that primary credit societies will merely receive and disburse loan amounts, it will be necessary for them to maintain proper accounts of moneys received and paid. However, this limited role will not be adequate and it will not result in any benefit to cultivators including a solution to some of their problems such as difficulty in regard to security to be furnished to the lending banks. Besides, this arrangement may create difficulties in regard to recovery of loans. Primary credit societies many of which are already bedevilled with a load of overdues may not take any interest in recovering long-term loans channelled through them on an agency basis.] Thus, the role of primary credit societies will have to extend beyond mere agency

functions. They will have to undertake certain basic functions such as canvassing of loan applications, preliminary scrutiny of particulars furnished therein, verification of security and recovery of loan instalments at the proper time along with the recovery of the short-term loans provided by them. These are the minimum functions which primary credit societies will have to undertake if long-term loans are to be routed through them. Otherwise, in our view, mere routing of long-term loans will not serve any particular advantage either to the cultivator or to the primary credit society or to the primary land development bank.

8. The question arises as to whether the existing primary credit societies can undertake these minimum functions as they are constituted and functioning at present. Experience regarding the working of primary credit societies, if it provides any guide, shows that excepting in a few states which are co-operatively well developed, they will not be of any help due to several reasons such as absence of a full-time paid secretary, lack of other staff and office premises. At present, primary credit societies depend, by and large, on the services of honorary staff. In order to undertake the functions referred to in the preceding paragraphs, a primary credit society should have some minimum staff of its own, especially a trained and fairly well-paid secretary and should have some links with the technical staff of the state government at the local levels.

9. With regard to operational efficiency and financial soundness it may be said that generally primary credit societies do not have adequate and trained staff, and in most states they suffer from serious deficiencies such as low share capital base, poor deposits, low scale of operations and prevalence of a high level of overdues. Despite efforts made from time to time, most of these societies have not been able to function as multipurpose societies or achieve viability although the state governments have assisted them financially for employing secretaries. To saddle the existing primary credit societies with additional and specialized functions in regard to long-term loans would lead us nowhere.

Views of Earlier Committees

10. The Indian Central Banking Enquiry Committee (1931) which made important recommendations such as establishment of central land mortgage banks and floatation of debentures by an apex institution in each state, has observed as under :

“....While we agree that a certain amount of co-operation between the ordinary co-operative society and the land mortgage society will be of mutual advantage to both the institutions, we are

convinced that the two classes of societies should work entirely apart and that the transactions of the ordinary society should not in any way be mixed up with those of the mortgage banks.”¹

11. The All-India Rural Credit Survey Committee (1954) also examined the question as to whether it would be desirable to have one institutional agency in the co-operative sector for disbursement of short, medium and long-term loans for agriculture and expressed the following views :

“....A theoretically ideal solution might be for one single agency to deal with short-term, medium-term and long-term credit, but past experience, if nothing else, points to the desirability of having two separate institutions....Land mortgage banking is highly specialised, and it will not be desirable to saddle the short-term co-operative credit structure, which will be called upon to play an increasingly complex part within its own sphere, with additional responsibilities of so specialised a character....We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible.”²

12. The Informal Group on Institutional Arrangements for Agricultural Credit (1964) appointed by the Governor of the Reserve Bank referred to the question of integration between the long-term credit structure on the one hand and short and medium-term credit structure on the other, but observed that there should not be any departure from the present pattern of the land development banking structure for this purpose.

13. The views of the All-India Rural Credit Review Committee (1969) on the subject are reproduced below:

“....While we rule out the possibility of a single structure undertaking all these functions, the objective underlying this demand can be met in practice if the village credit society can be enabled, on the payment of suitable commission, to operate as the agency of the land development bank at different stages of the loan operations of the latter, viz., scrutiny of application, disbursement of credit,

¹ *Report of the Indian Central Banking Enquiry Committee* (1931), published by the Government of India, p. 172.

² *The General Report of the All-India Rural Credit Survey Committee* (1954), published by the Reserve Bank of India, Bombay, p. 433.

supervision and recovery of instalments. We are aware that only a few of the agricultural credit societies are as yet in a position to take up these additional responsibilities but the number of such societies will increase as viable units begin to emerge as a result of the programme of reorganization. We, therefore, recommend that in each state a limited number of societies satisfying appropriate criteria pertaining to financial strength and operational efficiency be selected for functioning as agencies of the land development banks in their areas of operation and that this type of arrangement be gradually extended to an increasing number of societies after experience is gained as a result of this experiment.”¹

14. A reference may also be made here to the Conference of Chief Ministers and State Ministers of Co-operation held at Madras on 12 June 1968 which considered the position regarding co-ordination between the short and long-term credit structures and recommended that pilot studies might be undertaken to provide integrated credit covering short, medium and long-term loans through a single agency. The recommendation was considered by the Functional Committee of the National Co-operative Development Corporation at its meeting held in New Delhi on 13 November 1968. The Committee agreed that an integrated credit structure at the field level for the provision of short, medium and long-term loans to farmers would be of great advantage, especially in the context of the need for adequately financing small farmers. At the same time, the Committee emphasized that the established credit structure should not be disturbed or dislocated in any manner. It suggested that a pilot programme for channelling long-term loans through primary agricultural societies might be taken up in areas where there are no primary land development banks or branches of the central land development banks or where primary banks or branches are far away from the reach of the farmers. These pilot programmes were to be taken up initially in Mysore (now Karnataka) and Madhya Pradesh. The broad features of the pilot programme were as under :

- (a) It should be taken up only in the areas of operation of viable or potentially viable primary credit societies which have trained full-time managerial staff.
- (b) The selection of areas should be undertaken in consultation with primary banks and central land development banks concerned.

¹ *Report of the All-India Rural Credit Review Committee (1969)*, published by the Reserve Bank of India, Bombay, p. 795.

- (c) Primary land development bank may enrol the selected primary society as a member. The by-laws of the society and the banks and the rules and procedure for issue of long-term loans may be amended where necessary.

However, it appears that these suggestions have not been followed up.

15. The recommendation of the Banking Commission (1972) for setting up of rural banks is also relevant inasmuch as it was suggested that such banks should act as agents of land development banks for providing long-term credit.

16. In its interim report on 'Credit Services for Small and Marginal Farmers and Agricultural Labourers' submitted to the Government of India in December 1971, the National Commission on Agriculture recommended the setting up of Farmers Service Societies in the SFDA and MFAL areas to start with. These societies are expected to provide credit and other services needed for increasing production and for diversification of farm activities. The final concept of the Farmers Service Society as it has emerged, retains this feature, viz., provision of all credit needs of cultivators for production in its area of operation. The model by-laws of a Farmers Service Society contain provision for the Society undertaking disbursement and recovery of long-term loans on an agency basis. It is assumed that for this work the Society will get $\frac{1}{2}$ per cent commission. Forty-seven Farmers Service Societies are reported to have been so far organized under the scheme in the various states.

Recommendations

17. The observations of the various Committees referred to above indicate that all of them have emphasized the need for suitable arrangements between the short-term and long-term credit structures in order to get over the difficulties of the cultivator in dealing with two institutions for his credit needs. The Committees did not, however, favour any change in the existing set-up of the two structures, although the All-India Rural Credit Review Committee (1969) suggested that, on an experimental basis, in each state, a limited number of societies having a certain level of operational efficiency and financial soundness might be selected for functioning as agencies of land development banks in their areas of operation and that this arrangement might be extended to cover more societies after gaining experience. The National Commission on Agriculture (1971) and the Banking Commission (1972)

suggested setting up of Farmers Service Societies and rural banks respectively and their taking up, as agents of land development banks, the work of providing long-term loans to cultivators. However, as we have indicated earlier in paragraphs 7 to 9, it is impracticable to expect primary credit societies as they are constituted and functioning at present to provide long-term loans as agents of land development banks. Perhaps, some 20 years back, when the long-term finance provided by land development banks was mainly for redemption of old debts it might have been possible for primary credit societies to handle long-term loans on a routine basis. This task has now become complex with the application of modern technological methods of farming which has generated demand for investment credit for diverse purposes.

18. The present scheme for organization of Farmers Service Societies provides that they will disburse long-term loans to member-borrowers on an agency basis. In the initial period, the scheme for organizing such Societies is to be tried in 85 blocks including SFDA/MFAL areas. One of the important features of the scheme is that each society will have a managing director and other staff including some technical staff on a full-time basis. The Society will also have a sufficiently large area to be in a position to achieve viability. Thus, the scheme, if implemented, raises hopes of adequate operational efficiency and financial soundness in Farmers Service Societies to enable them to provide long-term loans on an agency basis. But the number of such Societies set up or to be set up is limited and does not, in any way, affect our conclusion that primary credit societies, in general, as they are constituted and functioning at present will not be able to disburse long-term loans in a satisfactory manner.

NEXUS BETWEEN THE SHORT-TERM AND LONG-TERM STRUCTURES

19. The need for provision of short-term credit to the borrowers of long-term loans is obvious. The long-term investment in agriculture would be worthwhile only if the cultivator is in a position to undertake the proposed cropping pattern which will improve his repaying capacity and enable him to repay the long-term loan. It is, therefore, clear that the borrowers of land development bank should have adequate resources of their own or have access to the required production finance from the short-term credit structure. It has, however, been the general experience that the borrowers of long-term loans experience serious difficulty in obtaining production credit for purchase of seeds and fertilizers and for undertaking other agricultural operations.

20. With a view to ascertaining the position regarding availability of production credit to cultivators borrowing from land development banks, studies were conducted on behalf of our Committee in Andhra Pradesh, Haryana and Uttar Pradesh by the officers of the Reserve Bank of India during July 1973. The important findings of the studies are referred to below :

Andhra Pradesh

21. The flow of production credit in all the districts selected for the study, viz., Anantapur, Krishna, Kurnool, Nalgonda and Nizamabad was greatly hampered by a weak co-operative structure for short-term credit. Many agricultural credit societies were found to be either dormant or not working satisfactorily. The members of these dormant societies were getting their credit requirements mostly from money-lenders at exorbitant rates of interest.

In all the 5 districts covered by the study the incidence of overdues in the primary credit societies was very high. In Nizamabad and Nalgonda Districts more than 80 per cent of the societies were defaulters to the respective central co-operative banks. In Anantapur, Krishna and Kurnool Districts more than two-third of the defaulting societies were ineligible to borrow from the concerned central co-operative banks as their overdues exceeded 50 per cent of the demand. In Nalgonda District, the central co-operative bank had practically stopped issuing loans to primary credit societies because of their heavy overdues as also the weak financial position of the bank itself.

The restrictive loan policies of the central co-operative bank also contributed to the choking of the flow of production credit. For example, the Nizamabad Central Co-operative Bank could advance loans for sugarcane cultivation at the rate of Rs 500 per acre whereas the local sugar factory was granting loans at the rate of Rs 600 per acre. Cultivators preferred to obtain loans from the sugar factory instead of from their co-operative societies. Further, in view of the low individual maximum borrowing power fixed in the by-laws of co-operative credit societies, cultivators could not obtain loans in adequate amounts, and such cultivators turned to moneylenders.

Although short-term loans are permitted to be issued against second charge on land, most of the societies did not grant loans to borrowers of land development banks inasmuch as the mortgage in favour of land development banks has priority over the claims of other institutions in terms of section 36 of the Andhra Pradesh Co-operative Societies Act, 1964 (as amended upto 1970). In Nalgonda District not a single

borrower of land development banks had taken short-term loans from societies against the second charge of land.

Arrangements for distribution of fertilizers in all the 5 districts covered by the study were not satisfactory and members had to purchase fertilizers mostly from traders.

There was lack of co-ordination between land development banks and central co-operative banks.

The coverage of cultivating families by primary credit societies in the districts covered by the study, viz., Anantapur, Krishna, Kurnool, Nalgonda and Nizamabad was poor.

Haryana

22. Heavy overdues constituting above 50 per cent of the demand as at the end of June 1972 stood in the way of provision of short-term credit by primary credit societies in the districts of Ambala, Brayne, Gurgaon, Hissar and Karnal. Because of their heavy overdues, the central co-operative banks in these districts also found it difficult to provide non-overdue cover for their borrowings from the Reserve Bank.

There was lack of co-ordination between primary land development banks and primary agricultural credit societies at the field level. The primary land development banks did not furnish to the agricultural credit societies details of the long-term loans sanctioned to their members for different purposes, at regular intervals.

Uttar Pradesh

23. In the 3 districts of central and western Uttar Pradesh, viz., Bareilly, Hardoi and Moradabad, 66 borrowers of land development banks were interviewed. Of these, 56 were members of co-operative credit societies and 45 had availed themselves of short-term credit from the societies. In the three eastern districts, viz., Allahabad, Rae Bareilly and Varanasi, out of 30 borrowers interviewed, 23 were members of co-operative credit societies and only 12 had borrowed their short-term credit requirements through societies.

The form of the present application for long-term loans prescribed by the central land development bank and the procedure for grant of such loans do not provide for any detailed enquiry to find out whether the borrowers were members of primary credit societies and if so whether they were defaulters.

The branch managing committee of the central land development bank and the branch advisory committee of the central co-operative bank had no touch with each other.

The block staff dealing with extension work do not visit cultivators to advise them about the post-development cropping pattern, use of fertilizers, etc. This has arisen mainly because of the fact that the block staff have not been relieved of their general duties such as family planning and social welfare services.

At the time of the study (July 1973) it was found that besides the primary credit societies, two other agencies were providing short-term production credit in Uttar Pradesh. In the western districts, cane unions provided fertilizers to sugarcane growers. In the eastern districts, sizeable *taccavi* loans were provided to cultivators for meeting their production credit needs. These loans were given without any enquiry to find out whether the recipients were members of co-operative credit societies and if so whether they were defaulters or not.

The district co-ordination committees were not meeting regularly and even when they met occasionally, they did not discuss important matters of co-ordination.

The coverage of cultivating families by co-operative credit societies is not significant in all the 16 societies of the 6 districts covered by the study. This is mainly because of lack of drive on the part of the supervisory machinery in increasing the membership of the societies. Further, the high level of overdue at the society level impeded grant of fresh loans.

24. The finding of the field studies in Andhra Pradesh, Haryana and Uttar Pradesh thus show that cultivators who had availed themselves of long-term loans from land development banks had not been provided with short-term credit requirements in any appreciable manner by the primary co-operative credit societies. The basic reasons for such a situation are the existence of a large number of dormant and non-viable primary credit societies, poor coverage of cultivating families, heavy overdue which have been choking the credit lines and complete lack of co-ordination between the short-term and long-term co-operative credit structures.

25. In connexion with the subject of the feasibility of using primary agricultural credit societies as agents of primary land development banks for disbursing long-term loans, we had referred to the views of some of the earlier Committees on this subject. On the present topic dealt with in the paragraphs immediately preceding, viz., the question of nexus between the short-term and the long-term co-operative credit structures also, we may refer to the views of these Committees.

Views of Earlier Committees

26. The All-India Rural Credit Survey Committee (1954) while referring to the arrangements for long-term co-operative credit at the district level, especially in the states where the long-term credit structure had yet to be built up, had observed as under :

“It is of the utmost importance to ensure co-ordination at this level also between the short term and long-term credit structures. Thus, the branch should continue to be located in the same building as the central bank The branch of the central land mortgage bank could then, if appropriate, be converted into a primary land mortgage bank. Nevertheless, it would continue to be situated in the same building and remain co-ordinated in its working with the central co-operative bank.”¹

With a view to ensuring co-ordination between the activities of the state co-operative bank and the central land development bank, the Committee recommended that these institutions might have a common board of directors or at least some of the directors might be common to both.

27. The Informal Group on Institutional Arrangements for Agricultural Credit (1964) had also suggested several measures of co-ordination. The measures suggested for co-ordination were: (i) the central land development bank should extend its support to the state co-operative bank in the state by investing the permissible part of its sinking fund in fixed deposits with the state co-operative bank; (ii) the state co-operative bank, in turn, may support the central land development bank by investing in its ordinary debentures to the extent of a part of the fluid cover requirements and, also where possible, by providing interim accommodation to the central land development bank; (iii) the offices of the state and central co-operative banks may be used by land development banks for expeditious disbursement of loans sanctioned as also for canvassing support for the rural and other debentures and for the payment of interest on such debentures and (iv) the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilization and recovery of instalments of such loans with a view to ensuring that the total co-operative lending

¹ *The General Report of the All-India Rural Credit Survey Committee* (1954), published by the Reserve Bank of India, Bombay, p. 445.

to an individual is within his repaying capacity and that the security available from him is enlisted to the best advantage.

28. The All-India Rural Credit Review Committee (1969) reiterated the various recommendations made by the All-India Rural Credit Survey Committee (1954) and the Informal Group on Institutional Arrangements for Agricultural Credit (1964) and observed :

“A line of co-ordination, which should become increasingly relevant in the coming years, lies in the short-term credit structure closely following up the provision of long-term credit by ensuring that the necessary credit and inputs for production reach the borrower of a long-term loan in time, in order that he may derive the full benefit of the increased income potential which has been created as a result of the capital investment made on his land.”¹

29. It will be seen that various Committees have in the past expressed concern in regard to the existing arrangements for provision of short-term credit to the borrowers of land development banks and have stressed the need for co-ordination between the short and long-term co-operative credit structures. The main recommendations made in this context relate to (a) housing the branch of the central land development bank or the primary land development bank and the central co-operative bank in the same building; (b) having a common board of directors for the central co-operative land development bank and state co-operative bank or having at least some of the directors common to both and (c) associating central co-operative banks and primary agricultural credit societies with some of the functions undertaken by land development banks such as processing of loan applications, disbursement of loans and effecting recovery of loan instalments.

Recommendations

30. Our field studies have revealed that even in a co-operatively developed state such as Andhra Pradesh, the borrowers of land development banks are not getting adequate production credit from the short-term credit structure. The position in other states covered by the study namely, Haryana and Uttar Pradesh, is also not satisfactory. In other words, co-ordination between the short and long-term co-operative credit structures is altogether absent and the various recommendations made by the earlier Committees for effecting such co-ordination have

¹*Report of the All-India Rural Credit Review Committee (1969)*, published by the Reserve Bank of India, Bombay, p. 1017.

remained on paper without any action being taken thereon either by the state governments or by the co-operative banks themselves. In this connexion, we should like to make the following general recommendations and suggestions :

(1) The state governments should take early steps to reorganize the working of existing primary agricultural credit societies which are weak or dormant. Similar effort on the part of the state governments is needed in respect of weak central co-operative banks and weak primary land development banks, the term 'weak' connoting poor borrowing membership, low capital base, low level of deposit mobilization, high level of overdues, weaknesses in management and supervision and lack of attention paid to meeting the credit requirements of small farmers. In this effort, the state co-operative banks, central co-operative banks and central land development banks should not remain passive spectators, leaving the entire responsibility to the state governments. The banks should actively involve themselves in the quick implementation of these schemes for the revitalization of primary agricultural credit societies, central co-operative banks and land development banks.

(2) While as a part of the reorganization schemes for increasing the coverage of the rural population, efforts are being made to enrol more members, it should be the responsibility of the extension staff in the blocks to ensure that all the borrowers of long-term loans from land development banks are promptly enrolled as members of primary credit societies in the area. For this purpose, the primary land development bank or the branch of the central land development bank should furnish details of its borrowers to the primary credit society.

(3) The Registrars of Co-operative Societies should undertake, in consultation with the regional offices of the Agricultural Credit Department of the Reserve Bank and the regional offices of the Agricultural Refinance Corporation an immediate review of the loan policies and procedures of central co-operative banks and primary credit societies with a view to removing restrictions such as those arising from the by-laws relating to maximum borrowing power or the scale of financing for different crops, etc., so that the borrowers of long-term credit from land development banks are able to obtain adequate production credit.

(4) Land development banks should make suitable modifications in their loan policies and procedures so as to ensure, while processing loan applications, that the prospective borrower has already an access to adequate production credit from his local primary credit society to support the proposed cropping pattern. If not, it should be ensured by the land development bank that necessary arrangements in this behalf are made before at least the last instalment of the loan is released.

(5) A group under the leadership of the Assistant Registrar/Deputy Registrar of Co-operative Societies in the district and including the managers of the central co-operative bank and of primary land development bank/branch of the central land development bank should be constituted to review periodically, say once in a quarter, the position regarding availability of short-term credit to the borrowers of land development banks. The group should be required to submit its note prepared on the basis of such periodical reviews to the Divisional Deputy/Joint Registrar of Co-operative Societies. The object of the review should be specifically to ensure that when loans are sanctioned by land development banks to borrowers who are not members of primary credit societies, such borrowers are enrolled as members of co-operative credit societies and given short-term credit, if eligible for the same. This review will have to be prepared in respect of the position in each primary land development bank/branch of the central land development bank and the primary credit societies in their areas of operations.

31. In the foregoing paragraphs we have discussed various aspects relating to channelling of long-term loans through primary agricultural credit societies and co-ordination between the short-term and long-term credit structures. Despite the recommendations of various important Committees, the problem of co-ordination between the two co-operative credit structures still remains to be solved. Neither channelling of long-term loans through primary credit societies nor other measures such as housing of the institutions in the same building and having common directors have so far solved the problem of co-ordination. It is in this context that it is being felt in certain quarters that a long-term solution to the problem of co-ordination probably lies in the complete integration of the two structures, i.e., short-term and long-term credit institutions. Such an arrangement, it is pointed out, has the following main advantages :

(i) The cultivator will have to contact only one institution for all his credit needs for production and development and such an institution will be able to take a comprehensive view of his credit requirements, security and repaying capacity.

(ii) The business of land development banks in several states is dwindling. Diversification of lending is called for and this involves entering into sectors such as animal husbandry, poultry, fisheries, horticulture and storage, which also fall within the purview of the short-term co-operative credit structure. This may result in competition between the two structures and damage to both. A unified structure can get over this problem of diversification in a more effective manner.

(iii) Commercial banks are emerging as competitors to co-operative banks which can no longer claim a monopoly in agricultural credit. Commercial banks provides both short-term and long-term credit. The competing capacity of co-operative banks will be enhanced if they function in a unified manner.

(iv) A unified co-operative credit structure will enable appointment of well qualified staff, including technical staff, proper deployment of such staff, rationalization and simplification of lending procedures, including loan appraisal procedures, and better arrangements for checking of utilization and recovery of loans.

It has, however, to be pointed out that the integration of the two structures means basically that the primary agricultural credit society will have to provide short-term, medium-term and long-term credit. In other words, it inevitably means the need for having a viable society at the village level which may be formed as a result of the amalgamation of the weaker or smaller societies or organization of Farmers Service Societies. Thus, a change in the structure and functioning of existing primary agricultural credit societies is called for involving amalgamation of weak societies, liquidation of dormant societies, recruitment of full-time paid secretaries and of supervisory and technical staff. The formation of viable primary credit societies with adequate staff to undertake multi-purpose functions is absolutely necessary for the successful working of an integrated co-operative credit structure. Further, for the integration to be effective, steps will have to be taken to complete the programmes for the rehabilitation of weak central co-operative banks and primary land development banks which have already been identified, without further delay. A merger, if it is confined only to the apex or intermediate level institutions, will be fruitless. In other words, the integration of the short-term and long-term credit institutions has to start from the village level, i.e., at the level of primary agricultural credit societies.

32. In our opinion, although the various steps taken in the past have not brought about the desired results in the direction of co-ordination between the short-term and long-term structures, there is increasing awareness among the institutions, viz., land development banks and state and central co-operative banks and also the state governments about the need for such co-ordination. We note in this connexion that efforts such as setting up of co-ordination committees, having common directors, etc., are being pursued in some states. Further, the National Co-operative Land Development Banks Federation and the All-India State Co-operative Banks Federation are now actually seized of this

matter of evolving suitable arrangements for securing necessary co-ordination between the two wings of the co-operative credit structure.

Although the subject of integration of the two structures dealing with short-term credit and long-term credit is outside the purview of the terms of reference of our Committee, nevertheless, as emerging from our review of the existing position of the co-operative credit structure in the smaller states and the co-operatively weak states, we have recommended in Chapter 5 that in 5 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal, the integration of the short-term and long-term credit structures is the only way of enabling the co-operative credit structure in these states to play an effective role in meeting the credit needs of cultivators for production and development. We have also suggested in Chapter 4 wherein the arrangements for provision of long-term credit in smaller states have been examined, that in Pondicherry it is necessary to integrate the short-term and long-term co-operative credit structures. With regard to co-ordination between the two structures in the other states we suggest that earnest efforts should be made both by the state governments and the institutions to implement our recommendations given in paragraph 31 in this Chapter. However, in case it is found after a reasonable time that there is no improvement in the situation, as a last resort, the need for integration of the short-term and long-term credit institutions may have to be examined by the state governments and the state co-operative banks and central land development banks concerned.

33. We have referred earlier in paragraph 18 to the scheme for organization of Farmers Service Societies which will provide long-term loans also. Steps are also being taken to make existing primary credit societies viable units by liquidation of moribund societies and amalgamation of small societies, as also to provide full-time secretaries to the reorganized societies. We recommend that wherever viable primary credit societies have been set up and they have been provided with adequate full-time and trained staff, including technical staff, such societies may take up provision of long-term loans also. This will require identification of such societies by the state governments and the apex and central co-operative banks on a block-by-block basis.

CHAPTER 8

RESOURCES FOR LAND DEVELOPMENT BANKS

THIS Chapter deals with items (xi), (xiii) and (xiv) of our terms of reference which are reproduced below :

- (xi) To examine the adequacy or otherwise of the sources of funds for the business of the land development banks and suggest measures to augment the sources, if those indicated are not considered adequate.
- (xiii) To suggest measures for tackling the problem of idle funds in the state and primary land development banks.
- (xiv) To review the sinking fund investment policy of the land development banks and suggest ways to maximise the return on the investments.

2. The main sources of funds for land development banks are debentures—ordinary, special and rural—and share capital. As land development banks have to depend on interim accommodation for undertaking initial loaning for collection of unencumbered mortgages for floatation of debentures, the provision of interim finance to banks has also relevance in this context. The All-India Rural Credit Review Committee (1969) examined in detail the position in regard to the resources of land development banks and made various suggestions. It is proposed to review here the action pursued on the relevant recommendations of the Committee as also other developments in the matter of raising resources by land development banks.

DEBENTURES

3. In the initial stages of the organization of land development banks, debentures were floated by some primary land development banks at the *tehsil* or district level. At the Registrars' Conference of 1926 it was felt that there was a need for a central institution for co-ordinating the efforts of primary banks in the matter of floatation of debentures and the Conference recommended that an apex institution for land development banks at the provincial level might be established. This recommendation was subsequently reiterated by the Royal Commission on Agriculture (1928) and by the Indian Central Banking Enquiry Committee (1931). Following these recommendations, central land

development banks came to be organized at the state level in some of the states. This pattern was followed in other states in subsequent years. Thereafter, debentures were floated by the state level land development banks, i.e., central co-operative land mortgage or development banks. Thus, from the very beginning, debentures have constituted the main source for the resources of land development banks.

4. The ordinary debentures floated by land development banks received support from various institutions and agencies such as Provident Fund Commissioner, Charity Commissioner, insurance companies and later by the commercial banks, state governments and the Government of India. The support from institutions was forthcoming mainly because the debentures floated by banks were trustees securities by virtue of their being guaranteed by the concerned state government in regard to the repayment of principal and the payment of interest. With the increase in the requirements of funds by land development banks, especially after the implementation of the recommendations of the All-India Rural Credit Survey Committee (1954), it became apparent that these debentures would need much wider support than before. This additional support was provided mainly by the Reserve Bank of India, the Life Insurance Corporation of India and the State Bank of India. As far as the support from the Reserve Bank was concerned, during the period 1950-51 to 1964-5, it was to the extent of the shortfall in public subscriptions subject to a maximum of 20 per cent of the concerned issue. Similarly, the support from the Life Insurance Corporation and the State Bank of India followed a certain pattern, i.e., up to 30 per cent by the Life Insurance Corporation and 10 per cent by the State Bank of India of each debenture issue according to the practice followed during this period. However, due to the competing claims of various sectors of the economy on the resources of the Life Insurance Corporation and the State Bank of India and the overall credit policy of the Reserve Bank, there was a change in 1965-6 inasmuch as the commitments of these institutions in the form of support to the debentures of central land development banks came to be limited to an amount determined at the beginning of each year. For example, the amount agreed to by the Life Insurance Corporation for each of the financial years 1965-6 to 1968-9 was up to Rs 10.50 crores, while the State Bank of India and its subsidiaries fixed their maximum support at Rs 3.50 crores in 1965-6, Rs 4.00 crores in 1966-7 and Rs 4.50 crores each in 1967-8 and 1968-9. The Reserve Bank agreed to contribute to the shortfall in public subscription subject to a ceiling of Rs 4.75 crores in 1965-6 and Rs 5.00 crores each in the years 1966-7 to 1968-9.

In view of these limitations and since much larger support was needed, the Government of India came forward to provide assistance to land development banks from 1966-7. The assistance from the Government of India was required to be matched by equal support from the state governments in states where land development banking had developed. In other states, the matching support was placed at two-thirds of the central government's contribution in 1967-8 and one-third since 1968-9.

5. One of the recommendations made by the All-India Rural Credit Review Committee (1969) related to the need for an increase in the quantum of support provided by the State Bank of India and other commercial banks. The Committee also recommended that the Reserve Bank should convene meetings of the representatives of central land development banks and the various institutions and agencies concerned with the provision of support to these debentures. Such meetings, it was felt, would provide a forum for fixing a definite programme in regard to debentures to be floated by each bank and the amount of contribution thereto to be made by various institutions. These recommendations have been generally implemented. The Reserve Bank convenes well before the commencement of every financial year (April-March) a meeting of the concerned institutions for settling various aspects in regard to floatation of debentures by central land development banks. So far as the contributions to the debentures by commercial banks are concerned, such support has increased considerably especially after the nationalization of 14 major commercial banks in July 1969. In addition, other commercial banks also lend support to the debentures through the Indian Banks' Association. Thus, central land development banks do not experience any difficulty in getting support to their ordinary debentures. Indeed, In 1973-4, the problem had been inadequate utilization of the assured support as will be seen from the fact that as compared with the supported debenture floatation programme of Rs 116.60 crores, the actual floatations by central land development banks came to Rs 71.72 crores. A similar trend is noticeable in 1974-5 also because, as compared with a supported programme of Rs 82.46 crores, actual floatations as on 30 November 1974 came only to Rs 11.59 crores, leaving a balance of Rs 70.87 crores to be completed by 31st March 1975.

6. The details in regard to ordinary debentures floated by central land development banks for the financial years 1963-4 to 1973-4 together with the contributions made by various institutions and agencies are given in Table 1. It will be seen that there has been a noticeable

TABLE 1

CONTRIBUTIONS MADE BY VARIOUS INSTITUTIONS TO THE ORDINARY DEBENTURES OF THE CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS BETWEEN 1963-4 AND 1973-4 (FINANCIAL YEAR)

											Rs Crores
Year	L.I.C.	State Bank of India Group	Reserve Bank of India	State Government	Government of India	Co-operative Institutions	Commercial Banks		Others @	Total	
							Nationalized Banks	Other Banks			
1963-4	5.11	1.85	3.19	2.00	—	6.65	—	0.50	—	1.30	20.60
1964-5	7.11	2.62	4.55	0.38	—	9.14	—	0.92	—	0.67	23.39
1965-6	10.50	3.53	4.60	7.84	—	12.84	—	0.93	—	0.69	40.93
1966-7	10.87	3.60	4.37	12.36	7.95	13.34	—	3.85	—	0.96	57.30
1967-8	10.43	4.49	4.76	12.40	14.90	7.23	—	18.13	—	0.29	72.63
1968-9	10.78	4.35	4.35	17.50	14.58	22.95	—	22.86	—	3.26	100.63
1969-70	13.14	5.84	4.20	19.24	14.13	19.65	—	31.84	—	10.25	118.29
1970-71	11.98	6.02	4.15	19.58	17.04	32.01	17.99	—	11.92	6.32	127.01
1971-2	11.99	6.04	3.92	22.11	18.05	34.78	20.69	—	4.85	6.05	128.48
1972-3	10.67	4.22	1.36	17.56	12.53	28.72	14.60	—	5.52	4.94	100.12
1973-4	12.00	4.33	0.14	8.85	7.40	28.81	8.74	—	2.65	2.04	74.96

@Include Provident Fund Commissioners, Charity Commissioners etc.

increase in the amount of ordinary debentures floated by banks particularly after 1968-9. As against debentures of Rs 21 crores floated in 1963-4 those floated in 1971-2 amounted to as much as Rs 128 crores which shows more than a sixfold increase. The amount of debenture floatations in 1972-3 and 1973-4 has, however, registered a decline, mainly due to floatation of special development debentures on account of the implementation of ARC-refinanced schemes, particularly under the IDA Projects, in several states. An examination of the figures relating to contributions from different sources indicates that excepting for a small proportion on account of self-help and contributions from a few other institutions, the major part of debentures is now being subscribed to by the Government of India, state governments, Life Insurance Corporation, the State Bank of India group and other commercial banks.

7. One of the important aspects of the debenture floatation programme is that each central land development bank lends support to the debentures floated by other banks which is called mutual support. This has been possible as the sinking funds maintained by the banks are allowed to be invested up to 60 per cent in the debentures of other central land development banks. Accordingly, 60 per cent of the amount to be contributed by each bank to its sinking fund during a year is available for investment in the debentures of other banks.¹ Another aspect relates to the condition stipulated by the Government of India in regard to its support to the debentures. Apart from insisting on the state governments providing a matching contribution to the debentures, its support is also subject to the condition that at least 90 per cent of all loans (including those under the ARC-refinanced schemes/IDA projects) are for productive purposes of which not less than 70 per cent should be for easily identifiable productive purposes.

Proposals under the Fifth Plan

8. The Working Group set up by the Government of India on 11 April 1972 for formulating proposals regarding development of co-operatives in the Fifth Plan estimated that land development banks would be advancing investment credit of the order of Rs 1500 crores during the Plan period, Rs 1100 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,

¹ According to a very recent circular letter of the Reserve Bank dated 2 December 1974, this percentage is now 50. For details, see paragraph 57.

resources totalling Rs 1100 crores for loans under ordinary programmes were to be found from :

	Rs Crores
Owened Funds	45.00
Rural Debentures/Deposits	35.00
State Co-operative Banks and Others ..	70.00
Sinking Fund	350.00
SBI/Commercial Banks/LIC/RBI ..	450.00
Central Government/State Governments ..	150.00
	<hr/>
	1100.00
	<hr/>

The amount of Rs 400 crores to be provided under special schemes would be found by the Agricultural Refinance Corporation through various sources, viz., The Government of India, the Reserve Bank's National Agricultural Credit (Long-term Operations) Fund and market borrowings by issuing bonds. A total loaning programme of Rs 1500 crores by land development banks during the Fifth Plan means a substantial increase in their loaning operations over the Fourth Plan during which period the total loans issued by them aggregated Rs 775 crores. According to the Working Group, the increase envisaged in the case of some banks is more than 100 per cent over the achievement at the end of the Fourth Plan, while in the case of others it ranges from 25 per cent to 50 per cent.

9. The details regarding the amounts to be raised from different sources for financing the loaning programme indicate that there will not be any serious difficulty in land development banks obtaining the necessary support from various institutions.

10. It may be noted here that the target for ordinary debentures in the Fifth Plan has since been reduced from Rs 1100 crores to Rs 600 crores consequent on the anticipated further increase in loaning under the ARC-refinanced schemes from Rs 400 crores to Rs 900 crores. As regards the support from the Government of India and the state governments, the Working Group had proposed a Central Sector Scheme and a State Sector Scheme under the Fifth Plan for Rs 80 crores and Rs 65 crores respectively. There may not also be any serious difficulty in getting the required support from the State Bank and other commercial banks, the Life Insurance Corporation and co-operative banks according to present indications. There may, however, be a shortfall in the case of resources expected to be mobilized through rural debentures and fixed deposits as the past performance of banks in attracting rural debentures and fixed deposits has not been encouraging. Thus, there

is assured support for the debenture floatation programmes of central land development banks from specified sources during the Fifth Plan if we go by the estimates made by the Working Group on Co-operation.

11. In the context of the target fixed for floatation of debentures and the source of funds for the purpose, there are certain aspects to which we should like to refer in this Chapter. These are dealt with below :

(i) *Additional Sources for Funds*

(a) *Contribution by LIC to ARC-Refinanced Schemes*

12. It is reported that an Informal Group on Investment Policy of the Life Insurance Corporation of India (1971), consisting of the Governor of the Reserve Bank of India (Chairman), the four Secretaries of the Ministry of Finance, the Chairman of the Life Insurance Corporation, the Chairman of the Unit Trust of India and a Joint Secretary from the Ministry of Finance (Department of Economic Affairs) has recommended that LIC should explore the possibilities of securing participation with the Agricultural Refinance Corporation in the refinancing of area development schemes instead of confining its role to merely investing in the debentures of land development banks.

It is not known as to whether any decision has been taken by the Government of India on this recommendations. Prima facie, it appears that participation by the Life Insurance Corporation in the schemes sanctioned by the Agricultural Refinance Corporation raises certain problems. The special development debentures floated by central land development banks are required to be subscribed at present only by 2 institutions, viz., the Agricultural Refinance Corporation and the concerned state government. If LIC is to come in, the manner and extent of its participation in the debentures floated from time to time and the schemes which would be eligible for such participation will have to be determined. If participation has to be in the form of loans from LIC, it will have to be examined as to whether this would be possible under the Agricultural Refinance Corporation Act, 1963 as it stands at present and whether the terms and conditions, including the rate of interest, would suit the Agricultural Refinance Corporation. Perhaps, LIC's support could be availed of by the Agricultural Refinance Corporation by issuing a special series of bonds exclusively to be subscribed by LIC. These and other aspects may be examined in detail by the Agricultural Refinance Corporation and the LIC and taken up with the Reserve Bank of India and the Government of India in case the Agricultural Refinance Corporation needs additional resources for its refinancing operations in the Fifth Plan.

(b) *Additional Contributions by Commercial Banks*

13. The contributions made by the State Bank of India (including its subsidiaries), nationalized commercial banks and other commercial banks to the debentures floated by central land development banks for the past few years are indicated below:

TABLE 2
CONTRIBUTION TO ORDINARY DEBENTURES BY COMMERCIAL BANKS
Rs Crores

Year	Contributions by				Total Contribution	Contribution by Commercial Banks as Percentage to Total Debentures
	SBI and its Subsidiaries	Nationalized Banks	Other Banks			
1968-9	4.35	—	22.86	—	27.21	27
1969-70	5.84	—	31.84	—	37.68	32
1970-71	6.02	17.99	—	11.92	35.93	28
1971-2	6.04	20.69	—	4.85	31.58	25
1972-3	4.22	14.60	—	5.52	24.34	24
1973-4	4.33	8.74	—	2.65	15.72	21

The contributions made by both the State Bank of India Group and other commercial banks has gone down in the past two to three years due mainly to the decline in the floatation of ordinary debentures by land development banks and larger mutual support. At present, there is no need for any increase in the share of commercial banks in the contribution to the debentures of central land development banks.

(c) *Taccavi Funds for Land Development Banks*

14. One of the recommendations made by the Committee on Takavi Loans and Co-operative Credit (1962) may be referred to in the context of the resources needed by land development banks:

“State governments should continue to make budgetary provisions for advancing long-term loans to agriculturists for such purposes as have been transferred to the land mortgage banks and such provisions should, after meeting the requirement for managerial grants and other subsidies, be utilized primarily for supplementing the medium-term resources of the co-operative structure. Such funds may also be utilized for meeting the shortage of interim finance experienced by co-operative land mortgage banks and for purchasing debentures floated by them where necessary.”¹

¹ *Report of the Committee on Takavi Loans and Co-operative Credit* (1962), published by Government of India, p. 91.

In pursuance of the above recommendation, most of the state governments have stopped issuing long-term loans from out of the *taccavi* funds under the Land Improvement Loans Act, 1883 and they use such funds for contribution to the debentures floated by central land development banks. What is more important is to see that the state governments do actually make provisions in the budgets to meet their commitments in regard to their share of contributions to the debentures of central land development banks. There are, however, a few states such as Assam, Bihar, Himachal Pradesh, Jammu & Kashmir and Orissa where the recommendation of the Takavi Committee referred to above has not been implemented. These states may accept the recommendation of the Takavi Committee and put it into effect by actually using *taccavi* funds for contribution to the debentures of central land development banks.

(d) *Budgetary Provisions for Development of Horticulture/Plantations*

15. In Chapter 5, we have observed that a few of the state governments such as Himachal Pradesh and Jammu & Kashmir continue to provide loans directly to cultivators for various purposes such as development of horticulture and plantations. As recommended in paragraph 42 of Chapter 5, the state governments should not themselves give loans for development of horticulture and plantation crop, the budgetary allocation made for the purpose being channelized through land development banks by means of support to their debentures.

(ii) *Need for Diversification in Loaning Operations*

16. With the emphasis on loans for productive purposes, loans for minor irrigation works such as sinking of wells, installation of tube-wells and purchase of pumpsets form a sizeable proportion of the total loans issued by land development banks in different states. The financing of minor irrigation programmes by land development banks got a fillip especially after 1966 following a decision of the Agricultural Refinance Corporation to provide refinance facilities for area development schemes for minor irrigation works. Schemes for minor irrigation works accounted for 80 per cent of the disbursements totalling Rs 317 crores made by the Agricultural Refinance Corporation at the end of June 1974. The provision of investment credit for minor irrigation schemes also accounts for a substantial part (Rs 160 crores) of the financial assistance (Rs 285 crores) under the agricultural credit projects sanctioned by IDA.

17. While the increase in financial assistance for minor irrigation works is welcome inasmuch as it has helped cultivators in increasing the intensity of cropping and has contributed to increasing agricultural production, the programme cannot go on indefinitely at the same pace without further investigations regarding the adequacy of groundwater resources. In some of the states such as Andhra Pradesh, Gujarat and Tamil Nadu, this situation is already being faced as there is a decline in the loaning operations of several primary banks or branches of the central land development bank. Against this background, the need for diversification of loaning business of land development banks assumes particular urgency. The Reserve Bank had circulated in November 1973 a note among central land development banks through the National Co-operative Land Development Banks Federation, the object being to give a broad indication of new items of investment which may be undertaken by banks if technically feasible and financially viable in order to maintain or increase the present tempo in their loaning operations. This note also contained suggestions in regard to some new areas of agricultural development which had so far not received due attention from land development banks. In this task of diversification of loaning business, the state governments will have to play a crucial role by providing assistance to banks through their technical departments and also stopping the tendency for their departments, especially Agriculture, Horticulture, Animal Husbandry, Poultry and Fisheries, to cling to their departmental schemes for financing individual cultivators out of budgetary allocations instead of leaving such schemes to be financed by land development banks, utilizing the budgetary allocations thus rendered surplus to aid the banks by way of long-term loans or subscription to their debentures or assistance for staff development plans of the banks. It needs hardly any emphasis that land development banks in most states will find it impossible to achieve the large loaning programmes during the Fifth Plan without identifying new items of agricultural development requiring long-term loans. We recommend that each central land development bank should build up a portfolio of viable and diversified pattern of schemes for the entire Fifth Plan period so that it can reach the lending targets set under the Fifth Plan in a purposive and effective manner.

(iii) *Linking of Investment Credit to Agricultural Development Programmes*

18. According to the Draft Fifth Plan, the investment credit to be provided by land development banks in various states is estimated as in Table 3.

TABLE 3

TARGETS FOR LONG-TERM LOANS TO BE PROVIDED UNDER FIFTH PLAN

Rs Crores		
State	Fourth Plan Likely Achievement	Targets for Long-term Loans in the Fifth Plan
Category A		
Andhra Pradesh	86.15	130.00
Delhi	1.04	1.50
Gujarat	95.00	120.00
Haryana	50.00	35.00
Maharashtra	130.00	140.00
Pondicherry	0.60	0.80
Punjab	82.00	110.00
Tamil Nadu	112.00	150.00
	556.79	687.30
Category B		
Karnataka	70.00	140.00
Kerala	13.50	30.00
Uttar Pradesh	126.00	190.00
	209.50	360.00
Category C		
Andaman & Nicobar Islands	—	0.05
Assam	0.70	14.00
Bihar	42.21	100.00
Chandigarh	—	0.02
Goa	0.09	1.00
Himachal Pradesh	2.00	5.00
Jammu & Kashmir	2.44	4.00
Madhya Pradesh	45.00	140.00
Manipur	0.05	0.50
Meghalaya	—	0.50
Nagaland	0.10	1.00
Orissa	20.04	81.00
Rajasthan	23.00	60.00
Tripura	0.05	2.00
West Bengal	5.34	40.00
	141.02	449.07
Grand Total	907.31	1496.37

19. The targets have been set on the basis of an increase of 25 per cent and over 100 per cent for categories A and, B and C states respectively. The states have been divided into these three categories on the basis of per hectare outstanding loan amounts of central land development

banks as on 30 June 1971. States where the outstandings are more than Rs 60 per hectare are given the A category, those where the outstandings work out to between Rs 30 and 60 per hectare the B category and those having less than Rs 30 per hectare are placed in the C category.

20. These estimates have apparently been worked out on an *ad hoc* basis instead of basing them on the requirements of investment credit for specific programmes of agricultural development proposed to be taken up in the states—a task which obviously cannot be done without preparation of specific schemes. This responsibility will have to be shouldered by the state governments and central land development banks if the financial targets are to be meaningful. Thus, land development banks cannot achieve any increase in their loaning operations or even maintain the present tempo without specific schemes. This task is all the more difficult in co-operatively less developed states in the C category where the operational efficiency of banks is particularly very low, and where the Draft Fifth Plan envisages more than 100 per cent increase in the loaning programmes of the banks. The investment credit provided by land development banks has to be linked to specific schemes of agricultural development in the state plans. This will ensure a purposeful role for land development banks in the implementation of agricultural development programmes in various states.

(iv) *Discipline under Ordinary Programme*

(a) *Loans for Identifiable Productive Purposes*

21. Land development banks are required to give loans mainly for productive purposes to be eligible for availing themselves of the support to their debenture floatations from various institutions. According to the present norms, at least 90 per cent of the loans issued by banks should be for productive purposes and of this at least 70 per cent should be for easily identifiable productive purposes. The broad classification of the items under identifiable and non-identifiable productive purposes is given in Chapter 10.

22. The banks, through the National Co-operative Land Development Banks Federation, have in the past made representations to the Reserve Bank either to include certain new items like the preparation of land for orchards and plantations in the category of identifiable productive purposes or to allow flexibility to them for giving loans for purposes which are at present not included in the list. In the case of some states such as Assam, Bihar, Orissa, West Bengal, Tripura, Rajasthan,

Madhya Pradesh and Kerala, it has been represented that banks will not be able to improve either their coverage or increase their loaning operations substantially unless they are allowed to give loans for redemption of old debts beyond the limit of 10 per cent of the total loans stipulated at present.

Purposes such as preparation of land for orchards and plantations and replanting are necessary in areas having horticulture and plantation crops. Similarly, in *tarai* areas, soil conservation by terracing of land and contour bunding are important items of land development which involve considerable expenditure for meeting which cultivators will require loans. However, before any new item can be recognized as an identifiable productive purpose, the proposal should be examined by the central land development banks in all its aspects, both technical and economic. It is only in this manner that land development banks can fulfil the targets set for lending in the Fifth Plan because such lending has necessarily to be for viable concrete schemes.

23. As regards loans for redemption of old debts, we note that the Reserve Bank of India has already allowed in March 1973 some relaxation in the case of loans to be given to tribals mainly for financing identifiable development purposes and where the banks have taken necessary safeguards to ensure that only a portion of such loans is intended to be utilized to redeem the previous debt and mortgage on the lands proposed to be offered as security. In such areas, the entire amount of the composite loan sanctioned might be treated as for identifiable productive purposes. The amount of these loans will not be taken into account for determining the quantum of loans for non-productive purposes up to 10 per cent of the total loaning. We should, however, like to suggest that each central land development bank may conduct a study to assess the need for enhancement of the percentage of loans to be given for debt redemption, especially in scheduled castes/scheduled tribes areas or in SFDA/MFAL areas and take up the matter with the Reserve Bank, if necessary.

(b) *Overdues at the Primary Level*

24. The Reserve Bank has introduced a certain measure of financial discipline beginning from 1971-2 in regard to reimbursement of funds by central land development banks to primary banks or branches of central land development banks by linking the quantum of funds to be provided to the overdues at the primary level. The formula laid down for the purpose for the year 1974-5 (September-August) is indicated in the following page.

<i>Range of Overdues at the primary bank/branch level at the end of the preceding co-operative year.</i>	<i>Extent of eligibility for reimbursement</i>
(i) Up to 15 per cent of demand for the year	100 per cent of the programme
(ii) Between 16 and 25 per cent for the year	85 „
(iii) Between 26 and 40 per cent for the year	75 „
(iv) Between 41 and 50 per cent for the year	60 „
(v) Above 50 per cent of the demand	
(a) If the amount of overdues in any case is below Rs 1 lakh at the end of the year	50 „
(b) If recovery during any of the last two years is 85 per cent or more	60 „
(c) In cases where recovery is below 85 per cent but is 75 per cent or more in any of the previous two years	50 „
(d) In the case of primaries/branches which are not eligible for any programme even after the relaxation indicated in (a), (b) and (c) above.	25 per cent of the programme or to the extent of the advances actually made during 1973-4 under the reduced eligibility, if any, whichever is higher.

25. It will be seen from these details that (a) only banks having overdues up to 15 per cent of the demand are eligible for full reimbursement and (b) banks having overdues exceeding 50 per cent of demand as at the end of the previous co-operative year are not, as a general rule, eligible for reimbursement from central land development bank in excess of 25 per cent of the loan programme. Relaxations have, however, been made in cases where the primary banks or branches of the central land development bank have shown sizeable recoveries, i.e., over 75 per cent of demand in the earlier two co-operative years or where the total amount of overdues in any case does not exceed Rs 1 lakh. Further, in SFDA/MFAL areas in the states of Assam, Bihar, Orissa,

West Bengal, Rajasthan and Jammu & Kashmir the central land development banks are allowed to provide necessary funds for financing small farmers/marginal farmers by the primaries/branches irrespective of their overdues. In addition, certain relaxations are allowed in the case of primary banks serving areas having a large proportion of scheduled castes and scheduled tribes. Further, the Reserve Bank has agreed to consider concrete proposals made by land development banks for either re-scheduling of overdues arising out of scarcity conditions or to exclude current demand and recoveries in scarcity areas from the total demand and recoveries for the purpose of arriving at the percentage of overdues to demand and on that basis to regulate advances to primaries/branches in areas affected by scarcity conditions. Very recently, i.e., in November 1974, the Reserve Bank has also agreed that land development banks may, if they so desire, segregate overdues of 5 years and more, viz., those pertaining to old loans which had been granted by banks prior to the introduction of the production-oriented system of lending, into a separate blocked account and exclude the same from the total overdues while calculating the percentage of overdues to demand. Every year, 20 per cent of this blocked amount may be treated by banks as demand for the year. They will, however, have to make full provision for the reserves for bad and doubtful debts to cover the shortfall, if any, in the recoveries against this demand. The object is to ensure that at the end of 5 years the banks should have either recovered the entire amount segregated as blocked account or would have made adequate provision to cover the full amount not recovered under this procedure.

26. Turning to a review of the lending operations of the banks in the past few years, it is seen that there has been a decline in the quantum of loans issued under ordinary lending programmes. During the years 1972-3 and 1973-4 (April-March) the banks were able to provide loans to the extent of Rs 102 crores and Rs 75 crores as against the approved lending programme of Rs 158 crores and Rs 131 crores respectively. The position in regard to the achievement of the ordinary debenture programme by central land development banks during 1972-3 and 1973-4 (April-March) is given in Table 4. From the details given in the Table, it will be seen that as against 5 banks which could achieve 100 per cent of the targets fixed for ordinary debentures during 1972-3 one could do so during 1973-4. A review of the performance of land development banks during 1973-4 indicates that the volume of loans issued under ordinary programmes has been shrinking considerably. This is due to lack of diversification in loaning in the case of some banks (e.g., Andhra Pradesh and Tamil Nadu), while in the

TABLE 4
PERFORMANCE OF CENTRAL LAND DEVELOPMENT BANKS IN ACHIEVING
TARGETS OF ORDINARY DEBENTURES

Level of Achievement of Targets					Name of Banks	
1					During 1972-3 2	During 1973-4 3
100 per cent	..	..	..	..	Bihar, Haryana, Jammu & Kashmir, Kerala and Uttar Pradesh	Haryana
Below 100 per cent but not less than 90 per cent	..	..	..	..	Punjab	—
Below 90 per cent but not less than 80 per cent	..	..	..	..	Maharashtra and Karnataka	Uttar Pradesh
Below 80 per cent but not less than 70 per cent	..	..	..	..	Gujarat and Tamil Nadu	Andhra Pradesh, Gujarat and Kerala
Below 70 per cent but not less than 60 per cent	..	..	..	..	—	Bihar
Below 60 per cent but not less than 50 per cent	..	..	..	..	Madhya Pradesh and Rajasthan	Jammu & Kashmir, Madhya Pradesh, Punjab and Tamil Nadu
Below 50 per cent but not less than 40 per cent	..	..	..	..	Assam, Orissa and Pondicherry	Orissa, Pondicherry and Rajasthan
Below 40 per cent but not less than 30 per cent	..	..	..	..	Himachal Pradesh and West Bengal	Maharashtra and Karnataka
Below 30 per cent but not less than 20 per cent	..	..	..	..	Andhra Pradesh	West Bengal
Nil	..	..	..	..	Tripura	Himachal Pradesh, Assam and Tripura

case of others (e.g., Rajasthan, Orissa and West Bengal) it can be attributed mainly to the wholesome discipline introduced by the Reserve Bank in regard to the regulation of reimbursement of funds by the central land development banks to the primary banks/branches of the central land development banks on the basis of the level of overdues. In this context, the Reserve Bank is often approached with requests to revise or waive these norms of financial discipline so that the banks are able to achieve targets for loaning. After examining all the aspects of the matter we have come to the conclusion that there is no case for any revision or relaxation in the existing norms except in the case of areas covered by Small Farmers Development Agencies/Marginal Farmers and Agricultural Labourers projects in the co-operatively less developed states of Assam, Bihar, Orissa, West Bengal, Tripura, Rajasthan,

Madhya Pradesh, Himachal Pradesh and Jammu & Kashmir where the Reserve Bank has allowed primary banks or branches of central land development banks to provide necessary funds for financing small farmers and marginal farmers identified as such under the scheme, irrespective of their overdues. The land development banks have to make earnest efforts to keep their overdues within manageable limits to enable them to fulfil the lending targets. There are no soft options in the matter.

We, however, suggest that the Reserve Bank may review periodically the position regarding loaning by primary banks/branches of the central land development banks in SFDA/MFAL areas and, if necessary, exempt the banks from this discipline for a specific period, even in states which are not at present covered by such an exemption if it will help small farmers in getting long-term loans needed for development while at the same time, such exemptions will not make the primary banks slacken their efforts for recovery of loans.

(v) *Government Guarantee*

27. In order to obviate delay in obtaining government guarantee for debentures to be floated by central land development banks, the Reserve Bank has been suggesting to state governments since November 1964 that they may adopt the practice of fixing in the beginning of the year, the limit of guarantee which they would extend to the central land development bank in their state towards the debentures to be floated by the bank during the year. In some states the banks are still being required to approach the concerned state government for guarantee every time they float debentures. For example, in Madhya Pradesh, notwithstanding the continuing government guarantee, the bank is required to get the approval of the state government for each series of debentures as per section 4 of the Madhya Pradesh Co-operative Land Development Bank Act, 1966. Further, there are instances (e.g., Assam and Punjab) where the government guarantee had been issued subject to certain conditions which included that a minimum of 75 per cent of the lendings by the banks should be earmarked for certain specified purposes or putting restriction on the bank in invoking the guarantee. In a few states (e.g., West Bengal and Punjab), the state governments were found to have taken a decision to charge guarantee commission/service charges for the guarantee extended by them for the debentures of the central land development banks. These proposals were dropped subsequently under advice from the Reserve Bank. We recommend that the state governments should continue to extend a helping hand to central land development banks by providing the necessary guarantee

on a continuing basis in the beginning of the year for the debentures to be issued during the course of the year so that there is no delay at the time of floatation of debentures. The state governments should also provide the guarantees without conditions attached. Further, in view of the important role played by land development banks in financing the programmes for agricultural development, nothing should be done which increases the financial burden on them resulting in a rise in the cost of investment credit provided by them. Thus, state governments should not levy guarantee fees or commission in respect of the guarantees provided by them for the debentures of the central land development banks. Such levies are inconsistent with the policy of state support to co-operative institutions.

28. Another form of guarantee which the state governments have been providing of late to land development banks is in respect of deficit in security offered by cultivators. Such a guarantee is provided especially in the case of ARC-refinanced schemes for minor irrigation works or land reclamation under which one of the standard conditions provides that the borrower shall be entitled to loan assistance to the extent of 50 per cent of the value of land which is expected to be compound on the basis of eight times the post-developmental net income for ordinary schemes or on the basis of the average market value of well-irrigated land in the area over the past 3 or 4 years in the case of special schemes. The deficit, if any, in security shall be guaranteed by the state government. The government guarantee for deficit in security in this behalf is a welcome feature inasmuch as it helps small cultivators in obtaining loans from land development banks. We recommend its continuance by all the state governments in the Fifth Plan and its extension to ordinary loans also.

(vi) *Popularization of Debentures*

29. The debentures issued by the majority of the central co-operative land development banks, with the exception of Karnataka and Tamil Nadu, are not quoted on the stock exchange. While it is true that the debentures have now a sheltered market, yet it is advisable to look ahead and envisage a situation under which the debentures will need support of the open market. For this purpose, we suggest that central land development banks should take necessary action to get their ordinary debentures which are trustee securities quoted on the stock exchange so that they might become popular in which event there might be investors to these debentures from the general public also.

30. In certain states, viz., Gujarat, Haryana, Jammu & Kashmir and Delhi, stamp duty is levied on the transfer of debentures. This may act as an inhibiting factor in the public sector institutions investing in the debentures of central land development banks. We suggest that the state governments concerned should not levy any stamp duty on the transfer of debentures.

(vii) *Operational Aspects of the Working of Land Development Banks*

31. The smooth fulfilment of the debenture floatation programmes by central land development banks depends on their operational efficiency. In the case of some banks, there is considerable delay in the audit of their accounts and in sending the audit report to the Reserve Bank in time. Some banks have also delayed the issue of debenture scrips to the various subscribing institutions. The Reserve Bank has, therefore, stipulated that the audit reports for the penultimate year should be sent by the banks while submitting the proposals for floatation of debentures in the current year. The Reserve Bank also insists that the banks should issue debenture scrips to the various institutions promptly. In the case of a few banks, the Life Insurance Corporation of India had occasions to complain that they had not allotted to it the debentures to the extent indicated by the Reserve Bank while fixing the debenture programme even after the remittance of the amount to the concerned banks. The banks should realize the need for maintaining a high level of operational efficiency in order to ensure that they continue to get support from various institutions to their debentures.

(viii) *Co-ordination Between Ordinary and Special Development Debentures*

32. After the establishment of the Agricultural Refinance Corporation in 1963, it was expected that all loaning operations of land development banks would gradually conform to a uniform pattern. In other words, it was expected that land development banks would introduce appraisal methods and various post-sanction follow-up measures as in the case of loans under the ARC-refinanced schemes, in respect of loans under ordinary schemes also. The Project Agreements in respect of agricultural credit projects sanctioned by IDA have helped land development banks substantially in following uniform lending terms and criteria in respect of loans both under ordinary and special programmes although, as pointed out in Chapter 10, paragraph 12, the banks have yet to bring all their loaning operations under the ARC type of loaning. While, no

doubt, the trend towards a sizeable increase in loaning under ARC-refinanced schemes is to be entirely welcomed, yet care has to be taken to ensure that this increase is not due to the central land development banks wanting to avoid the discipline imposed by the Reserve Bank in regard to floatation of debentures for ordinary loans, especially the stipulations in regard to the level of overdues at the primary level. This subject has assumed a great deal of importance because of the fact that more and more schemes are being brought under the purview of the Agricultural Refinance Corporation which has estimated that its lendings under special schemes during the Fifth Five Year Plan will be about Rs 900 crores as against the target of Rs 300 crores during the Fourth Plan period. This may mean, as already indicated in paragraph 10 of this Chapter, a reduction in loaning under the ordinary debenture programmes from Rs 1100 crores as originally envisaged to Rs 600 crores during the Fifth Plan. The quantum of refinance provided by the Agricultural Refinance Corporation to central land development banks increased from Rs 28 crores during 1971-2 to Rs 86 crores during 1972-3. In the following year, i.e., 1973-4 it amounted to Rs 78 crores. As on 30 June 1974, the total disbursements on account of refinance provided by the Agricultural Refinance Corporation to central land development banks came to Rs 274 crores, forming as much as 86 per cent of the total refinance provided by it at the end of June 1974. The disbursements made by central land development banks under ARC-refinanced schemes as a percentage of the total disbursements made by them, i.e., both under ARC-refinanced schemes and ordinary schemes increased from 16.3 per cent at the end of June 1970 to 48.8 per cent at the end of June 1974. This brings us to the subject of the criteria followed by the Reserve Bank and by the Agricultural Refinance Corporation in clearing debenture floatation proposals received from central land development banks. The main aspect in this regard to which we should like to invite attention relates to the stipulation regarding the level of overdues at the primary/branch level. According to the Reserve Bank's formula, primary land development banks and branches of central land development banks with a recovery performance of 85 per cent of the demand and above are allowed to undertake the full programme, i.e., that allotted to them at the beginning of the year and also from the savings resulting from the cut applied to the programmes of other units on the basis of their recovery performance. The cuts increase progressively as the percentage of recovery to demand deteriorates so that banks with overdues exceeding 50 per cent of the demand are allowed only 25 per cent programme allotted to them at the beginning of the year. However, the standards followed by the Agricultural Refinance Corporation are somewhat different. Ordinarily, primary banks

with overdues exceeding 25 per cent of the demand are excluded from the current year's programme of lending under ARC-refinanced schemes unless the percentage is notionally reduced to 25 by injection of government share capital of an appropriate amount to the bank concerned. In a few cases, the minimum recovery performance has been fixed at 65 per cent of the demand. We understand that the Reserve Bank has already taken up the matter of bringing about uniformity in the criteria followed by the Bank and those followed by the Agricultural Refinance Corporation in regard to the stipulation of overdues at the level of primary banks/branches of central land development banks, *vis-a-vis* their eligibility for the lending programmes. There is scope for uniformity in regard to other aspects of the procedures followed by the Reserve Bank and the Agricultural Refinance Corporation in connexion with clearing of debenture proposals in regard to which such uniformity can be introduced so that both institutions follow more or less identical procedures. We recommend that these matters also may be examined by the Reserve Bank so that uniformity can be introduced not only in regard to the stipulation regarding level of overdues at the primary level but in other matters also, such as the position of cash in-flow and cash out-flow, prior receipt of audit report of the bank for the penultimate year and issue of debenture scrips in respect of the earlier floatations.

Rural Debentures

33. The various aspects in regard to rural debentures floated by central land development banks have been examined by us in a later Chapter (Chapter 9). This Chapter also contains our suggestions for enabling banks to collect larger amounts both through floatation of rural debentures and fixed deposits.

Interim Finance

34. Most central land development banks depend on interim accommodation for undertaking initial loaning for collection of unencumbered mortgages. Interim finance is being provided either by the state co-operative bank or the State Bank of India and its subsidiaries. The Reserve Bank helps the banks in securing interim accommodation for their loaning operations from both the state co-operative banks and the State Bank of India and its subsidiaries. The Indian Banks Association had on 28 June 1972 informed the Reserve Bank that commercial banks, both nationalized and others, were also prepared to offer similar facilities to central land development banks provided the land development banks maintained their accounts with them.

35. It has been represented to our Committee by some banks that as a follow-up of the instructions issued by the Reserve Bank to commercial banks in November 1973 for curbing credit expansion, the State Bank of India and its subsidiaries had drastically reduced the limits sanctioned to them, with the result that they were put to considerable difficulty. It has also been pointed out that the difficulty mainly arose because the Reserve Bank was not allowing more than three floatations of ordinary debentures in a year. We understand in this connexion that the Reserve Bank has helped the banks by persuading the State Bank of India and its subsidiaries to suitably enhance the interim limit wherever it was found that the banks might not be in a position to fulfil the targets of loaning during the year because of reduction in the limits, while in some cases, the state co-operative banks have agreed to provide larger interim accommodation. After an examination of the position of owned funds in various central land development banks we observe that even those banks which have a comfortable position regarding disposable resources are making use of interim accommodation. In the case of several banks, it is noticed that large build-up of idle funds takes place for most part of the year. Our view, therefore, in this regard is that the difficulties experienced by banks are mainly due to faulty management of funds. Land development banks should carefully plan the deployment of their own disposable resources in the most profitable manner and make determined efforts to reduce their dependence on interim accommodation from the State Bank and its subsidiaries or the state co-operative bank particularly because recourse to borrowings from interim accommodation is costly. In regard to the frequency of floatation of debentures, we feel that although three floatations of debentures in a year allowed at present should be normally adequate for utilizing assured support, we suggest that the Reserve Bank may permit an additional floatation in a year by those central land development banks which are depending heavily on interim accommodation for their loaning operations in order to enable them to operate within the reduced limits sanctioned by the State Bank of India and its subsidiaries as also to reduce the incidence of higher rates of interest payable on interim accommodation.

SHARE CAPITAL

(a) *Contribution by Individuals*

36. The primary banks generally collected share capital at the rate of 5 per cent of the loan amount from individual borrowers. These banks in turn purchased shares of the central land development bank to the

extent of 4 per cent of their borrowings. On 4 March 1972, the Reserve Bank suggested that land development banks might collect a reduced amount on account of share capital in the case of small and marginal farmers in the initial year. According to the pattern suggested by the Reserve Bank, primary banks can initially collect 2 per cent of the loan amount from small farmers and the balance of 3 per cent at 1 per cent in each of the subsequent 3 years. The Reserve Bank further suggested on 9 July 1973 that the contribution of primary banks in the share capital of central land development banks might be fixed at 3 per cent of the borrowings of primary banks instead of at 4 per cent.

37. The All-India Rural Credit Review Committee (1969) recommended that bigger cultivators should make a larger contribution towards share capital of land development banks. This suggestion does not appear to have been implemented by most of the banks. However, the Gujarat State Co-operative Land Development Bank requires cultivators to make a contribution of 5 per cent for loans up to Rs 5,000 and 7 per cent for loans for a higher amount. Consequent on the implementation of the agricultural credit projects sanctioned by the International Development Association in various states, banks are required to ensure that, besides the share capital contribution, the cultivators provide a part of the amount from their own resources towards the cost of the proposed investment in agriculture. This 'down payment' is generally 20 per cent, inclusive of share capital contribution and taking into account the value of labour put in by cultivators. Certain concessions are permitted in the case of small farmers. For example, while the down payment for bigger farmers in respect of minor irrigation or land reclamation schemes is 20 per cent, it is only 10 per cent for small farmers subject to the total loan being Rs 10,000 or below.

38. In view of the condition regarding application of IDA project lending terms and criteria to non-project lendings for similar items of investments in terms of the agreements relating to various projects, the Reserve Bank had advised central land development banks on 31 July 1971 to ensure down payment by cultivators for loans under ordinary programme also. However, it is seen from the data available to us that the condition regarding down payment is often being circumvented by cultivators with the help of the field staff either by inflating the cost of development in the case of loans for land levelling and sinking of wells or by inflating the amount of invoices on account of the cost of machinery and equipment or by adding the cost of ancillaries which are not required immediately, or not required at all. Thus, there is a need for evolving a procedure by which the bigger cultivators are

required to make a higher contribution from their own resources towards the cost of development than the small farmers. We recommend in this connexion that bigger cultivators should be compelled to pay a higher amount towards share capital at the rate of, say, 10 per cent of the loans instead of the usual 5 per cent of the loan amount and that primary land development banks should insist on payment of this amount well before the sanction and disbursement of the loan amount to the bigger cultivators.

(b) *Loans for Share Capital Contribution*

39. Following one of the important recommendations of the All-India Rural Credit Review Committee (1969), the Reserve Bank advised the state governments in 1969 that the Bank would be prepared to sanction loans from the Long-term Operations Fund for enabling the state governments to contribute to the share capital of primary land development banks. Since the inception of the scheme in 1969-70, the Reserve Bank had sanctioned a sum of Rs 1.88 crores to the state governments for the purpose till the end of March 1974. The year-wise and state-wise particulars are given in Table 5.

40. A review of the position in regard to the amounts sanctioned year-wise in various states indicates that in the case of some states the number of banks for which assistance is being provided has been going down year after year, or the number of banks for which loans are sanctioned is insignificant as compared with the total number of banks. This is true especially in the case of banks in co-operatively less advanced states. This aspect has also been referred to in an earlier Chapter (Chapter 5) dealing with the problems of banks in co-operatively less advanced states.

41. One of the conditions that seems to be coming in the way of the state governments availing themselves of the facility for a larger number of banks relates to the norms stipulated by the Reserve Bank for eligibility of an institution for state participation. According to the instructions issued by the Reserve Bank in July 1974, only those primary banks whose overdues are less than 15 per cent of the demand, except in the case of banks in SFDA/MFAL/notified tribal areas and those functioning in co-operatively weak states, where the permissible limit is 25 per cent, are eligible to be considered for the purpose. It is understood that in the case of central co-operative banks, the Reserve Bank is allowing loans for state participation in respect of banks which have overdues to the extent of 30 per cent of the demand and this percentage is relaxed

TABLE 5

LOANS SANCTIONED TO STATE GOVERNMENTS FROM THE LONG-TERM OPERATIONS FUND FOR CONTRIBUTION TO
THE SHARE CAPITAL OF PRIMARY LAND DEVELOPMENT BANKS

Sr. No.	State Government	Rs Lakhs									
		1969-70		1970-71		1971-2		1972-3		1973-4	
		No. of banks	Amount	No. of banks	Amount	No. of banks	Amount	No. of banks	Amount	No. of banks	Amount
1. Andhra Pradesh	..	72	17.00	58	11.00	—	—	—	—	14	2.20
2. Assam	..	4	1.00	—	—	—	—	—	—	—	—
3. Haryana	..	—	—	—	—	—	—	20	8.50	6	3.85
4. Karnataka	..	50	12.00	19	5.00	23	7.00	32	9.93	30	9.23
5. Kerala	..	8	2.00	5	1.00	4	1.00	4	0.85	4	1.00
6. Maharashtra	..	2	1.00	2	4.00	—	—	—	—	—	—
7. Madhya Pradesh		15	3.00	6	2.00	1	2.00	1	0.50	4	2.75
8. Orissa	..	35	8.00	13	3.00	—	—	4	1.25	2	0.50
9. Rajasthan		6	1.00	5	2.00	2	—	3	0.50	3	1.60
10. Tamil Nadu	..	55	13.00	27	7.00	32	11.00	49	11.155	47	9.76
11. West Bengal	..	7	2.00	11	3.00	18	5.00	—	—	1	0.50
		254	60.00	146	38.00	80	26.00	113	32.685	111	31.39

SHARE CAPITAL

to 50 in the case of central co-operative banks functioning in SFDA/MFAL/notified tribal areas and those brought under specific rehabilitation programmes. The primary land development banks in most states have very weak owned funds although they are required to play an important role in the land development banking structure. We, therefore, recommend that the Reserve Bank may agree to provide loans to state governments for participation in the share capital of primary land development banks whose overdues are less than 30 per cent of the demand as compared with 15 per cent applicable at present. In the case of primary land development banks in SFDA/MFAL/notified tribal areas, those functioning in weaker states as well as those under rehabilitation or reorganization programmes, the permissible limit may be 50 per cent instead of 25 per cent as at present.

42. Apart from contribution to the share capital of primary banks from out of the loans obtained from the Reserve Bank, the state governments of Karnataka, Maharashtra and Madhya Pradesh are providing share capital from their own resources to banks whose overdues exceed 25 per cent of the demand so as to make them eligible for participation in lending under the IDA agricultural credit projects. The share capital so provided is used to reduce overdues notionally to 25 per cent. While this seems to be a useful expedient, it cannot obviously be a long-term solution to the problem of overdues which has to be tackled by the banks by actually recovering the overdue loans.

MANAGEMENT OF FUNDS

43. The working of central land development banks is materially different in certain respects from that of other banking institutions inasmuch as they mainly depend upon outside resources for their loaning operations. Although these banks have started accepting long-term deposits, the amount received by most of them in this manner is not significant. The position of owned funds excepting in a few states like Andhra Pradesh, Tamil Nadu, Maharashtra, Karnataka and Gujarat is not very satisfactory. The broad pattern of working of these banks is that they utilize their owned funds and interim accommodation obtained from the state co-operative bank or the State Bank of India and its subsidiaries in issuing loans to cultivators against the mortgage of land and float debentures when sufficient mortgages are collected. The central land development banks issue loans to cultivators either through their branches or through primary banks at the district/*tehsil*/block level. The latter, by and large, do not have any appreciable

resources of their own and depend largely upon the funds to be provided by the apex institution.

44. Under this pattern for raising resources by land development banks, they have to avail themselves of interim accommodation to the extent necessary for collecting mortgages and after the debentures are floated, they have to clear the outstandings in respect of interim accommodation. Similarly, primary banks can issue loans either from their owned funds (if they are adequate) or from the funds provided by the central land development bank. This process can continue throughout the year both at the central and the primary levels and it would appear that there is very little scope for accumulation of idle funds at any of the levels. However, in practice, accumulation of idle funds is found to be taking place both at the level of central land development banks and primary banks resulting in loss of interest to the banks. This is illustrated by the following Table in the case of some central land development banks :

TABLE 6
POSITION OF IDLE FUNDS IN CENTRAL LAND DEVELOPMENT BANKS

Name of Bank	Date	Borrowings From				Funds		
		Govern- ment	Co-op. Banks	Commer- cial Banks	Total	Cash and Bank Balances	Fixed Depo- sits (other than those for Sinking Fund)	Total
Bihar	31-3-73	—	74.36	159.97	234.33	267.26	—	267.26
	30-6-73	--	199.06	132.45	331.51	213.50	--	213.50
Orissa	30-6-72	60.00	32.46	--	92.46	14.25	61.42	75.67
	30-6-73	50.00	83.61	--	133.61	15.86	65.22	81.08
Punjab	30-6-73	--	205.28	--	205.28	344.00	—	344.00
West Bengal	30-6-73	10.35	6.85	—	17.20	38.65	—	38.65

Causes for Idle Funds

45. The problem of idle funds arises for the following reasons:

(i) In the case of central land development banks, the problem of idle funds arises due to drawal on interim accommodation coupled with floatation of debentures at periods when the banks have either received considerable amount of recoveries or the recoveries are to be

received shortly after the debenture floatation. It can also arise in case interim finance has been utilized for initial loaning although the bank has adequate owned funds for the purpose or when debenture proceeds have not been used to repay outstandings under the interim accommodation. In the case of banks which do not have adequate owned funds and have to depend on interim accommodation for initial loaning operations, the problem of idle funds can arise if they do not use part of the recoveries in excess of the requirement of sinking fund for fresh loaning as also when they do not follow a systematic procedure for making contributions towards the sinking fund.

(ii) In the case of primary banks, the problem of idle funds arises mainly because they do not utilize the amounts received from the central land development bank promptly in issuing loans or they do not pass on the recoveries to the latter regularly. The primary banks are found to be doing so because of the apprehension that the central land development bank may not put them in funds promptly resulting in delay in disbursement of loans at their end. The build up of idle funds also arises when there is considerable delay on the part of primary banks in disbursing second or subsequent instalments of loans which may be either due to non-receipt of utilization certificates in respect of the earlier instalments or because the borrowers do not approach the bank for drawing the amount. In general, the problem of idle funds arises because of lack of proper understanding in regard to the period when banks need funds for disbursements and the period when they receive recoveries from cultivators.

(iii) Apart from the reasons given above, the problem of idle funds in central land development banks can also arise because of unsystematic management of funds or lack of proper perspective in regard to the availability of resources from time to time. For example, in the case of one bank it was observed that even when it had adequate owned funds it was utilizing interim accommodation for giving loans to cultivators. The bank was also not following the system of clearing the outstandings in respect of interim accommodation after each debenture floatation. At times, the bank was found to be having large amounts in call deposits with commercial banks, although it was raising resources on account of interim accommodation at a comparatively higher rate of interest. The problem of idle funds is also found to arise because of inordinate delays in making repayments by primary banks to the central land development banks. The Study Teams which were constituted by the Committee to study the working of land development banks in co-operatively less developed states have reported lack of proper management of funds at the level of central land development banks and primary banks resulting in building up of idle funds.

Measures for Preventing Build up of Idle Funds

46. The above account shows that the build up of idle funds occurs mainly because of lack of appreciation on the part of the executives of central land development banks and primary banks in regard to proper use of the resources—both their own or raised from outside. The Reserve Bank has been issuing instructions from time to time on this subject to help the banks in the proper management of funds. The more important of these are referred to below:

(i) Utilization of owned funds and recoveries effected by central land development banks for the issue of fresh loans instead of drawing on interim accommodation for the purpose and using interim accommodation at the time of making appropriations towards sinking fund to the extent recoveries have been diverted for loaning.

(ii) Proper planning of the debenture floatations to avoid unprofitable deployment of resources.

(iii) Contribution to the sinking fund at proper timings to ensure optimum utilization of their resources.

(iv) Introduction of a system of reimbursement by central land development banks for funds to be provided to primary banks/branches of central land development bank by making use of temporary cash credit facilities from commercial or co-operative banks.

(v) Evolution of appropriate procedures whereby the recoveries effected by primary banks are passed on quickly to the central land development bank so that wastage of resources is avoided at any level.

47. From the instructions issued from time to time by the Reserve Bank and the proceedings of the seminars of the chief executive officers of central land development banks held in Madras in February 1969, and in Poona in September 1970, February 1972 and September 1974, it is observed that the guidelines laid down for the management of funds by banks and for flow of funds between the apex institutions and primary banks or *vice versa* are quite comprehensive. We would urge upon the chief executive officers of central land development banks to scrupulously follow these instructions regarding management of funds. We also give below a few suggestions which may help in preventing recurrence of idle funds in land development banks.

(A) At the Central Land Development Bank's Level

48. The central land development banks can be grouped into two broad categories from the point of view of their resources: (i) banks

having adequate owned funds for enabling them to give loans to cultivators against mortgage of land and thereafter floating debentures and (ii) banks whose position of owned funds is not satisfactory either because they have not so far been able to develop sizeable loaning business or because their owned funds have been locked up in overdues. The position in regard to owned funds of banks and their net disposable resources as on 30 June 1973 is indicated in Table 7.

In the first category of banks, viz., those having adequate owned funds for initial loaning operations, we can include banks in Tamil Nadu, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Uttar Pradesh. The second category, viz., those depending mainly upon interim accommodation covers the remaining 13 banks. The various suggestions for preventing build up of idle funds are discussed separately in respect of the above categories of banks.

(i) *Banks with Adequate Owned Funds*

49. In regard to the ordinary debentures, the Reserve Bank does not favour more than three floatations in a year (April-March), whereas in the case of special development debentures, the Agricultural Refinance Corporation has not put any such restrictions. The procedure of frequent floatations of debentures results in build up of idle funds especially if debentures are issued when loaning operations in the coming months are at a lower level or when recoveries start coming in. Such a situation can be avoided in case the banks follow the procedure of floating debentures taking into account the overall position in regard to cash in-flow and cash out-flow in the ensuing months. However, by and large, it is observed that banks overlook this aspect. This underlines the importance of proper planning in debenture floatations and raising of resources by banks. In order to enable these banks to avoid build up of idle funds, the following further suggestions could be implemented:

(a) Each bank should, in the light of its experience, make projections in regard to the loans—ordinary loans as well as loans under special schemes refinanced by ARC—to be disbursed and the recoveries to be received in each of the quarters, together with an analysis of its cash in-flow and cash out-flow during this period. In the light of these projections it should work out the approximate dates by which debentures are to be floated. This would help the banks in floating debentures, both ordinary and special, when it is in need of funds, i.e., it reimburses itself at a proper time for undertaking fresh loaning. In other words, the banks should introduce a method of forecasting in respect of their requirements of funds during the following year, well in advance. There

TABLE 7

OWNED FUNDS AND NET DISPOSABLE RESOURCES OF THE CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS AS ON 30 JUNE 1973

Sr. No.	Bank		Owned funds*	Net disposable resources@	Rs Lakhs			
					Loans issued during the year 1973-4		Lending programme for 1974-5	
					Normal	A.R.C.	Normal	A.R.C.
1.	Andhra Pradesh	.. ..	1013.08	667.36	529.80	679.33	800	700
2.	Assam	.. ..	17.39	12.01	7.38	—	25	400
3.	Bihar	.. ..	310.17	298.74	891.54	371.98	1050	750
4.	Gujarat	.. ..	1314.41	1106.41	655.85	692.29	1100	900
5.	Haryana	.. ..	319.64	280.29	252.19	604.76	300	450
6.	Himachal Pradesh	.. ..	20.15	20.05	0.87	1.71	40	35
7.	Karnataka	.. ..	763.32	590.08	431.97	1188.77	1000	1500
8.	Jammu & Kashmir	.. ..	28.25	26.65	26.58	1.06	40	40
9.	Kerala	.. ..	136.97	75.27	257.06	53.59	300	200
10.	Madhya Pradesh	.. ..	288.17	256.79	705.67	448.90	1000	1000
11.	Maharashtra	.. ..	2805.15	1002.00	295.56	—	1200	1600
12.	Orissa	.. ..	148.41	96.40	133.12	148.83	550	250
13.	Punjab	.. ..	370.15	322.79	794.36	262.78	1325	675
14.	Rajasthan	.. ..	156.52	146.97	183.58	223.19	500	350
15.	Tamil Nadu	.. ..	896.32	626.02	858.77	1275.64	1700	900
16.	Uttar Pradesh	.. ..	1083.33	1020.29	1348.49	1430.85	1300	2200
17.	West Bengal	.. ..	88.07	72.04	89.23	8.03	205	400
18.	Pondicherry	.. ..	12.72	11.09	7.41	—	15	—
19.	Tripura	.. ..	2.25	1.38	11.00	—	20	—

*Share Capital and Reserve Fund.

@This has been worked out by deducting from the owned funds, overdues, cost of building and other assets such as furniture and fixtures, general investments and accumulated losses, if any.

should be no difficulty in working out such detailed projections by the banks.

(b) In the case of banks with adequate owned funds it is observed that they have succeeded to a certain extent in mobilizing savings from rural areas by issuing rural debentures and collecting fixed deposits. Since banks are not permitted to give loans against the security of fixed deposit receipts, the amounts to be collected/paid back should be taken into account while making an analysis regarding cash in-flow and out-flow. Similarly, advance collections to be received by banks should be taken into account.

(ii) *Banks Depending Upon Interim Accommodation*

50. (a) Banks relying heavily on interim accommodation should make use of such accommodation only to the extent necessary, i.e., after ploughing back the recoveries received by them in fresh loans. Further, outstandings under interim finance should be brought to nil or to a very low figure immediately after each debenture floatation in respect of loans under ordinary and special schemes.

(b) Banks should draw on interim accommodation for the purpose of making contributions to sinking fund when they are either required to purchase debentures floated by other central land development banks as a part of mutual support programmes or when investments in government and other trustee securities are made during the course of the year. Such a procedure of drawing on the interim accommodation for the purpose of making contributions to sinking fund after having used recoveries in fresh loans would be more profitable to banks.

(c) Banks should analyse cash in-flow and out-flow for the following year well in advance, preferably immediately after the supported programme for each bank is decided by the Reserve Bank. While making these projections they can broadly follow the same procedure as suggested in the case of banks having adequate owned funds for their loaning operations in paragraph 49(a).

(d) Banks depending heavily on interim accommodation should frequently float special development debentures under ARC-refinanced schemes so that their dependence on interim accommodation is kept to the minimum.

(B) *At the Level of Primary Banks*

51. (a) Generally, the flow of funds between a central land development bank and primary banks and *vice versa* takes place on account of the following factors :

<i>CLDB to PLDBs</i>	<i>PLDBs to CLDB</i>
(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 SFDA/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 owned funds and later the funds provided by the central land development bank in their loaning operations. Besides, they should be prompt in remitting the amounts received by them on account of recoveries from cultivators to the central land development bank.

(b) The central land development bank 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. Generally, for disbursement of loans and for collections on account of recoveries there is a seasonal pattern as in the case of short-term loans. In the case of long-term credit, it is in fact easier to work out the seasonality in these operations as practically no development is undertaken excepting perhaps purchase of agricultural machinery and equipment when sowing or harvesting operations are in progress or there is a standing crop in the field. At present, 70 to 80 per cent of loans issued by banks are for minor irrigation works such as sinking of wells, installation of tubewells and purchase of pumpsets. Taking this factor into account as also the local agricultural practices and crop seasons, seasonality of loaning operations can be worked out with a fair degree of precision. Usually, loan disbursement is heavy during the periods March to June and October to December. Similarly, recoveries are heavy during the period April to June or

October to December depending upon whether the area served by a primary bank has mainly *rabi* crops or *kharif* crops.

52. In recent years, primary banks have come to occupy an important position in the long-term co-operative credit structure and they are no longer mere agencies to disburse funds on the basis of loan sanctions accorded by central land development banks. After the establishment of the Agricultural Refinance Corporation in 1963 and especially with the taking up of IDA agricultural credit projects in several states, loan policies and procedures have been rationalized to some extent and powers to sanction loans to a specified limit have been delegated to primary banks. In view of this as also in view of the substantial increase in the loaning operations undertaken by primary banks, it is important that the staff of primary banks is given necessary training in the management of funds, including working out and interpretation of cash flow statements. We recommend that the Reserve Bank's College of Agricultural Banking, Poona, should examine the matter and accord a prominent place to the topic of management of funds and working out and interpretation of cash flow statements in the course run by the College for the personnel of primary land development banks. Besides, the chief executive officers and other senior officers of central land development banks should periodically brief the business managers or accountants of primary banks about proper management of funds. This would help the staff in appreciating the significance of proper management of resources which would go a long way in avoiding build up of idle funds both at the level of primary banks and the apex institutions. At present this is a very sadly neglected area in the operations of banks, both primary and central.

SINKING FUND

53. In the early stages of development of land development banking, some banks issued debentures throughout the year and redeemed them in instalments before maturity out of the collections of the principal. Following the circulation of a note on 'The Financing of Land Mortgage Banks in India' by the Reserve Bank in 1936, central land development banks started maintaining a sinking fund for each series of debentures by putting into it amounts necessary for repayment of the debentures on maturity. The method of constituting sinking fund and other aspects such as pattern of investment, treatment of interest on these investments, etc. have been reviewed thereafter and certain changes adopted by the banks on the advice of the Reserve Bank. Each central land development bank now maintains a common sinking fund in order

to enable it to amortize the debentures at their maturity. The method of constituting sinking fund and its utilization are indicated in the bank's by-laws and trust deed.

Need for Sinking Fund

54. The need for a sinking fund has been examined in the past and this question is being raised even today especially in the context of the requirement under IDA agricultural credit projects making it obligatory on the part of central land development banks to make annual repayments to the Agricultural Refinance Corporation in respect of loans under various schemes coming under the project. It is felt that in such circumstances the need for sinking funds may be considerably reduced. The Committee, therefore, considered it appropriate to request one of the Study Groups constituted by it to examine, among other matters, whether banks should continue the present policy regarding constitution of sinking funds and if not what changes are needed and the implications thereof. A copy of the report of the Study Group headed by Shri V. P. Malhotra is given separately in the Appendixes. We have carefully considered the views expressed by the Study Group on the subject and we generally endorse the same. These along with a few other suggestions and observations are set out below :

(a) According to the standard text books on accountancy, the accounting procedure required to be followed for redemption of debentures or retirement of bonds is to create sinking fund out of profits of the institutions. However, in the case of central land development banks, the Co-operative Societies Act, by-laws and trust deeds require them to constitute sinking funds for the purpose from out of recoveries received by them from the borrowing institutions/individuals. Thus, there is a legal obligation enjoined on the banks to constitute and to maintain sinking funds for redemption of debentures floated by them. Creation of such a fund is an additional guarantee, apart from the government guarantee, to the investors who are assured of the banks having adequate funds to redeem debentures on maturity. At the same time, the constitution of the sinking fund provides a built-up protection to the state governments which, as guarantors, have perforce to be satisfied that banks will be able to redeem the debentures on maturity.

(b) It would not be appropriate to compare central land development banks with other term-lending institutions because firstly these banks do not always have a strong share capital base and secondly they do not earn large profits in order to bear the burden of annual contributions to the sinking fund. It is mainly in this context that the contributions to the sinking fund are required to be made

by them from recoveries instead of from their profits. Moreover, these banks provide financial assistance for investment in agriculture which is susceptible to vagaries of nature. In view of this, the loan recoveries in the case of central land development banks cannot be expected to be uniformly good every year which again points out the need for constitution of the sinking fund for redemption of debentures on maturity.

(c) Two arguments were being advanced earlier against the maintenance of sinking fund, viz., non-availability of the funds transferred to the sinking fund for loaning operations and loss on account of lower yields earned on the investments. In the context of the present arrangements regarding the pattern of investment and earnings thereon, both these arguments do not hold good. At present, 60 per cent of the sinking fund is allowed to be invested in the bank's own debentures or in the debentures of sister land development banks and another 20 per cent in the fixed deposit of the state co-operative banks or commercial banks. These arrangements provide that 60 per cent of the amount held in the sinking fund is available to the bank in view of mutual support or on account of the purchase of its own debentures. The second argument in regard to the loss on account of lower yields on the investments does not hold good because in the context of rising interest rates, the average return on investments in respect of debentures floated in the past at lower rates and those at current rates when taken together may not be very low.

55. In the light of the various observations referred to above, we have come to the conclusion that there is need on the part of central land development banks to continue to maintain sinking funds for amortization of debentures especially in the context of their increasing commitments in regard to long-term credit requirements and also with reference to the obligations that devolve on them under the Co-operative Societies Act, by-laws and trust deeds.

Investment of Sinking Fund

56. The note on financing of land development banks circulated in 1936 by the Reserve Bank referred to earlier in paragraph 53 of this Chapter contained a suggestion that the sinking fund might be invested in government securities as well as in the debentures of the land development bank itself. In the initial stages, the bulk of the balances held in the sinking fund was invested in government securities and the banks found that these investments were not remunerative. The pattern of investment of the sinking fund was considered by the Reserve Bank's erstwhile Standing Advisory Committee on Agricultural Credit at its

twentysixth meeting held in Bombay on 15 April 1964 when it was recommended that the banks might invest (a) up to 60 per cent of their sinking fund in their own debentures or those of the sister land development banks, (b) not less than 20 per cent in government securities and (c) up to 20 per cent in fixed deposits with the state co-operative bank of the state.

57. A few changes in this pattern were approved by the Reserve Bank in 1971. The present pattern of investment of sinking fund as laid down by the Reserve Bank provides that (i) up to 60 per cent of the balances in the sinking fund may be invested in the bank's own debentures or in the debentures of sister land development banks in other states, (ii) not less than 20 per cent should be invested in government and other trustee securities including bonds issued by the Agricultural Refinance Corporation subject to the stipulation that at least 10 per cent should be invested in government securities and (iii) up to 20 per cent in fixed deposits with the state co-operative bank and, under certain conditions, with commercial banks. This pattern of investment was examined by the Study Group referred to earlier and we endorse their recommendations and suggestions as under:

(i) While considering any changes in the present pattern of investment of sinking fund, it is necessary to ensure that the investment not only conforms to the three cardinal principles of liquidity, safety and profitability, but also that the funds are retained, as far as possible, within the co-operative sector in view of the large resources needed by this sector. The suggestions received from the central land development banks were considered in applying the above test. For instance, the proposal that a part of the sinking fund may be invested in debentures of well established joint stock companies which carry much higher rates of interest than the rate on debentures of central land development banks and bonds issued by the State Electricity Boards is to be rejected on the ground that it will not be desirable to alter the present pattern merely because of the likelihood of a marginal increase in income.

(ii) The present pattern provides for an investment of not less than 20 per cent in government and other trustee securities. However, investments in government securities are not to be less than 10 per cent. We note that a few banks should like to reduce the limit of 10 per cent for investment in government securities while others want to have flexibility within the overall limit of 20 per cent for choosing between government securities and other trustee securities since the latter offer generally a higher return. On this our view is that while there is no case for relaxing the stipulation that at least 10 per cent should be

invested in government securities, central land development banks may be permitted, out of the balance of 10 per cent under 'other trustee securities' to make investments in fixed deposits with the state financial corporations which carry an attractive rate of interest and are guaranteed by the state governments in regard to the repayment of principal and payment of interest. Another possible avenue for investment of the 10 per cent allowed for 'other trustee securities' is the units of the Unit Trust of India which also carry a higher rate of dividend (8.50 per cent in 1973-4). However, this will call for making suitable arrangements with a view to facilitating sale of units (repurchase by Unit Trust of India) when funds are required by the banks. It is understood that consequent to the amendment to its statute, the National Co-operative Development Corporation (NCDC) is proposing to issue bonds which would be guaranteed by the Government of India in regard to repayment of the principal and payment of interest in which case they would be trustee securities. These bonds, when issued, may be included in the list of permissible 'other trustee securities' for investment of sinking fund by the central land development banks.

(iii) The banks are now allowed to invest up to 60 per cent of the sinking fund in their own debentures or in the debentures floated by their counterparts in other states. It has been suggested by some banks that in view of shrinkage in the floatations of ordinary debentures they find it difficult to make investment up to this level and hence the provision may be reduced. While we note that in case the extent of mutual support to the debentures is reduced, central land development banks might be put to difficulty, should there be an occasion for reduction in the support to their ordinary debentures from other sources, considering the shrinkage in the ordinary debentures floated by banks in the last two to three years and the need to maximise income from investments, we are inclined to suggest a reduction in the limit from 60 per cent to 50 per cent on a purely temporary basis. We note that the Reserve Bank has agreed to this, as a transitional measure, in terms of its circular letter issued very recently on 2 December 1974. We should, however, also like to impress on banks the need to keep investment in their own debentures to the minimum as this, in our opinion, takes away the very basis of the scheme of mutual support. It will be useful, in this connexion, if the National Co-operative Land Development Banks Federation can make projections regarding the amount of investible funds of each central land development bank in the debentures of sister institutions and ensures maximum advantage of the arrangements by providing support to the debentures of other banks.

(iv) Some banks have represented to us that they are experiencing difficulty in making appropriate investments out of the recoveries received between April and June due to the absence of floatation of debentures or issue of government loans during this period. Thus, collections remain idle with them. We suggest that under these circumstances, the central land development banks may be permitted to invest in advance, the surplus funds towards sinking fund to be set off in the subsequent years. Alternatively, the surplus, after meeting the sinking fund investments and clearing the outstandings in the interim accommodation, might be allowed to be kept as short-term deposits with the state co-operative bank/commercial banks and financial accommodation availed of as and when required thereagainst, instead of having recourse to overdraft accommodation from the state co-operative bank which carries a higher rate of interest.

(v) The banks are at present permitted to keep in fixed deposits a maximum of 20 per cent of the sinking fund with the state co-operative bank and, under certain conditions, with commercial banks. It has been suggested that banks may be allowed to increase their investment by way of fixed deposits up to 30 per cent. We agree with this suggestion which we find has already met with the Reserve Bank's acceptance very recently in December 1974.

It has also been suggested that the banks may be permitted to keep deposits with central co-operative banks also. This suggestion has been justified on the ground that central land development banks seek support from central co-operative banks in respect of their debentures and in other matters such as providing cash credit facilities to primary banks and for remittance of funds between central land development bank and primary land development banks and vice versa. We would recommend this to the Reserve Bank for acceptance. However, since it may not be advisable to allow central land development banks to keep fixed deposits with all central co-operative banks, the facility may be allowed only in respect of banks with A and B audit classifications.

CHAPTER 9

MOBILIZATION OF RURAL SAVINGS

THIS Chapter deals with item (xii) of our terms of reference which reads as follows :

To review the schemes of rural debentures and fixed deposits and suggest the ways by which these could become an important source of funds for the land development banks and a significant method of mobilizing rural savings.

2. The encouragement of thrift and mobilization of rural savings has been one of the foremost aims of the co-operative movement. The rise in agricultural prices in the years following the Second World War and increase in yields of certain crops as a result of the improved methods of farming have added to the income of certain classes of cultivators. This offered an opportunity for the co-operatives to mobilize rural savings and build up their strength by increasing their internal resources. It was generally in this context that the All-India Rural Credit Survey Committee (1954) recommended that in order to augment their resources the land development banks should issue a special type of debentures called rural debentures. The main features of these debentures as envisaged by the Committee were 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 related 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 requirements of the rural investor.”¹

3. The Reserve Bank’s erstwhile Standing Advisory Committee on Agricultural Credit which considered the above recommendation at its seventh meeting held in Bombay on 9 and 10 October 1957 suggested that the central land development banks may float rural debentures as an integral part of the schemes for mobilizing rural savings. In pursuance of this, the Reserve Bank formulated a scheme in November 1957 and recommended it to these banks.

SCHEME FOR RURAL DEBENTURES

4. The salient features of the scheme, as it was introduced in 1957, were as under :

(a) Land development banks should grant loans for productive purposes for periods of 6 or 7 years against mortgages of land. On the strength of these mortgages they were to float a special series of rural debentures.

(b) The floatation was to be timed so as to take place during the months immediately succeeding the harvest so that money would be available with agriculturists from sale of their crops.

(c) The exact time and the terms and conditions relating to the issue price, period of maturity and rate of interest were to be fixed in consultation with the Reserve Bank, the period of debentures being as a rule, conterminous with the period of mortgages and the rate of interest being fixed slightly higher than that on ordinary debentures.

(d) The debentures were to be made available only to individuals (especially those in the rural areas) as distinguished from institutional investors, such as banks, societies, trusts, etc. An exception was, however, made subsequently in regard to subscriptions from village *panchayats*.

(e) The Reserve Bank was to subscribe to the shortfall in public subscription, subject to a maximum of two-thirds of an issue.

5. On a review of the scheme by the Reserve Bank, it was found that the progress was far from satisfactory and only in one or two states had the banks achieved a limited measure of success. The main difficulty experienced by banks was their inability to issue loans for

¹ *The General Report of the All-India Rural Credit Survey Committee*, published in 1954 by the Reserve Bank of India, p. 489.

7 years, the demand at that time being mostly for loans for 15 years or more. In September 1958, the Reserve Bank drew up a revised scheme under which land development banks could give loans for a period of 15 years and issue rural debentures divided into two parts : one part, i.e., seven-fifteenth of the total amount was to be for a shorter duration (7 years) and made available for subscription only by individuals in rural areas while the remaining part was to be for a longer period (15 years) to be subscribed to entirely by the Reserve Bank. The rate of interest on the rural debentures to be issued to the Reserve Bank was to be 4 per cent till June 1959.

6. The scheme is being continued in more or less the same form except the variation in the rate of interest made from time to time to suit the market conditions to ensure that the rural debentures offer an attractive investment to rural investors. The present rate of interest on rural debentures for a shorter period of 5 years and 7 years which are meant for subscription by rural investors is 6 per cent and $6\frac{1}{4}$ per cent respectively, while the rate on rural debentures of 10 years and 15 years to be subscribed to by the Reserve Bank is 5 per cent and $5\frac{1}{4}$ per cent respectively.

7. In the light of the experience gained in implementing the revised scheme, the National Co-operative Land Development Banks Federation represented to the Reserve Bank in July 1967 that one of the difficulties confronted by banks was in issuing dividend warrants every half year to numerous debenture holders. It was urged that banks might be permitted to issue these debentures in the form of rural saving certificates with the facility of accumulating compound interest and paying it later on maturity along with the principal. Some banks, viz., Tamil Nadu and Karnataka had already issued such certificates in lieu of rural debentures. This scheme for issue of rural debenture certificates was approved in June 1971 by the Reserve Bank of India and the Government of India. The Reserve Bank also agreed to provide at the end of each year, its contribution to the extent of eight-fifteenth with reference to the value of the certificates sold to individuals. The main advantage of this scheme over that of rural debentures is that banks are saved from the expense and trouble in sending money orders every half year to the numerous debenture holders. Further, these certificates can be issued in small denominations and kept on tap for the whole year, thereby allowing more time to the banks to contact small investors as also to approach potential investors. However, despite these advantages, only 8 banks, viz., Assam, Bihar, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra,

Rajasthan and Tamil Nadu have so far introduced rural debenture certificates, the total amount collected from individuals being Rs 20 lakhs in 1971-2, Rs 17 lakhs in 1972-3 and Rs 12 lakhs in 1973-4.

POPULARIZATION OF RURAL DEBENTURES

8. The Reserve Bank has been suggesting to land development banks various measures for popularizing rural debentures. For instance, in January 1959, it was suggested, among other things, that banks could use the agency of state and central co-operative banks and offer them a commission of $\frac{1}{4}$ per cent on amounts canvassed by them. A simplified procedure for the grant of advances against debentures was also suggested by the Reserve Bank. In October 1963, the banks were informed that it was not necessary that the tap period of 4 months should be during the period from the beginning of January to the end of June, if the harvest season did not coincide with the first half of the calendar year. Subsequently, in January 1964, the arrangements made by the Maharashtra Government for the sale of rural debentures through the revenue department and the small savings organization were circulated among the banks.

9. Table 1 indicates the progress in the floatation of rural debentures/certificates since the introduction of the scheme in 1957. It will be observed therefrom that a total sum of Rs 25.57 crores had been collected through rural debentures/certificates since the inception of the scheme till the end of June 1974. Two central land development banks, viz., West Bengal and Tripura have not so far floated any rural debentures, while 6 banks, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Rajasthan and Pondicherry have issued only one or two series of debentures during the years 1971-2 to 1973-4. The maximum amount in any year raised from issue of rural debentures/certificates has not exceeded Rs 3.22 crores.

10. During 1971-2, 14 central land development banks issued rural debentures/certificates and the amount collected was Rs 2.35 crores. Three land development banks, viz., those in Uttar Pradesh, Andhra Pradesh and Gujarat accounted for 86 per cent of the total debentures floated during the year, while the remaining 14 per cent was on account of floatations by 11 banks. However, during 1972-3, only 8 banks had floated debentures/certificates for a total amount of Rs 56.81 lakhs. Out of these 8 banks, one bank, viz., the Uttar Pradesh Central Land Development Bank floated debentures/certificates for Rs 30 lakhs

TABLE 1
RURAL DEBENTURES/CERTIFICATES ISSUED BY CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANKS SINCE 1957-8 (CO-OPERATIVE YEAR)
Rs Lakhs

Sr. No.	Bank	1957-8 to 1960-1	1961-2	1962-3	1963-4	1964-5	1965-6	1966-7	1967-8	1968-9	1969-70	1970-71	1971-2	1972-3	1973-4	Total
1.	Andhra Pradesh	101.05	14.57	7.55	3.77	—	11.08	50.00	30.00	—	30.00	53.44	56.93	—	—	358.99
2.	Assam	—	—	—	—	—	—	—	—	—	—	—	—	0.23	—	0.23
3.	Bihar ..	—	—	—	—	—	—	—	—	—	—	0.19	0.27	1.09	—	1.55
4.	Gujarat ..	118.92	33.00	52.00	44.59	—	183.54	93.35	23.41	94.26	—	133.58	28.28	—	—	804.93
5.	Haryana ..	—	—	—	—	—	—	—	5.00	10.00	—	10.00	3.89	2.37	—	31.26
6.	Himachal Pradesh	—	—	—	—	—	—	—	—	—	—	—	1.70	—	—	1.70
7.	Jammu & Kashmir ..	—	—	—	—	—	—	—	—	—	—	—	0.41	—	—	0.41
8.	Kerala ..	—	7.11	—	—	—	—	—	1.93	—	—	—	1.21	—	—	10.25
9.	Madhya Pradesh	—	—	—	—	—	2.64	10.00	—	—	—	19.37	4.11	—	—	36.12
10.	Maharashtra ..	20.00	100.00	55.00	81.50	73.00	—	72.26	60.70	—	—	7.80	—	2.74	0.38	473.38
11.	Mysore (Karnataka)	2.57	—	1.33	—	7.50	10.23	20.00	40.00	28.00	0.32	1.46	15.21	14.41	8.87	149.90
12.	Orissa ..	15.09	3.86	—	—	2.96	—	—	—	—	5.00	—	0.89	—	—	27.80
13.	Punjab	—	6.66	1.12	—	10.00	10.00	22.00	20.00	15.00	—	18.87	—	—	—	103.65
14.	Rajasthan ..	—	—	—	—	—	—	—	—	—	—	—	0.58	0.16	—	0.74
15.	Tamil Nadu ..	50.75	48.00	—	26.25	—	23.27	14.20	—	112.44	—	5.00	1.51	5.81	2.14	289.37
16.	Uttar Pradesh	—	—	—	—	—	7.76	—	20.00	62.01	—	—	108.43	30.00	37.50	265.70
17.	West Bengal ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
18.	Pondicherry ..	—	—	—	—	—	—	—	—	—	—	—	1.17	—	—	1.17
19.	Tripura ..	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total ..		308.38	213.20	117.00	156.11	93.46	248.52	281.81	201.04	321.71	35.32	249.71	234.59	56.81	48.89	2556.55

while the central land development bank in Karnataka floated rural debentures for an amount less than Rs 15 lakhs. In the case of the remaining 6 banks the total amount was less than Rs 13 lakhs. During 1973-4, only 4 banks floated debentures/certificates for a total amount of Rs 48.89 lakhs. Out of this amount, the central land development banks in Uttar Pradesh and Karnataka accounted for Rs 37.50 lakhs and Rs 8.87 lakhs respectively. The central land development banks in Maharashtra and Tamil Nadu floated debentures/certificates for Rs 0.38 lakh and Rs 2.14 lakhs respectively. Barring the banks in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Punjab, Tamil Nadu and Uttar Pradesh the performance of the remaining banks in the floatation of rural debentures is very insignificant as can be seen from the following Table :

TABLE 2
TOTAL RURAL DEBENTURES/CERTIFICATES ISSUED FROM 1957-8 TO 1973-4

					Rs Lakhs
Sr. No.	Bank	Rural Debentures/Certificates Issued to		Total	
		Individuals	Reserve Bank		
1	2	3	4	5	
1.	Andhra Pradesh	.. ..	177.84	180.55	358.39
2.	Assam	.. ..	0.11	0.12	0.23
3.	Bihar	.. ..	1.31	0.24	1.55
4.	Gujarat	.. ..	378.26	426.67	804.93
5.	Haryana	.. ..	15.87	15.39	31.26
6.	Himachal Pradesh	.. ..	0.81	0.89	1.70
7.	Jammu & Kashmir	.. ..	0.41	—	0.41
8.	Karnataka	.. ..	103.17	46.73	149.90
9.	Kerala	.. ..	4.77	5.48	10.25
10.	Madhya Pradesh	.. ..	29.80	6.32	36.12
11.	Maharashtra	.. ..	226.75	246.63	473.38
12.	Orissa	.. ..	12.77	15.03	27.80
13.	Punjab	.. ..	48.58	55.07	103.65
14.	Rajasthan	.. ..	0.43	0.31	0.74
15.	Tamil Nadu	.. ..	136.40	152.97	289.37
16.	Uttar Pradesh	.. ..	130.98	134.72	265.70
17.	West Bengal	.. ..	—	—	—
18.	Pondicherry	.. ..	0.55	0.62	1.17
19.	Tripura	.. ..	—	—	—
Total		.. ..	1268.81	1287.74	2556.55

11. Beginning with 1970-71, the Reserve Bank started insisting on the floatation of rural debentures to a specified extent for making the banks eligible to the full supported programme. The amount of rural debentures/certificates to be issued has been fixed in the case of developed banks at 5 per cent of the ordinary debenture programme

for the previous year and for the co-operatively less developed states at $2\frac{1}{2}$ per cent. In the case of banks which fail to raise resources by issue of rural debentures to the extent mentioned above, the supported programme of ordinary debentures is reduced proportionately according to a specified procedure. However, most of the banks have not been able to achieve the targets fixed for rural debentures/certificates. While during 1972-3, as many as 15 out of 19 banks failed to achieve the targets in respect of rural debentures (including fixed deposits), in 1973-4 none of the banks could achieve the targets. Besides, a few of the banks are found to have resorted to irregular methods such as sale of rural debentures/certificates by effecting deductions from loan amounts.

SCHEME FOR FIXED DEPOSITS

12. The success achieved by rural branches of the nationalized banks in mobilizing rural savings prompted central land development banks to approach the Reserve Bank in 1969 for permission to accept fixed deposits. They pointed out that in case they were allowed to offer an attractive rate of interest on term deposits they might be able to collect substantial amounts. It was also asserted that these deposits could to some extent reduce their dependence on interim accommodation which carried a higher rate of interest of about $8\frac{1}{2}$ to 9 per cent at that time. The Reserve Bank approved in June 1971 the proposal regarding collection of fixed deposits by central land development banks subject to the following conditions:

- (a) The period for which fixed deposits may be accepted should be not less than one year and should not exceed two years.
- (b) The bank pays interest at not more than 7 per cent per annum on deposits for one year and $7\frac{1}{2}$ per cent per annum on deposits for more than one year but up to two years. In terms of a circular letter issued on 18 September 1974, the Reserve Bank has since permitted land development banks to pay interest at 8 per cent on fixed deposits for a period of one year. Banks may accept deposits for a period of one year only unless they are hopeful of attracting deposits at 8 per cent interest for periods exceeding 1 year but up to 2 years. Subsequently, banks have been allowed to pay interest at the state headquarters at the higher rate, if any, offered by the state co-operative bank and at their branches or the offices of primary banks at the higher rate, if any, offered by the central

co-operative bank in whose area the branches or primary banks are situated.

- (c) The bank keeps at least 10 per cent of the total term deposits accepted and outstanding on any day in liquid form either by way of (i) cash with itself, (ii) current deposit account with the state co-operative bank, and/or (iii) unencumbered securities of the state or central governments (market value).
- (d) The deposits should not be from (i) institutions and (ii) borrowers or their near relations within a period of one year from the disbursement of the loan or before such disbursement.

The Reserve Bank has also agreed to reckon the amount collected by a bank in the form of fixed deposits for the purpose of fulfilment of quota fixed in respect of rural debentures/certificates.

13. The progress made by banks in collecting fixed deposits is indicated in the following Table :

TABLE 3
FIXED DEPOSITS RECEIVED BY CENTRAL LAND DEVELOPMENT BANKS

				Rs Lakhs		
Sr. No.	Bank			1971-2	1972-3	1973-4
1.	Andhra Pradesh	..	..	0.21	18.69	12.71
2.	Assam	..	..	Nil	Nil	Nil
3.	Bihar	..	..	1.43	2.88	3.79
4.	Gujarat	..	..	Nil	15.00	6.49
5.	Haryana	..	..	0.51	7.49	3.40
6.	Himachal Pradesh	..	..	0.18	0.29	0.26
7.	Jammu & Kashmir	..	..	Nil	0.40	0.57
8.	Karnataka	..	..	0.55	2.55	1.79
9.	Kerala	..	..	0.20	3.57	3.41
10.	Madhya Pradesh	..	..	0.53	8.28	10.89
11.	Maharashtra	..	..	0.38	0.38	1.87
12.	Orissa	..	..	0.43	0.91	1.00
13.	Pondicherry	..	..	Nil	0.47	0.33
14.	Punjab	..	..	2.71	32.43	15.14
15.	Rajasthan	..	..	Nil	Nil	0.41
16.	Tamil Nadu	..	..	41.15	25.61	28.86
17.	Uttar Pradesh	..	..	6.74	51.61	66.38
18.	West Bengal	..	..	Nil	0.17	0.68
Total				55.02	170.73	157.98

It will be observed that excepting six banks, viz., those in Uttar Pradesh, Punjab, Tamil Nadu, Andhra Pradesh, Gujarat and Madhya Pradesh,

others have not been able to raise resources by way of fixed deposits to any significant extent. The data available to us show that some of the banks have not scrupulously followed the conditions laid down while accepting deposits. Further, according to details received from banks, in several cases, deposits have been accepted from individuals in urban areas which is contrary to the spirit of the scheme as approved by the Reserve Bank. About one-fourth of the total deposits received during 1972-3 were reported to have been from urban areas.

ASSESSMENT OF THE PRESENT SCHEME

14. The present position regarding mobilization of rural savings by banks can be summed up as below:

(a) Following the recommendations made by the All-India Rural Credit Review Committee (1969), the Reserve Bank has started since 1970-71 fixing targets for rural debentures to be floated by each bank. In case there is shortfall in achieving the target the bank has to suffer a reduction in the extent of supported programme for ordinary debentures. This is, however, not having the desired effect.

(b) The Reserve Bank has permitted banks to issue rural debenture certificates in lieu of rural debentures. However only a few banks have so far introduced the scheme.

(c) The banks were also permitted to collect fixed deposits for periods exceeding one year at a fairly attractive rate of interest, i.e., 7 per cent for one year and $7\frac{1}{2}$ per cent for two years since raised to 8 per cent for period exceeding one year but up to 2 years.

(d) The banks have collected since the inception of the scheme in 1957 till 30 June 1974 a sum of Rs 25.57 crores through rural debentures/certificates which forms an insignificant percentage of the total resources raised by them. During the Fourth Plan period the amount collected through rural debentures and fixed deposits stood at about Rs 6.44 crores as against the modest target of Rs 20 crores—25 crores recommended by the All-India Rural Credit Review Committee (1969). In other words, the resources raised through this source form an insignificant proportion of the funds (about Rs 542 crores) raised by floatation of ordinary and special debentures during the Fourth Plan.

(e) Even the scheme for fixed deposits does not appear to be catching up inasmuch as only six banks were able to collect sizeable amounts. Some of the banks were not following strictly the conditions laid down by the Reserve Bank for acceptance of deposits.

Reasons given by Banks for Failure of the Scheme

15. The main reasons given by the banks for their not being able to float rural debentures for substantial amounts are (i) low rate of interest on debentures, (ii) considerable expenses involved in sending money orders on account of half-yearly interest payable to the debenture holders and (iii) competition from other institutions. The Working Group on Rural Debentures (1971) headed by Shri R. K. Seshadri, Executive Director (now Deputy Governor), Reserve Bank of India which reviewed the position has recognized the need to raise the rate of interest on rural debentures. It has made specific recommendations in this regard which are referred to subsequently. As for the competition from other institutions, the Working Group has stated that there is considerable scope for mobilizing rural savings because of increase in income from agriculture.

Other Reasons

16. According to the All-India Rural Credit Review Committee (1969), the main reason for failure of the scheme for rural debentures has been the lack of serious efforts on the part of banks in this direction. Apart from this, during the past one or two years some of the banks have been facing the problem of surplus funds and consequently they do not find it worthwhile to float rural debentures. There are, however, a few other reasons which generally hold good in the case of all banks but are more pronounced in the case of those in co-operatively weak states. These are :

- (i) lack of proper organization for canvassing sale of rural debentures/certificates and also for collecting fixed deposits and
- (ii) the present image of the land development bank which is essentially that of a lending institution rather than of a deposit receiving institution.

These are discussed in detail in the ensuing paragraphs.

17. The central land development banks are depending mostly on primary banks or their own branches for the sale of rural debentures/certificates. As far as primary banks are concerned they are more enthusiastic in achieving the targets for loan disbursements rather than helping the central land development bank in the sale of rural debentures.

18. Further, the position of staff in primary banks or branches of the central land development bank is weak, often inadequate even for the

functions of valuation of hypotheca, disbursement of loans, supervision over utilization of loans and for effecting recoveries from borrowers. This staff is hardly the type which can be expected to undertake any aggressive salesmanship to collect rural debentures or deposits. The coverage of the rural population by banks has been insignificant excepting in the case of banks in a few states where land development banks have been in existence for a long time. The officials of the banks visiting villages are either land valuation officers or supervisors who undertake specific functions which require them to contact borrowers and village officials only. This is one of the important reasons why the banks have not been able to mobilize rural savings to any appreciable extent.

VIEWS OF EARLIER COMMITTEES/WORKING GROUPS

All-India Rural Credit Review Committee (1969)

19. The progress in the scheme for rural debentures was reviewed by the All-India Rural Credit Review Committee (1969) and in its opinion the scheme had not been successful because banks had not made sufficiently active efforts in this direction. The Committee made various recommendations as follows:

- (i) The Reserve Bank may offer the facility to the central land development banks to choose between the original scheme of rural debentures or the old scheme wherever they find it relevant and possible. While reviving the old scheme, however, the series may be offered for subscription exclusively to individuals as in the current scheme.
- (ii) Where there is reason to believe that rural savings certificates will prove more attractive to potential rural investors, the banks may resort to this form of mobilizing rural savings.
- (iii) The banks may give some incentives to the persons entrusted with the job of canvassing support to their rural debentures.
- (iv) The size of the supported programme of ordinary debentures for each central land development bank should be related to the volume of resources raised by it through rural debentures. Taking into account the past relationship between the rural and ordinary debentures floated by banks as also the tentative loan targets for the Fourth Plan, it is considered that in no state should the rural debenture programme be less than 5 per cent of the ordinary debenture programme and in states which are more favourably placed, the aim should be to raise this proportion to at least 10 per cent.

20. The recommendations of the Committee were generally accepted by the Reserve Bank and land development banks. As regards the recommendation for allowing banks facility to choose between the original scheme of rural debentures or the current one in view of the fact that banks are giving loans mostly for 10 or 15 years, they prefer to continue the practice under the revised scheme, i.e., to issue rural debentures in two series—one series to individuals for shorter periods of 7 years and the second series to the Reserve Bank for a longer period of 15 years.

Working Group on Rural Debentures (1971)

21. The progress in the issue of rural debentures was also reviewed by the Working Group on Rural Debentures set up in 1970 by the Reserve Bank under the chairmanship of Shri R. K. Seshadri. In regard to the progress in the scheme of rural debentures the Group has observed as under:

“It will be seen that the Reserve Bank of India has been consistently trying to popularise the issue of rural debentures over a period of more than a decade. The response, in spite of these efforts, has not so far been very good. Rural debentures have not proved to be attractive in the past, as the terms and conditions on which they are being issued, including in particular the rate of interest, have not been competitive. While the agricultural surpluses in several parts of the country have been substantial during the last four years, this prosperity has not been reflected to any extent in the mobilization of resources through debentures, rural or otherwise.”

22. The Working Group has made the following recommendations in regard to the mobilization of rural savings by central land development banks :

- “(a) The banks may be permitted to mobilize resources in the form of deposits as that will be cheaper and more convenient from their point of view as well as from the point of view of the general public. These deposits may be for 1 year and more and carry a rate of interest as that offered by the central co-operative banks.
- (b) The banks might float rural debentures in two sets, first set for 7 years without government guarantee and second set for 12 years carrying government guarantee.
- (c) The first set might be taken up by individuals only, while the second set might be for subscription by the Reserve Bank.

(d) The first set might carry an interest of $7\frac{1}{4}$ per cent while the second set might carry 6 per cent (i.e., the coupon rate on bonds for 12 years issued by the autonomous undertakings in the public sector, carrying state government guarantee).

(e) The Reserve Bank might contribute to the second set in the proportion of 7:12 with reference to the amount collected towards the first set."

23. The recommendations of the Working Group were considered at the joint meeting of the Standing Committees I and II of the Agricultural Credit Board constituted by the Reserve Bank, held on 15 June 1972. It was decided at this meeting that in the light of the recommendations of the Working Group, the scheme of fixed deposits which the central land development banks were permitted to introduce in June 1971 might be continued. In regard to other recommendations, the Reserve Bank was to work out appropriate changes in the scheme of rural debentures.

24. From the discussion in the earlier paragraphs it will be seen that the scheme of rural debentures did not so far have a fair trial at the hands of land development banks. On the other hand, at the various meetings convened by the Reserve Bank and the National Co-operative Land Development Banks Federation, the representatives of banks have been pleading for scrapping of the scheme. It may be noted that both the All-India Rural Credit Review Committee (1969) and the Working Group on Rural Debentures (1971) have recommended the continuance of the scheme by land development banks in view of its potential for tapping rural savings. The Conference of the State Ministers for Co-operation held in New Delhi in January 1973 was also in favour of continuing the scheme. The Report of the Working Group on the Fifth Plan provides for raising Rs 35.00 crores by the central land development banks through floatation of rural debentures and notes that 'although suitability of the co-operative land development banks as agencies for tapping rural savings is limited, there is no denying the fact that efforts will have to be made by these banks to mobilize funds through floatation of rural debentures by issuing rural savings certificates and by accepting fixed deposits'.¹

RECOMMENDATIONS

25. We should like to emphasize that in order to mobilize rural savings through floatation of rural debentures and deposits, central land develop-

¹ *Report of the Working Group on Cooperation (Fifth Five Year Plan)*, published by the National Co-operative Union of India, New Delhi, p. 60.

ment banks should make determined and earnest efforts instead of pleading for scrapping of the scheme. This will be facilitated by their having competent and adequate staff as envisaged in our Report. While we are not in favour of individual incentives to the staff of the banks in the form of commission, we are of the view that in deciding upon the promotions of staff either in the normal course or otherwise, or in matters like giving advance increments, the performance of the staff in the matter of issuing rural debentures or collecting deposits should be given due weightage.

(i) *Steps Necessary to Induce Land Development Banks to Mobilize Rural Savings*

26. The Reserve Bank had fixed the targets for rural debentures for the year 1972-3 on the following basis:

The targets have been fixed at 5 per cent of the ordinary debenture programmes of the banks in developed states and at 2½ per cent of the ordinary debenture programmes of banks in weaker states. Seven-fifteenth of the targets fixed are to be collected from individuals either by issue of rural debentures or by accepting fixed deposits.¹

The same criteria have been followed for fixing targets for the subsequent years, viz., 1973-4 and 1974-5. The following procedure has been laid down for effecting reduction in the supported programme for the year 1973-4 in case the targets are not fulfilled:

State land development bank should have achieved before 30 June 1973 the targets fixed for 1972-3 for mobilizing rural savings from individuals by way of rural debentures/fixed deposits. If, on a review of the performance undertaken after June 1973, shortfalls are noticed, the supported ordinary debenture programme of the banks for 1973-4 will be reduced by an amount equivalent to 10 times the difference between the amount required to be mobilized by the banks from individuals and the amount actually collected in the prescribed manner, subject to a maximum of Rs 200 lakhs.¹

Similar instructions applicable for 1974-5 have been issued by the Reserve Bank in its circular letter No. ACD.LDB.1469/D.1-73/74 dated 16 March 1974.

27. A glance at the targets for rural debentures fixed for individual banks for the year 1973-4 shows that they were very modest inasmuch

¹ The Reserve Bank of India's circular No. ACD.LDB.1326/D.1-72/3 dated 27 February 1973.

as the total amount to be collected was Rs 5.87 crores out of the total lending programme of Rs 156.00 crores for the year 1973-4. In the case of 5 banks the amount to be collected was less than Rs 5 lakhs. Out of the remaining 14 banks, in the case of 3 banks the amount was between Rs 10 lakhs and Rs 20 lakhs; for 2 banks, below Rs 50 lakhs and for 6 banks, below Rs 85 lakhs. The actual amount to be collected from individuals is, however, much less, i.e., seven-fifteenth of the amount aimed at, the balance of eight-fifteenth being subscribed by the Reserve Bank. Most of the banks have not achieved even these modest targets. However, they can get over the effect of the reduction in the supported programme by switching over, in an increasing measure, to the refinance facilities provided by the Agricultural Refinance Corporation. Further, in view of the declining trend in the loaning operations of most of the banks, the reduction in the supported programme for failure to achieve targets of rural debentures is not having the desired effect. Nevertheless, the need for mopping rural savings cannot be over-emphasized especially in the context of the large resources needed by co-operative land development banks. We, therefore, recommend that instead of the present procedure for effecting reduction in the supported programme for ordinary debentures, the Reserve Bank may introduce an alternative scheme for offering certain incentives to banks to make the necessary organizational arrangements and efforts for the purpose. For instance, the Reserve Bank may allow an additional amount by way of an incentive towards the share capital contribution in the case of a central land development bank whose performance in respect of collection of rural debentures or fixed deposits is found to be satisfactory. Further, while the targets may continue to be fixed on the basis of 5 per cent of the ordinary debentures floated in the previous year by central land development banks in the developed states, such a stipulation even at a reduced level of $2\frac{1}{2}$ per cent need not be made in the case of banks in the co-operatively weak states as recommended by us in Chapter 5, paragraph 45. These states are Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Orissa, Tripura, Rajasthan and West Bengal.

(ii) *Schemes for Rural Debentures or Certificates for Specific Areas*

28. Land development banks should consider introducing special schemes for rural debentures or certificates for certain specific areas where the ARC-refinanced schemes have been implemented or are under implementation. Such a scheme, it may be pointed out, has a fair chance of success since the banks have already established or will be establishing close contacts with a large number of individual culti-

vators in these areas. In Tamil Nadu, for instance, the primary land development banks had given loans under one single scheme, viz., Parambikulam Aliyar Project to as many as 12 to 13 thousand cultivators till the middle of June 1973. The primary land development banks in Andhra Pradesh have given loans to a large number of individual cultivators in the Nagarjunasagar Project Area. Moreover, in these areas, the banks have access to special staff not only for appraisal of loan applications and follow-up measures, but also for other purposes, e.g., for gathering loan applications. The ARC-refinanced schemes are in compact areas and, in some of the states, the concerned governments have provided special project staff for these schemes. We suggest that in respect of the schemes for specific areas, land development banks may encourage cultivators to subscribe towards rural debentures along with the instalments towards repayment of long-term loans borrowed by them. In addition to this, we suggest that the amounts raised through a special scheme of rural debentures, if sizeable, could be earmarked by the central land development bank for investment in agriculture by cultivators in the same area as this will give a sense of involvement to the investors in the development of the area and make the rural debenture scheme popular locally.

(iii) *Rate of Interest*

29. The Working Group on Rural Debentures (1971) had recommended that rural debentures might be floated in two sets: one set carrying a higher rate of interest for being issued to individuals and the second set carrying a lower rate of interest to the Reserve Bank. In the case of the former set it was proposed that it might be issued without government guarantee to facilitate fixing a higher rate of interest. The rate of interest suggested by the Working Group was $7\frac{1}{4}$ per cent. Consequent on the increase in the Bank Rate from 7 per cent to 9 per cent with effect from 23 July 1974, the Reserve Bank has allowed the scheduled commercial banks to offer interest at 10 per cent per annum on deposits above 5 years. We recommend that the Reserve Bank may expedite the revision of the permissible rate of interest on rural debentures in the light of the recent increase in interest rates all round. Similarly, the interest to be allowed by land development banks on fixed deposits may be revised suitably by the Reserve Bank so as to enable the banks to offer attractive rates which compare favourably with those offered by state co-operative banks, central co-operative banks and commercial banks and are, in fact, higher than those offered by these institutions.

(iv) Scheme For Awarding Prizes to Debenture Holders

30. The National Co-operative Land Development Banks Federation wrote in December 1971 to the Reserve Bank for advice regarding the Gujarat State Co-operative Land Development Bank's scheme for giving prizes to individual debenture holders who qualified in periodical draws. This was examined by the Agricultural Credit Department and the Federation was advised that it would not be desirable to introduce the scheme. The main objections against the scheme appeared to be: (a) prizes in themselves might not result in a substantial increase in the subscriptions to rural debentures; (b) it was also likely that those who subscribed to these debentures might dispose them of soon after the results of the draw were announced; (c) the size of subscriptions was so small that the expenditure and administration on account of the prize scheme would not be remunerative and (d) it would not be a healthy practice to award prizes for genuine investment in the rural debentures as other public authorities raising money in the market might also come out with similar proposals.

31. Several institutions like the State Bank of India and other commercial banks have introduced schemes for awarding prizes in order to mobilize savings. A higher competitive rate of interest and possibility of winning prizes may help in making the scheme for rural debentures attractive to rural investors. Further, such a scheme would sustain the interest of at least some investors in holding the debentures till the date of maturity. We, therefore, suggest that the Reserve Bank may reconsider its views in respect of the reference received from the National Co-operative Land Development Banks Federation for introducing the scheme for awarding prizes to debenture holders. We feel that such a scheme deserves encouragement. We also suggest that the prizes to be awarded in the case of rural debentures may be in the form of useful agricultural machinery and implements in case the winner prefers these to cash prizes.

(v) Fixed Deposits

32. The instructions issued by the Reserve Bank in regard to the scheme of fixed deposits do not specifically mention that the deposits should be only from rural areas. However, the object was that these deposits should be from rural areas. It is apprehended that a significant portion of the fixed deposits collected by land development banks may be from urban or semi-urban areas. For instance, fixed deposits received from urban areas by banks during the year 1972-3 formed as much

as 25 per cent of the total deposits. We, therefore, suggest that the central land development banks should collect fixed deposits only from rural areas and only in that case should such deposits be reckoned while assessing achievements on account of the targets for rural debentures.

(vi) *Development Officer*

33. As stated earlier, most of the central land development banks have so far not made any organizational arrangements for mobilizing rural savings by issue of rural debentures or for collecting fixed deposits. This is no doubt indicative of the lack of interest on the part of banks in the scheme. We feel that each central land development bank should have at least one development officer whose main function will be to organize efforts for mobilizing rural savings by floatation of rural debentures/certificates or by collecting fixed deposits. The person to be appointed as development officer should have some background and experience in the line. This officer could be expected to prepare special schemes for debentures/certificates for specific areas as suggested under (ii) on page 190 as also to organize publicity required for collecting fixed deposits. Although this may entail additional expenditure to banks, they should not grudge it since mobilization of rural savings would help them in building up their internal resources.

(vii) *Commission on Sale of Debentures and for Bringing Deposits*

34. The Reserve Bank had circulated amongst the banks on 29 January 1964, a scheme prepared by the Government of Maharashtra providing for the sale of rural debentures through the village officials and payment of commission to them on the lines of the schemes for small savings. The state governments and banks in other states may formulate similar schemes.

(viii) *Publicity*

35. Attracting rural savings will not be possible without necessary publicity and this involves some expenditure. The only publicity that is being undertaken at present by banks is limited to issue of pamphlets and displaying the details on notice boards at the entrances of their buildings. Obviously, this is not adequate and banks will have to undertake vigorous publicity campaigns, if they have to achieve the targets fixed for rural debentures. It appears that in this field the National Co-operative Land Development Banks Federation could play a useful role by making arrangements with the All-India Radio for

suitable announcements in regional languages under the rural programmes or commercial broadcasting programmes. In case the Federation is required to make payments for these announcements, it may approach the Government of India for giving grants to it. It is understood that the Government of India is giving grants every year to the Unit Trust of India, on account of the expenses incurred by it on publicity regarding sale of units.

36. In conclusion, we should like to stress the need for land development banks to recognize at least from now on the significance of the programmes for mobilization of rural savings through sale of rural debentures and collection of fixed deposits from the rural areas on the lines dealt with in this Chapter. In particular, we attach considerable importance to their making the necessary organizational arrangements and efforts required on the lines indicated in this Chapter.

CHAPTER 10

PRODUCTION-ORIENTED LENDING SYSTEM AND FOLLOW-UP MEASURES

WE deal, in this Chapter, with items (vii) and (viii) of our terms of reference which are as follows :

- (vii) To examine the existing procedure for ascertaining whether loans already granted by the land development banks have been utilized for the purposes for which they were obtained and to review the progress made by these banks in implementing the production-oriented system of lending as advised from time to time by the Reserve Bank and suggest measures for improving the quality of the loans advanced.
- (viii) To study the problems of financing small farmers and recommend the ways in which the needs of such small farmers may receive due priority so that they may reap the benefits of long-term investment credit.

Our observations and recommendations on these aspects of the working of land development banks are given in the ensuing paragraphs.

PRODUCTION-ORIENTED LENDING SYSTEM

2. One of the important recommendations of the All-India Rural Credit Survey Committee (1954) related to a shift in the emphasis in the loaning policies of land development banks in favour of loans for productive purposes instead of these for repayment of old debts and redemption of mortgages of land. This suggestion had considerable significance since it involved a change in the very objective of the organization of land development banks which was mainly to help cultivators in getting back their lands from private creditors. According to the Committee, there was a need for the land development banks to provide loans for productive purposes in view of the considerable potential for agricultural programmes such as construction of major and medium irrigation projects, as also scope for development of plantation and horticulture crops. It was also pointed out that a loan given to a cultivator for minor irrigation such as sinking of a well or installation of a pumpset on an existing well would go a long way in enabling him to adopt better cropping patterns or increasing the intensity of cropping.

3. Following the recommendations of the above Committee, the Reserve Bank decided in 1962 to provide support to land development banks in respect of debentures to be floated under special schemes of agricultural development 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 Reserve Bank was providing to the ordinary debentures floated by land development banks. This was made possible on account of the constitution of the National Agricultural Credit (Long-term Operations) Fund by the Reserve Bank in 1956 the objects of which included the purchase of debentures floated by land development banks under special schemes of agricultural development. However, the rate of progress in the switch over to lending for productive purpose was painfully slow. As regards the formulation of special schemes for agricultural development, with the notable exception of the Andhra Pradesh State Co-operative Land Mortgage Bank, other banks did not prepare any such schemes but continued their traditional lending. In the case of Andhra Pradesh, a scheme for reclamation and development of lands under the Musi Project was taken up actively by the central land development bank.

4. The establishment of the Agricultural Refinance Corporation in July 1963 gave a distinct fillip to the active introduction of the production-oriented lending system by land development banks in that this enabled the banks to avail themselves of the refinance facilities provided by the Corporation. The guidelines laid down by the Corporation included, among other items, preparation of schemes on a project basis envisaging development of agriculture under specific programmes so as to ensure generation of adequate repaying capacity by the cultivators participating in the schemes. In the initial stages, the progress in the formulation of suitable schemes of agricultural development satisfying the various requirements laid down by the Agricultural Refinance Corporation was slow, despite the advice of the National Co-operative Land Development Banks Federation to its member banks to examine their loan policies and procedures and provide loans for productive purposes on the lines suggested by the All-India Rural Credit Survey Committee (1954), as also to formulate special schemes of agricultural development according to the guidelines laid down by the Agricultural Refinance Corporation.

5. The progress in this regard continued to be slow till 1967, when however, at a meeting convened by the Reserve Bank of the representatives of the central land development banks, the Government of India,

the State Bank of India and Life Insurance Corporation of India, it was agreed that the availability of support from these public sector institutions for debenture issues during 1967-8 would be subject to the condition that at least 80 per cent of the loans backed by unencumbered mortgages shown as cover for each series of debentures under the supported programme should have been advanced for productive purposes. Subsequently, at a seminar of the Chief Executive Officers of central land development banks held by the Reserve Bank in Madras from 24 to 28 February 1969 it was decided that from and including 1968-9 the land development banks should advance 90 per cent of the loans for productive purposes of which at least 70 per cent should be for easily identifiable productive purposes. In accepting this discipline, the banks recognized the changed situation arising from the improved agricultural technology as well as their obligations to the institutional investors like the Life Insurance Corporation and commercial banks which had diverted valuable long-term resources from other productive sectors of the economy. This was also in keeping with the change-over of the nomenclature of the banks from land *mortgage* banks to land *development* banks.

6. Following the decision taken at the seminar, the Reserve Bank issued a circular on 23 May 1969 indicating broadly the various aspects of the production-oriented lending system and the arrangements required for its implementation. Another circular having an important bearing on the loaning policies and procedures was issued by the Bank in July 1971 which contained several suggestions in order to bring about rationalization in the loan policies and procedures of land development banks. With a view to facilitating exchange of views in this regard and other allied matters, the Reserve Bank has been holding periodical seminars of the Chief Executive Officers of central land development banks, in addition to making arrangements for imparting training to the staff of land development banks at the College of Agricultural Banking in Poona. Mainly as a result of these developments, loans for productive purposes have increased substantially during recent years as is evident from Table 1.

SALIENT FEATURES

7. The salient features of the production-oriented lending system as enunciated in the various circulars issued by the Reserve Bank are indicated below :

(i) Fixing of norms regarding cost of development for different purposes for which investment credit is to be provided. This is required

TABLE 1

PURPOSEWISE CLASSIFICATION OF LOANS ISSUED BY CENTRAL LAND DEVELOPMENT BANKS

Purpose	Rs Crores			
	1960-61	1965-6	1970-71	1972-3
A. Loans for Productive Purposes				
(i) Land Improvement	4.65	14.39	8.97	11.53
(ii) Sinking of and Repairs to Wells	—	17.05	57.32	71.02
(iii) Purchase of Machinery	3.45	16.13	74.09	64.77
(iv) Construction of Godowns and Farm Houses ..	—	—	0.74	2.97
(v) Other purposes	0.35	5.04	24.84	19.32
	8.45	52.61	165.96	169.61
B. Loans for Unproductive Purposes				
(i) Redemption of Debt	3.08	3.37	0.84	1.13
(ii) Purchase of Land	0.09	0.42	1.48	0.69
(iii) Purchase of Tenancy Rights	—	0.01	—	—
	3.17	3.80	2.32	1.82
C. Total Loans Issued ..	11.62	56.41	168.28	171.43
D. Percentage of A to C	73	93	99	99
E. Percentage of B to C	27	7	1	1

to be done on the basis of local studies and in consultation with technically qualified persons.

(ii) Assessment of the repaying capacity of borrowers taking into account the cropping patterns proposed to be adopted after undertaking the development in view. The banks are required to set up technical groups to conduct investigations in different areas and lay down suitable norms for incremental income and repaying capacity with reference to the area of a branch/*tehsil* as a unit, instead of an entire district, so that local variations are given due consideration.

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

(iv) Fixing of the period of the loan with reference to the repaying capacity of the borrower and in such a manner that it does not exceed the useful life of the asset created out of the loan instead of fixing a uniform period according to the purpose of the loan.

8. Various items of development have been indicated by the Reserve Bank under the category of easily identifiable productive purposes as also non-identifiable productive purposes, the emphasis being on items of investment which generate sufficient increase in the repaying capacity of the cultivator to repay the loan obtained for the purpose. A broad classification of the loans for identifiable productive, non-identifiable productive and other purposes is given below:

A. *Identifiable Productive*

- (i) Sinking of new wells (surface wells, dug-cum-bore wells, tubewells and filter points)
 - (a) in respect of which all instalments have been disbursed
 - (b) in respect of which only part disbursement has been made.
- (ii) Construction of new tanks to conserve water for wet cultivation.
- (iii) Boring and deepening, reconstruction of or repairs to old wells (surface wells, tubewells or dug-cum-bore wells) and deepening, reconstruction of or repairs to tanks.
- (iv) Installation of persian wheels.
- (v) Purchase and installation of pumpsets (diesel or electrical), deposit with state electricity boards for high or low tension lines for energizing electric motors, construction of field channels and pump houses.
- (vi) Purchase of tractors, power tillers, mechanical sprayers and other machinery and implements.
- (vii) Construction of godowns, cattle sheds, farm houses, manure sheds, tobacco barns etc.
- (viii) Barbed wire or stone fencing.

B. *Non-identifiable Productive*

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

C. *Purposes not falling under A or B above and Non-productive*

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

9. As per the instructions issued by the Reserve Bank, when loans for purposes mentioned under B category are given as a part of any ARC-refinanced scheme, such loans can also be reckoned as having been advanced for identifiable productive purposes. Under the ordinary loaning programme, however, they can be treated as identifiable productive purposes only if certain specified conditions are satisfied such as preparation and execution of the schemes on sound technical lines, approval of plans and estimates of the financial outlay by the concerned department of the state government, provision of adequate arrangements for technical supervision over the work of construction and development and economic feasibility of each scheme. The financing banks have to approach the Reserve Bank with concrete proposals.

We are in agreement with the broad classification of identifiable productive and non-identifiable productive loans as indicated above. We also note that the Reserve Bank is prepared to relax the conditions with regard to the percentage of productive and identifiable productive loans when, due to considerations like the geo-physical conditions in any area, such loans up to the prescribed level cannot be advanced.

RATIONALIZATION OF LOAN POLICIES AND PROCEDURES

10. The main objective of the production-oriented lending system is that land development banks should provide investment finance largely for items which are productive in nature and that they adopt suitable procedures for appraisal of loan proposals. As mentioned earlier, the Reserve Bank suggested in its circular dated 31 July 1971 various measures which had to be adopted by land development banks in order to rationalize their loan policies and procedures so as to reduce delays in sanction of loans and also to provide financial assistance to the weaker sections of the community. These include delegation of powers for sanction of loans to the management of primary banks or to the local committees of the branches of central land development banks up to a certain level, providing loans on the basis of the repaying capacity of cultivators instead of on the security of land and allowing a sufficiently long period for loans in the case of those cultivators who need special consideration such as small farmers.

11. A reference may also be made here to the agricultural credit projects sanctioned by the International Development Association in several states in implementing which the land development banks have been assigned an important role. The Project Agreements relating to these projects lay down certain norms to be followed by the lending banks while sanctioning loans to cultivators. These conditions relate to

matters such as appraisal of loan proposals both from the technical and financial standpoints, fixing the period for repayment of loans including the longer period required, if any, by small farmers. For instance, in the case of the Tamil Nadu Agricultural Credit Project, the Agreement signed on 11 June 1971 lays down a detailed procedure for technical evaluation of loan proposals for minor irrigation works. In this context, it has been specified that an appraisal team of the primary land development bank comprising a technical officer, a land valuation officer and a financial analyst should undertake visits to the site before a loan is sanctioned. Similarly, in the case of other projects such as Karnataka, conditions have been stipulated requiring the banks to undertake technical and financial evaluation in a specified manner.

12. A condition in the Agreements mentioned above under various projects which has an important bearing on the loaning policies and procedures of land development banks relates to the requirement that the procedures followed for appraisal, valuation of security etc., in the case of loans under the projects should also be applicable in the case of similar loans in non-project areas. Thus, the land development banks which are implementing the agricultural credit projects sanctioned by IDA are required generally to follow similar terms and criteria for loaning in respect of similar items of investment in non-project areas, i.e., if the purposes are the same as those covered by the Project. In other words, the Agreements require the banks to introduce suitable procedures for appraisal, both technical and financial, of loan proposals and for valuation of security etc., on loans for similar purposes in a uniform manner. Following the stipulations referred to above in the Agreements relating to various projects, the Reserve Bank advised the concerned banks in July 1971 to strictly abide by the undertaking given by them in respect of loans issued under ordinary programmes.

PROGRESS IN THE IMPLEMENTATION

13. The Study Teams which were constituted by our Committee to examine the working of land development banks in co-operatively less advanced states, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal have pointed out in the case of all these banks that they have not been able to make any significant progress in the implementation of the production-oriented lending system which is 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 banks and the boards of directors.

14. The progress in the implementation of the production-oriented lending system is reviewed by the officers of the Agricultural Credit Department of the Reserve Bank who conduct inspections of land development banks as also during their periodical visits to primary banks. The utilization study reports of the officers of the Agricultural Refinance Corporation in respect of the schemes sanctioned by it also throw light on the extent to which reforms in loan policies and procedures have been introduced by land development banks. We propose to refer below to the findings contained in the various reports referred to above in respect of three central land development banks in the developed states subject to the observation that these three banks have impressive records in the switch-over to the production-oriented system of lending and have achieved considerable success in this regard. The weaknesses have been pointed out to stress the areas in which further progress is necessary.

Andhra Pradesh

15. Loan amounts provided by some of the primary banks continued to be related more to the eligibility according to the security and the ceiling amounts in force for different purposes than to any technical assessment of the proposed outlay or repaying capacity arrived at in a realistic manner.

In the absence of scales of finance per unit or per acre applicable to different areas for purposes like dugwells, bore wells and levelling and bunding there was a tendency to sanction loans to the maximum extent permissible or the maximum amount eligible on the basis of land valuation, whichever was lower.

Repaying capacity was in most cases adjusted to cover instalments of loans. In a number of cases, particulars of crops grown, yield per acre, price of produce etc., were not mentioned in the loan applications. On the expenditure side, account was taken solely of the cost of agricultural operations.

In the case of loans for oil engines and electric motors, instances had been noticed where invoices were made up to tally with the loan sanctioned either by adding even unwanted accessories or by not giving full break-up of the cost of the various items included in the invoices.

Tamil Nadu

16. The technical estimates accepted for loaning by primary banks, particularly in respect of minor irrigation schemes and land reclamation, were often so prepared as to fit in with the quantum of credit sought

for by the individual applicants rather than the actual outlay involved in the proposed projects.

The central land development bank had not set up a technical group to fix area-wise norms for assessment of pre-development and post-development income for valuation of hypotheca and computation of incremental income for the purpose of determining repaying capacity.

The assessment of the repaying capacity was made with reference to the incremental income which was arrived at by deducting the pre-development net income from the post-development net income and 90 per cent thereof was uniformly reckoned as the repaying capacity of the borrower. While financing schemes for purchase of tractors, primary banks worked out the post-mechanization net income on the basis of an arbitrary increase of 30 per cent over the income derived by the beneficiaries in the pre-mechanization stage from their holdings.

There was tendency on the part of the valuation officers to deflate the pre-development income with a view to boosting up the incremental income for enabling cultivators to qualify for loan assistance applied for by them. In certain cases, income from non-benefiting areas was also taken into account for the purpose of computing the incremental return accruing from the investment.

Many of the primary banks had not adhered to seasonality in lending and continued to disburse loans for wells and land reclamation throughout the year.

In some cases of loans advanced for minor irrigation purposes, spacing criterion laid down by the groundwater directorate had not been observed by the appraising officials. The sketch map indicating the existence of wells in the area and the distance thereto from the site of the applicant's minor irrigation unit was not enclosed to the appraisal report.

Loans for pumpsets worked with electricity were disbursed even before the construction of wells was completed and without obtaining feasibility certificates from the state electricity board. As a result, in many cases where the machinery was purchased and installed, electrification was pending for long and the borrowers were burdened with interest charges. It was also noticed that some of the banks had financed the purchase of accessories not really needed.

Loans for reclamation should normally be granted only in cases where assured irrigation is available. Some of the primary banks, however, continued to advance loans for land reclamation without proper assessment of the need for reclamation, with the result that instances

were observed where the loans issued for this purpose had been misutilized by the borrowers.

Karnataka

17. With regard to loans for digging of wells, the estimates of cost were obtained in a stereotyped manner from contractors or civil engineers generally for the same amounts of loans as applied for by the borrowers instead of basing such estimates on actual requirements assessed in the course of field visits by the banks' staff. Similarly, the technical plans prepared by the horticulture department under the coconut plantation schemes were also stereotyped and the cost of development mentioned in the plans was invariably the maximum amount per acre allowed under the scheme concerned.

Quotations given by the dealers for pumpset loans differed from borrower to borrower even for pumpsets of the same brand and horse power and during the same period. Further, quotations for pumpsets were accepted by some of the primary banks even from dealers who were neither authorized dealers of the manufacturers nor were included in the approved list of the state agro-industries corporation.

Some of the primaries were not strictly following the instructions of the central land development bank for working out the net incremental income inasmuch as they were not indicating the details regarding the acreage under each crop and the income therefrom. The total pre-developmental and post-developmental incomes were being mentioned without any details.

The scrutiny of loan applications for different purposes at the district offices of the central land development banks was more with reference to the legal aspects, viz., title to the property, non-encumbrance certificates and no-objection certificates rather than with reference to aspects such as the repaying capacity of the borrower, loan eligibility and period of the loan.

With regard to minor irrigation and land reclamation schemes under medium and major irrigation projects, the central land development bank had issued instructions in September 1972 to the primaries that the valuation of land might be made at 9 times the net income derived after the proposed development, instead of 8 times as suggested by the Reserve Bank. Further, norms for net income were worked out with reference to the area of a district as being a unit, instead of a *tehsil* as suggested by the Reserve Bank. Some banks worked out the valuation of land with reference to the income from all the lands of the borrowers instead of from the benefiting areas only.

The period of loans was fixed uniformly according to the purpose of the loan without taking into account the repaying capacity of the borrowers.

18. From the above, it will be seen that while the land development banks in the co-operatively less developed states have not evolved procedures for introduction of the production-oriented system of lending, even in the case of banks in the developed states there are several weaknesses in the implementation of the production-oriented system of lending. The deficiencies generally observed in the case of these banks relate 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 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.

On the basis of the findings referred to above, it can be said that although in a few states valuable attempts have been made to introduce the production-oriented lending system, there are several areas where the existing procedures need improvement. We have made specific recommendations and suggestions in Chapter 5 in regard to the introduction of the production-oriented lending system in all its essential features in the co-operatively less advanced states. In the case of the other states, what is needed is a determined effort by the central land development banks to remedy the existing weaknesses such as those referred to in paragraphs 15 to 17.

STREAMLINING OF PROCEDURES

19. Apart from the procedural aspects connected with the production-oriented system of lending referred to in the earlier paragraphs, we should like to emphasize certain other steps—legal and administrative—so as to ensure speedy disposal of loan applications and grant of loans as also to another very important aspect, viz., security for loans.

(i) *Public Inquiry System*

20. We have suggested in Chapter 13 that such of the states as have not incorporated in their Co-operative Societies Acts provisions regarding public inquiry systems in connexion with the title to the borrower's

land should do so as early as possible. Here, we should like to point out that even where the system of public inquiry has been introduced, there is considerable delay in holding the inquiry by the inquiry officer and grant of no-objection certificate to the financing bank. We understand that the simplified loan procedure followed in Madhya Pradesh enables the land development banks to disburse loans within 35 days of the receipt of the applications. Under this procedure, only *khasra* extracts are required to be produced as evidence to title. Public inquiry and land valuation are combined and the legal scrutiny of the papers is only at one level and stage. Further, under section 8 of the Madhya Pradesh Land Development Bank Act, 1966 read with rule 3 of the Rules framed under the Act, provision exists for the constitution of a guarantee fund for meeting losses that might arise on account of loans advanced by the land development banks on the security of mortgages not being fully recovered due to the following circumstances:

- (a) That the loans have been advanced on the title to immovable properties which have subsequently been found to be defective.
- (b) That full recovery is not possible on account of floods, famine, failure of crops or any other natural calamity.

To this fund, the state and the primary land development banks are to contribute at the rate of 2 per cent and 1 per cent respectively of their net profits. We commend the simplified loan procedure and the legal provision referred to above in Madhya Pradesh for the attention and necessary action of the state governments and central land development banks in other states.

(ii) *Security*

21. Land development banks have been giving loans since their inception against the mortgage of borrowers' lands. The provision of mortgage security existed since the inception of land development banking because the main objective of the banks at that time and several years afterwards was to help cultivators in getting lands released from the hands of moneylenders. Another reason for making such a provision appears to be the apprehension that in case lands were left free in the hands of the borrowers they might incur further debts and create new encumbrances thereon. Considering the historical developments in regard to the progress made by land development banks and the various constraints coming in the way of their development, we feel that a time has come when there should be a fresh approach to this important aspect in view of the following:

(a) Land development banks are finding it extremely difficult if not impossible to dispose of lands in satisfaction of debts in the case of defaulting cultivators since buyers for purchase of these lands are not coming forward in the villages owing to collusion between villagers, difficulty of cultivating land after purchase in view of opposition from the previous owners etc.

(b) Taking mortgage of land for the loans involves considerable delay in the sanction of loans, especially in the case of small farmers who are put to great difficulty in approaching the village officials and the registration offices for details regarding identification of land according to survey numbers, title to the land and encumbrance certificates.

(c) Despite mortgage security, the overdues in the land development banks have been showing a rising trend even in those states where the existing legislation gives ample powers to banks in taking coercive measures. In other words, the mortgage of land of the borrowers has not helped in the prompt repayment of loans.

(d) Mortgage security will come in the way of land development banks undertaking diversification in their loaning operations which is very crucial from the point of maintaining tempo in their loaning operations because such diversification will involve going into sectors such as animal husbandry and dairy farming and poultry where land may not be available to serve as security to the extent necessary.

22. The issue regarding security for loans provided by land development banks was examined by the All-India Rural Credit Review Committee (1969). This Committee was of the view that mortgage security was necessary and observed as follows:

“Firstly, this involves a fundamental amendment of the legislation dealing with the working of the land development banks in each state. Secondly, complications are likely to arise in practice if, under this arrangement, the statutory charge becomes a common security for both the primary agricultural credit societies and the land development banks. Thirdly, it is doubtful if, at the present stage of development of investment credit for agriculture, the potential investors in the land development bank debentures would continue their support if these are backed only by the hypothecation of the concerned equipment and charge on land, instead of by mortgages of land as at present. Above all, the significance of the security of land is not so much that it can be realized in

practice as that it is a guarantee that the borrower continues to be in business in a long-term loan. We, therefore, feel that the mortgage security cannot be dispensed with.”¹

23. There have been certain important developments since the Rural Credit Review Committee made the above observations in 1969. One of these relates to the entry of commercial banks in the financing of agricultural development schemes especially after the nationalization of 14 commercial banks in July 1969. In the case of commercial banks, the loan procedures generally provide for sanction of term loans without mortgage of land up to a specified limit, say, Rs 3,000 to Rs 3,500 for certain purposes such as purchase of pumpsets and power tillers. Another development is the increasing application of the production-oriented system of loaning for investment credit which involves, among other things, linking of credit to incremental income rather than to landed security.

Reference may also be made in this connexion to certain relaxations in mortgage security permitted by the Reserve Bank in respect of medium-term loans availed of from the Bank by co-operative banks. One such relaxation was introduced in August 1969 permitting co-operative societies to advance medium-term loans for approved purposes up to Rs 1,000 against personal security and those between Rs 1,001 and Rs 1,500 against charge on land and above Rs 1,500 against mortgage of land. Medium-term loans of more than Rs 1,000 but less than Rs 3,500 which were required for the purchase of electric pumpsets, tractors or oil engines or for digging of wells could be given without mortgage of land or charge on land, provided that the machinery and equipment were hypothecated in favour of the society. According to further relaxations introduced in June 1971, medium-term loans up to Rs 3,500 for the purchase of agricultural machinery like threshers, harvesters and tyre carts can also be given without mortgage of land or a charge on land subject to certain conditions. In the case of small or marginal farmers in the SFDA/MFAL project areas as well as in the case of economically weak farmers in other districts, loans up to Rs 2,000 can be given to a cultivator for dairy or poultry activities without insisting on the security of a mortgage of land or a charge on land provided that there are satisfactory arrangements for collection of milk/eggs, sale of these products and recovery of dues out of the sale proceeds and there are also adequate arrangements for the purchase of quality milch cattle and poultry birds. More-

¹ *Report of the All-India Rural Credit Review Committee (1969)*, published by the Reserve Bank of India, p. 780.

over, medium-term loans up to any extent can be advanced by primary credit societies on the borrower creating a statutory charge on his land in favour of the society if (a) legal provision existed for the creation of a charge on land, (b) administrative arrangements for registration and enforcement of the charge are adequate and (c) the co-operative credit institutions consider such security as sufficient for the loans of the size required.

24. The Expert Group on State Enactments Having a Bearing on Commercial Banks Lending to Agriculture (1971) headed by Shri R. K. Talwar has observed in regard to the significance of land as security for long-term loans to cultivators for financing investment requirements in agriculture as follows:

“When loans are to be granted by banks for investment purposes that have a longer gestation period and thus require a longer period for repayment, the need to take land as security can hardly be disputed. The insistence of land as security may, however, present some difficulty in the case of certain classes of cultivators who have no recorded rights of lands. In their case, a distinction may have to be drawn between investment in the land itself such as sinking a well or deepening an existing well, levelling the land to make it suitable for wet cultivation, bunding the land for retention of water or moisture, etc., and investment in oil engines, electrical motors and pumpsets, tractors, power tillers, etc. While it may not be possible for banks to grant loans for investments falling in the first category, without insisting on mortgage of land, banks may grant loans facilitating investments falling in the second category without insisting on mortgage of land, provided the implements and machinery are furnished as security and the bank's charge thereon is secured by appropriate arrangements and documents.”¹

25. It will be seen from the above observation that while the Committee considered it necessary for banks to obtain mortgage of land as security for loans for investment credit, this condition was not to be insisted upon for loans provided for acquisition of certain agricultural implements and other equipments. The Committee seems to have favoured land as security on the ground that commercial banks would be providing the entire production needs of the cultivators—short

¹ *Report of the Expert Group on State Enactments Having a Bearing on Commercial Banks Lending to Agriculture* (1971), published by the Reserve Bank of India, Bombay, p. 7.

and long-term. In view of this, the Committee felt that to leave an unencumbered asset with the cultivator in such circumstances would not only be unnecessary but would also offer needless temptation to the cultivator to resort to avoidable unproductive borrowings. In any case, the retention of security of land with the bank would ensure that such borrowings, whenever they become necessary, are resorted to with the knowledge and concurrence of the bank.

26. In the changed context referred to in the preceding paragraphs, land development banks are at a disadvantageous position *vis-a-vis* commercial banks or even the short-term co-operative credit structure inasmuch as they can issue term loans for certain purposes without the mortgage of land whereas land development banks have to obtain, under their statutes, for all loans, land as security.

Reference has to be made here to a very important recent development involving the amendment to the Agricultural Refinance Corporation Act, 1963, enabling the Corporation to dispense with mortgage security. The amended section 22(4) of the Agricultural Refinance Corporation Act which became effective in September 1973 vests the Board of Directors of the Corporation with the power to waive both government guarantee and 'other security' in respect of refinance provided to the eligible institutions on merits of each case.

This raises the fundamental question whether it is at all necessary to continue with the system of land mortgage for loans from land development banks. In our opinion, the system of land mortgage for loans from land development banks is out of tune with the basic features of the production-oriented system of lending expected to be followed by land development banks and extension of long-term credit to small farmers, and it has proved somewhat illusory as the basis for security. We are, therefore, of the view that the insistence upon security of land for loans given by land development banks should be given up. However, cultivators might obtain unproductive loans and create an encumbrance on their land by borrowing from moneylenders and private parties. Such a situation can be avoided if the title of the borrower to his land and non-encumbrance is verified before grant of loan and restrictions are placed on the right of the borrowers to alienate or dispose of his lands until the loan taken from the land development bank is fully repaid. We should, however, like to add that our recommendation that the mortgage of land should not be insisted upon, does not preclude the land development banks from accepting mortgage of land, i.e., the banks may obtain mortgage of land if the borrower is agreeable to furnish the same or prefers this arrangement.

27. As regards the measures to be taken for protecting the interests of land development banks, if mortgage security is done away with, it may be mentioned that in the case of short-term loans, the Co-operative Societies Act in most of the states provides for a declaration being made by the borrowers giving details of their landholding and other assets which has the effect of a mortgage in favour of the credit society. The Co-operative Societies Act in most states also provides that the mortgage in favour of the land development bank has priority over the claim of the primary credit society.

In the context of our recommendation for doing away with mortgage of land for loans from land development banks it will be necessary to provide for certain safeguards to protect the interests of these banks. We feel that this can be ensured by the land development banks having a charge on the land of the borrower. In addition, the land development banks can obtain hypothecation of the agricultural equipments and other machinery purchased out of the loan provided by them. The banks can also insist, for additional protection, on two sureties for each borrower.

28. The question, however, arises whether the charge to be created in favour of the land development bank will be effective if there is a charge already created in favour of the short-term co-operative credit institutions in case the borrower has already taken short-term loans. We have carefully examined this aspect and have come to the conclusion that in the case of the short-term credit structure, wherever a default takes place, coercive measures are generally taken or expected to be taken for effecting recoveries from the produce or the standing crop. It is seldom that primary agricultural credit societies undertake sale of the land and other assets of the borrowers. In other words, the charge in favour of the short-term credit structure which is created by virtue of the declaration made by the borrower serves the main purpose of ensuring that the borrower does not dispose of the land and other assets belonging to him till the repayment of the loan. Taking into account the fact that the loans provided by the land development banks are sizeable and for longer periods it stands to reason that as between the short-term credit structure and the long-term credit structure there is a strong justification for sufficient protection being provided to the latter by ensuring that the borrower does not create a further encumbrance on his land till the repayment of the long-term loan taken from the land development bank. We, therefore, recommend that a charge may be created on the land and other assets of the borrower both in favour of the short-term and long-term

credit structures, with a clear provision to ensure that the long-term credit structure has a priority over the claims of the short-term credit structure.

29. The effect of the various suggestions made above would be that land development banks would be granting loans to cultivators on their creating a charge on their land, such charge being common both to the short-term and long-term credit structure, the latter having priority over the former, in addition, if necessary, to the hypothecation of agricultural machinery, and equipments purchased out of the loan and the borrower furnishing two sureties acceptable to the banks. Such a charge is legally feasible and acceptable according to Shri R. M. Halasyam, Legal Adviser, Reserve Bank of India, who attended our third meeting in New Delhi on 9 August 1974 as per our request and gave us the benefit of his advice in this matter.

30. As a corollary to our recommendation for giving up mortgage security an important question arises whether there would be any difficulty for land development banks in floating debentures solely on the government guarantee, i.e., without the backing of the mortgage of lands of the borrowers. It may be pointed out in this connexion that even at present the major subscribers are the Government of India, state governments, Life Insurance Corporation of India, State Bank of India and commercial banks from whose point of view there should be no objection to this procedure, because they are already lending support to the bonds and debentures of other institutions which are issued solely on the guarantee by the state government or Government of India. There should not also be any apprehension on the part of the state government regarding the ability of the banks to redeem the debentures on maturity as the Registrar of Co-operative Societies, as a Trustee, will ensure that sufficient sinking fund is built up every year. Further, institutions such as the Agricultural Refinance Corporation, Industrial Finance Corporation, state financial corporations and state electricity boards are floating debentures or issuing bonds solely on government guarantee. In view of all this, we expect that the state governments, especially in their Finance Departments, and the institutions which subscribe to the debentures will take a broader view in regard to the guarantee provided for the debentures of central land development banks and agree to these banks floating debentures solely on the guarantee of the concerned state government.

31. The various suggestions made by us in regard to the security for loans provided by land development banks and floatation of

debentures would necessitate certain changes in the existing legal framework applicable to land development banks, viz., Co-operative Societies Act or the Land Development Banks Act, by-laws and trust deeds. In order to enable the state governments and land development banks to implement our recommendations, we have, in consultation with the Legal Department of the Reserve Bank, prepared draft amendments which are given in Annexure 16. The amendments to by-laws and trust deeds can be prepared by the central land development bank in each state, and got approved by the Registrar of Co-operative Societies. With a view to expediting the amendments to the State Co-operative Societies Acts/State Land Development Banks Acts in the various states and also to bring about a measure of uniformity in the State Acts, the Government of India may consider enacting a model Central Act in this behalf for adoption by the states. It is understood that Article 252 of the Constitution of India provides that if the House of Legislature of at least two states could be persuaded to pass resolutions that certain matters should be regulated in the said two states by law of Parliament, in that case, Parliament would become competent to make a law regulating the said matters. The law made by Parliament in these circumstances would apply to the said two states. It would apply also to any other state, the Houses of Legislature of which pass resolutions adopting the said law made by Parliament. The Government of India may consider this aspect in view of the urgency of the matter and enact a model Central Act to enable land development banks to grant loans on the basis of a charge on the land of the borrower.

(iii) *Diversification of Loans*

32. Another important aspect regarding the loaning operations of land development banks is the need for diversification of loans to which we have already made a reference in Chapter 8. We have recommended that banks should seek new avenues of investment in agriculture, with the help of the state governments. Here, we would stress that the existing provisions in the Co-operative Societies Act/Co-operative Land Development Banks Act as well as the by-laws of banks should be amended suitably so as to include items such as dairy and poultry activities etc., among the purposes for which loans may be advanced by land development banks.

PROBLEMS OF FINANCING SMALL FARMERS

33. We have so far discussed the loaning operations of land development banks with reference to all borrowers—whether they are big

farmers or small farmers. In the paragraphs that follow we refer to the vital subject of financing of small farmers who have not been able to take sufficient advantage of the introduction of the high yielding varieties programmes and undertake permanent improvements to their lands and take up other developmental schemes mainly due to their inability to obtain loans from institutional sources.

34. It may be recalled that the All-India Rural Credit Review Committee (1969) had recommended the organization of SFDAs and MFAL projects as also reorientation of the loan policies and procedures of land development banks, so that small farmers could avail themselves of the financial assistance provided by co-operative banks. In order to review the position in this behalf, our Committee constituted a Study Group, to which a reference has been made in Chapter 1, under the chairmanship of Smt Satyabhama, then Director, Ministry of Agriculture (Department of Agriculture), Government of India. The main observations of the Group are reproduced in the Appendixes. In the light of the material contained in this report as well as of other data, we refer below to various aspects of the problems relating to the financing of small farmers and our recommendations and suggestions.

Extent of Financial Assistance Provided to Small Farmers

35. According to the available data, 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 the land development banks, although they constituted 62 per cent of the total cultivating households in the country. The state-wise position is given in Table 2.

36. It will be seen that in the case of 4 states, viz., Bihar, Haryana, Madhya Pradesh and Rajasthan, the proportion of loans advanced to farmers having less than 2 hectares of land (broadly taken to be small farmers) to total loans was less than 20 per cent; for two states, viz., Andhra Pradesh and Karnataka, it varied between 20 and 30 per cent; for 3 states, viz., Assam, Pondicherry and Tripura the relevant figure was above 50 per cent. In the case of 7 states, the relative data were not available. Numerically, cultivators of this category, viz., having holdings of less than 2 hectares formed 40 per cent of the total number of borrowers of all the land development banks. In the case of 3 states, viz., Gujarat, Haryana and Madhya Pradesh, they formed less than 20 per cent; for 4 states, viz., Bihar, Maharashtra, Karnataka and Rajasthan between 20 and 30 per cent; for one state, viz., Andhra Pradesh between 30 and 50 per cent, and for 8 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Kerala, Tamil Nadu, Uttar Pradesh, Pondicherry and Tripura above 50 per cent.

TABLE 2

CLASSIFICATION OF LOANS ADVANCED TO INDIVIDUALS DURING 1971-2 ACCORDING TO SIZE OF OWNERSHIP HOLDING

		Rs Lakhs					
		SIZE GROUP OF OWNERSHIP HOLDING					
Bank		Total		Up to 1 hectare		1-2 hectares	
		No. of borrowers	Amt.	No. of borrowers	Amt.	No. of borrowers	Amt.
1		2	3	4	5	6	7
Andhra Pradesh*	.. ..	43098	1369.91	—	—	16785	368.54
Assam .. ..	.. ..	388	10.43	162	3.15	163	4.12
Bihar .. ..	.. ..	14940	947.42	1505	47.76	1640	52.24
Gujarat .. ..	.. ..	22398	1556.03@	1303	—	3225	—
Haryana .. ..	.. ..	9721	721.14	122	5.64	1422	99.42
Himachal Pradesh	.. ..	661	36.49	137	—	268	—
Jammu & Kashmir	.. ..	1735	49.80	1304	15.33	194	5.59
Kerala .. ..	.. ..	6281	268.42	2515	—	1301	—
Madhya Pradesh	.. ..	18466	764.69	67	12.83	2640	67.31
Maharashtra .. ..	.. ..	35704	1721.53@	1722	—	6124	—
Karnataka .. ..	.. ..	31609	1152.49	1460	32.37	7392	205.21
Orissa**	.. ..	—	—	—	—	—	—
Punjab**	.. ..	—	—	—	—	—	—
Rajasthan .. ..	.. ..	8120	344.64	342	16.03	1434	39.84
Tamil Nadu .. ..	.. ..	23605	1677.12£	7994	342.64	7653	395.75
Uttar Pradesh .. ..	.. ..	71933	2399.46	13199	285.77	22801	719.14
West Bengal**	.. ..	—	—	—	—	—	—
Pondicherry .. ..	.. ..	319	18.15	223	8.87	57	3.37
Tripura .. ..	.. ..	2	0.09	2	0.09	—	—

*The information relates to 154 primary banks only out of 184 banks

**Data not available

@Break-up of amount not available

£This represents disbursements effected by primary land development banks to members in respect of ordinary loans only.

37. The stipulation that loans to small farmers should not be less than 20 per cent of the total loans issued by a land development bank in any year made by the Reserve Bank in terms of its circular issued on 27 February 1973 had been mutually agreed upon by the banks themselves at the meeting of the representatives of central land development banks held in Bombay on 8 February 1973. This percentage is however indicative only of the minimum financing that should be done by a land development bank for the category of small farmers. The objective of each central land development bank should be to cover as large a percentage of small farmers as possible. We would advise that studies should be undertaken immediately by each central land development bank for fixing the percentage which, of course, should be above 20 per cent on the basis of the proportion of small farmers in the area

of each primary bank/branch of the central land development bank. It will be helpful if the Regional Offices of the Agricultural Credit Department of the Reserve Bank are associated with such studies.

Problems Faced by Small Farmers

38. The problems of small farmers in obtaining financial assistance from land development banks as identified by our Study Group are as under:

(1) Small farmers find it difficult to get the legal documents required for executing mortgage deeds which results in considerable delay in sanctioning of loan and, in some cases, even in denial of loans to them.

(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.

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

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

39. These and other connected aspects of the problems of financing small farmers are examined below:

(i) *Land as Security*

40. Our recommendation made in paragraph 26 of this Chapter for doing away with mortgage security will be particularly helpful to small farmers.

(ii) *Valuation of Land : Deficit in Security*

41. Even assuming that land development banks followed rational methods of valuation of land such as basing such valuation as a percentage (usually 50 per cent) or a multiple (generally 8 times) of the post-developmental net income, yet small farmers will have to face difficulties in getting adequate loans because of low post-developmental income. This difficulty will not arise if mortgage security is not insisted upon. However, until such time as mortgage security is called for from borrowing members, we recommend that the procedure adopted by some of the state governments such as Andhra Pradesh, Madhya

Pradesh and Karnataka for providing a guarantee for deficit in security in the case of ARC-refinanced schemes should be extended even in regard to loans under ordinary lending programmes of land development banks.

(iii) *Payment of Service Charges and Other Fees*

42. The amount of fees on account of various items collected by land development banks generally varies from Rs 10 to Rs 60 for a loan of Rs 5,000. These fees in the form of admission fee, administrative fee, legal fees, cost of certified copies of revenue records etc., are collected at various points of time. Small farmers in Andhra Pradesh, Bihar and Madhya Pradesh are allowed concessions in the payment of fees, viz., admission fee, administration fee and valuation fee respectively. We recommend that small farmers should be completely exempted by the state governments from the obligations to pay fees for obtaining extracts of revenue records and non-encumbrance certificates.

(iv) *Share Capital Contribution*

43. Land development banks in only 4 states, viz., Andhra Pradesh, Madhya Pradesh, Orissa and Rajasthan were reported to be allowing small farmers to make payment towards the cost of the shares to be purchased by them in instalments. In Rajasthan, Tamil Nadu and Uttar Pradesh a reduced contribution is allowed to small farmers. It has been represented to us that land development banks should include the major part of share capital contributions to be made by individual borrowers in the total loan amount in the case of small farmers, requiring them to pay only the admission fee and the cost of one share for membership out of their own resources. It has also been suggested that the share capital amount might be adjusted out of the subsidy provided by the SFDA/MFAL agencies. In our view, these relaxations are not necessary because such contributions (5 per cent) are to be collected from small farmers in instalments of 2 per cent in the first year and 1 per cent each in the next three years, i.e., over a period of four years. What is, therefore, required is that banks should carry out this procedure which will have the effect of reducing the burden on small farmers regarding their contribution to the share capital of land development banks.

(v) *Down Payment*

44. In Chapter 8, we have referred to the concession given by some land development banks in respect of the down payment, inclusive of

share capital contribution, in the case of small farmers and have recommended that share capital contribution by big farmers may be higher than that by small farmers.

(vi) *Period of Loan*

45. According to the guidelines issued by the Reserve Bank, the period of a loan is to be fixed on the basis of the repaying capacity of the borrower. Small farmers with limited holdings and having lower repaying capacity will thus get a longer period for repayment of the loan. Under these guidelines, it may be necessary to extend the period of loans to small farmers up to 15 years. In case, however, the period of the loan on the basis of the repaying capacity exceeds even the life of the asset (e.g., pumpset) to be created or acquired with the help of the loan, the solution would lie in organizing a group of small farmers for the purpose of a group loan or joint loan as suggested later in paragraph 50 of this Chapter. It has been represented to us in this context that when such group loans are not feasible owing to the unwillingness of cultivators to join together for a group loan, and when the extended period is not within the repaying capacity of the individual borrower or it goes beyond the useful life of the asset, the government should come forward to subsidize a part of the loan amount. We are not in favour of such a general subsidy except under the special programmes of SFDA/MFAL agencies where such subsidies are available to the extent of 25 to 50 per cent of the cost of work.

(vii) *Loans for Debt Redemption and Acquisition of Ownership Rights*

46. It has been represented to us that the limit of 10 per cent for loans to be issued for debt redemption by the land development banks may be relaxed in the case of loans to small farmers. The Reserve Bank has already granted relaxation in terms of its circular letter dated 2 March 1973 in favour of tribal population by allowing sanction of composite loans for debt redemption and investment purposes. Such loans will not be covered by the overall limit of 10 per cent fixed for debt redemption loans.

47. We have also suggested in Chapter 8 that each central land development bank may conduct a study to assess the need for enhancement of the percentage of loans to be given for debt redemption especially in scheduled castes/scheduled tribes areas or in SFDA/MFAL areas and take up the matter with the Reserve Bank, if necessary.

48. Some of the land development banks (e.g. Karnataka) have indicated their willingness to provide financial assistance to small farmers for enabling them to acquire ownership rights in land. The main objective of land reforms is to ensure equitable distribution of land for which purpose the surplus land held by the existing owners over and above the ceiling fixed by the relevant land reform legislation will have to be given to the tenant-cultivators. This class of tenant-cultivators being not in an economically strong position have been given the benefit of making payment of the value of land in a number of instalments spread over several years as otherwise it will be impossible for them to pay the amount of compensation in one lump sum. Land reform legislation, thus, contains provisions for payment of the purchase price in easy annual instalments with a nominal rate of interest. If such a provision is adopted in all the states, the need for land development banks sanctioning loans for purchase of ownership rights will not arise. Further, the purchaser will prefer to pay to the government in annual instalments instead of borrowing from a land development bank and making himself ineligible for a further loan for taking up investment on the land purchased by him. In the alternative, he will have to be sanctioned a loan for purchase of ownership rights from within the 10 per cent ceiling on loans for non-productive purposes, in addition to the developmental loans to which he may be entitled. Beyond this, we are not, in favour of land development banks giving loans to tenant cultivators for acquisition of ownership rights, viz., making lump sum cash payment to the erstwhile landlords.

(iii) *Linking of Lending Programme to Recoveries*

49. The Reserve Bank's stipulation regarding the provision of loans by central land development banks to their branches or to primary banks on the basis of collections effected by them does not apply to banks in areas covered by SFDA/MFAL agencies in Assam, Bihar, Orissa, West Bengal, Rajasthan, Madhya Pradesh, Himachal Pradesh and Jammu & Kashmir. In such areas, primary banks/branches of the central land development banks can be provided with necessary funds for financing small farmers and marginal farmers identified as such under the schemes, irrespective of the level of overdues of the primary banks/branches. We have already suggested in Chapter 8, para 26, that the central land development banks in the other states may examine whether a similar relaxation is necessary and justified in the case of primary banks/branches of central land development banks in SFDA/MFAL project areas and approach the Reserve Bank with facts and figures to support the case for relaxation, if any.

50. Apart from the various recommendations and suggestions referred to above, we have certain general observations to make in regard to the financing of small farmers by land development banks:

(a) In view of the need for securing optimum utilization of scarce resources like groundwater and also to enable small farmers to derive maximum benefits from the investment, the state governments should examine carefully the organizational aspects relating to the execution of development work such as construction of wells, installation of lift irrigation works etc., in the case of investment to be made by small farmers in the SFDA/MFAL areas. Wherever feasible, co-operative irrigation societies may be formed comprising small farmers so that maximum benefit is obtained from the well or wells constructed in the area. Wherever the number of small farmers in the area is not adequate to form a co-operative society, the scheme can be implemented for a group of cultivators by helping them to obtain joint loans. This requires determined extension work on the part of the local government staff and also the field staff of the primary banks/branches.

(b) Provision of long-term loans to small farmers should be accompanied by very close and continuous supervision over the utilization of the loans and necessary follow-up measures by way of technical advice and helping them to get supplies such as seeds, fertilizers and pesticides. This needs particularly close co-ordination between the extension and technical staff under the SFDAs on the one hand and the credit institutions on the other so that the small farmers get full benefits from the investment made by them and also to ensure prompt repayment of loans.

(c) In the case of development schemes such as those relating to plantations and orchards as also land reclamation and levelling, it is particularly necessary to ensure that the needs of the small farmers are given the fullest priority in the loan operations of land development bank. Since the targets for the field staff for such schemes are set in terms of the total acreage to be covered, there is a tendency on the part of the departmental field staff and also on the part of the staff of the banks to reach the target by contacting a small number of large farmers. Thus, for example, in the case of a scheme for development of coconut plantations, where the target set is the coverage of say 500 acres in one year in a local area, it is relatively easy to contact about 50 borrowers with 10 acres each and give them loans. However, there may be a number of small farmers having 2 or 3 acres or even less who will need long-term loans for coconut plantations and are eligible for such loans. Contacting these small farmers is extremely difficult although more important. We, therefore, recommend that clear instructions

should be issued by the state government to the extension staff and by central land development banks to the field staff of primary banks/branches that while implementing the schemes, highest priority should be given to the coverage of small farmers by contacting as many small farmers as possible instead of achieving the physical targets by covering a small number of large farmers. In the case of schemes for land reclamation and levelling also, it is particularly essential for land development banks to make determined efforts to contact small farmers. Otherwise, the development will be patchy, because it is only the big farmers who may go in for the development. Small farmers may face problems regarding security and their position will have to be investigated in each case and remedial steps taken to solve them. It is only in this manner that such schemes can result in uniform development of the area and be of benefit to small farmers.

FOLLOW-UP MEASURES

51. As a corollary to the introduction of the production-oriented lending system, land development banks have to evolve suitable procedures for post-sanction follow-up measures to ensure that (a) the investment credit provided is not misutilized, (b) the investment credit is fully utilized to ensure generation of additional repaying capacity for enabling the borrower to repay the loan and (c) the repayments from the borrowers are received as per the schedule envisaged at the time of sanction. In other words, this involves laying down a suitable procedure for verification of the utilization of loans and assistance to the borrower in undertaking the proposed development, as also maintenance of contacts with the borrower on a close and continuing basis, so that he makes repayments regularly out of the additional income received from the proposed investment.

52. A study of the procedures laid down by some of the land development banks for sanction and disbursement of loans and for various follow-up measures reveals that they have laid down certain checks for ensuring that the loans provided by them are properly utilized. For instance, in the case of loans for purchase of agricultural machinery and equipment, land development banks are expected to insist on making payments of the cost of the equipment directly to the dealer. Similarly, in the case of loans for sinking of wells or reclamation and development of land, the banks are expected to disburse the loans in two or three instalments and the second and third instalments are disbursed only after they are satisfied about the use of the earlier instalments. In some

banks the work of the supervisors is required to be test-checked by senior officials on a percentage basis. For undertaking the verification in regard to use of the instalments of loans, land development banks depend either on their own staff or on the staff of the state governments. However, the utilization studies conducted by the Reserve Bank and the Agricultural Refinance Corporation have shown that these checks and procedures are often not complied with even by the better placed land development banks. We would urge in this connexion that the primary bank's officers as well as the senior officers of central land development bank should invariably conduct test-checks and sharply pull up the field staff where they are found to be slack, incompetent or indulging in irregular practices. This will go a long way towards toning up the structure for field supervision in the banks.

53. The undernoted safeguards and post-sanction measures should be strictly followed by the land development banks:

(i) *Loans for Minor Irrigation Schemes*

(1) An approved list of authorized dealers/manufacturers of oil engines/pumpsets/electric motors of well known makes, preferably having ISI markings (i.e., certified by the Indian Standards Institution), in each branch/primary bank's area of operation should be maintained along with their maximum permissible retail prices for different makes and horse power. The state government in preparing the list, should consult the central land development bank.

(2) The pumpset/oil engine/electric motor etc., should be taken as collateral security and may preferably be insured.

(3) The amount of loan should be disbursed directly to the dealer after verifying the delivery of the equipment to the borrower.

(4) The existence of the oil engine etc., should be periodically verified by the bank's field staff.

(ii) *Loans for Tractors*

(1) No application for the purchase of a new tractor should be entertained by any land development bank unless the applicant produces evidence of registration of his order for a tractor with an authorized dealer as is required under the Tractor (Distribution and Sales) Control Order issued by the Government of India.

(2) The tractor purchased out of the loan should be hypothecated in favour of the bank as collateral security by a deed of hypothecation. A plate should also be got fixed prominently on the tractor with the

legend "hypothecated to Land Development Bank Ltd."

(3) The amount of the loan should ordinarily be disbursed only on the delivery of the tractor by the authorized dealer and its registration with the Regional Transport Office. Original or copies of the invoices should be retained on the bank's record.

(4) The bank's lien as a financing bank should be notified to the Regional Transport Office and the lien noted in the registration book. A certificate to that effect should be obtained from the Regional Transport Office. The registration of the tractor in the borrower's name and the entry regarding the bank's lien should be verified with reference to the registration book within a period of 15 days from the date of issue of the loan or of the reported delivery of the tractor to the borrower whichever is later.

(5) The tractor should be got comprehensively insured in the joint names of the bank and the borrower for its full cost during the currency of the loan.

(6) The good working condition of the tractor and its continued possession with the borrower should be watched by periodical verification by the bank's field staff.

54. The position in regard to the procedures obtaining for various post-sanction follow-up measures and also the arrangements therefor in the land development banks in co-operatively less developed states, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal has been indicated in Chapter 5. It has been pointed out therein that absence of proper arrangements for supervision over utilization of loans and inadequacy of the staff are the main factors contributing to heavy overdues in these banks. Even in the co-operatively developed states, it is seen that there is need to tone up the arrangements for supervision. The position in regard to a few banks is given below, based on material available to us.

Andhra Pradesh

55. There were a number of cases in which the first or subsequent instalments of loans advanced for purposes such as sinking of wells had not been verified at all by the supervisors of primary banks or other officials.

In the case of several primary banks it was observed that there was no record to show that the work required to be done had actually been done during the specified period.

There was no system in primary banks to ensure that the supervisor visiting a village undertook all the items of work to be attended to in that village.

The utilization registers were not properly maintained in the sense that essential columns such as those pertaining to command area of the well, the name of the supplier of the machinery, its make and horse-power were left blank. They also did not record the outcome of the verification in many cases.

The verification reports of the supervisors did not generally mention the state of progress of the work or the full details of the farm investment which was verified.

Some of the shortcomings in supervision could be attributed to lack of adequate interest of the management of primary banks in the matter of utilization and sometimes to local pressures which compelled supervisors to deviate from the correct procedures.

Tamil Nadu

56. There were occasions when in the anxiety to attain the targets fixed for issue of loans, the Co-operative Department drafted the services of Co-operative Sub-Registrars employed as Co-operative Extension Officers in blocks for issue of utilization certificates to enable primary banks to disburse the pending loan instalments notwithstanding the fact that many of these officials did not have adequate experience in the work connected with land development banking.

In many of the primary banks, the utilization register remained either not posted up-to-date or was posted without furnishing relevant details regarding the results of verification.

On-the-spot verification of utilization conducted during field visits revealed that the officers attending to the verification of utilization furnished incorrect/false utilization certificates on the strength of which subsequent instalments of loans were released to the borrowers.

Karnataka

57. By and large, one supervisor was posted in each of the primary banks for verification of the utilization and issue of certificates, but the work was actually being done by the village level workers, land valuation officers and the Assistant Registrar of Co-operative Societies on whom the primary banks had no control.

Some of the primary banks had not taken action to review the progress under minor irrigation scheme to ensure that the wells were completed by the borrowers within the stipulated period. In some of

the banks, a large number of wells were incomplete and there was also delay in obtaining completion certificates.

Under the pumpset loans scheme, although some primary banks had disbursed the loan amounts to the dealers on behalf of the borrowers, the dealers had actually not supplied the pumpsets or the pumpsets had not been installed and given electric connexions as per the delivery notes/invoices. In some cases, payments had been made to dealers against false delivery notes/invoices or against part supply of pumpsets, i.e., without supply of accessories.

58. From the foregoing, it will be observed that while in the case of the land development banks in co-operatively less developed states, both the procedures and arrangements for follow-up measures are very unsatisfactory, in the case of the co-operatively developed states also several deficiencies have been observed in the existing arrangements, especially in regard to enforcement of the procedures laid down.

59. We would emphasize the following steps to be taken by the land development banks while sanctioning loans, disbursing the loan amounts and after disbursement of the loans:

(a) In connexion with the sanction of loans, the banks should satisfy themselves that the demand for the loans has arisen out of genuine need, that the cost of outlay for different types of investment has been properly worked out and that the offer of supply of the required equipment such as pumpsets and tractors has been received from authorized dealers. The banks should also specify the detailed terms and conditions of the loan in the sanction letter.

(b) With regard to the disbursement, seasonality should be strictly observed while advancing loans for construction of wells, land reclamation, plantation etc. While loans for these purposes should be given in suitable instalments according to the progress of the work, those in respect of pumpsets, tractors and power tillers should be paid direct to the suppliers of machinery against their delivery. When loans are given in instalments, utilization certificates in respect of the earlier instalments should invariably be called for and checked. Usual safeguards regarding hypothecation and insurance should be taken in respect of loans for pumpsets, tractors and other agricultural machinery.

(c) After the loans are disbursed, the supervisors of the bank should be in constant touch with the borrowers not only to verify that the asset created out of the loan continues to exist with them in good order, but also to see that they derive benefit from the asset and to arrange for technical advice where necessary. Further, as stressed earlier

in this Chapter in paragraph 52, the primary bank's officers as well as the senior officers of the central land development bank should visit some of the selected borrowers under each category of loans for the purpose of test-checking of utilization.

60. Another aspect to which we attach great importance is the need for insistence by the land development banks on the borrowers' utilization of each instalment of loan within the prescribed period. If, on the basis of the verification of the utilization, a loan or any part of it is found to have been misutilized or not used within the specified period, the banks should take prompt action for foreclosing the loan. Disciplinary action such as this, taken promptly, will have a salutary effect in minimizing the cases of misutilization or delayed utilization of loans. The central land development banks should also fix a definite period within which the utilization certificates should be submitted by the supervisors.

61. Lastly, we note that the supervisors of land development banks are mostly drawn from the state government on foreign service terms as in Bihar, Karnataka and Tamil Nadu. However, they continue to be under the administrative control of their parent government departments. It would be desirable if such staff is replaced by the staff of the primary banks/central land development banks in a phased manner. Alternatively, the departmental staff working in the banks should be brought under the full administrative control of the primary land development bank or the central land development bank concerned.

CHAPTER 11

OVERDUES IN LAND DEVELOPMENT BANKS

In this Chapter, we deal with items (ix) and (x) of our terms of reference which are as follows:

- (ix) To examine the position of overdues in the land development banks and analyse the causes thereof and suggest measures, administrative and legislative, for preventing their recurrence.
- (x) To consider the problems arising from the failure of crops and suggest measures for relief to the borrowers from the land development banks affected by such failure and for assistance to the banks themselves in meeting their commitments to the sinking fund or towards interest on the debentures.

2. The overdues in land development banks have been steadily rising in the past few years. The increase in overdues in the case of land development banks is a matter of grave concern, especially because loans are expected to be given to cultivators primarily for productive purposes and after looking into the technical and economic feasibility aspects. Heavy overdues in the long-term co-operative credit structure will impede the agricultural development programmes in a state inasmuch as land development banks are expected to play an important role in meeting the needs of cultivators for investment credit in agriculture. In fact, the overdues in land development banks in states such as Assam, West Bengal, Tripura, Rajasthan and Himachal Pradesh are already so heavy that their capacity to provide investment credit has been seriously affected. Table 1 gives the position regarding overdues in central land development banks and primary banks for the years 1968-9 to 1972-3.

LEVEL OF OVERDUES

At Central Land Development Banks

3. The overdues in central land development banks which stood at Rs 484 lakhs as on 30 June 1969 shot up to Rs 4071 lakhs as on 30 June 1973, i.e., more than eight times. Table 2 gives the percentage of overdues to demand for the years 1968-9 to 1972-3 in central land development banks in various states excepting those where long-term loans are provided by state co-operative banks.

TABLE 1

POSITION OF OVERDUES IN CENTRAL AND PRIMARY CO-OPERATIVE LAND DEVELOPMENT BANKS AS AT THE END OF YEAR (30 JUNE)

Rs Lakhs

Sr. No.	State	Central Land Development Banks					Primary Land Development Banks				
		1968-9 (3)	1969-70 (4)	1970-71 (5)	1971-2 (6)	1972-3* (7)	1968-9 (8)	1969-70 (9)	1970-71 (10)	1971-2 (11)	1972-3* (12)
1.	Andhra Pradesh	4.65	7.10	6.51	47.49	162.34	36.49	51.51	167.16	153.27	450.69
2.	Assam	2.35	2.02	2.41	3.25	5.00	2.45	2.41	3.22	3.86	6.49
3.	Bihar	20.08	17.14	59.34	62.57	122.50	—	—	—	—	—
4.	Gujarat	131.82	40.58	48.05	275.43	825.77	—	7.37@	8.51@	12.85@	8.70@
5.	Haryana	—	—	—	—	—	0.28	0.16	—	0.54	1.90
6.	Himachal Pradesh	4.44	6.12	8.43	17.22	27.09	—	0.01	0.31	0.87	0.64
7.	Jammu & Kashmir	0.34	1.26	1.52	3.15	5.04	—	—	—	—	—
8.	Karnataka	103.93	133.29	113.75	125.90	167.58	177.87	248.77	271.35	309.73	405.27
9.	Kerala	12.30	16.22	23.18	17.10	29.04	23.08	17.67	21.86	22.73	40.35
10.	Madhya Pradesh	43.10	61.95	93.50	106.08	100.04	90.57	91.24	119.78	145.34	175.00
11.	Maharashtra	89.81	142.71	655.85	297.67	2101.84	371.86	450.67	920.02	710.38	—@@
12.	Orissa	4.22	4.96	8.83	39.74	85.75	15.04	17.06	53.21	87.50	134.56
13.	Punjab	—	—	—	—	28.75	0.24	1.14	17.61	21.78	96.87
14.	Rajasthan	18.17	4.50	11.27	77.55	122.27	33.99	20.22	45.71	102.44	160.67
15.	Tamil Nadu	0.57	7.30	8.56	14.58	37.36	39.60	44.18	77.64	133.09	208.49
16.	Uttar Pradesh	38.83	86.02	67.34	143.51	218.22	—	0.69**	1.45**	1.45**	1.45**
17.	West Bengal	8.12	9.00	16.14	21.17	29.95	17.06	26.38	38.70	54.60	60.63
18.	Pondicherry	1.21	0.76	0.73	1.26	2.42	—	—	—	—	—
19.	Tripura	0.27	0.25	0.33	0.41	0.51	—	—	—	—	—
	All-India..	484.21	541.18	1125.74	1254.03	4071.47	808.53	979.48	1746.53	1760.43	1751.71

*Provisional figures; @ Relate to 4 primary banks in the erstwhile Bombay State which were transferred to Gujarat; @@During 1972-3 primary banks were merged with the central land development bank; **Relate to primary banks initially organized.

TABLE 2

PROPORTION OF OVERDUES TO DEMAND IN CENTRAL LAND DEVELOPMENT BANKS

Sr. No.	State	Overdues as Percentage to Demand as at the end of				
		1968-9	1969-70	1970-71	1971-2	1972-3
1.	Andhra Pradesh	0.8	1.9	1.5	7.6	19.5
2.	Assam	21.5	58.6	57.5	63.0	68.4
3.	Bihar	30.0	32.3	31.6	39.0	42.1
4.	Gujarat	13.9	4.7	5.3	25.4	61.2
5.	Haryana	Nil	Nil	Nil	Nil	Nil
6.	Himachal Pradesh	47.9	45.8	48.4	69.2	83.6
7.	Jammu & Kashmir	5.5	13.4	18.1	29.7	30.6
8.	Karnataka	27.9	30.3	35.9	27.6	32.8
9.	Kerala	18.0	20.4	43.3	26.7	36.5
10.	Madhya Pradesh	23.5	37.8	42.2	37.3	28.1
11.	Maharashtra	7.0	13.0	49.0	32.1	84.8
12.	Orissa	6.4	5.0	12.7	23.9	44.3
13.	Punjab	Nil	Nil	Nil	Nil	3.7
14.	Rajasthan	27.7	4.0	15.1	32.2	48.0
15.	Tamil Nadu	0.2	1.6	2.8	2.2	5.7
16.	Uttar Pradesh	13.1	14.6	18.2	12.7	25.3
17.	West Bengal	27.0	21.2	32.7	33.0	41.3
18.	Pondicherry	31.0	30.2	24.0	41.3	45.9
19.	Tripura	60.0	52.1	57.8	65.1	81.0
All-India..		10.9	13.3	23.1	19.2	45.4

4. The percentage of overdues to demand which was 10.9 as on 30 June 1969 shot up to 45.4 as on 30 June 1973. A comparison of the position in regard to overdues during the years 1971-2 and 1972-3 indicates that there was an increase in the case of all the banks except in Madhya Pradesh where there was a decrease from 37.3 per cent to 28.1 per cent. There was only one bank, viz., the Haryana State Co-operative Land Development Bank which had no overdues. In the case of the central land development bank in Punjab which had no overdues till 30 June 1972, the same constituted 3.7 per cent of the demand as on 30 June 1973. In the case of Tamil Nadu, the overdues of the central land development bank have been showing a rising trend. They increased from Rs 7.30 lakhs constituting 1.6 per cent of the demand as on 30 June 1970 to Rs 37.36 lakhs forming 5.7 per cent of the demand as on 30 June 1973.

5. The classification of central land development banks according to the percentage of overdues to demand for three years, viz., 1970-71 to 1972-3 is given in Table 3.

6. The number of banks having overdues over 20 per cent of the demand increased from 10 as on 30 June 1971 to 15 as on 30 June 1973. On the other hand, the number of banks having overdues of less

TABLE 3

CLASSIFICATION OF CENTRAL LAND DEVELOPMENT BANKS ACCORDING TO RANGE OF OVERDUES

Percentage of Overdues to Demand	30 June 1971	30 June 1972	30 June 1973
(i) Nil overdues	Haryana Punjab	Haryana Punjab	Haryana
(ii) Less than 10 per cent	Andhra Pradesh Tamil Nadu Gujarat	Andhra Pradesh Tamil Nadu	Punjab Tamil Nadu
(iii) Above 10 and below 20 per cent	Jammu & Kashmir Orissa Uttar Pradesh Rajasthan	Uttar Pradesh	Andhra Pradesh
(iv) Above 20 and below 30 per cent	Pondicherry	Gujarat Jammu & Kashmir Karnataka Kerala Orissa	Madhya Pradesh Uttar Pradesh
(v) Above 30 and below 50 per cent	Bihar Himachal Pradesh Kerala Madhya Pradesh Maharashtra Karnataka West Bengal	Bihar Madhya Pradesh Maharashtra Rajasthan West Bengal Pondicherry	Bihar Jammu & Kashmir Kerala Karnataka Orissa Rajasthan West Bengal Pondicherry
(vi) Above 50 per cent	Assam Tripura	Assam Tripura Himachal Pradesh	Assam Gujarat Himachal Pradesh Maharashtra Tripura

than 20 per cent of the demand has decreased from 9 as on 30 June 1971 to 4 as on 30 June 1973. Out of 19 banks as many as 15 banks had overdues over 20 per cent of the demand as on 30 June 1973. Thus, the position regarding overdues in most of the central land development banks is quite unsatisfactory. Primary banks have sometimes made repayments either by drawing on cash credit limit fixed with central co-operative banks or out of the amounts received by them on account of share capital contributions from the state government. For instance, in Madhya Pradesh, during 1972-3, the repayments made by 15 primary banks were more than the recoveries effected by them from the members, the difference being very significant in the case of at least four banks, viz., Chindwara, Betul, Mandsaur and Chattarpur. Similarly, a number of primary banks in Rajasthan have made repayments to the apex institution out of the share capital contribution

received by them. Thus, the position regarding overdues at the level of the central land development banks in some states like Rajasthan and Madhya Pradesh does not reflect the correct position.

At Primary Banks

7. It will be noticed from Table 1 that the overdues in primary banks have been showing a rising trend in all states. They increased from Rs 807 lakhs as on 30 June 1969 to Rs 1752 lakhs as on 30 June 1973, i.e., by more than two times. The Table below gives the percentage of overdues to demand in primary banks for five years, viz., from 1968-9 to 1972-3.

TABLE 4
PROPORTION OF OVERDUES TO DEMAND IN PRIMARY LAND DEVELOPMENT BANKS

Sr. No.	State	Overdues as Percentage to Demand as at the end of				
		1968-9	1969-70	1970-71	1971-2	1972-3
1.	Andhra Pradesh	5.1	5.3	12.8	11.7	27.7
2.	Assam	21.5	68.8	67.8	70.2	72.0
3.	Gujarat	—	53.8	60.0	63.1	66.2
4.	Haryana	0.5	0.2	Nil	0.2	0.3
5.	Himachal Pradesh	—	2.9	24.4	43.3	24.5
6.	Karnataka	42.7	48.0	47.8	43.0	46.6
7.	Kerala	31.6	35.2	37.1	32.8	42.3
8.	Madhya Pradesh	39.0	36.4	38.3	48.8	46.8
9.	Maharashtra	24.0	30.3	53.5	39.2	—
10.	Orissa	20.5	16.1	46.1	55.2	54.4
11.	Punjab	0.1	0.3	3.6	2.6	10.7
12.	Rajasthan	44.5	31.3	36.0	47.7	53.4
13.	Tamil Nadu	10.8	14.9	17.5	18.8	21.3
14.	Uttar Pradesh	—	32.4	100.0	100.0	100.0
15.	West Bengal	43.0	50.6	55.7	63.3	57.2
All-India ..		21.6	23.0	31.7	26.8	27.3

Notes: (1) Figures in respect of Gujarat relate to 4 primary banks which were existing in the area of the erstwhile Bombay State transferred to Gujarat. Figures for Uttar Pradesh relate to banks which were initially organized.

(2) In respect of Maharashtra the figure of overdues against primary banks is not shown for 1972-3 as the state had adopted the unitary structure.

8. The percentage of overdues to demand which was 21.6 as on 30 June 1969 increased to 23.0 as on 30 June 1970 and to 31.7 as on 30 June 1971. Thereafter it showed a slight decrease to 26.8 as on 30 June 1972, but again increased to 27.3 per cent of demand as on 30 June 1973. The percentage of overdues to demand as on 30 June 1973 would have been much higher if the primary banks in Maharashtra had not been amalgamated with the central co-operative land

development bank. Thus the position of overdues in primary banks in most of the states was very bad. The position in some states like Assam, Orissa, Rajasthan and West Bengal was very disquieting.

9. The Table below gives the classification of primary banks and the branches of central land development banks in various states according to the percentage of overdues to demand as on 30 June 1973.

TABLE 5
NUMBER OF PRIMARY BANKS/BRANCHES ACCORDING TO RANGE OF OVERDUES

Sr. No.	State	No. of PLDBs/ Branches of CLDBs	No. of PLDBs/Branches of CLDBs with the following Percentage of Overdues to Demand				
			Upto 15%	16 to 25%	26 to 40%	41 to 50%	Over 50%
1.	Andhra Pradesh	184	109	22	15	10	28
2.	Assam	16	—	—	1	1	14
3.	Bihar	87	9	19	46	13	—
4.	Gujarat	182	16	9	22	30	105
5.	Haryana	29	29	—	—	—	—
6.	Himachal Pradesh@	1	—	1	—	—	—
7.	Jammu & Kashmir	20	4	5	7	4	—
8.	Karnataka	175	33	60	24	23	35
9.	Kerala	22	6	4	8	3	1
10.	Madhya Pradesh	43	3	9	15	10	6
11.	Maharashtra	27	—	—	—	—	27
12.	Orissa	55	1	2	13	11	28
13.	Punjab	41	35	4	2	—	—
14.	Rajasthan	35	2	2	8	11	12
15.	Tamil Nadu	223	165	24	28	3	3
16.	Uttar Pradesh	203	58	61	59	16	9
17.	West Bengal@	21	1	—	7	6	7
All-India ..		1364	471	222	255	141	275

@ In respect of the Branches of the CLDB in these states information was not available.

It will be seen that out of 1364 primary banks/branches of central land development banks as many as 671 primary banks and branches, or 49 per cent, were having overdues exceeding 25 per cent of the demand. In Assam, Orissa, Maharashtra, Bihar, Gujarat, Madhya Pradesh, Rajasthan and West Bengal, the position in regard to overdues was very disquieting as the number of primary banks or branches of central land development banks having overdues exceeding 25 per cent was very high. For example, in the case of Assam and Maharashtra almost all the primary banks or branches of the central land development bank were having overdues exceeding 50 per cent of the demand as on 30 June 1973.

Effects of Overdues

10. A high level of overdues in a central land development bank not only erodes its owned funds, but also affects its reputation before institutional investors which lend support to the debentures floated by the bank. Besides, the rising trend in overdues over a period of years will compel the bank to make good from its owned funds, any shortfall in the sinking fund commitment. Such a situation is already being faced by the banks at least in 4 states, viz., Assam, West Bengal, Tripura and Himachal Pradesh. Thus, heavy overdues in central land development banks not only lock up their owned funds, but also jeopardize their financial position seriously, thereby crippling their ability to provide long-term credit for agricultural development. The position regarding owned funds (share capital and reserves) of central land development banks in various states for 3 years, viz., 1970-71 to 1972-3 is given in Table below :

TABLE 6
OWNED FUNDS IN CENTRAL LAND DEVELOPMENT BANKS

Sr. No.	State	Owned Funds			Rs Lakhs
		30-6-1971	30-6-1972	30-6-1973	
1.	Andhra Pradesh	762	907	1013	
2.	Assam	15	18	17	
3.	Bihar	170	241	310	
4.	Gujarat	1034	1181	1314	
5.	Haryana	181	214	320	
6.	Himachal Pradesh	16	20	20	
7.	Jammu & Kashmir	22	25	28	
8.	Karnataka	371	575	763	
9.	Kerala	86	116	137	
10.	Madhya Pradesh	154	206	288	
11.	Maharashtra	1089	1154	2805	
12.	Orissa	122	134	148	
13.	Punjab	292	320	370	
14.	Rajasthan	108	134	157	
15.	Tamil Nadu	622	749	896	
16.	Uttar Pradesh	680	909	1083	
17.	West Bengal	62	85	88	
18.	Pondicherry	9	11	13	
19.	Tripura	2	2	2	
All-India		5797	7001	9772	

11. It will be seen that except for the banks in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and Uttar Pradesh, the position of owned funds in the banks in other states is not strong. In the case of banks in Assam, Himachal Pradesh, Jammu & Kashmir, Pondicherry and Tripura the owned funds were less than Rs 30 lakhs.

12. In the case of primary banks a high level of overdues is considered as particularly serious because they do not have adequate owned funds to absorb the heavy overdues. According to the discipline laid down by the Reserve Bank, primary banks which have overdues of more than 50 per cent of the demand are not eligible for any loans in excess of 25 per cent of their lending programmes. In other words, a central land development bank is not allowed to float debentures to the full extent and avail itself of support from various agencies to its debentures in respect of primary banks having overdues exceeding 50 per cent of the demand. Apart from affecting the loaning programmes undertaken by central land development banks, heavy overdues of primary banks affect the profit earning capacity of central land development banks as their income by way of interest on loans gets reduced substantially. The persistence of heavy overdues over a period of years will result in the central land development bank running into losses which not only erode their reserves but also the share capital with the result that their financial position is seriously jeopardized.

FIELD STUDIES

Findings of Field Studies

13. In order to obtain first-hand information about the position regarding overdues, field studies were conducted on behalf of our Committee in Andhra Pradesh, Madhya Pradesh, Punjab and Rajasthan during the period August to November 1973 by the officers of the Reserve Bank (Agricultural Credit Department) and the Agricultural Refinance Corporation. The object of these studies was to find out whether the trend in overdues could reveal any external factors such as backwardness of area, susceptibility to natural calamities and type of clientele which could be said to have contributed substantially to the prevalence of overdues. An attempt was also made to find out whether the causes of overdues were the same both in areas where the banks undertook intensive loaning operations as in ARC-refinanced scheme areas and in areas where financing was on a sporadic basis. A detailed analysis of overdues was also made to find out whether there was any particular category of borrowers according to size of holdings, amount of loan taken and purpose of the loan which accounted for the bulk of the overdues. The selection of states for field studies was done to ensure that the position was studied both in co-operatively developed and weaker states. In each state, primary banks were selected both from the ARC-refinanced scheme areas and ordinary loaning areas, apart from banks in drought-prone areas and SFDA/MFAL

Project areas. In all, 26 banks were selected for the study, the main characteristics of the areas served by them being as under:

<u>Name of Primary Bank</u>	<u>State</u>	<u>Important characteristics of area covered by the Primary Bank</u>
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I. ARC-Refinanced Scheme Areas

Tiruvuru	Andhra Pradesh	Economically developed area.
Kalawakurthy	-do-	Economically backward and drought-prone.
Suryapet	-do-	SFDA/MFAL area.
Eluru	-do-	Economically developed area having facilities for irrigation both from canals and tubewells.
Anantapur	-do-	Economically backward and drought-prone.
Jangaon	-do-	-do-
Tikamgarh	Madhya Pradesh	Economically backward.
Dhar	-do-	-do-
Patiala	Punjab	Economically developed area.
Batala	-do-	Border area.
Gurdaspur	-do-	-do-
Amritsar	-do-	-do-
Tarn Taran	-do-	-do-
Dusuya	-do-	Economically backward area.
Jalore	Rajasthan	Drought-prone.
Sikar	-do-	-do-
Pali	-do-	-do-

II. Ordinary Loaning Areas

Chandragiri	Andhra Pradesh	Drought-prone.
Kurnool	-do-	-do-
Bhopal	Madhya Pradesh	Economically developed area.
Rajgarh	-do-	Economically backward area.
Durg	-do-	-do-
Balaghat	-do-	-do-
Jodhpur	Rajasthan	Drought-prone.
Sirohi	-do-	-do-
Ajmer	-do-	-do-

Trend in Overdues in Selected Banks

14. A common feature noticed in the selected primary banks was that overdues generally showed a rising trend and this was true both in the case of the banks serving ARC-refinanced scheme areas and ordinary loaning areas. The classification of overdues of the 26 selected primary banks as on 30 June 1973, according to the range of overdues, is given in Table 7.

TABLE 7

SELECTED PRIMARY BANKS ACCORDING TO RANGE OF OVERDUES AS ON 30 JUNE 1973

State	No. of banks having the following percentage of overdues to demand				
	Up to 15	16 to 25	26 to 40	41 to 50	Over 50
Andhra Pradesh	1	—	2	2	3
Madhya Pradesh	—	—	—	3	3
Punjab	1	3	2	—	—
Rajasthan	—	—	1	1	4

In the 6 primary banks selected in Punjab there were no overdues or insignificant overdues till 1969-70. Thereafter, the position of recoveries appears to have deteriorated inasmuch as the proportion of overdues to demand as at the end of June 1972 varied from 8 per cent to 18 per cent and as at the end of June 1973 from 13 per cent to 30 per cent. Out of the 6 selected banks, 4 banks, viz., Amritsar, Gurdaspur, Tarn Taran and Batala are in the border areas and in their case overdues were to some extent due to the Indo-Pak War of 1971. However, overdues were on the high side (i.e., 30 per cent) in the case of the primary bank at Patiala which serves a relatively developed area.

15. In the case of primary banks in Andhra Pradesh it was observed that overdues were not significant till 1970-71 except in the case of Suryapet Bank in which case they formed 24 per cent of the demand. Thereafter, there was generally a rising trend in overdues both in the case of banks serving ARC-refinanced scheme areas and ordinary loaning areas. The percentage of overdues to demand as on 30 June 1973 varied from 12 to 75. The overdues were, however, not very significant (12 per cent of demand as on 30 June 1973) in the case of the primary bank at Chandragiri which serves an ordinary loaning area and is located in the Rayalseema region which is drought-prone. Overdues in the primary banks at Tiruvuru and Eluru serving an economically developed area stood at 27 per cent and 30 per cent respectively of the demand as on 30 June 1973. In the case of 2 banks,

viz., Kalawakurthy and Suryapet serving economically backward and drought-prone area and SFDA/MFAL area respectively the overdues as on 30 June 1973 were as high as 75 per cent and 74 per cent respectively of the demand, the increase being very noticeable during the year 1972-3. Another significant feature, in the case of some banks (Chandragiri, Suryapet, Kalawakurthy and Tiruvuru) was that the overdues continued to show a rising trend despite decline in the loaning operations which was due, among others, to absence of diversification in loaning.

16. In the case of the selected banks in Madhya Pradesh and Rajasthan, the overdues as on 30 June 1973 were uniformly high, i.e., over 40 per cent of the demand except in the case of one bank, viz., Sirohi in Rajasthan serving a drought-prone area. Out of 6 banks each in these two states, as many as 5 banks in Madhya Pradesh had overdues of 50 per cent or more as on 30 June 1973, while in Rajasthan the number of such banks was 4. It may be noted that in Rajasthan, the areas served by all the selected banks are frequently susceptible to drought. However, despite the fact that during 1972-3, almost all the villages (88 per cent to 100 per cent) were declared as drought affected in 3 districts, viz., Sirohi, Jalore and Ajmer, there was a decline in overdues in the primary banks in these areas. In the case of the Sirohi bank the overdues declined from 58 per cent of the demand as on 30 June 1972 to 38 per cent as on 30 June 1973. Similarly, in the case of the banks at Ajmer and Jalore, the percentage of overdues to demand which stood at 83 and 50 as on 30 June 1972 declined to 61 and 44 respectively as on 30 June 1973. In the case of Madhya Pradesh a significant feature was that in 3 banks out of 6 selected banks, the overdues have either remained stationary or increased marginally. The percentage of overdues to demand in the case of 2 banks, viz., Bhopal and Tikamgarh serving an economically developed area and an economically backward area respectively, which was 50 as on 30 June 1972 remained stationary, while in the case of one bank, viz., Durg it increased from 42 to 43 as on 30 June 1973.

17. The above brief analysis shows that the problem of overdues in land development banks is common to all states whether they are co-operatively well developed or less developed. The overdues are high even in the case of states where the banks are undertaking intensive loaning operations under ARC-refinanced schemes (e.g., Andhra Pradesh and Punjab) which envisage adoption of detailed appraisal of loan proposals and better supervision over the use of investment credit by the beneficiaries. While overdues are found to be insignificant

even in the case of banks in backward and scarcity area (e.g., Chandragiri in Andhra Pradesh), they are heavy in the case of banks which serve an economically developed area (e.g., Patiala). Moreover, the increase or decrease in overdues appears to have no relationship to external factors such as natural calamities. The decline in overdues despite most of the villages in Ajmer, Sirohi and Jalore being declared as drought-affected during 1972-3 confirms this aspect. A significant factor that stands out from the above analysis is that while the failure of crops due to natural calamities or unfavourable geo-physical conditions may account for overdues to some extent, the prevalence of a high level of overdues in primary banks is basically due to defective loaning policies, ineffective field supervision and lack of concerted efforts and will on the part of the bank's board of directors and staff to recover loans which are due for repayment.

Overdues According to Size of Holding

18. Table 8 gives the percentages of the defaulters and the overdue amount involved to the total number of defaulters and the total overdues according to size of holdings in the 26 selected banks as on 30 June 1972 :

TABLE 8
PERCENTAGE OF DEFAULTERS AND OVERDUE AMOUNT TO THE TOTAL NUMBER OF
DEFAULTERS AND OVERDUES ACCORDING TO SIZE OF HOLDING

State	Up to 5 acres		6 to 10 acres		Above 10 acres	
	A	B	A	B	A	B
Andhra Pradesh	14	8	20	13	66	79
Madhya Pradesh	4	4	22	16	74	80
Punjab	35	21	48	47	17	32
Rajasthan	4	2	14	13	82	85

A—Defaulters as percentage of the total number of defaulters; B—Overdue amount as a percentage of total overdues.

It will be observed that there was concentration of overdues in the case of bigger cultivators having holdings above 10 acres in the case of banks in all the states except to some extent in Punjab. However, even in Punjab this group accounted for about one-third of the overdue amount. The smaller cultivators having holdings less than 5 acres in Madhya Pradesh and Rajasthan accounted for a very small proportion of defaulters and overdue amount. Medium-sized cultivators, having holdings above 5 acres and up to 10 acres ranked second in

their contribution to overdues except in Punjab where this group accounted for a little less than 50 per cent of the defaulters and the overdue amount. The general trend, i.e., bigger cultivators contributing to a sizeable percentage of overdues and medium-sized cultivators coming next observed in 3 states, viz., Andhra Pradesh, Madhya Pradesh and Rajasthan held equally good in the case of banks serving ARC-refinanced scheme areas and ordinary loaning areas except in Andhra Pradesh where the position was slightly different in ordinary loaning areas as will be seen from the following Table :

TABLE 9

PERCENTAGE OF DEFAULTERS AND OVERDUE AMOUNT TO THE TOTAL ACCORDING TO SIZE OF HOLDING IN ARC-REFINANCED SCHEME AREAS AND ORDINARY LOANING AREAS IN ANDHRA PRADESH

Size of holding	ARC-Refinanced Scheme Areas		Ordinary Loaning Areas	
	A	B	A	B
Up to 5 acres	11	5	49	37
6 to 10 acres	18	16	32	30
Above 10 acres	71	79	19	33

A—No. of defaulters as percentage of the total number of defaulters; B—Overdue amount as percentage of total overdues.

19. It will be seen that in the case of the banks serving ordinary loaning areas, the smaller cultivators having holding up to 5 acres accounted for about 50 per cent of the defaulters. However, even in the case of these banks, the bigger cultivators accounted for about one-third of the overdue amount.

Overdues According to Purpose of the Loan

20. Table 10 gives the percentages of defaulters and overdue amount to the total number of defaulters and overdues according to purpose of loans in the 26 selected banks as on 30 June 1972.

It will be seen that overdues were very heavy in respect of loans for minor irrigation works. In 3 states, viz., Andhra Pradesh, Madhya Pradesh and Rajasthan, loans for land reclamation and development came next in contributing to overdues. In Punjab, loans for agricultural machinery and equipment ranked second in the number of defaulters accounting for one-third of the total overdues. In Rajasthan, loans for agricultural machinery and equipment accounted for 18 per cent of the total amount involved in default. The study in Punjab revealed

TABLE 10

PERCENTAGE OF DEFAULTERS AND OVERDUE AMOUNT TO THE TOTAL NUMBER OF DEFAULTERS AND TOTAL OVERDUES ACCORDING TO PURPOSE OF LOANS

State	Minor irrigation		Land improve-ment		Agricultural machinery & equipment		Redemp-tion of old debts		Others	
	A	B	A	B	A	B	A	B	A	B
Andhra Pradesh ..	74	78	19	16	—	1	4	3	3	2
Madhya Pradesh ..	80	74	14	17	—	—	3	7	3	2
Punjab ..	78	62	1	1	14	33	3	2	4	2
Rajasthan ..	80	71	10	6	5	18	—	—	5	5

A—Defaulters as percentage of the total number of defaulters; B—Overdue amount as percentage of total overdues.

that the default in the case of loans for minor irrigation works was to some extent due to the failure on the part of the state electricity board to provide electric connexions and also because of the payments made for diesel engines to bogus firms. The latter reason (i.e., payments to bogus firms) was also responsible for most of the defaults in the case of loans for tractors provided in the state. These two reasons held good for defaults in the case of loans given by the banks both in the ARC-refinanced scheme areas and ordinary loaning areas.

Overdues According to Size of Loan

21. Table 11 gives the percentages of the defaulters and the overdue amount involved to the total number of defaulters and the total overdues according to size of the loan in the 26 selected banks as on 30 June 1972 :

TABLE 11

PERCENTAGE OF DEFAULTERS AND OVERDUE AMOUNT TO THE TOTAL NUMBER OF DEFAULTERS AND OVERDUES ACCORDING TO SIZE OF LOAN AMOUNT

State	Up to Rs 3,000		Rs 3,001 to Rs 5,000		Rs 5,001 to Rs 10,000		Rs 10,001 to Rs 25,000		Above Rs 25,000	
	A	B	A	B	A	B	A	B	A	B
Andhra Pradesh ..	54	40	29	28	15	24	2	8	—	—
Madhya Pradesh ..	57	47	29	29	13	21	1	3	—	—
Punjab ..	4	2	32	20	53	53	8	16	3	9
Rajasthan ..	47	26	27	18	19	29	6	24	1	3

A—No. of defaulters as percentage of the total number of defaulters; B—Overdue amount as a percentage of total overdues.

It will be seen that in the case of banks in Punjab, borrowers who had taken loans above Rs 5,001 to Rs 10,000 accounted for about one-half of the defaulters and the overdue amount. It is in keeping with this trend, i.e., bigger cultivators contributing to sizeable number of defaulters, that there were defaulters even in the category of borrowers who had taken loans above Rs 25,000. In Punjab, borrowers who had taken loans above Rs 3,000 to Rs 5,000 came next in the list of defaulters. However, in the case of banks in other states, viz., Andhra Pradesh, Madhya Pradesh and Rajasthan the category of borrowers who had taken loans between Rs 5,001 and Rs 10,000 contributed to a relatively smaller number of defaulters though in Rajasthan the amount involved in default is rather significant, at 29 per cent. In Andhra Pradesh and Madhya Pradesh the group of borrowers who had taken loans up to Rs 3,000 was responsible for one-half of the total number of defaulters and those having borrowed between Rs 3,001 and Rs 5,000 came next in their contribution to overdues. In Rajasthan another feature noticed is that in the case of banks in ARC-refinanced scheme areas, 3 groups of borrowers, viz., those having borrowed up to Rs 3,000, between Rs 5,001 and Rs 10,000 and between Rs 10,001 and Rs 25,000 accounted for almost an equal amount of overdues, viz., 26, 29 and 24 per cent respectively. However, on a further analysis of the position in the ARC-refinanced scheme areas and ordinary loaning areas in Rajasthan it was found that the trends were different as will be seen from the following details :

TABLE 12

PERCENTAGE OF DEFAULTERS AND OVERDUE AMOUNT TO THE TOTAL NUMBER OF DEFAULTERS AND OVERDUES ACCORDING TO SIZE OF LOAN AMOUNT IN RAJASTHAN

Size of loan	ARC-refinanced scheme areas		Ordinary loaning areas	
	A	B	A	B
Up to Rs 3,000	37	16	81	74
Rs 3,001 to Rs 5,000	30	19	16	15
Rs 5,001 to Rs 10,000	24	33	3	11
Rs 10,001 to Rs 25,000	8	28	—	—
Above Rs 25,000	1	4	—	—

A—Defaulters as percentage of the total number of defaulters; B—Overdue amount as a percentage of total overdues

22. It will be seen that in the case of banks in ordinary loaning areas, the cultivators who had borrowed up to Rs 3,000 contributed to the sizeable number of defaulters (81 per cent) and the overdue amount (74 per cent) while in the ARC-refinanced scheme areas the borrowers

of amounts above Rs 5,000 accounted for 33 per cent of the defaulters and 65 per cent of the amount of overdues.

CAUSES OF OVERDUES

23. During the course of the field studies, in all 1279 defaulting cultivators who had taken loans from 26 primary banks were contacted in order to ascertain the reasons for default. Details in regard to number of primary banks in each state visited, the number of defaulting cultivators contacted etc., are given below :

TABLE 13
DETAILS OF PRIMARY BANKS VISITED AND NUMBER OF CULTIVATORS CONTACTED

State	Districts/ Tehsils	No. of primary banks	No. of villages visited	Total No. of de- faulting cultivat- ors in villages visited	No. of default- ing cul- tivators contact- ed	Proportion of col. (6) to col. (5) (per cent)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	8 Tehsils	8	43	2127	631	30
Madhya Pradesh	6 Districts	6	66	351	177	50
Rajasthan	—do—	6	42	362*	144	40
Punjab	—do—	6	77	489	327	67
		<u>26</u>	<u>228</u>		<u>1279</u>	

* Relates to 4 primary banks.

Main Causes of Overdues in Selected Banks :

24. Table 14 gives the causes of overdues as ascertained from the defaulting cultivators in each of the states. It will be seen that in the case of banks in Andhra Pradesh the failure of crops due to drought, pests and power shortage accounted for more than one-half of the defaulters. Other reasons were wilful default, misutilization of loan amounts and laxity in supervision. The field studies in Andhra Pradesh revealed that the main reason for the rising trend in overdues was the drought conditions which prevailed in most part of the state during 1971-2 and 1972-3. As a result, several wells were reported to have gone dry or the water table had receded considerably, which was sufficient for providing irrigation to only 25 per cent to 30 per cent of the normal area. It is also reported that in canal-irrigated areas, there was inadequate and untimely supply of water to the tail-end villages. This factor was responsible for sizeable overdues from the

TABLE 14
CAUSES OF OVERDUES AS FURNISHED BY DEFAULTING CULTIVATORS OF BANKS IN ANDHRA PRADESH, MADHYA PRADESH, PUNJAB AND
RAJASTHAN

											Rs Thousands
											</

villages served by the Eluru and Anantapur primary banks. In the case of some cultivators, frequent power breakdowns, shortage of fertilizers and diesel oil also resulted in failure of crops or low yields. Other factors which are reported to have affected recoveries were the political agitation in the state from December 1972 to March 1973 and the strike by the staff in the primary banks. In the case of one of the banks, viz., Jangaon, the supercession of the board of directors in May 1972 resulted in a substantial increase in overdues in the following year as the new management did not pay adequate attention to the recovery work.

25. In the case of the banks in Madhya Pradesh, the major reason for overdues was wilful default which accounted for 39 per cent of the defaulters. Other important causes were misutilization of loan amount and crop failure due to drought etc. In the case of one of the banks, viz., Rajgarh, large scale misutilization of loan amounts was reported. In the case of another bank, viz., Bhopal, there were instances of collusion between defaulting cultivators in several villages. In these cases, the affluent cultivators and the village leaders, viz., sarpanch, patel and president of the primary co-operative society were found to have played a leading role and persuaded even the willing cultivators to default in repayment to the bank.

26. In the case of the banks in Punjab, failure on the part of the state electricity board to provide electric connexion for tubewells, wilful default, payment of loan amount in respect of agricultural machinery and equipment to bogus or unreliable firms, Indo-Pak War of 1971 and failure of crops were among the major reasons for default in repayment of the loans. Other reasons included misutilization of loan amounts and overfinancing of influential parties. In the case of one of the banks, viz., Patiala, fresh loans were reported to have been issued to *Harijan* cultivators with a view to reducing the overdues in respect of earlier loans provided to them for purchase of land under the subsidy-cum-loan scheme. This resulted in the cultivators failing to instal tubewells out of the fresh loans and consequent default on their part to the bank. In the case of another bank, viz., Dasuya, loans in excess of the actual requirements had been given to many cultivators for installation of tubewells under the ARC-refinanced scheme with a view to achieving the financial targets. The bank, generally, sanctioned loans of Rs 8,000 for installation of a tubewell as against the actual requirement of about Rs 6,000. The balance was kept in sundry deposit account of the borrower and adjusted partly at the time of repayment of the first instalment and partly paid in cash to him.

The field study in Punjab also revealed that the wilful defaulters were mainly big and influential cultivators who had managed to take more than one loan from the banks. In several cases the ex-directors of the primary banks were found to be defaulters and others followed their bad example. Inaction on the part of the banks in taking timely coercive measures in such cases also contributed to defaults.

27. In the case of banks in Rajasthan, wilful default and misutilization of loan amounts were the major reasons for default, the former accounting for 38 per cent and the latter for 26 per cent of the defaulters. Next came infructuous investment as a factor contributing to the default on the part of the borrowers. In Rajasthan where large areas are drought-prone, failure of crops accounted for a mere one-tenth of the defaulting cases. Other reasons included laxity in supervision and water level going down due to drought etc. One of the important features noticed was that a number of defaulters were influential persons. For instance, in the case of one bank (viz., Sikar), the list of defaulters included two MLAs, a relative of one of the MLAs, and two chairmen of the municipal committee and *nayaya* panchayat respectively and a relative of the chairman of the central co-operative bank. In the case of another bank, viz., Pali it was found that there was window dressing in regard to the overdues inasmuch as in several cases neither loan cases had been opened in the loan ledger nor was demand levied against them.

Overall Position in Selected Banks

28. The overall position regarding the causes of overdues as it emerges in the case of all the 26 selected banks referred to above is given in Table 15.

29. Thus, out of 1291 cultivators, 446 cultivators or 35 per cent of the defaulting cultivators gave crop failure due to drought etc., as the reason for default in repayment of loans to the banks. Next in importance was wilful default on the part of the borrowers in repayment of loans. Such defaults accounted for 19 per cent of the defaulting cultivators contacted during the field studies. Another important reason for default was misutilization of loans, accounting for 15 per cent of the defaulters. Other reasons for default were investment proving infructuous, stiff terms of lending, unsound lending in the past and laxity in supervision. The category of miscellaneous reasons included, among others, inadequate benefits from the proposed cropping pattern; remission of loans given by government under *taccavi* and other schemes

TABLE 15

CAUSES OF OVERDUES AS FURNISHED BY DEFAULTING CULTIVATORS

Reason	Defaulting cultivators		Amount involved in default	
	No.	Percentage to total	Amount (thousands of rupees)	Percentage to total
1. Crop failure due to drought and other natural calamities ..	446	35	378	19
2. Infructuous investment ..	68	5	82	4
3. Wilful default	252	19	586	30
4. Misutilization of loans ..	188	15	282	14
5. Laxity in supervision ..	23	2	30	1
6. Stiff terms of lending ..	9	1	7	1
7. Unsound lending in past ..	6		7	
8. Miscellaneous	299	23	601	31
Total	1291	100	1973	100

which vitiated the climate for recovery of loans given by co-operatives; absence of guidance to cultivators in undertaking the proposed developments; difficulties in getting short-term credit; shortage of fertilizers and payment of loan amounts to bogus firms. In the case of four primary banks in Punjab, viz., Gurdaspur, Batala, Amritsar and Tarn Taran, the Indo-Pak War of 1971 also contributed to the overdues. If the amount involved in default is taken into account it will be observed that wilful default and crop failure due to drought and other natural calamities accounted for 30 per cent and 19 per cent of the total amount of overdues. Misutilization of loans and the category of miscellaneous reasons accounted for 14 per cent and 31 per cent respectively of the total amount involved in default.

30. The reports on the field studies regarding overdues in the land development banks referred to above also revealed that in the case of several defaulting cultivators there were certain other reasons as well, such as collusion among the borrowers in the village, inadequate staff for supervision over the use of credit and recovery of loans. Further, the reports of the Study Teams on the working of the land development banks in co-operatively weak states have pointed out that there were cases where the concerned state governments had issued instructions to the land development banks not to take coercive measures against the defaulting cultivators or to suspend recoveries, and at times such instructions had no relevance to the so-called widespread famine conditions or

drought in the area. Similar instances have come to our notice in another state, viz., Andhra Pradesh. Moreover in some states, the restrictions imposed by the state governments on transfer of land by sale or otherwise due to impending land ceiling bills resulted in increasing the overdues as the banks could not take legal action for recovery of overdue loans from defaulters. The field studies have also indicated that in several cases in all the states, the banks did not take coercive steps for recovery of loans promptly on account of indifferent attitude of the management of the primary banks, or because the defaulters were influential persons.

31. The reports on the field studies in Madhya Pradesh and Punjab have revealed certain lacunae in the legal framework obtaining in these states in regard to coercive measures against the defaulting cultivators. For instance, in terms of section 12 of the Punjab Co-operative Land Mortgage Banks Act, 1957, the primary banks can resort to distraint and sale of produce only if *two* consecutive instalments payable under a mortgage remain unpaid for more than 3 months. In the case of Madhya Pradesh, section 18(2) of the Madhya Pradesh Land Development Bank Act, 1966 requires that the primary bank should obtain permission of the central land development bank in each case for taking coercive action. Section 18(2)(c) of the Act *ibid* provides for giving 3 months notice to the defaulter before action such as distraint and sale can be taken. These provisions result in considerable delay in taking legal action against defaulters.

32. The findings of the various field studies undertaken on behalf of the Committee have shown general features such as concentration of defaulters in the category of borrowers having holdings above five acres and the bulk of the default being in the case of the borrowers who have taken loans for tubewells or sinking of wells or purchase of pumpsets. The borrowers who have taken loans for purposes such as land development, in the case of banks in Andhra Pradesh and Rajasthan, and those who have taken loans for purchase of tractors in Punjab are next in importance, accounting for the heavy overdues in the primary banks. These facts point to certain deficiencies in the appraisal methods followed by the land development banks in these states such as in respect of technical appraisal or in computing repaying capacity of the borrower. It is also seen that excepting Andhra Pradesh, in other states, viz., Rajasthan, Madhya Pradesh and Punjab the staff for supervision over utilization of loans is inadequate and the banks have not laid down a sound procedure for the various follow-up measures for verification of utilization of loans and recovery work.

Views of earlier Committees/Working Groups

33. The various expert Committees and Working Groups appointed from time to time have referred to the problem of overdues in the co-operative credit structure and suggested various measures for preventing their recurrence. However, their observations and recommendations do not specifically relate to the overdues in the long-term co-operative credit structure. The All-India Rural Credit Review Committee (1969) had referred to the rising trend in overdues in the long-term co-operative credit structure and emphasized the need for keeping them within manageable limits. The Committee recommended the following steps in order to secure improvement in the repayment performance:

(a) The due dates for instalments of long-term loans be so fixed by the banks as to coincide with the major crops or with the major source of income of the borrowing cultivators.

(b) A recovery drive may be planned well in advance, preferably in association with a similar drive undertaken by the short-term credit structure.

(c) Primary land development banks having overdues in excess of a particular level may be refused funds for making fresh loans.

(d) A system of test check by the officers of the central land development bank may be instituted not only to see that loans have been properly utilized by the borrowers but also to verify whether the anticipated benefits of the investment were being actually derived. The Committee had also indicated that their suggestions in regard to various legislative and administrative action for preventing the recurrence of overdues in the short-term credit structure generally held good in the case of overdues in the land development banks also.

34. It is relevant to refer here in brief to the recent report of the Study Team appointed by the Governor of the Reserve Bank on 9 December 1972 under the Chairmanship of Dr C. D. Datey, Executive Director, Reserve Bank of India, to examine the position of overdues at various levels of the short-term credit structure. According to the Study Team, lack of will and discipline among cultivators to repay was the principal factor responsible for the prevalence of overdues in the short-term co-operative credit structure. In other words, defaults were, by and large, wilful. The deficiencies in lending policies, especially inadequate and untimely credit or overfinancing or lack of supervision over the use of credit by the ultimate beneficiaries, inadequate application of fertilizers, fixing of unrealistic due dates and what was worse, financing of defaulters had encouraged defaults and led to the piling up

of overdues. The apathy of the management of co-operatives in taking quick action against recalcitrant members and, above all, the absence of a favourable climate for recovery for which the state governments were found to be responsible to some extent had also served as contributory factors for the accumulation of overdues. Defaulters of co-operative societies were financed by some state governments through *taccavi* loans and some governments had written off such loans on a large scale. The decision of the governments to write off their agricultural loans created an impression among the defaulters of co-operatives that their loans also need not be repaid. Further, some state governments had unduly delayed and deferred execution proceedings relating to the recovery of co-operative dues. Blanket stay orders on awards pending execution had been granted by some governments under one pretext or another. Besides, certain statements made by the representatives of the governments had given the impression to the borrowers, explicit or implicit, that co-operative dues need not be repaid. The overall effect of all these had been to place a premium on default and vitiate the climate for prompt repayments. The Study Team has observed that small, medium and big farmers behaved more or less alike in the matter of repayment of their dues in time and that overdues were prevalent in all the categories of borrowers with marginal variations. The smallest of the small farmers, i.e., those whose size of holding was below 3 acres accounted for the largest percentage (32 per cent) of chronic defaulters.¹

35. The Study Team on overdues has suggested a number of measures for recovery of overdues and arresting the upward trend of overdues in future. The role of directors of co-operative credit institutions especially those of central banks and primary agricultural credit societies should be dynamic so as to promote an atmosphere for voluntary repayment by the borrowers and to exert pressure for repayment when it is not voluntarily forthcoming. The Team has emphasized that the primary responsibility for the recovery of loans is clearly that of the non-official managements of the co-operatives, who should be aided in this task by the executive and supervisory staff of the institutions concerned. One of the important measures recommended by the Team is that a suitable provision should be incorporated in the Co-operative Societies Act of all the states in terms of which the entire board of directors of the central bank or managing committee of the primary agricultural credit society should stand automatically disqualified if the amount of default and the number of defaulters exceeded 60 per cent of the total demand and the total number of indebted societies in the case of a central bank

¹ *Report of the Study Team on Overdues of Co-operative Credit Institutions*, published by the Reserve Bank of India, Bombay, July 1974.

and 70 per cent of the total demand and total number of indebted members in the case of primary credit societies for a continuous period of two years. The Team has further recommended that the state governments should initiate action to amend the Co-operative Societies Act or the Rules to disqualify a member from voting in a general meeting or an election of any primary credit society if he is in default to that society for more than one year. The sureties of a defaulter should also be debarred from voting in general meetings or elections of any society.

36. A series of additional legislative and administrative measures which will help in arresting the rising trend of overdues have also been recommended by the Study Team. The Study Team recommended that the Registrar of Co-operative Societies should be empowered under the Co-operative Societies Act to issue an order even on his own motion for the recovery of a loan issued to a member for raising crops as an arrear of land revenue. Further, a provision enabling central co-operative banks to initiate action on their own against defaulter members of the agricultural credit societies when the latter are reluctant to do so, is suggested for incorporation in the Co-operative Societies Act where such a provision does not exist at present.

37. The Study Team noted that one of the major difficulties faced by the societies is the lack of bidders wherever the lands of defaulters are put up for auction, particularly if the owners are influential cultivators in the village. The Study Team suggested in this connexion that the concerned state government may itself purchase the lands in auction or, alternatively, a State Farming Corporation fully owned by the state government may be set up to bid in the auction for an amount which would settle the dues of societies and central co-operative bank together with interest. The Study Team has emphatically urged on the state governments that they should come down heavily on wilful defaulters through coercive steps implemented with the full backing and assistance of the revenue authorities.

38. The other recommendations of the Study Team include the strengthening of the supervisory staff at the central banks level, if necessary, with appropriate subsidies from the state government, re-scheduling of loans up to a period of 7 years, recovery by law of at least 50 per cent of the sale proceeds or the amount of dues to the primary credit societies whichever is less in states where agricultural commodities are subject to monopoly procurement, strengthening of stabilization fund at different levels of the co-operative credit structure and of the state agricultural credit relief funds at the state level.

MEASURES FOR REDUCING OVERDUES

39. The analysis in the earlier paragraphs indicate that while there were various factors leading to defaults on the part of the borrowers of land development banks, the major reason for defaults and, consequently, for the prevalence of overdues was lack of will to repay the loan. It can be generally expected that a borrower's repaying capacity will improve as a result of the use of long-term loans. One can understand the borrower's inability to repay over certain periods when they are affected by drought, flood etc. But our studies have shown that recoveries were good in the case of banks despite drought or other natural calamities while they were found to be poor even when crops were good. It is, therefore, clear that if overdues in land development banks are to be controlled, stern measures should be taken to curb the growing tendency on the part of borrowers not to honour their commitments for repayment of loans. These measures will have to be both legal and administrative and are discussed below.

*(a) Measures Within the Legal Framework**(i) Present Legal Framework*

40. Under the Co-operative Societies Act or the Land Development Banks Act obtaining in various states, the following legal action can be taken by the banks against the defaulting cultivators :

- (a) Distraint and sale of produce; and
- (b) Sale of mortgaged property.

There are elaborate provisions in the Co-operative Societies Act/ Land Development Banks Act and Rules in regard to the procedure to be followed in regard to distraint and sale of produce as also the sale of mortgaged property. The power of the bank to resort to distraint and sale of produce of the mortgaged land can be exercised within 12 months from the date on which the instalment falls due. The procedure which is required to be followed is to give a demand notice to the defaulter to pay the overdue instalment within a reasonable period. One month after the due date, the primary bank files execution petitions for the attachment and sale of standing crop (under the relevant section of the Co-operative Societies Act providing for power of distraint and sale). On receipt of the petition, the Registrar or the principal officer of the Co-operative Department in the district issues a demand notice against the defaulter, which authorizes the bank to distraint and sell the produce belonging to the defaulter. Similarly, in regard to the sale of mortgaged property belonging to the defaulters,

there are detailed provisions in the Co-operative Societies Act and Rules. The Co-operative Societies Act in states like Andhra Pradesh, Maharashtra, Gujarat, Assam, Uttar Pradesh, West Bengal, Karnataka, Orissa, Jammu & Kashmir, Madhya Pradesh and Rajasthan provides that the Board of the central land development bank or the Trustee can exercise the powers of distraint and sale, if necessary.

41. The Co-operative Societies Act in some states also contains a provision in regard to the recovery of overdue amount as arrears of land revenue. For instance, section 101 of the Andhra Pradesh Co-operative Societies Act, 1964 provides as under :

- “(1) Notwithstanding anything in this Act, on an application made by a mortgage bank for the recovery of arrears of any sum advanced by it to any of its members and on its furnishing a statement of accounts in respect of the arrears, the Registrar may, after making such enquiries as he deems fit, grant certificate for the recovery of the amount stated therein to be due as arrears.
- (2) A certificate by the Registrar under sub-section (1) shall be final and conclusive as to the arrears due. The arrears stated to be due therein shall be recoverable by the collector in the same manner as arrears of land revenue.”

Section 102 of the Act *ibid* further provides that the sum due to a land development bank shall be recoverable in all or any of the following, viz.,

- (a) from the borrower as if they were arrears of land revenue due by him;
- (b) out of the land for the benefit of which the loan has been granted as if they were arrears of land revenue due in respect of that land;
- (c) from a surety, if any, as if they were arrears of land revenue due by him; and
- (d) out of the property comprised in the collateral security, if any, as if they were arrears of land revenue due by him.

Provisions on these lines, i.e., for recovery of overdues as arrears of land revenue are also found in the Co-operative Societies Act in a few other states like Maharashtra, Gujarat, Tamil Nadu, Rajasthan and Karnataka.

42. The present legal framework appears to be adequate to enable the primary land development banks to effect recoveries from the

defaulting cultivators. The difficulty, however, arises either because the primary banks do not take prompt steps for initiating legal action against the defaulting cultivators or the procedure prescribed for the purpose under the Rules or by the Co-operative Department is time consuming. At times, the delay on the part of the banks in taking legal measures is due to the indifferent attitude of the management of the primary banks or due to extraneous pressure. Sometimes, even the state governments have asked the banks to suspend recoveries. The field studies undertaken on behalf of our Committee in Andhra Pradesh, Madhya Pradesh, Punjab and Rajasthan have indicated that the staff with the primary banks in these states excepting in Andhra Pradesh is inadequate for taking necessary coercive measures promptly and effecting recovery of loans.

(ii) *Lacuna in Legal Framework*

43. In the Co-operative 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. Section 12 of the Punjab Co-operative Land Mortgage Banks Act, 1957 and sections 18(2) and 18(2)(c) of the Madhya Pradesh Co-operative Land Development Bank Act, 1966 to which a reference has been made in para 31, are instances in point. In Delhi, the Co-operative Societies Act, 1972 does not contain any provision for distraint and sale of produce of the mortgaged property. In the absence of such a provision, the Delhi State Co-operative Bank which disburses long-term credit also, is experiencing difficulty in taking legal action against defaulters of long-term loans. Further, it is observed that the Co-operative Societies Act in all the states except West Bengal provides that no action for distraint and sale can be taken against the defaulting cultivators if a period of 12 months has elapsed after the loan became overdue. This provision comes in the way of any legal action for distraint and sale of the produce being taken against the defaulting cultivators if the management of the bank or the staff have delayed action.

(iii) *Proposed Legislative Measures*

44. While we consider that the present legal framework is generally adequate, it is necessary to make certain provisions in the Co-operative Societies Act or Land Development Banks Act in some states or to amend the existing ones for enabling the banks to take prompt and

effective measures against the defaulters. Our suggestions in this regard are as under :

(1) In the Union Territory of Delhi where the Co-operative Societies Act does not contain even provision for distraint and sale, necessary amendments should be made for such a provision.

(2) In the case of those states where the Co-operative Societies Act/Land Development Banks Act does not contain provision for (a) recovery of overdues from the borrowers of land development banks as arrears of land revenue by issue of a certificate by the Registrar of Co-operative Societies (on the lines of section 101 in the Andhra Pradesh Co-operative Societies Act), (b) empowering the Board of the central land development bank and Trustee to resort to distraint and sale of the crop of the mortgaged property where the management of the primary land development bank is found to be slack or indifferent, and (c) delegation of the powers vested in the officials of the Revenue and Co-operative Departments in the officials of the land development banks for effecting distraint, and sale of the mortgaged property. In such states, the state government may make suitable amendments to the Co-operative Societies Act/Land Development Banks Act to provide for the above.

(3) In view of the rising trend in overdues in the land development banks in most of the states, it will be very advisable for state governments to provide in the Co-operative Societies Act/Land Development Banks Act, for the Trustee (Registrar) issuing a certificate, *on his own motion*, for recovery of overdue loans, as arrears of land revenue (on the lines of section 71 in the Andhra Pradesh Co-operative Societies Act, 1964 or section 101 in the Maharashtra Co-operative Societies Act, 1960 which relates to the recovery of overdues in the short-term credit structure), if necessary.

(4) The Co-operative Societies Act/Land Development Banks Act in all states except West Bengal requires that action should be taken for distraint of produce or crop before the expiry of a period of 12 months from the date when loan instalment became overdue. The state governments may make necessary amendment to the Act to extend the period to, say, three years as has been provided for in the West Bengal Co-operative Societies Act, 1973.

(5) The state governments should also make suitable amendments to the Co-operative Societies Act so as to ensure that coercive action does not suffer from procedural delays such as those referred to in the case of the Madhya Pradesh Land Development Bank Act, 1966 in paragraph 31 of this Chapter.

(6) The state government in the Punjab, Himachal Pradesh and

Haryana may make suitable amendments to the Co-operative Land Development Banks Act so that legal action can be initiated against the defaulting cultivators even when one instalment of the loan is involved in default.

(7) The recommendations made by the Study Team on Overdues of Co-operative Credit Institutions (1974) especially those for disqualification of the board of directors of central co-operative banks if overdues in these institutions are over 60 per cent and they persist for a period of two years, should be made applicable to the primary land development banks also. For this purpose, the Co-operative Societies Act/Land Development Banks Act or by-laws may be amended making it obligatory on the part of every director or member of the managing committee of the primary land development bank to make a statement at the beginning of each year that he has fully repaid the loan amount or instalment of loan and interest as per the demand levied by the bank on due date. Similarly, the recommendation of the Study Team that the defaulting member of a primary society if he is in default over a year, should be disqualified from voting in a general meeting or election of any co-operative society, should also be made applicable in the case of members of the primary land development banks or of the branch committees in the case of the branches of the central land development banks. The state governments may make suitable provisions in their Co-operative Societies Acts or the Land Development Banks Acts in order to give effect to the above recommendations.

(8) In view of the difficulties which are experienced in the sale of land in the villages, the Study Team on Overdues of Co-operative Credit Institutions had recommended that wherever bidders are not forthcoming at the auction of the land belonging to the defaulting cultivators, the state government may acquire the land and dispose it of in the manner considered appropriate. This recommendation has considerable significance in the context of recovery of loans from the defaulting cultivators of the land development banks. We, therefore, reiterate this recommendation.

(9) The existing process of summary recovery followed in most of the states is time consuming, while the execution of certificates regarding recovery of loans from the property has been beset with problems, such as inadequate staff for execution and absence of bidders. The ultimate result is creation in the land development banks and cultivators of a psychology of default, which adds to the overdues. We are of the view that it is not so much the absence of adequate legal provisions which comes in the way of effecting recoveries from defaulters, as the delay in taking action by the primary and central

land development banks and the will to initiate necessary action promptly particularly against influential parties. The managements of the banks would, therefore, do well to take prompt and effective legal action against all defaulters.

(b) *Administrative and Other Measures*

45. The findings of the field studies undertaken on behalf of the Committee have indicated that the default on the part of the borrowers of the land development banks was due, among other reasons, also to some extent to the stiff terms of lending or defective loaning policy or absence of proper appraisal of loans and follow-up measures. Further, the overdues have arisen even in areas where the land development banks have issued loans under ARC-refinanced schemes which indicates that either the schemes are not realistic and the involvement of the banks in the formulation of schemes is inadequate or the supervision over utilization is slack. A few suggestions in this regard are given below, mostly by way of brief recapitulation of what has been referred to in an earlier Chapter, viz., Chapter 10.

46. As a corollary to the switch over to the production-oriented lending system, the land development banks should introduce planning in their operations. What we have in view is not any sophisticated methods of investigation for assessment of the development needs of various areas, but the obtaining through co-ordination with the technical departments of the state government, relevant information with a view to locating the specific schemes for agricultural development suitable to different areas in the state. For instance, the banks should, in consultation with the state groundwater directorate, identify different local areas in the state which are suitable for shallow wells or tubewells. Similarly, areas suitable for development of orchards/ plantations have to be identified. Through this process the banks will be able to locate specific areas which have a relatively higher potential for investment in agriculture and those areas which call for care while making loans, e.g., drought-prone areas or areas which are highly susceptible to floods and other natural calamities. A plan prepared on these lines for investment credit is likely to go a long way in the banks avoiding sanction of loans which may later prove infructuous or risky.

47. Other suggestions which we should like to make can be grouped under three broad categories, such as reforms of loan policies and procedures, effective follow-up measures and administrative measures. The reforms to loan policies and procedures include (a) adoption of

scientific appraisal methods for processing of loan proposals; (b) technical appraisal of loan proposals, especially where loans are given for minor irrigation works or land reclamation, soil conservation, bunding, horticulture/plantation development; (c) computation of the repaying capacity and fixing of the period of loans on a realistic basis as suggested in the *Manual on Production Oriented Lending System* published by the Reserve Bank in 1972; (d) introduction of various safeguards, on the lines suggested by the Reserve Bank from time to time, while giving loans for different purposes, such as disbursement of loans in instalments for minor irrigation works or land reclamation, hypothecation of agricultural machinery and equipment as also insurance of assets like pumpsets and tractors; (e) strict adherence to the system of making payment directly to the suppliers in the case of loans for agricultural equipment, machinery and tractors after ensuring the genuineness of the firms; (f) evolving a procedure for verification of utilization of loans by fixing, among other things, definite periods within which such certificates for each instalment for various types of loans should be received and prompt foreclosure of loans in the event of delay in receipt of such certificates; (g) fixing of dates for demand in respect of long-term loans so as to synchronize with the harvesting seasons and (h) recovery of loans to be effected twice a year, i.e., from *kharif* and *rabi* crops except in a mono-crop area.

48. Among the follow-up measures we attach considerable significance to the introduction of suitable measures in order to ensure a continuous touch with the borrowers of the banks until the loan is repaid fully. The banks should also maintain a close watch on the economic benefits derived by the borrower from the investment made out of the bank's loan. Such an arrangement is particularly necessary in the case of loans for development of orchards and plantations which call for a long gestation period. The system which may be evolved would be in the form of periodical reporting by the field staff, say once a year, and maintaining the relevant information in the form of a credit card or a file for each borrower. Besides, it is necessary that the banks ensure supply of production credit and agricultural requirements like seed and fertilizers to their borrowers as also assistance by way of technical guidance from the extension staff or the staff in the technical departments in order to enable them to adopt the proposed cropping pattern and to improve their repaying capacity.

49. The various administrative measures include (a) strengthening of the staff at the primary level with a view to ensuring that the staff for various functions such as appraisal, follow-up measures and recovery

of loans is adequate; and (b) creating suitable cadres for various categories of staff in primary banks. For this purpose, the state governments should provide necessary subsidy to the banks especially in the states where they are financially weak. It would also be useful to organize recovery drives for long-term loans at the harvesting seasons in conjunction with the efforts of the short-term credit institutions and enlist the co-operation of the Co-operation and Revenue Departments of the state governments. The state governments will be helping the banks considerably if they refrain from issuing instructions for suspension of recovery of co-operative dues which has been noticed in some states as referred to in paragraph 30.

50. An important reason for defaults in certain instances in Andhra Pradesh and Punjab as revealed by our field studies is that the borrowers of the primary banks could not repay loans because of non-availability or considerable delay in obtaining electric connexions for energizing wells or tubewells, which is due to several reasons such as shortage of electric power, overloading on the existing transmission lines, shortage of materials etc. To avoid such situations, close co-ordination between the state electricity boards and the central land development banks is essential. This is lacking now. Attempts to bring about such co-ordination in the ARC-refinanced scheme areas are being made by the Rural Electrification Corporation. We recommend that the position in non-ARC scheme areas also should be taken up by the Rural Electrification Corporation with the state electricity boards so that in such areas also the well or tubewell does not lie unused because of lack of electric power. Such areas should be identified by central co-operative land development banks and the state electricity boards so that the state electricity boards can prepare special schemes for these areas and submit them to the Rural Electrification Corporation which has introduced a special category of schemes to cover such purposes with effect from July 1974.

51. Finally we wish to emphasize the following general recommendations made by the Study Team on the Overdues of Co-operative Credit Institutions as applied by us to co-operative land development banks:

(a) The managing committee or the board of directors of primary land development bank should consider it their prime responsibility to help the bank in effecting recoveries.

(b) Wilful defaulters should be dealt with severely.

(c) The state government should not provide financial assistance under any government scheme to the defaulters of co-operative land development banks and other co-operative credit institutions.

(d) Penal interest should be charged on loan instalment for the full period.

(e) A primary land development bank having overdues exceeding 60 per cent continuously for two years may be taken to liquidation or alternative arrangement should be considered for flow of investment credit, such as asking the neighbouring land development bank to extend credit in the area or opening a branch of the central land development bank for the purpose.

PROBLEMS ARISING FROM FAILURE OF CROPS

52. One of the reasons, although this is not a major reason, for prevalence of overdues in land development banks is the failure of crops due to natural calamities such as drought, floods and pests. We proceed to deal with the main aspects relating to problems arising from failure of crops due to natural calamities, the nature of relief available under the existing system and whether these are adequate or not.

53. According to the loan procedure obtaining in land development banks, interest on loans is recovered from the borrower twice a year and the loan instalment once in a year. While fixing the due dates for payment of interest and loan instalment, banks are expected to take into account various factors such as gestation period, i.e., the period for which the payment of loan instalment and the interest on the loan has to be deferred, the approximate period after which benefits will start accruing to the borrower under the proposed development and the repaying capacity of the cultivator on an annual basis taking into account the incremental income. Another important aspect which is expected to be kept in view while fixing the period of the loan is the useful life of the asset for which the loan is sanctioned. In the case of agricultural credit projects sanctioned by the International Development Association, the Project Agreements generally lay down a specific period for which loans are to be allowed for different purposes.

54. Against this background, we may refer to certain important aspects which will give an indication of the problems likely to be faced by land development banks due to crop failure. These are: (a) the obligation on the part of the central land development bank to pay interest on the debentures floated from time to time for raising resources and (b) commitments on account of annual contributions towards the sinking fund maintained for redemption of debentures.

55. In the light of what has been stated above, the problems which the individual borrowers and financing banks are likely to face on account of failure of crops may be referred to briefly.

(a) *Individual Borrower*

(i) He might default in the payment of interest on the loan even if one crop is affected due to drought or flood or hailstorm etc., since the interest on the loan is required to be paid on a half-yearly basis.

(ii) He might make a default in the repayment of the loan instalment if his repaying capacity is affected severely on account of failure of the main crop.

(iii) In case the borrowing cultivator loses both the crops in a year, i.e., *rabi* and *kharif* and also one crop or two crops in the following year, this may impair his repaying capacity resulting in dislocation of the repayment schedule for the loan taken by him.

(b) *Primary Land Development Banks*

(i) In the case of the primary banks there will be shortfall in the recoveries and consequently in the amount to be passed on to the central land development bank.

(ii) In case the crop failure is widespread or persists for a long period, the overdues of primary banks will show a rising trend and might result in choking the credit line in the area.

(iii) The earnings of primary banks by way of interest will be reduced which might make it difficult for them to maintain the rate of dividend or even make provisions for the various reserves.

(c) *Central Co-operative Land Development Bank*

(i) If a number of primary banks are affected by crop failure, this might result in substantial reduction in the recoveries at the level of the central land development bank. Depending upon the position of owned funds of the central land development bank, reduced recoveries might result in compelling it to make good the commitment on account of sinking fund from its owned funds. When the position of owned funds of the central land development bank is not satisfactory, its financial position may be jeopardized in case there are reduced recoveries over a period of years.

(ii) The failure on the part of the primary banks to pay interest to the central land development bank may affect the income of the latter, and ultimately its profit-earning capacity. In case the failure

of crops persists for a number of years, the bank may start incurring losses and may have to face the problem of accumulated losses, which may, in the ultimate analysis, result in erosion of its reserves and owned funds.

(iii) In view of the increase in the overdues at the level of the primary banks, the central land development bank will fail in achieving the lending targets and this will affect the programmes of agricultural development in the state.

Remedies Available to Tackle the Problems Arising from Failure of Crops

The following remedies are available at present for tackling the problems arising from the failure of crops.

(a) *Re-scheduling of Loans*

56. The Reserve Bank has, in November 1973, agreed to consider proposals from the central land development banks for re-scheduling of the loans in the case of individual borrowers affected by failure of crops due to natural calamities. The salient features of the procedure laid down for re-scheduling of loans as approved by the Reserve Bank are as under:

(i) Only cultivators residing in the villages affected by drought/scarcity conditions where the government had declared *annawari* of 6 annas or less should be considered for re-scheduling of dues.

(ii) The following categories of cultivators should be excluded for purposes of re-scheduling of dues:

- (1) those who have perennial sources of irrigation;
- (2) those who pay income-tax;
- (3) those who are advanced loans for tractors; and
- (4) those who have not effected the development or investment for which the loan was obtained or have disposed of the agricultural equipment or machinery purchased out of the loan.

(iii) The impact of re-scheduling should not go beyond 125 per cent, i.e., the burden of the re-scheduled instalment and the normal annual instalment should not exceed 125 per cent of the normal instalment.

(iv) The extended period may not normally go beyond 9 years from the date of advance in the case of loans for purchase of pumpsets and tractors which are repayable within 7 years consistent with the useful life of such assets.

(v) In the case of borrowers who have not been brought within the scope of the assistance referred to under items (i), (ii) and (iii) above, coercive action should be taken by the bank by lodging recovery certificates with the revenue authorities. Such loans should be foreclosed and the outstandings thereunder should be transferred to a separate account. Twenty per cent of such frozen dues should be reckoned as current demand each year.

(vi) The annual sinking fund commitments might also be re-scheduled, if necessary, by amending the trust deeds.

(b) Segregation of Overdues on Account of Failure of Crops

57. The Reserve Bank has also indicated that wherever land development banks do not wish to avail themselves of the facility of re-scheduling of loans, they may exclude current demand and recoveries in famine areas from the total demand and recoveries for the purpose of arriving at the percentage of overdues to demand after an examination of the merits of each case.

Proposal for Constitution of Stabilization Fund

58. In view of the continued drought in some of the states, a suggestion was made in 1972 by the National Co-operative Land Development Banks Federation to the Reserve Bank that on the lines of the stabilization arrangements for short-term credit, similar arrangements might be made in the case of long-term credit structure.

59. Arrangements for stabilization are intended to provide relief to the individual cultivator who will be allowed the facility of postponement in respect of the loan instalment which he fails to repay on account of the failure of crops. Secondly, stabilization will help in reducing the overdues both at the level of primary banks and the central land development bank. Thirdly, it will save the central land development bank from making good the shortfall in the sinking fund commitments from its general funds to any appreciable extent.

However, in our opinion, individual borrowers can be provided the necessary relief even without having stabilization arrangements as will be seen from the following:

(a) Built-in Arrangements for Relief to Individual Borrowers

60. According to the procedure laid down by the Reserve Bank, loans for different purposes are required to be issued to the individual cultiva-

tors taking into account the repaying capacity or the benefits accruing to them from the development undertaken out of the loans provided to them as also the period of the useful life of the asset. Generally, loans given to cultivators are for a period of 7 to 9 years for agricultural machinery and equipment as also for sinking of shallow wells and installation of shallow tubewells although a longer period up to 15 years is allowed to small farmers for loans for minor irrigation works. In the case of loans for deep wells/tubewells, land levelling and development of horticulture or plantation crops, the period of loan may vary from 10 to 12 years, or even 15 years in the case of small farmers. As against this, the debentures can be floated in 2 sets, viz., for 10 years and 15 years. Thus, in respect of the loans issued by land development banks for various periods, the debentures can be issued for a little longer period. For instance, if loans for sinking of wells and installation of pumpsets have been issued for a period of 7 years, the debentures against these loans could be floated for a period of 10 years. Similarly, in respect of loans for land levelling, development of horticulture or plantation crops, which would be for a period of 10 to 12 years, debentures could be issued for a period of 12 or 15 years. This arrangement which is already being followed or can be followed by central land development banks in regard to ordinary schemes, provides a built-in cushion which can take care of at least two re-schedulings of loans at the level of the individual borrowers. In the case of ARC-refinanced schemes under IDA agricultural credit projects, repayments have to be annual and although the scope for adjustment is thus limited, the re-scheduling commitments can be met from the owned funds of the banks provided overdues are kept within manageable limits as it ought to be. Thus, land development banks, even under the existing procedures, can provide relief to cultivators affected by crop failure due to natural calamities.

(b) *Arrangements for Relief to the Primary Land Development Banks*

61. The present procedure for re-scheduling of loans or for segregation of overdues arising from famine is intended to provide necessary relief to primary banks. It is sometimes argued by banks that in view of the large number of cultivators involved and the large area often affected by drought it becomes difficult to take advantage of this facility of segregation of overdues. This, however, does not have much force inasmuch as the average membership in primary banks or the branches of the central land development banks varied from 488 to 26,773 as on 30 June 1973, the highest being in the case of the banks in Maharashtra. Similarly, the maximum number of cultivators financed during

1972-3 by a bank or branch of the central land development bank was 1,626 only.

The average membership of primary banks or the branches of the central land development banks in various states as on 30 June 1973 and the number of cultivators financed during the year 1972-3 are given below:

TABLE 16
INDIVIDUAL MEMBERSHIP AND CULTIVATORS FINANCED BY PLDBs/BRANCHES
OF CLDB

Sr. No.	State	No. of PLDBs/branches of CLDB	Total membership as on 30-6-73	Average membership as on 30-6-73	Total No. of members financed during 1972-3	No. of members given loan by a bank/branch during 1972-3
1.	Andhra Pradesh ..	184	515275	2800	41843	227
2.	Assam ..	16	9179	574	425	27
3.	Bihar ..	87	106488	1224	12899	275
4.	Gujarat ..	182	543519	2986	61565	338
5.	Haryana ..	29	73476	2534	16867	582
6.	Himachal Pradesh ..		6345	488	471	36
		1 PLDB				
		12 branches				
7.	Jammu & Kashmir..	20	25790	1289	2665	133
8.	Karnataka ..	175	434823	2485	48954	280
9.	Kerala ..	22	76998	3500	9527	433
10.	Madhya Pradesh ..	43	143918	3347	31164	725
11.	Maharashtra ..	27	722864	26773	43911	1626
12.	Orissa ..	55	90785	1651	9232	168
13.	Punjab ..	41	166002	40488	45825	1118
14.	Rajasthan ..	35	107455	3070	11297	322
15.	Tamil Nadu ..	223	474506	2128	51197	230
16.	Uttar Pradesh ..		436548	2150	72222	356
		4 PLDBs				
		203 branches				
17.	West Bengal..		37048	1611	2805	121
		21 PLDBs				
		2 branches				
18.	Pondicherry ..	1	2722	2722	174	174
19.	Tripura ..	1	1543	1543	13	13

These details indicate that the average membership of the primary land development banks/branches of the central land development bank is the highest in the case of Maharashtra, but even here it is less than 27,000 which appears to be not an unmanageably large number, from the point of segregation of overdues since there were 27 district branches and 270 sub-branches. Considering the fact that every year failure of

crops may not take place and that it may be confined to some of the areas in the state, it should not be difficult for the banks to segregate the overdues arising from failure of crops due to famine. Thus, the existing procedures are adequate for maintaining the flow of investment credit in the areas affected by natural calamities. The primary banks may, however, face some difficulty on account of the reduction in their earnings arising out of default in the payment of interest by the cultivators. But this does not pose any serious difficulty in their case as the number of banks declaring dividend even at present is not significant.

(c) *Relief to the Central Co-operative Land Development Bank*

62. The Reserve Bank has agreed that as a corollary to the re-scheduling of loans in the case of failure of crops, central land development banks may make suitable modifications to their Trust Deeds to facilitate re-scheduling of the amount to be provided to the sinking fund. This is intended to provide necessary relief to central land development banks also in getting over the difficulty, if any, in meeting their obligations in regard to sinking fund. Further, the problem in regard to meeting the sinking fund commitments when recoveries are less on account of failure of crops has relevance only in the case of those banks which have not built up a sound base of owned funds. Further, as mentioned in para 29 of this Chapter the field studies conducted on behalf of our Committee show that the basic reasons for overdues are relatable to slackness on the part of primary and central land development banks. Thus, at best what is required in the case of loans affected by natural calamities is a temporary postponement in the repayment of loan instalment by individual borrowers where the repaying capacity is severely impaired for which purpose the built-in mechanism referred to above is quite adequate, and a detailed scheme of stabilization is not called for. However, individual central land development banks which can set up stabilization funds are welcome to do so. In this connexion the Government of India suggested in July 1972 that the banks may build up the same as under;

- (a) Appropriation of 15 per cent of the net profits by central land development banks and primary banks.
- (b) Transfer of interest at 3 per cent per annum on the total amount at the credit to the fund at the beginning of each year.
- (c) Transfer of dividend in excess of 3 per cent on shares held by the state government.
- (d) Transfer of other sums which the banks may contribute or receive from any other source including government.

63. In pursuance of these instructions, the central land development banks in a few states like Andhra Pradesh, Rajasthan, Tamil Nadu and Madhya Pradesh have started building up the stabilization funds. But it may not be possible for banks in all states to follow suit since the profits earned by them are not very significant. For example, out of 19 central land development banks, 3 banks worked at a loss and 6 banks had profits below Rs 10 lakhs during 1971-2. In the case of primary banks, the position was worse. During 1971-2, out of 870 banks, 280 banks did not earn profit and 13 worked without profit or loss, both accounting for 34 per cent of the total number of banks. If stabilization funds are to be built up by allocating 15 per cent of net profits, on the basis of the profits earned during 1971-2, the amount available at the level of central land development banks worked out to Rs 81 lakhs and Rs 28 lakhs for primary banks. Further, dividend over 3 per cent on share capital contributed by state governments in central land development banks worked out to about Rs 7 lakhs in 1971-2. This amount will be negligible in the case of primary banks as most banks are not declaring dividend.

64. Our view that it is unnecessary to have an elaborate scheme of stabilization arrangement is supported by the views of earlier Committees. Thus, the All-India Rural Credit Survey Committee (1954) recommended the introduction of stabilization arrangements only in the short-term credit structure. The Committee observed that the need for stabilization arrangements in the case of short-term credit structure arose because the cultivators needed short-term credit every time they grew a fresh crop or harvested it, which was generally twice in a year. Further, the number of cultivators to be affected in the case of short-term credit structure was very large, inasmuch as the primary co-operative societies are expected to cover all the cultivating families in their area of operations. The All-India Rural Credit Review Committee (1969) had also examined the question about the need for introduction of stabilization arrangements in the long-term credit structure and did not favour the proposal.¹

65. While there is no real need to constitute stabilization funds in primary and central land development banks as even under the existing arrangements necessary relief can be provided to individual borrowers and banks to get over the problems arising from failure of crops, we recommend certain measures to be followed by banks which will help them in facing the problems of overdues in areas affected by natural calamities. These are mentioned in the ensuing paragraphs.

¹ *Report of the All India Rural Credit Review Committee* (1969), published by the Reserve Bank of India, p. 517.

(a) The banks should take into account the specific needs and conditions of each area while formulating schemes. Thus, in drought-prone areas it will be advisable to encourage cultivators taking up schemes for dry farming. Similarly, in areas where the position regarding sub-soil water resources is not satisfactory it will be helpful if loans for minor irrigation works are provided strictly on the basis of detailed investigations by the state groundwater directorates.

(b) In the case of loans for land levelling under major and medium irrigation projects and minor irrigation works there should not generally be any severe impact of natural calamities in case the technical aspects have been examined before giving loans unless the drought persists for a long period. For example, failure of a monsoon should not result in complete drying up of the well in case technical advice regarding depth and spacing has been observed while constructing it.

(c) Land development banks should encourage cultivators in making advance repayments or larger payment towards loans when crop conditions are good, by giving rebate in interest on loans.

Writing off Long-term Co-operative Loans

66. While there has not been any serious suggestion for writing off long-term co-operative loans, yet this matter has been sometimes raised in certain quarters. In regard to the short-term co-operative credit structure where there are arrangements for writing off irrecoverable loans, a number of conditions have to be fulfilled by banks and societies before writing off can be contemplated such as the banks and societies exploring all possible avenues for the recovery of loans, the amount involved in the proposed write-offs representing loans outstanding for several years etc. We are of the view that there is absolutely no case for writing off long-term co-operative loans. These loans are meant for agricultural production and they have a relatively long period of maturity. If, during this period, there are any unforeseen circumstances such as drought or flood making it impossible for the borrower-members to repay the loans, re-scheduling of such loans is possible. Thus, there is no question of writing off long-term co-operative loans. Any such step, apart from being unnecessary, will undermine the entire foundations of the long-term co-operative credit structure.

Procedure for Reimbursement Followed by the International Development Association in regard to Agricultural Credit Projects in India

67. As on 30 June 1974, the IDA and IBRD had sanctioned 18 agricultural credit projects envisaging a total lending programme of

Rs 485 crores for agricultural development in the country and the bulk of this amount is to be provided by the Agricultural Refinance Corporation to cultivators for on-farm investment. The Agricultural Refinance Corporation being a refinancing institution, the loans will have to be routed through various financing institutions, viz., central land development banks and commercial banks. Out of these 18 projects, only 5 projects are to be implemented entirely through the commercial banks and in the case of the remaining 13 projects, the major participation is by the land development banks. In other words, a sizeable part of the lending programme of Rs 485 crores will have to be undertaken by the land development banks. In addition, we understand that certain proposals are under consideration in regard to a general line of credit from the IDA to the Agricultural Refinance Corporation through the Government of India, involving a sum of Rs 93 crores. A considerable part of the lending programme under these projects is also to be refinanced by ARC through land development banks. This makes it essential for us to examine whether the present procedures for reimbursement followed by IDA need any change. Under the present procedure followed by IDA, assistance is provided in terms of foreign currency (mostly U.S. dollars) to the Government of India as soft loans, e.g., a maturity period of 40 years excluding a grace period of 10 years and a service charge at 3/4 per cent per annum. The equivalent of these funds is provided in rupees by the Government of India to ARC under normal terms and conditions which are not connected with those of IDA to the Government of India in regard to rate of interest, repayment period etc.

68. Apart from contributing to agricultural development in the country and helping in the introduction of scientific lending terms and procedures by the financing banks, these loans provide a convenient form of having access to much needed foreign exchange to the Government of India. While this, of course, is to be welcomed, yet, it has to be noted that this procedure contains within itself the seed for generation of overdues in the lending banks, viz., the primary and central land development banks. To put it very briefly and simply, under the procedure of reimbursement followed by IDA, thousands of individual cultivators will have to actually take loans from their primary land development banks or branches of the central land development banks. These banks get reimbursement from the central land development banks which in turn will have to approach ARC for reimbursement, in sizeable amounts, in respect of the loans provided by them. The Agricultural Refinance Corporation, in turn, approaches the Government of India for reimbursement and the Government of India then gets

in touch with IDA for release of the loans in terms of foreign currency. Thus, unless disbursements actually take place at the primary level, the Government of India will not be able to avail itself of any assistance from IDA. One grave danger of this procedure is that there is compulsion at all levels to disburse loans. We are not, of course, suggesting that disbursements should not be brisk. While this is all to the good, yet it will be agreed that the pace of such disbursements cannot be forced and the lending institutions be under pressure to lend.

69. Disbursements in regard to the International Development Association agricultural credit projects of the type operating in our country are quite different from disbursements under agricultural credit projects proper where the beneficiaries are not many, they follow commercial methods of operation and accounting, have farm plans, the loan amount for each beneficiary is relatively large and the schedule of disbursements can be planned. However, these projects in our country, most of which relate to minor irrigation works and land development, involve thousands of cultivators whose individual loans of relatively small amounts are brought under the umbrella of a project. For a number of reasons, it is impossible for land development banks to lend money as per schedule under these projects. The more important of these reasons may be mentioned:

(a) Some cultivators may not come forward for sinking wells or constructing tubewells or for development of their land because the investment proposed is either not needed by them or not suited to them at present. For instance, some cultivators may not need the investment for the present, e.g., pumpsets, because of delay in electric connexions reaching their farms.

(b) The disbursement schedules are not based on individual farm plans, but on general plans mostly drawn up by the state governments which are more in the nature of a broad estimate of requirements.

(c) Disbursement schedules are liable to be completely upset by factors like drought, flood etc.

70. One way out of these difficulties has been for IDA to agree, in the past when disbursements were very slow, to bring in lendings already made in non-project areas and which did not conform strictly to project terms and conditions, within the purview of project lending and thereby making them eligible for reimbursement from IDA. This, at best, is a temporary solution which, if applied further on a large scale, may erode the discipline of project lending, create a psychology of relaxation and make it more difficult to complete the task of bringing the total

lending operations of a land development bank for similar purposes, under a common discipline.

71. A basic solution to this problem will be to effect a change in the system of lending of IDA to the Government of India under the agricultural credit projects from a system of reimbursement to a system of straight loans in keeping with the actualities of agricultural projects of the type in operation in our country. There should be no basic procedural difficulty in introducing this change because the terms of IDA lending to the Government of India and the latter's lending to ARC are quite distinct. We suggest that IDA's soft loans under the agricultural credit projects may be provided as straight loans to the Government of India, at least 50 per cent of the total loans under each project being given to the Government of India, after the effective date when all the relevant terms and conditions have been satisfied by the parties concerned, viz., the Government of India, the Agricultural Refinance Corporation, the state governments concerned and the lending banks. The release of the balance of 50 per cent may be made after a general review by IDA of the operation of the project. This basic change in the procedure of IDA loans which will be in keeping with the actualities of agricultural credit projects in our country will enable the Government of India to get a part of the soft loans on the effective date and will also enable the land development banking structure to finance the project schemes without the compulsion to lend, but according to the natural needs of the situation and thereby avoid the danger of hurried lending which will aggravate the present serious problem of overdues in the long-term co-operative credit structure. We attach great importance to this recommendation because of the very substantial amount of IDA lendings under the agricultural credit project and of ARC refinance to land development banks in the Fifth Plan estimated at Rs 900 crores. We would urge that this recommendation may be examined by the Government of India and the Agricultural Refinance Corporation on a priority basis.

CHAPTER 12

PROBLEMS OF MANAGEMENT AND CO-ORDINATION

THIS Chapter deals with matters relating to appointment of management personnel and arrangements for co-ordination between land development banks on the one hand and various departments of the state governments and other institutions on the other, which was included by us under item (xv) of our terms of reference, viz., any other item considered necessary.

PROBLEMS OF MANAGEMENT

2. The ultimate effectiveness of the management personnel of any institution, including co-operative land development banks, depends on the suitability or otherwise of the entire framework including the set-up at the primary level, middle management personnel, and top management personnel. The problem of management personnel should, therefore, be viewed in the overall context of the policy regarding recruitment and training of the various categories of staff in banks, viz., top management such as chief executives and other senior executives, middle management personnel, and field personnel. Besides, banks need technical staff both at the state and to some extent at the field levels.

Existing Position

3. A review of the position regarding staff in land development banks indicates that in terms of functions, conditions of service, methods of recruitment, training etc., there is considerable heterogeneity in the pattern obtaining in the various states. This is partly due to historical reasons and to some extent to regional variations in different parts of the country. For instance, in respect of the top management personnel like chief executives, managers, chief accountants etc., as well as the middle management personnel there is considerable variation both in the quality of the staff available and the functions and work-load *vis-a-vis* the total volume of business. 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 are only 2 out of 19 central land development banks which have their own chief executive officers. Even in states where the banks are fairly well developed both in their standing and loan operations, the chief executives are very often found to be officers of the Co-operative Department, in some cases from I.A.S. cadre, or from the Reserve Bank. In these institutions, there is no indication of any steps having been taken to build up the second line of executives who may take up higher responsibilities later. This holds good in the case of the structure at the primary level also in most of the states. In brief, land development banks are leaning heavily for their staff requirements such as those for managers, secretaries, auditors, and chief executive officers on the state governments, particularly the staff belonging to the Co-operative Department.

4. As regards the middle management personnel which is required at regional levels for executive, operational and supervisory purposes, the banks are, by and large, having their own staff. At the field level, i.e., at the district/sub-division/tehsil/block, 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 for functions such as public inquiries, scrutiny of record of rights, recoveries etc., the banks continue to be heavily dependent either on the Revenue Department or Co-operative Department, which, by virtue of provisions in the Co-operative Societies Acts and by-laws are entrusted with powers to carry out recoveries through coercive measures. There are a few states such as Assam, Bihar, Jammu & Kashmir, Tripura and West Bengal where the land development banks depend on the Co-operative Department even for the services of clerks and typists.

Need for Evolving Suitable Management Personnel Policy

5. The by-laws and Co-operative Societies Act or Land Development Banks Act in most of the states provide for the prior approval of the state government for the appointment and continuance of the chief executive officers and even the middle management personnel. In some states, the power of appointment of chief executives is vested in the state government. In view of the important role expected to be played by banks in planned economic development and the sizeable financial assistance provided by them, it is understandable that the state government should like to have some control over the management of these institutions. However, if the banks are to be allowed to work as professionally sound institutions, it is necessary that in their management a

high degree of professional skill is introduced and a cadre of personnel who are highly trained in development banking is built up.

6. The need for improving the quality and quantity of the staff in co-operative land development banks has been emphasized by every Committee and Working Group. For example, the All-India Rural Credit Review Committee (1969) had 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 utilization of loans, recovery of loans, etc. It was also suggested that banks might introduce a cadre for managers in primary land development banks.

7. There have since been a few developments to which reference may be made here. Firstly, the introduction of the production-oriented lending system requires land development banks 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 International Development Association has referred to the urgency as also the need for land development banks to have competent staff with a view to enabling them to undertake effective participation in project financing. Thirdly, in recent years, land development banks have been experiencing a decline in their loaning operations in some areas which is mainly due to the fact that they were providing substantial financial assistance for minor irrigation works such as sinking of wells, installation of tubewells etc., which depends on the availability of groundwater resources. As a result of the stepping up of minor irrigation schemes with the financial assistance provided under the ordinary debenture programme, refinance facilities from the Agricultural Refinance Corporation and the financial assistance provided by commercial banks, the sub-soil water resources are getting depleted in several states which in turn limits lending for this purpose. This emphasizes the need for diversification of the loaning business of land development banks. The banks would be in a position to diversify their loaning operations only if they are equipped with the minimum necessary technical staff including agricultural economists for undertaking surveys with a view to identifying new areas for investment in agriculture instead of depending solely on the Agriculture Department as at present. It is, therefore, necessary that land development banks

should reorient suitably the policies regarding recruitment and training of various categories of staff required by them.

Scheme for Management Trainees

8. It is in the context of the need for land development banks being equipped with competent staff and to develop a second line of management personnel that the Reserve Bank of India and the Agricultural Refinance Corporation have recommended to them in February-March 1973 a scheme for management trainees. The essential features of the scheme are as follows :

- (a) 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.
- (b) Each bank should recruit through advertisement on an all-India basis, officers of a comparatively young age (i.e., those who have recently passed out of the Universities) with a good academic background in different faculties considered useful, viz., development banking, agricultural economics, agricultural sciences (farm management, agronomy, horticulture, agricultural engineering and hydrogeology), business management, cost accounting etc.
- (c) To start with, the bank may recruit 2 to 4 management trainees.
- (d) The trainees to be appointed should be within the age group of 21 to 26 years.
- (e) The starting salary should be sufficiently high to attract good candidates. On confirmation, which should take place after rigorous training in the Reserve Bank of India, Agricultural Refinance Corporation, co-operative and commercial banks and the College of Agricultural Banking, Poona, each management trainee may be fitted into a regular grade. The pay scale may depend upon the local situation, but it should be sufficiently attractive to get good candidates.

Need for Application of Modern Management Techniques

9. An examination of the position regarding land development banks indicates that barring a few, the majority have not been able to equip themselves with personnel for management both in quality and quantity

mainly due to constraint on resources. The Study Teams constituted by the Committee to examine the position of land development banks in co-operatively less advanced states have pointed out that in most of these states the banks have not been able to rationalize their loan policies and procedures or to adopt the important features of the production-oriented loaning. The position in this regard in the co-operatively advanced states is also not satisfactory. The land development banks in these states have also to introduce modern management techniques in their operations, a system of continuing analysis of policy and procedures and an increasing degree of cost consciousness.

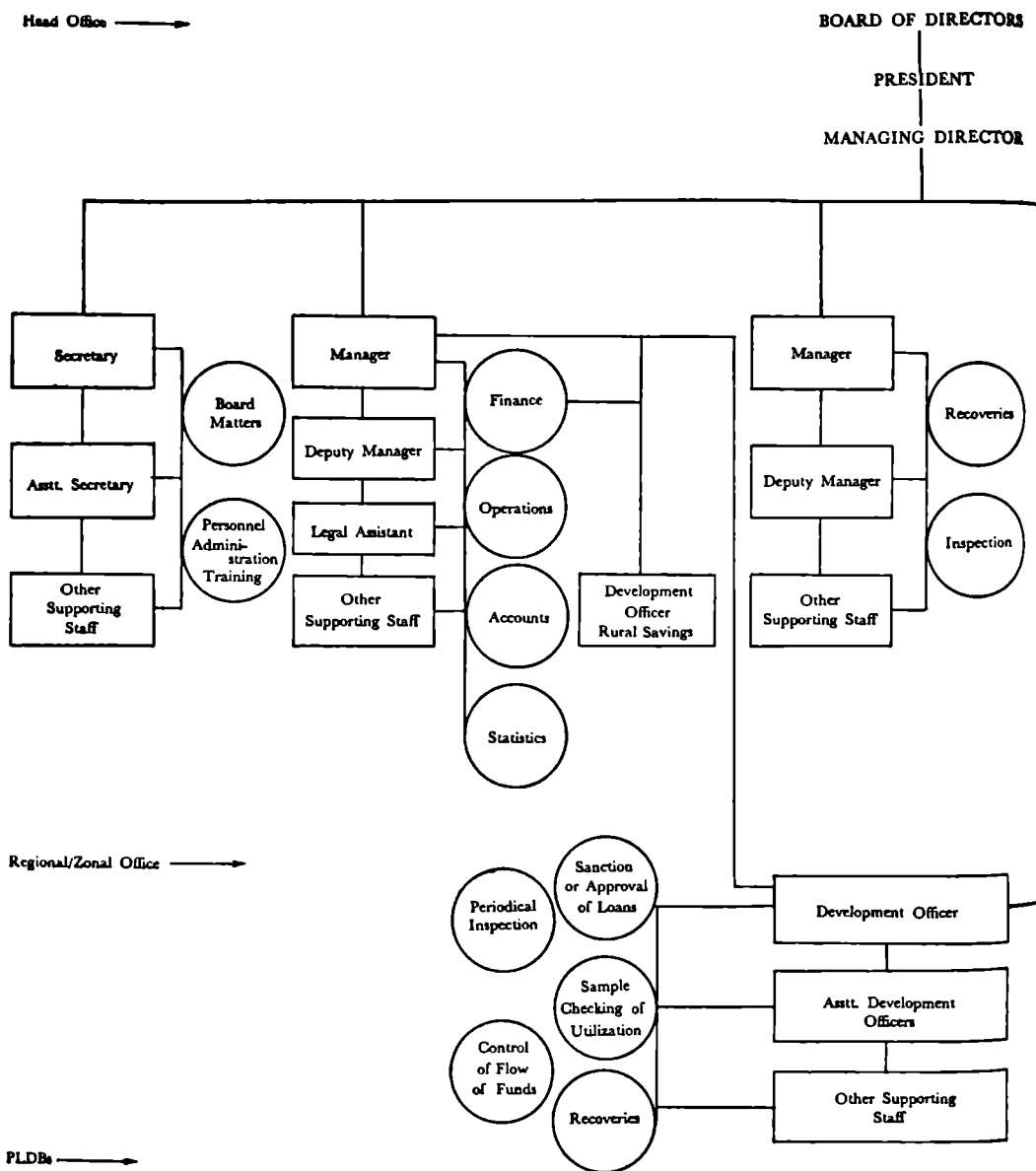
10. One of the Study Groups under the chairmanship of Shri Jayakumar Anagol constituted by our Committee had examined the problems regarding management personnel in land development banks in detail and its suggestions are generally acceptable to us. A copy of the report is reproduced separately as an Appendix in another volume. In the light of these, our observations and recommendations are given in the ensuing paragraphs.

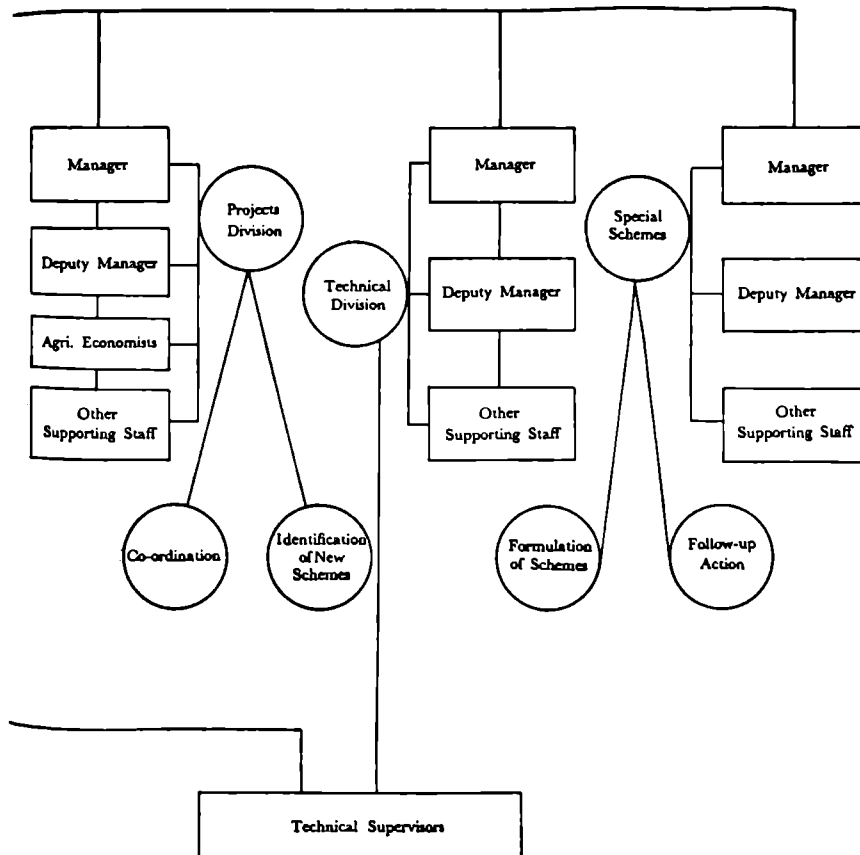
General Policy

11. The central land development banks should evolve a suitable policy regarding recruitment, training, promotion and other service conditions for various categories of personnel required by them and by the primary banks. As a long-term policy, banks should aim at having their own personnel at all levels except probably for certain technical staff. This does not mean that we are averse to the banks utilizing the services of the officers in the state government or of other institutions. Nor do we suggest an overnight or immediate change in the existing arrangement or replacement of the staff on deputation with the banks' own staff. What we recommend is initiation of a process by which the present practice of depending heavily on the staff of the state government is dispensed with, though the senior officers of the concerned Department can certainly be associated with the work of banks in an advisory or consultative capacity.

Cadres at Different Levels

12. While it is difficult to evolve a common organizational set-up which may be adopted by all banks, it is felt that banks in most of the states could have a set-up more or less on the lines indicated in the chart on the following pages.





Depending on the size of the state as also on the nature of the land development banking structure, each central land development bank, in our view, should have regional offices generally with an area of operations conterminous with the revenue divisions in the state. The functions of the regional offices should be mainly to provide continuing supervisory link between the head office management personnel and the field level personnel. While important operational functions like (a) sanction of loans after scrutiny of loan applications, (b) disbursement of loans and (c) appraisal of technical and economic feasibility of loan cases would be dealt with at the state level or at the tehsil/district level, the regional units should be mainly in the nature of inspection and vigilance units which would also ensure co-ordination and provide a two-way communication between the field level/tehsil and district levels and apex level. A group of regional offices may be put under the control of zonal offices, in due course.

13. A review of the existing position in regard to the functional distribution of work, delegation of powers etc., has revealed that in some cases in the matters of recruitment of staff, transfer, promotions and disciplinary action the chief executives and senior management personnel are not as independent as they ought to be. Again, in matters like sanction and disbursement of loans and recovery policies, the management personnel do not have, in some cases, requisite powers or executive independence which is very necessary for the proper functioning of the financing institutions. The interference is either built in through the existence of certain rules and regulations which vest powers to elected committees, or alternatively, the interference is more indirect and less perceptible. We feel that if the management has to be effective, the professional functionaries should be fully empowered to settle executive and administrative matters. The functions of the democratically elected members of the boards should be confined only to policy making and assistance in matters such as popularizing schemes of agricultural development, sale of rural debentures and recovery of loans.

14. In respect of senior management personnel, middle management personnel at regional and district levels and key personnel in the primaries at the tehsil level banks are not following any definite policy and the position cannot be said to be satisfactory. The studies undertaken on behalf of our Committee have revealed that various operational problems were found to have arisen in some states because the central land development bank had no control on the staff in the primaries or at district or regional levels. Further, the non-transferability of the key field personnel sometimes comes in the way of ensuring their integrity and professional competence. We, therefore, recommend that each

central land development bank should initiate immediate action for constitution of integrated staff structure comprising the following management personnel :

- (a) Managers at the apex level (operations, administration, finance, accounts and technical).
- (b) Zonal/Regional Managers (Development/Assistant Development Officers) and inspectors at the zonal/regional level.
- (c) Managers, loan officers, accountants, technical officers and recovery officers at district level where the central land development bank has district branches or there are primary banks, at district level.
- (d) Key personnel like managers and chief accountants of the primary banks at sub-division/tehsil/block level.

15. The above cadre of personnel should be controlled by a central staff committee of the central land development bank which will be purely a committee of officials under the Chief Executive Officer. This staff committee should be entrusted with the responsibilities of taking final decisions in regard to the promotion, transfers, disciplinary action etc. The introduction of such an integrated staff structure will also provide promotional opportunities which at present are available only under the unitary structure of land development banking.

Chief Executive Officer

16. The chief executive of a central land development bank should have experience both of banking and agricultural development programmes. Apart from being a good banker, he has to be well versed in regard to the working of various agencies through which agricultural development programmes are being carried out. For instance, he has to play an important role in both promotional and co-ordination matters with reference to the activities of the concerned technical departments of the state governments, e.g., Agriculture Department including Horticulture, Irrigation Department, Groundwater Directorate, State Electricity Board, Agro-Industries Corporation etc. Initially, it may be difficult to get suitable persons locally who will have background and qualifications in all these areas. We, therefore, recommend that a panel of chief executive officers who have the necessary background and experience may be drawn up by the National Co-operative Land Development Banks Federation. Such a panel can be constituted from among persons available in organizations such as the Agricultural Credit Department of the Reserve Bank of India, the Agricultural Refinance Corporation, land development banks and state government officers

including those from the IAS cadre. This panel may consist of: (a) persons who have already gained experience and (b) persons who may not have direct experience in all the fields of activities but who can with suitable orientation, equip themselves to fill the posts of chief executives.

17. One distinct advantage in having such a panel would be that the selection will be broad based and will facilitate exchange of expertise on an all-India basis. Alternatively, such a panel may be set up in pursuance of the decisions taken by the Consultative Council on Co-operation at its meeting held in New Delhi on 24 April 1974 that each state may have a State Level Panel Authority on the lines of the authority for National Level Federations. Our preference, however, is clearly in favour of the National Co-operative Land Development Banks Federation maintaining the panel in view of its close contacts with central land development banks.

Implementation of the Management Trainees Scheme

18. It is essential for central land development banks immediately to implement the management trainees scheme recommended by the Reserve Bank, with suitable modifications according to the local requirements. The implementation of the scheme could begin by selecting highly qualified young persons with suitable educational background and if possible some field experience. These young executives after getting necessary training could form a core from which in due course the top management personnel can be appointed.

19. The essential qualifications for the selection of these trainees may be a post-graduate degree with at least a second class in subjects like agricultural economics, commerce, business management, agriculture and allied technical subjects like agricultural engineering, hydrogeology etc. Such management trainees may be grouped into:

- (1) General Management Personnel and
- (2) Technical Personnel.

The scale of pay and other service conditions will have to be fixed by each bank so as to be sufficiently attractive for young and bright persons to be drawn to the banks as also to ensure that they can look forward to a career with the institution. It should be possible for all the banks to introduce the scheme without delay, so that they can build up their own cadre of management personnel which can form as the second line to take up in due course higher positions in the administrative hierarchy of these banks. It is against this background

that we have suggested in Chapter 5, a scheme for financial assistance for the introduction of such a scheme by the banks in co-operatively less advanced states.

Methods of Recruitment

20. Powers to recruit the chief executives are ordinarily vested in the Board of Directors of the central land development banks and in the case of several states, such appointments are to be finally approved by the state government. Some banks have staff committees for recruitment, promotions etc., of management personnel as well as for junior personnel. A few banks (e.g., Maharashtra) have adopted the practice of taking subject matter specialists on the staff committees for enabling the staff committees to judge the technical knowledge and skill of the concerned candidates. However, a review of the existing position in the banks reveals that the recruitment of the middle management personnel as well as field personnel has not been up to the mark. Apart from purely subjective reasons like favouritism, a stumbling block is lack of incentives for promotion which deters suitable persons from joining the bank. We, therefore, recommend that the scales of pay and conditions of service of the personnel working in the land development banking structure should be made sufficiently attractive. We recommend in this connexion that each central land development bank should have a Staff Services and Recruitment Board consisting of the chairman, the managing director, an economist, a person qualified and experienced in technical aspects of agricultural development and a personnel management specialist. The functions of this board should be (a) to lay down policies and procedures pertaining to the recruitment of staff by prescribing minimum qualifications and experience necessary for the staff; (b) to interview the candidates preceded by a written test; and recruit persons belonging to the senior, middle and primary levels. The control over the staff will vest in the central staff committee suggested in paragraph 15.

21. Norms in respect of numerical strength of the various cadres at different levels except for the top personnel like managing director, manager, chief accountant etc., will depend on the volume of business of the bank including the number of loan accounts, the total advances and outstandings, the area of operations and so on. In this respect, different norms will have to be worked out for the following types of banks:

- (a) large bank with unitary structure;
- (b) large bank with federal structure;
- (c) small bank with unitary structure;
- (d) small bank with federal structure.

It will be helpful if a detailed exercise in this connexion can be undertaken by the National Co-operative Land Development Banks Federation for the benefit of its member banks.

Existing Training Arrangements

22. Presently, training arrangements for the personnel in land development banks are available at (a) the Reserve Bank's College of Agricultural Banking, Poona (CAB); (b) co-operative training centres run under the auspices of the Committee for Co-operative Training, where special courses in land development banking are conducted; and (c) internal staff training schemes organized by some of the central land development banks as in Maharashtra. Presently, the College of Agricultural Banking at Poona does not conduct any detailed training course exclusively for the management personnel of the land development banking structure as such, except for (i) a specialized course covering project planning and appraisal and (ii) a course for the managerial staff of state and primary land development banks and middle level personnel of commercial banks.

SUGGESTIONS FOR IMPROVEMENT

23. It is essential that the training centre run by the state co-operative unions and the National Co-operative Union take into account the latest trends and developments in the sphere of land development banking. It is, therefore, necessary to review the syllabi followed at all these training centres and revise them suitably taking into account the role of the banks and the problems they have to face. Some of the aspects which have to be given an important place in the syllabi for management personnel relate to the management of funds and diversification of loaning operations to which reference has been made in earlier Chapters. It is essential to conduct short duration courses (not exceeding three months) in various aspects of management training. Training of personnel should not end with an initial course of three months. In fact, it should be a continuing process and the basic management training course should be followed by a series of refresher courses for conducting which the College of Agricultural Banking at Poona will have to be suitably equipped and strengthened. It is also desirable to introduce functional and job-oriented courses for other categories of personnel like chief accountants, technical personnel etc. Such courses will have to be organized separately for different categories working at senior levels. The present strength of the College

of Agricultural Banking at Poona as well as facilities available should be suitably strengthened to meet these additional requirements. The Reserve Bank may also consider including in the faculty staff of the College of Agricultural Banking one or two officers from the central land development banks who have adequate experience in various aspects of the working of these banks.

24. In addition to the regular training arrangements, it is essential to provide for the orientation of field personnel through the core personnel who may be trained at the College of Agricultural Banking, Poona. These personnel should conduct orientation seminar camps and brief and acquaint the field personnel in respect of latest policies and programmes pertaining to long-term agricultural credit. In fact, this arrangement has been contemplated in respect of some banks which are implementing IDA Projects and has already been carried out in states like Maharashtra and Andhra Pradesh.

25. Special course on land development banks for personnel other than senior management personnel is being conducted at the co-operative training centres run by the Committee for Co-operative Training. However, this course which is of about 4 months duration is an omnibus course covering all aspects of land development banking. There is an increasing need to have functional and job-oriented courses for middle management personnel as well as junior personnel, including personnel working at the field level. The Committee for Co-operative Training may consider conducting a variety of functionally-oriented courses at their training centres run by the state co-operative unions. The subject matter and contents of functionally-oriented courses as recommended above for personnel at different levels are listed below:

- (1) Special Course for Accountants of the primary banks.
- (2) Special Course in loan appraisal for field personnel like supervisors.
- (3) Familiarization Course in technical matters like study of contour maps, groundwater development, study of revenue records, study of aspects like extending electric connexions in rural areas etc.
- (4) Familiarization Course for recovery of dues including
 - (a) coercive measures;
 - (b) collection at procurement centres, where monopoly procurement is introduced;
 - (c) efforts at linking credit with marketing etc.

This list is not comprehensive but illustrative. A more comprehensive list may be drawn by the Committee on Co-operative Training in consultation with the National Co-operative Land Development Banks Federation.

Role of Technical Cells

26. The need for technical cells in land development banks arose with the emphasis on production-oriented lending and especially after the establishment of the Agricultural Refinance Corporation. Most of the central land development banks have realized the need to have some technical staff of their own and they have started setting up of technical cells either by obtaining on deputation the services of officials of the state government or by recruitment from the open market. The banks will, however, have to continue to depend largely on the various technical departments in the state government. Thus, the scheme for technical personnel in land development banks is essentially for providing a nucleus of technical competence in the banks to help the officers of the 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 board and guiding the field staff of the primary banks on technical aspects of the terms and conditions of the loans and compliance thereof. Such technical personnel in a central land development bank should be sufficiently senior and should receive orientation training in land development banking so that they have a fair general knowledge of the banking aspects of the schemes, apart from their purely technical aspects. Some of the technical staff may be posted in the bank's zonal offices to assist the bank's district staff in examining the technical feasibility of schemes and effecting liaison with the district level technical officers of the state government like Deputy Director of Agriculture, Horticulture Officer and Engineer of the State Electricity Board.

27. Depending upon the size and scope of developmental schemes financed, the bigger primary land development banks may also have one or two technical officers for field work. Such officers while being under the administrative control of the manager or secretary of the primary land development bank, should work under the technical control and direction of either the technical officers of the central land development bank or under the state government's technical officer like the Deputy Director of Agriculture. Otherwise, they will be wasted on aimless general work.

28. The banks in some states especially the co-operatively less advanced ones may find it difficult to have any technical staff on account of constraint of resources. It is in this context that we have suggested in Chapter 5 a scheme to provide financial assistance to the banks for recruitment of staff which will include technical officers also.

29. Thus, we suggest that central land development banks should have a few picked and well-qualified technical officers in subjects like hydrogeology, land levelling and reclamation, dry farming, horticulture etc., depending upon the type of developmental schemes being financed by them. We envisage that such staff will, in course of time, be posted in the zonal offices of central land development banks situated in the divisional headquarters and serving a group of regional or district offices. This technical staff, we repeat, will not and cannot be in duplication of the technical staff of the state governments. It is obviously impossible and unnecessary for land development banks to have an elaborate technical staff because giving technical advice and effecting technical supervision is the responsibility of the state governments' technical departmental staff which is sufficiently large and widespread and has been built up over the years.

30. In the above manner, the chief executive officer of a central land development bank will be the leader of a team consisting of technical officers (including agricultural economist) and banking officers. We believe that only in this manner the central land development banks and primary banks, in conjunction with the staff of the state governments' technical departments, especially Agriculture, Irrigation, Horticulture etc., will be able to play a meaningful role in the actual preparation of local agricultural development schemes instead of leaving this vital work almost entirely to the state governments as is largely the position today. Thus, we envisage that land development banks will have a key role to play in the actual formulation of schemes, and for this purpose, they should have trained key technical officers who will be able to effect liaison with the state governments' technical departments at the headquarters, advise the bank managements in regard to the technical feasibility of schemes, explore the possibilities of having new schemes of productive agricultural lending in their areas in collaboration with the technical departmental staff of the state governments and help in preparing guidelines for scheme preparation for the use of the district or regional offices of central land development banks and primary banks. The direction for field work will have to come from the zonal or district or regional offices of central land development banks which should be manned by a competent, well-trained and

specially selected Development Officer/Assistant Development Officers with sufficient banking background and executive experience who will head an informal team consisting of the Deputy Director of Agriculture, Deputy Director of Horticulture (if any), Deputy Registrar of Co-operative Societies and a few others including the engineer in charge of the district/local office of the state electricity board, the district statistical officer, if any, and the regional officer of the state ground-water directorate, if any.

31. The informal team will of course have to draw upon the experience of the staff lower down, viz., the state government's block staff, particularly technical staff, and other staff of the primary land development banks. Such an informal team should be able to make meaningful the task of formulation of agricultural development schemes which today is done mostly in the headquarters of the states and then broken down into district and sometimes block plans arbitrarily. Such teams can be formed at the block level also wherever feasible in the case of areas having potential for agricultural development and can be headed by the manager of the primary land development bank. In this effort, of course, as many cultivators as possible should be contacted while formulating the schemes so that they can be finalized taking into account the requirements of the local situation. Special efforts should be made to contact as many small farmers as possible so that their specific problems are taken into account, such as the need for longer repayment, while formulating the schemes. Identification of areas suitable for agricultural development, specifying the types of schemes which can be financed by land development banks, contacting cultivators, including in particular small farmers, will all form part of the detailed work of scheme formulation. The leadership and drive will have to come from these teams and the team leader who will be the Development Officer/Assistant Development Officer of the zonal or district or regional office of the central land development bank. To illustrate, for minor irrigation schemes the informal team will meet in the regional office of the central land development bank or elsewhere and discuss the rough outlines of a scheme prepared by the Development Officer/Assistant Development Officer of the central land development bank. The team will then find out the type of data to be supplied by the Deputy Director of Agriculture or regional office of the State Groundwater Directorate regarding groundwater availability, cropping pattern etc., and by the Engineer of the State Electricity Board regarding availability of electric connexions in the scheme area and so forth. Then a draft scheme can be prepared by the Development Officer/Assistant Development Officer to be further discussed and

finalized at further meetings of the group. What we envisage is informal team work at the district and block level, the role of co-ordination and preparation of schemes being played by the Development Officer/ Assistant Development Officer of the central land development bank. This is as it should be because the schemes are the banks' schemes and not of the governments.

32. Such type of arrangements, we realize, cannot be played by all central land development banks. But it should be possible for at least some of the banks to make a beginning in this direction. We believe that the central land development banks in states such as Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh and Uttar Pradesh will be able to attempt this and make a success of it provided the necessary initiative is taken by the central land development banks and full support is given by the state governments. For this, the government technical officers should shed their compartmental and individual approach and work as members of a team. The success of this scheme also depends upon the drive, competence and status of the Development Officer/Assistant Development Officer of the central land development banks who should have qualities of leadership, drive and ability for co-ordination. This arrangement will also relieve the government technical officers of scheme preparation work which they do now in isolation and without due regard to the banking aspects and will enable them to concentrate on their main work which, in the case of the Deputy Director for Agriculture, for example, is extension work, ensuring supply of fertilizers and seeds etc.

CO-ORDINATION

33. Co-ordination between the land development banks and state co-operative banks and commercial banks and government departments such as Revenue Department, Agriculture Department, Groundwater Survey Department/Board, State Electricity Board and Agro-Industries Corporation is required at the state, district and block levels for the proper formulation of schemes and their successful implementation.

34. It is seen that arrangements for co-ordination have been made in almost all states at the state level and in some cases at the district level as well. The Agricultural Production Commissioner or Development Commissioner of the state is usually the chairman of the committee at the state level which includes senior officers of the various departments and agencies, viz., Agriculture Department, Co-operation Department, Horticulture Department, Irrigation Department, Groundwater

Survey Department/Directorate, State Electricity Board etc. In some states at least the state level committees are quite active and are performing a useful role. Co-ordination at the lower levels seems to be inadequate in most states. There are some states where district committees under the chairmanship of the Collector are constituted to review and deal with problems in implementation of the schemes sanctioned by the Agricultural Refinance Corporation. However, in several cases, the meetings of the committees are not regularly held. Our observations in this regard are as follows:

(1) We attach more importance to the bank officials and technical officers at the district or regional and block levels working together in informal teams as we feel that the sort of arrangements we have envisaged, namely such small teams of officers—both general and technical of land development banks and the state governments functioning at the district/regional/block levels—will be far better in effecting co-ordination and in making the work of the formal co-ordination committees effective.

(2) The co-ordination committees at the state and district levels should include a senior officer of the central land development bank.

(3) The Agricultural Production Commissioner/Development Commissioner who is usually the chairman of the state level co-ordination committee should be in charge of all the connected departments of the state government especially Agriculture, Co-operation, Irrigation, Animal Husbandry, Fisheries, Poultry and Horticulture, if he is to be an effective co-ordinator. This is not the case in some states.

Other Matters

35. There are certain other matters which are very important from the point of view of the growth of land development banking, although not directly occurring in our terms of reference. These relate to the role of the Reserve Bank of India, the Agricultural Refinance Corporation and the National Co-operative Land Development Banks Federation.

Role of the Reserve Bank of India

36. In so far as the long-term co-operative credit structure is concerned, the activities of the Reserve Bank of India can be broadly divided into those pertaining to (i) financing functions and (ii) promotional, advisory and co-ordinating functions. As for the financing functions in relation to long-term credit, its main role is confined to providing loans from its Long-term Operations Fund to the state governments for

making share capital contribution in the central land development and primary banks and subscribing to the ordinary and rural debentures floated by the banks. Under the promotional, advisory and co-ordinating functions come various activities such as periodical inspection of banks, visits to banks by its officers, discussions with the state representatives, liaison with the National Co-operative Land Development Banks Federation, arranging institutional support to the ordinary debentures floated by banks, arranging seminars of chief executive officers of central land development banks etc. Another area in which the Bank is assisting the land development banks is the training facilities provided for their officials at the College of Agricultural Banking at Poona.

37. The role of the Reserve Bank will be even more important in the light of our various suggestions and recommendations and in this connexion we have to recommend as under:

(a) The Bank may make available to the National Co-operative Land Development Banks Federation, a panel of names of officers suitable for being appointed as chief executive officers in the central land development banks. (Please see in this connexion paragraph 16 of this Chapter where we have suggested that the Federation may keep a panel of such names).

(b) The Bank may introduce a detailed scheme for regular inspection of at least the bigger primary land development banks, say once in two years instead of the present system of visits to a few banks at the time of the inspection of central land development banks. 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 Reserve Bank may expand the facilities for training in land development banking at the College of Agricultural Banking, Poona, as recommended by us in paragraph 23 of this Chapter.

(d) The Bank may conduct regular inspections of central land development banks at least once in 18 months instead of much longer intervals as at present. For this purpose, we recommend that the inspection staff of the Bank's Agricultural Credit Department should be suitably strengthened.

Role of the Agricultural Refinance Corporation

38. The Agricultural Refinance Corporation has played a valuable and pioneering role in the introduction of scientific methods for appraisal of loans by central land development banks, formulation of viable schemes and in increasing the long-term resources for investment in

agriculture. Through its consultancy services and regional offices it is providing valuable help to various state governments and financing institutions in preparing schemes of agricultural development for availing themselves of refinance facilities from the Corporation. It has also helped the banks implementing the IDA agricultural credit projects in getting their field staff trained in project planning and appraisal methods. There is, however, need for the Agricultural Refinance Corporation to take more active interest in the actual working of the land development banks and in improving their methods of working. For this purpose, the Agricultural Refinance Corporation may help each central land development bank in preparing a staff development plan, including technical staff, and the most appropriate set-up of staff. The Agricultural Refinance Corporation can also help the banks actively in identifying new areas of investment to enable them to maintain the momentum in their loaning operations.

The Agricultural Refinance Corporation's relationship with the land development banks can be further strengthened by its providing orientation training facilities to the management trainees or senior executives of the banks and by introducing a scheme for exchange of officers which will be to the benefit of both the institutions, viz., the Agricultural Refinance Corporation and the land development banks.

Role of the National Co-operative Land Development Banks Federation

39. The Federation is doing commendable work in matters such as ensuring co-ordination between the banks and the Government of India, the Reserve Bank, the Agricultural Refinance Corporation, the Life Insurance Corporation of India and the State Bank and other commercial banks in regard to support to the debentures floated by the member banks and arranging for discussions on various problems met with by the banks. It is also undertaking studies of the problems faced by the banks in co-operatively less advanced states and making suitable suggestions for the reorganization of the long-term credit structure in these states.

40. We envisage a still larger role for the Federation in the further development of land development banking. In this connexion, we recommend that the Federation should have a Division of Studies and Research headed by a very senior officer who will be helped by other officers and supporting staff. This Division should undertake detailed studies of the various aspects of the working of land development banks especially the banks in the co-operatively 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. Further, the Federation will have to devote greater attention to the banks in co-operatively weak states where a programme for their reorganization is to be taken up in pursuance of the recommendations of our Committee.

41. We are also of the view that the Federation should play an active role in the collection and publication of the statistical data in respect of land development banks by means of Reviews, Bulletins and Brochures on a regular and planned basis.

CHAPTER 13

LEGISLATION

In the initial stages of development, when the first few land mortgage banks were organized at selected places in the erstwhile Madras Presidency (1925-7), they were registered like any other agricultural credit society without any special privileges or rights. Following the recommendations of the Townsend Committee on Co-operation in Madras (1927), separate legislation in favour of land mortgage banks 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 Co-operative Societies Act, in regard to the working of these banks.

2. The progress in the organization of land development banks in other states was, however, slow inasmuch as by 1954, such banks were actively functioning only in 7 states, viz., Madras, Andhra, Bombay, Saurashtra, Orissa, Mysore and Madhya Pradesh. Out of these 7 states, 3 states, viz., Madras, Andhra and Madhya Pradesh had separate Land Mortgage Banks Acts, while in the other 2 states, viz., Mysore and West Bengal, the Co-operative Societies Act contained separate chapters in regard to the working of these banks.

3. The All-India Rural Credit Survey Committee (1954) favoured separate legislation for land development banks on the lines of the Madras Act of 1934. However, the Committee on Co-operative 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 Co-operative Societies Act. At present, there is separate legislation relating to land development banks in 8 states, viz., Assam, Haryana, Himachal Pradesh, Kerala, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh. In the remaining states the Co-operative Societies Act contains necessary provisions regarding these banks.

Need for Special Privileges and Concessions

4. Although the working of land development banks was, in the initial stages of their organization, regulated by the Co-operative Societies Act,

the need for special provisions in the legal framework was felt in view of the special nature of the working of these banks. For instance, loans were to be given initially by the primary banks against the mortgage of land which called for certain facilities or concessions in matters such as registration and transfer of mortgages in favour of the central land development bank etc. Again, central land development banks were to raise resources by floatation of debentures and they needed government guarantee for these debentures for mobilizing substantial amounts for them. This required statutory provisions for land development banks floating debentures to be guaranteed by the state government and also for appointment of a Trustee for the debentures. The banks were to give loans for redemption of old debts which required that they should be empowered to pay the prior debts of the mortgagors to their creditors direct so as to ensure that the debt for the payment of which the loan was granted, was duly paid and the mortgagor was relieved of his old debts. Further, it was necessary to empower banks to distrain and sell the produce of the mortgaged land or the mortgaged property itself, in the event of default on the part of the borrowers.

EXISTING PROVISIONS

The Madras Co-operative Land Mortgage Banks Act, 1934

5. As stated earlier, the Madras Co-operative Land Mortgage Banks Act was the first piece of legislation enacted specifically to regulate the working of land development banks. The distinctive features of this Act are :

- (a) It empowers the central land development banks to issue debentures on the security of the mortgages and other assets transferred to it by the primary banks.
- (b) It provides for the appointment of a Trustee to safeguard the interests of the debenture holders and of the state government. The repayment of principal and the payment of interest on the debentures issued by the central land development bank are to be guaranteed by the state government.
- (c) Under the Act, a mortgage in favour of a primary bank automatically stands vested in the central land development bank.
- (d) The Registrar, on an application from the land development bank, is empowered under the Act to distrain and sell the produce of the mortgaged land including the standing crops thereon to recover arrears in the instalments due to a land development bank.
- (e) The Act enables the land development bank to foreclose the mortgage and sell the mortgaged property without the inter-

vention of the civil court. The bank is also empowered to purchase the mortgaged property.

- (f) Under the Act, it is not necessary for any director, secretary or other officer of a bank to appear in person or by agent at any registration office to execute documents in his official capacity.
- (g) The taking of a loan for the purpose of carrying out agricultural improvements or for purchasing lands is made a legitimate purpose binding on a minor and on a co-parcener.
- (h) The burden of proof as to whether or not a mortgage executed by the manager of a joint Hindu family is binding on the members thereof lies under the Act on the party raising that question.

6. The Madras Act has served as the basis for similar legislation on the subject in other states. In fact, this Act already covered many of the important privileges and concessions recommended by the All-India Rural Credit Survey Committee (1954). In later years, however, in the light of the experience gained, it became necessary to add certain new provisions in regard to the working of land development banks. The more important of these are referred to in the ensuing paragraphs.

Public Inquiry

7. The verification of title to land by referring to the land records or by obtaining of an encumbrance certificate for the past several years in respect of the lands proposed to be mortgaged involved considerable time in the processing of loan proposals. In this context the All-India Rural Credit Survey Committee (1954) had recommended that the state governments should take suitable steps, including amendment of the relevant law to the extent necessary, to ensure that a mortgage to land development banks had the effect of the title being unambiguously vested in it. Maharashtra was the first state to incorporate in 1960 certain new provisions in its Co-operative Societies Act which had the effect of reducing substantially the delay involved in examining the title for verifying prior encumbrances and registering the mortgages. Some of the important provisions in the Maharashtra Act which help to expedite the processing of loan applications are :

- (a) *Section 118*—It prescribes the procedure for dealing with the loan applications in regard to verification of the title to the land offered as security for the loan. This is popularly known as the public inquiry system under which a public notice of each application to the bank is given and all persons having or claiming interest in the land offered as security are called

upon to present their objections at a specified time and place. In 1969, a sub-section was added to give protection to the bank in case any person having an interest in the land fails to file his objection in time and if the loan applied for has been sanctioned by precluding him from having any claim till the full repayment of the loan amount and interest by the borrower.

- (b) *Section 122*—It exempts the land development banks from the registration of mortgages or leases executed in favour of the bank, under the Indian Registration Act, 1908. It is enough if a copy of the mortgage deed is sent to the revenue sub-registrar within a prescribed time.

Priority of Mortgage and Loans to Tenants

8. The Madras Act of 1934 referred to above provided for a priority of the mortgage in favour of a land development bank over any claim of the government arising from a loan granted under the Land Improvement Loans Act, 1883 or the Agriculturists Loans Act, 1884, subsequent to the loan by the bank. The Maharashtra Co-operative Societies Act, however, gave such a priority even for the loan granted under 'any other law' also. Additionally, sub-section (2) of section 120 of the Maharashtra Act recognizes mortgages in favour of the banks created against the security of tenants' interests in land and protects them in the event of transfer of land by sale etc. This in effect provides that the loan is attached to the land and even a bona fide purchaser will be acquiring such lands subject to the prior charge of the land development bank. Another provision in the said Act, viz., section 125 makes the mortgages executed by the managers of joint Hindu families binding on every member thereof, notwithstanding any law to the contrary. The above provisions in the Maharashtra Act enable the banks to grant loans for agricultural development to tenant cultivators as also to provide loans against the security of lands wherever co-parceners have interests.

Recovery of Loans as Arrears of Land Revenue

9. The Madras Act of 1934 empowered land development banks to distrain and sell the produce of the mortgaged land as well as to sell the mortgaged property itself in the event of default by the borrowers. The Maharashtra Act, however, contained a provision for land development banks to obtain from the Registrar of Co-operative Societies a certificate for the recovery of the overdue amount as arrears of land revenue (*vide* section 137 of the Act *ibid*). Further, section 138 of the

Act *ibid* empowered the Collector or any officer specifically authorised by him in this behalf to recover the dues of these banks as arrears of land revenue. Such a provision was available earlier in the Co-operative Societies Act only for the recovery of the short-term loans.

Guarantee Funds to meet Losses

10. The Rural Credit Survey Committee (1954) had recommended constitution of guarantee funds for taking care of losses which might arise due to defect in the title to lands mortgaged to the banks. Provision has, therefore, been made in the Maharashtra Act for constitution of one or more guarantee funds for the purpose of meeting losses as a result of loans being made by land development banks on the title to immovable property subsequently found to be defective or for any other purposes as may be considered necessary by the state government.

PROPOSED CHANGES

Board Lines of the Proposed Changes in the Legal Framework

11. In several states, some of the important provisions in the Maharashtra Act referred to above have already been incorporated either fully or with certain modifications. There are, however, states like Assam, Himachal Pradesh, Jammu & Kashmir and Tripura where they are yet to be adopted. It is felt that these provisions are necessary on the one hand to cut down delays in sanctioning loan applications and, on the other, to enable the land development banks to adopt progressive loaning policies such as giving loans to tenants etc. They also give adequate powers to the banks for effecting recovery of overdue loans as arrears of land revenue. We, therefore, recommend that each state may review the present legal framework regarding the working of land development banks and enact suitable provisions on the lines of those in the Maharashtra Co-operative Societies Act. Such a step, in our opinion, will go a long way to helping the banks in increasing their loaning operations. There are, however, a few changes which may be necessary in the existing legal framework in order to give effect to our recommendations on various subjects referred to in the earlier Chapters. These are referred to below:

Right of Alienation on Land

12. In some of the states like Assam, Bihar, Orissa, Tripura and West Bengal the land development banks are not in a position to give loans to certain categories of cultivators such as tribals, as either they have no right of alienation on their lands or there are restrictions on the

free sale of lands belonging to them. For instance, in Rajasthan there are restrictions on the right of mortgage by certain categories of cultivators, such as the *Khatedar* or a tenant allottee even in favour of the land development banks. Similarly, in West Bengal the banks are not in a position to provide loans to crop-sharers who form as much as 40 per cent of the cultivating households, since there is no provision in the Act to recognize the mortgage by them. Obviously, these are statutory constraints on the working of these banks in providing investment credit for agriculture to needy farmers. We, therefore, suggest that each state may review the position in this behalf and make suitable provisions in the legal framework so that such constraints are removed.

Protection from the Effects of Land Reforms

13. In many states land reforms legislation has been enacted, one of the objects being to fix a ceiling on individual landholding. This has created in some instances a sense of uncertainty in the minds of the borrowers of the land development banks. In a few states such as Jammu & Kashmir, Himachal Pradesh, Orissa and West Bengal the land reforms legislation (as enacted) does not provide for transfer of liability on account of the loan from the land development bank 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 the borrowers. The state governments may review the land reforms legislation and make suitable provisions so that the interests of the land development banks are not affected by transfer on land due to land ceilings.

Diversification of Loaning Operations

14. The present legal framework in regard to land development banks in some states specifies the purposes for which loans can be provided by these banks. However, in the context of the need for diversification of the loaning operations, it is necessary to make suitable provisions to enable banks to give loans for purposes such as dairy and poultry farming, sheep breeding etc. Steps may, therefore, be initiated to amend the legal framework in order to include in the list of these items various activities allied to agriculture and animal husbandry.

Loans without Mortgage of Land

15. We have recommended in an earlier Chapter (Chapter 10) that suitable changes have to be made in the legal framework in order to enable land development banks to grant loans without obtaining the mortgage of lands. We have further recommended that in future these

banks may be allowed to float debentures solely on the guarantee of the state government. Proposals have also been made in regard to the issue of loans on the basis of a charge on land and for hypothecation of the agricultural machinery and equipment acquired out of the loan amount in order to protect the interests of the land development banks. The charge in favour of these banks will have priority over that of the short-term credit structure even in those states where a charge in favour of a primary society is created by giving a declaration.

16. In order to give effect to these suggestions, we have indicated in Annexure 16 certain model amendments based on the legal framework obtaining in Maharashtra. These are, however, in the nature of broad proposals and will have to be finalized by the state governments in each state in consultation with their legal department.

Distrain and Sale of Produce

17. In Chapter 11 we have suggested that the present restriction in regard to the period, i.e., one year from the date of the overdue instalment, within which the banks can exercise their power to distrain and sale of produce on the mortgaged land may be removed so that such action could be taken even later. In fact, such a step has already been taken in West Bengal where the West Bengal Co-operative Societies Act, 1973 provides that distraint could be made within three years from the date of the overdue instalment (section 99). We recommend that other states may also make suitable amendments in this behalf in the legal framework.

18. In regard to the coercive measures to be taken by the banks against the defaulting members, we have made the following suggestions (Chapter 11):

- (i) The state governments may make provisions in the legal framework for (a) recovery of overdues from the borrowers as arrears of land revenue by issue of a certificate by the Registrar of Co-operative Societies and (b) empowering the Board of the central land development bank 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, on the lines of the provisions in the Andhra Pradesh Co-operative Societies Act, 1964 (sections 101 and 102 for (a); section 106 for (b)). Further, provision may be made for delegation of the powers of the officials of the Revenue and Co-operative Department to the officials of land

development banks, for effecting distraint and sale of the crop of the mortgaged property.

- (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 land development banks as arrears of land revenue, if necessary (on the lines of section 17 in the Andhra Pradesh Co-operative Societies Act, 1964 which relates to the recovery of overdues in the short-term credit structure).
- (iii) Provision may be made in the legal framework for disqualification of the board of the directors of a primary land development bank, if overdues in the bank are over 60 per cent and they persist for a period of two years. For this purpose, the Co-operative Societies Act/Land Development Banks Act or by-laws may be amended making it obligatory for every director/member of the managing committee of a primary land development bank to file at the beginning of each year, a statement that he had repaid fully the loan amount/instalment together with interest as per the demand levied by the bank against him on the due date. Similarly the defaulting members of primary banks or the central land development bank should be disqualified from exercising their votes at the general body meeting or from standing for the membership of the board/managing committee.

We feel that these provisions are very important particularly in view of the rising trend in overdues in the long-term credit structure. We, therefore, recommend that the state governments may take urgent action to enact legislation on the lines broadly indicated above.

CHAPTER 14

CONCLUSIONS

CONSIDERING the fact that co-operative land development banking, as an all-India movement, is of relatively recent growth, dating back to 1954, the achievements in this sphere can be said to be truly praiseworthy despite numerous weaknesses and deficiencies. Thus, we have today all over India, an organized structure for land development banking. Secondly, the change from land mortgage banking to land development banking is of very recent origin and the progress made by many of the banks, including some of those set up comparatively recently such as the central land development banks in Uttar Pradesh and Madhya Pradesh can be said to be commendable.

2. However, various problems still remain to be tackled. First, even in the states where land development banks are relatively strong, necessary efforts have to be made to diversify the activities of the banks and to reach a large number of tenants and small farmers and cater for their diversified long-term credit requirements. Second, in the co-operatively less advanced states, the land development banking structure is very weak. Third, although a great deal of progress has been made in regard to improvement of appraisal techniques and systems of lending even in the co-operatively well-developed states, the land development banks have yet to be actively involved in the preparation of agricultural development schemes. Fourth, a common weakness in almost all the land development banks is the prevalence of overdues which is mounting up not due primarily to causes such as drought or flood but due to operational weaknesses, apathetic attitude of the managements, lack of sufficient care and interest taken by the boards of directors and the attitude of the state governments in not creating a climate favourable to recovery of loans. Fifth, although the staffing pattern in most of the banks has improved substantially in recent years compared with the position two decades ago, there is need for introduction of proper management techniques and procedures in all the land development banks.

3. We hope that the recommendations and suggestions we have made in this Report will go a long way towards rectifying these inadequacies and in enabling the co-operative land development banking structure to move ahead and to perform the task expected of it which is no less

than the all-round development of agriculture and increase in agricultural production so vitally required for our country's growth. We hope that the non-official leadership within the co-operative land development banking movement today will be able to face the challenges of the situation and come forward with the appropriate effort so that the structure can grow from strength to strength within the co-operative fold.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

CHAPTER 3: STRUCTURE FOR LAND DEVELOPMENT BANKING

1. Both the federal and the unitary structures of land development banking have their own advantages and disadvantages. No change in the existing structure is called for in 9 states, viz., Andhra Pradesh, Haryana, Karnataka, Kerala, Punjab and Tamil Nadu which are following the federal system and Gujarat, Maharashtra and Uttar Pradesh which are following the unitary pattern. As regards other states, please see recommendations Nos. 7, 11 and 13. (Nos. 27 and 28)¹

2. The suggestions for strengthening the existing structures which are applicable to both the federal and unitary structures are: (a) setting up of regional/divisional offices of the central land development bank with technical and other staff to provide necessary support to its branches/primary banks in the matter of scheme formulation and implementation, and ensuring effective control on the staff at the field level; (b) introduction of suitable training programmes for the staff in primary banks/branches and (c) satisfactory arrangements for securing co-ordination between primary banks/branches on the one hand and other institutions and departments of the state government on the other. (No. 28)

3. In the case of the federal structure, it is important to ensure that (a) the central land development bank has control over the secretaries and other key 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 by colluding with the local non-officials and (c) there are avenues for promotion for the staff. (No. 28)

4. The specific suggestions made in regard to the unitary structure are: (a) constitution of branch committees having representatives from various tehsils/blocks and of different categories of cultivators, especially small and marginal farmers, including those belonging to the scheduled castes and tribes, in order to enlist the support of local non-officials in scheme formulation and implementation, mobilizing resources and recovery of loans; (b) provision of competent and trained staff in the

¹ The numbers in brackets at the end of the conclusions and recommendations refer to the paragraph numbers given in the Report.

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. (No. 28)

5. Apart from introducing the scheme of common cadres, the central land development banks in a federal structure should enlist the support of the non-official directors of primary banks in the formulation and implementation of schemes and also in recovery work. Such involvement has been generally lacking so far, the schemes being treated largely as departmental schemes although they are supposed to have emanated from the banks themselves. (No. 28)

CHAPTER 4 : ARRANGEMENTS FOR PROVISION OF LONG-TERM AGRICULTURAL CREDIT IN SMALLER STATES

6. Taking into account the agro-economic conditions in various smaller states and union territories, viz., Andaman & Nicobar Islands; Arunachal Pradesh; Delhi; Goa, Daman & Diu; Manipur; Meghalaya; Mizoram; Nagaland and Pondicherry, it will be wasteful to have a separate co-operative land development banking structure for giving long-term loans to cultivators for agriculture in these states/union territories. (No. 28)

7. In the case of Pondicherry where a central co-operative land development bank is already functioning, it is observed that the loaning business of the bank has been showing a declining trend and, during 1972-3, it had come down to Rs 11 lakhs. The overdues of the bank are on the increase and as on 30 June 1973 they formed 46 per cent of the demand for 1972-3. The bank's membership was less than 3000 (individuals) as on 30 June 1973. In view of all these factors, there is no need for a separate land development banking structure in Pondicherry and necessary steps may be taken by the state government to merge the central land development bank with the state co-operative bank in order to have a unified co-operative credit structure which will be in a position to function more effectively. (No. 28)

8. The state co-operative banks in Delhi; Goa, Daman & Diu and Nagaland where they are already providing long-term loans should be encouraged to undertake financing of the long-term credit needs of cultivators based on viable schemes of agricultural development. The concerned state governments should provide them with the necessary support—financial and administrative—in this direction. The Delhi State Co-operative Bank is having certain serious weaknesses such as

vulnerable financial position and heavy overdues. The government should take suitable steps to improve the financial position and working of the bank and follow the detailed advice given by the Reserve Bank of India in the matter. (No. 28)

9. In Andaman & Nicobar Islands, Meghalaya and Manipur, the state co-operative banks which do not at present provide any long-term agricultural loans may be encouraged by the governments concerned to undertake financing of the long-term credit needs of cultivators, based on specific schemes for productive lending. As the provision of long-term loans by these banks gathers momentum, they should have separate land development banking section. Since the working of the Manipur State Co-operative Bank in particular is not satisfactory due to heavy overdues and erosion in the value of assets, the state government has to take necessary steps to strengthen its financial position and improve its operational efficiency on the lines indicated by the Reserve Bank of India. (Nos. 28 and 30)

10. In Arunachal Pradesh and Mizoram the governments may consider the desirability of establishing state co-operative banks. In due course, when agricultural development gains momentum, suitable steps may be taken to enable these banks to undertake provision of long-term loans for agriculture. (No. 28)

11. In the case of the smaller states and union territories, viz., Delhi; Goa, Daman & Diu; Nagaland; Andaman & Nicobar Islands; Meghalaya; Manipur; Arunachal Pradesh and Mizoram where either the existing state co-operative banks are to be entrusted with the provision of long-term credit for agriculture or new state co-operative banks, when set up, should undertake the provision of long-term credit also, it will have to be ensured that there is necessary legal framework as well as other prerequisites as indicated below for facilitating the working of these arrangements on satisfactory lines. (No. 29)

(1) *Legal Framework*

(a) *Co-operative Societies Act*

The Co-operative Societies Act should provide for: (i) issue of long-term loans by the state co-operative bank for agricultural development; (ii) the period of such loans; (iii) issue of debentures by the bank on government guarantee for repayment of the principal and payment of interest thereon; (iv) appointment of the Registrar of Co-operative Societies as the Trustee for debentures to be issued

and his powers; (v) simplified procedure for public enquiry for verification of the title to the land; (vi) assistance to be given by the revenue authorities for issue of non-encumbrance certificates etc.; (vii) specific powers to the bank for proceeding against defaulting cultivators for recovery of loans; (viii) right of the bank for acquiring ownership of land in satisfaction of its dues; (ix) sale of land by the bank; (x) procedure for mortgage of land for the bank's loans and non-applicability of certain provisions of the Transfer of Property Act, 1882 such as the disposal of property by the bank without intervention of the courts and acquisition of the land by the bank in satisfaction of its dues; (xi) precedence of recovery of the bank's dues over all other loans (except the dues to the government) and (xii) power of the bank for recovery of its dues from the crop in the case of tenant cultivators and of cropsharers before all other claims. (No. 32)

(b) *By-laws*

The by-laws of the state co-operative bank should have specific provisions for: (i) giving long-term loans for periods up to 25 years for investment in agriculture or allied activities; (ii) security to be obtained for these loans; (iii) raising of resources by floating debentures or by way of loans; (iv) creation of sinking fund for amortization of debentures; (v) powers to the Board or Committees for sanction of long-term loans and (vi) having a trust deed stipulating conditions for issue of debentures. (No. 31)

(2) *Exemption from the Requirements of the Banking Regulation Act and the Reserve Bank of India Act*

In the case of a scheduled state co-operative bank, section 24 of the Banking Regulation Act, 1949 (As Applicable to Co-operative Societies) and section 42(1) of the Reserve Bank of India Act, 1934 provide for maintenance of liquid assets and cash reserves according to specified norms in respect of its outside liabilities. Similarly, in the case of a non-scheduled state co-operative bank, sections 24 and 18 of the Banking Regulation Act *ibid* are applicable in this regard requiring maintenance of liquid assets and cash reserves in respect of all outside liabilities which will include debenture liability also. In the case of the Delhi State Co-operative Bank, the Government of India, on the recommendation of the Reserve Bank, have exempted the bank in terms of Notification No. F8/3/74-AC dated 27 April 1974 from the requirement regarding maintenance of liquid cover and cash reserve on account of debenture liability for a period of 5 years from the date

of publication of the notification in the official gazette, as the bank is already maintaining a sinking fund for the amortization of debentures. The banks in other states which take up long-term finance should, therefore, seek exemption from the statutory requirements referred to above in respect of debenture liability if they maintain sinking fund for the redemption of debentures. They have to approach the Registrars of Co-operative Societies in this matter so that the Registrars in turn can move the Reserve Bank for initiating suitable action to get such exemption from the Government of India. (No. 33)

(3) *Interim Accommodation*

There should be arrangements either with the state government or with the State Bank of India or other banks to provide interim accommodation to the state co-operative bank for enabling it to issue loans for collecting mortgages against which it can float debentures. (No. 34)

(4) *Policy and Procedure for Sanction of Loans*

The Board of the state co-operative bank should frame for the use of the land development banking section, detailed policies and procedures for sanction of loans taking into account the instructions on the subject issued by the Reserve Bank of India, the Agricultural Refinance Corporation and the Co-operative Department. Care will have to be exercised while preparing the various forms and accounting procedures to ensure that these provide for proper methods for appraisal of loan proposals. At the same time, the procedures should be simple enough to ensure that the entire process from receipt to sanction of loan applications is quick. (No. 35)

(5) *Close Link between Bank and State Government*

There should be close link between the state co-operative bank and the various government departments dealing with agriculture and horticulture, animal husbandry, fisheries, co-operation and finance and bodies such as the state electricity board and the state groundwater directorate/board. In order to ensure co-ordination, a senior officer of the government should act as the convener of the state level committee to be constituted for ensuring flow of institutional finance for agricultural development in the state/union territory. (No. 36)

(6) *Personnel*

The land development banking section of the state co-operative bank should have adequate organizational arrangements for various

items of work such as preparation of schemes, canvassing of loan applications, economic and technical appraisal of loan proposals, supervision over utilization of loans, recovery of loans and maintenance of accounts. One of the senior officers of the bank having general training in land development banking and especially in project formulation and appraisal methods should be in charge of the land development banking section. He will work under the overall control of the managing director or general manager/secretary of the bank. (No. 37)

(7) State Aid

Apart from the assistance to be provided by the state government on the lines referred to earlier, its aid will also be necessary in respect of the following:

- (a) Long-term loan of Rs 5.00 lakhs to Rs 10.00 lakhs to the state co-operative bank to enable it to commence long-term lending.
- (b) Continuing guarantee for the debentures to be floated by the bank for raising resources.
- (c) Guarantee for interim accommodation required by the bank and other guarantees, if any, required to facilitate grant of loans to small farmers.
- (d) Subsidy towards cost of the additional staff maintained by the bank for undertaking provision of long-term finance to cultivators till it develops adequate business to earn enough for maintenance of the additional staff.
- (e) Assistance from the revenue authorities to the bank's staff in obtaining non-encumbrance certificates, verification of the title to lands and for registration of mortgage of lands and also in effecting recoveries by coercive means. (No. 38)

CHAPTER 5: LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

12. There is large scope for agricultural development in Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal for which long-term institutional finance is required. But the working of the land development banks in all these 9 states except Bihar and Madhya Pradesh, relatively speaking, is very poor both in regard to their financial position and

operational efficiency. Thus, there is a yawning gap between the performance of land development banks in these states and what is expected of them. Creation of a new type of credit structure will not result in any appreciable improvement over the present position. Commercial banks too are not in a position to get over the various constraints which are affecting the operations of land development banks in these states. Moreover, the approach of commercial banks in providing long-term credit may tend to be selective as they cannot reach thousands of small and marginal farmers without a widespread network of branches in the rural areas. Thus, commercial banks will not be able to replace the land development banks for a long time to come. The land development banking structure in these 9 states will have, therefore, to be made strong to enable it to undertake the onerous responsibilities cast upon it under the Fifth Plan. (Nos. 26—28)

13. Out of the 9 co-operatively less developed states, viz., Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal, 4 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir and Tripura are relatively small. Further, the working of the land development banks in these states is far from satisfactory inasmuch as their financial position has been crippled considerably by heavy overdues. In the case of West Bengal also, the position of the land development banks is, by and large, not satisfactory and they have ceased to give any effective support to the programmes of agricultural development in the state. The loans outstanding of the land development banks in these states is very small at a little over Rs 5 crores or below. After considering all these aspects, it is found that there are distinct advantages in an integration of the short-term and long-term co-operative credit structures being brought about in 5 states out of the 9 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal. Without such a merger, the two separate structures in these 5 states do not hold any prospect of becoming strong and effective. The state governments in these 5 states should set up committees consisting of representatives of banks, governments, the Reserve Bank of India and the Government of India to work out the details of the merger. The initiative in the matter should be taken by the Reserve Bank of India in view of its crucial role in rural credit. (No. 28)

14. Irrespective of the question of merger, i.e., whether there is an integrated structure for both short-term and long-term credit or two separate structures, the internal weaknesses of the land development banking structure in all the 9 co-operatively less developed

states will have to be removed. Otherwise, even if integration takes place it will be integration of a weak structure with possibly an equally weak short-term co-operative credit structure. This is most undesirable and will in fact wreck the successful functioning of the integrated institution. It is, therefore, of utmost importance that without waiting for any further time the state governments and the banks should address themselves to the task of removing the weaknesses of the long-term co-operative credit structure in all the 9 co-operatively less developed states. (No. 29)

15. The major deficiencies in the working of land development banks in the 9 co-operatively less developed states are a weak capital base, heavy overdues, poor management of funds and inadequate staff for appraisal of loan proposals and supervision. Schemes for removal of these weaknesses will have to provide for financial assistance by the government to the banks for strengthening the capital base and for maintenance of adequate staff—technical and others. Apart from financial aid, the state governments should help the banks to recover the overdue loans and also remove legal and other constraints in order to facilitate their working. The banks themselves have to take various steps to tone up their working. (No. 30)

16. The land development banking structure in the 9 co-operatively less developed states in respect of which the position has been examined by the Committee, has a number of weaknesses such as heavy overdues, weak capital base to absorb overdues and defective loaning policies and procedures. As a result of heavy overdues, the capacity of these banks to provide long-term loans has been severely affected. It is necessary that the overdues in the land development banks of the co-operatively less developed states should be brought down sharply within a short period of time. There is also an urgent need for improving the operational efficiency of the land development banks by equipping them with competent staff. It is against this background that the following two schemes for financial assistance to the land development banks in the weaker states have been recommended:

- (a) Scheme for share capital contribution in central and primary land development banks.
- (b) Scheme for giving subsidies to central land development banks for improving their management cadres. (No. 31)

17. Since the programme for reduction of overdues in the normal course takes time, some method has to be found to help the banks

in the less developed states. The Government of India and the state governments may formulate a scheme under the Fifth Plan for injection of share capital in the primary banks and the central land development banks so that their overdues are brought down on a notional basis to a level of 15 per cent. Taking into account the level of overdues at the primary level in these 9 states under review and the fact that in Madhya Pradesh the state government has already provided from its resources share capital in the primary banks it may be necessary to have such a scheme only in 5 states, viz., Assam, Himachal Pradesh, Orissa, Rajasthan and West Bengal. The assistance may be provided (a) wherever a satisfactory programme is prepared for the recovery of overdue loans in each bank and (b) there are prospects of the institution becoming viable within a reasonable time by stepping up its loaning operations. The details of the scheme may be worked out by the Government of India and the state governments concerned in consultation with the Reserve Bank of India and the National Co-operative Land Development Banks Federation. (Nos. 32 and 33)

18. Each central land development bank should have a planning division and a technical division for enabling it to undertake on a continuing basis, formulation of suitable schemes of agricultural development and for identifying new items of investment. Moreover, there is an urgent need for having a cadre of management trainees so that in course of time these officers could take up senior positions in the bank including those of chief executive officers as also in equipping the bank with a second line of experienced officers. The putting into effect of these reforms will involve sizeable expenditure which the central land development banks in these states will not be in a position to bear. It is, therefore, recommended that the Government of India may help the state governments to formulate a suitable scheme for giving financial assistance to the central land development banks by way of subsidies for strengthening the position regarding management and other personnel as under:

- (a) For implementing the scheme for management trainees in the central land development banks suggested by the Reserve Bank of India and the Agricultural Refinance Corporation and
- (b) For creating a planning division and a technical division in each central land development bank.

The scheme may be extended immediately to at least 4 states, namely, Assam, Orissa, Rajasthan and West Bengal. The details of this scheme may be worked out by the Government of India and the state govern-

ments concerned in consultation with the Reserve Bank of India and the National Co-operative Land Development Banks Federation. The provision of financial assistance in the manner suggested will considerably help in the process of reorganization and strengthening of the central land development banks in the weaker states. (Nos. 34 and 35)

19. There is need for financial assistance to the central land development banks in some of the co-operatively less developed states to help them in retrieving their owned funds used for meeting deficits in contribution to the sinking fund arising out of a sharp rise in overdues over a period of years. The concerned state governments should provide financial assistance by way of share capital contribution or long-term loans to the central land development banks in Assam, West Bengal and Himachal Pradesh to the extent of the contribution made by these banks from their own resources to fill up their sinking funds. This would release their blocked funds and reduce their dependence on interim accommodation as also enable them to step up loaning operations. The exact financial commitments on this account may be worked out by the state governments in consultation with the Reserve Bank of India. (No. 36)

20. The state governments in the 9 co-operatively less developed states may formulate suitable schemes for providing financial assistance to the borrowers of the land development banks in case the investment proves infructuous, on the lines of the schemes introduced in Maharashtra, Karnataka and Gujarat in the case of failed wells. The scheme may be confined to investment in minor irrigation works, especially sinking of wells and tubewells. (No. 37)

21. In some states, especially Assam, Bihar, Himachal Pradesh, Jammu & Kashmir and Orissa, the state governments give *taccavi* loans to cultivators or provide long-term loans for development of horticulture and plantation crops. The terms and conditions of the loans provided under these schemes are relatively soft as compared with those attached to loans for similar purposes given by land development banks. Normally, the state governments should not provide long-term loans for agricultural development direct to cultivators. Even where it is considered necessary in exceptional cases for the government to give loans for agricultural development under *taccavi*, the terms and conditions for such loans should not be different from those attached to loans from land development banks for similar purpose, including matters relating to procedures for appraisal of loan proposals, period, rate of interest etc. (Nos. 38 and 39)

22. The state governments' assistance in a few other fields is necessary to the land development banks in the 9 co-operatively less developed states as under:

(i) Subsidy for staff in primary banks. This subsidy may be provided for a period of 5 years instead of for 3 years as at present.

(ii) Making available the services of technical and other staff from the various departments of the state governments to help the central land development banks initially to build up planning and technical divisions.

(iii) Helping the central and primary land development banks in the formulation of suitable schemes of agricultural development and also in identifying new items of investment in agriculture by cultivators.

(iv) Actively associating the extension staff in the blocks with the working of banks, especially in matters such as canvassing and preparation of loan applications, ensuring provision of short-term loans to the borrowers of land development banks etc.

(v) Actively helping banks in effecting recoveries.

(vi) Providing government guarantee on a continuing basis for enabling central land development banks to float debentures.

(vii) Providing guarantee to the State Bank of India group, commercial banks and state co-operative banks for providing interim accommodation to central land development banks.

(viii) Providing guarantee for deficit in security to facilitate financial assistance being provided by land development banks to small and marginal farmers or members of scheduled castes and tribes or cropsharers or tenant cultivators. (No. 41)

23. The Reserve Bank of India may provide assistance to the land development banks in the co-operatively less developed states as under:

(i) Relaxation in the condition regarding loans to state governments for share capital contribution in primary land development banks. The Reserve Bank may adopt a very liberal attitude for the purpose and sanction loans to the state governments for share capital participation in respect of primary land development banks if their overdues are even up to 50 per cent of the demand under certain conditions, i.e., (a) where a scheme for reorganization or rehabilitation is prepared to the satisfaction of the Reserve Bank of India and (b) the primary banks have reasonable prospects of becoming viable units in the opinion of the Reserve Bank of India. (No. 43)

(ii) The central land development banks in the eastern region states, namely, Assam, Bihar, Orissa, Tripura, West Bengal and also the central land development banks in Rajasthan, Himachal Pradesh

and Jammu & Kashmir may be exempted by the Reserve Bank of India from the requirement regarding floatation of rural debentures/ collection of fixed deposits even at the reduced rate of $2\frac{1}{2}$ per cent of the ordinary debenture programmes of the banks. (No. 45)

(iii) There is no justification for relaxing the discipline introduced by the Reserve Bank in regard to the regulation of advances to primary banks /branches having heavy overdues. The land development banks would do well to undertake vigorous campaigns for recovery of overdue loans or to re-schedule the repayment of loans where the default is due to natural calamities as part of a scheme as advised by the Reserve Bank. (No. 44)

(iv) As regards permission to issue loans for repayment of old debts in excess of the ceiling of 10 per cent of the total loans, the Reserve Bank has already agreed that such loans can be given in certain cases, such as in backward areas and under special schemes of agricultural development, provided these loans are tied down to on-farm investment undertaken by cultivators. Similarly, the Reserve Bank has agreed that central land development banks can suggest to the Bank new items of investment in agriculture on the basis of technical and other studies undertaken by them along with the concerned technical departments of the state governments. It is for the central land development banks to take the necessary initiative in the matter. (No. 46)

24. The general suggestions made for improving the working of the land development banking structure in the 9 co-operatively less developed states, namely, Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal are as follows:

(i) The central land development banks should make a realistic estimate of their requirements of staff—technical and others—for various functions such as canvassing and appraisal of loan applications, supervision over utilization of loans and recovery of loans, and recruit the necessary staff early and give them suitable training in a phased manner. The need for qualified and trained staff is all the more urgent in the land development banks in the weaker states in view of the introduction of sophisticated procedures in respect of appraisal of loan proposals, valuation of security etc. It is also of utmost importance that there should be adequate staff for undertaking various follow-up measures such as verification of utilization of loans and vigorous extension work to ensure that borrowers obtain the expected benefits by adopting the proposed cropping pattern. The banks should evolve suitable procedures in matters such as verification of the loan utilization by the field staff,

spot checking of such verification by senior staff, disbursement of subsequent instalments after satisfactory reports regarding utilization of the earlier instalment and the timing of recovery drives with the marketing seasons. (No. 48)

(ii) The banks should rationalize their loan policies and procedures on the lines suggested by the Reserve Bank, the ultimate objective being to evolve procedures which will cut down delays in sanction of loans and ensure provision of adequate loans to cultivators for undertaking the proposed developments as also in the financing of all categories of cultivators especially small farmers. This will not only help the banks in increasing their coverage but also in expanding their loaning business. (No. 49)

(iii) The banks will have to make concerted efforts to improve the position regarding recovery of overdue loans. The causes for default in each case should be analysed and in cases where the default is due to natural calamities the repayment may be re-scheduled, if necessary, as part of a scheme as advised by the Reserve Bank. In other cases, coercive steps should be initiated without delay and they should be followed up vigorously by the banks. The position regarding recoveries should be reviewed periodically by the boards of the banks and the performance of the staff in regard to recoveries in various regions should be constantly watched. Such periodical reviews will help the banks in taking suitable corrective steps promptly such as appointment of special staff before the situation gets out of control or in punishing the staff members who are slack in recovery efforts. (No. 50)

(iv) One of the deficiencies noticed in the working of the banks relates to maintenance of idle funds which results in loss to them. It will be very necessary for the banks to introduce procedures on the lines suggested by the Reserve Bank of India in regard to flow of funds between the central land development banks and the primary banks and vice versa. (No. 51)

(v) Regarding co-ordination between the central and primary land development banks and the various departments of the state governments, especially those dealing with agriculture, horticulture, animal husbandry, fisheries and irrigation and bodies such as the state groundwater directorate and the state electricity board, the state governments should activate the state level and district level co-ordination committees in which the senior officers of the banks, government departments and bodies such as state groundwater board and state electricity board should be represented. (No. 52)

(vi) Instead of depending mainly on the officers of the state co-operative department for the post of chief executive officer and managers of the branches or of the primary banks, the banks should have their

own chief executive officers and also other officers to develop a second line of management personnel. This should be clearly accepted by the central land development banks and appropriate action initiated in this direction without delay. The banks should take necessary action to recruit management trainees and take urgent steps to have suitable cadres for various categories of other officials, such as managers/secretaries of branches or of primary land development banks and supervisors in primary banks/branches. (Nos. 53 and 54)

(vii) The banks, in consultation with the state governments, should fix their lending rates suitably in order to have adequate margins to enable them to maintain staff of the required strength and quality. (No. 55)

25. Apart from certain general measures required to be taken for reorganization of the land development banking structure in all the 9 co-operatively less developed states, specific recommendations relating to the banks in each of these states have been made as given in the ensuing paragraphs. Necessary action thereon should be taken both by the concerned state governments and the central land development banks. (No. 56)

1. ASSAM

(a) *Legislation*

(1) The state government may amend the Assam Land and Revenue Rules Amendment Act, 1947, so as to provide for unrestricted bidding in the sale of land under dstraint and sale for recovery of co-operative dues. Pending this, the state government may stand guarantee for loans issued to cultivators in tribal belts. If, however, such measures are not preferred, the state government may contribute to a risk fund to be specifically created by the land development banks in respect of loans to tribals.

(2) The (Temporary Settled Areas) Tenancy Act, 1971 may be amended suitably so as to avoid a situation where the land development banks will be deprived of their claims over the lands offered as security by an owner cultivator indebted to the banks due to subsequent transfers of such lands to occupancy tenants free from any encumbrances.

(3) The provisions of the Assam Co-operative Land Mortgage Bank Act, 1960 may, by suitable amendments, be brought in line with the Rules framed thereunder so as to enable the land development banks to

take suitable measures for recovery of the overdues. In addition, incorporation of the provisions in the Act on the lines of sections 118, 137 and 138 of the Maharashtra Co-operative Societies Act may also be considered with a view to minimizing the time involved in tracing the title and providing long-term loans for investment in agriculture and for the sale of hypotheca as arrears of land revenue, in case of default.

(4) The state government may expedite the work of land settlement. Preparation of records of rights should be completed at least within the period of the Fifth Plan.

(b) *Loan Policy and Procedures*

(5) The central land development bank may create a separate section under the charge of a senior officer to keep a continuous watch over recovery performance. He should organize well-planned recovery drives and initiate steps for taking legal action against defaulters and follow up such efforts.

(c) *Management and Personnel Aspects*

(6) Frequent changes of incumbents to the post of managing director of the central land development bank should be avoided. This post may be filled up by recruiting a suitable candidate from the open market and given orientation training.

(7) The central land development bank should have a special officer for keeping proper control over the supervisors.

(8) The central land development bank should constitute a technical cell with an agricultural economist and a hydrogeologist to start with.

(9) Provision should be made for including a representative of the state Agriculture Department on the board of the Assam Central Co-operative Land Mortgage Bank.

2. BIHAR

(a) *Legislation*

(1) The Santhal Parganas Tenancy Act, 1949 may be suitably amended on the lines of the amendments made in the Chotanagpur Tenancy Act, 1908 so that lands situated in the Santhal Parganas District could be transferred by simple mortgage in favour of land development banks and commercial banks.

(b) *Structure*

(2) Fourteen branches of the bank are found to be non-viable. These branches are: Deoghar, Dumka, Sahebganj, Ranchi, Gumla, Chaibasa, Jamshedpur, Garhwa, Hazaribagh, Daudnagar, Pupri, Kharagpur, Girdih and Dhanbad. They are not able to make appreciable progress in loaning in their area of operations which are inhabited by tribals. The bank may, in future, open new branches in tribal areas only when adequate loaning business is fairly assured.

(c) *Loan Policy and Procedure*

(3) The bank may grant long-term loans to the *adivasis* in tribal areas in order to enable them to redeem their old debts from local money-lenders, within the overall ceiling of 10 per cent permitted. Such loans should be granted only where the genuineness of past debts is certified by competent authorities of the state government and restoration of land to indebted *adivasis* is effectively assured by such authorities. These loans should be as part of an integrated scheme for agricultural development in these areas.

(4) Out of 87 branches, in as many as 59 branches, overdues were over 25 per cent of demand as on 30 June 1973. Concerted efforts should be made to realize the overdue loans.

(5) One of the causes for the rising trend in overdues is the successive crop failure over certain areas since 1966-7. The bank may consider providing the facility of re-scheduling of repayment of loans in the case of borrowing cultivators affected by natural calamities in such areas as part of a scheme in this behalf.

(d) *Management and Personnel Aspects*

(6) In terms of by-law No. 34(1) of the bank's by-laws, the managing director of the bank is required to be appointed by the state government. The state government may appoint a banking expert, preferably an officer familiar with land development banking, as the managing director of the bank for a period of at least 5 years.

(7) The technical cell in the head office needs strengthening.

(8) Each branch may have a minimum complement of staff comprising a branch manager, land valuation officer, supervisor, accounts clerk, clerk-cum-typist and peon.

(9) There should be one technical supervisor in a branch which has reached a level of loans outstanding of Rs 60 lakhs. There should be a technical supervisor for two or three smaller branches having loans outstanding of less than Rs 60 lakhs.

(e) State Aid

(10) The execution of distraint warrants obtained by the branches of the land development bank should be entrusted to the collection squad constituted by the Co-operation Department.

(11) The state government may take early steps to strengthen the Ground-Water Investigation Organization (GWIO) so as to ensure that initially there are at least two divisions—one in North Bihar and another in South Bihar—under the charge of superintending engineers.

(12) In 16 branches of the bank where the state government has been providing the services of a branch manager, a land valuation officer, a clerk and a peon, the bank should be encouraged to have its own staff. The amount of expenditure saved by the state government on such staff may be given to the bank by way of managerial subsidy.

(13) The Co-operation Department may ensure that the audit of the bank (including all the branches) is completed within 6 months of the close of the co-operative year and the audit report is sent to the Reserve Bank of India well in time.

(14) Managerial subsidy for non-viable branches functioning in tribal areas may be provided to the bank for a period of 10 years or till they attain viability whichever is earlier instead of the present period of 3 years.

3. HIMACHAL PRADESH

(a) Legislation

(1) The state government may notify the Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd. and the Kangra Primary Co-operative Land Mortgage Bank Ltd. as a 'bank' by the issue of a notification as provided under section 2(d) (ix) of the Himachal Pradesh Agricultural Credit Operations and Miscellaneous Provisions (Banks) Act, 1973, to facilitate flow of credit for agricultural production to the class or classes of agriculturists not having rights of alienation

in land or any interest therein. In the alternative, like provisions may be made in the Punjab Co-operative Land Mortgage Banks Act, 1957 as extended to Himachal Pradesh.

(2) The state government may amend the Punjab Co-operative Land Mortgage Banks Act, 1957, as extended to Himachal Pradesh, in order to provide for distraint and sale of produce even when one instalment of loan is in arrears for more than 3 months.

(3) The state government may adopt suitable amendments to the Punjab Co-operative Land Mortgage Banks Act, 1957, as extended to Himachal Pradesh, to facilitate quick verification of the title to hypotheca and to remove delays in registration of mortgage deeds.

(b) *State Aid*

(4) The state government may treat the outstanding balance (Rs 6.24 lakhs) of the loan of Rs 12.00 lakhs granted to the bank against the security of unencumbered mortgages as a clean loan so that mortgages to an equal extent could be released to the bank, against which it may float debentures. The state government may also consider whether it can postpone recovery of the loan for 3 years.

(5) The Agriculture Department as well as the Horticulture Department may forthwith discontinue issue of *taccavi* loans for development of land and raising of orchards. The budgetary allocations for the purpose should be made available to the central land mortgage bank on suitable terms and conditions to be settled in consultation with the bank. Similarly, the state government may pass on the Plan provisions for long-term *taccavi* loans to cultivators as long-term loans to the central land mortgage bank.

(6) The services of the government staff may also be placed at the disposal of the land mortgage bank for expediting the scrutiny of loan applications.

(c) *Other Aspects*

(7) A scheme for replantation of tea gardens in Kangra District may be formulated for obtaining refinance facilities from ARC.

(8) The state government may carry out surveys for identification of areas where land reclamation and levelling is feasible at economic rates and draw up special schemes for assistance from ARC.

4. JAMMU & KASHMIR

(a) *Legislation*

(1) Under the Agrarian Reforms Act in the state, the ownership of all surplus lands arising from its implementation vests in the state government and there is no provision for enabling a person who has been given such surplus land to mortgage the land in favour of the land development bank for obtaining long-term loans. The Act may be suitably amended for this purpose.

(b) *Structure*

(2) The bank may reorganize its branches in such a manner that they are either viable or potentially viable and the branches so organized may have in the beginning an entire district or 2 to 3 tehsils as their area of operations. Additional branches may be organized only after the volume of business built up in the concerned area is sufficient to warrant the establishment of the branch.

(c) *Loan Policy and Procedures*

(3) The production-oriented system of lending has not been introduced by the bank. The existing procedure of fixing due dates requires to be revised as it does not allow reasonable time to the borrowers to derive benefits from the investment.

(4) The overdues of the bank are showing a rising trend. In this connexion, it may be pointed out that the powers expressly vested in the land development bank and the Trustee under sections 81 and 82 of the Co-operative Societies Act as well as rule 38(ii) of the Rules framed thereunder were not being properly exercised. The bank and the Trustee should take suitable steps in this regard.

(d) *Management and Personnel Aspects*

(5) The senior posts in the bank are presently held by the officers of the Co-operative Department. The bank should build up its own cadre of officers.

(e) *State Aid*

(6) The state government may make additional contribution to the share capital of the bank in order to strengthen its share capital base immediately.

(7) The state government may exempt the debenture transfer deed from stamp duty.

(8) Besides contributing additional share capital, the state government may provide an interest-free long-term loan of Rs 5 lakhs with a view to serve as a cushion for overdues.

5. MADHYA PRADESH

(a) *Legislation*

(1) The state government may take urgent action for finalizing mutation cases and making the revenue records up-to-date.

(2) In order to enable *patta-holders* who have been given lands on lease by the state government to obtain loans from land development banks for land improvement and minor irrigation works etc., the period of lease which is 5 years, may be suitably extended and such cultivators may be given a specific right to mortgage the land to the banks.

(3) Section 4 of the Madhya Pradesh Land Development Bank Act, 1966 provides that debentures may be floated by the central land development bank with the previous sanction of the state government and the Trustee. The requirement regarding permission of the state government appears to be unnecessary in view of the fact that the Trustee's permission is to be obtained for each floatation. This generally results in delay in floatation of debentures. The state government may consider making suitable amendment to the Act to do away with the state government's permission in addition to the Trustee's permission.

(4) Section 10 of the Act *ibid* may be suitably amended to enable the weaker sections of the farming community such as *harijans*, scheduled and backward tribes to obtain loans from the banks to clear the debts incurred for purposes at present not specified therein, and to enable them to secure on-farm investment loans.

(b) *Structure*

(5) The programme of rehabilitation which at present covers 5 primary bank, viz., Jhabua, Mandasaur, Rajgarh, Ujjain and Vidisha on the basis of the level of their overdues may be extended to all those banks which are considered potentially viable, viz., Barwani, Blind, Bilaspur, Dhar, Guna, Gwalior, Hoshangabad, Jabalpur, Morena, Narsinghpur, Satna, Seoni, Shajapur, Shivpuri and Tikamgarh. The progress in the implementation of the programme may be reviewed on a quarterly basis by the central land development bank.

(6) The central land development bank may consider the feasibility of providing loans for bunding for the storage of water for irrigation especially in Raipur and Durg Districts where there is a keen demand for such loans. A scheme for the purpose may be prepared in consultation with the Agriculture Department of the state government.

(c) *Management and Personnel Aspects*

(7) The practice of electing honorary secretaries in the primary banks may be discontinued by suitably amending the by-laws.

(d) *State Aid*

(8) In regard to the provision of long-term credit in tribal areas, the state government may examine the possibility of channelling the credit provided under the tribal welfare schemes and other schemes through land development banks. In case a concessional rate on such loans is desired by the state government, they may provide suitable subsidies in respect of such loans representing the difference between the normal lending rate of the land development banks and the concessional lending rate.

(9) Section 8 of the Madhya Pradesh Land Development Bank Act, 1966 provides that the state government may constitute a guarantee fund for meeting losses which might arise on account of loans advanced by the bank on the security of mortgages not being fully recovered under certain circumstances. To this fund the central and primary banks are required to contribute at the rate of 2 per cent and 1 per cent of their net profits every year. The central co-operative land development bank has so far made a provision of Rs 1.28 lakhs towards this fund, out of its net profits. The fund may be constituted early at the government level.

(10) The state government may consider the question of giving assistance to the state land development bank in respect of the special staff recruited and to be recruited for the technical cell of the bank under the IDA Project.

(e) *Other Aspects*

(11) Cases for recovery under section 14 of the Madhya Pradesh Land Development Bank Act, 1966 may be prepared and issued by primary banks to the defaulters and the crops distrained well before the harvest.

(12) Progress in recovery under section 14 of the Act *ibid* should be closely reviewed by the central land development bank through its divisional offices.

(13) As the co-operative extension officers at the block level will not be able to attend to recovery work under section 14 of the Act *ibid.*, in addition to their normal duties, the state government may consider the question of empowering the valuers and the supervisors of the land development banks acting as distrainers in order to facilitate prompt action for effecting recoveries.

6. ORISSA

(a) *Legislation*

(1) The state government may take early steps for amending section 83-B of the Orissa Co-operative Societies Act suitably so as to dispense with the requirement regarding filing of an affidavit (obtained from the court of magistrate) by an intending borrower.

(2) In order to protect the interests of the land development banks it is necessary that the loan amount obtained for development of land should be suitably apportioned and liability thereof passed on to a person to whom surplus land is allotted under the land reforms legislation, viz., the Orissa Land Reforms Act, 1973. For this purpose, the state government may incorporate suitable provisions in the aforesaid legislation.

(3) In the case of unsurveyed and unsettled lands which are mostly in tribal areas, the state government may, with a view to ensuring adequate flow of credit to the tribal population, arrange for the issue of possession certificates by tehsildars and also agree to stand guarantee to the land development banks for repayment of loan instalments by the tribal members on due dates. The Orissa Co-operative Societies Act may be amended suitably to provide for grant of loans by primary banks on the strength of such possession certificates backed by the guarantee of the state government.

(b) *Structure*

(4) Out of 55 primary banks, 16 banks are considered as non-viable and 11 of these are already covered under the scheme of amalgamation prepared by the central co-operative land development bank. The scheme may be suitably revised to cover the remaining 5 banks, viz., Gunupur, Nowrangpur, Jharsuguda, Soncpur and Udala. The central

land development bank and the state government may pursue vigorous action for completing the reorganization programme as early as possible.

(c) *Loan Policy and Procedures*

(5) Early steps may be taken by the central land development bank to introduce the system of valuation of lands and for calculation of repaying capacity on the lines suggested by the Reserve Bank.

(d) *Management and Personnel Aspects*

(6) The existing staff of the central land development bank is quite inadequate to cope with its growing activities. The administrative, technical and legal departments need strengthening.

(7) The cadre scheme of key personnel has been introduced in respect of post of secretaries and accountants in the primary banks. The scheme may also cover supervisors in the primary banks.

(e) *State Aid*

(8) Pending a detailed survey of sub-soil water resources, the state government may arrange for *ad hoc* clearance being given by the ground-water directorate so that primary banks may advance loans to cultivators for digging of wells on the strength of such clearance.

7. RAJASTHAN

(a) *Legislation*

(1) In terms of section 43 of the Rajasthan Tenancy Act, 1955, a *ghair-khatedar* can now mortgage his holding with prior permission of the district collector or any other authorised revenue officer. The powers to permit *ghair-khatedars* to mortgage their lands may also be delegated to tehsildars in order to avoid the necessity on the part of cultivators to travel long distances which they are forced to do now at times for the purpose.

(2) The government may suitably amend the relevant provision in the Rajasthan Colonization (General Colony) Conditions, 1955 to the effect that the restriction imposed in section 13 of the Rajasthan Colonization Act will not be applicable to the *khatedar* or a tenant allottee who desires to mortgage his land in favour of co-operative institutions.

(b) *Structure*

(3) The Jaisalmer District, which does not have any primary land development bank at present, may be served by a branch of the primary bank in the neighbouring district.

(c) *Loan Policy and Procedures*

(4) The central land development bank should take early steps to rationalize its loan policy and procedures on the lines suggested by the Reserve Bank, especially in regard to appraisal of loan proposals, valuation of security and assessment of repaying capacity of the borrowers. It should also lay down scales of financing for various items of investment taking into account the agro-economic conditions and needs of different tracts, with the assistance of the Agriculture Department of the state government.

(5) A thorough investigation of the causes of rising overdues in each primary bank should be made by the central land development bank in consultation with the Co-operation Department and the bank should formulate a plan of action with a view to harnessing the efforts of the existing staff more effectively for recovery of overdue loans. Coercive steps should be initiated by the banks against defaulters without further delay.

(6) In the case of defaults due to drought or other natural calamities the banks may provide relief to the borrowers by re-scheduling the loan instalments on the lines indicated by the Reserve Bank, if necessary, based on a proper scheme.

(d) *Management and Personnel Aspects*

(7) With the orientation of lending for developmental purposes, the need for proper staffing of the central land development bank and the primary banks has acquired considerable significance and urgency. The requirements in respect of technical and other staff should be worked out by the bank on a realistic basis and early steps taken to recruit and train the requisite staff.

(e) *State Aid*

(8) Pending detailed investigations regarding groundwater resources, the state government may arrange for issue of a general clearance for a specific area by the state groundwater directorate, to enable primary

banks to give loans for minor irrigation works under the ordinary lending programmes.

(f) *Other Aspects*

(9) In order to avoid loss on account of interest on idle funds, steps should be taken by the central land development bank to introduce procedures on the lines suggested by the Reserve Bank for remittance of funds between the central land development bank and the primary banks and vice versa.

(10) The existing arrangements regarding co-ordination between the central land development bank and the various departments of the state government and other agencies such as the state electricity board have to be suitably improved, both in regard to ARC-refinanced schemes and ordinary schemes.

8. TRIPURA

(a) *Legislation*

(1) The central land development bank may amend suitably by-law No. 40 of its by-laws so as to specify all the different purposes for which loans can be granted by it.

(2) The state government may issue clear instructions to all sub-registrars to issue non-encumbrance certificates on request by the bank. The state government may also permit concessions in the payment of search fees. Further, the bank's staff may be allowed access to the land records for conducting the search regarding title to borrowers' lands.

(b) *Loan Policy and Procedures*

(3) The bank may rationalize its loan policy and procedures on the lines suggested by the Reserve Bank.

(c) *Management and Personnel Aspects*

(4) The bank should make immediate arrangements for appointing additional staff. The present manager is looking after the working of the bank on a part-time basis. The manager should be made a full-time officer of the bank.

(5) An agricultural officer and a civil engineer may initially constitute a technical cell to evaluate and draw up schemes for investment credit in agriculture.

(d) *State Aid*

(6) The state government may subsidize the entire cost of additional staff required by the bank for a period of 3 years beginning from 1973-4 by which time, it is hoped, the bank may attain viability.

9. WEST BENGAL

(a) *Legislation*

(1) The state government may incorporate in the West Bengal Co-operative Societies Act, 1973 suitable provisions on the lines of section 120 of the Maharashtra Co-operative Societies Act, so as to recognize mortgages in favour of land development banks created against the security of tenants' interest in land and for protecting them in the event of transfer of land by sale.

(2) The state government may make suitable provisions in the West Bengal Land Reforms Act, 1955 (as amended up to 8 February 1971) with a view to facilitating the working of land development banks in the following important matters: (a) payment of compensation of land acquired in excess of the ceiling fixed by the state government may be made to the land development banks, instead of directly to the *raiyyats* and (b) the lessees do not acquire any alienable rights over the lands leased by land development banks in the case of lands acquired by them in satisfaction of their claims.

(b) *Structure*

(3) Instead of opening 17 more primary land development banks at the sub-divisional level during the Fifth Plan, as contemplated by the state government, the pattern of organization at the primary level for some time to come, should be extension of a network of branches of the existing primary land development banks having regard to considerations of viability and proximity to borrowers to facilitate expansion of loan business and better supervision and collection of dues.

(c) *Loan Policy and Procedures*

(4) The central land development bank may encourage joint loans to a group of small farmers for wells and other minor irrigation works.

(d) *Management and Personnel Aspects*

(5) The government nominees on the board of the central land development bank should be senior officers, e.g., (a) Agricultural

Production Commissioner; (b) Secretary, Co-operation Department; (c) Registrar of Co-operative Societies; (d) Director of Agriculture etc.

(6) The by-laws of the central land development bank may be suitably amended so as to ensure that each branch committee consisting of about 5 directors elected by the members of the respective branches and 2 government nominees such as the Assistant Registrar of Co-operative Societies, Deputy Director of Agriculture and Project Officer in the case of SFDA/MFAL districts.

(7) The chief executive officer of the central land development bank should be a senior officer with banking experience and should be equipped with adequate powers of control over the staff. He may be designated as the managing director and thus made an ex-officio member of the board.

CHAPTER 6: VIABILITY OF PRIMARY BANKS

26. The margin in the rate of interest, i.e., 1.50 per cent to 1.75 per cent at present retained by the primary land development banks is on the low side and this acts as a constraint on the banks maintaining adequate and competent staff. In view of the fact that the application of modern technology to agriculture has increased yields of certain crops and agricultural prices have continued to remain high, there is a case for increasing the margins. The primary banks should be allowed to retain such margin on the rate of interest as would enable them to employ adequate and competent staff. (No. 31)

27. The norms for viability cannot be applied uniformly for all states. Further, the norms may undergo changes from time to time. This can happen due to the shrinkage of loaning business for minor irrigation works which is at present one of the major items of financing by land development banks or lack of positive efforts by the banks to locate alternative avenues of profitable investment. (No. 32)

28. Subject to various limitations and assumptions each primary land development bank or a branch of the central land development bank, in order to function as a viable unit, should have *minimum* loan business of Rs 35 lakhs. This norm should be followed strictly by the state governments and the central land development banks at least in regard to the organization of new branches of the central land development banks and new primary land development banks. As regards existing primary banks and branches of central land development banks

which do not come up to these norms, the state governments and the central land development banks should have a plan of action for bringing these banks/branches at least up to this standard within a period of 3 years. The period of 3 years is generally adequate for a primary bank or branch of central land development bank to attain viability except in areas where the growth rate in loaning business is slow because of the poor supporting facilities in the area or the predominance of scheduled castes and tribes or where the nature of agricultural financing requires a very long period of gestation. (No. 33)

29. While the minimum norm, i.e., each primary land development bank or branch of the central land development bank having a loaning business of at least Rs 35 lakhs at the end of 3 years has to be strictly adhered to, there might be some difficulty in complying with this requirement in certain circumstances, e.g., in areas where the growth rate for loaning operations may be slow, but potential is clearly in sight and there is need for development, especially in instances where such areas are inhabited by tribal population or other weaker sections of the community. Under such circumstances, a new primary bank/branch of central land development bank, if set up, should be provided with necessary financial and other support by the state government or by the central land development bank in order to enable it to maintain adequate staff from the very beginning itself till it becomes viable, i.e., achieves the loaning business of at least Rs 35 lakhs. (No. 34)

CHAPTER 7: ROUTING OF LOANS THROUGH PRIMARY CREDIT SOCIETIES AND NEXUS BETWEEN SHORT-TERM AND LONG-TERM STRUCTURES

30. Primary credit societies, as they are constituted and functioning at present, will not be in a position to provide long-term loans as agents of land development banks in an effective manner, particularly since the task has now become complex with the application of modern technological methods to farming which has generated demand for investment credit for various purposes. (No. 17)

31. The scheme for organization of Farmers Service Societies, if implemented, raises hopes of adequate operational efficiency and financial soundness so as to enable them to provide long-term loans. But the number of such societies set up or to be set up is limited and does not in any way affect the conclusion that primary credit societies in general as they are constituted and functioning at present will not be able to disburse long-term loans in a satisfactory manner. (No. 18)

32. Co-ordination between the short-term and long-term co-operative credit structures is altogether absent and the various recommendations made by the earlier Committees for effecting such co-ordination have remained on paper without any concrete action being taken thereon either by the state governments or by the co-operative banks themselves. The state governments should take early steps to reorganize the working of the existing primary agricultural credit societies which are weak or dormant. Similar effort on the part of the state governments is needed in respect of weak central co-operative banks and weak primary land development banks, the term 'weak' connoting poor borrowing membership, low capital base, low level of deposit mobilization, high level of overdues, weaknesses in management and supervision and lack of attention paid to meeting the credit requirements of small farmers. In this effort, the state co-operative bank, central co-operative banks and central land development bank should not remain passive spectators, leaving the entire responsibility to the state governments. The banks should actively involve themselves in the quick implementation of schemes for the revitalization of primary agricultural credit societies, central co-operative banks and land development banks. (No. 30)

33. While as a part of the reorganization schemes for increasing the coverage of the rural population, efforts are being made to enrol more members, it should be the responsibility of the extension staff in the blocks to ensure that all the borrowers of long-term loans from land development banks are promptly enrolled as members of primary credit societies in the area. For this purpose, the primary land development bank or the branch of the central land development bank should furnish details of its borrowers to the primary credit society. (No. 30)

34. The Registrars of Co-operative Societies should undertake, in consultation with the regional offices of the Agricultural Credit Department of the Reserve Bank and the regional offices of the Agricultural Refinance Corporation, an immediate review of the loan policies and procedures of central co-operative banks and primary credit societies with a view to removing restrictions such as those arising from the by-laws relating to maximum borrowing power or the scale of financing for different crops etc., so that the borrowers of long-term credit from land development banks are able to obtain adequate production credit. (No. 30)

35. Land development banks should make suitable modifications in their loan policies and procedures so as to ensure, while processing loan applications, that the prospective borrower has already an access to

adequate production credit from his local primary credit society to support the proposed cropping pattern. If not, it should be ensured by the land development bank that necessary arrangements in this behalf are made before at least the last instalment of the loan is released. (No. 30)

36. A group under the leadership of the Assistant Registrar/Deputy Registrar of Co-operative Societies in the district and including the managers of the central co-operative bank and of the primary land development bank/branch of the central land development bank should be constituted to review periodically, say once in a quarter, the position regarding availability of short-term credit to the borrowers of land development banks. The group should be required to submit its note prepared on the basis of such periodical reviews to the Divisional Deputy/Joint Registrar of Co-operative Societies. The object of the review should be specifically to ensure that when loans are sanctioned by land development banks to borrowers who are not members of primary credit societies, such borrowers are enrolled as members of co-operative credit societies and given short-term credit, if eligible for the same. This review will have to be prepared on the position in each primary land development bank/branch of the central land development bank and the primary credit societies in their areas of operations. (No. 30)

37. Despite the recommendations of various important Committees, the problem of co-ordination between the two co-operative credit structures still remains to be solved. Neither channelling of long-term loans through primary credit societies nor other measures such as housing of the institutions in the same building and having common directors have so far solved the problem of co-ordination. It is in this context that it is being felt in certain quarters that a long-term solution to the problem of co-ordination probably lies in the complete integration of the two structures, i.e., short-term and long-term credit institutions. It has, however, to be pointed out that the integration of the two structures means basically that the primary agricultural credit society will have to provide short-term, medium-term and long-term credit. In other words, it inevitably means the need for having a viable society at the village level which may be formed as a result of the amalgamation of the weaker or smaller societies or organization of Farmers Service Societies. Thus, a change in the structure and functioning of existing primary agricultural credit societies is called for, involving amalgamation of weak societies, liquidation of dormant societies, recruitment of full-time paid secretaries and of supervisory and technical staff. The formation of viable primary credit societies with adequate

staff to undertake multipurpose functions is absolutely necessary for the successful working of an integrated co-operative credit structure. Further, for the integration to be effective, steps will have to be taken to complete the programmes for the rehabilitation of weak central co-operative banks and primary land development banks which have already been identified, without further delay. A merger, if it is confined only to the apex or intermediate level institutions, will be fruitless. In other words, the integration of the short-term and long-term credit institutions has to start from the village level, i.e., at the level of primary agricultural credit societies. Although the various steps taken in the past have not brought about the desired results in the direction of co-ordination between the short-term and long-term structures, there is increasing awareness among the institutions, viz., land development banks and state and central co-operative banks, and also the state governments about the need for such co-ordination. It is noted in this connexion that efforts such as setting up of co-ordination committees, having common directors etc. are being pursued in some states. Further, the National Co-operative Land Development Banks Federation and the All-India State Co-operative Banks Federation are now actively seized of this matter of evolving suitable arrangements for securing necessary co-ordination between the two wings of the co-operative credit structure. Although the subject of integration of the two structures dealing with short-term credit and long-term credit is outside the purview of the terms of reference of the Committee, nevertheless, as emerging from the review of the existing position of the co-operative credit structure in the smaller states and the co-operatively weak states it is recommended that in 5 states, viz., Assam, Himachal Pradesh, Jammu & Kashmir, Tripura and West Bengal the integration of the short-term and long-term credit structures is the only way of enabling the co-operative credit structure in these states to play an effective role in meeting the credit needs of cultivators for production and development. It has, further, been recommended that in Pondicherry also it is necessary to integrate the short-term and long-term co-operative credit structures. With regard to co-ordination between the two structures in the other states, it is suggested that earnest efforts should be made both by the state governments and the institutions to implement the recommendations for improving the existing arrangements for co-ordination. However, in case it is found after a reasonable time that there is no improvement in the situation, as a last resort, the need for integration of the short-term and long-term co-operative credit institutions may have to be examined by the state governments, the state co-operative banks and central land development banks concerned. (Nos. 31 and 32)

38. Steps are being taken to make existing primary credit societies viable units by liquidation of moribund societies and amalgamation of small societies, and also to provide full-time secretaries to the reorganized societies. It is recommended that wherever viable primary credit societies have been set up and they have been provided with adequate full-time and trained staff, including technical staff, such societies may take up provision of long-term loans also. This will require identification of such societies by the state governments and the apex and central co-operative banks on a block-by-block basis. (No. 33)

CHAPTER 8: RESOURCES FOR LAND DEVELOPMENT BANKS

39. According to present indications, there will not be any serious difficulty in land development banks obtaining the necessary support from various institutions for their ordinary debenture floatation programmes. (No. 10)

40. The Informal Group on Investment Policy of the Life Insurance Corporation of India (1971) has recommended that the Life Insurance Corporation of India should explore possibilities of securing participation with the Agricultural Refinance Corporation in the refinancing of area development schemes instead of confining its role to merely investing in the debentures of land development banks. It is not known as to whether any decision has been taken by the Government of India on this recommendation. If the Life Insurance Corporation's participation is to be enlisted, the manner and extent of its participation in the debentures floated from time to time and the schemes which would be eligible for such participation will have to be determined. If the participation is to be in the form of loans from the Life Insurance Corporation of India, it will have to be examined as to whether this would be possible under the Agricultural Refinance Corporation Act, 1963 as it stands at present and whether the terms and conditions, including the rate of interest, would suit the Agricultural Refinance Corporation. Perhaps the Life Insurance Corporation of India's support could be availed of by issuing a special series of bonds to be subscribed to exclusively by the Life Insurance Corporation of India. These and other aspects may be examined in detail by the Agricultural Refinance Corporation and the Life Insurance Corporation of India. The Agricultural Refinance Corporation may take up the matter with the Reserve Bank and the Government of India, in case it needs additional resources for its refinancing operations in the Fifth Plan. (No. 12)

41. It is important to ensure that the state governments actually make provisions in their budgets to meet commitments in regard to their

share of contributions to the debentures of central land development banks. In some states such as Himachal Pradesh and Jammu & Kashmir the recommendations of the Committee on Takavi Loans and Co-operative Credit (1962) have not been implemented. These states may fully accept the recommendations of the Takavi Committee and put them into effect by actually using such funds for contribution to the debentures of the central land development banks. (No. 14)

42. The state governments should not themselves give loans for development of horticulture and plantation crops, but the budgetary allocation for the purpose should be channelized through land development banks by means of support to their debentures. (No. 15)

43. Land development banks in most cases will find it impossible to achieve the large lending programmes during the Fifth Plan without identifying new items of agricultural development requiring long-term loans. Each central land development bank should build up a portfolio of viable and diversified pattern of schemes for the entire Fifth Plan so that it can reach the lending target set under the Fifth Plan in a purposive and effective manner. The state governments should play a crucial role in this respect by providing assistance to banks through their technical departments. (No. 17)

44. The state governments and the central land development banks should shoulder the responsibility of preparing specific schemes of agricultural development if the financial targets under the Fifth Plan are to be meaningful. This task is all the more difficult in co-operatively less developed states where the operational efficiency of banks is particularly very low and where the draft Fifth Plan envisages more than 100 per cent increase in the lending programmes of the banks. The investment credit provided by land development banks has to be linked to specific schemes of agricultural development in the state Plans. This will ensure a purposeful role for land development banks in the implementation of agricultural development programmes in various states. (No. 20)

45. Each central land development bank may conduct a study to assess the need for enhancement of the percentage of loans to be given for debt redemption especially in scheduled castes/scheduled tribes areas or SFDA/MFAL areas and take up the matter with the Reserve Bank, if necessary. (No. 23)

46. Land development banks have to make earnest efforts to keep their overdues within manageable limits to enable them to fulfil their lending targets. There are no soft options in the matter. (No. 26)

47. The Reserve Bank may review periodically the position regarding the loans advanced by primary banks/branches of central land development banks in SFDA/MFAL areas and, if necessary, exempt the banks from the discipline regarding regulation of advances for a specific period even in states which are not at present covered by such an exemption if it will help small farmers in getting long-term loans needed for development. (No. 26)

48. The state governments should provide guarantees, on a continuing basis, in the beginning of the year for the debentures to be issued during the course of the year by central land development banks so that there is no delay at the time of floatation of debentures. The state governments should also provide the guarantees without conditions attached. (No. 27)

49. In view of the important role played by land development banks in financing the programmes for agricultural development, nothing should be done which increases the financial burden on them or results in increasing the cost of investment credit provided by them. The state governments should not, therefore, levy guarantee fee or commission in respect of the guarantees provided by them for the debentures of central land development banks. Such levies are inconsistent with the policy of state support to co-operative institutions. (No. 27)

50. The guarantee given by some state governments against deficit in security in the case of ARC-refinanced schemes is a welcome feature inasmuch as it helps small cultivators in obtaining loans from land development banks. Such a guarantee against deficit in security may be continued by all the state governments in the Fifth Plan and extended to ordinary loans also. (No. 28)

51. Central land development banks should take action to get their ordinary debentures which are trustee securities quoted on the stock exchanges so that they might become popular in which event there might be investors to these debentures from the general public also. (No. 29)

52. The state governments should not levy stamp duty on the transfer of debentures. (No. 30)

53. Central land development banks should maintain a high level of operational efficiency in order to ensure that they continue to get support from various institutions to their debentures. For instance, they should arrange for audit of their accounts and issue of debenture scrips to various institutions promptly. (No. 31)

54. The criteria followed by the Reserve Bank of India and the Agricultural Refinance Corporation in clearing debenture floatations received from central land development banks are different in certain respects. It is understood that the Reserve Bank of India has already taken up the matter of bringing about uniformity in the criteria followed by the Bank and those followed by the Agricultural Refinance Corporation in regard to the stipulation of overdues at the level of primary banks/branches of central land development banks *vis-a-vis* their eligibility for the lending programmes. There is, however, scope for uniformity in other spheres also, especially in regard to the procedures followed by the Reserve Bank and the Agricultural Refinance Corporation, in connexion with clearing of debenture proposals. These matters may be examined by the Reserve Bank so that uniformity is introduced not only in regard to the stipulation regarding overdues at the primary level, but in other matters also such as the position of cash in-flow and cash out-flow, prior receipts of audit reports of the banks for the penultimate year and issue of debenture scrips in respect of the earlier floatations. (No. 32)

55. The difficulties experienced by central land development banks in regard to interim finance are mainly due to faulty management of funds. Land development banks should carefully plan the deployment of their own disposable resources in a most profitable manner and make determined efforts to reduce their dependence on interim accommodation from the State Bank and its subsidiaries or the state co-operative bank particularly because recourse to borrowings from interim accommodation is costly. Although three floatations of debentures in a year allowed at present should be adequate for utilizing assured support, the Reserve Bank may permit an additional floatation in a year by those central land development banks which are depending heavily on interim accommodation for their lending operations in order to enable them to operate with reduced limits sanctioned by the State Bank of India and its subsidiaries and also to reduce the incidence of higher rates of interest payable on interim accommodation. (No. 35)

56. The condition regarding down payment is often being circumvented by cultivators with the help of the field staff either by inflating the cost of development in the case of land levelling and sinking of wells or by inflating the amount of invoices on account of the cost of machinery and equipment or by adding the cost of ancillaries, which are not required immediately or not required at all. Thus, there is a need for evolving a procedure by which the bigger cultivators are required to make a higher contribution from their own resources towards the cost

of development than the small farmers. The bigger cultivators should be required to pay a higher amount towards share capital at 10 per cent of the loans instead of the usual 5 per cent of the loan amount. Primary land development banks/branches of the central land development banks should insist on the payment of this amount well before the sanction and disbursement of the loan to bigger cultivators. (No. 38)

57. Primary land development banks in most states have very weak owned funds although they are required to play an important role in the land development banking structure. The Reserve Bank may agree to provide loans to state governments for participation in the share capital of primary land development banks whose overdues are less than 30 per cent of the demand as compared with 15 per cent of the demand applicable at present. In the case of primary land development banks in SFDA/MFAL/notified tribal areas, those functioning in weaker states as well as those under rehabilitation or reorganization programmes, the permissible limit of overdues may be 50 per cent of demand instead of 25 per cent as at present. (No. 41)

58. The build-up of idle funds occurs mainly because of the lack of appreciation on the part of the executives of central land development banks and primary land development banks in regard to the proper use of resources—both their own or raised from outside. The instructions issued by the Reserve Bank from time to time for the management of funds by land development banks are quite comprehensive. Land development banks should scrupulously follow these instructions regarding management of funds. (Nos. 46 and 47)

59. The issue of debentures when lending operations in the coming months will be at a lower level or when recovery starts coming in will result in building up of idle funds. By and large, the banks overlook these aspects. Each bank should, therefore, in the light of its experience, make projections in regard to the loans—ordinary loans as well as loans under special schemes refinanced by ARC—to be disbursed and the recoveries to be received in each of the quarters, together with an analysis of its cash in-flow and cash out-flow during this period. In the light of these projections it should work out the approximate dates by which debentures are to be floated. In other words, banks should introduce a method of forecasting in respect of their requirements of funds during the following year well in advance. The amounts to be collected/paid back in respect of fixed deposits should be taken into account while making an analysis regarding cash in-flow or cash out-flow. Similarly, advance collections to be received by banks should also be taken into account. (No. 49)

60. Banks relying heavily on interim accommodation should make use of such accommodation only to the extent necessary, that is, after ploughing back the recoveries received by them in fresh loans. Outstandings under interim finance should be brought to 'nil' or to a very low figure immediately after each debenture floatation in respect of loans under ordinary and special schemes. Land development banks should draw upon interim accommodation for the purpose of making contributions to sinking fund when they are either required to purchase debentures floated by other central land development banks as a part of mutual support programmes or when investments in government and other trustee securities are made during the course of the year. Such a procedure of drawing upon interim accommodation for the purpose of making contributions to sinking funds after having used recoveries in fresh loans would be more profitable to the banks. Banks should frequently float special development debentures under ARC-refinanced schemes so that their dependence on the interim accommodation is kept to the minimum. (No. 50)

61. Taking into account the various items involved in the flow of funds between the central land development banks and the primary banks, primary banks should invariably follow the procedure of first using their owned funds and later the funds provided by the central land development bank in their loaning operations. Besides, primary banks should be prompt in remitting the amounts received by them on account of recoveries from cultivators to the central land development bank. (No. 51)

62. Central land development banks should help the primary banks in introducing the system of making an analysis of cash in-flow and out-flow taking into account each bank's requirements of funds for issuing loans and recoveries effected. Generally, for disbursement of loans and for collection on account of recoveries, there is a seasonal pattern in the case of long-term loans also, as in the case of short-term loans. In the case of long-term credit, it should be easier to work out the seasonal pattern in these operations as practically no development on the farm is undertaken excepting perhaps purchase of agricultural machinery and equipment when sowing or harvesting seasons are in progress or there is standing crop in the field. (No. 51)

63. The staff of the primary banks should be given necessary training in the management of funds including interpretation of cash flow statements. The Reserve Bank's College of Agricultural Banking at Poona should examine the matter and accord a prominent place to the

topic of management of funds and interpretation of cash flow statements in the courses run by the College for the personnel of primary land development banks. (No. 52)

64. The chief executive officers and other senior officers of the central land development banks should periodically brief the business managers or accountants of primary banks about proper management of funds so that the latter appreciate the significance of proper management of resources which would go a long way in avoiding build-up of idle funds both at the level of primary banks and the apex institutions. (No. 52)

65. There is need on the part of central land development banks to continue to maintain sinking funds for amortization of debentures especially in the context of their increasing commitments in regard to long-term credit requirements and also with reference to the obligations that devolve on them under the Co-operative Societies Act, by-laws and trust deeds. (No. 55)

66. While considering any change in the existing pattern of investment of sinking funds, it is necessary to ensure that the investment not only conforms to the three important principles of liquidity, safety and profitability, but also that the funds are retained as far as possible within the co-operative sector in view of the large resources needed by this sector. (No. 57)

67. There is no case for relaxing the stipulation that at least 10 per cent of the sinking fund should be invested in government securities. However, central land development banks may be permitted to use the balance of 10 per cent to be invested in 'other trustee securities' to make investments in fixed deposits with state financial corporations which carry an attractive rate of interest and are guaranteed by the state governments in regard to the repayment of the principal and payment of interest. Another possible avenue for investment of the 10 per cent allowed for trustee securities is the units of the Unit Trust of India, (No. 57)

It is understood that consequent upon the amendment to its statute, the National Co-operative Development Corporation (NCDC) may issue bonds which would be guaranteed by the Government of India in regard to the repayment of the principal and payment of interest. These bonds when permitted to be issued and if they are trustee securities, may be included in the list of permissible 'other trustee securities' for investment of sinking fund by the central land development banks. (No. 57)

68. A reduction in the limit of investment of sinking fund in the debentures of central land development banks or in the debentures floated by sister land development banks in other states from 60 per cent to 50 per cent may be allowed on a purely temporary basis. The banks should, however, keep the investments in their own debentures to the minimum as it takes away the very basis of the scheme of mutual support.

It will be useful if the National Co-operative Land Development Banks Federation can make projections regarding the amount of investible funds of each central land development bank in the debentures of sister institutions in order to ensure maximum advantage of the arrangements available under the mutual support scheme. (No. 57)

69. In view of the difficulties experienced by central land development banks in making appropriate investments out of recoveries received between April and June due to the absence of floatation of debentures or issue of government loans during this period, the banks may be permitted to invest in advance, their surplus funds towards sinking funds to be set off in the subsequent years. Alternatively, the surplus, after meeting the sinking fund commitment and clearing the outstanding in the interim accommodation, might be allowed to be kept as short-term deposits with the state co-operative bank/commercial banks, and financial accommodation availed of as and when required thereagainst, instead of having recourse to overdraft accommodation which carries a higher rate of interest. (No. 57)

70. The Reserve Bank may allow central land development banks to increase, as a transitional measure, their investments by way of fixed deposits with the state co-operative banks and commercial banks from 20 per cent to 30 per cent by corresponding reduction of the investment in debentures of sister land development banks from 60 to 50 per cent. (No. 57)

71. In view of the fact that central land development banks seek support from central co-operative banks in respect of their debentures and other matters such as providing cash credit facilities to primary banks and for remittance of funds between central land development banks and primary banks and vice versa, central land development banks may be permitted by the Reserve Bank to keep their deposits with central co-operative banks with A and B audit classification. (No. 57)

CHAPTER 9: MOBILIZATION OF RURAL SAVINGS

72. The need for mobilizing rural savings cannot be over emphasized especially in the context of the large resources needed by co-operative

land development banks. Central land development banks should, therefore, make determined and earnest efforts to collect sizeable amounts by way of rural debentures instead of pleading for scrapping of the scheme. (No. 25)

73. Instead of the present procedure for effecting reduction in the supported programme for ordinary debentures for failure to collect the required amount of rural debentures, the Reserve Bank may introduce an alternative scheme for offering certain incentives to banks to make necessary organizational arrangements and efforts for the purpose. For instance, the Reserve Bank may allow an additional amount, by way of an incentive, towards share capital contribution in the case of central land development banks whose performance in respect of collection of rural debentures or fixed deposits is found to be satisfactory. (No. 27)

74. Central land development banks should introduce special schemes for rural debentures or certificates for certain specific areas where ARC-refinanced schemes have been implemented or are under implementation. Such schemes have a fair chance of success since the banks have already established or will be establishing close contacts with a large number of individual cultivators in these areas. Cultivators may be encouraged to subscribe towards rural debentures along with the instalments towards repayment of the long-term loans borrowed by them. In addition, the amounts raised through a special scheme of rural debentures, if sizeable, could be earmarked by the central land development banks for investment in agriculture by cultivators in the same area as this will give a sense of involvement to the investors in the development of the area and thus make the scheme of rural debentures popular. (No. 28)

75. The Reserve Bank may consider revising the permissible rate of interest on rural debentures in the light of the recent increase in interest rates. Similarly, the interest to be allowed by land development banks on fixed deposits may be revised suitably by the Reserve Bank so as to enable the banks to offer attractive rates which compare favourably with those offered by state co-operative banks, central co-operative banks and commercial banks, and are, in fact, higher than those offered by these institutions. (No. 29)

76. The Reserve Bank may reconsider its views in respect of the reference received from the National Co-operative Land Development

Banks Federation for introducing the scheme for awarding prizes to debenture-holders. The prizes to be awarded in the case of rural debentures may be in the form of useful agricultural machinery and implements in case the winner prefers these to cash prizes. (No. 31)

77. Central land development banks should collect fixed deposits only from rural areas and only in that case should such deposits be reckoned while assessing achievements on account of the targets for rural debentures. (No. 32)

78. While individual incentives to the staff of the banks in the form of commission for collection of contributions towards rural debentures may not be offered, the performance of the staff in the matter of issuing rural debentures or collecting fixed deposits should be given due weightage in deciding upon their promotions either in the normal course or otherwise or in matters like giving advance increments. (No. 25)

79. Each central land development bank should have at least one development officer whose main function will be to organize efforts for mobilizing rural savings by floatation of rural debentures/certificates or by collecting fixed deposits. The person to be appointed as development officer should have some background and experience in the line. He should prepare special schemes for debentures/certificates for specific areas and also organize publicity required for collecting fixed deposits. (No. 33)

80. The state governments and banks may formulate suitable schemes providing for the sale of rural debentures through the village officials and payment of commission to them on the lines of the scheme for small savings as suggested by the Reserve Bank in its circular to the banks issued on 29 January 1964. (No. 34)

81. The publicity that is being undertaken at present by banks regarding sale of rural debentures and collection of fixed deposits is inadequate. The National Co-operative Land Development Banks Federation could play a useful role by making arrangements with the All-India Radio for suitable announcements in regional languages under the rural or commercial broadcasting programmes. If the Federation is required to make payment for these announcements, it may approach the Government of India for providing grants to it for the purpose. (No. 35)

CHAPTER 10: PRODUCTION-ORIENTED LENDING SYSTEM AND FOLLOW-UP MEASURES

82. Although in a few states valuable attempts have been made to introduce the production-oriented lending system, there are several areas where the existing procedures need improvement. Apart from the procedural aspects connected with the production-oriented system of lending certain other steps—legal and administrative—are required to be taken by the land development banks so as to ensure speedy disposal of loan applications and granting of loans. (Nos. 18 and 19)

83. The simplified loan procedure followed in Madhya Pradesh enables the land development banks to disburse loans quickly. Under this procedure, only *khasara* extracts are required to be produced as evidence to title. Public enquiry and land valuation are combined and the legal scrutiny of the papers is only at one level and stage. Further, under section 8 of the Madhya Pradesh Land Development Bank Act, 1966 read with rule 3 of the Rules framed thereunder, provision exists for the constitution of a guarantee fund for meeting losses that might arise on account of loans advanced by land development banks on the security of mortgages on the land not being fully recovered due to the title to the land being found defective and full recovery is not possible on account of natural calamities. This simplified loan procedure and the legal provisions in Madhya Pradesh are commended for the attention and necessary action of the state governments and central land development banks in other states. (No. 20)

84. The system of land mortgage is out of tune with the basic features of the production-oriented system of lending expected to be followed by land development banks and extension of long-term credit to small farmers and it has proved somewhat illusory as the basis for security. The insistence upon mortgage of land for loans given by land development banks should, therefore, be given up. Instead, land development banks should be enabled to grant loans on the basis of a charge on the lands and other assets created by the borrower as elaborated in recommendations Nos. 85 and 86. This, however, does not preclude land development banks from accepting mortgage of land, i.e., the banks may obtain mortgage of land if the borrower is agreeable to furnish the same or prefers this arrangement. (Nos. 26 and 27)

85. The question arises whether the charge to be created in favour of the land development bank will be effective if there is a charge

already created in favour of the short-term co-operative credit institution in case the borrower has already taken short-term loans. An examination of this aspect reveals that in the case of the short-term credit structure, wherever a default takes place, coercive measures are generally taken or expected to be taken for effecting recoveries from the produce or the standing crop. It is seldom that primary agricultural credit societies undertake sale of the land and other assets of the borrowers. In other words, the charge in favour of the short-term credit structure which is created by virtue of the declaration made by the borrower serves the main purpose of ensuring that the borrower does not dispose of the land and other assets belonging to him till the repayment of the loan. Taking into account the fact that the loans provided by land development banks are sizeable and for longer periods it stands to reason that as between the short-term credit structure and the long-term credit structure, there is a strong justification for sufficient protection being provided to the latter by ensuring that the borrower does not create a further encumbrance on his land till the repayment of the long-term loan taken from the land development bank. It is, therefore, recommended that a charge may be created on the land and other assets of the borrower both in favour of the short-term and the long-term co-operative credit institutions, with a clear provision to ensure that the long-term credit institutions have a priority over the claims of the short-term credit institutions. (No. 28)

86. The effect of the various recommendations made above would be that land development banks would be granting loans to cultivators on their creating a charge on their lands, such charge being common to both the short-term and long-term co-operative credit institutions, the latter having priority over the former, in addition, if necessary, to the hypothecation of agricultural machinery and equipments purchased out of the loan and the borrower furnishing two sureties acceptable to the banks. Such a common charge appears to be legally feasible. (No. 29)

87. The state governments, especially in their Finance Departments, and the institutions which subscribe to the debentures should take a broader view in regard to the guarantee provided for the debentures of central land development banks and agree to the banks floating debentures solely on the guarantee of the concerned state governments. (No. 30)

88. The floatation of debentures solely against government guarantee and without a backing of mortgage security would necessitate certain

changes in the existing legal framework applicable to land development banks, viz., Co-operative Societies Act or the Land Development Banks Act, by-laws and trust deeds. While amendments to the by-laws and trust deeds can be made by the central land development banks in each state, the amendments to the Co-operative Societies Act/Co-operative Land Development Banks Act may be carried out by the state governments expeditiously. With a view to expediting the amendments to the Act in the various states and also to bring about a measure of uniformity in the state Acts, the Government of India may consider enacting a model central Act in this behalf for adoption by the states. (No. 31)

89. The existing provisions in the Co-operative Societies Act/Co-operative Land Development Banks Act, as well as the by-laws of banks should be amended suitably so as to enable them to include items such as dairy and poultry activities etc., among the purposes for which loans may be advanced by land development banks. (No. 32)

90. With regard to financing small farmers by land development banks, the objective of each bank should be to cover as large a percentage of small farmers as possible. Studies should be undertaken immediately by each central land development bank for fixing the percentage which, of course, should be above 20 per cent as agreed to voluntarily by the central land development banks, on the basis of the proportion of small farmers in the area of each primary bank or branch of the central land development bank. (No. 37)

91. Small farmers should be completely exempted by the state governments from the obligation to pay fees for obtaining extracts of revenue records and non-encumbrance certificates. (No. 42)

92. Land development banks should effectively carry out the advice of the Reserve Bank to collect share capital contribution from small farmers at the rate of 5 per cent of the loan amount in instalments, i.e., 2 per cent of the loan in the first year and the balance of 3 per cent in the next 3 years. This will reduce the burden on the small farmers regarding their contribution to the share capital of land development banks. (No. 43)

93. Where the period of loans to small farmers on the basis of their repaying capacity goes beyond the life of the asset to be created or acquired with the help of the loan from land development banks, the solution would lie in organizing a group of small farmers for the purpose of group loans or joint loans. (No. 45)

94. Land development banks giving loans to tenant cultivators for acquisition of ownership rights, viz., making lumpsum cash payment to the erstwhile landlords, is not recommended, except to the extent to which such loans can be accommodated within the existing permissible limit of 10 per cent for loans for non-productive purposes. (No. 48)

95. The Reserve Bank's stipulation regarding the provision of loans by central land development banks to their branches or to primary banks on the basis of the collections effected by them does not apply to banks in areas covered by SFDA/MFAL agencies in Assam, Bihar, Orissa, West Bengal, Rajasthan, Madhya Pradesh, Himachal Pradesh and Jammu & Kashmir. Central land development banks in the other states may examine whether a similar relaxation is necessary and justified in the case of primary banks/branches of central land development banks in SFDA/MFAL project areas and approach the Reserve Bank with facts and figures to support the case for relaxation, if any. (No. 49)

96. In view of the need for securing optimum utilization of scarce resources like groundwater and also to enable small farmers to derive maximum benefit from the investment, the state governments should examine carefully the organizational aspects relating to the execution of development work such as construction of wells and installation of lift irrigation equipment, in the case of investments to be made by small farmers in the SFDA/MFAL areas. Wherever feasible, co-operative irrigation societies may be formed comprising small farmers so that maximum benefit is obtained from the well or wells constructed in the area. In areas where the number of small farmers is inadequate to form a co-operative society, schemes can be implemented for a group of cultivators by helping them to obtain joint loans. This would call for determined extension work on the part of the local government staff and also the field staff of the primary banks/branches of central land development banks. (No. 50)

97. Provision of long-term loans to small farmers should be accompanied by very close and continuous supervision over the utilization of loans and necessary follow-up measures by way of technical advice and helping them to get supplies such as seeds, fertilizers and pesticides. This would need close co-ordination between the extension and technical staff under the SFDA on the one hand and the long-term credit institutions on the other, so that the small farmers get full benefit from the investments made by them as also to ensure prompt repayment of loans. In the case of development schemes such as those relating to plantations and orchards as also land reclamation and levelling, it is

particularly necessary to ensure that the needs of the small farmers are given the fullest priority in the loan operations of land development banks. Clear instructions should be issued by the state governments to the extension staff and by the central land development banks to the field staff of primary banks/branches that while implementing the schemes highest priority is given to the coverage of small farmers by contacting as many small farmers as possible instead of achieving the physical targets by covering a small number of large farmers. In the case of schemes for land reclamation and levelling also it is particularly essential for land development banks to make determined efforts to contact small farmers whose problems regarding security will have to be investigated in each case and remedial steps taken to solve them. It is only in this manner that agricultural development schemes would result in uniform development of the areas and be of benefit to small farmers. (No. 50)

98. The primary land development banks' officers as well as the senior officers of central land development banks should invariably conduct test checks regarding utilization of loans and sharply pull up the field staff where they are found to be slack, incompetent or indulging in irregular practices. This will go a long way towards toning up the set-up for field supervision in the banks. (No. 52)

99. While in the case of land development banks in the co-operatively less developed states both the procedures and arrangements for follow-up measures are very unsatisfactory, in the case of co-operatively developed states also several deficiencies exist in the present arrangements especially in regard to the enforcement of the procedures laid down by the banks themselves. These have to be eliminated by the banks. (No. 58)

100. In connexion with sanction of loans, the banks should satisfy themselves that the demand for the loans has arisen out of genuine need, that the cost of outlay for different types of investments has been properly worked out and that the offer of supply of the required equipment such as pumpsets and tractors has been received from authorized dealers. The banks should also specify the detailed terms and conditions of the loans in the sanction letters. (No. 59)

101. With regard to disbursements, seasonality should be strictly observed while advancing loans for construction of wells, land reclamation, plantation etc. While loans for these purposes should be given in suitable instalments according to the progress of work, those in respect of pumpsets, tractors and power-tillers should be paid direct

to the suppliers of machinery against their delivery. When loans are given in instalments, utilization certificates in respect of the earlier instalments should invariably be called for and checked. Usual safeguards regarding hypothecation and insurance should be taken in respect of loans for purchase of tractors and other agricultural machinery, on the lines of the instructions issued by the Reserve Bank from time to time. (No. 59)

102. After the loans are disbursed, the supervisors of the banks should be in constant touch with the borrowers not only to verify that the assets created out of the loans continue to exist with them in good order but also to help the borrowers in ensuring that they derive benefit from the assets and to arrange for technical advice where necessary. (No. 59)

103. If, on the basis of the verification of utilization, a loan or any part of it is found to have been misutilized by the borrower or not used within the specified period, banks should take prompt action for foreclosing the loan. Disciplinary action such as this, taken promptly, will have a salutary effect in minimizing the cases of misutilization or delayed utilization of loans. (No. 60)

104. Central land development banks should fix a definite period within which the utilization certificate for each instalment of the loan should be submitted by the supervisors. (No. 60)

105. The supervisors of land development banks who are drawn from the state governments continue to be under the administrative control of the parent government departments. It is desirable that such staff is replaced by the staff of the primary banks/central land development banks in a phased manner. Alternatively, the departmental staff working in the banks should be brought under the full administrative control of the primary land development banks or the central land development banks concerned. (No. 61)

CHAPTER 11: OVERDUES IN LAND DEVELOPMENT BANKS

106. Overdues in land development banks have been steadily rising in the past few years. This should be a matter of grave concern especially since loans are expected to be given to cultivators primarily for productive purposes and after looking into the aspects relating to technical and economic feasibility. The overdues in land development banks in states such as Assam, West Bengal, Tripura, Himachal Pradesh and Rajasthan are so heavy that their capacity to provide investment credit

has been seriously affected. The studies conducted on behalf of the Committee have revealed that the problem of overdues in land development banks is common to all states, whether they are co-operatively well developed or less developed. Overdues are high even in areas where the banks are undertaking intensive lending operations under ARC-refinanced schemes which envisage adoption of detailed appraisal of loan proposals and close supervision over the use of investment credit by the beneficiaries. The increase or decrease in overdues appears to have no substantial relationship to natural calamities. A significant factor that stands out from the analysis of overdues made during the studies is that while the failure of crops due to natural calamities or unfavourable geophysical conditions may account for overdues to some extent, the prevalence of high level of overdues in primary banks is basically due to defective loaning policies, ineffective field supervision and lack of concerted efforts and will on the part of the banks' board of directors and staff to recover loans which are due for payment. The studies have also shown that there was concentration of overdues in the case of bigger cultivators having holdings above 10 acres in the case of banks in all the states except to some extent in Punjab. (Nos. 2, 16, 17 and 18)

107. While the present legal framework is considered generally adequate, it is necessary to make certain provisions in the Co-operative Societies Act or Land Development Banks Act in some states or to amend the existing Acts for enabling the banks to take prompt and effective measures against the defaulters as under:

(1) In the Union Territory of Delhi, where the Co-operative Societies Act does not contain a provision for distraint and sale, necessary amendments should be made for such a provision.

(2) In the case of those states where the Co-operative Societies Act/Land Development Banks Act does not contain provisions for (a) recovery of overdues from the borrowers of land development banks as arrears of land revenue by issue of a certificate by the Registrar of Co-operative Societies, on the lines of section 101 of the Andhra Pradesh Co-operative Societies Act, (b) empowering the Board of a central land development bank and Trustee to resort to distraint and sale of the crop of the mortgaged property where the management of the primary land development bank is found to be slack or indifferent and (c) delegation of the powers vested in the officials of the Revenue and Co-operative Departments to officials of the land development banks for effecting distraint and sale of the produce of the mortgaged property or the property itself, necessary provision should be made.

(3) It will be advisable for state governments to provide in the Co-operative Societies Act/Land Development Banks Act for the

Trustee (Registrar) issuing a certificate, on his own motion, for recovery of overdue loans, as arrears of land revenue on the lines of section 71 in the Andhra Pradesh Co-operative Societies Act, 1964 or section 101 of the Maharashtra Co-operative Societies Act, 1960 which relates to the recovery of overdues in the short-term co-operative credit structure.

(4) The Co-operative Societies Act/Land Development Banks Act in all states except West Bengal requires that action should be taken for distraint of produce of crop before the expiry of a period of 12 months from the date when the loan instalment became overdue. The state governments may make necessary amendments to the Act to extend the period to three years as has been provided for in the West Bengal Co-operative Societies Act, 1973.

(5) In the case of Madhya Pradesh, section 18(2) of the Madhya Pradesh Land Development Bank Act, 1966 requires that the primary bank should obtain permission of the central land development bank in each case for taking coercive action, and section 18(2)(c) of the Act *ibid* provides for giving three months notice to the defaulter before action such as distraint and sale could be taken. Since these provisions result in considerable delay in taking legal action against defaulters, the state government should make suitable amendments to the Co-operative Land Development Bank Act so as to ensure that coercive action does not suffer from procedural delays such as those referred to above.

(6) The state governments in Punjab, Himachal Pradesh and Haryana may make suitable amendments to the Co-operative Land Development Banks Acts so that legal action can be initiated against defaulting cultivators even when one instalment of the loan is involved in default.

(7) The recommendations made by the Study Team on Overdues of Co-operative Credit Institutions (1974) especially those for disqualification of the board of directors of central co-operative banks if overdues in these institutions are over 60 per cent and they persist for a period of two years, should be made applicable to the primary land development banks also. For this purpose, the Co-operative Societies Act/Land Development Banks Act or by-laws may be amended making it obligatory on the part of every director or member of the managing committee of the primary land development bank to make a statement at the beginning of each year that he has fully repaid the loan amount or instalment of loan and interest as per the demand levied by the bank on the due date.

The recommendation of the Study Team that the defaulting member of a primary society, if he is in default for over a year, should be disqualified from voting in a general meeting or election of any co-operative society, should also be made applicable in the case of

members of primary land development banks in the federal system of land development banking and in the case of individual members of the central land development banks in the unitary set-up. The state governments should make suitable provisions in their Co-operative Societies Acts or the Land Development Banks Acts in order to give effect to the above recommendations.

(8) In view of the difficulties experienced in the sale of land in villages, the Study Team on Overdues of Co-operative Credit Institutions (1974) has recommended that the state government may acquire the land belonging to the defaulting cultivators and dispose it of in the manner considered appropriate, wherever bidders are not forthcoming at the auction of the land. This recommendation has greater significance in the case of land development banks and may be implemented by the state governments.

(9) The existing process of summary recovery followed in most of the states is time consuming, while the execution of certificates regarding recovery of loans from the property is beset with problems such as inadequate staff for execution and absence of bidders. However, it is not so much the absence of adequate legal provisions which comes in the way of effecting recoveries from defaulters as the delay in taking action by the primary and central land development banks and the will to initiate necessary action promptly particularly against influential parties. The managements of the banks would, therefore, do well to take prompt and effective legal action against all defaulters. (No. 44)

108. As a corollary to the switch over to the production-oriented lending system, land development banks should introduce planning in their operations. The land development banks should obtain through co-ordination with the technical departments of the state government, relevant information with a view to locating specific schemes for agricultural development suitable for different areas in the state. Through this process, the banks will be able to locate specific areas which have a relatively higher potential for investment in agriculture and those areas which call for care while granting loans, e.g., drought-prone areas or areas which are highly susceptible to floods and other natural calamities. A plan prepared on these lines for investment credit is likely to go a long way in the banks avoiding sanction of loans which may later prove infructuous or risky. (No. 46)

109. In order to avoid overdues, land development banks should introduce reforms in their loan policies and procedures. The reforms in loan policies and procedures include (a) adoption of scientific appraisal methods for processing of loan proposals; (b) technical appraisal of

loan proposals, especially where loans are given for minor irrigation works or land reclamation, soil conservation, bunding, horticulture/plantation development; (c) computation of the repaying capacity and fixing of the period of loans on a realistic basis; (d) introduction of various safeguards on the lines suggested by the Reserve Bank from time to time, while giving loans for different purposes, such as disbursement of loans in instalments for minor irrigation works or land reclamation, hypothecation of agricultural machinery and equipment as also insurance of assets like pumpsets and tractors; (e) strict adherence to the system of making payment directly to the suppliers in the case of loans for agricultural equipment, machinery and tractors after ensuring the standing of the firms; (f) evolving a procedure for verification of utilization of loans by fixing, among other things, definite periods within which such certificates for each instalment for various types of loans, should be received and prompt foreclosure of loans in the event of delay in receipt of such certificates; (g) fixing of dates for the demand in respect of long-term loans so as to synchronize with the harvesting seasons; and (h) recovery of loans to be effected twice a year, i.e., from *kharif* and *rabi* crops except in mono-crop areas. (No. 47)

110. Land development banks should introduce suitable measures to ensure continuous touch with the borrowers of the banks until the loan is fully repaid. The banks should also maintain a close watch on the economic benefits derived by the borrowers from the investment made out of the banks' loans. Such an arrangement is particularly necessary in the case of loans for development of orchards and plantations which call for a long gestation period. The system to be evolved in this connexion should be in the form of periodical reporting by the field staff, and maintaining the relevant information in the form of a credit card or a file for each borrower. Besides, it is necessary that the banks ensure supply of production credit and agricultural requirements like seeds and fertilizers to their borrowers as also assistance by way of technical guidance from the extension staff or the staff in the technical departments of the state governments in order to enable the borrowers to adopt the proposed cropping pattern and to improve their repaying capacity. (No. 49)

111. The various administrative measures for bringing down overdues include (a) strengthening of the staff at the primary level with a view to ensuring that the staff for functions such as appraisal, follow-up measures and recovery of loans is adequate and (b) creating suitable cadres for various categories of staff in primary banks. For this purpose, the state governments should provide necessary subsidy to the banks especially in the states where they are financially weak. It would also

be useful to organize recovery drives for long-term loans at the marketing seasons in conjunction with the efforts of the short-term credit institutions and enlist the co-operation of the Co-operation and Revenue Departments of the state governments. The state governments will be helping the banks considerably if they refrain from issuing instructions for suspension of recovery of co-operative dues as has been noticed in some states. (No. 49)

112. One of the reasons for the defaults in certain instances is that the borrowers of primary banks are not able to repay loans because of non-availability or considerable delay in obtaining electric connexions for their wells or tubewells. To avoid such situations, close co-ordination between the state electricity boards and the central land development banks is essential. This is lacking now. Attempts to bring about such co-ordination in the ARC-refinanced scheme areas are being made by the Rural Electrification Corporation. The position in the non-ARC scheme areas should be taken up by the Rural Electrification Corporation with the state electricity board so that in such areas also a well or tubewell does not lie unused because of lack of electric power. Such areas should be identified by the central co-operative land development banks and the state electricity boards so that the state electricity boards can prepare special schemes for these areas and submit them to the Rural Electrification Corporation which has introduced a special category of schemes to cover such purposes. (No. 50)

113. The recommendations made by the Study Team on Overdues of Co-operative Credit Institutions (1974) in respect of the following are endorsed for application to co-operative land development banks:

(a) The managing committee or the board of directors of primary land development banks should consider it their prime responsibility to help the banks in effecting recoveries.

(b) Wilful defaulters should be dealt with severely.

(c) The state government should not provide financial assistance under any government scheme to the defaulters of co-operative land development banks and other co-operative credit institutions.

(d) Penal interest should be charged on loan instalments for the full period.

(e) A primary land development bank having overdues exceeding 60 per cent continuously for two years may be taken to liquidation or alternative arrangement should be considered for flow of investment credit such as asking the neighbouring land development bank to extend credit in the area or opening a branch of the central land development bank for the purpose. (No. 51)

114. There is no real need to constitute stabilization funds in primary and central land development banks as even under the existing arrangements necessary relief can be provided to individual borrowers and banks to get over the problems arising from failure of crops. However, certain measures, if followed by banks, will help them in facing problems of overdues in areas affected by natural calamities. These are as under:

(a) The banks should take into account the specific needs and conditions of each area while formulating schemes. Thus, in drought-prone areas it will be advisable to encourage cultivators taking up schemes for dry farming. Similarly, in areas where the position regarding sub-soil water resources is not satisfactory, it will be helpful if loans for minor irrigation works are provided strictly on the basis of detailed investigations made by the state groundwater directorates.

(b) In the case of loans for land levelling in major and medium irrigation project areas and for minor irrigation works, there should not generally be a severe impact of natural calamities in case the technical aspects have been examined before giving the loans unless the drought persists for a long period.

(c) Land development banks should encourage cultivators in making advance repayments or larger payments towards loans when crop conditions are good. (No. 65)

115. There is absolutely no case for writing off long-term co-operative loans. (No. 66)

116. The International Development Association's loans under the agricultural credit projects may be provided as straight loans to the Government of India, 50 per cent of the total loans under each project being released to the Government of India after the effective date when all the relevant terms and conditions have been complied with by the parties concerned, viz., the Government of India, the Agricultural Refinance Corporation, state governments concerned and lending banks. The release of the balance of 50 per cent may be made after a general review by IDA of the operation of the project. This basic change in the procedure of IDA loans which will be in keeping with the actualities of the agricultural credit projects will enable the Government of India to get a part of the soft loans on the effective date and will also enable the land development banking structure to finance project schemes without the compulsion to lend but according to the natural needs of the situation and thereby avoid the existing danger of hurried lending which will aggravate the present serious problem of overdues in the long-term co-operative credit structure. The Government of India and the Agricultural Refinance Corporation may examine this recommendation on a priority basis. (No. 71)

CHAPTER 12: PROBLEMS OF MANAGEMENT AND Co-ORDINATION

117. A review of the position regarding the staff in land development banks indicates that in terms of functions, conditions of service, methods of recruitment, training etc., there is considerable heterogeneity in the pattern obtaining in the various states. This is partly due to historical reasons and to some extent to regional variations in different parts of the country. At present, land development banks have hardly any definite policy regarding staff, including that at the higher levels. (No. 3)

118. In view of the important role expected to be played by land development banks in planned economic development and the sizeable financial assistance provided by them, it is understandable that the state governments should like to have some control over the management of these institutions. However, if the banks are to work as sound institutions, it is necessary that in the management a high degree of professional skill is introduced and a cadre of personnel who are highly trained in development banking is built up. (No. 5)

119. An examination of the position regarding land development banks indicates that barring a few, the majority have not been able to equip themselves with personnel for management in both quality and quantity. It is necessary that the land development banks should introduce modern management techniques in their operations, a system of continuing analysis of policy and procedures and observe an increasing degree of cost consciousness. (No. 9)

120. As a long-term policy, land development banks should aim at having their own personnel at all levels except probably for certain technical staff. This does not, however, mean that the banks should not utilize the services of the officers in the state governments or of other institutions. Nor is it practicable for the banks to undertake an immediate change in the existing arrangements or replacement of the staff on deputation with their own staff. The objective should be to initiate a process by which the present practice of banks depending heavily on the staff of the state governments is dispensed with, though the senior officers of the concerned department can certainly be associated with the work of banks in an advisory or consultative capacity. (No. 11)

121. Depending on the size of the state as also the nature of the land development banking structure, each central land development bank

should have regional offices generally with an area of operations coterminous with the revenue divisions in the state. A group of such regional offices may be put under the control of zonal offices in due course. The functions of the regional offices should be mainly to provide continuing supervisory link between the head office management personnel and the field level personnel. The regional units should be mainly in the nature of inspection and vigilance units which would also ensure co-ordination and provide two-way communication between the field level and the tehsil and district levels and the apex level. (No. 12)

122. The professional staff should be fully empowered to settle executive and administrative matters. The functions of the democratically elected members of the boards should be confined to policy making and assistance in matters such as popularizing schemes of agricultural development, sale of rural debentures and recovery of loans. (No. 13)

123. Each central land development bank should initiate immediate action for constituting an integrated staff structure comprising (a) Managers at the apex level (operations, administration, finance, accounts and technical); (b) Zonal/Regional Managers (Development/Assistant Development Officers) and inspectors at the zonal/regional level; (c) Managers, loan officers, accountants, technical officers and recovery officers at district levels where the central land development bank has district branches or where there are primary banks at the district level; and (d) Key personnel like managers and chief accountants of the primary banks at sub-division/tehsil/block level. This cadre of personnel should be controlled by a Central Staff Committee of the central land development bank which will be purely a committee of officials under the chief executive officer. (Nos. 14 & 15)

124. The National Co-operative Land Development Banks Federation may prepare a panel of chief executive officers who have the necessary background and experience in order to enable the member-banks to fill the posts of chief executive officers. This panel may consist of (a) persons who have already gained experience and (b) persons who may not have direct experience in all the fields of activities but who can, with suitable orientation, equip themselves to fill the posts of chief executives. This panel could also be set up in pursuance of the decisions taken by the Consultative Council on Co-operation at its meeting held in New Delhi on 24 April 1974 that each state may have a State Level Panel Authority on the lines of the Authority for national level federations. The first alternative is to be preferred, namely, the National Co-operative Land Development Banks Federation being in charge of the work of preparing a panel of chief executive officers.

Such a panel can be constituted from among persons available in organizations such as the Agricultural Credit Department of the Reserve Bank of India, Agricultural Refinance Corporation, land development banks and the state government officers including those from the IAS cadre. (Nos. 16 and 17)

125. It is essential for central land development banks to initiate immediate action in order to implement the Management Trainees Scheme recommended by the Reserve Bank in March 1973 with suitable modifications according to local requirements. The young executives selected under the scheme should be given necessary training in banking and other fields and they should form a core from which in due course the top management personnel can be appointed. (No. 18)

126. It is necessary that the scales of pay and conditions of service of the personnel working in the land development banks should be made sufficiently attractive. The banks would do well in this connexion to have a Staff Services and Recruitment Board consisting of the chairman, the managing director, an economist, a person qualified and experienced in technical aspects of agricultural development and a personnel management specialist. The functions of this Board should be: (a) to lay down policies and procedures pertaining to the recruitment of the staff by prescribing minimum qualifications and experience necessary for the staff; (b) to interview the candidates preceded by a written test and (c) to recruit persons belonging to the senior, middle and primary levels. (No. 20)

127. Norms in respect of numerical strength of various cadres at different levels except for the top personnel like managing director, manager, chief accountant etc., will depend on the volume of business of the bank, including the number of loan accounts, the total advances and outstandings, the area of operations and so on. It will be helpful if a detailed exercise in this connexion can be undertaken by the National Co-operative Land Development Banks Federation for the benefit of its member-banks (No. 21)

128. It is essential to conduct short duration courses (not exceeding 3 months) in various aspects of management training at the training centres organized for the personnel of the land development banks by the state co-operative unions and the National Co-operative Union of India. The training of personnel should not end with the initial course of three months, but it should be a continuous process inasmuch as the basic management training course should be followed by a series of refresher courses for which the College of Agricultural Banking at Poona will have to be suitably equipped and strengthened. In order to enable

the College to conduct various courses for the training of personnel of land development banks, the Reserve Bank may consider including in the faculty staff of the College one or two officers from the central land development banks who have adequate experience in various aspects of the working of these banks. (No. 23)

129. Additionally, it is necessary to provide for the orientation of field personnel through the core personnel who are trained at the College of Agricultural Banking, Poona. These personnel should conduct orientation seminar camps and brief and acquaint the field personnel in respect of the latest policies and programmes pertaining to long-term agricultural credit. (No. 24)

130. The Committee for Co-operative Training may conduct a variety of functionally-oriented courses at the training centres run by the state co-operative unions. The subject matter and contents of the functionally-oriented courses for personnel at different levels may be as follows :

- (1) Special Course for Accountants of the primary banks.
- (2) Special Course in loan appraisal for field personnel like supervisors.
- (3) Familiarization Course in technical matters like study of contour maps, groundwater development, study of revenue records, study of aspects like extending electric connexions in rural areas etc.
- (4) Familiarization Course for recovery of dues including :
 - (a) coercive measures
 - (b) collection at procurement centres, where monopoly procurement is introduced
 - (c) efforts at linking credit with marketing.

This list is not comprehensive but illustrative. A more comprehensive list may be drawn by the Committee for Co-operative Training in consultation with the National Co-operative Land Development Banks Federation. (No. 25)

131. The scheme for technical personnel in land development banks is essentially for providing a nucleus of technical competence in the banks to help the officers of the banks in dealing with schemes, bringing about liaison with the technical departments of the state governments including the state groundwater directorates 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. Such technical personnel in the central land development banks should be sufficiently senior and should receive orientation

training in land development banking so that they have a fair general knowledge of the banking aspects of the schemes, apart from their purely technical aspects. Some of the technical staff may be posted in the banks' zonal offices to assist the banks' district/regional staff in examining the technical feasibility of schemes and effecting liaison with the district level technical officers of the state government like Deputy Director of Agriculture, Horticulture Officer and Engineer of the State Electricity Board. (No. 26)

132. Depending upon the size and scope of developmental schemes financed, the bigger primary land development banks may also have one or two technical officers for field work. Such officers while being under the administrative control of the manager or secretary of the primary land development bank, should work under the technical control and direction of either the technical officers of the central land development bank or under the state government's technical officer like the Deputy Director of Agriculture. Otherwise, they will be wasted on aimless general work. (No. 27)

133. Central land development banks should have a few picked and well-qualified technical officers in subjects like hydrogeology, land levelling and reclamation, dry farming, horticulture etc., depending upon the type of developmental schemes being financed by them. Such staff may, in course of time, be posted in the zonal offices of central land development banks situated in the divisional headquarters and serving a group of regional or district offices. This technical staff should not be in duplication of the technical staff of the state governments. It is obviously impossible and unnecessary for land development banks to have an elaborate technical staff because giving technical advice and effecting technical supervision is the responsibility of the state governments' technical departmental staff which is sufficiently large and widespread and has been built up over the years. (No. 29)

134. The chief executive officer of a central land development bank should be the leader of a team consisting of technical officers (including agricultural economist) and banking officers. It is only in this manner that central land development banks and primary banks, in conjunction with the staff of the state government's technical departments, especially Agriculture, Irrigation, Horticulture etc., be able to play a meaningful role in the actual preparation of local agricultural development schemes instead of leaving this vital work almost entirely to the state government as is largely the position today. Land development banks will thus have a key role to play in the actual formulation of schemes, and for this purpose, they should have trained key technical officers who will be

able to effect liaison with the state governments' technical departments at the headquarters, advise the bank managements in regard to the technical feasibility of schemes, explore the possibilities of having new schemes of productive agricultural lending in their areas in collaboration with the technical departmental staff of the state governments and help in preparing guidelines for scheme preparation for the use of the district or regional offices of central land development banks and primary banks. The direction for field work will have to come from the zonal or district or regional offices of central land development banks which should be manned by a competent, well-trained and specially selected Development Officer/Assistant Development Officers with sufficient banking background and executive experience who will head an informal team consisting of the Deputy Director of Agriculture, Deputy Director of Horticulture, Deputy Registrar of Co-operative Societies and a few others including the Engineer in charge of the district/local office of the State Electricity Board, the district statistical officer, and the regional officer of the state groundwater directorate. (No. 30)

135. The informal team will of course have to draw upon the experience of the staff lower down, viz., the state government's block staff, particularly technical staff and other staff of the primary land development banks. Such an informal team should be able to make meaningful the task of formulation of agricultural development schemes which today is done mostly in the headquarters of the states and then broken down into district and sometimes block plans arbitrarily. Such teams can be formed at the block level also wherever feasible in the case of areas having potential for agricultural development and can be headed by the manager of the primary land development bank. In this effort, of course, as many cultivators as possible should be contacted while formulating the schemes so that they can be finalized taking into account the requirements of the local situation. Special efforts should be made to contact as many small farmers as possible so that their specific problems are taken into account such as the need for longer repayment, while formulating the schemes. Identification of areas suitable for agricultural development schemes, contacting cultivators, including in particular small farmers, will all form part of the detailed work of scheme formulation. The leadership and drive will have to come from the team leader who will be the Development Officer/Assistant Development Officer of the zonal or district or regional office of the central land development bank. To illustrate, for minor irrigation schemes the informal team will meet in the regional office of the central land development bank or elsewhere and discuss the rough outline of a scheme prepared by the Development Officer/Assistant Development Officer of the central land development bank. The team will then find

out the type of data to be supplied by the Deputy Director of Agriculture or regional office of the State Groundwater Directorate regarding groundwater availability, cropping pattern etc., and by the Engineer of the State Electricity Board regarding availability of electric connexions in the scheme area and so forth. Then a draft scheme can be prepared by the Development Officer/Assistant Development Officer to be further discussed and finalized at further meetings of the group. Thus there should be informal team work at the district and block level, the role of co-ordination and preparation of schemes being played by the Development Officer/Assistant Development Officer of the central land development bank. This is as it should be because the schemes are the banks' schemes and not of the governments. Such type of arrangements cannot be played by all central land development banks. But it should be possible for at least some of the banks to make a beginning in this direction. The central land development banks in states such as Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh and Uttar Pradesh will be able to attempt this and make a success of it provided the necessary initiative is taken by the central land development banks and full support is given by the state governments. For this, the government's technical departmental officers should shed their compartmental and individual approach and work as members of a team. The success of this scheme also depends upon the drive, competence and status of the Development Officer/Assistant Development Officer of the central land development bank who should have qualities of leadership, drive and ability for co-ordination. This arrangement will also relieve the government departmental technical officers of scheme preparation work which they do now in isolation and without due regard to the banking aspects and will enable them to concentrate on their main work which, in the case of the Deputy Director for Agriculture, for example, is extension work, ensuring supply of fertilizers and seeds etc. (Nos. 31 and 32)

136. There are arrangements for co-ordination in almost all states at the state level and in some cases at the district level as well. The Agricultural Production Commissioner or Development Commissioner of the state is usually the chairman of the committee at the state level which includes senior officers of the various departments and agencies, viz., Agriculture Department, Co-operation Department, Horticulture Department, Irrigation Department, Groundwater Survey Department/Directorate, State Electricity Board etc. In some states at least the state level committees are quite active and are performing a useful role. Co-ordination at the lower levels seems to be inadequate in most states. There are some states where district committees under the chairmanship of the Collector are constituted to review and deal with

problems in implementation of the schemes sanctioned by the Agricultural Refinance Corporation. However, in several cases, the meetings of the committees are not regularly held. (No. 34)

137. It is of crucial importance that the bank officials and technical officers at the district or regional and block levels work together in informal teams as indicated in recommendation No. 134 and such small teams of officers—both general and technical—of land development banks and the state governments functioning at the district/regional/block levels—will be far better in effecting co-ordination and in making the work of the formal co-ordination committees effective. (No. 34)

138. The co-ordination committees at the state and district levels should include a senior officer of the central land development bank. (No. 34)

139. The Agricultural Production Commissioner/Development Commissioner who is usually the chairman of the state level co-ordination committee should be in charge of all the connected departments of the state government especially Agriculture, Co-operation, Irrigation, Animal Husbandry, Fisheries, Poultry and Horticulture, if he is to be an effective co-ordinator. This is not the case in some states. (No. 34)

140. The role of the Reserve Bank will be even more important in the light of our various suggestions and recommendations contained in this Report. These are as follows:

- (a) The Bank may make available to the National Co-operative Land Development Banks Federation, a panel of names of officers suitable for being appointed as chief executive officers in the central land development banks.
- (b) The Bank may introduce a detailed scheme for regular inspection of at least the bigger primary land development banks, say once in two years, instead of the present system of visits to a few banks at the time of the inspection of central land development banks. 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 Reserve Bank may expand the facilities for training in land development banking at the College of Agricultural Banking, Poona as indicated in recommendation No. 128.
- (d) The Bank may conduct regular and detailed inspections of central land development banks at least once in 18 months instead of much longer intervals as at present. For this purpose,

the inspection staff of the Bank's Agricultural Credit Department should be suitably strengthened. (No. 37)

141. There is need for the Agricultural Refinance Corporation to take more active interest in the actual working of the land development banks and in improving their methods of working. For this purpose, the Agricultural Refinance Corporation may help each central land development bank in preparing a staff development plan, including technical staff, and the most appropriate set-up of staff. The Agricultural Refinance Corporation can also help the banks actively in identifying new areas of investment to enable them to maintain the tempo in their loaning operations. (No. 38)

142. The Agricultural Refinance Corporation's relationship with the land development banks can be further strengthened by its providing orientation training facilities to the management trainees or senior executives of the banks and by introducing a scheme for exchange of officers which will be to the benefit of both the institutions, viz., the Agricultural Refinance Corporation and the land development banks. (No. 38)

143. There is considerable scope for the National Co-operative Land Development Banks Federation helping land development banks in their further development. The Federation should have a Division of Studies and Research headed by a very senior officer who should be helped by other officers and supporting staff. This Division should undertake detailed studies of the various aspects of the working of land development banks, especially the banks in the co-operatively 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. Further, the Federation will have to devote greater attention to the banks in co-operatively weak states where a programme for their reorganization is to be taken up in pursuance of the recommendations contained in this Report. The Federation could also play an active role in the collection and publication of statistical data in respect of land development banks by means of Reviews, Bulletins and Brochures on a regular and planned basis. (Nos. 40 and 41)

CHAPTER 13: LEGISLATION

144. In several states, some of the important provisions in the Maharashtra Co-operative Societies Act such as those relating to public enquiry, priority of mortgage in favour of land development banks,

granting of loans to tenants, recovery of loans as arrears of land revenue and constitution of guarantee funds to meet losses have already been incorporated either fully or with certain modifications. There are, however, states like Assam, Himachal Pradesh, Jammu & Kashmir and Tripura where they are yet to be adopted. These provisions are necessary to cut down delays in sanctioning loan applications and to enable the land development banks to adopt progressive loaning policies such as giving loans to tenants etc. These provisions also include adequate powers to the banks for effecting recovery of overdue loans as arrears of land revenue. It is, therefore, recommended that each state may review the present legal framework regarding the working of land development banks and enact suitable provisions on the lines of those in the Maharashtra Co-operative Societies Act. Such a step will go a long way in helping the banks in increasing their lending operations. (No. 11)

145. In many states, land reforms legislation has been enacted, one of the objects being to fix a ceiling on individual land holding. This has created in some instances a sense of uncertainty in the minds of the borrowers of the land development banks. In a few states such as Jammu & Kashmir, Himachal Pradesh, Orissa and West Bengal the land reforms legislation (as enacted) does not provide for transfer of liability on account of loans taken from land development banks 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 the borrowers. The state governments may make suitable provisions in the land reforms legislation so that the interests of land development banks are not affected by transfer of land due to land ceilings. (No. 13)

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16 December 1974

STATEMENTS AND ANNEXURES

STATEMENT 1

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN ANDHRA PRADESH

Rs Lakhs

	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank							
1. Membership	268	103	174	182	182	183	184
2. Owned Funds	35.35	92.56	311.63	645.53	761.60	906.51	1013.08
3. Deposits & Other Borrowings	39.03	103.33	164.79	159.07	155.24	215.36	318.40
4. Debentures Outstanding	415.16	733.50	3179.51	8547.60	10340.28	11833.46	12234.79
5. Working Capital	483.53	929.39	3655.93	9352.60	11639.37	13364.11	14012.18
6. Fresh Advances during the year	64.47	183.85	1122.01	2068.21	2008.31	1518.47	684.63
7. Loans Outstanding at the close of the year	342.09	713.52	2832.08	7649.57	9036.35	9701.16	9571.97
8. Overdues	—	—	0.03	7.10	6.51	47.49	162.34
9. Percentage of Overdues to Demand	—	—	N.A.	1.9	1.5	7.6	19.5
Primary Co-operative Land Development Banks							
1. Number of Banks	57	105	176	181	181	181	184
2. Membership	95882	198616	237798	430878	459199	477700	515275
3. Owned Funds	32.48	68.06	258.02	709.49	904.48	1028.53	1004.05
4. Deposits & Other Borrowings	335.08	715.72	2886.98	7530.97	8935.82	14544.57	9728.88
5. Debentures Outstanding	—	—	—	—	—	—	—
6. Working Capital	367.57	783.78	3145.00	8240.46	10345.68	17128.96	11721.51
7. Fresh Advances during the year	58.99	175.52	1279.16	2068.21	1980.80	1369.91	1057.07
8. Loans Outstanding at the close of the year	341.83	719.52	2821.91	7534.44	8374.12	14570.74	9743.11
9. Overdues	2.53	2.49	63.60	51.51	167.16	153.27	450.69
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	5.3	12.8	11.7	27.7

1. The Andhra Pradesh State Co-operative Land Mortgage Bank came into existence in 1962 with the merger of Andhra Central Land Mortgage Bank (Formed in 1953) and erstwhile Hyderabad Central Co-operative Land Mortgage Bank (Formed in 1951-52).

2. Includes data relating to the erstwhile Hyderabad Central Land Mortgage Bank.

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STATEMENT 2

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN ASSAM

Rs Lakhs

	1938-9	1945-6*	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership					1990	1077	41	42	53	22
2. Owned Funds					10.43	11.26	13.43	15.12	17.70	17.39
3. Deposits & Other Borrowings ..					6.06	7.30	12.93	13.98	12.97	13.03
4. Debentures Outstanding					—	—	10.00	20.00	40.00	49.76
5. Working Capital					16.49	18.56	36.36	50.18	71.33	81.18
6. Fresh Advances during the year ..					0.24	2.53	10.31	12.55	12.11	13.21
7. Loans Outstanding at the close of the year					14.04	17.63	30.28	41.05	51.21	62.09
8. Overdues					2.25	4.59	2.02	2.41	3.25	5.00
9. Percentage of Overdues to Demand					N.A.	N.A.	58.6	57.5	63.0	68.4
Primary Co-operative Land Development Banks										
1. Number of Banks	5	4	2	2	5	16	16	16	16	16
2. Membership	1828	1373	254	275	1269	3910	7206	8124	8628	9179
3. Owned Funds	1.65	1.35	0.62	0.52	0.84	2.98	5.78	7.95	10.17	11.84
4. Deposits & Other Borrowings ..	2.33	0.10	0.02	0.06	4.73	16.55	29.94	40.75	50.26	62.01
5. Debentures Outstanding	0.46	0.59	—	—	—	—	—	—	—	—
6. Working Capital	4.44	2.04	0.64	0.57	5.57	19.53	35.72	52.23	63.21	79.10
7. Fresh Advances during the year ..	0.02	0.04	0.11	0.05	1.58	2.84	9.30	12.74	10.43	15.85
8. Loans Outstanding at the close of the year	2.91	1.08	0.47	0.52	4.94	16.65	29.56	40.60	49.00	61.76
9. Overdues	2.83	1.00	0.02	0.49	0.62	4.53	2.41	3.22	3.86	6.49
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	68.9	67.8	70.2	72.0

*Data relating to 1944-5 instead of 1945-6.

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANK IN BIHAR

Rs Lakhs

				1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
1.	Membership (Regular)			4506	11365	39564	43400	79025	106488
2.	Owned Funds	..		11.40	24.19	104.45	169.86	240.69	310.17
3.	Deposits & Other Borrowings		..	—	4.05	71.58	241.39	314.19	407.34
4.	Debentures Outstanding	..		—	50.00	734.19	1264.70	2106.60	3343.12
5.	Working Capital	..	..	11.40	78.24	910.22	1763.33	2814.99	4226.56
6.	Fresh Advances during the year	..	..	2.69	28.00	316.82	688.00	947.42	1219.28
7.	Loans Outstanding at the close of the year			4.43	63.67	807.90	1453.89	2305.24	3356.06
8.	Overdues	—	0.32	17.14	59.34	62.57	122.50
9.	Percentage of Overdues to Demand	—	N.A.	32.3	32.0	39.0	42.0

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COMMITTEE ON LAND DEVELOPMENT BANKS

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership ..			73519	152319	301196	451615	486687	505027	536793	
2. Owned Funds ..			27.31	138.27	385.68	872.70	1034.26	1181.16	1314.41	
3. Deposits & Other Borrowings			118.91	62.55	140.51	115.46	44.20	86.61	556.81	
4. Debentures Outstanding			200.00	1038.92	3609.33	9298.97	11216.28	12972.77	13848.89	
5. Working Capital			346.23	1239.74	4135.52	10287.13	12853.74	14948.12	16586.31	
6. Fresh Advances during the year			100.41	375.91	1024.61	2108.30	2187.80	1545.85	1944.40	
7. Loans Outstanding at the close of the year ..			240.76	983.66	3171.15	7959.72	9292.26	9937.52	11241.99	
8. Overdues			102.36	90.22	120.28	40.58	48.05	275.43	825.77	
9. Percentage of Overdues to Demand			N.A.	N.A.	N.A.	4.7	5.3	25.5	61.3	
Primary Co-operative Land Development Banks										
1. Number of Banks				5	5	5	5	5	4	
2. Membership ..			25860	10581	9195	8799	8212	6762		
3. Owned Funds ..			16.55	17.56	17.84	18.50	19.95	17.63		
4. Deposits & Other Borrowings			105.19	63.93	25.83	30.29	40.31	29.22		
5. Debentures Outstanding			—	—	—	—	—	—		
6. Working Capital ..			121.74	81.50	43.67	69.71	74.65	64.89		
7. Fresh Advances during the year			4.33	20.97	6.58	8.51	10.18	7.68		
8. Loans Outstanding at the close of the year ..			104.79	60.29	29.37	31.61	33.86	27.96		
9. Overdues			5.31	10.32	7.37	8.51	12.85	8.70		
10. Percentage of Overdues to Demand			N.A.	N.A.	53.8	60.0	63.1	66.2		

STATEMENT 5

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN HARYANA

										Rs Lakhs			
										1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank													
1. Membership	..	..	..	..	..	..	..	..	..	24	26	26	29
2. Owned Funds	..	..	..	..	..	..	..	..	..	122.74	181.32	214.43	319.64
3. Deposits & Other Borrowings	..	..	..	..	..	..	..	..	..	106.05	55.68	283.95	24.05
4. Debentures Outstanding	..	..	..	..	..	..	..	..	..	1566.72	2284.65	2784.48	3764.01
5. Working Capital	..	..	..	..	..	..	..	..	..	1795.51	2574.44	3372.29	4147.48
6. Fresh Advances during the year	..	..	..	..	..	..	..	..	..	670.14	779.57	657.17	831.32
7. Loans Outstanding at the close of the year	..	..	..	..	..	..	..	..	..	1566.06	2216.34	2658.85	3184.96
8. Overdues	..	..	..	..	..	..	..	..	..	—	—	—	—
9. Percentage of Overdues to Demand	..	..	..	..	..	..	..	..	..	—	—	—	—
Primary Co-operative Land Development Banks													
1. Number of Banks	..	..	..	..	..	..	..	..	..	25	27	27	29
2. Membership	..	..	..	..	..	..	..	..	..	37505	47928	59476	73476
3. Owned Funds	..	..	..	..	..	..	..	..	..	114.59	159.74	200.49	255.27
4. Deposits & Other Borrowings	..	..	..	..	..	..	..	..	..	1568.28	2210.90	2653.56	3183.25
5. Debentures Outstanding	..	..	..	..	..	..	..	..	..	—	—	—	—
6. Working Capital	..	..	..	..	..	..	..	..	..	1682.87	2479.72	2995.09	3624.55
7. Fresh Advances during the year	..	..	..	..	..	..	..	..	..	700.90	923.08	721.14	1218.80
8. Loans Outstanding at the close of the year	1580.88	2230.04	2679.18	3210.22
9. Overdues	0.16	—	0.54	1.90
10. Percentage of Overdues to Demand	0.16	—	0.19	0.28

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STATEMENT 6

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN HIMACHAL PRADESH

	Rs Lakhs					
	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank						
1. Membership	69	1133	3291	4492	5091	5354
2. Owned Funds	1.07	4.65	13.01	16.11	19.52	20.15
3. Deposits & Other Borrowings	—	16.92	21.36	26.73	29.68	30.52
4. Debentures Outstanding	—	11.72	81.20	117.00	155.77	172.70
5. Working Capital	1.07	21.57	115.57	163.02	208.77	227.65
6. Fresh Advances during the year	—	8.63	31.40	38.82	34.89	12.95
7. Loans Outstanding at the close of the year	—	20.30	99.17	129.29	159.78	167.43
8. Overdues	—	0.22	6.12	8.43	17.22	27.09
9. Percentage of Overdues to Demand	—	N.A.	45.8	48.5	69.2	83.6
Primary Co-operative Land Development Banks						
1. Number of Banks			1	1	1	1
2. Membership			593	724	895	991
3. Owned Funds			1.49	2.10	2.85	3.04
4. Deposits & Other Borrowings			11.70	16.05	22.53	23.60
5. Debentures Outstanding			—	—	—	—
6. Working Capital			13.19	17.80	25.10	26.52
7. Fresh Advances during the year			5.47	4.94	7.60	3.25
8. Loans Outstanding at the close of the year			11.41	15.39	21.85	23.14
9. Overdues			0.01	0.31	0.87	0.64
10. Percentage of Overdues to Demand			2.9	24.4	43.3	24.5

STATEMENT 7

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANK IN JAMMU & KASHMIR

	Rs Lakhs				
	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank					
1. Membership	5019	18836	21737	23472	25790
2. Owned Funds	4.28	19.57	22.47	24.89	28.25
3. Deposits & Other Borrowings	2.00	22.70	33.65	22.83	31.30
4. Debentures Outstanding ..	12.00	150.67	197.20	233.12	292.56
5. Working Capital ..	18.28	192.94	272.51	307.43	385.25
6. Fresh Advances during the year ..	4.53	48.23	52.59	49.80	64.59
7. Loans Outstanding at the close of the year	16.01	154.99	201.42	240.41	290.44
8. Overdues	0.20	1.26	1.52	3.15	5.04
9. Percentage of Overdues to Demand	N.A.	13.4	18.1	29.7	30.6

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STATEMENT 8

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN KARNATAKA (ERSTWHILE MYSORE STATE)

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	209	293	354	372	117	161	170	170	174	176
2. Owned Funds	1.16	3.96	7.06	13.16	57.94	150.19	329.08	371.00	574.75	763.32
3. Deposits & Other Borrowings ..	—	—	7.00	6.00	22.22	101.81	35.24	18.33	8.25	85.23
4. Debentures Outstanding	9.26	20.00	70.99	143.90	405.39	1379.94	4123.02	4902.56	5936.43	6994.06
5. Working Capital	10.42	23.96	85.05	163.06	485.55	1631.94	4487.34	5539.42	6782.86	8126.35
6. Fresh Advances during the year ..	2.48	5.57	22.27	21.61	96.65	391.30	762.12	934.98	1042.16	1603.56
7. Loans Outstanding at the close of the year	9.56	24.73	75.62	136.40	388.74	1283.55	3655.56	4328.63	5043.51	6235.27
8. Overdues	0.09	0.12	0.09	2.50	1.01	29.31	133.29	113.76	125.90	167.58
9. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	30.3	35.9	27.7	32.8
Primary Co-operative Land Development Banks										
1. Number of Banks	37	75	79	83	118	160	170	171	173	175
2. Membership	5081	13896	27274	45625	111390	183827	326327	352017	378524	434823
3. Owned Funds	1.21	3.25	7.91	12.21	40.48	110.23	302.63	356.60	473.97	647.35
4. Deposits & Other Borrowings ..	8.85	24.60	75.66	136.05	399.16	1223.27	3598.82	4242.42	4975.48	6143.37
5. Debentures Outstanding	—	—	—	—	—	—	—	—	—	—
6. Working Capital	10.06	27.85	83.57	148.27	439.64	1333.50	3901.50	4714.71	5768.32	7246.83
7. Fresh Advances during the year ..	2.52	5.94	22.35	21.13	96.67	371.16	706.71	967.64	1152.49	1615.78
8. Loans Outstanding at the close of the year	8.96	24.97	76.59	143.34	383.32	1209.69	3488.79	4150.41	4900.22	6051.83
9. Overdues	0.08	0.11	1.24	2.48	15.66	62.79	248.77	271.35	309.73	405.27
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	48.0	47.8	43.0	46.6

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	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	1828	2756	3686	5683	1430	1544	20	22	22	23
2. Owned Funds	1.13	2.96	1.76	3.89	40.41	51.73	78.41	85.53	115.76	136.97
3. Deposits & Other Borrowings ..	—	—	5.28	4.60	4.48	26.01	44.65	65.35	98.99	140.23
4. Debentures Outstanding	11.31	15.00	16.00	29.66	89.62	353.54	729.75	867.77	1120.23	1284.12
5. Working Capital	12.44	17.96	23.04	38.14	134.51	431.28	852.81	1052.73	1362.70	1617.07
6. Fresh Advances during the year ..	3.50	1.54	7.48	5.20	19.86	90.82	129.87	155.93	264.53	283.36
7. Loans Outstanding at the close of the year	12.16	13.35	22.21	35.88	101.56	308.82	615.13	732.22	950.26	1183.10
8. Overdues	—	0.05	0.20	0.66	1.01	11.58	16.22	23.18	17.10	29.04
9. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	20.5	43.3	26.7	36.6
Primary Co-operative Land Development Banks										
1. Number of Banks .. .. .			..		10	16	19	22	22	22
2. Membership .. .. .			..		15807	30115	45111	54124	65893	76998
3. Owned Funds .. .. .			..		7.14	21.50	46.84	59.23	78.76	107.66
4. Deposits & Other Borrowings ..			..		61.06	296.91	615.68	728.03	945.04	1184.21
5. Debentures Outstanding .. ..			..		—	—	—	—	—	—
6. Working Capital .. .. .			..		68.20	318.41	662.52	823.42	1072.56	1351.44
7. Fresh Advances during the year ..			..		6.04	88.56	117.08	155.38	268.42	295.03
8. Loans Outstanding at the close of the year .. .. .	..	..	..	..	56.05	278.39	602.66	720.99	947.12	1187.06
9. Overdues .. .. .	..	..	..	..	1.53	5.70	17.67	21.86	22.73	40.35
10. Percentage of Overdues to Demand	..	..	..	..	N.A.	N.A.	35.2	37.1	32.8	42.3

STATEMENT 10
PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN MADHYA PRADESH

	Rs Lakhs							
	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank								
1. Membership		27	20	44	44	44	44	44
2. Owned Funds		—	—	48.33	131.55	154.06	205.54	288.17
3. Deposits & Other Borrowings		13.64	20.02	81.89	259.18	91.38	46.52	76.51
4. Debentures Outstanding		70.00	39.41	396.27	1588.81	2160.53	2908.39	3834.45
5. Working Capital		83.65	59.43	526.49	1979.54	2478.63	3264.65	4346.78
6. Fresh Advances during the year		12.25	6.79	186.15	546.58	559.93	751.52	1196.43
7. Loans Outstanding at the close of the year		58.36	30.77	447.21	1601.02	1993.65	2550.20	3490.28
8. Overdues		2.62	3.46	7.98	61.95	93.50	106.68	100.04
9. Percentage of Overdues to Demand		N.A.	N.A.	N.A.	37.8	42.2	37.3	28.1
Primary Co-operative Land Development Banks								
1. Number of Banks	26	26	21	43	43	43	43	43
2. Membership	11812	22525	15243	30886	78101	86136	101539	143918
3. Owned Funds	2.75	4.50	2.89	30.67	110.06	151.30	207.52	359.76
4. Deposits & Other Borrowings	27.71	61.90	32.81	523.40	1852.76	2122.90	2664.51	3591.91
5. Debentures Outstanding	—	—	—	—	—	—	—	—
6. Working Capital	30.46	66.02	35.70	554.07	1962.82	2393.09	3036.37	4155.48
7. Fresh Advances during the year	6.26	13.17	6.82	187.65	647.37	575.10	764.69	1227.31
8. Loans Outstanding at the close of the year	27.31	62.54	33.67	453.90	1689.20	2070.93	2643.29	3624.61
9. Overdues	1.04	4.45	6.59	15.28	91.24	119.78	145.34	175.00
10. Percentage of Overdues to Demand			N.A.	N.A.	36.4	38.3	48.9	46.9

STATEMENT 11

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN MAHARASHTRA (ERSTWHILE BOMBAY)

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	726	683	764	1132	7558	4944	5388	5362	3031	723831
2. Owned Funds	4.22	5.45	8.63	10.32	53.30	399.43	914.30	1089.18	1153.65	2805.15
3. Deposits & Other Borrowings	0.21	1.14	5.05	1.16	124.91	178.16	306.64	216.04	275.25	466.21
4. Debentures Outstanding	16.76	35.00	74.00	156.31	536.31	4996.12	12313.71	14484.38	16258.42	17410.09
5. Working Capital	21.19	41.59	87.68	167.79	714.52	5573.71	13534.65	16896.00	18803.42	22183.03
6. Fresh Advances during the year	8.11	3.32	18.98	14.88	214.61	1520.36	2915.21	1879.94	1327.82	1618.90
7. Loans Outstanding at the close of the year	19.26	28.75	54.34	103.91	575.68	4605.84	10421.16	11556.81	12122.18	13935.00
8. Overdues	—	0.27	0.59	6.96	22.83	123.00	142.71	655.85	297.67	2101.84
9. Percentage of Overdues to Demand	—	N.A.	N.A.	N.A.	N.A.	N.A.	13.0	49.1	32.1	84.8
Primary Co-operative Land Development Banks										
1. Number of Banks	14	16	19	18	31	27	27	26	26	
2. Membership	7840	17353	20009	32645	127011	333182	561746	592243	610327	
3. Owned Funds	2.78	5.14	11.05	19.98	35.01	582.92	1598.31	1876.50	1987.41	
4. Deposits & Other Borrowings	21.53	28.31	46.17	92.73	437.17	4699.17	10509.45	11439.63	12122.17	
5. Debentures Outstanding	—	—	8.59	7.62	—	—	—	—	—	
6. Working Capital	24.31	33.45	65.82	122.50	472.18	5282.09	12107.76	16597.63	16772.24	
7. Fresh Advances during the year	8.23	3.24	14.43	15.21	204.30	1521.19	3001.31	1793.37	1716.05	
8. Loans Outstanding at the close of the year	22.30	31.43	58.95	104.21	453.18	4876.07	10909.56	11899.27	12512.98	
9. Overdues	0.87	1.16	3.28	8.80	25.63	256.53	450.67	920.02	710.38	
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	30.3	53.5	39.2	

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STATEMENT 12

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN ORISSA

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COMMITTEE ON LAND DEVELOPMENT BANKS

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	65	1698	4346	9377	5165	7873	2084	54	55	56
2. Owned Funds	0.52	0.85	1.42	2.89	17.31	35.52	87.48	122.36	133.83	148.41
3. Deposits & Other Borrowings ..	—	0.11	5.06	13.43	0.59	13.20	16.02	47.40	107.54	145.19
4. Debentures Outstanding	—	2.65	5.00	10.00	67.59	294.41	1015.81	1592.11	1687.31	1915.67
5. Working Capital	0.52	3.61	11.48	26.31	85.49	343.19	1119.31	1597.85	1981.81	2287.04
6. Fresh Advances during the year ..	—	1.06	1.93	6.37	12.39	70.08	344.94	363.45	297.69	257.11
7. Loans Outstanding at the close of the year	—	3.27	10.35	20.04	64.87	272.34	939.60	1228.66	1469.40	1615.53
8. Overdues	—	—	—	0.03	0.32	2.37	4.96	8.83	39.74	85.75
9. Percentage of Overdues to Demand	—	—	—	—	N.A.	N.A.	5.0	12.8	24.0	44.3
Primary Co-operative Land Development Banks										
1. Number of Banks					10	37	54	54	55	55
2. Membership					2177	49960	54882	73276	80931	90785
3. Owned Funds					0.34	14.75	68.96	103.45	117.96	132.74
4. Deposits & Other Borrowings ..					3.81	239.95	919.77	1232.50	1466.12	1613.02
5. Debentures Outstanding					—	—	—	—	—	—
6. Working Capital					4.15	254.70	988.73	1467.57	1715.43	1918.91
7. Fresh Advances during the year ..					4.03	67.29	396.20	436.17	248.10	281.02
8. Loans Outstanding at the close of the year					3.48	231.13	898.46	1290.26	1473.82	1626.85
9. Overdues					—	2.28	17.06	53.21	87.50	134.56
10. Percentage of Overdues to Demand					—	N.A.	16.0	46.1	55.2	54.4

STATEMENT 13

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANK IN PONDICHERY

						Rs Lakhs	
						1960-61	1965-6
						1969-70	1970-71
						1971-2	1972-3
Central Co-operative Land Development Bank							
1. Membership .. .. .	..	..	..	..	..	90	580
2. Owned Funds .. .. .	..	..	..	..	..	1.25	6.21
3. Deposits & Other Borrowings .. .. .	..	..	..	..	..	—	7.71
4. Debentures Outstanding						—	—
5. Working Capital .. .. .	..	..	..	..	..	1.25	13.92
6. Fresh Advances during the year .. .. .	..	..	..	..	..	0.75	5.84
7. Loans Outstanding at the close of the year						0.75	13.18
8. Overdues	—	0.09
9. Percentage of Overdues to Demand	—	N.A.

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STATEMENT 14

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN PUNJAB

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership ..	—	—	—	—	12164	18	33	34	34	42
2. Owned Funds ..	—	—	—	—	32.95	61.04	233.93	291.78	319.77	370.15
3. Deposits & Other Borrowings ..	—	—	—	—	—	4.59	176.51	238.47	20.36	266.33
4. Debentures Outstanding ..	—	—	—	—	30.00	467.82	3448.90	5116.98	6486.84	7694.53
5. Working Capital ..	—	—	—	—	62.95	533.45	3859.34	5760.17	7000.96	8574.33
6. Fresh Advances during the year.. ..	—	—	—	—	30.82	163.78	1582.44	1800.75	1141.42	1523.54
7. Loans Outstanding at the close of the year ..	—	—	—	—	64.62	440.14	3281.51	4684.97	5227.09	5993.83
8. Overdues	—	—	—	—	0.80	—	—	—	—	28.75
9. Percentage of Overdues to Demand	—	—	—	—	N.A.	—	—	—	—	3.7
Primary Co-operative Land Development Banks										
1. Number of Banks	10	9	—	—	—	19	33	34	35	41
2. Membership ..	4053	3388	—	—	—	30150	84503	114521	135006	166002
3. Owned Funds ..	1.79	1.35	—	—	—	53.98	253.00	360.17	428.14	526.21
4. Deposits & Other Borrowings	11.60	1.66	—	—	—	444.56	3282.97	4689.96	5217.76	5958.51
5. Debentures Outstanding ..	—	—	—	—	—	—	—	—	—	—
6. Working Capital ..	13.39	3.01	—	—	—	498.54	3535.97	5235.29	5882.53	6890.90
7. Fresh Advances during the year.. ..	0.17	—	—	—	—	175.37	1789.29	1995.61	1519.58	1626.52
8. Loans Outstanding at the close of the year ..	10.87	1.57	—	—	—	457.85	3336.03	4767.22	5329.39	6098.19
9. Overdues	5.92	0.80	—	—	—	0.57	1.14	17.61	21.78	96.87
10. Percentage of Overdues to Demand	N.A.	N.A.	—	—	—	N.A.	0.04	3.6	2.7	10.7

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COMMITTEE ON LAND DEVELOPMENT BANKS

STATEMENT 15

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN RAJASTHAN

Rs Lakhs

	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank								
1. Membership			213	44	52	53	53	56
2. Owned Funds			6.52	24.80	79.73	107.76	134.04	156.52
3. Deposits & Other Borrowings			—	—	56.35	95.21	56.53	1.97
4. Debentures Outstanding			—	90.00	768.10	1174.12	1561.08	1922.79
5. Working Capital			6.52	114.80	904.18	1419.53	1819.11	2166.57
6. Fresh Advances during the year			5.39	37.88	378.53	464.84	359.21	372.53
7. Loans Outstanding at the close of the year			5.90	91.07	791.87	1193.39	1389.13	1604.99
8. Overdues			0.01	1.01	4.50	11.27	77.55	122.27
9. Percentage of Overdues to Demand			N.A.	N.A.	4.0	15.1	32.2	48.0
Primary Co-operative Land Development Banks								
1. Number of Banks	10	10	45	54	37	37	37	35
2. Membership	269	271	9787	29084	80962	97963	116345	134223
3. Owned Funds	0.06	0.07	2.42	9.68	77.22	117.98	148.69	182.83
4. Deposits & Other Borrowings	0.16	0.11	6.66	90.37	843.94	1197.67	1399.03	1602.23
5. Debentures Outstanding	—	—	—	—	—	—	—	—
6. Working Capital	0.21	0.29	9.08	101.05	921.16	1419.07	1659.04	1949.63
7. Fresh Advances during the year	0.01	0.03	4.90	32.16	345.19	486.32	344.64	381.25
8. Loans Outstanding at the close of the year	0.12	0.15	6.44	80.84	781.40	1186.31	1417.89	1657.90
9. Overdues	0.09	0.12	0.93	2.21	20.22	45.71	102.49	160.67
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	31.3	36.1	47.6	53.4

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STATEMENT 16

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN TAMIL NADU (ERSTWHILE MADRAS)

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COMMITTEE ON LAND DEVELOPMENT BANKS

	Rs Lakhs									
	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	592	622	698	401	349	323	364	402	223	224
2. Owned Funds	10.88	28.49	45.96	39.31	57.75	174.56	382.71	621.96	748.68	896.32
3. Deposits & Other Borrowings	32.94	24.14	10.08	22.08	192.76	50.79	111.08	131.08	151.89	146.20
4. Debentures Outstanding	160.56	324.80	508.77	469.35	712.16	2220.74	6325.26	8576.40	10672.22	12816.59
5. Working Capital ..	204.38	377.43	564.81	543.91	962.67	2446.09	6819.06	9611.83	11923.96	14245.33
6. Fresh Advances during the year	58.53	42.80	82.27	57.85	193.24	337.52	1592.65	2601.83	2124.51	2270.39
7. Loans Outstanding at the close of the year ..	189.18	242.39	435.25	370.76	678.52	1784.57	5449.58	7543.30	8940.14	10299.08
8. Overdues	—	—	—	—	—	—	7.30	8.56	14.58	37.36
9. Percentage of Overdues to Demand	—	—	—	—	—	—	1.6	2.8	2.2	5.7
Primary Co-operative Land Development Banks										
1. Number of Banks ..	110	119	129	73	94	104	173	223	223	223
2. Membership	47153	84125	151459	101484	155165	95394	246370	310417	426482	474506
3. Owned Funds	15.32	27.08	44.55	37.13	65.92	156.87	417.31	605.59	728.70	949.79
4. Deposits & Other Borrowings	189.18	242.26	429.18	362.48	654.56	1789.02	5465.90	7560.09	8960.94	10320.93
5. Debentures Outstanding	2.99	0.08	—	—	—	—	—	—	—	—
6. Working Capital ..	207.49	269.42	473.73	401.38	720.48	1945.89	5882.21	8883.44	10527.41	12271.24
7. Fresh Advances during the year	59.43	41.18	84.20	55.47	201.95	329.95	1428.10	2431.21	2233.92	2350.61
8. Loans Outstanding at the close of the year ..	192.58	245.24	452.63	374.20	668.37	1805.11	5410.16	7574.67	9235.32	10814.13
9. Overdues	1.28	0.36	1.90	3.81	3.08	12.61	44.18	77.64	133.09	208.49
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	14.9	17.5	18.8	21.3

STATEMENT 17
PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANK IN TRIPURA

		Rs Lakhs					
		1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank							
1. Membership		625	1175	1457	1494	1497	1543
2. Owned Funds .. ..	..	1.22	1.98	2.18	2.20	2.21	2.25
3. Deposits & Other Borrowings	..	—	1.00	1.82	1.97	1.71	7.07
4. Debentures Outstanding ..		—	—	—	—	—	—
5. Working Capital		1.23	2.98	4.00	4.73	4.48	9.96
6. Fresh Advances during the year		0.39	0.47	0.92	0.44	0.09	0.36
7. Loans Outstanding at the close of the year	..	0.39	2.30	3.63	3.83	3.70	3.91
8. Overdues		—	0.13	0.25	0.33	0.41	0.51
9. Percentage of Overdues to Demand	—	N.A.	52.1	58.0	65.1	81.0

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STATEMENT 18

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN UTTAR PRADESH

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	—	—	—	—	604	66235	270817	346154	436548	436548
2. Owned Funds	—	—	—	—	16.03	95.10	468.52	680.49	909.09	1083.33
3. Deposits & Other Borrowings	—	—	—	—	0.01	202.28	623.42	944.16	924.39	1089.80
4. Debentures Outstanding	—	—	—	—	—	617.75	5874.50	7756.60	10515.67	13136.43
5. Working Capital	—	—	—	—	16.04	915.13	6966.44	9693.44	12777.24	16047.46
6. Fresh Advances during the year	—	—	—	—	2.72	596.68	1707.33	2162.25	2399.46	3147.31
7. Loans Outstanding at the close of the year ..	—	—	—	—	2.72	812.65	5527.08	7615.94	9567.07	12070.10
8. Overdues	—	—	—	—	—	3.86	86.02	67.34	143.51	218.22
9. Percentage of Overdues to Demand	—	—	—	—	—	N.A.	14.6	18.2	12.7	25.3
Primary Co-operative Land Development Banks										
1. Number of Banks ..	5	6	6	6	6	4	4	4	4	4
2. Membership	632	1062	948	875	667	942	1050	1050	1050	1050
3. Owned Funds	0.33	0.62	0.72	0.54	0.82	1.17	1.51	1.51	1.51	1.51
4. Deposits & Other Borrowings	1.44	1.73	1.10	0.34	1.08	0.80	0.36	0.36	0.36	0.36
5. Debentures Outstanding	—	—	—	—	—	—	—	—	—	—
6. Working Capital	1.77	2.35	1.82	1.09	2.00	1.97	1.87	2.72	2.72	2.72
7. Fresh Advances during the year	0.50	0.71	—	—	0.65	0.75	1.39	—	—	—
8. Loans Outstanding at the close of the year ..	1.73	2.02	1.56	0.91	1.55	1.47	1.45	1.45	1.45	1.45
9. Overdues	0.03	0.19	0.57	0.68	0.64	0.51	0.69	1.45	1.45	1.45
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	32.4	100.0	100.0	100.0

STATEMENT 19

PROGRESS OF CO-OPERATIVE LAND DEVELOPMENT BANKS IN WEST BENGAL

Rs Lakhs

	1938-9	1945-6	1950-51	1955-6	1960-61	1965-6	1969-70	1970-71	1971-2	1972-3
Central Co-operative Land Development Bank										
1. Membership	—	—	—	—	19	22	22	60	28	502
2. Owned Funds	—	—	—	—	6.78	13.34	47.32	62.28	85.21	88.07
3. Deposits & Other Borrowings	—	—	—	—	26.27	14.29	50.22	32.45	14.72	18.01
4. Debentures Outstanding	—	—	—	—	—	170.00	472.48	576.18	650.63	719.94
5. Working Capital	—	—	—	—	33.05	197.63	570.02	691.85	762.72	845.25
6. Fresh Advances during the year	—	—	—	—	11.18	50.02	100.51	123.68	82.75	88.50
7. Loans Outstanding at the close of the year ..	—	—	—	—	31.44	143.53	377.75	465.34	505.13	547.15
8. Overdues	—	—	—	—	—	—	9.00	16.14	21.17	29.95
9. Percentage of Overdues to Demand					N.A.	N.A.	21.2	32.8	33.0	41.2
Primary Co-operative Land Development Banks										
1. Number of Banks ..	5	9	3	9	12	12	21	21	21	21
2. Membership	2217	3103	1664	2994	5595	13938	30508	33428	35358	37048
3. Owned Funds	0.58	1.22	0.80	1.44	3.95	12.95	33.89	42.52	50.38	59.62
4. Deposits & Other Borrowings	4.47	7.06	7.55	13.25	31.07	143.62	377.24	465.47	499.86	635.94
5. Debentures Outstanding	—	—	—	—	—	—	—	—	—	—
6. Working Capital	5.05	8.28	8.35	15.27	35.02	156.57	411.13	564.16	628.45	622.75
7. Fresh Advances during the year	0.74	2.82	1.33	4.98	9.64	45.45	99.04	122.72	81.50	82.80
8. Loans Outstanding at the close of the year ..	5.07	7.76	7.73	14.15	34.40	140.02	384.00	473.82	520.78	553.16
9. Overdues	0.17	0.23	0.12	0.35	1.93	4.89	26.38	38.70	54.60	60.63
10. Percentage of Overdues to Demand	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	50.6	55.7	63.3	57.2

STATEMENTS

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ANNEXURE 1

COMPOSITION OF THE 3 STUDY GROUPS

I. Study Group on Problems of Financing Small Farmers by Land Development Banks

- | | | |
|----|--|----------|
| 1. | Smt S. Satyabhama ¹
Director
Ministry of Agriculture
Department of Agriculture
Government of India
New Delhi | Chairman |
| 2. | Shri H. M. Joshi
Managing Director
Gujarat State Co-operative Land Development
Bank Ltd.
Ahmedabad | Member |
| 3. | Shri M. M. Batra
Managing Director
Madhya Pradesh Rajya Sahakari Bhumi Vikas
Bank Ltd.
Bhopal | Member |
| 4. | Shri S. A. H. Razvi
Joint Registrar of Co-operative Societies
Andhra Pradesh
Hyderabad | Member |

II. Study Group on Sinking Fund Investment Policy of Land Development Banks

- | | | |
|----|--|----------|
| 1. | Shri V. P. Malhotra
Managing Director
Tamil Nadu Co-operative State Land Development
Bank Ltd.
Madras | Chairman |
| 2. | Shri Jayakumar Anagol ²
Managing Director
Karnataka State Co-operative Land Development
Bank Ltd.
Bangalore | Member |
| 3. | Shri H. R. Karnik
Manager (Technical)
Agricultural Refinance Corporation
Bombay | Member |

¹Since transferred to the Government of Tamil Nadu.

²Since taken over as the Registrar of Co-operative Societies, Karnataka State.

- | | | |
|----|---|--------|
| 4. | Shri A. K. Chatterji ¹
Registrar
Co-operative Societies
West Bengal
Calcutta | Member |
| 5. | Shri Arjun Aiyar
M/s K. S. Aiyar & Co.
Chartered Accountants
Bombay | Member |

III. Study Group on the Policy of Land Development Banks regarding Management Personnel and Co-ordination

- | | | |
|----|--|----------|
| 1. | Shri Jayakumar Anagol ²
Managing Director
Karnataka State Co-operative Land Development
Bank Ltd.
Bangalore | Chairman |
| 2. | Dr S. B. Mahabal ³
Principal
College of Agricultural Banking
(Reserve Bank of India)
Poona | Member |
| 3. | Shri G. P. Bhawe ⁴
Managing Director
Maharashtra State Co-operative Land Development
Bank Ltd.
Bombay | Member |
| 4. | Shri D. S. Verma
Secretary
Uttar Pradesh Co-operative Bank Ltd.
Lucknow | Member |

¹Consequent on his transfer to the Finance Department, Shri Chatterji resigned from the Study Group. He attended only one meeting of the Group.

²Since taken over as the Registrar of Co-operative Societies, Karnataka State.

³At present, Joint Chief Manager, Reserve Bank of India, Central Office, Bombay.

⁴At present, Deputy Chief Officer, Agricultural Credit Department, Reserve Bank of India, Bombay.

ANNEXURE 2

COMPOSITION OF THE 9 STUDY TEAMS TO STUDY THE WORKING OF LAND DEVELOPMENT BANKS IN EASTERN STATES, JAMMU & KASHMIR, HIMACHAL PRADESH, MADHYA PRADESH AND RAJASTHAN

I. **Assam**

- | | | |
|----|--|----------|
| 1. | Shri S. Acharya
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Gauhati | Convener |
| 2. | Shri H. K. Bardoloi
Joint Registrar (Credit)
Co-operative Societies
Assam, Gauhati | Member |
| 3. | Shri K. K. Goswami
Managing Director
Assam Co-operative Central Land Mortgage Bank Ltd.
Gauhati | Member |
| 4. | Shri J. S. Bisht
Deputy Director
Agricultural Refinance Corporation
Gauhati | Member |

II. **Bihar**

- | | | |
|----|---|----------|
| 1. | Shri S. Jayaraman ¹
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Patna | Convener |
| 2. | Shri G. S. Sanadi
Deputy Chief Officer
Agricultural Credit Department
Reserve Bank of India
Patna | Convener |
| 3. | Shri B. Prasad
Registrar
Co-operative Societies
Bihar, Patna | Member |
| 4. | Shri A. K. Mukherji ²
Managing Director
Bihar Rajya Sahakari Bhumi Vikas Bank Simit
Patna | Member |
| 5. | Shri S. E. Aranha
Deputy Director
Agricultural Refinance Corporation
Patna | Member |

¹Shri S. Jayaraman, Assistant Chief Officer was the convener up to 6 November 1973.
Shri G. S. Sanadi took over with effect from 7 November 1973.

²Shri Mukherji succeeded Shri D. P. Chaudhary who was appointed as a member at the time of constitution of the Group.

III. Himachal Pradesh

- | | | |
|----|--|----------|
| 1. | Shri K. Nageswara Rao
Deputy Chief Officer
Agricultural Credit Department
Reserve Bank of India
Chandigarh | Convener |
| 2. | Shri B. D. Thapar
Registrar
Co-operative Societies
Himachal Pradesh
Simla | Member |
| 3. | Shri H. K. Sharma
Manager
Himachal Pradesh Central Co-operative
Land Mortgage Bank Ltd.
Simla | Member |
| 4. | Shri S. S. Bhatnagar
Deputy Director
Agricultural Refinance Corporation
Chandigarh | Member |

IV. Jammu & Kashmir

- | | | |
|----|--|----------|
| 1. | Shri R. N. Kaul
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Jammu | Convener |
| 2. | Shri O. N. Mattoo
Joint Registrar
(Banking and Finance)
Jammu | Member |
| 3. | Shri R. K. Gulati
Deputy Director
Agricultural Refinance Corporation
Chandigarh | Member |
| 4. | Shri Malick Mohamed Hussain
General Manager
Jammu & Kashmir Co-operative Central
Land Development Bank Ltd.
Srinagar | Member |

V. Madhya Pradesh

- | | | |
|----|---|----------|
| 1. | Shri N. V. Sheldenkar
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Indore | Convener |
| 2. | Shri M. M. Batra
Managing Director
Madhya Pradesh Rajya Sahakari Bhumi Vikas
Bank Ltd.
Bhopal | Member |

- | | | |
|----|--|--------|
| 3. | Shri C. P. Singh
Joint Registrar
Co-operative Societies
Bhopal | Member |
| 4. | Shri Arul Rayan
Deputy Director
Agricultural Refinance Corporation
Bhopal | Member |

VI. Orissa

- | | | |
|----|--|----------|
| 1. | Shri J. Basu ¹
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bhubaneswar | Convener |
| 2. | Shri V. Suryanarayana
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Bhubaneswar | Convener |
| 3. | Shri S. Som, I.A.S.
Registrar of Co-operative Societies
Orissa
Bhubaneswar | Member |
| 4. | Shri L. Dandapat
Managing Director
Orissa State Co-operative Land Development
Bank Ltd.
Bhubaneswar | Member |
| 5. | Shri G. Venkatanarayana
Deputy Director
Agricultural Refinance Corporation
Bhubaneswar | Member |

VII. Rajasthan

- | | | |
|----|---|----------|
| 1. | Shri B. L. Jain
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Jaipur | Convener |
| 2. | Shri M. L. Jain
Joint Registrar (Banking)
Co-operative Department
Rajasthan
Jaipur | Member |
| 3. | Shri S. K. Mathur
General Manager
Rajasthan Rajya Sahakari Bhumi Vikas Bank Ltd.
Jaipur | Member |

¹Shri J. Basu, Assistant Chief Officer was the convener up to 20 September 1973.
Shri V. Suryanarayana took over with effect from 21 September 1973.

- | | | |
|----|--|--------|
| 4. | Shri M. P. Saxena
Deputy Director
Agricultural Refinance Corporation
Jaipur | Member |
|----|--|--------|

VIII. Tripura

- | | | |
|----|--|----------|
| 1. | Shri S. Acharya
Assistant Chief Officer
Agricultural Credit Department
Reserve Bank of India
Gauhati | Convener |
| 2. | Shri S. Chakraborty
Assistant Registrar
Co-operative Societies
Tripura
Agartala | Member |
| 3. | Shri A. K. Majumdar
Manager
Tripura Co-operative Land Mortgage Bank Ltd.
Agartala | Member |
| 4. | Shri J. S. Bisht
Deputy Director
Agricultural Refinance Corporation
Gauhati | Member |

IX. West Bengal

- | | | |
|----|---|----------|
| 1. | Shri A. N. Gupta
Assistant Chief Officer
Reserve Bank of India
Calcutta | Convener |
| 2. | Shri J. Sen Gupta
Special Officer and
Ex-Officio Additional Registrar of
Co-operative Societies
West Bengal
Calcutta | Member |
| 3. | Shri D. R. Mukherjee
Manager
West Bengal Central Co-operative
Land Mortgage Bank Ltd.
Calcutta | Member |
| 4. | Shri P. K. Parthasarathy
Deputy Director
Agricultural Refinance Corporation
Calcutta | Member |

ANNEXURE 3

GENERAL QUESTIONNAIRE ISSUED TO CENTRAL LAND DEVELOPMENT BANKS

A. *General*

1. A detailed note giving among other things, the progress made by the bank since its inception, role played by it in meeting the long-term credit requirements of agriculture in the state, the future plans for development particularly during the Fifth Five Year Plan period.
2. A copy each of the Co-operative Societies Act, by-laws of state co-operative land development bank, model by-laws for primary land development banks and Trust Deed (with up-to-date amendments).
3. Targets for long-term credit to be provided by land development banks at the primary level in the state and achievements.

	Years	Rs Lakhs	
		Targets	Achievements
Second Five Year Plan	1956-7		
	1957-8		
	1958-9		
	1959-60		
	1960-61		
Third Five Year Plan	1961-2		
	1962-3		
	1963-4		
	1964-5		
	1965-6		
Annual Plan	1966-7		
	1967-8		
	1968-9		
Fourth Five Year Plan	1969-70		
	1970-71		
	1971-2		
	1972-3		
	1973-4		

4. Fifth Plan targets for long-term credit to be provided by land development banks at the primary level (year-wise, if available). In this context, also give details of the projects/schemes or specific areas of development proposed for financing and the extent of finance required for each of them.

B. *Financial and Operational details*

5. Financial and other particulars relating to CLDB and each PLDB as in the proformas. (CLDB—Statements Nos. 1, 3 and 4 and PLDB—Statements Nos. 2, 3 and 4).
6. Details of overdues at the level of CLDB and each PLDB for the years 1969-70, 1970-71 and 1971-2 as also the latest position (as on 31-3-1973) as per proformas 5 and 6.

7. Reasons for the increasing trend in overdues indicating among other things (a) the areas (talukas and number of villages) where 'annawari' was declared in the years 1969-70 to 1972-3; (b) the areas where crops failed in any of the years 1969-70 to 1972-3 due to other reasons, such as hailstorm, cyclones, floods etc. and (c) areas which are drought-prone in the state.

8. Suggestions for removing the difficulties arising out of overdues in the drought-prone and other areas which are susceptible to frequent failure of crops due to floods etc.

9. What is the progress made in the production-oriented lending by the bank? Are there any specific difficulties in the switch over to the procedures in this regard suggested from time to time by the Reserve Bank of India? If so, enumerate them in detail.

10. What is the experience of the bank in handling special schemes for agricultural development? Are there any specific terms and conditions which are found difficult to be complied with? If so, please reply in detail giving the relevant terms/conditions and the actual difficulties encountered and the steps taken to eliminate them.

11. Is the bank implementing any agricultural credit project sanctioned by the World Bank (IDA)? If so, the broad details of the project such as size, period, financial outlay etc., and the progress (physical and financial) made as on 31-3-1973 may be furnished. The bank's experience in the implementation of the project with particular reference to various terms and conditions for lendings may be indicated.

12. What are the norms followed by the bank in regard to identification of small farmers (a) under IDA project (if any), and (b) for other lendings?

13. What proportion of the bank's loans are given to small farmers/marginal farmers? Give data as under for the years 1969-70 to 1972-3 (separately for each year).

Size of holding (owned + taken on lease) (acres)	No. of loans	Amount of loans issued Rs Lakhs
Up to 3		
3 to 5		
5 to 7		
7 to 10		
10 to 15		
Over 15		

14. Has the bank made any changes in its norms regarding security, loan eligibility etc. to facilitate issue of loans to small farmers/marginal farmers? Give details.

15. How many SFDA/MFALs have been set up in the state? What is the number of farmers identified as small farmers/marginal farmers under each agency? Please give figures separately for small farmers and marginal farmers. Has the bank issued any loans to these small farmers/marginal farmers under (a) ARC-refinanced schemes and (b) other lendings. If so, give number and amount of loans as also purpose of loans issued in each SFDA/MFAL area during 1970-71, 1971-2 and 1972-3 (separately for each year).

16. Is the bank experiencing any difficulty in financing small farmers/marginal farmers? If so, give specific details.

17. Give details of the rural debentures floated by the bank since the introduction of the scheme as under:

Year	Amount received from		Total amount raised
	Individuals	Reserve Bank of India	
1957-8			
1958-9			
..			
..			
1972-3			
(up to 31-3-1973)			

18. Does the bank get any assistance in issuing rural debentures from the state government? If so, please specify the type of assistance given.

19. Has the bank experienced any difficulty in issuing rural debentures to the extent indicated by the Reserve Bank of India during the years 1969-70 to 1972-3? If so, please give details.

20. If the bank has introduced the scheme of accepting fixed deposits, indicate the amount so far received during the years 1970-71, 1971-2 and 1972-3 and the targets fixed for the same in the next 3 or 4 years.

21. Please indicate the method followed by the bank for the constitution of the sinking fund, citing the relevant provisions in the Trust Deed and by-laws.

22. Is contribution to the sinking fund in respect of different series of debentures floated required to be made in the same year as the series are floated or on the anniversary of their floatation or on or before the end of the next co-operative year?

23. Is any correlation maintained between the recoveries effected from the PLDBs or members (where there is unitary structure) and the contributions made to the sinking fund?

24. Does the bank maintain strict correlation between the period of mortgages and the debentures? In case where debentures for a longer period are floated on the basis of short dated mortgages, in what manner are the excess recoveries accounted for, *i.e.*, whether they are credited to the sinking fund or utilized in business?

25. In case of shortfall in the recoveries effected *vis-a-vis* the contribution made/required to be made to the sinking fund, how was the deficit made good by the bank?

Rs lakhs

	Months					Total
	July	August	June
1. Sinking fund contribution						
2. Recoveries						
3. Excess/Deficit of 1 over 2						

35. What are the norms fixed for appointment of staff required for (a) valuation of hypotheca (LVOs) and (b) supervision over utilisation of loans?

STATEMENT NO. 1

FINANCIAL AND OTHER PARTICULARS RELATING TO CENTRAL LAND DEVELOPMENT BANKS

	Rs Lakhs				
	30-6-69	30-6-70	30-6-71	30-6-72	31-3-73
1. Membership (Number)					
(a) Individuals					
(b) Primary land development banks					
(c) Others					
2. No. of offices (including head office)					
3. Paid-up Capital					
(a) Individuals					
(b) Primary land development banks					
(c) State government					
4. Reserve and other funds					
(a) Statutory reserve fund					
(b) Other reserves (Please specify)					
5. Fixed Deposits					
(Period; Rate of interest)					
6. Debentures					
(a) Ordinary					
(b) Rural					
(c) Special					
7. Other borrowings					
(a) Government					
(b) Cooperative banks					
(c) Commercial banks					
(d) Others					
8. Profit for the year					
(a) Amount					
(b) Dividend declared					
9. Cash and bank balances (Excluding fixed deposits out of sinking fund)					
10. Investments					
(i) General and Reserve Fund					
(a) Government securities					
(b) Other trustee securities					
(c) Others (Please specify)					
(ii) Sinking Fund					
(a) Government securities					
(b) Debenture of land development banks					
(c) Other trustee securities					
(d) Fixed deposits					
(i) State/central coop.banks					
(ii) Commercial banks					
(e) Others (Please specify)					
11. Loans outstanding					
(a) Primary land development banks					
(b) Individuals					
12. Overdue Loans					
(a) Amount					
(b) Percentage of overdues to demand					
13. Overdue Interest					
(a) Amount					
(b) Percentage to demand					
14. Rate of interest charged to:					
(a) Primary land development banks					
(b) Individuals					

STATEMENT NO. 2

FINANCIAL AND OTHER PARTICULARS RELATING TO PRIMARY LAND DEVELOPMENT BANKS
(separately for each bank)

Rs Lakhs

	30-6-69	30-6-70	30-6-71	30-6-72	31-3-73
1. Membership					
(a) Borrowers					
(b) Non-borrowers					
2. Paid-up Capital					
(a) Individuals					
(b) State Government					
3. Statutory Reserve Fund					
4. Other reserves					
5. Loans from SLDB					
6. Deposits (Rural debenture deposits etc.)					
7. Overdues to SLDB					
(a) Amount					
(b) Percentage of overdues to demand					
8. Profit					
9. Dividend declared					
10. Cost of management					
11. Percentage of cost of management to working capital					
12. Investments					
(a) in shares of SLDB					
(b) in government and other trustee securities					
(c) Others (Please specify)					
13. Loans advanced during the year					
(a) Under normal schemes					
(b) Under special schemes					
(c) Total					
14. Outstandings at the end of the year					
(a) Under normal schemes					
(b) Under special schemes					
(c) Total					
15. Overdues to members					
(a) Amount					
(b) Percentage of overdues to demand					
16. Overdue Interest					
(a) Amount					
(b) Percentage to demand					
17. Rate of interest charged on loans					

STATEMENT NO. 3

CLASSIFICATION OF LOANS ADVANCED UNDER NORMAL SCHEMES DURING THE CO-OPERATIVE YEARS 1969-70 TO 1972-3 (31-3-1973) BY PURPOSE

Item	Rs Lakhs							
	1969-70		1970-71		1971-2		1972-3	
	No. of Loans (2)	Amount (3)	No. of Loans (4)	Amount (5)	No. of Loans (6)	Amount (7)	No. of Loans (8)	Amount (9)
(1)								
1. Sinking of wells								
2. Purchase of oil engines and pumpsets inclusive of any deposits with the Electricity Board, accessories and cost of levelling land								
3. Purchase of tractors including accessories								
4. Purchase of power tillers								
5. Purchase of other machinery and equipments								
6. Total of easily identifiable productive purposes (Total of 1 to 5)								
7. Levelling, bunding, construction of field channels, reclamation of land and any other improvement of land								
8. Fencing								
9. Laying of orchards and gardens								
10. Others (Specify)								
11. Total of productive purposes not easily identifiable (Total of 7 to 10)								
12. Purchase of land or ownership rights								
13. Redemption of old debts								
14. Total of non-productive purposes (Total of 12 and 13)								

STATEMENT NO. 4

DETAILS OF LOANS ADVANCED UNDER SPECIAL SCHEMES SANCTIONED BY AGRICULTURAL REFINANCE CORPORATION DURING THE CO-OPERATIVE YEARS 1969-70 to 1972-3 (31-3-1973)

Name of the Scheme (1)	1969-70		1970-71		1971-2		1972-3	
	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount	Number of loans	Amount
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

Rs Lakhs

STATEMENT NO. 5

TERMS AND CONDITIONS OF LENDING

Name of the Primary land development bank :

District :

Rs

Purpose of loan	Maximum amount of loan allowed	Period of loan	Rate of interest per annum	Basis of valuation of hypotheca	No. of instalments in which the loan is disbursed	Due date of first instalment	Minimum acreage required to be cultivated by the borrower	Amount of down payment	Scales of		
									Legal fees	Administration fees	Any other fees charged
1	2	3	4	5	6	7	8	9	10	11	12

NORMAL SCHEMES

1. Loans for sinking of wells
 - (a) Dug-cum-bore wells
 - (b) Tube wells

2. Pumpsets
3. Composite loans for sinking of wells and purchase of pumpsets
4. Agricultural Machinery:
 - (a) Tractors
 - (b) Harvestors
 - (c) Others (Please specify)
5. Levelling, bunding, reclamation of land for orchards
6. Construction of farm houses
7. i. Redemption of old debts
ii. Purchase of tenancy rights
8. Others (Please specify)

SPECIAL SCHEMES

- (i)
- (ii)
- (iii)
- (iv)

STATEMENT NO. 6

DETAILS OF AWARDS AND DECREES OBTAINED IN THE CASE OF LOANS AS AT THE END OF THE YEAR

Name of SLDB/Primary Bank

	Rs			
Item 1	30-6-1970 2	30-6-1971 3	30-6-1972 4	31-3-1973 5
1. No. of decrees obtained				
2. Amount involved				
3. No. under execution				
4. Amount involved				
5. No. of decrees which have not yet been sent for execution				
6. Amount involved				

ANNEXURE 4

LIST OF STATE REPRESENTATIVES WITH WHOM THE COMMITTEE HAD DISCUSSIONS ON THE PROBLEMS OF LAND DEVELOPMENT BANKS IN THEIR STATES

AT CALCUTTA (9, 10 and 11 April 1974)

I. *Assam*

- (i) Shri B. K. Bhuyan, I.A.S.
Agricultural Production Commissioner
- (ii) Shri B. Barua, I.A.S.
Secretary to Government
Agriculture Department
- (iii) Shri H. K. Bardoloi
Joint Registrar of Co-operative Societies
- (iv) Shri P. N. Choudhury
Chairman
Assam Co-operative Central Land Mortgage Bank Ltd
- (v) Shri Srikanta Sharma
Chairman
Tezpur Primary Land Mortgage Bank Ltd.
- (vi) Shri H. P. Goswami
Chairman
Goalpara Primary Land Mortgage Bank Ltd

II. *Bihar*

- (i) Shri R. R. Prasad
Secretary to the, Government
Co-operation Department
- (ii) Shri B. Prasad
Registrar of Co-operative Societies
- (iii) Shri Tapeswar Singh
Chairman
Bihar Rajya Sahakari Bhumi Vikas Bank Ltd
- (iv) Shri A. K. Mukherji
Managing Director
Bihar Rajya Sahakari Bhumi Vikas Bank Ltd

III. *Orissa*

- (i) Shri K. Ramamurthy, I.A.S.
Agricultural Production Commissioner
- (ii) Shri R. E. Bhujabal, I.A.S.
Registrar of Co-operative Societies
- (iii) Shri R. N. Burma
Chairman
Orissa State Co-operative Land Development Bank Ltd
- (iv) Shri H. M. Padhe
Chairman
Chatrapur Land Development Bank Ltd

West Bengal

- (i) Shri K. P. A. Menon, I.A.S.
Commissioner for Agriculture & Community Development
- (ii) Shri P. V. Shenoi, I.A.S.
Joint Secretary
Co-operation Department
- (iii) Shri A. K. Chatterjee, I.A.S.
Joint Secretary
Finance Department
- (iv) Shri A. C. Chattopadhyaya, I.A.S.
Registrar of Co-operative Societies
- (v) Shri S. S. Sengupta, I.A.S.
Special Secretary
Agriculture Department
- (vi) Shri J. Sen Gupta
Special Officer & Additional Registrar of Co-operative Societies
- (vii) Shri A. Chattopadhyaya
Deputy Secretary
Co-operation Department
- (viii) Shri S. C. Neogy
Chairman
West Bengal Central Co-operative Land Mortgage Bank Ltd
- (ix) Shri A. Mishra
Manager
West Bengal Central Co-operative Land Mortgage Bank Ltd
- (x) Shri S. C. Panda
Vice-Chairman
Contai Primary Land Mortgage Bank Ltd
(Dist. Midnapore)
- (xi) Shri Ali Ahmed
Chairman
Birbhum Primary Land Development Bank Ltd

Tripura

- (i) Shri Amar Sinha
Development Commissioner
- (ii) Shri S. R. Chakraborty
Registrar of Co-operative Societies
- (iii) Shri R. M. Majumdar
Chairman
Tripura Co-operative Land Mortgage Bank Ltd
- (iv) Shri A. K. Majumdar
Manager
Tripura Co-operative Land Mortgage Bank Ltd

AT NEW DELHI (7 and 8 August 1974)

VI. *Rajasthan*

- (i) Shri V. I. Rajagopal
Special Secretary
Agriculture & Co-operation
- (ii) Shri M. L. Mathur
Deputy Secretary
Finance (A & I)
- (iii) Shri M. L. Jain
Joint Registrar of Co-operative Societies
- (iv) Shri Nathi Singh
Chairman
Rajasthan Rajya Sahakari Bhumi Vikas Bank Ltd
- (v) Shri Ram Pal Upadhyaya
Chairman
Bilwara Primary Land Development Bank Ltd
- (vi) Shri Pradyuman Singh
Chairman
Dholpur Primary Land Development Bank Ltd
- (vii) Shri S. K. Mathur
General Manager
Rajasthan Rajya Sahakari Bhumi Vikas Bank Ltd

VII. *Himachal Pradesh*

- (i) Shri K. C. Pandeya
Agricultural Production Commissioner
- (ii) Shri M. S. Mukherjee
Secretary
Co-operation Department
- (iii) Shri M. M. Sahai Srivastava
Secretary
Finance Department
- (iv) Shri B. D. Thapar
Registrar of Co-operative Societies
- (v) Shri Kewal Ram Chauhan, M.L.A.
Director
Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd
- (vi) Shri Jia Lal
Manager
Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd

VIII. *Madhya Pradesh*

- (i) Shri J. N. Kaul
Registrar of Co-operative Societies
- (ii) Shri R. L. Gargava
Deputy Secretary
Co-operation Department
- (iii) Shri Tarachand Agarwal
President
Madhya Pradesh Rajya Sahakari Bhumi Vikas Bank Ltd
Bhopal

- (iv) Shri Ratanlal Lahoti
President
District Co-operative Land Development Bank Ltd
Guna
- (v) Shri Ranidanlal Parecha
President
District Co-operative Land Development Bank Ltd
Durg
- (vi) Shri M. M. Batra
Managing Director
Madhya Pradesh Rajya Sahakari Bhumi Vikas Bank Ltd
Bhopal

X. *Jammu & Kashmir*

- (i) Shri Choudari Bharat Bhushan
Secretary in charge of Agriculture and Co-operation
- (ii) Shri O. P. Khajuria
Registrar of Co-operative Societies
- (iii) Shri Mohd. Asraf Khan
Chairman
Jammu & Kashmir Co-operative Central Land Development Bank Ltd
Srinagar
- (iv) Shri Malik Mohd. Hussain
General Manager
Jammu & Kashmir Co-operative Central Land Development Bank Ltd
Srinagar

ANNEXURE 5

LIST OF OFFICERS OF RESERVE BANK OF INDIA (AGRICULTURAL CREDIT DEPARTMENT)/ AGRICULTURAL REFINANCE CORPORATION WHO UNDERTOOK FIELD STUDIES ON BEHALF OF THE COMMITTEE

I. *Studies regarding Structure of Land Development Banks*

Andhra Pradesh

Shri C. G. Krishnamurthi
Assistant Chief Officer
Agricultural Credit Department

Gujarat

Shri R.C.M. Pitchai
Assistant Chief Officer
Agricultural Credit Department

II. *Field Studies regarding Overdues in Land Development Banks*

Andhra Pradesh

Shri C. G. Krishnamurthi
Assistant Chief Officer
Agricultural Credit Department

Shri P. Kotaiah
Deputy Director
Agricultural Refinance Corporation

Madhya Pradesh

Shri H. C. Agarwal
Deputy Chief Officer
Agricultural Credit Department

Shri Arul Rayan
Deputy Director
Agricultural Refinance Corporation

Punjab

Shri O. P. Sodhani
Assistant Chief Officer
Agricultural Credit Department

Shri Mohanlal Kumra
Rural Credit Officer
Agricultural Credit Department

Rajasthan

Shri B. L. Jain
Assistant Chief Officer
Agricultural Credit Department

Shri S. D. Rajhansa
Rural Credit Officer
Agricultural Credit Department

III. *Field Studies regarding Availability of Short-term Credit to the Borrowers of Land Development Banks*

Andhra Pradesh

Shri K.A.R. Nair
Assistant Chief Officer
Agricultural Credit Department

Shri V. B. Singh
Rural Credit Officer
Agricultural Credit Department

Haryana

Shri K.P.R. Nayar
Deputy Chief Officer
Agricultural Credit Department

Shri U. D. Rao
Rural Credit Officer
Agricultural Credit Department

Uttar Pradesh

Shri G. Balasubramaniam
Assistant Chief Officer
Agricultural Credit Department

Shri S. R. Mittal
Rural Credit Officer
Agricultural Credit Department

ANNEXURE 6

IDA/IBRD PROJECTS—BRIEF DESCRIPTION OF EACH PROJECT

1. A *Andhra Pradesh Agricultural Credit Project (IDA)*
B Cost of the Project \$ 45 million (Rs 33.8 crores)—IDA assistance \$ 24.4 million (Rs 18.30 crores)—\$ 24.12 million (Rs 17.55 crores) to be routed through ARC
C Financing minor irrigation investments, land development and farm mechanisation equipment
D Andhra Pradesh Co-operative Central Land Mortgage Bank Ltd and participating commercial banks.
E Three years—closing date 30 June 1974, since extended to 30 June 1975
2. A *Bihar Agricultural Credit Project (IDA)*
B Cost of the Project \$ 60 million (Rs 45 crores)—IDA assistance \$ 32 million (Rs 24 crores), to be routed through ARC
C Minor irrigation programmes, including sinking of tubewells, installation of diesel pumpsets for low lift pumping from surface water
D The Bihar State Co-operative Land Development Bank and participating commercial banks
E Three years—closing date December 1976
3. A *Chambal Command Area Development Project (IBRD)*
B Cost of the Project—\$ 12 million (Rs 9.6 crores)—IBRD assistance \$ 5 million (Rs 4.1 crores) to be routed through ARC
C The project would include drainage, lining of canals, increasing the capacity of canals, building or improving control structures, on-farm development including irrigation and drainage ditches, land shaping, construction of roads, afforestation and erosion control, supply of fertilizers
D Rajasthan State Co-operative Land Development Bank and participating commercial banks
E Six years—closing date 30 June 1981
4. A *Gujarat Agricultural Credit Project (IDA)*
B Cost of the Project \$ 67 million (Rs 50.2 crores)—IDA assistance \$ 35 million (Rs 26.25 crores) of which \$ 34.70 million (Rs 25.26 crores) to be provided through ARC
C Financing of minor irrigation investments and farm mechanisation equipment (tractor) and groundwater study
D Gujarat State Co-operative Land Development Bank Ltd
E Three years—closing date 30 June 1974, since extended to 31 March 1975 (only 800 out of 2200 tractors were imported and unutilised credit of \$ 4.9 million (Rs 3.57 crores) transferred to minor irrigation category)
5. A *Haryana Agricultural Credit Project (IDA)*
B Cost of the Project \$ 62.23 million (Rs 45.30 crores)—IDA assistance \$ 25 million (Rs 18.20 crores) to be routed through ARC
C Financing of minor irrigation investments comprising installation of shallow tubewells and imported and indigenous farm machinery equipment, viz., tractors, harvesters and self-propelled combines
D The Haryana State Co-operative Land Mortgage Bank and participating commercial banks

- E Three years—closing date 31 March 1975. Minor irrigation programmes originally contemplated already completed. A sum of \$ 5.3 million (Rs 3.98 crores) transferred during the year from tractor category to minor irrigation category
- A *Karnataka Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 75.4 million (Rs 54.9 crores)—IDA assistance \$ 40 million (Rs 30 crores) of which \$ 36.70 million (Rs 26.7 crores) to be routed through ARC
 C Financing of minor irrigation investments, land reclamation and purchase of tractors and land reclamation equipment
 D The Karnataka State Co-operative Land Development Bank Ltd and participating commercial banks
 E Three years—closing date 31 October 1975
- A *Karnataka Dairy Development Project (IDA)*
 B Cost of the Project \$ 43.5 million (Rs 34.80 crores)—IDA assistance \$ 30 million (Rs 24.0 crores)—of which \$ 20.9 million (Rs 16.72 crores) to be routed through ARC
 C An integrated programme for increasing the production of milk in rural areas of Karnataka state by providing technical services for quality cross breeding and animal health and the development of facilities for milk collection, processing and marketing
 D Karnataka State Co-operative Land Development Bank Ltd, Mysore Co-operative Apex Bank and participating commercial banks
 E Eight years—closing date 30 September 1982
- A *Madhya Pradesh Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 60.3 million (Rs 45.2 crores)—IDA assistance \$ 33 million (Rs 24.95 crores) to be routed through ARC
 C Financing of on-farm investments including construction of dugwells improvements in existing wells, installation of electric and diesel pumpsets and persian wheels and incidental land levelling
 D Madhya Pradesh State Co-operative Land Development Bank and participating commercial banks
 E Three years—closing date December 1976
- A *Maharashtra Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 52.42 million (Rs 38.15 crores)—IDA assistance \$ 30.00 million (Rs 21.83 crores)—\$ 25.40 million (Rs 18.49 crores) to be routed through ARC
 C Minor irrigation programmes including tubewells, lift irrigation, dugwells, dugwell improvements and energisation of wells and land levelling investments
 D Maharashtra State Co-operative Land Development Bank Ltd and participating commercial banks
 E Three years—closing date—31 December 1975
- A *Punjab Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 56.27 million (Rs 45.02 crores)—assistance from IDA \$ 27.50 million (Rs 20.02 crores) to be provided through ARC
 C Financing the purchase of imported and indigenous tractors, harvesters and self-propelled combines
 D Punjab State Co-operative Land Mortgage Bank Ltd and participating commercial banks
 E Two years—closing date which was earlier stipulated as 31 December 1973 has been extended up to 31 December 1975

11. A *Rajasthan Canal Command Area Development Project (IDA)*
 B Cost of the Project \$ 39.75 million (Rs 31.8 crores)—IDA assistance \$ 12.1 million (Rs 9.7 crores) to be routed through ARC
 C The project would cover lining of distributory canals, construction of roads, pasture development, afforestation, provision of fertilizers and on-farm development including land shaping reclamation and lining of water courses
 D Rajasthan State Co-operative Land Development Bank and participating commercial banks.
 E Six years—closing date 30 June 1981
12. A *Tamil Nadu Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 62.3 million (Rs 46.8 crores)—IDA assistance \$ 35 million (Rs 26.25 crores) of which \$ 29.80 million (Rs 21.70 crores) to be routed through ARC
 C Financing of minor irrigation investments including sinking of filter point wells, shallow and medium tubewells, land levelling, land drainage and tractors
 D Tamil Nadu State Co-operative Land Development Bank Ltd
 E Three years—closing date 31 December 1974
13. A *Uttar Pradesh Agricultural Credit Project (IDA)*
 B Cost of the Project \$ 72.50 million (Rs 54.3 crores)—IDA assistance \$ 38 million (Rs 28.5 crores) to be routed through ARC
 C Financing of on-farm investments such as construction of masonry wells or dugwells, shallow tubewells, medium depth tubewells, persian wheels, and installation of electric and diesel pumpsets
 D Uttar Pradesh State Co-operative Land Development Bank and participating commercial banks
 E Three years—closing date 31 December 1976.

-
- N.B. A Name of the Project
 B Cost of the Project, IDA assistance and amount to be routed through ARC
 C Project description
 D Implementing agency
 E Period of implementation
 The agricultural credit projects envisage large investments in minor irrigation (such as dugwells, dug-cum-borewells, shallow, medium and deep tubewells, lift irrigation units and installation of pumpsets and persian wheels on wells, laying of pipelines and the incidental land levelling), land development and financing the purchase of imported and indigenous tractors, harvesters and combines.

Source: Annual Report of the Agricultural Refinance Corporation, 1973-4.

ANNEXURE 7

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

ASSAM

The land development banking structure in Assam is of the federal type with the Assam Co-operative Land Mortgage Bank Ltd at the state level and 16 primary banks functioning at sub-divisional level in plains. Of the 20 sub-divisions in the plain area, 4 sub-divisions, viz., Kokrajhar, Tinsukia, Morigaon and Dhemaji are not having any primary banks and the area is served by the Dhubri, Dibrugarh, Nowgong and North Lakhimpur primary land development banks respectively. The two hill districts, viz., Mikir Hills and North Cachar Hills are still not covered by the land development banks due to special land laws in the area which do not permit free sale of land or mortgage to non-tribals.

Central Co-operative Land Mortgage Bank

2. The Assam Co-operative Central Land Mortgage Bank Ltd was established in September 1955 with the objective of promoting and developing the agricultural development, including horticulture, fishery, dairy and livestock of its members—both society and individuals (including members of primary banks)—by providing mortgage credit on security of land. The area of operations of the bank extends over whole of the state except the 2 hill districts. The financial and other particulars in respect of the bank for some of the years are given in Table 1.

TABLE 1
ASSAM CO-OPERATIVE CENTRAL LAND MORTGAGE BANK LTD.

	Rs Lakhs					
Items	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1. Paid-up share capital	10.84	12.05	12.75	13.60	13.99	16.71
2. Of which held by Government	9.00	9.00	9.00	9.00	9.00	11.00
3. Reserve fund and other reserves	0.42	0.66	0.68	1.52	3.71	0.68
4. Debentures issued	—	—	10.00	10.00	20.00	9.50
5. Debentures outstanding	—	—	10.00	20.00	40.00	49.76
6. Investments	0.22	0.57	4.77	1.23	4.32	6.36
7. Loans issued	2.53	3.33	10.31	12.55	12.11	13.21
8. Loans outstanding	17.63	21.76	30.28	41.05	51.21	62.09
9. Overdues	4.59	2.10	2.02	2.41	3.25	5.00
10. Overdues as Percentage to Demand	N.A.	N.A.	59	58	63	68
11. Profit (+) or Loss (—)	(—)0.09	(—)0.32	(—)0.18	(—)1.04	(—)0.70	(—)1.98

3. The financial position of the bank is weak as the accumulated losses amounted to Rs 2.21 lakhs as on 30 June 1972. Overdues, coupled with accumulated losses, have eroded the owned funds of the bank substantially, i.e., to the extent of Rs 7.74 lakhs out of Rs 14.77 lakhs. During 1972-3, the bank had to contribute Rs 4.69 lakhs out of its owned funds to the sinking fund because of shortfall in recoveries. Taking

into account the general investment held by the bank, the owned funds available for business amounted to Rs 1.71 lakhs only. The bank had received a sum of Rs. 12.30 lakhs by way of loans from the state government between 1958 and 1968 for giving financial assistance for development of agriculture, livestock and fisheries.

4. The bank has not so far rationalized its loan policy and procedures. Considerable delay takes place in the sanction of loan applications. As on 31 August 1973, a few applications were pending since 1967. The arrangements for supervision over utilization of loans are neither adequate nor satisfactory. Till 1968-9, loans were mostly issued for the purpose of redemption of old debts, purchase of ownership rights in land, construction of buildings etc. The bank has been gradually increasing its loans for identifiable productive purposes, but still they formed only 58 per cent of the total loans issued during the year 1972-3.

5. The bank has so far issued 5 series of debentures for a total sum of Rs 49.50 lakhs and one series of rural debentures for Rs 0.50 lakh. The banks' performance in the matter of floatation of debentures has been poor as will be seen from the following:

Year (Financial)	Rs Lakhs	
	Ordinary debenture programme approved by the Reserve Bank of India	Ordinary debentures floated
1969-70	15.00	10.00
1970-71	25.00	10.00
1971-2	20.00	20.00
1972-3	20.00	9.50
1973-4	30.00	—

6. The management of the bank vests in a board of directors which includes the Registrar of Co-operative Societies and a representative of the Finance Department.

7. The chief executive of the bank is the Managing Director who is of the rank of Deputy Registrar of Co-operative Societies in the Co-operation Department. He is assisted by a secretary, an administrative officer, an inspecting officer, 2 legal assistants, 2 superintendents, an accountant, 8 clerks and 4 typists-cum-clerks. The officer deputed by the Co-operation Department for the post of Managing Director is frequently changed which causes considerable dislocation in work. The staff does not include any technical personnel or agricultural economist.

8. The bank has not been able to develop sufficient business despite its working for over 15 years. With a total business of loans outstanding at Rs 62.09 lakhs as on 30 June 1973, it has yet to acquire viability. For instance, during the year 1971-2 its total expenditure amounted to Rs 4.86 lakhs, as against the total income of Rs 4.16 lakhs, i.e., a loss of Rs 0.70 lakh. The cost of establishment which amounted to Rs 1.71 lakhs for 1971-2 formed about 22.4 per cent of the gross income. If the amount of subsidy, viz., Rs 1.00 lakh is excluded while working out the profit/loss position the loss would increase to Rs 1.70 lakhs. It is estimated that at the present margin of 3 per cent, a minimum loaning business of Rs 1.00 crore is necessary for the bank to become viable.

Primary Land Development Banks

9. The number of primary banks in the state is 16. The financial and other particulars in respect of these banks for the years 1965-6 and 1968-9 to 1972-3 are given below:

TABLE 2
PRIMARY LAND DEVELOPMENT BANKS IN ASSAM

Item	Rs Lakhs					
	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1. Number	16	16	16	16	16	16
2. Membership—Regular (No.)	3,910	6,492	7,206	8,194	8,628	9,179
3. Paid-up capital	2.36	4.30	5.25	7.40	8.38	9.87
4. Reserve and other funds	0.62	0.52	0.53	0.55	1.79	1.97
5. Loans issued	2.84	3.74	9.30	12.74	10.43	15.85
6. Loans Outstanding	16.65	22.01	29.56	40.60	49.00	61.76
7. Overdues	4.53	2.18	2.41	3.22	3.86	6.49
8. Overdues as percentage to demand	N.A.	N.A.	69	68	70	72
9. Profit:						
No. of banks	9	9	8	5	9	8
Total amount	0.17	0.15	0.11	0.08	0.31	0.20
10. Loss:						
No. of banks	7	7	8	11	7	8
Total amount	0.13	0.10	0.07	0.51	0.36	0.58

10. The progress made by the banks is generally poor inasmuch as the maximum amount of loans advanced by 6 of them during the year 1972-3 was between Rs 1.00 lakh and Rs 3.00 lakhs, in the case of 3 banks between Rs 0.50 lakh and Rs 1.00 lakh and in the remaining 7 banks less than Rs 0.50 lakh. The position of overdues in these banks was very disquieting as may be seen from the following details:

Range of Overdues as on 30 June 1973 (percentage to demand)	No. of banks
Up to 15 per cent	Nil
16 per cent to 25 per cent	—
26 per cent to 40 per cent	1
41 per cent to 50 per cent	1
Over 51 per cent	14

11. The main reasons for slow progress and heavy overdues, among others, were lack of staff to attend to recovery/extension and promotional work and lack of resources to expand business. Delay at the level of the central land development bank either in sanctioning loan applications or remitting funds to primaries is another reason for the slow progress. The banks have, by and large, failed to make any contribution whatsoever in the programmes of agricultural development in the state.

Viability of Primary Land Development Banks

12. For making the study of viability the following assumptions are made:

- (i) Present margin of 1½ per cent (difference between lending and borrowing rate) is not considered adequate. The same is assumed as 2 per cent.
- (ii) The expected increase in the loaning business for the next 3 years would be over and above the increase in business to the extent of recoveries effected during the period.
- (iii) Each unit should have a minimum staff comprising a manager, 2 supervisors of which one will be technical, a clerk-cum-accountant, a typist and a peon.
- (iv) The salary of manager and the additional staff, including technical supervisor, would be borne by the state government and subsidy for that would be available on tapering basis as per existing rules.
- (v) In the case of each unit, cost of management has been assumed at Rs 0.31 lakh as per details given below:

	Rs	Rs
(a) Salary and allowance of the staff (per month)		
(1) Manager/Secretary	600	
(2) Technical supervisor	450	
(3) Supervisor	350	
(4) Accountant-cum-clerk	350	
(5) Typist	250	
(6) Peon	180	
	<hr/> 2,180	
(b) Travelling allowance		26,160
(c) Other expenses		3,000
		<hr/> 2,000
Total expenditure		<hr/> 31,160

13. On the basis of the above assumptions the Study Team has come to the conclusion that out of 16 banks only 2 banks, viz., Silchar and Nalbari are likely to attain viability by the end of 1975-6. Two more banks, viz., Nowgong and Mangaldoi are considered as potentially viable. The remaining 12 banks, viz., Gauhati, Goalpara, North Lakhimpur, Barpeta, Golaghat, Tezpur, Sibsagar, Jorhat, Karimganj, Hailakandi, Dhubri and Dibrugarh are considered as non-viable.

Agricultural Refinance Corporation Schemes

14. The Agricultural Refinance Corporation sanctioned in 1970 a scheme for arecanut cultivation in Nowgong District involving financial outlay of Rs 5.00 lakhs. There has so far been no progress in the implementation of the scheme for which financial assistance from the Agricultural Refinance Corporation is to be received through the CLDB. Three schemes, one for sinking 1500 shallow tubewells in Nowgong District, second for sinking 200 shallow tubewells in Nalbari East Block and third for sinking 5000 bamboo shallow tubewells in eight districts, were reported to be under formulation.

Overall assessment of land development banking

15. From the foregoing details it will be seen that the land development banking structure in the state is very weak. The CLDB as also the primary units suffer from serious financial and organizational inadequacies. These institutions can, therefore, hardly be expected to play any useful role in the agricultural development programmes in the state at present. Their loan policy and procedures have not yet been rationalized. Besides, there are certain legislative constraints which hinder provision of investment finance in certain parts of the state.

Future Role of Land Development Banks

16. Out of the total geographical area of 78.40 lakh hectares, the area under cultivation accounted for 23.28 lakh hectares or about 32 per cent of the total area. The gross cropped area is 28.75 lakh hectares. The area under irrigation is estimated at 3.56 lakh hectares constituting about 15 per cent of the total area under cultivation.

17. The draft Fifth Five Year Plan for the state has proposed the following outlay on various agricultural programmes:

	Rs Lakhs	
	As proposed by State Govt.	As approved by Working Group
(i) Minor irrigation	3200	2650
(ii) Soil conservation	500	380
(iii) Animal husbandry	830	859
(iv) Dairying and milk supply	320	200
(v) Forest	770	720
(vi) Fisheries	220	200
Total	5840	5009

The minor irrigation programmes proposed to be undertaken include lift irrigation schemes, both electric and diesel, deep and shallow tubewells, mobile pumpsets and flow irrigation. Under soil conservation it is proposed to undertake contour bunding, protected afforestation and land development in soil conservation areas. The animal husbandry and dairy development plans include schemes for cattle development, feed and fodder development, sheep and goat development, poultry development, piggery development etc. Of the proposed fishery development schemes, the most important one refers to the development of *beal* fisheries. The horticulture development schemes include a scheme for integrated horticultural development, rejuvenation of existing and establishment of new citrus orchards and development of pineapple, banana and other fruits. It is estimated that a sum of Rs 26.00 crores by way of institutional finance by various agencies would be available as under:

Institution	Estimated amount of financial assistance
	Rs Crores
(1) Land Development Banks (ordinary loaning)	} 14.00
(2) Agricultural Refinance Corporation (Special schemes)	
(3) Central Co-operative Banks (medium-term loans)	
(4) Commercial Banks (term lending)	
	2.00
	10.00
	26.00

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF THE CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANK IN ASSAM

				Rs Lakhs			
Sr. No.	Item		1969-70	1970-71	1971-2	1972-3*	
1.	Membership No.						
1.	PLDBs ..	..	16	16	16	16
2.	Others ..	..	1	3	3	3
2.	Paid-up Capital						
1.	Government ..	..	9.00	9.00	9.00	11.00
2.	PLDBs ..	..	3.70	4.55	4.94	5.68
3.	Others ..	..	0.05	0.05	0.05	0.03
3.	Statutory Reserves	..	0.43	0.43	0.43	0.43	
4.	Other Reserves ..	..	0.25	1.09	3.28	0.25
5.	Deposits ..	..	0.36	0.46	0.57	0.63
6.	Borrowings						
1.	Debentures						
	Ordinary .. ..	..	10.00	20.00	40.00	49.51
	Rural .. ..	..	—	—	—	0.25
	Special .. ..	..	—	—	—	—
2.	Government ..	..	11.15	11.15	11.15	11.15
3.	Co-operative Banks	..	1.42	2.37	—	—	
4.	Commercial Banks	..	—	—	—	—	
5.	Others .. ..	..	—	—	1.25	1.25
7.	Working Capital ..	..	36.36	50.18	71.33	81.18
8.	Investment						
1.	General Reserve Fund .. ..	..	4.77	1.04	3.49	2.12
2.	Sinking Fund .. ..	..	—	0.19	0.83	4.24
9.	Loans outstanding .. ..	..	30.28	41.05	51.21	62.09
10.	Overdues .. ..	..	2.02	2.41	3.25	5.00
11.	Interest on loans .. ..	..	2.10	3.02	4.45	6.25
12.	Overdues .. ..	..	0.12	0.45	0.86	1.61
13.	Cost of Management .. ..	..	1.90	2.09	2.20	2.55
14.	Profit(+) or loss(—) .. ..	..	(—)0.18	(—)1.04	(—)0.70	(—)1.98
15.	Dividend declared .. ..	..	—	—	—	—
16.	Loans issued						
1.	For sinking of wells, construction of tanks, repairs etc. .. ..	..	0.48	2.21	2.21	3.48
2.	For purchase and installation of pumpsets .. ..	..	—	0.27	0.46	—
3.	For purchase of tractors and implements .. ..	..	0.35	0.64	0.77	0.51
4.	For construction of godowns, farmsheds .. ..	..	0.37	1.14	1.73	—
A.	Total identifiable productive purposes .. ..	..	1.20	4.26	5.17	3.99
	For levelling, bunding and soil conservation etc. .. ..	..	4.86	5.76	3.90	2.82
	For preparation of orchards .. ..	..	1.40	1.62	1.75	—
B.	Total unidentifiable productive purposes .. ..	..	6.26	7.38	5.65	2.82
C.	Unproductive purposes .. ..	..	2.85	0.91	1.29	6.40
	A + B + C .. ..	..	10.31	12.55	12.11	13.21

*Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF PRIMARY LAND DEVELOPMENT BANKS IN ASSAM

No. of PLDBs: 16

Rs Lakhs

Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
	Regular	7,206	8,194	8,628	9,179
	Nominal	472	738	922	1,074
2.	Paid up Capital	5.25	7.40	8.38	9.87
3.	Statutory Reserve	0.40	0.42	0.44	0.45
4.	Other Reserves	0.13	0.13	1.35	1.52
5.	Borrowings	29.88	40.68	50.19	61.92
6.	Deposits	0.06	0.07	0.07	0.09
7.	Working Capital	35.72	52.23	63.21	79.10
8.	Investments	4.03	5.40	5.11	5.77
9.	Loans Outstanding	29.56	40.60	49.00	61.76
10.	Overdues	2.41	3.22	3.86	6.49
11.	Interest on Loans	2.36	4.06	5.21	7.43
12.	Overdues	1.42	1.89	3.01	5.12
13.	Loans Issued:				
	No. of members	303	422	388	425
	Amount	9.30	12.74	10.43	15.85
14.	Cost of Management	1.07	1.17	1.21	1.33
15.	Profit: No. of Banks	8	5	9	8
	Amount	0.11	0.08	0.31	0.20
16.	Loss: No. of Banks	8	11	7	8
	Amount	0.07	0.51	0.36	0.58
17.	No. of Banks without Profit or Loss ..	NIL	NIL	NIL	NIL

*Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX III

STATEMENT SHOWING PROJECTED LENDING PROGRAMME FOR ASSESSING VIABILITY OF PRIMARY LAND DEVELOPMENT BANKS IN ASSAM

Rs Lakhs											
Sr. No.	Name of Primary Land Development Bank	Loans outstanding as on 30 June 1972	Projected lending programme			Probable outstanding as at the end of the year			Estimated income @2% margin of profit during the year 1975-6	Accumulated losses as on 30-6-72	Whether the bank will be viable at the end of 1975-6
			1973-4	1974-5	1975-6	1973-4	1974-5	1975-6			
I	2	3	4	5	6	7	8	9	10	11	12
1.	Barpeta	2.30	2.50	3.00	4.00	5.00	8.00	12.00	0.24	0.07	Non-viable
2.	Dhubri	1.49	1.30	2.00	3.00	3.00	5.00	8.00	0.16	0.01	—do—
3.	Dibrugarh	1.33	1.80	2.00	3.00	3.00	5.00	8.00	0.16	0.03	—do—
4.	Gauhati.. ..	6.58	3.00	4.00	4.00	10.00	14.00	18.00	0.36	0.23	Potentially viable
5.	Goalpara	4.11	3.00	3.00	3.00	8.00	11.00	14.00	0.28	0.07	Non-viable
6.	Golaghat	2.35	3.00	3.00	3.00	6.00	9.00	12.00	0.24	N.A.	—do—
7.	Hailakandi	0.70	2.00	2.00	3.00	3.00	5.00	8.00	0.16	0.04	—do—
8.	Jorhat	1.16	2.50	3.00	3.00	4.00	7.00	10.00	0.20	0.02	—do—
9.	Karimganj	1.75	2.00	2.00	3.00	4.00	6.00	9.00	0.18	0.02	—do—
10.	Mangaldoi	3.43	4.25	5.00	6.00	9.00	14.00	20.00	0.40	0.13	Viable
11.	Nalbari	4.48	5.00	5.00	5.00	12.00	17.00	22.00	0.44	—	—do—
12.	Nowgong	5.34	4.25	4.00	5.00	11.00	15.00	20.00	0.40	0.26	—do—
13.	North Lakhimpur	3.30	3.00	3.00	3.00	7.00	10.00	13.00	0.26	—	Non-viable
14.	Sibsagar	2.18	2.50	3.00	3.00	5.00	8.00	11.00	0.22	—	—do—
15.	Silchar	5.59	7.00	5.00	6.00	14.00	19.00	25.00	0.50	—	Viable
16.	Tezpur	2.35	3.00	3.00	3.00	6.00	9.00	12.00	0.24	0.08	Non-viable

ANNEXURE 8

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

BIHAR

The structure for co-operative land development banking in the state is unitary in character. The Bihar State Co-operative Land Mortgage Bank Ltd. (Bihar Rajya Sahakari Bhumi Vikas Bank Simit) was registered on 18 December 1957 with the whole of Bihar as its area of operations. The bank commenced dispensing long-term credit from 1958-9. Bihar is divided into three regions, viz., the plains of North Bihar and of South Bihar and the plateau region of Chotanagpur. While the plains of North and South Bihar are fertile lands accounting for a major portion of agricultural production and with immense irrigational potentialities, the Chotanagpur region which covers a large hilly tract is dependent mostly on rainfall for cultivation. Because of these reasons, the bulk of the transactions of the bank is confined to the plains where a large number of branches of the bank are located.

Central Co-operative Land Development Bank

2. The financial and other particulars relating to the bank over the last few years are indicated below:

TABLE 1
THE BIHAR RAJYA SAHAKARI BHUMI VIKAS BANK SIMIT

							Rs Lakhs
Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3	
1	2	3	4	5	6	7	
1. Paid-up share capital	24.09	76.20	104.05	169.25	229.81	299.01	
2. Of which held by government	20.00	35.00	45.00	65.00	75.00	85.00	
3. Reserve fund and other reserves	0.10	0.32	0.40	0.61	10.88	11.10	
4. Debentures issued ..	30.00	155.00	376.00	547.35	1015.25	1298.71	
5. Debentures outstanding ..	50.00	376.19	734.19	1264.70	2106.60	3343.12	
6. Investments	0.56	32.31	57.71	147.13	272.64	488.44	
7. Loans issued	28.00	227.40	316.82	688.00	947.42	1219.28	
8. Loans outstanding	63.67	527.08	807.90	1453.89	2305.24	3356.06	
9. Overdues	0.32	20.12	17.14	40.00	62.57	122.50	
10. Overdues as percentage to demand	N.A.	N.A.	32	32	39	42	
11. Profit	0.44	0.54	0.77	0.82	7.53	3.00	

The paid-up share capital which stood at Rs 76.20 lakhs in 1968-9 increased to Rs 299.01 lakhs in 1972-3, i.e., more than 3 times. The loans issued by the bank also increased by 5 times, i.e., from Rs 227.40 lakhs in 1968-9 to Rs 1219.28 lakhs in 1972-3. Although there has been a spurt in the loaning programme of the bank in

the last three years, the profit earned by the bank during the year 1972-3 amounted to Rs 3.00 lakhs only. However, the position regarding profits would have been different if the state government had not paid the cost of certain staff including the managing director. The bank had not declared any dividend since 1968-9. The bank had, between the years 1963 and 1973, received from the state government Rs 8.98 lakhs as long-term loans to be given to agriculturists under the Land Improvement Loans Act.

3. The bank has not rationalized its loan policy and procedures. Some of the main defects noticed in the loan procedures are: (i) ineffective systems of verification of utilization of loans; (ii) absence of a system for verification of the economic feasibility of the loan proposals, particularly in respect of loans for minor irrigation purposes; (iii) unscientific system of valuation of hypotheca; (iv) not fixing area-wise scales of finance per acre or per unit.

4. The working of the bank has been characterized by a high level of overdues. The details of the overdues (including interest) of the bank for the last three years 1970-71 to 1972-3 are given below:

Year	Demand	Overdues	Rs Lakhs
			Percentage of overdues to demand
1970-71	188.08	59.43	31.6
1971-2	318.77	99.71	31.3
1972-3	532.50	179.00	33.6

5. The classification of the branches of the bank according to their overdues for these three years is as under:

Sr. No.	Category	As on 30.6.71	As on 30.6.72	As on 30.6.73
1.	No. of branches with overdues up to 15% of demand	6	14	9
2.	Between 15% and 25%	11	16	19
3.	Between 25% and 40%	31	36	46
4.	Between 40% and 50%	9	7	13
5.	Over 50 per cent	1	—	—
		58	73	87

6. The main reasons for the increase in overdues were (i) failure of crops due to severe droughts and floods; (ii) large-scale misutilization of loans due to inadequacy of supervision over the use of loans; (iii) delay in giving electric connexions to completed tubewells; and (iv) lack of coercive action against defaulters.

7. The total debenture outstandings as on 30 June 1973 stood at Rs 33.43 crores. Of this amount, Rs 29.40 crores were on account of ordinary debentures, Rs 4.02 crores of special development debentures and Rs 0.51 lakh of rural debentures. The

details of the approved ordinary debenture programme and debentures floated during the years 1970-71 to 1972-3 are given below:

Rs Crores		
Year (financial)	Approved Debenture Programme	Debentures Floated
1970-71	7.50	4.14
1971-2	6.50	7.31
1972-3	8.25	11.21
1973-4	12.35	8.24

The bank's performance in respect of rural debentures will be seen from the following:

Rs Lakhs			
Year	Target of rural debentures	Rural debentures floated	Fixed deposits received
1970-71	3.00	0.22	—
1971-2	16.25	0.43	1.43
1972-3	20.00	1.09 (individuals)	2.87

8. The bank did not seem to be managing its funds judiciously. Funds were remitted by the head office to the branches of the central land development bank, the State Bank of India and commercial banks for being credited in the current accounts maintained by the branches with them. Large balances were found to remain idle for a considerable length of time with the branches of central land development bank, State Bank of India and commercial banks on which no interest was earned.

9. In terms of revised/amended by-law No. 29, the management of the bank vests in a board of directors consisting of 21 members including, among others, the Registrar of Co-operative Societies, Agricultural Production Commissioner and Financial Commissioner. At the branches there are branch advisory committees which are empowered to sanction loans and ensure collection of dues. The sub-divisional officers of the minor irrigation department, electricity department and agriculture department are permanent invitees to the meetings of the committees.

10. The bank has a Managing Director who is the chief executive officer. The present incumbent to the post is an officer of the state administrative services on deputation with the bank. Similarly, there are several posts—technical and others—like the chief accountant, accountants (4), senior accounts clerks (25), administrative officer, secretary, sectional officer (establishment), loan officer, assistant loan officer, land valuation officers, special officer (planning) executive engineer etc., whose services have been obtained on deputation from the state government. Even in the regional offices, district offices and branches of the bank, the officers-in-charge and other staff are in several cases, drawn from among government officials. The pay and allowances (excluding travelling allowances) in respect of the incumbents to these posts are paid by the state government direct. The bank has created a planning section and a technical cell. However, it has only two technical persons—one executive engineer from the Agriculture Department of the state government and another a diploma holder in civil engineering. There is no proposal to have any other technical staff like hydrologist etc.

11. The bank has set up two regional offices—one at Purnea and the other at Muzaffarpur. The regional managers are expected to exercise overall control and

supervision over the working of the branches within their jurisdiction. However, they are found to function as loan sanctioning and disbursing authorities only and do not pay adequate attention to inspection and supervision over branches. The bank has posted 17 district officers at various centres mainly to conduct periodical inspections of the branches and to scrutinize 10 per cent of the loan cases below Rs 12,000 and all cases above Rs 12,000. The work of the district officers is reported to be confined mostly to scrutiny of loan cases and no inspections were being regularly conducted. A majority of the staff field officers and staff of the bank, viz., district officers, branch managers, land valuation officers, supervisors etc., was not trained in land development banking.

Branches of the Bank

12. The bank had 87 branches as on 30 June 1973. Excluding the Chotanagpur Division and the Santhal Parganas District, the bank had opened branches in all the old sub-divisional headquarters in the state. However, it appears that the branches had been opened mainly to fulfil the target of opening 100 branches during the Fourth Plan rather than on considerations such as viability, business prospects, financial implications etc. Of these 87 branches, 16 were treated as government-aided branches. The state government had sanctioned for each branch, a branch manager, a land valuation officer, a clerk and a peon and posted the government staff against these posts. The pay and allowances, including travelling allowances of the staff, were paid by the state government till 1960-61 and thereafter their travelling allowances and contingent expenses were borne by the bank. As an incentive to the bank for opening more branches, the state government was giving managerial subsidy for the additional staff for new branches on a tapering basis. A total sum of Rs 27.00 lakhs had been sanctioned as managerial subsidy to the bank by the state government up to 1972-3.

Viability of Branches

13. Initially, 17 branches at the rate of one in each of the old districts were approved by the state government and the services of the staff were provided free of cost. On the basis of loan business, the branches of the bank numbering 73 (as on 30 June 1972) may be classified as under:

Loans outstanding as on 30 June 1972	No. of branches
1. Up to Rs 20 lakhs	26
2. Between Rs 20 lakhs and Rs 50 lakhs	33
3. Between Rs 50 lakhs and Rs 75 lakhs	7
4. Between Rs 75 lakhs and Rs 100 lakhs	4
5. Above Rs 100 lakhs	3
	<hr/> 73 <hr/>

The Study Team has undertaken an assessment of the viability of the branches on the following assumptions:

- (a) For purposes of assessing the potential viability of branches, a 3 year period has been taken, viz., 1972-5.
- (b) It has been assumed that during the period 1972 to 1975 the average lending rate would be 9.25 per cent per annum allowing a margin of 3 per cent. Of this 3 per cent, the head office would retain 1.5 per cent towards its own expenditure and leave a margin of 1.5 per cent for the branch.
- (c) For arriving at the estimated loan business for the subsequent years under normal programme, the level of loan business of a branch attained during the year 1971-2 has been taken as the basis and an annual increase of 25 per cent allowed. In respect of ARC schemes, 80 per cent of the loaning targets under various schemes under implementation have been taken into

account and allocated suitably among the branches in the light of the past experience.

- (d) Each branch must have a minimum complement of staff and should include a branch manager, a technical supervisor (for a branch having outstanding loans of Rs 60 lakhs), a land valuation officer, a supervisor, an accounts clerk, a clerk-cum-typist and a peon. The average total emoluments per annum including travelling allowances work out to Rs 0.32 lakh.

14. The study based on the assumption that the bank would gear up its collection machinery and achieve collections at 85 per cent of demand during the three year period ending June 1975 revealed that out of the 73 branches, 37 branches (51 per cent) are viable, 22 branches (30 per cent) are potentially viable and the remaining 14 branches (19 per cent) would remain non-viable till 30 June 1975. If the assumed collections of the bank remain around 70 per cent of the demand up to June 1975, 23 branches (31 per cent) would be viable, 29 branches (40 per cent) would be potentially viable and 21 branches (29 per cent) would remain non-viable till June 1975.

ARC Schemes

15. The Agricultural Refinance Corporation has sanctioned through the Bihar State Co-operative Land Development Bank Ltd. 5 minor irrigation schemes and one scheme for land reclamation and mechanization of agriculture in the Kosi Project area involving a total financial outlay of Rs 10.69 crores. Of these the implementation of 2 schemes was completed and the remaining were in various stages of implementation. The slow and unsatisfactory progress in the implementation of the schemes is generally due to (i) lack of adequate initiative from the project and block development staff, (ii) cumbersome procedures for sanction of loans for small amounts for land levelling purposes, (iii) lack of co-ordination among the bank and departments of the state government, and (iv) inadequacy of technical staff.

Overall Assessment of Land Development Banking

16. During the last few years, the bank has made rapid strides in issue of long-term loans to cultivators in the state. But the progress cannot be said to be satisfactory. The bank's overdues including overdue interest have increased from Rs 59.43 lakhs as on 30 June 1971 to Rs 179.00 lakhs as on 30 June 1973 and formed 33.6 per cent of the demand for the year. Out of 87 branches, as many as 59 branches had overdues over 25 per cent. Despite considerable assistance from the state government in the matter of the cost of staff, the bank earned a small profit of Rs 3.00 lakhs during 1972-3. The bank had not rationalized its loaning policy and procedures nor had it made satisfactory arrangements for effective supervision and verification of utilization of loans. Lack of initiative in implementing Agricultural Refinance Corporation refinanced schemes, absence of staff of the required competence, and lack of co-ordination with various departments of the state government were among the other weaknesses in the working of the bank. However, there is vast scope for agricultural development in the state in which the land development bank can play a major role.

Prospective Role of the Bank

17. It has been estimated that institutional finance for agricultural development programmes for the Fifth Plan period will be about Rs 140 crores. Out of this, the share of the land development banks is expected to be Rs 100 crores and the remaining amount will be provided by the central co-operative banks (medium-term advances) and commercial banks (term-lending). The International Development Association has approved an agricultural credit project for intensive development of minor irrigation in the erstwhile Tirhut Division in North Bihar. The land development bank will be one of the major participating banks in this project and is expected to issue loans to the extent of Rs 22.37 crores.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND
DEVELOPMENT BANK IN BIHAR

Rs Lakhs

Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	Regular ..	39,564	43,400	79,025	1,06,488
2.	Nominal ..	79,282	1,47,378	2,32,016	3,44,983
2.	Paid-up Capital				
1.	Government	45.00	65.00	75.00	85.00
2.	PLDBs ..	—	—	—	—
3.	Others ..	59.05	104.25	154.81	214.01
3.	Statutory Reserve	0.40	0.61	5.85	6.12
4.	Other Reserves	—	—	5.03	5.04
5.	Deposits ..	49.39	48.30	132.09	75.83
6.	Borrowings				
1.	Debentures				
	Ordinary ..	674.19	1088.19	1819.19	2940.67
	Rural ..	—	0.11	0.22	0.51
	Special ..	60.00	176.40	287.19	401.94
2.	Government ..	—	—	—	—
3.	Co-operative Banks	0.68	49.54	99.48	199.06
4.	Commercial Banks	21.51	143.55	82.62	132.45
5.	Others ..	—	—	—	—
7.	Working Capital ..	910.22	1763.33	2814.99	4226.56
8.	Investment				
1.	General Reserve Fund ..	0.58	0.51	1.51	2.51
2.	Sinking Fund ..	57.13	146.62	271.13	485.93
9.	Loans outstanding ..	807.90	1453.89	2305.24	3356.06
10.	Overdues ..	17.14	40.00	62.57	122.50
11.	Interest on loans ..	32.47	40.00	73.22	131.33
12.	Overdues ..	27.47	19.34	44.19	94.43
13.	Cost of management ..	20.30	24.28	34.25	47.13
14.	Profit (+) or loss (—) ..	(+)0.77	(+)0.82	(+)7.53	(+)3.00
15.	Dividend declared ..	—	—	—	—
16.	Loans issued				
1.	For sinking of new wells, construction of tanks and repairs etc. ..	101.16	12.11	27.47	377.36
2.	For purchase of & installation of pumpsets ..	72.51	501.19	719.74	610.76
3.	For purchase of tractors and implements ..	126.24	147.25	181.66	197.99
4.	For construction of godowns, farmsheds ..	—	—	—	—
A.	Total identifiable productive purposes ..	299.91	660.55	928.87	1186.11
	For levelling, bunding and soil conservation etc. ..	3.74	11.83	11.28	23.61
	For preparation of orchards ..	—	—	—	—
B.	Total unidentifiable productive purposes ..	3.74	11.83	11.28	23.61
C.	Unproductive purposes ..	13.17	15.62	7.27	9.56
	A + B + C ..	316.82	688.00	947.42	1219.28

*Provisional

Source : Statistical Statements relating to the Co-operative Movement in India.

ANNEXURE 9

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

HIMACHAL PRADESH

The land development banking set-up in the state comprises the Himachal Pradesh Central Co-operative Land Mortgage Bank Ltd. which was registered in February 1961, and the Kangra Primary Co-operative Land Mortgage Bank Ltd. which was affiliated to the former in 1966 consequent on the transfer of Kangra District of the erstwhile Punjab State to Himachal Pradesh. The major part of the state is served by 12 branches including Head Office of the central land development bank while the Kangra region (now reorganized into 3 districts, viz., Kangra, Hamirpur and Una) is served by the Kangra Primary Land Mortgage Bank which has its headquarters at Dharamsala and branches at Nurpur and Una.

Central Co-operative Land Development Bank

2. The financial and other particulars of the central land development bank are given below:

TABLE 1

HIMACHAL PRADESH CO-OPERATIVE CENTRAL LAND DEVELOPMENT BANK LTD.

Rs Lakhs

Item (1)	1965-6 (2)	1968-9 (3)	1969-70 (4)	1970-71 (5)	1971-2 (6)	1972-3 (7)
1. Membership:						
Individual (No.)	1116	2708	3252	4473	5072	5354
Others (No.)	17	18	19	19	19	19
2. Paid-up share capital	4.64	9.87	12.36	14.98	18.00	18.53
3. Of which held by Govt.	3.00	5.00	6.00	6.50	7.50	7.50
4. Reserves and other funds	0.01	0.21	0.65	1.13	1.52	1.62
5. Debentures issued (Ordinary and Rural)	—	21.85	25.00	35.80	38.77	16.93
6. Debentures outstanding (Ordinary and Rural)	—	56.20	81.20	117.00	155.77	172.70
7. Investments in sinking fund	0.08	3.39	4.69	11.38	14.88	18.88
8. Loans issued	8.63	22.25	31.40	38.82	34.89	12.95
9. Loans outstanding	20.30	72.37	99.17	129.29	159.78	167.43
10. Overdues	0.22	2.00	6.12	8.43	17.22	27.09
11. Overdues as percentage to demand		50	47	48	69	83
12. Profit	0.01	0.39	0.43	0.31	0.58	0.66

The membership of the bank has almost doubled during a period of 4 years, i.e., from 2708 in 1969 to 5354 as on 30 June 1973. There has been a substantial increase in its paid-up capital. The outstanding loans have also shown an increase by Rs 95 lakhs during the period 1968-9 to 1972-3. However, the position regarding the bank's overdues is rather disquieting inasmuch as they formed 83 per cent of the demand for the year 1972-3.¹

¹ After re-scheduling of loans for apple orchards, the overdues came down to Rs 7.80 lakhs as on 30-6-73 constituting 50.3 per cent of the demand.

Although the bank was reported to be working at profit, this was not the real position as it was taking to profits the overdue interest without providing for a corresponding reserve. If the overdue interest was excluded, the bank would have shown losses. Its working cannot, therefore, be said to be satisfactory.

3. The reasons for heavy overdues in the main stem from the defective loaning policy and procedures followed by the bank. It was issuing more loans for purposes like construction of godowns and cattle sheds which formed as much as 56 per cent of the total loans issued during 1971-2. Since there was no proper supervision over utilization of these loans and the usual safeguards to be observed in advancing such loans were also not followed by the bank, the loans appeared to have been used by the borrowers more as ways and means advances. In earlier years (i.e., before 1971) the bank had issued loans for preparation of land for orchard plantations and fixed repayment schedule therefor without providing for the gestation period. Instalments for repayments were fixed from the first anniversary of advancing such loans. This had also contributed to the overdues of the bank and when they became sizeable the bank was forced to make contributions to the sinking fund from out of its resources. Still another reason for heavy overdues was the lack of adequate staff and ineffective supervision over the working of branches. Laxity in recovery operations also contributed to the continuous rise in overdues.

4. The bank had issued ordinary debentures for an aggregate amount of Rs 175.95 lakhs as on 31 March 1973.¹ The bank had not floated any special development or rural debentures. In respect of ordinary debentures also its performance was not satisfactory inasmuch as it had not been able to achieve during the past few years the targets fixed for the purpose as will be seen from the following:

Year (financial)	Rs Lakhs	
	Targets for ordinary debentures	Ordinary debentures floated
1969-70	30.00	25.00
1970-71	50.00	35.80
1971-2	50.00	37.50
1972-3	45.00	16.50
1973-4	45.00	—

5. The management of the bank vests in a board of directors comprising 11 members. It does not have any representative of the Horticulture or the Co-operation Department of the state government. The bank is working with depleted strength. It does not have on its staff any technical staff or an agricultural economist. There is no co-ordination between the bank and the state government's Agriculture or Horticulture Department.

6. The financial position of the bank is weak in view of heavy overdues. The bank's loanable resources have been reduced substantially in view of heavy overdues and contributions to sinking fund required to be made from out of its owned funds due to shortfall in recoveries. The bank was found to have used substantial amount from its owned funds aggregating Rs 17.50 lakhs for meeting the sinking fund commitments (Rs 9.20 lakhs) in advance of recoveries. During the year 1972-3, the bank could float debentures only for Rs 16.50 lakhs as against the approved programme of Rs 45.00 lakhs. In 1973-4, the bank had not floated any ordinary debentures.

¹ Including debenture deposit of Rs 3.25 lakhs from the Horticulture Department.

The bank has not yet rationalized its loaning policy and procedures. Its loans to small and marginal farmers are almost insignificant. The arrangements for supervision are very inadequate.

Primary Land Development Bank

7. The Kangra Primary Co-operative Land Mortgage Bank Ltd was registered on 30 September 1967. Its financial and other particulars for the years 1968-9 to 1972-3 are given below:

TABLE 2
KANGRA PRIMARY CO-OPERATIVE LAND MORTGAGE BANK LTD.

		Rs Lakhs				
Item		1968-9	1969-70	1970-71	1971-2	1972-3
1. Membership:						
Regular (No.)	..	325	593	724	895	991
2. Paid-up share capital	..	0.85	1.48	2.09	2.81	2.99
3. Reserve and other funds	..	0.01	0.01	0.01	0.04	0.05
4. Loans issued	..	5.97	5.47	4.94	7.60	3.25
5. Loans outstanding	..	6.27	11.41	15.39	21.85	23.14
6. Overdues	.. ..	—	0.01	0.31	0.87	0.64
7. Overdues as percentage to demand	.. ..	—	0.09	2.00	4.00	25.00
8. Profit (+)/Loss (—)	..	—	(—)0.13	(—)0.01	(+)0.08	(+)0.08

The position regarding overdues in the bank is not satisfactory which is due to lack of effective supervision over utilization of loans. The bank's staff at the head office comprises a manager, an accountant, a clerk-cum-cashier and a clerk while at each of the Hamirpur and Una branches there is only one person, viz, manager. The bank's loans portfolio is showing an erratic trend inasmuch as after increasing from Rs 2.93 lakhs during 1967-8 to Rs 5.97 lakhs during 1968-9, it decreased to Rs 5.47 lakhs during the following year, but again increased to Rs 7.60 lakhs during 1971-2. Loans advanced during 1972-3 again declined to Rs 3.25 lakhs. The bank incurred losses aggregating Rs 0.39 lakh during the period from 1968-9 to 1970-71. It earned a small profit of Rs 0.08 lakh each in 1971-2 and 1972-3 but it went to reduce the accumulated losses. The profit and loss position was, however, not real as the bank was taking overdue interest to profit without making a corresponding provision.

Overall Assessment of the Working of Land Development Banks

8. The above review regarding the working of the central land development bank and the primary bank indicates that they suffer from financial and other deficiencies. Due to heavy overdues not only the owned funds of the central land development bank but even a good part of the interim accommodation received by it from the Himachal Pradesh State Co-operative Bank has been locked up, resulting in its inability to even meet its sinking fund commitments. The accumulation of overdues far in excess of the capacity of the long-term credit structure to absorb from its own resources, has led to the choking of the channels of credit. The progress in the special scheme of apple orchards refinanced by the Agricultural Refinance Corporation is also not satisfactory. The utility of the long-term credit structure has thus been impaired to

such an extent that nothing short of a full-fledged rehabilitation programme can put it on its feet again. One of the inhibiting factors coming in the development of the structure is the provision of *taccavi* loans for development of land and horticulture development by the state Agriculture and Horticulture Departments.

Future Role of Land Development Banks

9. The Working Group of the Planning Commission which considered in August 1973 the state proposals for agricultural and allied activities during the Fifth Five Year Plan recommended a target of Rs 5 crores for long-term loans to be advanced by the land development banks under their normal and special loaning programmes.

10. Due to mountainous terrain of the state the scope for dug wells/tubewells is extremely limited, excepting in certain parts such as Una District and Paonta Sub-division of Sirmur District, Nalagarh Sub-division of Solan District and Nurpur Sub-division of Kangra District. Similarly, there is very little scope for mechanized farming due to small size of holdings, steep gradients in land and the terrace type of cultivation. There is, however, considerable scope for horticulture development throughout the state and for replantation of tea gardens in Kangra District. In fact, the Agricultural Refinance Corporation had conducted in 1964 a special study regarding the problems of small tea plantation estates and published a report giving suggestions for formulation of suitable schemes for being refinanced by it.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE
LAND DEVELOPMENT BANK IN HIMACHAL PRADESH

Rs Lakhs

Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	Regular	3,252	4,473	5,072	5,354
2.	Nominal	981	1,534	1,897	210
2.	Paid-up Capital				
1.	Government	6.00	6.50	7.50	7.50
2.	PLDBs	0.35	0.37	0.80	0.80
3.	Others	6.01	8.11	9.70	10.23
3.	Statutory Reserve	0.28	0.43	0.56	0.56
4.	Other Reserves	0.37	0.70	0.96	1.06
5.	Deposits	—	—	0.18	4.45
6.	Borrowings				
1.	Debentures				
	Ordinary	81.20	117.00	154.50	171.00
	Rural	—	—	1.27	1.70
	Special	—	—	—	—
2.	Government	8.17	7.23	6.24	6.24
3.	Co-operative Banks	13.19	19.50	12.08	19.83
4.	Commercial Banks	—	—	—	—
5.	Others	—	—	—	—

APPENDIX 1 (*contd.*)

Sr. No.	Item	Rs Lakhs			
		1969-70	1970-71	1971-2	1972-3*
7.	Working Capital	115.57	163.02	208.77	227.65
8.	Investment				
1.	General Reserve Fund	—	—	0.55	0.88
2.	Sinking Fund	4.69	11.38	14.88	18.88
9.	Loans Outstanding	99.17	129.29	159.78	167.43
10.	Overdues	6.12	8.43	17.22	27.09
11.	Interest on loans	10.46	15.25	23.29	31.84
12.	Overdues	3.84	5.31	10.34	21.34
13.	Cost of Management	1.63	2.67	2.69	2.85
14.	Profit (+) or loss (—)	(+)0.43	(+)0.31	(+)0.58	(+)0.66
15.	Dividend declared	—	—	—	—
16.	Loans issued				
1.	For sinking of wells, construction of tanks, and repairs etc.	3.50	3.60	1.13	0.44
2.	For purchase and installation of pumpsets	—	4.38	0.79	0.63
3.	For purchase of tractors and implements	3.50	3.92	4.54	0.23
4.	For construction of godowns, farmsheds	3.91	9.54	16.25	3.89
A.	Total identifiable productive purposes	10.91	21.44	22.71	5.19
	For levelling, bunding and soil conservation etc.	6.10	4.77	2.70	0.80
	For preparation of orchards	8.09	8.89	2.63	3.36
B.	Total unidentifiable productive purposes	14.19	13.66	5.33	4.16
C.	Unproductive purposes	6.30	3.72	6.85	3.60
	A+B+C	31.40	38.82	34.89	12.95

*Provisional.

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF PRIMARY LAND
DEVELOPMENT BANK IN HIMACHAL PRADESH

No. of PLDBs: 1

Rs Lakhs

Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	Regular	593	724	895	991
2.	Nominal	—	68	68	70
2.	Paid-up Capital	1.48	2.09	2.81	2.99
3.	Statutory Reserve	0.01	0.01	0.04	0.05
4.	Other Reserves	NIL	NIL	NIL	NIL
5.	Borrowings	11.26	15.59	22.17	23.31
6.	Deposits	0.44	0.46	0.36	0.80
7.	Working Capital	13.19	17.80	25.10	26.52
8.	Investments	0.35	0.55	0.57	N.A.
9.	Loans outstanding	11.41	15.39	21.85	23.14
10.	Overdues	0.01	0.31	0.87	0.64
11.	Interest on loans	0.66	0.68	NIL	2.16
12.	Overdues	0.01	0.16	NIL	1.16
13.	Loans Issued:				
	No. of Members	196	106	136	96
	Amount	5.47	4.94	7.60	3.25
14.	Cost of Management	0.20	0.13	0.27	0.30
15.	Profit : No. of banks	NIL	NIL	1	1
	Amount	NIL	NIL	0.08	0.08
16.	Loss : No. of banks	1	1	NIL	NIL
	Amount	0.13	0.01	—	—
17.	No. of banks without Profit or Loss	NIL	NIL	NIL	NIL

*Provisional.

Source: Statistical Statements relating to the Co-operative Movement in India.

ANNEXURE 10

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

JAMMU & KASHMIR

Land development banking in the state is of recent origin having been started in 1962. The structure is unitary and the central land development bank has a network of branches at the lower levels. In all, there are 21 branches of the bank and all the 10 districts of the state are covered. Out of the 10 districts, 3 districts, viz., Poonch, Rajouri and Leh, have one branch each, 5 districts, viz., Jammu, Kathua, Udhampur, Doda and Srinagar, have 2 branches each and the remaining 2 districts, viz., Anantnag and Baramulla, have 4 branches each. One of the branches, viz., Leh covered the entire district, 5 branches, viz., R. S. Pora, Ramnagar, Banihal, Kulgam and Shopian covered one tehsil each and the other branches covered generally 2 tehsils except the branches at Jammu, Doda, Anantnag and Sopore which had 3 tehsils each.

2. The Jammu & Kashmir Co-operative Central Land Development Bank Ltd. was registered on 4 October 1962 but it commenced its business only in May 1964. The financial particulars of the bank for the last few years are given in the following Table:

TABLE 1

JAMMU & KASHMIR CO-OPERATIVE CENTRAL LAND DEVELOPMENT BANK LTD.

Rs Lakhs

Item (1)	1965-6 (2)	1968-9 (3)	1969-70 (4)	1970-71 (5)	1971-2 (6)	1972-3 (7)
1. Paid-up share capital ..	4.28	16.91	19.57	22.47	24.89	28.25
2. Of which held by government	3.00	10.00	10.00	10.00	10.00	10.00
3. Reserve and other funds ..	—	—	—	—	—	—
4. Debentures issued ..	4.53	47.36	51.00	46.53	35.92	59.41
5. Debentures outstanding ..	12.00	99.67	150.67	197.20	233.12	292.56
6. Investments ..	0.50	8.42	12.87	18.32	27.03	43.54
7. Loans issued ..	4.53	54.01	48.23	52.59	49.80	64.59
8. Loans outstanding ..	16.01	112.20	154.99	201.42	240.41	290.44
9. Overdues ..	0.20	0.34	1.26	1.52	3.15	5.04
10. Overdues as percentage to demand ..	NA	NA	13	18	30	31
11. Profit (+) or loss (—) ..	(+)0.29	(—)0.03	(+)0.57	(+)0.22	(+)1.81	(+)1.83

Paid-up share capital has increased substantially, from Rs 16.91 lakhs as on 30 June 1969 to Rs 28.25 lakhs as on 30 June 1973. The government contribution to the share capital has remained stationary at Rs 10 lakhs constituting 37 per cent of the total paid-up share capital. The bank has not built any reserve fund and other funds. The amount of loans given by the bank during the last 4 years varied from Rs 48.23 lakhs to Rs 64.59 lakhs. The quantum of loans given by it, however, showed a declining trend during the year 1971-2. The overdues in the bank are on the other hand showing a rising trend and they amounted to Rs 5.04 lakhs as on 30 June 1973

forming about 31 per cent of the demand. The profit earned by it is not significant as it amounted to Rs 1.83 lakhs only during 1972-3. This, however, is not the real position as the bank is taking to profit overdue amount of interest on loans without making a provision therefor.

3. The total loans issued by the bank during the year 1972-3 amounted to Rs 64.59 lakhs. The bulk of these loans was for easily identifiable productive purposes. Of this amount, a substantial portion, i.e., Rs 41.13 lakhs or about 64 per cent was for purchase of tractors. The loans for other purposes such as sinking of wells and purchase of pumpsets accounted for a very meagre amount, i.e., Rs 2.81 lakhs as there was not much scope for such purposes in the state.

4. The total amount of debentures floated by the bank as on 30 June 1973 amounted to Rs 292.56 lakhs of which the ordinary, rural and special development debentures accounted for Rs 198.12 lakhs, Rs 0.44 lakh and Rs 94.00 lakhs respectively. While the bank was generally able to achieve the targets in respect of the supported ordinary debenture programmes, its performance in regard to special development debentures was not satisfactory. The details of the debentures floated under various schemes are given below:

Scheme	Rs Lakhs	
	Total financial outlay	Debentures floated till 31-3-1973
1. Three Horticulture Development Schemes	74.49	60.00
2. Jammu Horticulture Development Scheme	25.05	13.00
3. Supplementary Apple Cultivation Scheme in Kashmir	95.00	21.00
	<u>194.54</u>	<u>94.00</u>

5. One of the schemes for horticulture development involving a total financial outlay of Rs 74.49 lakhs was closed for Rs 60.00 lakhs. The bank had not achieved much success in floating rural debentures/collection of fixed deposits. During 1971-2, it could float rural debentures for Rs 0.40 lakh as against a programme of Rs 1.50 lakhs. Because of limited success in floating rural debentures, the bank decided to collect fixed deposits during 1972-3, but the amount received was Rs 0.44 lakh as against the target of Rs 2.50 lakhs.

6. The loan policy followed by the bank was more security-oriented than production-oriented. The bank had not fixed any rational norms for valuation of hypotheca. In a few cases, only the cost of development was taken into consideration for the valuation of security. The maturity period of loans was fixed arbitrarily. The incremental income generated from on-farm investments was not worked out in a scientific manner. The bank had not also fixed any norms for giving loans for various purposes. The defective loaning policies of the bank had resulted in the rising trend in overdues which was consistently increasing over the last five years. They increased from Rs 0.34 lakh as on 30 June 1969 to Rs 5.04 lakhs as on 30 June 1973 constituting 31 per cent of the demand. Apart from defective loaning policies, the other important reason for the continuous rise in overdues could be traced to inadequacy of supervisory machinery for verification of the use of loans. Utilization certificates were given in

a routine manner. In the case of horticulture loans, the bank had to completely rely on the staff of the Horticulture Department of the state government for verification of utilization. Most of the land valuation officers were on deputation from the Co-operation Department of the state government and the bank had no administrative control over them.

7. The management of the bank vests in a board of directors comprising 16 members and includes the Registrar of Co-operative Societies and 2 other government nominees. The general manager of the bank is the Chief Executive Officer. The present incumbent is a Deputy Registrar of Co-operative Societies on deputation with the bank. Other staff in the head office includes a deputy manager, a chief accountant, an executive officer, a superintendent, an accountant, a legal adviser, 10 senior and 15 junior assistants. In the regional office at Jammu, there is a deputy manager, an assistant manager, an executive officer, an accountant, an assistant accountant, a legal adviser, 3 senior and 17 junior assistants. The bank has no technical staff at present either in the head office or regional office.

8. Out of the 21 branches, as many as 5 branches had less than 500 borrowing members, 6 branches less than 1000 and 9 more than 1000 borrowing members. One branch, viz., Leh had been opened recently, i.e., in September 1973. Only 2 branches, viz., R. S. Pora and Jammu had advanced loans exceeding Rs 5 lakhs during the last 2 years and the remaining branches had advanced loans mostly between Rs 1 lakh and Rs 5 lakhs. The branches may be classified according to the loans outstanding as under:

Loans outstanding	No. of branches
Less than Rs 1 lakh	1
Between Rs 2 lakhs and 5 lakhs	4
" " 5 lakhs and 10 lakhs	5
" " 10 lakhs and 15 lakhs	4
" " 15 lakhs and 30 lakhs	2
More than Rs 30 lakhs	4
	<hr/> 20

Although some of the branches were in existence for 5 years to 8 years, the loaning business has not yet picked up. It would indicate that the area served by them did not offer enough business potential or scope for on-farm investment. The branches seem to have been opened as a part of pre-determined programme formulated somewhat on an arbitrary basis without conducting any survey regarding business potential etc.

9. The position regarding overdues in the branches as on 30 June 1973 is given below:

Percentage of overdues to demand	No. of branches
No overdues	1 (Newly opened branch)
Less than 15	<hr/> 1
Between 15 and 20	5
" 20 and 25	8
" 25 and 40	6
" 40 and 50	<hr/> 21

10. The branches were reported to be working as liaison offices between borrowers and the bank inasmuch as they were merely required to pass on the cheques to borrowers and obtain pronotes from them for transmission to the head office. The entire loan operations of the branches were centralized at the head office. The branch committees of the branches had not been empowered to sanction loans.

Viability of Branches

11. The following assumptions have been made by the Study Team for the purpose of determining the viability of the branches:

- (i) Each branch should have a minimum staff consisting of a branch manager, a land valuation officer, a technical supervisor, a clerk, a typist and a peon.
- (ii) The branch should have sufficient income to provide for various reserves and should declare dividend of about 4 per cent on its share capital.
- (iii) The branch should be able to pay the rent on the premises and other miscellaneous expenditure.

Assuming the average share capital of a branch at Rs 1.40 lakhs, it would have to make a provision of Rs 5,600 for payment of dividend besides Rs 880 (approximately) for appropriation towards various reserves. Thus the total income of a branch should be about Rs 0.30 lakh per annum in order to become a viable unit. Since the margin of profit available to a branch is 2 per cent, the branch should have a loan business of at least Rs 15 lakhs. On this basis, the position of branches as worked out by the Study Team would be as under:

Viable branches	8
Potentially viable branches	3
Non-viable	10

The non-viable branches should be reorganized/revitalized so as to form viable units.

Overall Assessment of the Working of Land Development Bank

12. Although the bank has made some progress in increasing its loan operations, its working shows several deficiencies. The overdues in the bank are showing an increasing trend. Its profits which are insignificant do not show the real position inasmuch as the overdue amount of interest is taken to profit without making any provision therefor. The bank has not so far rationalized its loan policy and procedures. Its performance in the matter of availing of refinance facilities from the Agricultural Refinance Corporation is not satisfactory. The branches of the bank are yet to develop sufficient loan business. Its staff does not include any technical personnel.

Future Role of Land Development Bank

13. The potential for agricultural development in the state depends upon availability of cultivated and irrigated area. Out of 60,000 acres of cadastrally surveyed area, only 1780 acres are cultivated. There is a scope for investment in minor irrigation, soil conservation, land levelling etc. It is, however, necessary that detailed investigations are conducted for groundwater potential and for the areas suitable for land levelling, lift irrigation, reclamation of land etc. The land development bank could play a pivotal role in providing long-term credit for the above purposes if surveys are conducted early.

APPENDIX 1

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND
DEVELOPMENT BANK IN JAMMU & KASHMIR

		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	Regular ..	18,836	21,737	23,472	25,7900
2.	Nominal ..	10,693	12,773	13,652	14,613
2.	Paid-up Capital:				
1.	Government	10.00	10.00	10.00	10.00
2.	PLDBs ..	—	—	—	—
3.	Others ..	9.57	12.47	14.89	18.25
3.	Statutory Reserve	—	—	—	—
4.	Other Reserves ..	—	—	—	—
5.	Deposits ..	22.10	18.35	16.10	1.87
6.	Borrowings :				
1.	Debentures				
	Ordinary ..	80.67	112.20	138.71	198.12
	Rural ..	—	—	0.41	0.44
	Special ..	70.00	85.00	94.00	94.00
2.	Government ..	—	—	—	2.00
3.	Co-operative Banks	0.60	15.30	6.73	27.43
4.	Commercial Banks	—	—	—	—
5.	Others ..	—	—	—	—
7.	Working Capital ..	192.94	272.51	307.43	385.25
8.	Investment :				
1.	General Reserve Fund	0.20	0.20	0.43	3.90
2.	Sinking Fund ..	12.62	18.12	26.63	39.64
9.	Loans outstanding ..	154.99	201.42	240.41	290.44
10.	Overdues ..	1.26	1.52	3.15	5.04
11.	Interest on loans ..	13.69	22.38	33.84	46.04
12.	Overdues ..	0.10	1.40	1.41	3.48
13.	Cost of management ..	12.20	15.77	3.99	5.56
14.	Profit (+) or loss (—) ..	(+)0.57	(+)0.22	(+)1.81	(+)1.83
15.	Dividend declared ..	—	—	—	—
16.	Loans issued:				
1.	For sinking of wells, construction of tanks, and repairs etc. ..	1.48	3.06	2.23	1.35
2.	For purchase and installation of pumpsets ..	0.12	2.24	2.77	2.81
3.	For purchase of tractors and implements ..	10.37	14.35	20.74	41.13
4.	For construction of godowns, farmsheds ..	0.21	2.18	—	5.04
A.	Total identifiable productive purposes	12.18	21.83	31.74	50.33
	For levelling, bunding and soil conservation etc. ..	2.04	0.47	2.32	4.78
	For preparation of orchards ..	33.23	30.26	15.29	8.73
B.	Total unidentifiable productive purposes	35.27	30.73	17.61	13.51
C.	Unproductive purposes ..	0.78	0.03	0.45	0.75
	Total loans issued (A+B+C) ..	48.23	52.59	49.80	64.59

* Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

ANNEXURE 11

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

MADHYA PRADESH

The present state of Madhya Pradesh was formed in 1956 by integration of Mahakoshal, Madhya Bharat, Vindhya Pradesh, Bhopal and part of Sheoganj tehsil in Rajasthan. Until 1961, long-term needs of farmers were met by the apex co-operative bank through the central co-operative banks in the Mahakoshal region of the state. Four independent primary banks were functioning in the districts of Jabalpur, Raipur, Narsinghpur and Khandwa. In the erstwhile states of Madhya Bharat, Vindhya Pradesh and Bhopal, there were no arrangements for provision of long-term credit. With the establishment of the Madhya Pradesh State Co-operative Land Mortgage Bank Ltd (Madhya Pradesh Rajya Sahakari Bhumi Vikas Bank Simit) in March 1961, the scheme of organizing primary banks gained momentum and culminated in the formation of 16 banks in 1961-2. Twenty three more banks were organized in the following years. Thus, as on 30 June 1973, there were 43 primary land development banks.

Central Co-operative Land Development Bank

2. The financial particulars of the Madhya Pradesh State Co-operative Land Development Bank Ltd. for the years 1965-6, and 1968-9 to 1972-3 are given below:

TABLE 1

MADHYA PRADESH STATE CO-OPERATIVE LAND DEVELOPMENT BANK LTD.

Item	Rs Lakhs					
	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1. Paid-up Share Capital ..	41.61	95.58	109.28	130.98	172.46	247.00
2. Of which held by Government	22.00	55.00	55.00	60.00	85.00	135.00
3. Reserve & other Funds ..	6.72	16.14	22.27	23.08	33.08	44.68
4. Debentures issued ..	181.33	331.99	434.00	581.40	772.86	956.06
5. Debentures outstanding ..	396.27	1156.46	1588.81	2160.53	2908.39	3834.45
6. Investments	64.96	236.02	338.32	390.64	538.75	721.54
7. Loans issued	186.15	375.54	546.58	559.93	751.52	1196.43
8. Loans outstanding	447.21	1156.35	1601.02	1993.65	2550.20	3490.28
9. Overdues	7.98	46.95	61.95	93.50	106.08	100.04
10. Overdues as percentage to demand	NA	NA	38	42	37	19
11. Profit	4.78	9.86	19.52	20.53	25.78	35.04

3. There has been a steady increase in the loans issued by the bank especially during the past few years. This is mainly due to a number of special schemes for agricultural development taken up for implementation with refinance facilities from the Agricultural Refinance Corporation and also because of stricter control over the working of primary banks and toning up of their working, simplification of loaning policy and procedures and decentralization of powers to sanction loans to the primary banks. Despite the steady growth in loaning operations, the bank has not been able

to achieve the targets fixed for floatation of ordinary debentures as may be seen from the following data:

Year (Financial)	Approved debenture programme	Rs Lakhs	
		Debentures issued	
1970-71	750.00	459.50	
1971-2	650.00	550.80	
1972-3	1020.00	601.45	
1973-4	1375.00	716.28	

The main reason was the shortfall in the issue of loans by the primary banks due to the heavy overdues. The bank was also not able to achieve targets for special development debentures. During 1971-2 and 1972-3 special debentures were floated for Rs 222.09 lakhs and Rs 354.60 lakhs as against Rs 473.23 lakhs and Rs 484.28 lakhs respectively planned for.

4. An unsatisfactory feature of the long-term credit structure in the state is the existence of heavy overdues, both at the primary and the apex level. During 1970-71 and 1971-2 the percentage of overdues to demand in the case of the central land development bank was more than 37. The position had, however, improved during the year 1972-3 inasmuch as the percentage was reduced to 19. The primary banks had no capacity to absorb the overdues because of weak capital structure. On the basis of percentage default to the central land development bank, the primary banks may be classified as under:

Percentage of default to the CLDB	Number of banks		
	1970-71	1971-2	1972-3
Nil	6	7	11
Up to 15 per cent	6	6	10
Between 15 and 25 per cent	9	11	6
Between 25 and 40 per cent	9	9	9
Between 40 and 50 per cent	7	3	3
Above 50 per cent	6	7	4
	43	43	43

5. The management of the bank vests in a board consisting of 21 directors who include, among others, 3 nominees of the state government, the Registrar of Co-operative Societies and the Chairman of the apex co-operative bank. The Managing Director of the bank is on deputation from the Co-operation Department. The staff includes, among others, a manager, a development officer, an officer on special duty (recovery), 4 deputy managers, and 9 assistant managers. The bank has created a development department which comprises, among others, an agronomist, a hydrologist (groundwater) and an agricultural economist. The bank has 7 divisional offices, each under a divisional officer to inspect and control the working of primary banks.

Primary Land Development Banks

6. There were 43 primary banks as on 30 June 1973 serving 45 districts in the state, including 2 newly formed districts. Two primary banks serve more than one district, viz., the bank at Bhopal serves the districts of Bhopal and Sehore and the bank at Durg the districts of Durg and Rajnandgaon. The primary banks are operating through branches opened at the tehsil and, in a few cases, at the block level. As at the end of March 1973, there were 143 branches, i.e., 3 or 4 branches per bank on an average. The financial particulars in respect of these banks for the years 1965-6 and 1968-9 to 1972-3 are given below:

TABLE 2
PRIMARY LAND DEVELOPMENT BANKS

Item	Rs Lakhs					
	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1. No. of primaries ..	43	43	43	43	43	43
2. Membership— Regular (No.)	30,886	63,711	78,101	86,136	101,539	143,918
3. Paid-up share capital..	27.19	75.48	104.01	143.57	192.89	339.17
4. Reserve & other funds ..	3.48	4.99	6.05	7.73	14.63	20.59
5. Loans issued ..	187.65	430.95	647.37	575.10	764.69	1227.31
6. Loans outstanding ..	453.90	1201.56	1689.20	2070.93	2643.29	3624.61
7. Overdues ..	15.28	52.89	91.24	119.78	145.34	175.00
8. Overdues as percentage to demand ..	NA	NA	36	38	49	47
9. Profit: No. of banks ..	28	37	39	37	36	35
Total amount ..	2.37	8.98	10.51	10.57	15.40	18.32
10. Loss: No. of banks ..	15	6	4	6	7	8
Total amount ..	0.40	0.25	0.09	0.74	1.04	2.63

Overdues in primary banks have been gradually rising and their percentage to demand has been varying between 36 and 49 during the last 5 years. On the basis of percentage of overdues to demand as at the end of last 3 years, the banks may be classified as under:

Percentage of overdues to demand	Number of banks as on		
	30-6-71	30-6-72	30-6-73
Up to 15 per cent	1	—	1
Between 16 and 25 per cent	4	4	11
Between 26 and 40 per cent	17	16	15
Between 41 and 50 per cent	15	14	11
Above 50 per cent	6	9	5
	43	43	43

There are various reasons for heavy overdues. The more important of these are (a) inadequacy of field staff both for verification of the utilization of loans and recovery work; (b) delay on the part of the banks in taking coercive steps against defaulters; (c) drought in several districts of the state; (d) defective system for fixing due dates for the payment of first instalment followed in the past inasmuch as it was required to be paid even before the borrower derived any benefit from the investment; and (e) inadequate touring by the field staff.

7. The primary banks have a weak financial base. The average paid-up share capital per bank as on 30 June 1972 and 31 March 1973 worked out to Rs 4.48 lakhs and Rs 5.26 lakhs respectively. The classification on the basis of their paid-up capital is given below:

Amount of paid-up share capital	Number of banks as on	
	30-6-72	31-3-73
Below Rs 2 lakhs	11	9
Between Rs 2 lakhs and 3 lakhs	3	3
Between Rs 3 lakhs and 4 lakhs	8	6
Between Rs 4 lakhs and 5 lakhs	8	6
Above Rs 5 lakhs	13	19
	<u>43</u>	<u>43</u>

The reserves in most of the banks were meagre inasmuch as the average per bank as on 31 March 1973 worked out to Rs 0.36 lakh. Out of 43 banks, 21 banks had not been able to create the reserve fund, as there were no divisible profits. The average owned funds per bank came to Rs 5.62 lakhs as on 31 March 1973.

8. During 1971-2, out of 43 banks, 7 banks worked at loss. Out of the remaining 36 banks, which worked in profit in the case of as many as 13 banks the profit was less than Rs 0.25 lakh. However, the figures of net profit appearing in the balance sheets of the banks is not real in view of the practice of taking overdue interest to the profit and loss account, without creating a corresponding provision. If the overdue interest had been provided for, most of the banks would have shown loss in their balance sheets.

9. The board of directors of each bank has a president, a vice-president and an honorary secretary. In terms of the by-laws, the honorary secretary enjoys equal powers as the manager, who is the chief executive officer.

10. In order to provide the primary banks with the services of qualified and trained officers, the apex institution has set up a common cadre of officers. Their service conditions are laid down in the service rules adopted by the bank. The present strength of the cadre officers is 31 managers and 46 assistant managers. The central land development bank has 258 land valuation officers for appraisal of loan applications etc. They have been attached to the various primary banks according to their requirements. These officials have also to attend to verification of final utilization of loans and to work as recovery officers. The salary and other expenditure of valuers is met by the central land development bank.

Viability of primary banks

11. While assessing the viability of primary banks, the Study Team has made the following assumptions:

- (i) On the basis of loans outstanding as on 30-6-1972 the projections in respect of normal loaning business have been made after providing for an increase of 10 per cent per annum during the next 4 years. In regard to the schemes sanctioned by the Agricultural Refinance Corporation, an increase of 80 per cent has been provided for, while in the case of pending schemes, 60 per cent of the yearly phasing has been estimated as the expected increase during each of the years.
- (ii) The decrease in loans outstanding as a result of repayments received during the year has been ignored.

- (iii) The increase in loans on account of the IDA Agricultural Credit Project has not been separately estimated because (a) the schemes already under consideration are expected to be brought under the Project, and these have been provided for; and (b) provision at the rate of 10 per cent per annum has been made for normal loans which are likely to decline and get replaced by special loans as a result of the Project.
- (iv) Each primary bank will have a manager, an assistant manager, an accountant, a technical supervisor, supervisors and other clerical staff. The average charge per supervisor and valuer will be—supervisor: 350 cases (250 old and 100 new) and valuer: one valuer for new loan business of Rs 7 lakhs to Rs 8 lakhs or about 150 new cases.
- (v) It is expected that 85 per cent of the interest receivable would be recovered every year.
- (vi) The margin for primary banks is taken as 2 per cent per annum.

12. On the basis of these assumptions, the level of lendings of each bank has been projected as on 30 June 1973, 30 June 1974, 30 June 1975 and 30 June 1976 in order to identify the viable and the potentially viable banks. It is seen that as on 30 June 1973, 9 banks were viable and 16 banks are likely to reach viable status by June 1976. The remaining 18 banks, it is considered, have no prospects of reaching viability at present. The names of banks in different categories are given below:

Viable	Potentially Viable	Non-Viable
1. Bhopal	1. Bhind	1. Ambikapur
2. Chhindwara	2. Bilaspur	2. Balaghat
3. Dewas	3. Dhar	3. Betul
4. Indore	4. Guna	4. Chattarpur
5. Raipur	5. Gwalior	5. Damoh
6. Raisen	6. Hoshangabad	6. Datia
7. Ratlam	7. Jabalpur	7. Durg
8. Sagar	8. Barwani	8. Jagdalpur
9. Ujjain	9. Mandsaur	9. Jhabua
	10. Morena	10. Khandwa
	11. Narsinghpur	11. Mandla
	12. Satna	12. Panna
	13. Seoni	13. Raigarh
	14. Shajapur	14. Rajgarh
	15. Shivpuri	15. Rewa (Vindhya)
	16. Tikamgarh	16. Shahdol
		17. Sidhi
		18. Vidisha

Five banks have been identified as requiring rehabilitation, viz., Jhabua, Mandsaur, Rajgarh, Ujjain and Vindhya. The Study shows that more primary banks will require rehabilitation.

Overall Assessment of the Working of Land Development Banks

13. From the details given in paragraphs 2 to 10 it will be seen that although there has been significant increase in the long-term credit provided by the land development banks especially since 1967-8, the structure has certain deficiencies. Most of the primary banks have a weak capital structure and suffer from operational weakness, including heavy overdue. They do not have adequate staff for undertaking various functions such as appraisal of loan proposals, supervision, verification of utilization of loans and recovery work etc. Co-ordination between the primary banks and other institutions or concerned departments of the state government is lacking.

The reorganization of these banks is of utmost importance in view of the ambitious programme for agricultural development envisaged in the IDA Agricultural Credit Project.

Programme of Agricultural Development

14. Mention may be made here of the agricultural credit project sanctioned by International Development Association, which envisages the following programme:

Item	Physical programme hectares (approximately)
(a) Construction of dugwells	25,000
(b) Improvement of existing wells	15,000
(c) Electric pumpsets	27,800
(d) Diesel pumpsets	12,500
(e) Persian wheels	2,700
(f) Land development for well irrigation	30,000

The total project investment is estimated at Rs 45.22 crores out of which loan assistance of the order of Rs 39.63 crores is to be provided to cultivators. The Project is to be implemented between 30 September 1973 and 30 June 1976. The Project is expected to increase the scope for long-term credit to a very substantial extent.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE
LAND DEVELOPMENT BANK IN MADHYA PRADESH

		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.:				
1.	PLDBs ..	43	43	43	43
2.	Others ..	—	—	—	—
2.	Paid-up capital:				
1.	Government ..	55.00	60.00	85.00	135.00
2.	PLDBs ..	54.28	70.98	87.46	112.00
3.	Others ..	—	—	—	—
3.	Statutory Reserve ..	7.25	8.40	12.15	16.26
4.	Other Reserves ..	15.02	14.68	20.93	24.91
5.	Deposits ..	142.63	25.17	16.51	49.09
6.	Borrowings :				
1.	Debentures				
	Ordinary ..	1486.66	1946.24	2477.01	3048.47
	Rural ..	12.65	30.70	25.70	25.70
	Special ..	89.50	183.59	405.68	760.28
2.	Government ..	1.55	—	—	—
3.	Co-operative Banks ..	15.00	0.01	30.01	25.00
4.	Commercial Banks ..	100.00	66.20	—	2.42
5.	Others ..	—	—	—	—
7.	Working Capital ..	1979.54	2478.63	3264.65	4346.78
8.	Investment:				
1.	General Reserve Fund ..	9.66	10.82	16.82	21.82
2.	Sinking Fund ..	328.66	379.82	521.93	699.72
9.	Loans outstanding ..	1601.02	1993.65	2550.20	3490.28
10.	Overdues ..	61.95	93.50	106.08	100.04
11.	Interest on loans ..	35.59	57.38	67.67	142.87
12.	Overdues ..	17.38	14.36	18.12	14.67
13.	Cost of management ..	14.76	14.61	20.60	23.94
14.	Profit (+) or Loss (—) ..	(+)19.52	(+)20.53	(+)25.78	(+)35.04
15.	Dividend declared ..	(4%)3.71	(3%)2.99	(4%)4.61	(4%)5.66
16.	Loans issued				
1.	For sinking of wells, construction of tanks and repairs etc. ..	414.83	409.67	491.50	863.78
2.	For purchase and installation of pumpsets ..	90.07	78.46	141.97	207.09
3.	For purchase of tractors and implements ..	31.74	57.86	107.62	121.65
4.	For construction of godowns, farmsheds ..	0.17	—	—	—
A.	Total identifiable productive purposes	536.81	545.99	741.09	1192.52
	For levelling, bunding and soil conservation etc. ..	6.65	9.07	10.43	3.91
	For preparation of orchards ..	0.22	—	—	—
B.	Total unidentifiable productive purposes	6.87	9.07	10.43	3.91
C.	Unproductive purposes ..	2.90	4.87	—	—
	Total Loans (A+B+C) ..	546.58	559.93	751.52	1196.43

*Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL PARTICULARS IN RESPECT OF PRIMARY LAND DEVELOPMENT BANKS IN
MADHYA PRADESH

No. of PLDBs: 43

Rs Lakhs

Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership: Regular	78,101	86,136	101,539	143,918
2.	Paid-up Capital	104.01	143.57	192.89	339.17
3.	Statutory Reserve	4.10	4.31	4.87	6.28
4.	Other Reserves	1.95	3.42	9.76	14.31
5.	Borrowings	1602.71	1996.66	2549.98	3482.62
6.	Deposits	250.05	126.24	114.53	109.29
7.	Working Capital	1962.82	2393.09	3036.37	4155.48
8.	Investments	201.38	106.38	97.43	122.52
9.	Loans Outstanding	1689.20	2070.93	2643.29	3624.61
10.	Overdues	91.24	119.78	145.34	175.00
11.	Interest on Loans	88.47	123.18	160.97	234.26
12.	Overdues	61.08	87.02	96.91	133.84
13.	Loans Issued				
	No. of members	14863	16193	18466	31164
	Amount	647.37	575.10	764.69	1227.31
14.	Cost of Management	23.68	32.24	51.02	72.19
15.	Profit:				
	No. of banks	39	37	36	35
	Amount	10.51	10.57	15.40	18.32
16.	Loss:				
	No. of banks	4	6	7	8
	Amount	0.09	0.74	1.04	2.63
17.	No. of banks without profit or loss	Nil	Nil	Nil	Nil

*Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

19.	Indore	..	..	..	..	..	107.17	123.10	157.53	190.71	225.15	Yes	—	—
20.	Jhabhua	..	..	..	..	..	18.39	20.23	28.63	37.19	46.06	—	—	Yes
21.	Mandla	..	..	..	..	..	11.32	12.45	15.92	19.52	23.26	—	—	Yes
22.	Morena	..	..	..	..	..	41.96	83.20	129.92	176.94	191.00	—	Yes	—
23.	Narsinghpur	..	..	..	..	..	63.30	101.83	141.03	186.60	230.78	—	Yes	—
24.	Neemuch (Mandsaur)	..	..	..	..	..	97.21	106.93	137.15	168.44	200.91	—	Yes	—
25.	Nimar (Khandwa)	..	..	..	..	..	39.43	43.37	53.64	64.34	75.52	—	—	Yes
26.	Panna	..	..	..	..	..	20.45	26.68	31.42	36.85	39.52	—	—	Yes
27.	Raigarh	..	..	..	..	..	17.53	19.28	21.21	23.33	25.66	—	—	Yes
28.	Raipur	..	..	..	..	..	107.23	117.95	129.74	142.71	156.98	Yes	—	—
29.	Raisen	..	..	..	..	..	106.72	117.39	129.12	142.03	156.23	Yes	—	—
30.	Rajgarh	..	..	..	..	..	46.19	50.80	55.88	61.47	67.62	—	—	Yes
31.	Ratlam	..	..	..	..	..	158.27	199.55	255.90	320.98	341.20	Yes	—	—
32.	Sagar	..	..	..	..	..	120.35	132.61	142.50	153.38	165.34	Yes	—	—
33.	Satana	..	..	..	..	..	71.02	86.04	110.69	128.92	138.37	—	Yes	—
34.	Seoni	..	..	..	..	..	26.71	42.74	79.83	128.54	141.09	—	Yes	—
35.	Shahdol	..	..	..	..	..	11.23	12.35	17.54	22.86	28.31	—	—	Yes
36.	Shivpur	..	..	..	..	..	102.31	105.79	121.25	139.09	153.35	—	Yes	—
37.	Shujalpur (Shajapur)	..	..	..	..	..	54.86	67.15	129.89	191.24	240.45	—	Yes	—
38.	Sidhi	..	..	..	..	..	10.66	12.72	11.41	12.55	13.89	—	—	Yes
39.	Surguja (Ambikapur)	..	..	..	..	..	18.25	28.57	51.18	73.99	84.72	—	—	Yes
40.	Tikamgarh	..	..	..	..	..	67.90	113.62	153.18	193.39	218.72	—	Yes	—
41.	Ujjain	..	..	..	..	..	103.57	123.94	185.34	248.88	297.81	Yes	—	—
42.	Vidisha	..	..	..	..	..	62.22	68.44	75.28	82.80	91.08	—	—	Yes
43.	Vindhya (Rewa)	..	..	..	..	..	58.92	72.95	85.57	87.93	90.52	—	—	Yes

ANNEXURE 12

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

ORISSA

The long-term credit structure in Orissa is of a federal type with the Orissa State Co-operative Land Development Bank at the state level and 55 primary banks at the primary level. There are 56 sub-divisions in the state and 55 primary banks are functioning at present. While no separate primary banks have been organized for some of the sub-divisions, more than one bank has been set up in certain sub-divisions. For instance, no primary bank has been organized in Baliguda and Phulbani Sub-divisions of Phulbani District and in Koraput Sub-division of Koraput District, the first two being served by the Boudh primary bank and the latter by the Jeypore primary bank. The reason for this is that the land survey is yet to be conducted in these sub-divisions and cultivators do not have alienable rights over the lands. However, in Gumsur Sub-division in Ganjam District and in Sambalpur Sub-division of Sambalpur District more than one primary bank have been established.

Central Co-operative Land Development Bank

2. The Orissa State Co-operative Land Development Bank Ltd. was registered on 16 September 1938 and started functioning from 28 February 1939. Initially it started operating in 3 districts, viz., Ganjam, Cuttack and Puri and its area was gradually extended to all the remaining districts. Originally, the bank was catering to the long-term credit needs of cultivators directly through its branches and agencies, viz., central co-operative banks. After the organization of primary banks in the state, the bank stopped direct financing and the branches were closed down. Although the bank started functioning as early as in 1939, its loaning business started picking up only after 1946-7 when the bank floated its first ordinary debentures. Its progress was noticeable after 1962-3 when it switched over from unitary to the federal system. The financial particulars of the bank for the years 1965-6 and 1968-9 to 1972-3 are given in the following Table:

TABLE 1
ORISSA STATE CO-OPERATIVE LAND DEVELOPMENT BANK LTD.

		Rs Lakhs					
Sr. No.	Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1.	Paid-up share capital ..	32.05	58.44	76.47	100.89	111.72	126.85
2.	Of which held by Govt.	17.25	27.25	32.25	44.25	49.25	59.25
3.	Reserve and other funds	3.53	11.02	11.01	21.47	22.11	21.56
4.	Debentures issued ..	105.00	250.52	283.26	376.30	303.77	228.36
5.	Debentures outstanding	294.41	734.36	1015.81	1392.11	1687.31	1915.67
6.	Investments	68.44	156.05	153.35	227.74	388.60	536.47
7.	Loans issued	70.08	205.00	344.94	363.35	297.69	257.11
8.	Loans outstanding ..	272.34	649.90	939.60	1228.66	1469.40	1615.53
9.	Overdues	2.37	—	4.96	8.83	39.74	85.75
10.	Overdues as percentage to demand	N.A.	N.A.	50	13	24	44
11.	Profit	3.39	4.44	11.35	3.84	6.76	21.05

3. It will be seen that the paid-up share capital of the bank which stood at Rs 58.44 lakhs as on 30 June 1969 increased to Rs 126.85 lakhs as on 30 June 1973. There has been a significant increase in the reserves also. Similarly, the loans outstanding also increased from Rs 649.90 lakhs as on 30 June 1969 to Rs 1615.53 lakhs as on 30 June 1973. The bank had been showing profit during the last 5 years. Although there has been an allround progress in the working of the bank it suffers from several deficiencies. The overdues in the bank are increasing and stood at Rs 85.75 lakhs as on 30 June 1973 and formed 44 per cent of the demand for the year. It has not so far rationalized its loan policy and procedures. For instance, area-wise norms for investment in various items of development have not been fixed. The valuation of the security is still being done on the basis of sales statistics. The procedure followed for calculating the repaying capacity of the borrowers is neither uniform nor scientific.

4. As on 30 June 1973, the debentures outstanding stood at Rs 1915.67 lakhs, out of which ordinary and special debentures amounted to Rs 1846.96 lakhs and Rs 56.03 lakhs respectively. The balance, i.e., Rs 12.68 lakhs was on account of rural debentures. The bank was not able to achieve the targets fixed for ordinary debentures during the past 4 years, as can be seen from the following details:

Year (Financial)	Rs Lakhs	
	Approved debenture programme	Debentures actually floated
1970-71	550.00	369.49
1971-2	500.00	293.20
1972-3	450.00	211.00
1973-4	615.00	270.55

5. The performance of the bank in floating special development debentures was also not satisfactory inasmuch as it floated debentures for Rs 55.00 lakhs only till 30 June 1974 as against Rs 159.00 lakhs according to the approved phasing for the schemes.

6. The management of the bank vests in a board of directors consisting of 21 directors—one from each district and the rest to be nominated by the government including the Registrar of Co-operative Societies, and the managing director. Besides the board, there is an executive committee consisting of 11 members, a loan sub-committee with 3 members, an appointment sub-committee with 5 members and a cadre committee with 5 members.

7. The managing director is the chief executive of the bank and the present incumbent to the post is a retired Joint Registrar of Co-operative Societies. Other staff includes a manager, an assistant manager, an administrative officer, a development officer, 4 assistant development officers, 8 inspectors, law officers, accountants, clerks and typists. The technical staff comprises 2 engineers and 2 overseers. The bank undertakes inspection of primary banks for which 7 inspectors and 5 assistant development officers have been appointed. Apart from the fact that the number of inspections conducted by this staff was negligible compared with the total number of primary banks, the items covered during the inspection and the follow-up action taken on the inspections left much to be desired. The bank also maintains a cadre of secretaries for the primary banks. It proposed to have cadres of accountants and supervisors also for primary banks.

Primary Land Development Banks

8. The primary banks were organized from the year 1960-61 and at present there are 55 such banks. The area of operations of the primary banks is generally limited to a sub-division/tehsil irrespective of the number of blocks and villages in the area. While some banks have large areas under them, others have very small areas of operation. The financial particulars of the primary banks are given in the following Table.

TABLE 2

PRIMARY LAND DEVELOPMENT BANKS IN ORISSA—PARTICULARS

		Rs Lakhs					
Sr. No.	Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1.	No. of primary land development banks ..	37	52	54	54	55	55
2.	Membership—Regular (No.) ..	2177	37890	54882	73276	80931	90785
3.	Paid-up share capital ..	14.46	40.52	66.89	100.79	114.01	127.39
4.	Reserve and other funds	0.27	1.50	2.07	2.66	3.95	5.35
5.	Loans issued	67.29	211.95	396.20	436.17	248.10	281.02
6.	Loans outstanding ..	231.13	606.34	898.46	1290.26	1473.82	1626.85
7.	Overdues	2.28	7.49	17.06	53.21	87.50	134.56
8.	Overdues as percentage to demand	N.A.	N.A.	16	46	55	54
9.	Profit:						
	No. of banks	25	40	45	44	41	46
	Total amount	0.95	4.87	8.74	11.32	9.83	15.71
10.	Loss:						
	No. of banks ..	12	12	9	10	11	9
	Total amount ..	0.23	0.49	0.53	2.54	3.25	2.82

9. The borrowing membership of the banks has registered a steady growth from 37890 as on 30 June 1969 to 90785 as on 30 June 1973. The paid-up share capital increased by more than three times, i.e., from Rs 40.52 lakhs as on 30 June 1969 to Rs 127.39 lakhs as on 30 June 1973. The loans issued by them which declined from Rs 436.17 lakhs in 1970-71 to Rs 248.10 lakhs in 1971-2 increased to Rs 281.02 lakhs during 1972-3. The main reason for the declining trend in loans issued was the continuous rise in overdues. The overdues including interest which amounted to Rs 19.53 lakhs as on 30 June 1970 stood at Rs 188.63 lakhs or 48.6 per cent of demand as on 30 June 1973 and they exceeded the owned funds of the banks amounting to Rs 130.41 lakhs. Due to their incapacity to absorb heavy overdues most of the banks committed defaults in repaying loans to the central land development bank. The following Table shows the classification of banks according to the percentages of overdues to demand for the years 1970-71 to 1972-3.

Percentage of overdues to demand	Number of banks as on		
	30-6-71	30-6-72	30-6-73
Up to 15	3	—	1
Between 16 and 25	8	3	2
Between 26 and 40	13	9	13
Between 41 and 50	18	9	11
Above 50	12	33	28
	54	54	55

10. Only 3 banks had overdues less than 25 per cent and in the case of the remaining 52 banks overdues exceeded 25 per cent. The classification of overdues as on 30 June 1972 according to the period and purpose of loans indicated that (i) more than one-third of the overdues were outstanding for more than 2 years and (ii) 46 per cent of overdues were in respect of loans for minor irrigation works and another 30 per cent related to loans for land improvement, orchards and gardens. Further, three-fourths of the overdues was from borrowers having holding more than 5 acres.

11. The main causes for the mounting overdues were:

- (i) unsound lending policies such as the unscientific basis followed for valuation of lands and repaying capacity,
- (ii) wilful defaults and ineffective action for recovery,
- (iii) misutilisation of loans due to lack of proper and systematic follow-up action on the part of the banks after disbursement of the loans,
- (iv) occurrence of successive natural calamities like cyclones, floods and droughts for the last few years and
- (v) inadequacy of qualified, experienced and trained staff in the primary banks

Viability of Primary Land Development Banks

12. A study team constituted by the Reserve Bank and in the context of the implementation of schemes under proposed IDA project examined in November-December 1972 the question of viability. According to them, for attaining a viable status primary bank should have a loan business which would help it in earning enough profits after meeting the establishment and contingent expenses, for declaring a reasonable rate of dividend, contributing adequate amount to the reserve fund and maintaining minimum complement of technical and other staff. For the purpose of assessing the viability potential, the period of 3 years was taken from July 1972 to June 1975 uniformly for all banks and all financial projections made on the basis of loans outstanding as on 30 June 1972. According to these norms, the team had identified 10 banks as viable, 15 potentially viable and 30 non-viable.

13. The Study Team set up by our Committee generally agrees with the above assessment, but in its opinion 13 banks classified earlier as non-viable mainly on the ground that they were working at a loss before 30 June 1972, may be treated as potentially viable because they had since developed adequate loan business. Thus, the total number of viable and potentially viable banks would be 38 and the remaining 17 banks non-viable. The details of these banks are given below:

District	Name of Primary Land Development Bank considered as		
	Viable	Potentially viable	Non-viable
Ganjam	Berhampur Chatrapur	Aska Bhanjanagar Parlakimedi	—
Koraput	—	Rayagada Jeypore	Gunupur Nawarangpur Malkangiri
Kalahandi	Bhawanipatna Dharamgarh Nawapara	—	—
Phulbani	—	Baudh	—

District	Name of Primary Land Development Bank considered as		
	Viable	Potentially viable	Non-viable
Cuttack	—	Banki Jajpur Athagarh Cuttack Jagatsinghpur Kendrapura	—
Puri	Puri	Nayagarh Khurda Bhubaneswar	—
Balasore	Balasore	Bhadrak	Nilgiri
Mayurbhanj	—	Mayurbhanj	Karanjia Udala Rairangapur
Sambalpur	Bargarh Sambalpur	Kachinda Deogarh Padampur	Rairakhol Jharsuguda
Bolangir	—	Bolangir Titlagarh Patnagarh	Sonepur
Dhenkanal	—	Angul Kamakhyanager Dhenkanal	Athamallik Talcher Pallahara Hindol
Keonjhar	—	Anandapur Keonjhar	Champur
Sundergarh	Sundergarh	—	Bonaigarh Panposh

The Study Team has suggested that the banks considered as non-viable should be reorganized either by amalgamating them with the neighbouring potentially viable banks or liquidating them. The central land development bank has already recommended to the Co-operation Department, a scheme for amalgamation of 11 weaker banks among themselves or with the neighbouring banks.

Agricultural Refinance Corporation Schemes

14. ARC had sanctioned 12 schemes of agricultural development through the central land development bank involving a total financial outlay of Rs 3.94 crores, of which the ARC's commitment was Rs 3.00 crores. As on 30 June 1973, the bank had disbursed loans amounting to Rs 58.05 lakhs. The progress in the implementa-

tion of the various schemes was, however, slow for various reasons such as (i) lack of initiative and interest shown by the banks (ii) continuous rise of overdues (iii) inadequacy of staff and (iv) lack of co-ordination among the lending agencies and government departments.

Assessment of Land Development Banking

15. The land development banking structure which had shown prospects of achieving some success, received a serious setback on account of the rising trend in overdues. At the primary level, the overdues had increased rapidly and 52 banks out of 55 banks had overdues exceeding 25 per cent. The loaning operations which increased from Rs 3.96 crores in 1969-70 to Rs 4.36 crores in 1970-71 declined to Rs 2.48 crores in 1971-2 and further to Rs 1.75 crores in 1972-3. The central land development bank had failed to achieve the targets of the supported ordinary debenture programme. It has also not made any significant headway in availing itself of re-finance facilities from ARC.

Future Role of Land Development Banks

16. The state government has prepared a project for exploitation of groundwater resources at an estimated outlay of Rs 47 crores for assistance from the IDA. Under this programme the land development banks are expected to advance loans to the extent of Rs 11.50 crores. As regards the normal loaning programme the Working Group for Co-operation during the Fifth Five Year Plan has fixed a target of Rs 62.00 crores.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANK IN ORISSA

		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership				
1.	Primary Land Development Banks	54	54	55	55
2.	Others	10	—	—	—
2.	Paid-up Capital				
	Govt. ..	32.25	44.25	49.25	59.25
	PLDBs ..	43.37	56.64	62.47	67.60
	Others ..	0.85	—	—	—
3.	Statutory Reserve	6.03	10.24	11.08	11.08
4.	Other Reserves ..	4.98	11.23	11.03	10.48
5.	Deposits	6.02	9.45	15.08	11.58
6.	Borrowings				
1.	(a) Ordinary ..	978.27	1347.76	1635.96	1846.96
	(b) Rural	12.73	12.73	12.33	12.68
	(c) Special	24.81	31.62	39.02	56.03
2.	Govt.	10.00	—	60.00	50.00
3.	Co-op. Banks ..	—	—	32.46	—
4.	Commercial Banks ..	—	37.95	—	83.61
5.	Others	—	—	—	—
7.	Working Capital ..	1119.31	1597.85	1981.81	2287.04
8.	Investment				
	General Reserve Fund	10.72	9.69	63.50	79.95
	Sinking Fund	142.63	217.75	325.10	456.52
9.	Loans Outstanding	939.60	1228.66	1469.40	1615.53
10.	Overdues	4.96	8.83	39.74	85.75
11.	Interest on Loans	20.00	35.00	70.38	86.33
12.	Overdues	2.15	12.29	40.38	53.15
13.	Cost of Management	4.08	5.89	6.93	7.95
14.	Profit (+) or Loss (—)	(+)11.35	(+)3.84	(+)6.76	(+)21.05
15.	Dividend Declared	—	(3%)5.31	—	—
16.	Loans Issued				
	i) For sinking of wells, construction of tanks, repairs etc.	220.43	253.52	215.09	195.41
	ii) For purchase and installation of pumpsets	36.20	40.14	26.60	24.34
	iii) For purchase of tractors and implements	38.09	38.78	33.86	20.24
	iv) For construction of godowns, farm sheds	3.11	4.91	2.90	1.83
A.	Total identifiable Productive Purposes	297.83	337.35	278.45	241.82
	For levelling, bunding and soil conservation etc.	24.27	9.20	14.83	11.92
	For preparation of orchards	1.11	0.60	0.43	0.26
B.	Total unidentifiable productive purposes	25.38	9.80	15.26	12.18
C.	Unproductive purposes	21.73	16.30	3.98	3.11
	Total loans (A) + (B) + (C)	344.94	363.45	297.69	257.11

*Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF PRIMARY LAND DEVELOPMENT
BANKS IN ORISSA

No. of PLDBs : 55		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership: Regular Nominal	54,882 77,251	73,276 1,02,202	80,931 1,20,835	90,785 1,42,292
2.	Paid-up Capital	66.89	100.79	114.01	127.39
3.	Statutory Reserve	0.88	0.97	1.52	1.95
4.	Other Reserves	1.19	1.69	2.43	3.40
5.	Borrowings	915.04	1232.50	1466.07	1612.27
6.	Deposits ..	4.73	Nil	0.05	3.75
7.	Working Capital	988.73	1467.57	1715.43	1918.91
8.	Investments ..	63.78	59.18	67.59	74.87
9.	Loans Outstanding ..	893.46	1290.26	1473.82	1626.85
10.	Overdues ..	17.06	53.21	87.50	134.56
11.	Interest on Loans	34.02	63.36	101.55	124.42
12.	Overdues ..	6.01	21.83	55.16	68.03
13.	Loans Issued: No. of members Amount ..	43,167 396.20	15,535 436.17	10,211 248.10	9,323 201.02
14.	Cost of Management ..	12.51	14.03	18.85	22.65
15.	Profit: No. of banks .. Amount ..	45 8.74	44 11.32	41 9.83	46 15.71
16.	Loss: No. of banks Amount	9 0.53	10 2.54	14 3.25	9 2.82
17.	No. of banks without Profit or Loss	Nil	Nil	Nil	Nil

* Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX III

STATEMENT SHOWING THE PROJECTED LENDING PROGRAMME FOR ASSESSING VIABILITY OF PRIMARY LAND DEVELOPMENT BANKS IN ORISSA

Sr. No.	Name of the primary land development bank	Loans outstanding as on 30.6.72	Projected lending programme			Probable outstanding			Net profit/loss after appropriation			Classification		
			1972-3	1973-4	1974-5	1972-3	1973-4	1974-5	1972-3	1973-4	1974-5	Viable	Poten- tially viable	Non- viable
			4	5	6	7	8	9	10	11	12	13	14	15
1.	Berhampur	97.48	12.23	11.40	11.85	99.96	101.36	103.07	(+)0.09	(+)0.10	(+)0.21	Yes	—	—
2.	Chatrapur	74.03	20.05	22.86	26.72	86.68	100.87	117.50	(+)0.10	(+)0.12	(+)0.11	Yes	—	—
3.	Aska	60.50	14.82	19.92	25.13	69.27	82.26	99.16	(-)0.50	(-) (Rs483)	(+) (Rs240)	—	Yes	—
4.	Bhanjanagar	36.79	10.60	10.54	11.57	43.71	49.88	56.46	(-)0.09	(-)0.07	(-)0.05	—	—	Yes
5.	Parlakimedi	30.51	5.30	6.29	7.32	32.76	35.78	39.51	—	—	—	—	—	Yes
6.	Gunupur	11.13	3.80	5.51	8.44	13.82	17.95	24.59	—	—	—	—	—	Yes
7.	Rayagada	28.96	4.54	7.05	9.58	30.60	34.59	40.71	(+)0.03	(-)0.01	(+)0.03	—	Yes	—
8.	Nowrangpur	11.90	6.91	12.42	17.95	17.62	28.28	43.40	—	—	(-)0.01	—	—	Yes
9.	Jepore	21.13	4.95	8.33	11.72	23.97	29.90	38.63	—	(-)0.05	(-)0.04	—	—	Yes
10.	Malkangiri	3.34	1.17	1.29	1.42	4.18	5.05	5.96	—	—	—	—	—	Yes
11.	Bhawanipatna	48.71	17.91	20.21	22.67	61.75	75.78	90.87	(+)0.06	(+)0.13	(+)0.13	Yes	—	—
12.	Dharamgarh	44.10	7.89	9.80	11.76	47.58	52.62	59.12	(+)0.10	(+)0.06	(+)0.08	Yes	—	—
13.	Nawapara	33.98	12.25	20.23	28.20	42.83	58.78	81.10	(+)0.02	(+)0.04	(+)0.12	Yes	—	—
14.	Baudh	21.33	10.71	13.04	15.39	29.91	39.96	51.35	(-)0.02	(+) (Rs203)	(+)0.04	—	Yes	—
15.	Cuttack	30.10	3.83	4.52	5.18	30.92	32.35	34.29	(+)0.01	(-)0.04	(-)0.06	—	—	Yes
16.	Banki	47.00	11.71	17.40	23.32	54.01	66.01	82.73	(-)0.02	(-)0.02	(+)0.03	—	Yes	—
17.	Jajpur	44.47	15.79	16.87	18.53	55.73	67.07	78.89	(-)0.07	(-)0.04	(+)0.05	—	Yes	—
18.	Jagatsinghpur	21.63	2.40	2.75	3.19	21.87	22.43	23.38	—	—	—	—	—	Yes
19.	Kendrapara	48.76	7.17	8.82	8.91	51.05	54.77	58.20	(-)0.05	(-)0.06	(-)0.06	—	—	Yes
20.	Athagarh	28.11	15.22	23.42	31.35	40.52	59.89	85.75	—	(-)0.04	(+)0.03	—	Yes	—
21.	Khurda	41.73	10.03	11.95	14.34	47.59	54.78	63.64	(-)0.08	(-)0.05	(-)0.04	—	—	Yes
22.	Puri	64.09	13.94	13.58	14.66	71.62	78.04	84.90	(+)0.05	(+)0.05	(+)0.04	Yes	—	—
23.	Nayagarh	47.43	23.10	35.95	48.80	65.79	95.16	134.44	(-)0.02	(+)0.10	(+)0.025	—	Yes	—

24. Bhubaneswar	18.17	4.75	5.23	5.90	21.10	24.22	27.70	—	(—)0.06	(—)0.03	—	—	Yes
25. Balasore	40.41	17.50	23.20	30.66	54.88	73.97	99.08	(+)0.12	(+)0.17	(+)0.33	Yes	—	—
26. Bhadrak	20.12	6.63	8.05	9.46	25.25	31.41	38.50	(—)(Rs190)	(—)0.06	(+)0.02	—	Yes	—
27. Nilgiri	9.36	0.90	0.99	1.09	9.32	9.38	9.53	—	—	—	—	—	Yes
28. Mayurbhanj	15.34	8.87	11.31	14.78	23.06	32.67	45.00	(—)0.14	(—)0.03	(—)0.01	—	Yes	—
29. Karanjia	9.67	2.17	2.39	2.62	10.87	12.17	13.58	—	—	—	—	—	Yes
30. Udala	10.27	2.87	3.94	5.22	12.11	14.84	18.58	—	—	—	—	—	Yes
31. Rairangpur	5.89	1.30	1.43	1.57	6.60	7.37	8.20	—	—	—	—	—	Yes
32. Bargarh	50.54	20.34	28.65	23.71	65.83	87.90	102.82	(+)0.13	(+)0.21	(+)0.32	Yes	—	—
33. Kuchinda	20.07	6.14	7.86	9.81	24.21	29.65	36.49	—	—	(+)(Rs223)	—	Yes	—
34. Sambalpur	22.83	4.37	3.78	4.16	24.92	26.21	27.75	(+)0.04	(+)0.03	(+)0.01	Yes	—	—
35. Deogarh	14.04	5.25	6.55	8.08	17.89	22.65	28.46	—	—	—	—	—	Yes
36. Rairakhol	7.44	2.08	2.29	2.52	8.78	10.19	11.69	—	—	—	—	—	Yes
37. Jharsuguda	10.48	3.90	4.52	5.19	13.33	16.52	20.06	—	—	—	—	—	Yes
38. Padampur	24.95	3.00	3.30	3.63	25.45	26.20	27.21	—	—	—	—	—	Yes
39. Bolangir	27.10	14.48	22.92	31.42	38.87	57.90	83.53	—	(+)0.02	(+)0.12	—	Yes	—
40. Sonapur	13.67	4.07	5.78	7.52	16.37	20.51	35.96	—	(+)0.02	(+)0.12	—	Yes	—
41. Titlagarh	22.53	11.60	19.31	27.07	31.88	48.00	70.27	(—)0.03	(+)0.01	(+)0.06	—	Yes	—
42. Patnagarh	22.08	6.27	11.14	16.02	26.14	34.67	47.22	(—)0.04	(—)0.04	(+)(Rs56)	—	Yes	—
43. Angul	22.45	13.43	18.73	18.81	34.20	50.36	65.40	(—)0.20	(—)0.04	(+)0.11	—	Yes	—
44. Dhenkanal	29.42	7.69	9.19	10.76	34.17	39.96	46.71	—	(—)0.08	(—)0.05	—	—	Yes
45. Kamakhyanagar	30.38	6.60	9.58	12.60	34.71	41.69	51.17	(—)(Rs354)	(+)0.04	(+)0.07	—	Yes	—
46. Athamallik	11.59	1.38	1.52	1.67	11.81	12.15	12.60	—	—	—	—	—	Yes
47. Talcher	8.48	2.78	3.79	4.83	10.41	13.16	16.67	—	—	—	—	—	Yes
48. Hindol	11.25	4.17	6.23	8.32	14.29	19.09	25.50	—	—	—	—	—	Yes
49. Pallahara	3.62	1.10	1.21	1.33	4.36	5.13	5.95	—	—	—	—	—	Yes
50. Anandapur	15.72	5.03	8.39	11.76	19.18	25.65	34.84	—	—	—	—	—	Yes
51. Keonjhar	17.57	4.96	3.48	3.83	20.77	22.17	23.78	—	—	—	—	—	Yes
52. Champua	7.20	2.03	2.23	2.45	8.51	7.89	11.35	—	—	—	—	—	Yes
53. Sundargarh	40.27	10.73	13.95	17.27	46.97	56.22	67.87	(+)0.02	(+)0.02	(+)0.05	Yes	—	—
54. Bonaigarh	7.28	5.95	2.30	3.16	12.50	13.55	15.35	—	—	—	—	—	Yes
55. Panposh	7.32	2.76	3.28	3.82	9.36	11.74	14.35	—	—	—	—	—	Yes

ANNEXURES

Note: On the basis of loan outstandings, 14 non-viable banks were considered as viable by the Study Team.

ANNEXURE 13

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS DEVELOPED STATES

RAJASTHAN

The long-term co-operative agriculture credit structure in the state is federal in character with a central land development bank at the state level and 35 primary banks at the district/sub-divisional/tehsil levels. Of the 26 districts in the state, one district, viz., Jaisalmer is not served by any land development bank. This district being a desert area is stated to be having no potential for agricultural development according to present indications. Of the remaining 25 districts, 7 districts, viz., Ajmer, Bharatpur, Chittorgarh, Sawai Madhopur, Kota, Jodhpur and Sriganganagar have more than one primary bank. There are 4 primary banks in Sriganganagar District, 3 in Ajmer District and 2 each in the remaining 5 districts.

Central Co-operative Land Development Bank

2. The Rajasthan Rajya Sahakari Bhoomi Vikas Bank Ltd. was registered on 26 March 1957. The financial particulars of the bank for the years 1965-6 and 1968-9 to 1972-3 are given below:

TABLE 1
RAJASTHAN CO-OPERATIVE CENTRAL LAND DEVELOPMENT BANK LTD.

Rs Lakhs						
Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1	2	3	4	5	6	7
1. Paid-up share capital	24.15	62.95	79.05	107.07	133.35	143.39
2. Of which held by Government	18.50	34.50	34.50	44.50	54.50	54.50
3. Reserve and other funds	0.65	0.68	0.68	0.69	0.69	13.13
4. Debenture issued	40.00	210.95	316.15	411.79	385.95	306.25
5. Debentures outstanding	90.00	458.95	768.10	1174.12	1561.08	1922.80
6. Investments ..	21.35	46.52	79.71	113.31	209.92	331.36
7. Loans issued ..	37.88	251.42	378.53	464.84	359.21	372.53
8. Loans outstanding	91.07	521.46	791.87	1193.39	1389.13	1604.99
9. Overdues ..	1.01	9.32	4.50	11.27	77.55	122.27
10. Overdues as percentage to demand	N.A.	N.A.	4	15	32	48
11. Profit ..	0.47	4.60	8.77	10.88	19.45	21.38

Although the bank started functioning in 1957, no loaning was done till 1959-60 mainly for reasons such as legal difficulties in creating any charge on land and delay in settling lending policies. It was only from 1964-5 that the business of the bank started increasing and this trend continued till 1970-71 after which it showed a declining trend. One of the major deficiencies noticed in the bank's working is the rising trend in overdues. As on 30 June 1973, the overdues stood at Rs 122.27 lakhs and formed about 48 per cent of the demand. The position is quite serious inasmuch as overdues not only eroded the reserves of the bank, but also its paid-up share capital.

3. The total debenture outstandings as on 30 June 1973 stood at Rs 1922.80 lakhs. Out of this amount, the ordinary and special debentures accounted for Rs 1498.42 lakhs and Rs 423.35 lakhs respectively. The balance of Rs 1.03 lakhs was on account of rural debentures. The details of the ordinary debenture programmes and achievements are given below:

Rs Lakhs		
Year (Financial)	Approved Debenture Programme	Debentures Floated
1969-70	250.00	230.55
1970-71	315.00	326.04
1971-2	320.00	296.00
1972-3	380.00	210.00
1973-4	380.00	166.00

The bank had a programme of floating ordinary debentures for Rs 22 crores during Fourth Plan period. As against this it had floated debentures only for Rs 12.29 crores till the close of 1973-4. The bank's performance in availing itself of refinance facilities from the Agricultural Refinance Corporation was also not satisfactory as will be seen from the following details:

Rs Lakhs		
Year (co-operative)	ARC's commitment	Amount actually availed of
1969-70	671.00	84.00
1970-71	697.00	161.00
1971-2	1558.00	243.00
1972-3	1877.00	379.00

4. As regards rural debentures, it may be noted that the bank did not float any debentures during 1970-71 although a target of Rs 7.87 lakhs was fixed by the Reserve Bank. During 1971-2 it issued the first series of rural debentures for Rs 6 lakhs out of which Rs 2.80 lakhs were to be collected from individual investors.

Although the issue was kept on tap for 5 months, the bank could collect only Rs 0.29 lakh from individuals, of which Rs 0.10 lakh were received after the tap period.

5. The bank had not implemented various suggestions made by the Reserve Bank regarding the rationalization of loaning policy and procedures. The valuation of land was being done with reference to sale statistics instead of relating it to the incremental income. The bank had not laid down scales of investment in various items of development such as construction of wells, reclamation and levelling of lands etc. The repaying capacity of the borrowers was not worked out on a scientific basis. The arrangements for verification of utilization of loans were neither satisfactory nor was the staff adequate for the purpose.

6. The management of the bank vests in a board of directors comprising 15 members which include, among others, the Registrar of Co-operative Societies and 2 other nominees of the state government. There is also an executive committee comprising 7 members which includes the Registrar of Co-operative Societies and one nominee of the state government.

7. The managing director is the chief executive officer of the bank. However, the post has not been filled in since it was created in 1973. At present, there is a general manager. The present incumbent is a Joint Registrar of Co-operative Societies whose services have been placed on deputation with the bank. Other staff includes an additional general manager, an administrative officer, an accounts officer, a development officer, a loans officer-cum-legal adviser, 2 accountants, 3 inspecting officers, 19 inspectors, two legal assistants, 9 office assistants/clerks, stenographers and typists. Most of the inspecting staff and other supervisory staff excepting one are on deputation from the Co-operation Department. Although the staff is trained in general principles of co-operation, they have not undergone intensive training in land development banking. The bank is entirely dependent on the government for its staff. The bank is not having any technical staff. The Agriculture Department formulates special schemes and entrusts the work of implementation to the bank.

8. The bank has opened 5 zonal offices with an inspecting officer for the purpose of inspecting the primary banks. Except one zonal officer, others are Assistant Registrars of Co-operative Societies on deputation with the bank. The secretaries of some of the primary banks where lending is substantial, are senior Assistant Registrars of Co-operative Societies. There is no effective control over the inspecting officers. The inspection reports are either too general or delayed considerably.

9. Most of the primary banks were keeping idle funds for considerable periods and several of them kept the amounts in deposits with other banks. Some of the primary banks were found to have utilized the borrowings from the central land development bank in making repayments to it. In the case of some of the primary banks, it was observed that despite surplus funds in current and call deposits with other banks, they had defaulted in repaying their instalments to the central land development bank. Thus there was no control over utilization of funds at the level of the primary banks. Although the bank has prescribed statements to be sent by the primary banks regarding the availability of funds; these statements were not received regularly. Even when received they were neither scrutinized by the bank nor verified at the time of releasing the funds to the primary banks.

Primary Land Development Banks

10. Most of the primary banks have been organized after 1957-8. The financial particulars in respect of the primary land development banks for the years 1965-6 and 1968-9 to 1972-3 are given below:

TABLE 2
PRIMARY LAND DEVELOPMENT BANKS IN RAJASTHAN

						Rs Lakhs
Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1	2	3	4	5	6	7
1. No. of primary land development banks ..	33	34	34	35	35	35
2. Membership—Regular (No.)	27068	53220	65588	77702	93392	107455
3. Paid-up share capital ..	9.08	45.42	75.41	115.35	144.93	162.04
4. Reserve and other funds ..	0.60	1.23	1.81	2.63	3.76	5.38
5. Loans issued ..	32.16	226.75	345.19	486.32	344.64	247.75
6. Loans outstanding	80.84	480.72	781.40	1186.31	1417.89	1657.90
7. Overdues ..	2.21	27.53	20.22	45.71	102.44	160.67
8. Overdues as percentage to demand	N.A.	N.A.	31	36	48	54
9. Profit						
No. of banks ..	31	33	33	33	29	31
Total Amount	0.47	3.41	4.59	8.43	6.68	8.60
10. Loss						
No. of banks ..	17	6	3	3	8	4
Total Amount	0.29	0.27	0.01	0.42	0.65	1.22
11. No. of banks without profit or loss	6	4	1	1	—	—

11. The primary banks have generally a weak financial base inasmuch as 13 banks as on 30 June 1972 were having paid-up share capital of less than Rs 2 lakhs, 16 banks less than Rs 5 lakhs and only 6 banks had more than Rs 5 lakhs. As on 30 June 1972, loans outstanding in the case of as many as 14 banks were below Rs 20 lakhs and in the case of 13 banks more than Rs 20 lakhs. Only 4 banks, viz., Alwar, Bharatpur, Kota and Jaipur had loans outstanding of more than Rs 1 crore. During 1971-2, as many as 7 banks had incurred losses. Out of the banks earning profit, as many as

17 banks earned profits of less than Rs 0.30 lakh. The lower level of profits in the case of many banks was due either to inadequate lending or heavy cost of management. The position of overdues (including overdue interest) at the level of primary banks was quite serious inasmuch as they amounted to Rs 2.39 crores as on 30 June 1973 and formed 49 per cent of the demand for the year. The classification of primary banks according to the position of overdues during the last 3 years is given below:

Overdues as percentage to demand	No. of banks as on		
	30-6-71	30-6-72	30-6-73
Up to 15	—	—	1
Between 16 and 25	1	2	2
Between 26 and 40	4	7	8
Between 41 and 50	9	12	10
Above 50	19	13	13
	33	34	34

The overdues in the case of only one bank, viz., Dholpur primary bank was below 15 per cent during 1972-3, because it started financing very recently. In the case of 31 banks the overdues exceeded 25 per cent of the demand. The heavy overdues were partly due to drought and famine conditions prevailing in certain parts of the state. Other reasons are faulty loaning systems such as unrealistic methods for assessment of repaying capacity, inadequate arrangements for verification over utilization of loans and recovery, laxity in supervision and delay in taking coercive action against defaulters. It is reported that there was large-scale misutilization of loans by borrowers and incorrect utilization certificates were issued by the concerned staff.

12. The secretaries of all the 35 primary banks, are officers of the Co-operative Department on deputation with them. There are 37 land valuation officers and they are under the administrative control of the Assistant Registrars of Co-operative Societies. Besides, there are 46 departmental supervisors deputed to the primary banks. The supervisors as well as land valuation officers draw their salaries and allowances from the Co-operation Department, but their tour programmes are required to be approved by the banks. Thus there is no effective control of the central land development bank over the staff of the primary banks. The government have deputed additional land valuation officers and supervisors to the banks implementing ARC schemes.

Viability of Primary Banks

13. On the basis of certain norms for rehabilitation of weak primary banks laid down by the Reserve Bank, 11 primary banks, viz., Balotra, Chittorgarh, Hindaun, Jaipur, Jodhpur, Jalore, Jhunjhunu, Pali, Sawai Madhopur, Sikar and Udaipur have been brought under the rehabilitation programme. The steps suggested for rehabilitation of the above banks are, *inter alia*, effective action for recovery of overdues, rationalization of loan policies and procedures, resource mobilization, resources management, ensuring managerial competence etc. The Board of Directors of the central land development bank is expected to review the progress of rehabilitation programmes periodically. However, no effective action is reported to have been initiated by the bank in this regard.

ARC Schemes

14. As on 31 December 1973 the Agricultural Refinance Corporation had sanctioned through the central land development bank 33 schemes with an aggregate financial outlay of Rs 21.71 crores. The progress in the implementation of these schemes was generally not satisfactory inasmuch as the bank was not able to achieve targets for floatation of special development debentures, as may be seen from paragraph 3. The main reasons for slow pace in the matter of formulation and implementation of special schemes of agricultural development are (i) lack of initiative on the part of the banks; (ii) heavy overdues in the banks; (iii) absence of qualified and competent technical staff in the central land development bank; and (iv) lack of co-ordination among different agencies such as the state electricity board, state groundwater directorate and government departments dealing with the execution of schemes.

Assessment of the Working of Land Development Banks

15. The working of land development banks in the state suffers from several deficiencies. Apart from weak financial base, there are heavy overdues both at the state and primary levels. In the case of the central land development bank the heavy overdues have not only eroded the reserves but also the paid-up share capital substantially. Out of 34 primary banks as many as 30 had overdues exceeding 25 per cent of the demand as on 30 June 1973. The central land development bank has not so far rationalized its loan policy and procedures resulting in loans being given without proper assessment of the requirements for the proposed development and repaying capacity of borrowers. The primary banks have no technical staff nor have they adequate staff for undertaking various functions such as appraisal of loan proposals, verification of utilization of loans and recovery of dues from borrowers. Their performance in mobilizing resources is also not satisfactory.

Future Role of Land Development Banks

16. The Working Group on Co-operation during the Fifth Five Year Plan has fixed a target of Rs 40.00 crores for ordinary debentures to be floated by the central land development bank as against the likely achievement of Rs 19.43 crores during the Fourth Plan. The state government have prepared a number of projects such as the intensive cattle development project, sheep development project, and land development under the Rajasthan, Beas and Chambal projects. Under all these projects, apart from heavy direct investment by the government there will be demand for substantial investment in agriculture by cultivators for undertaking land levelling and development. It is estimated that the various programmes of agricultural development, such as land levelling, laying of water courses and farm mechanization in the area of the Rajasthan Canal alone will require a total investment of Rs 143.34 crores. This amount is to be provided by commercial banks and land development banks. Thus, there is considerable scope for the expansion of the business of the land development banks.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANK IN RAJASTHAN

		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	PLDBs	34	34	35	35
2.	Others	17	17	17	20
2.	Paid-up Capital				
1.	Government	34.50	44.50	54.50	54.50
2.	PLDBs	43.75	61.75	78.03	88.15
3.	Others	0.80	0.82	0.82	0.74
3.	Statutory Reserve	0.68	0.69	0.69	7.59
4.	Other Reserves	—	—	—	5.54
5.	Deposits	—	15.71	56.53	1.97
6.	Borrowings				
1.	Debentures				
	Ordinary	674.80	995.07	1288.42	1498.42
	Rural	—	—	0.56	1.02
	Special	93.30	179.05	272.10	423.35
2.	Government	—	—	—	—
3.	Co-operative Banks	—	—	—	—
4.	Commercial Banks	56.35	79.50	—	—
5.	Others	—	—	—	—
7.	Working Capital	952.45	1419.53	1819.11	2166.57
8.	Investment				
1.	General Reserve Fund	5.30	1.30	4.80	7.05
2.	Sinking Fund	74.41	112.01	205.12	324.31
9.	Loans outstanding	791.87	1193.39	1389.13	1604.99
10.	Overdues	4.50	11.27	77.55	122.27
11.	Interest on loans	40.91	76.09	78.28	101.10
12.	Overdues	4.22	8.68	61.85	86.46
13.	Cost of management	5.25	8.11	8.15	9.55
14.	Profit (+) or loss (-)	(-)8.77	(+)10.88	(+)19.45	(+)21.38
15.	Dividend declared	—	—	—	41%
16.	Loans issued				
1.	For sinking of wells, construction of tanks, and repairs etc.	188.61	181.83	156.32	198.75
2.	For purchase of and installation of pumpsets	106.53	145.83	128.23	152.01
3.	For purchase of tractors and implements	64.70	128.59	65.20	19.28
4.	For construction of godowns, farm-sheds	0.40	0.81	0.25	0.01
A.	Total identifiable productive purposes	360.24	457.06	350.00	370.05
	For levelling, bunding and soil conservation etc.	3.19	5.49	7.77	2.04
	For preparation of orchards	0.79	—	—	0.23
B.	Total unidentifiable productive purposes	3.98	5.49	7.77	2.77
C.	Unproductive purposes	14.31	2.29	1.44	0.21
	A+B+C	378.53	464.84	359.21	372.53

* Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF PRIMARY LAND DEVELOPMENT
BANKS IN RAJASTHAN

No. of Primary Banks: 35				Rs Lakhs			
Sr. No.	Item			1969-70	1970-71	1971-2	1972-3*
1. Membership	1. Regular	..	..	65,588	77,702	93,392	107,455
	2. Nominal	..	..	15,374	20,261	22,953	26,778
2. Paid-up Capital	..	..	..	75.41	115.35	144.93	177.45
3. Statutory Reserve	..	..	..	0.15	0.12	0.13	0.15
4. Other Reserves	..	..	..	1.66	2.51	3.63	5.23
5. Borrowings	..	..	..	840.16	1194.60	1390.72	1598.74
6. Deposits	..	..	..	3.78	3.07	8.31	3.49
7. Working Capital	..	..	..	921.16	1419.07	1659.04	1949.63
8. Investments	..	..	..	47.03	64.66	80.26	89.77
9. Loans Outstanding	..	..	..	781.40	1186.31	1417.89	1657.90
10. Overdues	..	..	..	20.22	45.71	102.44	160.67
11. Interest on Loans	..	..	..	37.93	72.24	93.22	115.62
12. Overdues	..	..	..	18.07	42.90	76.25	93.88
13. Loans issued	No. of Members	..	..	7,443	7,959	8,120	11,297
	Amount	..	..	345.19	486.32	344.64	381.25
14. Cost of Management	..	..	..	13.49	17.89	29.21	34.86
15. Profit: No. of Banks	..	..	..	33	33	29	31
	Amount	..	..	4.59	8.43	6.68	8.60
16. Loss: No. of banks	..	..	..	3	3	8	4
	Amount	..	..	0.01	0.42	0.65	1.22
17. No. of banks without Profit or Loss	..	..	..	1	1	NIL	NIL

* Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX III

STATEMENT SHOWING THE PROJECTED LENDING PROGRAMME FOR ASSESSING VIABILITY OF PRIMARY LAND DEVELOPMENT BANKS

Rs Lakhs											
Name of the PLDB	Loans outstanding as on 30-6-72	Lending programme for			Probable outstandings as on			Balance of profit (after appropriations)			Classified as viable/ potentially viable/ non-viable
		1972-3	1973-4	1974-5 (Projected)	30-6-73	30-6-74	30-6-75	1972-3	1973-4	1974-5	
1	2	3	4	5	6	7	8	9	10	11	12
Beawar	5.77	0.35	0.44	0.55	5.66	5.75	5.75	Loss	Loss	Loss	Not viable
Pali	30.65	22.71	33.87	55.57	25.53	57.36	58.34	-do-	0.16	0.33	Viable
Sirohi	12.82	4.20	5.04	6.05	15.99	19.78	24.25	-do-	Loss	Loss	Not viable
Jalore	45.57	11.49	30.10	41.00	53.41	79.21	121.70	-do-	0.30	0.06	Potentially viable
Balotra	25.31	7.87	9.44	11.33	31.18	38.33	46.42	0.03	0.06	0.20	Viable
Jodhpur	37.17	13.47	16.83	21.05	47.67	60.67	76.84	0.26	0.13	0.21	-do-
Bilara	16.34	5.75	6.90	8.28	20.78	25.87	32.07	Loss	Loss	Loss	Not viable
Churu	9.84	3.48	3.82	4.20	12.54	15.36	18.33	-do-	-do-	-do-	-do-
Hanumangarh ..	14.94	5.07	6.34	7.92	18.81	23.65	29.68	0.06	0.10	0.04	Viable
Jhunjhuna	27.32	7.33	8.80	10.56	32.47	38.67	46.14	0.04	0.09	0.14	-do-
Nohar	12.06	1.20	1.44	1.73	12.29	12.75	13.46	Loss	Loss	Loss	Not viable
Raisinghnagar ..	16.79	5.75	6.90	8.62	21.21	27.64	34.05	0.05	0.07	0.06	Viable
Sikar	37.47	15.00	12.60	18.80	49.47	58.11	72.26	0.30	0.03	0.43	-do-
Sriganganagar ..	31.00	10.76	12.50	15.62	39.28	48.59	60.32	0.17	0.28	0.35	Viable
Tonk	39.82	13.72	18.83	20.83	50.36	65.16	80.78	0.26	0.58	0.52	-do-
Jhalawar	16.70	19.00	10.75	6.12	32.80	30.70	33.69	0.17	0.20	0.16	-do-
Kekri	21.00	5.50	6.75	8.25	24.25	28.40	23.55	0.13	0.16	0.11	-do-

Hindaun	25.74	28.00	30.00	32.90	49.17	72.24	96.21	0.31	0.52	0.84	-do-
Alwar ..	51.81	20.00	25.00	35.00	65.71	86.58	120.61	0.34	0.67	1.03	-do-
Dholpur ..	25.83	53.31	48.65	25.00	72.42	116.93	129.87	0.59	1.07	1.20	-do-
Bharatpur ..	167.00	63.54	47.65	52.65	210.97	254.50	281.08	1.86	2.24	2.44	-do-
Dungarpur ..	9.12	4.00	5.00	7.00	12.01	16.58	22.98	Loss	0.04	0.08	Potentially viable
Udaipur ..	44.25	50.00	65.00	25.00	86.24	145.72	168.59	0.66	1.32	1.49	Viable
Pratapgarh ..	12.08	4.00	5.00	7.00	14.72	19.30	25.64	Loss	Loss	0.01	Potentially viable
Bundi	19.16	4.00	5.00	7.00	21.19	23.95	30.37	-do-	-do-	-do-	Not viable
Kota	133.70	61.66	70.50	82.10	178.75	228.07	283.80	1.79	2.30	2.84	Viable
Bhilwara ..	33.13	75.00	90.00	42.00	98.93	172.87	196.60	0.69	2.21	1.67	-do-
Baran	50.84	30.00	32.00	34.00	73.97	95.38	118.38	0.55	0.77	0.95	-do-
Banswara ..	16.86	6.50	8.00	10.00	22.37	27.79	34.58	0.07	0.10	0.17	-do-
Chittorgarh ..	22.86	15.00	20.00	25.00	34.65	49.99	68.62	0.17	0.30	0.30	-do-
Jaipur	233.70	140.00	71.00	76.00	355.00	397.60	441.80	2.64	3.36	5.09	Viable
Ajmer	9.99	0.60	0.75	0.90	9.75	9.54	9.50	Loss	Loss	Loss	Not viable
Bikaner ..	Particulars not available										
Nagaur	40.26	14.23	17.08	20.49	51.09	63.83	78.97	0.42	0.54	0.73	Viable
Sawai Madhopur	54.29	15.02	18.00	22.50	64.71	77.21	93.15	0.59	0.60	0.76	-do-

N.B.: Since Bikaner primary land development bank was recently organised and had no outstanding as on 30 June 1972 it has been included with banks which may have outstanding not exceeding Rs 10.00 lakhs as on 30 June 1975.

ANNEXURE 14

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

TRIPURA

The land development banking structure in Tripura is unitary in character and the entire state is served by the Tripura Co-operative Land Mortgage Bank which is situated in Agartala. The bank was established on 26 February 1960, following a proposal in the Second Five Year Plan to organize a land mortgage bank in the erstwhile union territory. Prior to the organization of this bank, long-term finance was provided by the state government through the primary credit societies. The financial particulars of the bank for the years 1965-6 and 1968-9 to 1972-3 are indicated below:

TABLE 1
TRIPURA CO-OPERATIVE LAND MORTGAGE BANK LTD.

	Rs Lakhs					
Item	1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1. Paid-up share capital ..	1.94	2.06	2.12	2.14	2.15	2.19
2. Of which held by Government	1.50	1.50	1.50	1.50	1.50	1.50
3. Reserve and other funds	0.04	0.06	0.06	0.06	0.06	0.06
4. Debentures issued ..	—	—	—	—	—	—
5. Debentures outstanding	—	—	—	—	—	—
6. Investments	0.34	0.73	0.51	0.51	0.16	0.16
7. Loans issued	0.47	0.41	0.92	0.44	0.09	0.36
8. Loans outstanding ..	2.30	2.94	3.63	3.83	3.70	3.91
9. Overdues	0.13	0.27	0.25	0.33	0.41	0.51
10. Percentage of overdues to demand	NA	NA	52	58	65	81
11. Profit (+)/ Loss (—) ..	(—)0.07	—	(+)0.01	(—)0.12	(—)0.15	(—)0.25

2. The financial position of the bank is weak. The accumulated losses amounted to Rs 0.55 lakh as on 30 June 1973. The total resources available for lending were meagre. As on 30 June 1973, loans outstanding stood at Rs 3.91 lakhs of which Rs 0.51 lakh were overdue constituting about 81 per cent of the demand. From 1962 to 1973, the bank's borrowings from the state government amounted to Rs 1.71 lakhs. This was inclusive of Rs 1.00 lakh received from the Relief and Rehabilitation Department in 1962 and Rs 0.71 lakh representing the balance of the amount of the loan of Rs 0.82 lakh received from the Registrar of Co-operative Societies in 1967. The former loan was meant to be advanced to displaced persons from erstwhile East Pakistan for the purchase of agricultural lands. Part of it was also meant for redemption of old debts of members and improvement of their lands.

3. Prior to 1968, the bulk of the bank's loans was issued for purchase of land, redemption of old debts and improvement of land. After 1968-9, more loans were provided for productive purposes as may be seen from the following Table:

Rs Lakhs

Year	Total loans issued during the year	Loans for identifiable productive purposes	Loans for not easily identifiable purposes	Loans for non-productive purposes
1	2	3	4	5
1969-70	0.92	0.29 (31.5)	0.45 (48.9)	0.18 (19.6)
1970-71	0.44	0.18 (40.9)	0.21 (47.7)	0.05 (11.4)
1971-2	0.09	0.04 (44.4)	0.05 (55.6)	—
1972-3	0.36	0.17 (47.2)	0.19 (52.8)	—

Note: Figures in brackets are the percentages to total loans.

4. The management of the bank vests in a board of directors consisting of 9 members, 6 of whom are elected from amongst individual shareholders and 3 are to be nominated by the Registrar of Co-operative Societies. The manager is the chief executive officer of the bank. The present incumbent to the post is an officer from the Co-operation Department on deputation with the bank and his entire salary is paid by the state government. The other staff comprises a land valuation officer, an accountant, a clerk and 2 peons. At present the bank has no field or technical staff.

5. Despite functioning for the last 13 years the bank has not developed sufficient business. With a total business of loans outstanding at Rs 3.91 lakhs as on 30 June 1973 it has yet to acquire viability. The total expenditure for the year 1972-3 amounted to Rs 0.85 lakh while total income stood at Rs 0.60 lakh only, the loss being Rs 0.25 lakh during the year. The average borrowing rate for 1972-3 was about 5 per cent while the lending rate was 10 per cent, the margin available to the bank being about 5 per cent. At the present margin, if the bank develops business to the level of Rs 35.00 lakhs by 1975-6, it may attain a viable status.

6. The poor progress made by the bank can be attributed to many factors, the more important being (i) general backwardness of the area coupled with traditional methods of cultivation by the tribals; (ii) lack of staff for extension work in the rural areas; (iii) heavy indebtedness of cultivators making it difficult to find debt-free members; and (iv) cumbersome loan policy and procedures.

Future Role of Land Development Bank

7. Of the total area of 10.48 lakh hectares, the area under forests accounted for 60 per cent and the area under crops was only 3.48 lakh hectares or 33.2 per cent of the total area. There is, however, scope for loans for minor irrigation works and lift irrigation. There is also considerable scope for land reclamation schemes, levelling/bunding etc. The state government have plans for development of horticulture and cashew plantation. The land development bank has drawn up a lending programme of Rs 65.00 lakhs for the Fifth Plan.

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANK IN TRIPURA

		Rs Lakhs			
Sr. No	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	Regular ..	1,457	1,494	1,497	1,543
2.	Nominal ..	71	74	80	82
2.	Paid-up Capital:				
1.	Government ..	1.50	1.50	1.50	1.50
2.	PLDBs	—	—	—	—
3.	Others	0.62	0.64	0.65	0.69
3.	Statutory Reserve ..	0.06	0.06	0.06	0.06
4.	Other Reserves	—	—	—	—
5.	Deposits	—	—	—	—
6.	Borrowings				
1.	Debentures:.. ..				
	Ordinary	—	—	—	—
	Rural	—	—	—	—
	Special	—	—	—	—
2.	Government	1.71	1.71	1.71	6.71
3.	Co-operative Banks	0.11	0.26	—	0.36
4.	Commercial Banks	—	—	—	—
5.	Others	—	—	—	—
7.	Working Capital ..	4.00	4.73	4.48	9.96
8.	Investment:				
1.	General Reserve Fund	0.51	0.51	0.16	0.16
2.	Sinking Fund ..	—	—	—	—
9.	Loans Outstanding ..	3.63	3.83	3.70	3.91
10.	Overdues	0.25	0.33	0.41	0.51
11.	Interest on loans ..	0.23	0.29	0.35	0.51
12.	Overdues	0.10	0.15	0.22	0.37
13.	Cost of management ..	0.48	0.57	0.28	0.31
14.	Profit (+) or Loss (-) ..	(+)0.01	(-)0.12	(-)0.15	(-)0.25
15.	Dividend declared ..	—	—	—	—
16.	Loans issued				
1.	For sinking of wells, construction of tanks, and repairs etc.	—	0.15	—	0.14
2.	For purchase and installation of pumpsets	—	0.03	0.04	0.03
3.	For purchase of tractors and implements	—	—	—	—
4.	For construction of godowns, farmsheds	—	—	—	—
A.	Total identifiable productive purposes	—	0.18	0.04	0.17
	For levelling, bunding and soil conservation etc.	0.74	0.21	0.05	0.19
	For preparation of orchards	—	—	—	—
B.	Total unidentifiable purposes	0.74	0.21	0.05	0.19
C.	Unproductive purposes	0.18	0.05	—	—
D.	Total loans (A + B + C)	0.92	0.44	0.09	0.36

* Provisional.

Source: Statistical Statements relating to the Co-operative Movement in India.

ANNEXURE 15

STATE-WISE ACCOUNT OF THE WORKING OF LAND DEVELOPMENT BANKS IN CO-OPERATIVELY LESS ADVANCED STATES

WEST BENGAL

The land development banking structure in the state combines the features of both the unitary and federal systems with the central land development bank at the state level and its two branches together with 21 primary banks at the district and sub-divisional levels. The two branches are located at Darjeeling and Purulia and they are providing long-term loans to cultivators in the respective districts. The remaining 13 districts of the state are served by 21 primary banks. Till 1966, only 12 primary banks were functioning in the state. The branches of the central land development bank and the remaining 9 primary banks were opened during the Fourth Plan.

Central Co-operative Land Development Bank

2. The West Bengal Central Co-operative Land Mortgage Bank Ltd. was registered in January 1958. The important financial particulars in respect of the bank for 1965-6 and 1968-9 to 1972-3 are given in Table 1.

The bank's financial position is weak. Its accumulated losses amounting to Rs 25.24 lakhs as at the end of March 1973 had not only eroded its entire reserves at Rs 2.92 lakhs, but also share capital to the extent of Rs. 22.32 lakhs. Further, as a result of heavy overdues, viz., Rs. 29.95 lakhs as on 30 June 1973, the bank had to meet sinking fund commitments from out of its own resources to the extent of Rs 30 lakhs.

3. Prior to 1969-70 the bulk of the loans issued by the bank was for unidentifiable productive purposes or unproductive purposes. For instance, during 1968-9 the loans issued for identifiable productive purposes accounted for 46.3 per cent of the total loans issued during the year. In subsequent years, however, the position changed and during 1972-3 loans for identifiable productive purposes formed 95 per cent of the total loans issued during the year. The bank has not so far rationalized its loan policy and procedures. For example, no scales of financing had been fixed for various items of investment and loan eligibility was worked out with reference to security. The bank continued to value the security according to fixed formula approved by the Registrar of Co-operative Societies instead of linking it to the net income after development. Its record in the matter of resource mobilization was also not satisfactory inasmuch as it could not float ordinary debentures to the extent of the approved programmes, as can be seen from the following figures:

				Rs Lakhs		
Year (financial)				Ordinary Debenture Programme as Approved by RBI	Supported Debenture Programme	Actual Floatation of Debentures
1969-70	..	..	..	190.00	140.00	86.18
1970-71	..	..	..	225.00	180.00	102.30
1971-2	..	..	..	200.00	170.00	93.50
1972-3	..	..	..	270.00	250.00	90.19
1973-4	..	..	..	290.00	270.00	71.50

TABLE 1
WEST BENGAL CENTRAL CO-OPERATIVE LAND MORTGAGE BANK LTD.

						Rs Lakhs	
Item						1965-6	1972-3*
(1)						(2)	(7)
1.	Paid-up share capital	..	..	..	..	12.29	85.03
2.	Of which held by Government	..	..	..	..	5.00	55.00
3.	Reserve and other funds	..	..	..	..	1.05	3.04
4.	Debentures issued during the year	..	..	..	..	50.00	93.26
5.	Debentures outstanding	..	..	..	..	170.00	719.94
6.	Investments	..	..	..	..	48.77	216.10
7.	Loans issued during the year	..	..	..	..	50.02	88.50
8.	Loans outstanding	..	..	..	..	143.53	547.15
9.	Overdues	..	..	..	..	—	29.95
10.	Overdues as percentage to demand	..	..	..	..	—	41
11.	Profit (+) or loss (—)	..	..	..	..	(+)0.40	(+)13.65

* Provisional

4. The management of the bank is vested in a board with 18 directors consisting of 13 elected representatives of primary banks, one elected representative each from individuals/non-borrower individuals/individual agriculturists owning agricultural land or landed property and co-operative farming societies/agricultural societies doing farming business and 3 nominees of the state government including the Additional Registrar of Co-operative Societies. The bank had not constituted branch committees for its branches at Darjeeling and Purulia. Instead, loan committees were constituted for each branch consisting of 2 directors of the bank who, in the case of Darjeeling branch, were those representing Raiganj and Alipurduar primary banks and in the case of Purulia, representing Bankura and Burdwan primary banks. The loan committees included two permanent invitees, viz., project Officer, SFDA and Deputy Registrar of Co-operative Societies (North) in the case of Darjeeling and Project Officer, MFAL Agency and range Assistant Registrar of Co-operative Societies in the case of Purulia.

Primary Land Development Banks

The progress made by primary banks during the last 5 years in building up their owned funds as well as in meeting long-term credit requirements was limited. The loans provided by primary banks after showing an increase from Rs 99.04 lakhs during 1969-70 to Rs 122.72 lakhs during 1970-71 declined to Rs 81.50 lakhs in 1971-2. Out of 21 banks, as many as 8 banks worked at a loss during the year 1972-3. Even in the case of the 13 banks, the total amount of profit was meagre, i.e., Rs 8.37 lakhs. The position in regard to overdues in these banks was quite serious as may be seen from the following information:—

Range of overdues, i.e., percentage to demand as on 30-6-1973	No. of banks
Up to 15	1
Between 16 and 25	—
Between 26 and 40	7
Between 41 and 50	6
Above 51	7
	<hr/>
	21

TABLE 2
PRIMARY LAND DEVELOPMENT BANKS IN WEST BENGAL

				Rs Lakhs					
Item				1965-6	1968-9	1969-70	1970-71	1971-2	1972-3
1.	No. of primary land development banks ..	..	..	12	21	21	21	21	21
2.	Membership:								
	Regular (No.) .. ..	..	..	13938	36627	30508	33428	35358	37048
3.	Paid-up share capital .. ..	..	..	10.17	21.62	26.44	33.64	41.14	48.74
4.	Reserve and other funds .. ..	..	..	2.78	5.80	7.45	8.88	9.24	10.90
5.	Loans issued .. ..	..	..	45.45	98.68	99.04	122.72	81.50	82.80
6.	Loans outstanding .. ..	..	..	140.02	312.90	384.00	473.82	520.78	553.68
7.	Overdues .. ..	..	..	4.89	17.48	26.38	38.70	54.60	60.63
8.	Overdues as percentage to demand ..	..	..	—	—	51	56	63	NA
9.	Profit:								
	No. of banks ..	..	..	11	15	9	10	7	13
	Total amount ..	..	..	1.19	1.98	1.69	1.99	1.26	8.37
10.	Loss:								
	No. of banks .. ..	..	..	1	5	11	10	14	8
	Total amount .. ..	..	..	0.03	0.62	1.32	2.97	2.89	1.69
11.	No. of banks without profit or loss ..	..	..	—	1	1	1	—	—

From the period-wise classification of overdues given in the following Table it will be seen that a very substantial portion thereof was overdue for 3 years and above:

					Rs Lakhs	
Period					Amount of overdues as on 30-6-1972	Percentage to total
Below 1 year	..	..	..	..	17.09	30.7
Between 1 and 2 years	..	..	..	..	15.72	28.3
Between 2 and 3 years	..	..	..	..	10.80	19.4
Between 3 and 4 years	..	..	..	..	7.27	13.1
Between 4 and 5 years	..	..	..	..	2.29	4.1
Above 5 years	..	..	..	..	2.44	4.4
					55.61	100.0

The reasons adduced by the banks for heavy overdues were successive floods and drought in a number of districts, difficult law and order situation, absence of supervision machinery, lack of adequate assistance from departmental staff, inordinate delays in disposal of distraint and sale cases filed by the banks, difficulties in getting bidders when lands under sale cases were put to auction, lack of effective action by the government for recovery of its own loans etc. However, as observed by the Study Team of the National Co-operative Land Development Banks Federation in its report (1972), although the reasons for overdues as advanced by the banks might be true to some extent, both the primary banks and the central land development bank seemed to have made no serious efforts to collect overdue instalments in time. The staff available with the primary banks and the central land development bank was very inadequate to undertake any concerted and purposeful action for recovery of loans.

7. The managers of the primary banks are officers of the rank of Inspectors of Co-operative Societies deputed by the Co-operation Department to work as chief executive officers in terms of the provisions of their by-laws. Although some of the managers have received training, they are liable to be reverted to the Department at any time. Besides the managers, other staff in the primaries include 1 accountant or assistant accountant, out-door officers (1 or 2 depending on loan business), 2 search clerks and a few clerical staff. Excepting in the case of the primary banks in SFDA/MFAL areas no separate posts of supervisors had been created in other banks for verification of utilization of loans and for recovery of loans.

Viability of Primary Banks

8. Some of the assumptions made by the Study Team for assessing the viability of primary banks are:

- (a) For the purpose of assessing the viability potential, the period of 3 years adopted was taken as from July 1973 to June 1976 uniformly for all banks and all financial projections made on the basis of loans outstanding as on 30 June 1972.
- (b) Every primary bank was expected to have a minimum complement of staff with cost as under:

1. Manager	Actual emoluments paid to the present incumbent
2. Accountant	Rs 500 p.m.

3. Technical Supervisor Rs 450 p.m. (to be subsidised by state government for 3 years, i.e., 100%, 66 2/3% and 33 1/3% in first, second and third years respectively)
 4. Supervisors Actual emoluments paid at present (one supervisor for every 400 old cases and one supervisor for every 200 new applications at a salary of Rs 250/- p.m.)
 5. Clerk Actual emoluments to the present incumbent (one clerk for every 400-600 cases both old and new at a salary of Rs 250/- p.m.)
 6. Typist Actual emoluments to the present incumbent
 7. Peon Rs 150 p.m.
- (c) The amount of each loan case was assumed to be around Rs 3000/-.
- (d) Each primary bank was having its own legal adviser and the legal fees collected from the intending applicants were kept by it.
- (e) An increase of 20 per cent, 30 per cent and 40 per cent of the normal loan business of the primary banks had been projected in the first, second and third year respectively, from the base year, in the light of the past performance and the potentiality of the area. In the case of special schemes 80 per cent of the total outlay in respect of sanctioned schemes and 60 per cent in the case of schemes under consideration had been taken into account as potential business for 3 years.
- (f) Interest margin of 2½ per cent for a primary bank has been arrived uniformly for all banks.

On the basis of these assumptions the Study Team was of the opinion that out of 21 primary banks, 9 banks were viable and 2 were potentially viable. The remaining 10 banks were non-viable. Out of 2 branches of the central land development bank, the one at Purulia was considered potentially viable and the other at Darjeeling as non-viable. The names of the banks under different categories are as under:

Viable banks	Potentially viable banks	Non-viable banks
1. Bankura	1. Arambagh (Hooghly District)	1. Cooch Behar
2. Birbhum	2. Purulia (Branch of CLMB)	2. Darjeeling (Branch of CLMB)
3. Burdwan	3. Katwa-Kalna	3. Jalpaiguri
4. Hooghly		4. Alipurduar
5. Malda		5. Howrah
6. Midnapore		6. Contai
7. Mushidabad		7. Jhargram
8. Nadia		8. Tamluk
9. 24 Parganas		9. North 24 Parganas
		10. Balurghat
		11. Raiganj

The Study Team has referred to the state government's proposal to organize 17 more primary banks at the sub-divisional level during the Fourth and Fifth Year Plans and has observed that this needs reconsideration in the light of its findings regarding viability of existing banks.

Assessment of Working of Land Development Banks

10. From the details given in previous paragraphs it will be seen that the working of land development banks is not satisfactory. In view of heavy overdues, the credit lines through these banks have been choked. Thus, the banks are not able to achieve targets fixed for ordinary debentures. These banks have so far made little progress in availing themselves of refinance facilities provided by ARC. Apart from being financially weak, the banks lack proper organizational efficiency. They have inadequate staff for different operations and the existing staff is not suitably trained. The loan policy and procedures of the banks are yet to be rationalized. Obviously these banks can hardly be expected to play any useful role in the agricultural development programmes proposed to be taken up during the Fifth Plan period as they are working at present.

Potential for Agricultural Development

11. According to the Report of the Study Team on Co-operative Agricultural Credit Institutions in West Bengal (1972), the hill areas of the north are good for production of tea. The south-western districts of Midnapore, Bankura, Burdwan, Birbhum and Purulia provide scope for raising good crops subject to availability of irrigation facilities. The plains of the north and the south comprising the major parts of the districts of Cooch Behar, Jalpaiguri, Nadia, West Dinajpur, Malda, Murshidabad, Hooghly, Howrah and 24 Parganas are suitable for growing a variety of crops. The estuarine swamps of 24 Parganas are, however, mostly under mangrove forests and are of very limited use for cultivation.

12. The National Council of Applied Economic Research in its Report on techno-economic survey of West Bengal conducted in 1959-60 has estimated the total minor irrigation potential from sources like barrages, diversion works, small dams, tanks, lift irrigation etc., at about 4 lakh hectares. The prospects for exploring ground-water resources exist in almost all the plain districts in varying degree. The state's Fifth Plan on agriculture provides for an allocation of Rs 57 crores for minor irrigation programmes. This covers deep tubewells, river lift irrigation schemes, tank irrigation, supply of pumpsets, dugwells etc. The programme envisages sinking of 600 dugwells, execution of 500 river lift schemes and 25 minor irrigation (surface) and drainage schemes. Under the scheme for sinking of shallow tubewells, including filter points, it is expected that 2,20,500 shallow tubewells fitted with pumpsets would be sunk during the Fifth Plan period. The number of pumpsets to be installed during the period has been estimated at 62,500. In addition to the state sector outlay, a sum of Rs 156.25 crores is expected to be provided by the institutional credit agencies. Of this amount, Rs 40 crores are expected to be made available by the land development banks (Rs 25 crores under normal programmes and Rs 15 crores under special schemes expected to be refinanced by Agricultural Refinance Corporation).

APPENDIX I

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF CENTRAL CO-OPERATIVE LAND DEVELOPMENT BANK IN WEST BENGAL

		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1.	Membership No.				
1.	PLDB	21	21	21	21
2.	Others	1	1	1	1
2.	Paid-up Capital				
1.	Government	25.00	35.00	55.00	55.00
2.	PLDBs	19.40	24.30	27.02	29.46
3.	Others	0.01	0.07	0.28	0.57
3.	Statutory Reserve	1.02	1.03	1.03	1.04
4.	Other Reserves ..	1.89	1.88	1.88	2.00
5.	Deposits	0.58	1.15	1.68	0.81
6.	Borrowings				
1.	Debentures				
	Ordinary	469.18	571.48	644.98	711.17
	Rural	—	—	—	—
	Special	3.30	5.70	5.70	8.77
2.	Government	19.64	16.30	13.04	10.35
3.	Co-operative Banks	30.00	15.00	—	6.85
4.	Commercial Banks	—	—	—	—
5.	Others	—	—	—	—
7.	Working Capital	570.02	691.85	762.72	845.25
8.	Investment				
1.	General Reserve Fund	3.10	3.18	5.76	6.27
2.	Sinking Fund	107.51	147.69	164.81	209.83
9.	Loans Outstanding	377.75	465.34	505.13	547.15
10.	Overdues	9.00	16.14	21.17	29.95
11.	Interest on loans	15.90	25.37	39.62	31.17
12.	Overdues	8.96	16.52	30.24	20.75
13.	Cost of management	38.95	4.07	3.80	4.06
14.	Profit (+) or loss (—)	(—)6.50	(—)5.54	(—)10.11	(+)13.65
15.	Dividend declared	—	—	—	—
16.	Loans issued				
1.	For sinking of wells, construction of tanks, and repairs etc.	55.90	65.02	32.78	45.80
2.	For purchase and installation of pumpsets	14.81	35.27	37.71	29.04
3.	For purchase of tractors and implements	0.38	0.50	2.76	4.28
4.	For construction of godowns, farmsheds	5.66	8.97	3.08	4.69
A.	Total identifiable productive purposes	76.75	109.76	76.33	83.81
	For levelling, bunding and soil conservation etc.	17.79	13.52	5.46	4.40
	For preparation of orchards	0.16	0.33	0.81	0.28
B.	Total unidentifiable productive purposes	17.95	13.85	6.27	4.68
C.	Unproductive purposes	5.81	0.07	0.15	0.01
	Total Loans (A+B+C)	100.51	123.68	82.75	88.50

* Provisional

Source: Statistical Statements relating to the Co-operative Movement in India.

APPENDIX II

FINANCIAL AND OTHER PARTICULARS IN RESPECT OF PRIMARY LAND DEVELOPMENT
BANKS IN WEST BENGAL

No. of PLDBs : 21		Rs Lakhs			
Sr. No.	Item	1969-70	1970-71	1971-2	1972-3*
1. Membership					
1. Regular ..		30,508	33,428	35,358	37,048
2. Nominal ..		NIL	NIL	NIL	NIL
2. Paid-up Capital ..		26.44	33.64	41.14	48.74
3. Statutory Reserve ..		2.94	3.24	3.36	3.83
4. Other Reserves ..		4.51	5.64	5.88	7.07
5. Borrowings ..		377.21	464.64	499.31	535.08
6. Deposits		0.03	0.83	0.55	0.86
7. Working Capital ..		411.13	564.16	628.45	672.75
8. Investments ..		26.00	29.87	33.22	36.46
9. Loans outstanding ..		384.00	473.82	520.78	553.68
10. Overdues ..		26.38	38.70	54.60	60.63
11. Interest on Loans ..		31.26	44.14	57.44	60.83
12. Overdues ..		19.12	26.54	38.15	41.23
13. Loans issued:					
No. of members		3886	4333	2474	2805
Amount		99.04	122.72	81.50	82.80
14. Cost of Management		11.15	11.01	13.90	15.98
15. Profit: No. of banks		9	10	7	13
Amount		1.69	1.99	1.26	8.37
16. Loss: No. of banks		11	10	14	8
Amount		1.32	2.97	2.89	1.69
17. No. of banks without Profit or Loss ..		1	1	—	—

* Provisional

Source: Statistical Statements relating to the Co-operative Movement on India.

APPENDIX III

STATEMENT SHOWING A PROJECTED LENDING PROGRAMME FOR ASSESSING VIABILITY OF PRIMARY LAND DEVELOPMENT BANKS IN WEST BENGAL

Sr. No.	Name of the bank primary	District	Loans outstanding as on 31.3.73	Projected lending programme			Probable outstanding			Net profit/loss after appropriations		Classification of banks		
				1973-4	1974-5	1975-6	1973-4	1974-5	1975-6	1974-5	1975-6	Viable	Potentially viable	Non-viable
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1.	Bankura	Bankura	65.17	19.90	26.90	36.05	81.40	100.15	126.20	(+)58,100	(+)76,500	Yes	—	—
2.	Birbhum	Birbhum	23.41	7.45	9.70	13.60	31.00	37.60	47.45	(+)20,500	(+)27,600	Yes	—	—
3.	Burdwan	Burdwan	35.64	13.30	20.50	28.70	50.70	66.15	88.25	(—) 2,700	(+)30,200	Yes	—	—
4.	Katwa-Kalna	-do-	9.09	5.60	8.50	12.00	15.40	22.35	32.10	—	—	—	Yes	—
5.	Cooch Behar	Cooch Behar	12.17	4.10	7.25	10.45	15.25	21.00	29.35	—	—	—	—	Yes
6.	Jalpaiguri	Jalpaiguri	12.60	4.75	6.25	8.15	16.70	21.30	27.30	—	—	—	—	Yes
7.	Alipurduar	-do-	11.37	4.10	5.35	7.45	14.45	18.35	23.95	—	—	—	—	Yes
8.	Hooghly	Hooghly	25.13	13.00	17.50	24.60	37.40	51.15	70.65	(+)26,700	(+)42,700	Yes	—	—
9.	Arambagh	-do-	13.22	6.00	7.75	10.55	17.30	21.55	27.80	—	—	—	Yes	—
10.	Howrah	Howrah	14.01	4.20	5.45	7.65	16.05	19.90	25.55	—	—	—	—	Yes
11.	Malda	Malda	14.90	10.50	18.20	24.48	25.35	41.00	61.38	(+) 1,100	(+)32,800	Yes	—	—
12.	Midnapore	Midnapore	111.42	19.70	26.50	40.50	122.70	136.95	163.75	(+)79,900	(+)1,08,300	Yes	—	—

13. Contai	Midnapore	20.28	5.35	6.95	9.75	20.95	25.80	32.95	—	—	—	—	Yes
14. Jhargram	-do-	8.17	2.80	3.65	5.15	10.60	13.20	17.00	—	—	—	—	Yes
15. Tamluk	-do-	12.05	3.65	4.75	6.65	15.25	18.50	23.30	—	—	—	—	Yes
16. Murshidabad	Murshidabad	9.74	8.50	15.50	21.70	17.20	31.00	49.60	—	(+)11,200	Yes	—	—
17. Nadia	Nadia	61.09	44.65	64.40	76.20	105.70	159.55	219.80	(÷)1,10,900	(+)1,49,800	Yes	—	—
18. 24 Parganas District	24 Parganas	54.09	9.05	11.75	16.45	59.80	65.55	75.45	—	—	Yes	—	—
19. North 24 Parganas	-do-	12.93	3.50	4.55	6.35	15.45	18.50	23.05	—	—	—	—	Yes
20. Balurghat	West Dinajpur	19.45	2.10	2.75	3.85	21.70	22.30	23.90	—	—	—	—	Yes
21. Raiganj	-do-	7.64	3.55	5.60	8.05	10.95	14.45	21.05	—	—	—	—	Yes
<i>Branches of C. L. M. B.</i>													
1. Purulia	Purulia	4.75	10.35	11.80	8.60	15.45	27.25	33.05	—	—	—	Yes	—
2. Darjeeling	Darjeeling	3.40	7.85	7.80	8.15	11.60	18.90	26.30	—	—	—	—	Yes

ANNEXURE 16

DRAFT MODEL AMENDMENTS TO CO-OPERATIVE SOCIETIES ACT/LAND DEVELOPMENT BANKS ACT

(Based on the provisions of the Andhra Pradesh Co-operative Societies Act, 1964 and the Maharashtra Co-operative Societies Act, 1960)

I. *Issue of Debentures :*

Based on Section 82 of the Andhra Pradesh Co-operative Societies Act, 1964

(1) With the previous sanction of the Trustee and the government and subject to such terms and conditions as the government may impose, the State Land Development Bank may, from time to time, issue debentures of such denominations, for such period and such rates of interest, as it may deem expedient, against an unconditional guarantee of the government for repayment in full of principal and payment of interest thereon or on the security of mortgages, charges or hypothecations held or mortgages, charges or hypothecations partly held and partly to be acquired and properties and other assets transferred or deemed to have been transferred under the provisions of section* by the development banks to the State Land Development Bank and other properties of the State Land Development Bank.

*Appropriate section of the state law to be filled in

*delete whichever is not applicable

(2) Such debentures may contain a term fixing a period not exceeding 10 years from the date of issue, during which they shall be irredeemable or reserving to the* board/committee the right to call in at any time any of the debentures in advance of the date fixed for redemption, after giving to the debenture holder concerned not less than 3 months notice in writing.

(3) The total amount due on the debentures already issued and outstanding together with the amount of any debentures proposed to be issued shall not exceed the aggregate of

*Appropriate section of the state law to be filled in

- (a) the amounts due on the mortgages or charges and other assets transferred or deemed to have been transferred to the State Land Development Bank under the provisions of section* and subsisting at such time;
- (b) accumulations in the sinking funds; and
- (c) the cash on hand and balances with banks and book value of or market value of securities under general funds, whichever is less.

II. *Vesting of Property in Trustee and Debenture Holders' Charge on the Assets :*

Based on Section 116 of the Maharashtra Co-operative Societies Act, 1960

*Appropriate section or sub-section of the state law to be filled in

Upon the issue of debentures under the provisions of section* the benefit under the government guarantee and the mortgaged properties and other assets referred to in sub-section* of section* held by the State Land Development Bank, shall vest in the Trustee and the holders of debentures shall be entitled to the benefit of the government guarantee and also shall have a floating charge on all such mortgages and assets and the amounts paid under such guarantee or mortgages and remaining in the hands of the State Land Development Bank or of the Trustee.

Note: It is observed that in some of the State Co-operative Societies Acts the provisions relating to government guarantee provide for revocation or withdrawal of such government guarantee before the maturity of the debentures. Since the present proposal is that the Land Development Banks hereafter should be enabled to issue debentures even without any security of immovable properties, but merely on government guarantee, it would be necessary to delete the provisions relating to the revocation / withdrawal of the government guarantee.

III. Priority of Mortgage or Charge or hypothecation made in favour of Land Development Banks:

Based on Section 120(1) of the Maharashtra Co-operative Societies Act, 1960

Notwithstanding anything contained in this Act or in any other law for the time being in force a mortgage, charge or hypothecation made or executed in favour of a land development bank shall have priority over any claim of any person, including a co-operative society whether prior in point of time or subject to the mortgage, charge or hypothecation in favour of the land development bank and over the claim of the government arising from a loan granted under the Land Improvement Loans Act, 1883 or the Agriculturists Loans Act, 1884 or under any law for the time being in force granted after the execution or making of such mortgage, charge or hypothecation in favour of the land development bank.

IV. Creation of Charge in favour of the Land Development Banks:

*Appropriate sections of the state law may be filled in

(a) The provisions of sections* relating to the creation of charge in favour of co-operative societies shall be applicable *mutatis mutandis* to the creation of charge in favour of the land development banks.

Explanation:
The references in sections to 'societies' or 'co-operative societies' shall be deemed to be references to the 'land development banks'

(b) *Note:* In certain states, the law relating to the Land Development Banks has been enacted separately. It is possible that these separate enactments may not contain the provisions relating to the creation of charges by the borrowers on their immovable property by way of giving a mere declaration. In those circumstances it will be necessary to make the following amendments to the Law at appropriate places instead of the one suggested in Item IV (a) above, namely:—

Charge on the immovable property of a member for the loan borrowed:—

Based on Section 36 of the Andhra Pradesh Co-operative Societies Act, 1964

(1) Notwithstanding anything in this Act or in any law for the time being in force, but subject to any claim of the government in respect of land revenue whether prior in time or subsequent, any member owning any land or having interest in any land as a tenant, or owning any other immovable property, who applies to a land development bank for a loan shall make a declaration in the form prescribed, creating a charge in favour of the bank, on the land or interest specified in the declaration for the payment of the loan to be granted to him

by the land development bank in pursuance of the application and for all future advances, if any, required by him, which the land development bank may grant to him, subject to such maximum as may be determined by the land development bank, together with interest on such amount of the loan and advances.

(2) Such declaration may be varied or cancelled at any time by the member with the consent of the land development bank.

(3) No land in respect of which a declaration under sub-section (1) has been made or any part of or any interest in such land shall be sold or otherwise transferred until the entire amount of the loan or advance taken by the member from the land development bank together with interest thereon is paid to the society; and any transaction made in contravention of this sub-section shall be void:

Provided that, if a part of the amount borrowed by a member is paid, the land development bank may, on application from the member and with the approval of the financing bank, release from the charge created under the declaration made under sub-section (1), such part of the land or interest in such land specified in the said declaration, as it may deem proper, with due regard to the security of the balance of the amount remaining outstanding from the member.

(4) The declaration made under sub-section (1) or any variation or cancellation thereof under sub-section (2) shall be sent by registered post by the land development bank to the Sub-Registrar having jurisdiction over the area in which the land is situated, who shall, if it is in order, register such declaration or variation or cancellation and return it to the land development bank; and where it is not in order, he shall return it to the land development bank without registering it.

(5) Where a declaration is registered under the preceding sub-section, it shall take effect from the time of its registration and where it is not registered, it shall be of no effect.

cultivators. The Committee has made specific recommendations to enable the state co-operative banks to undertake this work.

The Committee has made comprehensive recommendations in regard to the co-operative land development banking structure in the 9 co-operatively less advanced states of Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tripura and West Bengal. Specific recommendations have been made in regard to each of the central co-operative land development banks in these states.

The Committee has also made recommendations on certain important subjects which are applicable to all the land development banks in the country. These cover items such as norms for viability of primary land development banks or branches of the central land development banks; mobilization of rural savings by the banks; problem of overdues and steps to be taken to tackle it; training of personnel; management and co-ordination including the role of land development banks in preparing schemes of agricultural development. The Committee has stressed that land development banks, through their zonal or district branches, working under Development Officers should play a leading role, in conjunction with the relevant departmental officers of the state governments, in preparing and implementing schemes of agricultural development.

The Committee has incidentally referred to the desirability of the merger of the long-term and short-term co-operative credit structures in a few of the smaller states and union territories and has observed that such a merger, as a general rule, has to start at the primary level, i.e., at the level of primary agricultural credit societies which have to be made strong and viable to enable them to be of effective use to cultivators in the provision of short, medium and long-term credit.

An important set of recommendations of the Committee relates to the part to be played by land development banks in providing long-term loans to small farmers. The Committee has stressed that the banks should make positive efforts to provide long-term loans to small farmers. It has also urged in this connexion that the banks should be enabled to grant loans on the basis of a charge on the land and other assets of the borrower instead of mortgage of land.