CHAPTER - VIII

CONCLUSION AND SUGGESTIONS

In India, agriculture has played a crucial role on the development of the country. Whether one views agriculture in terms of the people directly or indirectly dependent upon it for livelihood or in terms of feeding the increasing masses of people, agriculture stands out as a prominent industry which cannot be disregarded. The term agriculture literally means the science and the practice of the cultivation of the soil including the raising of livestock. In economic jargon, the word includes the production and distribution of goods of agricultural origin for consumption by the population at large, domestic or foreign. A comprehensive treatment of all the problems and challenges facing Indian agriculture is beyond the scope of present study. Here a humble attempt has been made to highlight the problems of agriculture with reference to agricultural credit.

Agriculture in India plays a major role in her foreign trade. Between a fifth and third of the value of total merchandise trade consists of agricultural products. India exports coffee, tea, fruit, vegetables, foodstuffs, beverages, tobacco and raw materials and imports items such as cereals, dairy products, fruit, vegetables, animal's and vegetable oils and raw materials. In fact, the periods, when large food imports became necessary were regarded as improving a heavy burden on India's dwindling foreign exchange reserves a problem
that led planners to focus on food production. The essence of agriculture in India is the backbone of the economic, social and political fabric of the nation.

During the process of development, the interdependence between agricultural and industrial sectors have become strong. Experience shows that when growth and diversification of employment is very important but shortfall in agricultural growth in some years had deliterious effects on prices causing allround imbalance and hardship. It is also clear that further growth in agricultural production is materially dependent on the rapid increase in the production of inputs supplying industries. It is a fact that agriculture occupied a central place in the national economy but its performance is far from satisfactory. The agricultural sector grew at a rate much below its potential, the growth rate hardly keeping pace with the population growth and requirements of the economy. The impact of new technology has not been sufficient to transform the agricultural sector. The rapid growth of population on the one hand and inadequate growth of agriculture on the other hand laid to several unwelcome developments.

Apart from other factors for agricultural backwardness problem of capital investment in agriculture is very important. Predominance of agriculture in Indian economy necessitate adequate investment. Credit should be
accessible, cheap, safe as well as production. Credit becomes a bottleneck to production if not available at the right time, in quantity needed and in the required institutional forms, when technology of agriculture is sufficiently advance and other factors are present for transformation of stagnant agriculture. Hence, new institutional forms and additional capital may be needed at this stage for expanding technology and raising the levels of production. In India, where nearly 80 percent of the population resides in rural areas and nearly 70 percent of the population is dependent on agriculture, poverty is a big hindrance. Sizeable population is below the poverty line. Naturally they are not in a position to finance any operations. Prof. Darling opined that Indian farmers are born in debt, they live in debt and they die in debt. Indebtedness is inherited as a matter of legacy. Debt is incurred even for bare existence. In India nearly 30 percent of agriculturists are poor, another 40 percent are fairly poor and it is a problem for them to find timely and adequate finance for agricultural operations. Yet another 20 percent are left with very little surplus which falls short of requirements. There are, however, about 5 to 10 percent merchant cultivators on a cultivator who have been financing their needs through their savings.

The credit provided by the private agencies is unproductive and the main aim of the credit is to bring
the farmers in the trap of perpetual indebtedness. The majority of the institutions whether public or private provide no credit to landless workers. The indigenous bankers and moneylenders provide only short-term credit and their working conditions and outdated and irrational. Hence non-institutional credit has not proved beneficial to the farmers in as much as it hardly provides any incentive to effect improvement on the land. Hence, agriculture requires special and separate treatment of the field of finance. There are small level of production to be dealt with. No control over the yield and quality of agricultural output can be exercised due to lack of organisation. In this context the problem of rural credit is peculiar hence it requires special consideration.

As far the role of the other institutional credit is concerned it is neither adequate nor conductive to agricultural development. The quantum of credit is insufficient and its operation is inconvenient as well as erratic, hence some agency specifically committed to agricultural development is a must.

Uttar Pradesh Co-operative Gram Vikas Bank is a state level agency formed on co-operative basis for providing long-term credit and investment finance for development of agriculture and allied economic activities. Although certain other institutional agencies like
Commercial Banks and Regional Rural Banks have also started providing investment finance to some extent, the Uttar Pradesh Co-operative Gram Vikas Bank continues to be the principal agency for long-term credit and investment finance to agriculturists.

The Bill to set-up the National Bank for Agriculture and Rural Development (NABARD) says:--

"State Land Development Bank" means the co-operative society which is the principal land development bank (by whatever name called) in a State and which has as its primary object of providing of long-term finance for agricultural development.

"Provided that, in addition to such principal LDB in a State, or where there is no such bank in State, the State Government may declare any co-operative society carrying on business in the State and authority by the bye-laws of such co-operative society to provide long-term finance for agricultural development to be also or to be a State Land Development Bank.

The need to feed and cloth, the ever increasing population and secure a better deal to the underlog and neglected sections of the society, necessitates faster rate of growth and development of the agricultural and the rural sector. This in turn requires huge investment finance for an ever starving sector. But in order to
ensure commensurate return on the investment resources, it may have to be seen that the marginal productivity of labour and capital is constantly raised through appropriate technological changes. There are a number of other pre-conditions which may have to be fulfilled before expecting to achieve an adequate degree, the social and economic objectives of any significant investment programme in agriculture. Failure to realise this may cost the nation dearly while other sectors may be deprived of their legitimate share in the development efforts and resources.

Different conditions are attached with the terms of loans and their method and mode of repayment by the loanees. Repayment of short-term and medium-term loans may depend on some contingent or incident factors such as annual net savings of the borrower but repayment of long-term loan cannot be expected through some windfall profits, anticipation of legacy or from out of speculative gains. Thus success of long-term loans will, among other factors, depend upon firstly the amount of the loan and secondly, on the manner of repayment. The amount lent must be sufficient to achieve the purpose, the interest rate must be low and amortization be allowed in convenient annual instalments spread over a sufficiently long period during which the loan must have yielded sufficient return on the investment by the farmers. On the other hand, the borrower must make full disclosures
of his liabilities and purposes. The creditor must insist on the proper utilisation of the loan. In fixing up the annual instalments, due regards must be had to the repaying capacity of the borrower.

There are other pre-conditions of investment finance, firstly, conditions have to be created which might be conducive to making operating farm units viable. Land reforms measures ensuring 'fixity of tenure' 'fair tent', fair return and freedom of transfer, social welfare and distributive justice etc., will have to be promptly and effectively implemented. Dependence on nature and risks arising out of natural hazards will have to be mitigated by governmental efforts. Technological supports and developmental infrastructure will have to be fully provided by the state because of the basic nature of the agricultural industry comprising millions of small disorganised and scattered units. Diversion of excess agricultural population from the small farmers and diversification of occupations through ancillary economic activities and agro-based industries will have to be simultaneously achieved. Decentralisation of industrial growth may also help in this.

Traditionalism must yield pace to improved farm management practices, modernisation and commercialisation of agriculture. This would be done through proper extension education. Credit absorbing capacities of farms must be considerably increased to ensure proper
end-results of investment finance. Agricultural price policy and support measures should also provide stimulus for increasing agricultural investments. All these conditions will have to be integrated and dovetailed into a pragmatic agricultural development policy within the overall framework of planned economic growth with stability and social justice.

In view of the complex nature and special characteristics of long-term lending, the development banking had to be distinguished from ordinarily deposit banking and discounting of bills. Accordingly, all other types of financing institutions were not found suitable to play the role of a development bank for the Indian agriculture and a specialised agency like LDB was established for this purpose. Even medium and large farmers having some savings are often reluctant to go in large investments because of uncertainty of agriculture and other constraints. The main factors responsible for this are lack of reasonable opportunities in backward areas of traditional type agriculture, lack of education to grasp the benefits of investments, uncertainties of return due to defective policy of Government or lack of infrastructure facilities and availability of other more lucrative or prestige giving opportunities and avenues available to divert their savings.
All India Rural Credit Survey Committee (1954) favoured the idea of ultimately having two-tier federal structure for the LDBs. However, in case of under-developed States, they permitted the organisation of a Central Land Mortgage Bank subsequently known as LDB which should function through branches and agencies but these branches must ultimately be converted into Primary Land Development Banks. They observed that "Primary Land Development Mortgage Bank can play a useful part in the examination of loan applications for improvement of land and in the supervision of the uses of such loans, and prima facie they can discharge their functions with more local knowledge and to that extent more effectively than branches of Central Land Mortgage Banks. They can play a very useful part in the elimination of delay in the disposal of application for long-term loans."

Looking at this problem from the point of view of the ultimate beneficiary, it can be said that time and space have not yet been annihilated so far as the man behind the plough is concerned. The teeming millions engaged in the agricultural industry who require loan from LDB dwell in the mud wall cottages, far removed from the quick means of transport and communications. This would certainly like to have the LDB to be a non-profit institution since it has to charge a low rate of interest from the farmers. Hence, such a bank must be a bank of the farmers, for the farmers and by the farmers.
In the interest of quick disposal of loan application through scrutiny of titles of the hypotheca and the repaying capacity of the mortgage close supervision of the loan utilisation and timely recoveries it is better to have a primary bank within a block, subdivision and district. But since primaries cannot command confidence of the outer money market, they must be federated together to form a central or an apex organisation of their own to gain their confidence, unify and centralise the debenture issue and to exercise supervision and control over them. Thus it has been accepted to principle that the federal structure of LDBs is the most suitable structure for India. But during the transitional period unitary structure may be permitted in certain areas depending upon local conditions. But as soon as local circumstances became favourable and time ripe, there should be switch over to the federal structure.

Hazari Committee on Integration of the Short-term Structure with the long-term credit structure (1975) strongly recommended the integration of the long-term credit structure with that of the short-term co-operative credit structure. The committee was of the view that in the context of national agricultural policy from the point of view of farmers' convenience of taking a comprehensive view of the borrowers requirement of closer
supervision over end-use of credit, of ensuring quality of loan advanced and better financial discipline among borrowers and cost advantages accruing through better management of better development of funds, etc., the integration was fully justified. The Committee to Review the Arrangements for Institutional Credit for Agricultural and Rural Development (1980) reviewed the structure of LDBs and endorsed the view that the existing structure of LDBs need not be disturbed merely for bringing about uniformity. However, in the opinion of the Committee a major problem today in the long-term co-operative credit structure is that in a number of cases investment finance disbursed by LDBs have not been productivity deployed as a result of which overdues are mounting rendering a number of Primary Land Development Banks in the federal set up and branches of State Co-operative LDBs in the unitary structure either eligible for only restricted lending or ineligible to undertake any fresh lending programme.

The CRAFICARD expressed great concern about growing structural weaknesses and deteriorating financial liquidity of the Land Development Banking system, particularly apathy shown by some of the state government and LDBs. Accordingly, the Committee suggested a case by case investigation of loans advanced by each of the LDBs which are below the cut-off point with a view of
identifying (a) cases of wilful defaults in which even after completion of investment, repayment of loan instalments have been deliberately withheld; (b) cases of non-utilisation and mis-application of loans advanced either by not drawing the second and subsequent instalments of loans or by not executing the project despite drawal of the instalment; and (c) cases where in spite of proper utilisation of loan availed, the investment remains incomplete due to post-sanction cost escalations or other factors.

The Committee emphasised that the LDBs are to serve as useful and effective channels of investment credit, it is surely the responsibility of the state government, who are guarantor of their debentures, to carry out an exercise as suggested above, formulate comprehensive rehabilitation programme and implement the same within a specific time frame of any year or so in consultation with the RBI/NABARD so that the health of structure is restored. The committee was of the view that should the rehabilitation programmes fail to produce the desired results within the time limit specified, the state governments should not hesitate to take action for winding up the units concerned and allot other institutions under the multi-agency system to take care of the investment credit needs of the areas.
Although in the beginning major portion of the funds of State LDBs were of necessity invested in loans for discharge of prior debts, currently improvement loans have assumed great significance in view of the urgency to step up agricultural production. A change in the loan policy was long pending because the mortgage banks have had already devoted a considerable part of their life and also their funds towards the so called discharge of prior debts and redemption of past mortgages. Long-term loans for redemption of past debts did not help in capital formation and in investment for improving agricultural production and the standard of life farmers. With this in view the All India Rural Credit Survey Committee recommended to gear up the machinery of LDBs to be fully responsive to the needs of a new change in their policy and operations. In this connection it is worthwhile to make on the definition and scope of the term "productive purposes", as given by the RBI in the beginning. 

Following were considered as productive purposes by the RBI.

(i) Sinking of irrigation wells.

(ii) Repairs or construction of tanks for agricultural purposes.

(iii) Purchase of oil engines, electric motors or pumpsets,

(iv) Levelling or bunding of lands,
(v) Conversion of dry lands into wet lands,
(vi) Purchase of tractors or other agricultural machinery,
(vii) Increase of productive capacity of land by addition of special variety of soil to it.
(viii) Construction of pucca farm houses, cattle sheds, tobacco barns sheds for processing agricultural produce/output like sugarcane.
(ix) Purchase of machinery like cane-crushers, furnaces for jugery making.
(x) Raising of fruit gardens, any other purpose which aims at development or improvement of land and its increased productivity, and
(xi) Discharge of prior debts incurred for any of the above purposes provided the debt was incurred and the land improvement effected within such reasonable time before the application for the loan has to make available adequate proof that the improvements in question was the purpose of the debt.

The RBI continued to lay emphasis on the production-oriented system of lending. The Bank insisted that if the State LDBs wanted to avail support from various agencies, they should issue at least 90% of their total loans including those under ARDC refinanced schemes for productive purposes for which 70% should be for
easily identifiable productive purposes. The LDBs were advised to make concerned efforts to diversify their lending and formulate technically feasible and economically viable schemes. With a view to formulate proper schemes and ensure proper monitoring and supervision of end-use of credit, the banks were advised to develop technical cell managed by technically qualified competent and experienced persons.

The loaning operations of the LDBs were also required to be regulated according to the prescribed norms of recovery. LDBs which recovered 75% of the dues will have unrestricted lending programmes, others with lower recovery were eligible for a proportion of loaning programmes of the past three years. The LDBs were required to observe the voluntary discipline of giving loans to small farmers to the extent of not less than 20% of the total loans issued during the year.

But considering the vast requirement of long-term credit issued by the National Commission on Agriculture they have yet a long way to go. Hence, there is a great potential for their growth and development, provided they succeed in removing their structural weaknesses and in improving their operational efficiency through co-operation.
It is an admitted fact that suitable agency to provide long-term financial loans to the cultivators is Land Development Bank which is known as Gram Vikas Bank of Uttar Pradesh. The focus of this study is to evaluate the working of Uttar Pradesh Gram Vikas Bank in providing credit facilities to small and weaker section of cultivators. To study the different categories of farmers, they are classified into three categories:

1. General category of farmers
2. Small farmers
3. Marginal farmers

U.P. Gram Vikas Bank provided special facilities and concessions to weaker and marginal farmers. Small and marginal farmers are main beneficiaries of the schemes of the bank. Over 90% loaning is for small and marginal farmers.

Various facilities, which are provided to small and marginal farmers are as under:

1. Small and marginal farmers are charged only 3 percent contribution in share money, while general category of farmers have to pay 5 percent of loans granted to share money at the time of loaning.

2. If small and marginal farmers do not have required amount of security of land, they are granted joint
loan. In this way, if they do not have adequate land to mortgage, two or more farmers can take joint loan from the bank.

3. Small and weaker farmers also get subsidy from the government. The amount of subsidy released by the government is credited in their loan account.

4. General farmers are charged for administrative charges @ 1 percent of loan granted, but small and marginal farmers are charged @ 0.50 percent of loan granted to them, with the amount not exceeding Rs. 80/- per application.

5. Small and marginal farmers are charged two percent less interest on loans granted to them in comparison to general farmers.

In fact Land Development Bank is playing its effective role to spare small and weaker farmers from the clutches of Mahajans and Sahukars.

While studying the comparative analysis of recovery from different categories of farmers, it has been found that mainly loan is granted to small and weaker farmers, over 90% of loan granted is for them, therefore separate record of recoveries from big, small and marginal farmers is not maintained, but survey concluded that percentage of recovery from small and marginal farmers is better than that of big farmers. Out
of 100 big farmers, who questioned, only 54 big farmers were paying instalments regularly. But the percentage of recovery, when 100 small and marginal farmers were questioned, it was 93 percent.

While identifying the factors associated with the overdues among different categories of defaulters, it was found that they are same as - repayment of old debts, unproductive use of funds, inadequate amount of fund, higher expenses of marriages and other social customs, indebtedness of farmers, higher cost of loans and their misuse etc.

Land Development Bank is providing instrumental in reducing dependence of farmers on the money lenders. Because of it is only bank which is providing loan to farmers on the basis of security of land. No other bank is authorised to accept security of land. On the other hand bank has introduced several schemes for small and marginal farmers, such as - Free boring loaning scheme, Dindayal Dairy scheme, Fisheries scheme, schemes of horticulture and bagwani, bullock cart scheme, scheme of tractor and power trillor, schemes of godown and construction of rural houses etc. Farmers can choose the scheme beneficial to them and they can take grant of loan from the bank. The rate of interest is low and repayment of loan is in easy instalments in comparison to money-lenders. In this way dependence of farmers on money-lenders can be reduced. The farmer's dependence upon
moneylenders is due to their short-term and medium-term requirements, whereas, Gram Vikas Banks provides loan for long-term credit needs. Therefore, it has been also suggested that short-term and medium-term credit should also be provided by the bank. The approach of the farmers to Gram Vikash Bank should also be made easy. In this way number of branches should be increased and their establishments should be made at block levels. The facility of opening various other accounts should also be provided in Gram Vikas Banks such as - Fixed accounts, Saving Bank Accounts, Current Accounts etc.

SUGGESTIONS TO MAKE GRAM VIKAS BANKS MORE EFFECTIVE OPERATIONALLY:

To make Gram Vikas Banks more effective, we are furnishing here following suggestions:-

1. Number of branches should be increased to make easy approach of cultivators.
2. LDBs should be established at block level.
3. The procedure of loaning should be made easy.
4. Time gap should be reduced.
5. More funds should be raised to provide sufficient amount of loan.
6. Proper utilization of loan should be ensured.
7. Staff should be skilled sufficiently to achieve the targets of loaning and recovery.
8. Repayment of instalments should be ensured at due dates.

9. It is also suggested that number and variety of accounts should be increased by the bank.

10. Various other schemes should be introduced in non-farm sector to reduce dependence upon land.

11. Efforts should be made to increase the productivity of land.

12. Gram Vikash Banks should be geared up to face the challenges of modernisation of agriculture.

13. Gram Vikash Banks should be reorganised in such a way to enable them to meet the demand of credit in rural sector.

14. More concessions should be provided to small and marginal farmers.

15. Attractive schemes should be introduced for weaker sections.