HISTORICAL REVIEW OF LAND DEVELOPMENT BANKS

A distinct feature of rural economy in this country is the heavy load of the debt of the agriculturist. Though several measures have been adopted to fight this heavy load of debt, and how moneylander's legislations have been enacted in several states to put a curb on charging heavy rates of interest by moneylanders. With the introduction of the co-operative movement it was thought that it would be in a position to provide both the long-term and short-term needs of agriculturists. Credit societies were, therefore, allowed to advance long-term loans along with short-term loans to the extent permitted by the co-operative department for each society or class of societies. Experience, however, soon demonstrated that the ordinary credit societies were entirely unsuitable to undertake long-term business. It may be noted that the primary societies depend for their resources on borrowings from central financing agencies which, in their turn, attract only short-term deposits. It is obviously unsound for credit societies to make long-term loans with short-term resources and wherever they did so, they invite trouble and landed themselves in difficulties, for mortgage banking has a technique of its own and primary credit societies are not in a position to assess the value of real estate correctly, nor to examine their titles nor are they in a position to meet outside obligation when borrowers
fail to pay their debts. These disabilities of primary credit societies have underlined the need for establishing a separate co-operative agency for the dispensation of long-term credit.

Land Development Banks before independence

The first province where the earliest attempts were made to set-up special land mortgage institutions, was the Punjab, where the first land mortgage bank was started at Jhang in 1920. Madras followed next by organizing two banks of that type in 1925 and Bombay came next by establishing three banks in 1929. The movement gradually spread in these and other provinces during later years. The need for long-term finance to the agriculturists through a specialized institution having been established, what are the most suitable agencies that can provide it? A State Bank for this purpose would be obviously unsuitable, as it would be nothing short of an extension of the tagavi system on an organized basis. No state can successfully tackle a banking enterprise of this nature, and that is why it is not attempted in any country.

Thus credit goes to Punjab of having established the first co-operative Land Mortgage Bank. During the first few years there was a rise in the number of the banks, but with the onset of the economic depression,
rot set in and the troubles of banks were aggravated. Their assets became frozen and they concentrated all their energies on recovery of advance made. Thus they ceased to be live intitutions. The reasons responsible for the failure of co-operative land mortgage banks in the Punjab are attributed partly to a lack of loyalty on the part of Directors, coupled with the grant of loans without proper circumspection, and partly to favouritism in the grant of loans and the steep fall in the value of land as a result of the depression. Land mortgage banks in the Punjab were started during boom period when land values were inflated. The reduced repaying capacity of the agriculturists during the depression, created great difficulties for the land mortgage banks in the Punjab. The lead given by the Punjab was followed by Madras where a real beginning was made in 1929 with the organisation of a 'Central Land Mortgage Bank'. In the decade following its establishment, similar institutions were started in other provinces such as Mysore, Bombay, Orissa and Cochin. This, synchronised with the period of the depression, when the need to save the land of the agriculturists from passing into the hands of the moneylender, was keenly felt. After a decade, with the outbreak of the world war II, there was a spurt in the prices of land and a rise in the money incomes of the agriculturists, and their economic
condition began to improve. The agriculturists cleared off their dues out of the increased income or by sale of part of their lands. The working of debt legislation in several parts of India under which the debts of agriculturists were adjusted and allowed to be repaid in suitable instalments over a number of years obviated to some extent the need to approach the land mortgage banks for long-term finance. Thus the period of the war and the period thereafter witnessed a general shrinkage in the business of co-operative land mortgage banks. But the initial advantages resulting from high prices were gradually offset by the high cost of living as well as high prices of bullocks, implements and other requirements of farmers, and thus there was a revival of the need for advances from land mortgage banks for undertaking works of land improvement, owing to the need felt to step up agricultural production. As the private sources of credit also dried up as a result of agrarian legislative measures adopted in several states, the agriculturists found it necessary to look at the land mortgage banks for financing their requirements.

Madras achieved a greater measure of success in the field of co-operative land mortgage banking than any other province in India. The experiments in long-term credit institutions tried in some other provinces
impressed the Madras co-operators and the Co-operative Department, with the necessity of constituting a separate agency for providing the long-term requirements of the agriculturists. The earliest scheme was that of F.R. Hemingway, who in 1919, advocated a scheme of debentures backed up by mortgages taken from member of primary credit societies on unencumbered immovable property for the purpose of raising long-term deposits. Eventually the Government of Madras sanctioned in 1925 the organisation of primary land mortgage banks in select centres as an experimental measure. To encourage and popularise debentures issued by these banks, Government agreed to purchase debentures for an amount not exceeding ₹50000 per bank and ₹2 lakh for the whole of the province. In accordance with this scheme, twelve land mortgage banks were organised by 1927. They, however, met with difficulties in selling debentures locally, inspite of Government assurance, only three out of twelve banks could find purchaser for their debentures. Meanwhile, the Townsend Committee and the Royal Commission on agriculture had recommended that the system of issuing debentures by primary land mortgage banks was unsound and that their issues should be centralized by the establishment of a Central Land Mortgage Bank. Thus the Government of Madras, in pursuance of these recommendations, sanctioned in 1919,
the formation of a Central Land Mortgage Bank for centralising the issue of debentures and for coordinating the working of primary units, thus avoiding the flooding of the market with diverse unco-ordinated debentures of primary land mortgage banks.

The area of a primary land mortgage bank was originally confined to a compact group of villages and it was later extended to a Revenue Taluq. Membership is open to any person who owns agricultural land in the area of its operation. Every person who needs long-term credit has to subscribe to its share capital an amount equal to 5% of the amount of the loan required by him.

Land Development Banks after Independence

The most important feature of Land Development Banking in India was that they were mostly concerned with the redemption of old debts. They had not taken any step for advancing funds for the improvement of land and agriculture. It was so because of heavy indebtedness of the agriculturists. The land mortgage banks could hardly take any initiative for the improvement of agriculture which was the basic necessity, as otherwise, they were unable to serve any useful purpose in the real sense. Many advancing loans for the
redemption of old debts was no solution of the real problem of the agriculturists. The chronic problem of the rural indebtedness, poverty and backwardness of agriculturists could have been solved by these banks only by enlarging their activities to a wider range.

Another defect of these banks was that they were unable to provide funds to the weaker sections of the agriculturists. largely they catered to the needs of only rich and big agriculturists.

By the end of June 1952 there were only 6 Central Land Mortgage Banks in the country. The total number of primary Land Development Banks working in the country was 289. Not only that their progress was very slow. The reasons for their failure were as follows:

1. Proper valuation of the property was not made and loans were often advanced carelessly.
2. The fall in the value of the land at the time of depression reduced the value of security.
3. Bank directors and workers themselves were heavy borrowers.
4. The fall in the price of the produce.
5. The Punjab Alienation of Land Act. As per the provision of the Act, these banks were not entitled to sell the mortgaged land of the
borrowers to recover their dues from the defaulters. At the most they can take possession of the land and derive income out of it for 20 years. After this the land was redeemed to the owner without any payment. Thus the bank had to suffer huge losses and were all liquidated. However, after independence, the Act has been abolished and attempts have been made to help them.

The progress of primary Land Development Banks since first five-year plan can be explained in the following table:

Table-1: Operations of primary Land Development Banks in India.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>50-51</th>
<th>55-56</th>
<th>60-61</th>
<th>65-66</th>
<th>73-74</th>
<th>79-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of Banks</td>
<td>286.0</td>
<td>302.0</td>
<td>463.0</td>
<td>673.0</td>
<td>857.0</td>
<td>896.0</td>
</tr>
<tr>
<td>2. Membership (Lakhs)</td>
<td>2.7</td>
<td>3.1</td>
<td>6.7</td>
<td>18.5</td>
<td>40.0</td>
<td>62.0</td>
</tr>
<tr>
<td>3. Share capital (crores)</td>
<td>0.5</td>
<td>0.9</td>
<td>2.0</td>
<td>11.2</td>
<td>45.8</td>
<td>93.5</td>
</tr>
<tr>
<td>4. Working Capital (crores)</td>
<td>6.6</td>
<td>11.4</td>
<td>26.9</td>
<td>136.9</td>
<td>558.7</td>
<td>1130.0</td>
</tr>
<tr>
<td>5. Advance (crores)</td>
<td>1.3</td>
<td>1.7</td>
<td>7.2</td>
<td>41.2</td>
<td>95.8</td>
<td>205.8</td>
</tr>
<tr>
<td>6. Loans due (crores)</td>
<td>6.3</td>
<td>10.5</td>
<td>24.7</td>
<td>124.3</td>
<td>471.5</td>
<td>891.0</td>
</tr>
<tr>
<td>7. Loans overdue (crores)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.6</td>
<td>4.4</td>
<td>19.7</td>
<td>122.0</td>
</tr>
</tbody>
</table>

Source: Mathur B.S.; Cooperation in India, Pg. 277.
The progress of the primary land development banks during the first plan period was limited. In this period only 16 banks were increased in number. Due to this, there was no facility of the agricultural long-term credit in most of the parts of the country. The number of these banks increased more than double during second and third five-year plan period. But the development of these banks was not equal in different parts of the country.

The members of primary and development banks were of two types (1) Regular, and (2) Nominal. On 30th June, 1979, the total number of the members was 62.0 lakhs only, which included 34.4 lakhs regular members and 20.6 lakhs nominal members. In Andhra Pradesh, Tamil Nadu and M.P. the number of the nominal membership was higher.

In 1955-56 the amount of loans advanced by these bank was 1.74 crores. But during the period of 20 years past, the amount of loans advanced by these banks ha been considerably increased. On 30th June, 1980 the outstanding amount of loan was 891 crores. Overdue loans, which were 25 crores in the beginning of second five year plan increased upto 122 crores in 1980-81.

PRESENT POSITION

There were 276 land development banks in 1991-92 as compared to 30 branches in 1960-61 in Uttar Pradesh which increased to 298 in 1995-96. The share
capital of these banks was ₹57.78 crore in 1991-92 as compared to ₹0.15 crore in 1960-61 came to 81.10 crore in 1995-96. Loans worth ₹180.95 crore were disbursed to agriculturists in 1991-92. This figure reached to ₹294.35 crore in 1995-96 in the state of U.P. The outstanding amount of loan was estimated to ₹2485.96 crore at the end of 1995-96 as compared to ₹0.3 crore in the year 1960-61 in U.P.

The Registrar's Conferences, the Royal Commission on Agriculture and the Central Banking Enquiry Committee made several recommendations regarding the development in the organisation of Land Development Banks in India. Most important of these were:

1. Land development banks (formerly Land Mortgage Banks) should be organised under the co-operative societies Act. The area of operation should not be too large as to become unwidely nor too small.

2. The principal object for which loans may be advanced should be (a) redemption of land houses of agriculturists, (b) improvement of land in methods of cultivation, (c) Liquidation of prior debts and (d) purchase of land in special case.

3. Loans should not exceed half the value of properties. Maximum & minimum limits should be set. The minimum should be such as primary society can not conveniently given.

Source: Annual Reports of Land Development Bank, U.P.
4. Land mortgage banks should provide a suitable agency for distribution of loans under the Land Improvement Loans Act.

5. No loan should be advanced which is not economically profitable to the borrower.

6. The amount and period of loan should be fixed with due respect to the repaying capacity of the borrower and also to the purpose for which loans are advanced.

7. Under the existing circumstances the period of loans should not be exceed 20 years.

8. The primary credit society should be consulted and its opinion obtained in the case of a loan application received from a member of the society.

9. Government should grant subsidies to Land Development Banks in the initial stages of their working. All existing concessions in the form of stamp duty and registration fees should be continued in favour of the Land Development Banks.

The development of the Land Development Banks in India has been generally on the lines of recommendations mentioned above.
CONCLUSION

In the first place, in the group of states consisting of Tamil Nadu, Andhra, Bombay, Madhya Pradesh, Mysore, Ajmer and Hyderabad. There is an apex Land Development Bank at the top and the primary land development banks from the base. Secondly, in some of the states like Orrisa, Saurashtra, Travancore, Cochin, the structure consists only of a Central or apex Land Development Bank dealing directly with individual agriculturists. There is also a third category of states, in which primary land development banks alone exist without an apex institution at the top to co-ordinate their activities. States like Assam, Uttar Pradesh, West Bengal, Madhya Bharat and Rajasthan, present the example of the third category.