Chapter - II

REVIEW OF LITERATURE

The review of available literature and studies is the basis for further research. It is worth to review the relevant literatures before doing a research study. It exhibits how much work has been already done in the area under research. A review of literature is further helpful to identify the research gap and lead the study to fill in such a gap. A brief outline of various committee reports and previous studies are exhibited below.

Committee reports

The report of All India Rural Credit Survey Committee (1954) appointed under the Chairmanship of A.D. Gorwala is generally considered as an enlightening document on the real nature of appropriating and managing rural credit including cooperative credit in India. Regarding the long term credit, the committee found that Cooperative Land Mortgage Banks in different states were having no uniform structure. The lending procedures were highly cumbersome involving much delay and wasteful expenditure. In spite of all of these, the committee recognized the usefulness and potential of Land Mortgage Banks as the appropriate agency for facilitating the much needed capital formation in agriculture and rural sector. The committee assigned a developmental role for Land Mortgage Banks by reorienting their operations to production improvement and development of land. It recommended the constitution of a long term operation fund in RBI from which loans should be given to the State Governments for purchasing debentures of Land Mortgage Banks. The
committee also suggested a two-tier federal structure as the ideal organization pattern for these banks. Thus it can be seen that the implementation of the recommendations of the Rural Credit Survey Committee gave a new identity to the Land Mortgage Banks.

The Committee on cooperative credit (1960)\textsuperscript{2} headed by V.L. Metha observed that any production plan is to be drawn up in a systematic manner and implemented with careful supervision. This would require the employment of a large technical staff. A dynamic programme of agricultural credit and distribution is required to enable the farmer to take full advantage of the agricultural plans and hence cooperatives should be strengthened financially so as to extend a wide range of credit and allied services. The committee recommended that specially trained staff may be employed to strengthen the weaker societies; loans can be granted to the tenant cultivators if they are honest and have the repaying capacity; that a larger part of the loan can be given in kind to minimize the misuse of funds.

The National Development Council (1962)\textsuperscript{3} in its meeting held in 1958 adopted a resolution on cooperative policy. It was considered that by making Taccavi loans and other facilities available through cooperatives, the conditions of every rural worker would be improved. The new policy was communicated by the Government of India to all the state governments. In May 1959, they felt that the various organizational procedural and administrative difficulties that came in the way of successful implementation of the policy should be called for careful consideration. The Government of
India appointed a committee in July 1961 to examine the whole question and suggested suitable procedures for the implementation of the policy.

The state government should arrange for the maintenance of department-wise consolidated up to date information relating to Taccavi operation. Cooperatives should be accepted as institutional agencies to provide credit to agriculturists for normal production and land improvement purposes subject to certain exceptions and government should discontinue the issue of such loans to them directly. The responsibility to provide the entire finance required by agriculturists for normal production and land improvement purposes, excluding those purposes for which it will not be possible for them to finance for special reasons should be transferred to the cooperatives. All development departments of the Government should continue to provide the technical guidance and other assistance that will be required in preparing and processing application for loans.

The report of the Rural Credit Review Committee (1969)\(^4\) is another landmark in the history of rural credit in India. The committee suggested that technical feasibility and financial viability should be regarded as primary considerations for giving investment credit to agriculture. The period of loan should be fixed on the basis of the repaying capacity of the borrower and the incremental income from the investment. It suggested project approach in investment credit to agriculture in order to ensure proper end use of credit. The lending policies and procedures followed by Land Development Banks were reviewed and revised on the basis of the recommendations of this Review Committee, and it is seen that the working of Land Development
Bank is by and large based on the recommendations of this Review Committee even today.

The Banking Commission set up by the Government of India under the Chairmanship of R.G. Sariya (1972) observed: "Credit gaps are very large in areas where neither cooperatives nor commercial banks have virtually any organization at the grass root level. Even in areas where the organization exists, it is not at present capable of satisfying all the needs of those who are eligible for credit and need it. In particular there is a significant gap in institutional arrangements in respect of small, marginal and sub-marginal farmers and other rural producers of this category, which calls for a different approach. Besides it is not enough to concentrate merely on providing credit; emphasis has also to be given to supervision of the application of the credit requirements and guidance to the borrower in his operation".

The Report of the Committee on Cooperative Land Development Banks (1973) headed by Madhava Das, described the banks' performances as 'truly praiseworthy' and 'striking' and 'commendable'. After pointing out several operational and organizational deficiencies, it suggested the strengthening of the existing structure by setting up Regional/Divisional Offices of the Central Land Development Bank with adequate technical and other staff to provide necessary support to the base level structure in matter of formulating schemes and implementing them. The Committee felt that the banks should take prompt and effective measures against the defaulters.
The Reserve Bank of India - Study Team on Overdues (1974) suggested remedial measures to tackle the problem. Faulty lending policies, indiscriminate loan operations, inadequate supervision, absence of proper management, failure to link credit with marketing, lack of will on the part of the management to enforce recovery, lack of financial discipline and apathetic attitude of some of the state government towards creating an environment conducive and congenial situation for repayment of dues are the problems of overdues identified by the study team. The study team recommended coercive measures supported by legal and administrative action to tackle wilful defaults.

The Hazari Committee (1975) strongly recommended the integration of short, medium and long term cooperative credit institutions. This integration would (i) avoid splitting up of security, (ii) ensure a single contact point of farmer, and (iii) enhance the profitability of the primaries. However no consensus could be arrived at over the recommendations of this committee.

The National Commission on Agriculture (1976) enquired the various aspects of Indian agriculture and allied production. It has made particular reference to supporting services and incentives especially those of cooperatives and commercial banks. The commission observed that the existing institutions needed to be better equipped to serve the small farmers with appropriate internal changes and new external linkages. Significant recommendations of this commission regarding cooperative credit were the creation of Farmers' Service Societies. Each FSS is to be registered as a
Cooperative Society under the cooperative societies Act of the State concerned. The major functions of the FSS shall be (i) drawing a broad plan of agricultural and related development in its area of operation, (ii) all the credit requirements of the members including term loans are to be met by the FSS (iii) it will supply all inputs and services and also undertake marketing activity.

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development 1979\textsuperscript{10} headed by Siva Raman recommended the establishment of a National Bank for Agriculture and Rural Development under the control of RBI to decentralize its functions. It made several suggestions for improving the rural credit system in the country, like (i) identification of target groups like small/marginal farmers, rural artisans, scheduled caste and scheduled tribe (ii) simplification of terms and procedure of credit (iii) updating of land records and (iv) project lending. In the matter of dispensing long term credit, the committee strongly urged that the Primary Agricultural Credit Societies (PACS) should act as agents of land development banks. Regarding overdues it did not favour the State Governments giving total exemption to all classes of defaulters. It desired that there should be strict observance of financial discipline by all concerned for sound and sustained growth of the cooperative credit systems in India. It also recommended providing deterrent punishment to wilful defaulters. Accordingly, based on the recommendations of this Committee, NABARD was established on 1st July 1982.
An expert group was constituted in (1986)\(^1\) which was later known as "Agricultural Credit Committee" to make a comprehensive review of the agricultural credit system in the country. The committee made crucial review of the credit institutions via, Commercial banks, Regional rural banks and the Cooperative banking system including the Land Development Banks. Increased overdues resulting in restricted eligibility for lending and reduced minor irrigation financing have been identified as some of the reasons for the poor performance of the banks. Regarding the NABARD refinance policy, the committee has observed that the eligibility criteria governing refinance from National Bank has done more harm than good to the borrowers and to the credit system. The most undesirable feature is that new and potential borrowers are deprived fresh finance from branches in view of the restricted eligibility. The committee has further observed that the rehabilitation programme for the cooperatives as drawn by NABARD could not yield desired result on account of the absence of expansion component and lack of support from apex institutions and the government.

The Agricultural Credit Review Committee (1989)\(^2\) constituted by RBI in consultation with Government of India under the Chairmanship of A.M. Khusro had made a comprehensive review of the agricultural credit system in the country. Examining the long term cooperative credit structure, the committee observed that Land Development Banks experienced a declining trend in the total lending from 9 percent in 1974-75 to 4.1 percent in 1984-85 and as many as 194 primary banks were under the rehabilitation programme. Increasing overdues resulting in restricted eligibility for lending, low interest margin, reduced scope for minor irrigation financing, high cost of
raising ordinary debentures, uneconomic cost of interim finance, external and
government interference in its working, absence of professional
management, etc., had been identified as some of the major problems
affecting the long term cooperative credit structure. The committee
recommended that unless the banks are enabled to diversify their activities
and broad-base their operations, it will be difficult for them to compete with
other rural credit agencies, particularly the commercial banks.

The Task Force headed by Prof A. Vaidhynathan (2006)\textsuperscript{13} appointed by
the Government of India for reviving Cooperative Agriculture and Rural
Development Banks and comprehensives for institutional financing of long
term investments for agricultural and rural development describing by the
characteristic of long term structure and impairments therein, the key
recommendations of the Task Force on institutional restricting are
PCARDBs are to be allowed to access all types of deposits from members,
to provide all types of loans to its members, to borrow from any regulated
financial institution and to affiliate themselves with an upper tier of their
choice. The SCARDB should join hands with the State Cooperative Bank in
its State and set up a support service unit on mutually acceptable terms to
provide such services to low tiers in both the structures. CRR of minimum 7
per cent be stipulated to be increased to 12 per cent in 5 years. The
financial package for the long term credit structure should cover
accumulated losses and technical assistants including installation of a
computerized standard accounting, internal control, monitoring and
information system, and training and capacity building of the staff and
elected representatives.
Among the earlier studies conducted by RBI, the one conducted on study of long term agricultural credit (1963-66)\textsuperscript{14} is worth mentioning. It recommended that there was a very big time lag between the date of application and date of disbursement and that land valuation was not done on any scientific basis. As a result, the farmers did not get adequate loan to meet their investment requirements. Small farmers were totally neglected and no provision was made to spot technical guidance.

A study conducted by Agro-Economic Research Committee (1969)\textsuperscript{15} on the loans advanced by selected Land Mortgage Banks in Andhra Pradesh found that there was considerable delay in sanctioning loans, ineffective supervision leading to misutilisation and inadequacy of loan amount sanctioned. The study suggested that the annual repayments should be divided into suitable periodical instalments depending on the cropping pattern etc. It also emphasized that the repaying capacity should not be the only criterion for limiting the amount of loan particularly in the case of small farmers, but it should be related to the developmental potential.

A project study of two areas in Gujarat (1971)\textsuperscript{16} on major aspects of long term agriculture finance revealed that there was diversion of loans and also under-utilization of assets mainly due to inadequate after-service by the bank. Delay in disbursement of loans had been due to cumbersome procedures.

Sharma and Prasad (1971)\textsuperscript{17} studied the credit needs at different stages of technology development in agriculture. They estimated the credit
requirements of farmers and the impact of credit on cropping pattern and income of the borrowers. The study revealed that irrigated farms and improved techniques would call for more long term credit/loans. It found that adequate credit increased the income substantially even at the existing level of technology.

D.B. Krishnakumari (1985)\textsuperscript{18} has made a study on Cooperative Banking for Agricultural Development in Andhra Pradesh. She found that Andhra Pradesh acquits as a pioneer of agricultural development banking and a comparison of the CARD Bank in the state with other CARD banks in the country revealed that the bank in Andhra Pradesh secured four first ranks in matter of loan disbursements, loan outstanding, small farmer financing and in diversifying the credit to allied activities of agriculture. However, she found that the recovery performance had deteriorated to seventh rank. She further stressed the need for reducing the interest rate and in simplifying the loaning procedures and policies to the CARD Bank. She strongly recommended for the setting up of 'Recovery Cells' by every CARD Bank to monitor the recovery operations.

A case study by S. Ramamoorthi (1985)\textsuperscript{19} on the long term credit required by betelvine cultivators of Aruvikkara Block in Kerala State revealed that the scale of finance per unit of land fixed by NABARD in case of scheme loan was highly inadequate to raise the crop. The actual costs incurred for betelvine planting increased or changed in different regions of the country depending on topography, rainfall, agricultural practices etc. He
estimated an optimum scale of finance for one unit of beteivne as Rs. 3357 so as to cover 85 per cent of the plantation costs.

S. Ramamoorthi (1986) further evaluated the growth of schematic lending of KSCADB from 1968-69 to 1983-84. He found that the achievement of the bank was highly significant as compared to other State's Agricultural Development Banks. Since the inception of the schematic loans, the profits of the bank had shown a sudden spurt. With in a year of the introduction of the scheme loans, profits earned by the bank doubled while the cost of establishment and contingencies to total loan outstanding declined from 0.88 per cent in 1968-69 to 0.59 per cent in 1983-84.

N.V. Narayana (1987) examined the supply of investment credit and its utilization in the drought prone area, Anantapur district of Andhra Pradesh. The major findings of the study were; (i) the average loan amounts received by the small farmers was comparatively less; (ii) Non-interest charges outweighed the nominal rate of interest thereby making the cost of borrowing as high as 18 percent; (iii) 68 percent of the borrowers waited for nearly four months to get the loan sanctioned; (iv) Investment credit gap was found to be more (32 percent) in the case of small farmers due to unrealistic estimation of the cost of proposed projects; (v) Yield per acre of selected crops of non-borrowers was low as compared to borrowers who availed CARD Bank loan; and (vi) Net farm income in the post-investment period of small farmers was 55 per cent while the percentage change in the income of large farmers was 58 per cent.
M.M. Bhalerao and Raveendra Singh (1987) attempted to assess the trend in inter-state inequality in the supply of long term credit by Land Development Banks in India in two periods 1968-69 and 1980-81 in 17 major states. They found that inequality in the distribution of long term loans had increased during this period. In order to avoid further regional imbalances he emphasized the need for developing the cooperatively underdeveloped states with more resources trained manpower, efficient term credit management and more stringent measures to minimize the mounting overdues.

A post-utilisation study (1989) conducted by the Research and Development Cell of the National Federation of Agriculture Cooperative Rural Development Bank on tractor loans advanced by CARD Banks in Haryana found that the majority of the loanees were small and medium farmers and the loan had created positive impact in increasing land productivity and income levels of borrowers substantially. There was no relationship between the size of the tractor and the land cultivated and some borrowers with small land-holdings were sanctioned loan for high power tractors resulting in under-utilisation and involving high operational and maintenance costs. Incidence of default in tractor advances were high and nearly one third of the sample borrowers were found to be defaulters even though they received substantial incremental income indicating that the bank should step up their recovery performance.

Manmohan and Johl (1989) made a study on “Capital and Credit Requirements for Dairy Enterprises in Punjab”. They have concluded that
there was a great need for heavy investments in order to take advantages of modern techniques. As the farmers' income is meagre, they are unable to make these investments from their own resources. The Indian farmers therefore, need to be provided with adequate long term credits so as to enable them to reap the benefits of new innovations in agriculture.

Pandey and Ashok kumar (1989) studied the growth rate of disbursement of short term medium term and long term cooperative credit in their paper 'Economic Evaluation of Cooperative Credit in Indian Agriculture'. The variations in cooperative credit on per hectare cropped area was analyzed and found that long term cooperative credit was statistically significant in almost all the states. The maximum growth rate was observed in West Bengal (30 percent p.a.) followed by Kerala (28 per cent p.a.) while it was almost 8 percent at the national level. They concluded that in Kerala and West Bengal where growth rate of term loan is higher than the national average, farmers would have taken more long term credit for the development of plantations and for integrated schemes like dairying, poultry etc., signifying high quality lending by CARD Banks in these states.

K.A.Suresh (1989) studied about the declining importance of investment credit in Kerala economy after analyzing the problems of long term credit. He found that the States' economy showed a shift in favour of commercial plantation crops since the eighties. The analysis of the existing loan composition showed that the share of production credit was increasing over the years while long term credit granted was declining.
T.K. Karthikeyan (1990) undertook a comparative study of the long term finance supplied by the CARD bank and commercial banks in Tamil Nadu. The study reveals that commercial banks' activities were mainly 'non-land based' while CARD banks' finance were land based. The quantum of loans provided by the commercial banks was comparatively small. In CARD bank, land and its mortgage were the pre-requisite whereas the asset acquired out of loan was the main security in the lending of commercial banks. He found that target-oriented lending had resulted in poor recovery thereby reducing the CARD banks' eligibility to receive fresh loan resulting in a decline in the total term loans disbursed when compared to commercial banks.

A comparative study of cooperative and commercial financing Agency in meeting long term credit needs of farmers in Maharashtra was undertaken by S.B. Patel (1990). The period of the study was from 1973-74 to 1984-85. There has been a remarkable progress in the disbursement of long term loans by Land Development Banks and State Bank of India. Though SBIs' performance was more significant, a major share of its loans went to large farmers. From the trend of loan disbursed, it was found that both the financing agencies were mainly concentrating on less developed areas and ignored financing dry land and waste land development. The author had recommended for extending term loans in the form of schematic lending to develop particular backward areas.

A study of the Bapatta Primary Land Development Bank was undertaken by P. Raghuram (1990) to identify the factors influencing the profits
obtained by the bank. The analysis revealed that the progress of PCARDB was encouraging except in recent years when there have been losses. The multiple regression analysis showed that the cost of establishment and contingencies exhibited pronounced negative influence on the profits and had mainly led to the eroding of profits.

Boothalingam (1990)\textsuperscript{30} in his study on ‘Involvement of Cost in the Management of Recovery in the two sub-branches of Maharashtra State CARD Bank’ emphasized the importance of production-oriented lending system by these banks. He found that the cost of recovery includes all expenses incurred by the bank such as traveling allowance, daily allowance for staff employed for recovery, the cost of setting up of special recovery special cell, monitoring cell etc. He suggested that the recovery strategy should be changed from the present system to completely supervised credit and proper monitoring of the loan utilization to prevent misutilisation. The CARD Bank should help the farmers by providing the technical know-how of the project for which all the supervisors should be technically qualified and trained.

Pawar and Bhuvanendran (1992)\textsuperscript{31} conducted a study on the impact of long term finance on the tribal economy in the district of Jhabua in Madhya Pradesh where 85 percent of the population belonged to the tribal community. It was seen that more of the tribal farmers were coming forward year after year to utilize the available opportunities. The total farm production has been increased by 53 percent. It was found that the impact of term loan on production and income was statistically significant. The
impact was not that much significant in the case of big and medium tribal farmers as compared to small farmers.

K. Ravichandran (1994)\(^{32}\) made a study on "Implications of overdues on the resources of cooperative credit institutions and the members-borrower in Tamil Nadu". He analysed the performance of agricultural credit relating to the provision of agricultural credit and repayment under crop loan system. This study also dealt with the causes of overdues in cooperative credit institutions and to redress the grievances of the beneficiaries.

T. Uthirapathy in his research, titled "Study on overdues in PLDBS with special reference to Thanjavur District" (1998)\(^{33}\) attempted to study the concept of overdues, factors causing overdue, effects of overdue, types of overdues, and its managerial problem and mechanism of overdues affecting banks profitability. This study also analyses the socio-economic factors, which will influence the behaviour of the farmer borrowers in relation to the repayment of loans.

Virendra Kumar Gupta (2000)\(^{34}\) made his research on "Problem of long term agricultural credit - A case of Badaun District (India)". This study specially deals with the problems of long term credit in the agricultural sector in an economically backward region like Badaun District. The lending policies followed by the land development banks have been studied in the context of this backward setting. It should, however, be noted that State Land Development Banks in India do not follow any special lending policy specifically meant for the economically backward regions in the State. The
conclusion drawn from this study is the cooperative long term credit advanced by the Land Development Banks is neither efficient nor cheap.

A. Syed Mohamed Gani (2000) studied the organizational framework of Thanjavur District PCARDB, performance of PCARDBs in providing investment finance phenomenon of misdirection of long term finance, and the causes of such misdirection. This study also focused its attention on causes of diversion of long term agricultural credit from the viewpoint of the borrower.

V. Sundar (2004) in his study titled "Loan Diversification by Primary Cooperative Agricultural and Rural Development Banks in Thiruvannamalai District" focused its attention on the lending policies and procedures of PCARDBs, to examine the diversified lending operations and the impact of bank loan on agricultural/production income during the pre-loan period and post-loan period. According to this study, unnecessary procedural formalities reported by the borrowers lead to red-tapism and delay and hence they should be removed. The quantum and variety of diversified loans should be expanded. PCARDBs are moving only in a beaten tract. They should explore new varieties of income generating loans for the borrowers.

A. Shanmugasundaram (2006) made a study on "The Performance of Primary Cooperative Agricultural and Rural Development Banks in Dindugul and Nagapattinam District with special reference to Non-farm Sector Loans". It was found that inadequate and absence of timely credit flow to the rural non-farm sector led to cost over-runs, Majority of the respondents opined that rural
non-farm sectors had increased their income. The percentage of recovery was high in RNFS loan. Hence the level of NPA was low compared to other loans. Further the RNFS have increased the profitability of the bank.

It is understood from the review of literature that the CARDBs are playing a vital role in the long term credit needs of farmers, rural artisans, skilled labourers etc. However their performance had started declining in meeting the financial needs of the members. Thus the present study is to identify the problems of PCARDBs regarding mobilisation of working funds, lending operations and recovery of loans. Further, this review of literature has enabled the researcher to design his study so as to analyse the performance of PCARDBs, using suitable tools and methodology. Also some conclusions have to be arrived at and suitable suggestions have to be made for the development of the PCARDBs.

References:
7. Reserve Bank of India, Study Team on Overdues, 1974.


34. Virendra Kumar Gupta "Problem of Long Term Agricultural Credit - A Case of Badaun District (India)", Finance India, Vol, XIV, No.1, March 2000, PP.193-196.

