CHAPTER I

AGRICULTURAL CREDIT AND LAND DEVELOPMENT BANKING

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(1) Concept of credit and its importance

Credit has a vital place in the sphere of economic activities of different sectors. Its importance is much more in a developing economy, where capital is a scarce commodity. Capital can be created through credit and it is used as a factor of production to undertake various activities for developmental works in the field of industry, commerce, agriculture, etc. Credit has got generating power but it has to be resorted to strictly in relation to its capacity of production in the field in which it is put to use. If more credit is actuated and its use does not fetch the required result, it may lead to inflation. Hence, credit has always to be supervised. Moreover, the absorbing capacity of credit must be visualised properly. Such capacity of credit may be judged from the income generating power of the proposed use of credit.

The modern concept of credit has its roots in some of the ancient practices in our country. The transactions of 'HUNDI's in ageold commerce in India are outstanding examples of trust. They were honoured because credit was created through reliability of actions practised to fulfil such transactions. Trust is the root of credit which is built up through reliable action guided by honest thoughts. Thus gathered trust generate credit. These earlier moral values underlying credit were, in course of time, replaced by the concept of landed property, security, hypothica, guarantee,
income generating potential, etc., in the material sense of the term. In fact, the character of personification and human qualities involved in credit and moral values like trust, honour, esteem, respect etc. are the paramount criteria of judging creditworthiness. Many authors have highlighted this by writing that there is no better security for credit than good character of the borrower.

Credit is latent unless it is put to use. When it is used in economic activities it is financial credit. Need induces a man to resort to credit and thereby the demand of credit is created. Supply of credit is limited to the extent it is built, while the process of building credit is a gradual one. Housing loans to dwellers by building corporations, consumption credit to the middle class by urban banks, credit to agriculturists by money-lenders or agricultural credit cooperatives, loans given to needy persons by mahajans to fulfil social obligations, credit to industrial units by financial corporations, letters of credit to import-export houses, government guarantee for debenture floatations of land development banks etc. are different types of credit through which economic and social activities are undertaken. In all such cases credit will create some assets or asset-worths or facilities or status through which some production is achieved or helped to generate income. Highlighting the importance of credit it has been mentioned that the credit
the lifeblood of all economic activities. At the same time it should be borne in mind that credit is not the only factor of production. It is one of the inputs which facilitates economic growth along with other factors responsible for development.

(2) **Management of Credit**

Management of credit is important at all levels. Credit in any form, being a sensitive commodity, is delicate to handle. If it is not handled properly it will create many problems. Credit should be looked at in totality. It is essential to see how it is connected with the relative aspect of economy. It has to be managed cautiously, carefully, efficiently and with patience in terms of its source, requirement, creation, sanction, disbursement, employment, absorption and returns. Watch and control are necessary at all the levels. This may be done through self-discipline or imposition. The essence of control is the base of the relationship between debtors and creditors. Credit problems, though mostly centering round its use may arise at any level. Thus we often hear about credit squeeze, credit control, inflation, capital scarcity, credit rationing, indebtedness, misuse of credit etc..

(3) **Characteristics of Credit**

The features of credit and its basic elements are mostly similar when used in different sphere of activities.
However, the difference may lie in the purpose and circumstances under which it is put to use and upon the nature of authority dispensing it. Its characteristics may be summarised as follows:

i. Credit is built up if trust is created.

ii. Credit by its nature, depends upon the character of a person. Hence it gets personified and can never be generalised as regards the norms.

iii. Spiritual values of credit lie in human qualities rather than in tangible securities.

iv. Building up of credit is a gradual process.

v. Credit gets born of needs; but needs are endless and, hence, its use should be limited to genuine needs. In other words it has to be need-based.

vi. In the nature of its use, credit is accommodative.

vii. The volume of credit should be decided upon by its absorbing capacity rather than by the intensity of needs.

viii. The creative power of credit is dependent upon the income generating capacity of the use to which it is put.
ix. Credit has been described as a 'hangman's rope' or a 'double-edged sword' that may destroy the unskilled weilder.

tax. Credit, if not digested, will spread its ill effects. Hence it has always to be supervised.

xi. The degree of supervision of credit will depend upon the nature of its use and its quantum.

xii. Credit has got its own cycle, and the process of its building up should always be continuous and progressively rising.

xiii. Credit should never be put to an exhaustive use.

xiv. The purpose of credit will be dependent upon the nature of needs.

(4) Classification of Credit

Credit can be classified on the basis of period of credit, purpose for which it is given, source or agency through which it is dispensed, and so on. The following is a synoptical presentation of the classification of credit given by different authors:

<table>
<thead>
<tr>
<th>Basis of Classification</th>
<th>Types of Credit</th>
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<tr>
<td>i. Period of credit</td>
<td>Short term credit, medium term credit, long term credit, etc.</td>
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<td>ii.</td>
<td>Purpose for which credit is given.</td>
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<td>iii.</td>
<td>Source or agency by which credit is given.</td>
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<td>iv.</td>
<td>Security on which credit is given.</td>
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<td>v.</td>
<td>Concept of credit</td>
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cash credit, pledge credit, secured credit, unsecured credit, coordinated credit, link credit, marketing credit, etc.

vi. Method of disbursing credit.

Direct finance, indirect finance, finance through agent, finance through custom service and/or servicing unit, finance in kind, finance in cash, etc.

We are concerned here with long term agricultural credit to farmers through land development banking institutions in cooperative sector. Before discussing various problems pertaining to this type of credit it is essential to know the objectives of the credit system in the field of agriculture.

(5) Objectives of agricultural credit system

The aims and objectives of a sound agricultural credit system can be summarised as follows:

i. It should improve the standards of living of the agriculturists by helping them to improve their 'business' of agriculture.
ii. It should help augment agricultural production and strengthen the farm economy.

iii. It should be based upon a thorough knowledge of the socio-economic class structure in agriculture.

iv. It should be flexible and responsive enough to enable the agriculturists to absorb technological changes for the improvement of agriculture.

v. It should be integrated in such a way as would ensure coordination with the market structure to ease recovery and with other activities of rural development.

vi. It should be able to provide credit not only to those who have means to offer security but also to those who are willing and capable of producing more through added inputs and better management.

vii. It should develop the resourcefulness of different classes of cultivators - big, medium and small.

viii. It should establish a 'right' balance between the amount granted and the degree of genuineness of the use to which it is to be put.

ix. It must ensure credit allocations and disbursement 'on time'.
x. It should provide credit at rates that can be afforded by the agriculturists. They should be lower than the market rates. There should be rates distinction – not rates discrimination on the basis of categories of farmers.

xi. It should be so devised that the use of credit is insured by constant supervision and living contact with agriculturists.

xii. It should devise its appraisal methodology which should be simple and flexible.

xiii. The credit dispensing structure should be competent enough to handle credit efficiently and effectively.

xiv. The institutional credit system should be sound and should provide a constructive alternative to private and indigenous money-lenders.

iv. Its administrative staff should be rural-minded, having reasonable knowledge and feel of rural problems.

xvi. It should also provide consumption loans to farmers on selective basis according to categories of farmers. It should provide for all types of ancillaries needed for the development of agriculture.
xvii. It should protect the status of farmers who borrowed the funds.

xviii. It should be ready to face the challenges of developmental banking.

xix. It should be consistent with the agricultural policy of the state.

xx. It should promote thrift and saving.

xxi. It should be so devised as to enable the farmer to be self-sufficient in due course.

xxii. It should induce formation of capital in agriculture as an industry.

xxiii. The cooperative credit system should be in conformity with the philosophy of cooperation.

(6) Peculiar features of Indian agriculture

Before evaluating the working of any credit system in terms of the degree of achievement of its objectives, it is very essential to study closely the characteristics of the industry to which credit is granted, because the nature of industry affects the credit system to a great extent. Agricultural credit is given by the agricultural credit institutions of different sectors for the improvement of agricultural industry and thereby for raising the standards of living of farmers.
Many changes are found to have occurred in this industry during the period of twenty-five years of planned economic development, though some old peculiarities still continue unabated. An attempt is made hereinbelow to compress the many features of agricultural industry in our country as described/discussed in different books on agricultural economics:

i. Agriculture is a risky industry as it is mostly dependent upon nature and production is uncertain. Efforts have, of course, been progressively made to limit the impact of the vagaries of nature by modern technological devices, researches and their application.

ii. The period of production in agricultural industry is lengthy because there is much time lag between sowing and harvesting. Again, it is a seasonal industry requiring high input of manpower for implementation.

iii. The industry has been traditionally considered as a way of life and means of livelihood.

iv. Agriculture is quite unorganised - neither the owners nor the labourers are organised-in the industrial sense of the term.

v. It is an industry scattered all over the country in various small holdings and does not get the
advantages of economy of large scale.

vi. Most of the owners are small and mostly indebted. A majority of them are lacking resources to run their units. Moreover the owners themselves are managers of their farms, sellers of their products and 'do'ers of everything related to their 'running'.

vii. It is not a homogenous endustry.

viii. Land as the main factor of production of this industry is immobile.

ix. The Law of Diminishing Returns begins to operate at an early stage here in comparison with mechanised industry.

x. The quantity and quality of agricultural produce differ from place to place.

xi. The demand of agricultural produce is enelastic.

xii. Owing to the uncertainty of supply and inelasticity of demand, the prices of agricultural produce go on fluctuating even though floor prices of some commodities are being fixed by the government.

xiii. The industry has largely been suffering from the lack of the use of new techniques of farm management and cost consciousness. Hence commercialisation is limited to a few and business-minded farmers
Agricultural credit in our country has a history of ages because subsistence credit in kind was given to farmers, specially in times of distress, by mahajans or village traders in ancient India. * Certainly, it was not termed as agricultural credit as such, but grains and seeds were given on loan for feeding as well as sowing to be returned at the time of harvest.

Gradually, as the monetary system penetrated, cash also began to be given along with kind. During the earlier periods, such loaning transactions were mostly guided by human considerations and moral values. But as commerce and industry began to develop, the system of money-lending also grew steadily over centuries, through indigenous money-lenders.

Agriculture was considered as way of life and means of livelihood by a majority of agriculturists in our country. Small land holdings, almost exclusive dependence upon rain, occurrence of frequent droughts coupled with other natural calamities, low productivity, seasonality and uncertainty in production, traditional system of agriculture, backwardness and poverty - all these had driven the agriculturists to the mercies of local money-lenders as there was neither

* This has also been confirmed by ancient literature like Hitopadesh, wherein it has been stated that a money-lender was an essential attribute for a village to be fit to live in.
governmental agency nor institutional arrangement to provide credit to farmers. Moreover, the characteristics of agricultural industry and agriculturists as mentioned above were also not inducive to credit attraction. Money-lenders having shrewd knowledge of agricultural situation and being close to agriculturists, used to provide credit to them at exorbitant rates of interest, exploiting their poverty, misery illiteracy and ignorance. This led progressively to very high incidence of rural indebtedness.

Frequent occurrence of famine in our country and Deccan Riots of agriculturists in the second half of nineteenth century impressed upon the then government to give due importance to agriculture and to improve the economic condition of rural population. Agricultural industry remained backward while trade and auxiliaries were growing. In such a state of affairs, solutions had began to be sought to improve agriculture.

The Famine Commission of 1880 had made in enquiry into the problems and made various suggestions to improve agriculture and the system of famine relief. One of suggestions was to distribute loans to farmers by the government. Thereafter two laws namely, Land Improvement Loans Act, 1883, and Agriculturists Loans Act, 1884, were enacted. These enactments empowered the government to provide loans to agriculturists on easy terms for the purpose of maintaining agriculture. As such the government entered the field of agricultural finance for the first time, that came to be
known as TACCAVI. But these measures could touch only the fringe of the problem. Moreover, the uncertainty in production and risk involved were limiting factors to capital investment in the industry. Hence, government turned to cooperative as a helpful method for dispensing credit for the improvement of agriculture.

The Famine Commission of 1901, Fredrick Nicholson's Report of 1897 about suitability of credit cooperatives of German type for our country, the Report of Edward Law Committee of 1901 - all gave rise to the introduction of the cooperative credit society on legal footing as an institutional agency in our country for the grant of loans to farmers and for relief to agriculturists. They led to the enactment of The Cooperative Societies Act of 1904 and 1912.

With the formation of primary agricultural cooperative credit societies under the above Acts in the villages in different parts of the country, agricultural loans began to be given to farmers for seasonal agricultural operations and allied needs. It was also envisaged that long term loans be given by these societies; but that did not materialise. Reviewing the progress of cooperative movement in its beginning, the Maclagan Committee (1915) had recommended the formation of separate organisation in cooperative sector for providing long term loans to big farmers. Similar recommendations were also made by the Registrats' Conference of 1926, Royal Commission on Agriculture of 1928, Indian
Central Banking Enquiry Committee of 1931. All these led to the establishment of land mortgage banks in our country.

(8) Cooperative Credit Structure and Land Mortgage Banking

It needs to be recalled here that the first Land Mortgage Bank of India in corporate sector was established in 1863; but, according to the then requirement of charter and Registration, it was registered in London and it bore a sub-title "Credit Financier Indienne". It used to give long term loans in India on mortgage security to landlords for plantation industry and for such other purposes. It has a career of about two decades. Its working was successful in its earlier stage; but, its later decline, as reported, was due to disproportionately large advances to tea gardens, non-existence of permanent settlement and emergence of rival lending agencies.

It also needs to be noted here that unsuccessful attempts were made at Jhang in the then Punjab to organise land mortgage bank in the cooperative sector as back as in the year 1920.

There is another historical sidelight in the sectoral format of land mortgage banks in India, and it will be of interest to know how it happened to come under the cooperative sector. The Indian Central Banking Enquiry Committee, 1931, had justified a separate institution of land mortgage
banking in cooperative sector for providing long term agricultural credit; for the specialised branch of credit business was found unsuitable for the short term credit structure. The justification however, was neither full-fledged nor wholesale; it was halting and hamstrung with reservation because it was commented that though there were substantial elements of cooperative character and practice in all land mortgage banks, the danger of relying too exclusively on such institutions being of cooperative character need not be lost sight of.

Similar danger was also found felt in the Preliminary Report on Agricultural Credit by the Reserve Bank of India, 1937, which had stated that the quasi-cooperative character of land mortgage banks structure as was contemplated in Bombay and other provinces would go a long way in meeting the dangers, which was in early stages pointed out by the Reserve Bank, viz., the direction and management would be representing the borrowers too exclusively and would offer inadequate security to the lenders, i.e. investors in debentures. A persual of this particular observation makes us infer that land mortgage banking in India was not clearly thought out to be suitable for the cooperative sector and that it had come under the cooperative fold accidently on the analogy of short term cooperative credit structure.

Real beginning of land mortgage banking in the cooperative sector in India could be said to have been made
in Madras Province in 1929 through the organisation of central cooperative land mortgage bank. Thereafter, with the organisation of similar institutions in Bombay Province in 1935, Orissa in 1938, and in Mysore and Cochin States in 1929 and 1935 respectively, long term agricultural lending had begun to make progress in the country, but such loans were limited only for the purpose of (i) repayment of old debts, and (ii) redemption of mortgage of lands. With these pioneering efforts, cooperative credit structure in the field of agricultural finance had begun to be organised in two wings. The first wing was for giving short and medium term loans for seasonal agricultural operations to farmers through village level primary agricultural credit societies that were affiliated to district central cooperative banks which in turn were affiliated to a state level cooperative bank, an apex body. The second wing was for giving long term agricultural credit to farmers for land improvement works either through primary land mortgage banks or directly through the branches of central land mortgage banks of the state concerned, an apex body. This pattern was accepted only in some parts of our country prior to Independence. It penetrated rapidly in almost all the states during the periods of Second and Third Plans.

From the inception of cooperatives as an institutional financing agency for giving agricultural loans to farmers up to 1951, when our country adopted planned economic development, the progress made by both the wings of credit
cooperatives was meagre, slow and uneven. The movement was full of many weaknesses and deficiencies, as revealed in the Report of the Rural Credit Survey Committee, published in 1954. Consequent upon the recommendations of the Committee, the cooperatives were given an important place in the planned economic development, and massive allocations were made in relation to the vast requirements of credit for the development of agriculture. The Report has been considered as a landmark. It is rightly said that the short term agricultural credit movement made rapid advances since the beginning of the second five year plan, while long term agricultural credit structure grew rapidly since the beginning of the third plan.

The present structures of the cooperative agricultural credit organisations are the cumulative result of the contributions made by various committees, study groups and commissions over decades. The major ones come from the Maclagan Committee on Cooperation (1915), Royal Commission on Agriculture (1928), Registrars' Conference (1926), Indian Central Banking Enquiry Committee (1931), Agricultural Finance Sub-committee (1945), Cooperative planning Committee (1946), Rural Banking Enquiry Committee (1949), Rural Credit Survey Committee (1954), Committee on Cooperative Credit (1960), Informal group on Institutional Agricultural Credit (1964), Rural Credit Review Committee (1969), National Commission on Agriculture (1973), Banking Commission (1972), Fifth Five
Year Plan Working Group on Cooperation (1974), Committee on Cooperative Land Development Banks (1975) and Committee on Integration of Cooperative Credit Institutions (1976). In the words of Mr. Venkatppiah, "the history of cooperative credit is the history of its institutionalisation rather than philosophy of credit". It is also often heard that the strong super structures at national and state levels are built up on very weak structures at the base level.

It has been observed that cooperativised agricultural credit was introduced in our country with the twin-goal of protecting the agriculturists against the ill effects of famine and the clutches of private money-lenders. The business of money-lending have been regulated by various legislative measures. It was envisaged that the money-lending by indigenous money-lenders would be progressively replaced by funds disbursements by cooperative credit institutions. However, recent studies have revealed that the latter covered only about 45% of the credit requirements in agricultural sector even after its slow growth during the first 45 years from the year of 1904 and its rapid advance during the last 30 years from the year of 1949. Thus: agricultural credit made available through the primary cooperative credit societies was to the tune of Rs. 22.90 crores in the year of 1950-51, i.e. at the beginning of the era of planning in our country. By the end of the first five year plan it had gone
upto Rs. 50.16 crores. By the end of the second five year plan, short and medium term credit had reached the figure of Rs. 200 crores while long term credit had attained the figure of Rs. 36 crores. At the end of third five year plan, the acceleration was rapid and the total quantum of short and medium term credit was of Rs. 427 crores, while that of long term credit was of Rs. 166 crores. By the end of the fourth five year plan, short and medium term credit had touched Rs. 815 crores, while long term credit had reached the figure of Rs. 860 crores. By the end of fifth five year plan, short and medium term credit had gone up to an unprecedented Rs. 1790 crores, while long term credit had reached the target of Rs. 890 crores. In absolute terms, this was a spectacular achievement, but in terms of the fast-expanding needs of the agricultural sector, it could still not scale even half the heights.

Moreover, apart from the quantitative shortfall, qualitative weaknesses were manifest. Various studies have been undertaken to evaluate the cooperative agricultural credit movement from different angles and it has been found that it is high time the movement is revitalised and consolidated through an integration of both the wings in the cooperative sector on the basis of experience gained, possible solutions arrived, and the challenges ahead.

With this background in view in general, we shall now study in detail the working of the long term agricultural
credit movement in the cooperative sector with special reference to Gujarat State.

(9) History of land mortgage banking in Gujarat

The history of land mortgage banking in cooperative sector on institutional basis in Gujarat can be traced back to 1929 when three primary land mortgage banks were established in the then Province of Bombay, among which one was at Bharuch in Gujarat, while the other two were in Dharwar and Pachora. Other primary banks, too, had been organised in the other districts of the Province; but Bombay Provincial Land Mortgage Bank Ltd; a central land mortgage bank, had come into being in the year of 1935. As the pattern of federal structure in land mortgage banking was being followed in the Province, new primary land mortgage banks that got founded in different parts were affiliated to Bombay Provincial Land Mortgage Bank Ltd. Accordingly three more primary land mortgage banks were gradually organised in the Gujarat region of the Bombay Province. Amongst these one at Baroda, second at Navsari, third at Nadiad. Other parts of the Gujarat region except Saurashtra and Kutch were served, either by the branch of Bombay Provincial Land Mortgage Bank or with the branch of primary land mortgage bank of concerned district.

In the first few years after the country became independent on 15-8-1947, the movement of mergers of the erstwhile Indian Princely States was started. Accordingly,
a new state on the coastal line of western Arabian Sea was formed in 1948 through the amalgamation of some 202 small, medium and big states. It was named the United States of Saurashtra and was given a status of B Class states. The new state passed the Saurashtra Land Reforms Act of 1949 to abolish Zamindari and to confer occupancy rights to tenants over the land tilled by them. It was a unique piece of legislation in that it was enacted to solve the tenancy problem after detailed discussions held by the State Government with representatives of both the parties - landlords and land tillers. According to the main provisions of the Act, tenants were to be given occupancy rights over the land tilled by them if they paid respective compensation prices to the landlords. An agency was needed to enable the tenants to effect the payments, when ready cash was not available with them. After due deliberation it was thought that the establishment of a cooperative land mortgage bank would be the best way out for the purpose.

Consequently Saurashtra State Central Cooperative Land Mortgage Bank Ltd. - the predecessor in title of the present institution of Gujarat State Cooperative Land Development Bank Ltd. - was founded in the year of 1951. It was a unique leap forward. Payment of compensation by tenants was treated as a debt obligation of the farmers and it was thought feasible to consider it a legitimate object for the provisions of long term loans through a cooperative organisation.
It was a clear break through in the traditional functioning of land mortgage banking in India. It was an innovation and provided a base for similar projection all over the country. The Bank had during the first two years of its working advanced nearly Rs. 2.75 crores to 67000 tenants, whereby they got ownership rights over the land titled by them. They were spread over about 1700 villages out of a total of 4400 villages in the State of Saurashtra then.

Classically speaking, this was no land mortgage banking at all. The word mortgage became a misnomer in as much as a mortgage took place on tangible securities with clear and well defined metes, bounds and titles to ownership. Here the loans were given to tenants whose position could be questioned by the landlords under the provisions of the Act on acquisition of future holdings, the sizes of which were indeterminate at the time of the grant of loans and whose location were sometime not tangible. Moreover, tenants were yet to obtain (and possess) the title to land - because their cases regarding the grant of occupancy rights were to be decided later - but the loans were granted in anticipation, on presumption.

However, this bold and absolutely unorthodox financing achieved success by fulfilling the objectives, viz. - making tenants the occupants and possessors of land tilled by them agelong. The element of ownership awakened a proprietary interest in them to improve the land and to produce
more from it by applying more labour and investment.

After the work of giving loans to tenants was finished, the Bank began to advance loans to agriculturists for land improvement works such as sinking of new wells and repairs of old wells for irrigation. By this time the Report of Rural Credit Survey Committee was published in 1954, which gave a new boost to the cooperative movement as a whole and, in consequence, the activities of this Bank also got accelerated.

In the year of 1956, the State of Saurashtra was merged with Bombay State in terms of Reorganisation of States Act, 1956, and the greater Bombay State was formed. But the Bank continued to work as a separate institution to provide long term agricultural credit in the region of Saurashtra comprising of 5 districts in the beginning but subsequently the area of operation of the Bank was extended to 7 districts with the addition of two more districts of Amreli and Kutch. In the year of 1960, when the new State of Gujarat was formed, the Bank was made to extend its operation to the whole new state, under the former's new name of Gujarat State Cooperative Land Mortgage Bank Ltd., by amending its bylaws. The name of the Bank was again changed in 1964 to delete the word 'mortgage' - replaced by the word 'development' - as land mortgage banking activities were considered as land development activities. Since then the Bank has been working under the name of Gujarat State Cooperative Land Development Bank Ltd.
It is a pre-condition for success that the organisational structure of any institution should be of such a pattern as would facilitate smooth running of its business on a viable footing and achievement of desired goals. The structure is the institutional framework suitably arranged for its working. The land development banks of our country follow either the federal or the unitary structure; but, most of the banks are following the federal one.

As the land mortgage banking institutions attained an unprecedented momentum, the need for adopting a suitable structure was felt in order to stimulate the interest of officials, mobilise resources, conduct proper appraisal of loan applications, effect timely disposal, make the loans available at places nearer to farmers, formulate different development schemes, make effective supervision on the end use of credit, effect good recovery, control and guide the staff properly and vigilently, and to ensure smooth coordination with concerned agencies. Different committees have given their opinions in this regard and all of them have favoured federal one. Rural Credit Survey Committee (1954) recommended that while in the initial stage the central land mortgage bank might operate through a network of branches, when adequate business is developed, primary banks may be organised to replace branches. Committee on Taccavi Loans (1958), Committee on Cooperative Credit (1960) & Rural
Credit Review Committee (1969) favoured the federal structure.

Madhavdas Committee, i.e., Committee on Cooperative Land Development Banks (1975) has discussed at length the relative advantages and disadvantages of both the structures as prevalent in the land development banks in the country. Federal structure is responsive to the local needs and is capable of mobilising resources, speedy disposal of loan applications and of facilitating good recovery due to intimate contact with borrowers and local nonofficials. The advantages claimed in unitary structure are unified control over the staff and the facility of operations. There might be inadequate control over staff of primary banks in federal structure, while there could be lack of initiative at a branch level in a unitary structure. The Committee came to the conclusion that most of the land development banks in the country at present required no change in their existing structures but that they should strengthen their respective present structure by adopting such features as were found advantageous in the opposite structure. The Committee also recommended the merger of land development banks having weak performance with the institutions providing short term credit.

(11) **Structure of Gujarat Land Development Bank**

With this background in view it will now be appropriate to discuss the structural pattern of the Gujarat State Cooperative Land Development Bank Ltd. The Bank has been
following the unitary structure since its inception. As most of the land mortgage banks in the country have been following the federal structure, the Bank had appointed a committee in 1963 from amongst the members of its Board of Directors to go into the question. The Committee recommended a switchover from unitary to federal structure through the organisation of primary land mortgage banks in different districts, in a phased programme. The recommendation was sent to the government of Gujarat which did not favour it and directed the continuance of the unitary pattern.

The unitary structure has got its own advantages including unified control over staff and its mobility, facility and smoothness in operation, pooling of personnel and follow up and relative immunity against local pressures. These were all available in different degrees to the Bank. Moreover to avail of the advantage of the federal structure, the Bank has provided in its bylaws for the formation of Branch Committees that are charged with the functions of looking after the affairs of the branch and availing of the benefit of the knowledge, experience and acumen of nonofficials. Since 1976 the Bank has delegated the powers of loan sanctioning at the district offices.

Another important advantage which requires mention here is that of the ability of the Bank as a centralised balancing agency that can carry the dead weight of the
monviable districts incurring loss due to poor performance by giving set-offs from the profit of the viable districts having good performance. It has been argued that nonviable districts having continuous poor performance got separate primary land development banks, they may sooner or later become defunct. Moreover, the unitary structure is more suitable in the cases of States like Gujarat that are small in size.

Under the unitary structure, the Bank is working through a network of Branches located at each Taluka level, numbering 182 in all. Moreover, it has got 17 District Offices, each located at District Head Quarters of the State. The Bank has not got any affiliated primary land mortgage/development bank.

There were four primary land mortgage banks one each at Bharuch, Kheda, Surat and Vadodara in the then Bombay State and they were affiliated to the Bombay State Cooperative Land Mortgage Bank Ltd... These primary banks came under the jurisdiction of Gujarat State consequent upon bifurcation of the then Bombay State. Thereafter these primary banks were working as an agent of the Bank under the agency agreement for giving loans upto to 1967 when agency agreement were terminated. After the termination of agency agreement, the Bank opened gradually its own District Offices and branches in all these four districts and began loaning business through branches and debarred the primary banks from giving
loans. As primary banks having no business came under the process of merger with the Bank and as such the Bank has got unitary structure completely throughout the whole state.

(12) Progress of the working of Gujarat Land Development Bank

The Bank has been giving long term agricultural credit to the farmers in the whole state of Gujarat through its branches. Enrolment of members, collection of shares, giving of loans and recovery thereof are all routed through the branches. The statistical data regarding the progress of the working of the Bank is presented in Table I.1.

Reviewing the working of the Bank from the statistical data as given in Table I.1 for 19 years from 1960-61 to 1978-79 it can synoptically stated that the business of the Bank particularly with reference to loaning and debenture floatation has been concentrated during the period from 1968-69 to 1972-73 while the business of share collection has been concentrated during the period from 1966-67 to 1972-73. Recovery performance of the Bank was highest during the quinquennam phase from 1964-65 to 1968-69 while the same has been reduced to a great extent during the period from 1972-73 to 1978-79. It is a very poor performance and that has posed many problems against the Bank. Debenture collection was highest in 1972-73 and that was due to the special debenture floated under the World Bank Credit Project. Recovery performance of the Bank during this carrer of
19 years was highest with 91% in the year of 1963-69 while recovery in absolute amount was highest in one single year of 1975-76 which collected Rs. 22.15 crores but the percentage of recovery for that year came only 41%. Progress of the Bank had been risen by leaps and bounds during the decade from 1961-62 to 1972-73 but thereafter its working in all the direction is falling especially with reference to decrease in loaning, poor performance in recovery, meagre collection of shares, exodus of members and accumulated loss of Rs. 5.09 crores at the end of 1978-79.

(13) Multi-agency approach to agricultural finance

Government resorted to the multi-agency approach in agricultural finance, from the year 1967-68 with a view to bridging the credit gap in the development of agriculture. It found that no single agency was able to cater to the growing needs for agricultural credit. The cooperative credit structure alone was also found unable to fulfill the task. Indigenous bankers and money-lenders were still prominent in the field. Hence it was considered necessary to link up the agriculture sector with money market by spreading noncoop banking facilities in the rural areas.

The first step in the direction of multi-agency approach was taken by imposing social control over private sector commercial banks, which required them specially to advance loans to the priority sector including agriculture.
In July 1969, 14 major commercial banks were nationalised with the object of augmenting the credit supply in addition to that through the cooperatives. Since then different institutions including Regional Rural Banks have appeared on the scene for providing short term, medium term and long term loans for the development of agriculture. The Regional Rural Banks ushered in 1975 on the recommendations of the Steering Committee appointed by the Government of India, with the important objective of meeting the existing deficiencies. They were expected to provide credit and other services primarily to the weaker sections of the Society. As such, there are now three main agencies - cooperatives, commercial banks - and regional rural banks - in the field of agricultural finance.

Evaluating the mechanism and functioning of the multiple agencies dispensing credit for agriculture, various cooperators, executives and academicians have criticised it in terms of unplanned expansion of credit, uncoordinated multi-agency financing & overlapping of jurisdiction, diversion of clientele, overfinancing or underfinancing, diversion of scare resources to unproductive uses, multiplicity of criteria of lending, unsupervised credit at the end use resulting in non-production, defaults in loan repayment, increasing overdues and the lack of or limited income generation for regular repayment. All these factors have created aberration in the institutional framework of agricultural credit which, if not corrected, may affect adversely
The entire credit system. Moreover, it has been said:

"The very basis of multi-agency approach, that there is a credit gap and which could be bridged only by including other agencies into the field of agricultural credit, is full of pitfalls. The assessment of requirements of agricultural credit have never been done scientifically. It cannot be assessed by multiplying the acreage with prescribed amount as has been done in our country. Credit requirement is directly related to the credit absorbing capacity. The way in which the different agencies have functioned has created many problems both for the cooperatives and for other agencies on account of different systems, procedures, policies, security, norms, varying rates of interest, the lack in functional coordination, etc.

Sized of the criticisms and problems, the Government of India appointed, in 1976, a Working Group headed by Shri C. E. Kamath, Chairman, Canara Bank, to study the problems, and to suggest means for the efficient functioning of multiple agencies for dispensing credit for the desired objectives. The Committee made some suggestions that included (a) the demarcation of the areas of operation for each of the credit-agency, (b) the clarification of the supplementary role of the nationalised commercial banks and regional rural banks for strengthening the cooperative credit system by improving the functioning of weak district cooperative banks, and (c)

* From the speech of Shri B.S. Vishwanathan, President, National Cooperative Union of India on the occasion of the Conference on Multi-agency approach to Agricultural Financing held on 12-14- June, 1979.
the establishment of Consultative Coordination Committees at the district level.

Another Committee under the Chairmanship of Shri M.L. Dantwala was appointed in 1976 to study the working of Regional Rural Banks. It observed that such banks were to be an integral part of the rural credit structure, were not meant to replace the cooperatives and were in actual practice to be opened in the areas where the cooperatives were found to be weak. It was also felt that the establishment of a new agency, instead of strengthening the existing weak one, might not serve the purpose, and that the new entrant would also suffer gradually from the weaknesses of rural economy, coupled with organisational deficiencies of such institutions.

It seems that the multi-agency approach requires rethinking. Entry of numerous agencies in the field of agricultural credit is not needed. At the same time it is very difficult to retreat from the present fold. But, certainly, further expansion can be undertaken cautiously on the basis of the experience gained and the challenges ahead. The Cooperatives had enjoyed a virtual monopoly in the field of agricultural finance until this approach was adopted; and healthy competition should always be a welcome feature to avoid fossilization. But more important is the need to strengthen an integrated cooperative credit structure to be reoriented with efficient management at the level to compete
effectively with rural branches of commercial banks in the field of agricultural credit and multifarious activities of rural development.

(14) Need of integrated cooperative credit structure

Since 1968-69, when the commercial banks had their first entry in the field of agricultural credit, the supply market became progressively more competitive - particularly as the number of rural branches of commercial banks and the State Bank of India were on the increase, year by year. The situation became more acute consequently upon the addition of Regional Rural Banks sponsored jointly by lead commercial banks and the concerned state government, since 1975. All these developments aggravated the plight of the cooperative credit structure, which was already suffering from organisational deficiencies and operational inefficiencies with special reference to mounting overdues and dwindling loan business.

Under such circumstances - and, when the establishment of National Bank for Agriculture and Rural Development is in offing - the problem of merger of two wings, one providing short and medium term agricultural loans and the other providing long term agricultural loans shall have to be decided upon with urgency.

The concept of integrated credit is not new. It was
given thought long back by Rural Credit Survey Committee in 1954. But, the structure suitable for integrated credit was not adequately thought out then, probably because the thirst for credit was very heavy under the planned programme of rapid development. However, the later literature is replete with multiple suggestions. The Committee on Cooperative Credit (1960) laid stress on making the primary agricultural credit society viable. The Informal Group on Institutional Arrangements for Agricultural Credit (1964) emphasised the need for coordination between the two structures and recognised the need for their integration. The Conference of Chief Ministers and State Ministers for Cooperation held at Madras in June 1968 suggested the provision of integrated credit through a single agency. The Banking Commission (1972) recognised the principle of one single institutional agency for providing all credit services. The National Commission on Agriculture (1973) recommended the provision of integrated agricultural credit and other services by one single agency and suggested to organise farmers service societies. Fifth Five year Plan Working Group on Cooperation also stressed the need of integration of short, medium and long term credit structures. The Steering Group appointed by the Central Cabinet in July 1974, too came to the conclusion that there should be one strong apex financing institution for providing the variety of services. The Committee on Cooperative Land Development Bank (1975) stressed on coordination between
the two structures, failing which they recommended integration. Lastly, the Committee on Integration of Cooperative Credit Institutions (1976) has suggested the complete merger at all level of both the wings providing cooperative agricultural credit. Thus, all the bodies have generally favoured the integration of the two structures to provide integrated credit for agricultural and rural development.

Much more has said about the format of the agricultural credit structure suitable to our country. The general view is not in favour of disturbing, to a great extent, the already existing present structure. All mostly agree that there should be a primary organisation at the base level fulfilling the criterion of viability. It may be in the form of Large-Size Multipurpose Cooperative Society, Farmer Service Society, Credit-cum-Marketing Service Society or Cooperative Rural Development Society, that will provide all types of credit, follow up services, technical guidance, agricultural inputs and marketing facilities to agriculturists as well as rural artisans.

There are diverse views about the structural patterns at the District and state levels. Some are favouring a two-tier structure. For the smaller States, the unitary structure may prove to be better; for it can carry the dead weight of poor districts. In the bigger States, the three-tier structure if fully developed, can be retained. The district, being a
compact revenue jurisdiction having more or less homogenous characteristics, must be considered as an important unit irrespective of the question of cost. It can develop local leadership and explore local resources. And, the primary structure at the base level must be sound and well equipped. As such, the existing two-tier or three-tier structure can be reorganised as per the requirements of the area and the traditions.

It must be reiterated that mere transformation of the structure or the establishment of a national bank either in public sector or in cooperative sector may not achieve desired result unless the preconditions for its success are fulfilled. Success of any super structure will depend primarily upon the soundness of the base level structure. Therefore, the base level structure shall have to be made strong and viable under the Reorganisation and Rehabilitation Programme of Primary Agricultural Credit Societies as directed by the Reserve Bank of India. Again, the managements of such base level organisations shall have to be made professional and responsive to the financing institutions. This can be done through the introduction of a Common Cadre of Managerial Staff of such institutions. Other measures which can be adopted may include the introduction of revolving credit for maintaining timeliness in disbursements, reorientation of social base to democratic requirement, enlightenment, vigilence and awareness through member education programme, elimination of vested interests by
legislative measures, proper representation of weaker sections on the Boards of Management, clear and crystallized government policy, requisite degree of amenability of evaluation and to a certain degree of control, scaling down or writing off of frozen debts in genuine cases to clear the mud, forceful policy of agricultural marketing to make recovery easy and the introduction of crop insurance.