CHAPTER IX

CONCLUSION AND SUGGESTIONS

Despite stupendous growth registered in the field of industries, transport, commerce, etc. during the last two decades or so, agriculture continues to occupy the pivot place in the national economy of India. It has to be so simply because it contributes half of the national income and provides livelihood to as much as three-fourths of the total population. Its comparative backwardness in terms of per acre yield of crops and less intensive utilisation of land is, therefore, the cause of worry for the planners and the country as a whole, particularly so, since the reasons for backwardness are not far to seek. They obviously lie in the inadequate application of inputs especially in the form of irrigation, seeds, fertilizers and scientific techniques. The disparities between yields of crops in different parts of the country bear a direct testimony to them. The problem is, however, complicated by our aim of establishing an egalitarian society in the country. The methods will have, therefore, to be devised not only to increase production and productivity but also to ensure that their benefits accrue to a vast multitude of small farmers who, for various socio-economic disabilities, are not by themselves in a position to attain a viable status. The principal remedy, therefore, is to provide adequate funds for development of agriculture. Among the various types of funds needed, long-term finance forms the most important basis for the same. The purposes for which long-term finance is needed are minor irrigation, (construction of wells, and purchase of pump-sets) land reclamation,
mechanisation of farms, development of special crops and plantations, purchase of heavy tractors and machinery, construction of godowns, dairy development, poultry farm, pisciculture and rural electrification. The total credit required for these development purposes in agriculture is estimated at about Rs. 1500 crores by the end of the Fourth Five Year Plan.

The various sources through which the development finance is made available to the cultivators are Land Development Banks, Commercial Banks, the State Government and the Private moneylenders. The policies and procedures followed by these different agencies of development credit will have to be reoriented so as to meet the growing demands for development finance in agriculture. The ideal system for providing development credit in agriculture would be to institutionalise the entire credit disbursed by different agencies. For instance, the funds provided by the moneylenders are very costly to the cultivators and the funds provided by the Government are too meagre and suffers with the various stigmas like red-tapism, favouritism etc. The entire development credit therefore, has to be provided either by the Land Development Banks or by the Commercial Banks.

The Commercial Banks in India have entered in the field of agricultural credit recently and are not yet fully equipped with their technical know-how and supervisory machinery. The balance of advantage, therefore, is in favour of Land Development Banks which are considered to be the most appropriate agencies for the disbursement of development credit in agriculture. The Commercial Banks and the State Governments should place the surplus resources at the disposal of Land Development Banks for dispensation of Long-term Credit to the agriculturists.
The Agro-Industries Corporation set-up in the different states should undertake only the work relating to the supplies of tractors, tube-wells and pump sets and the credit for these purposes should be channelised through Land Development Banks. In the States where the Land Development Banking structure is weak, Commercial banks and the State Governments may come forward to fill in the credit gaps so far as the development finance for agriculture is concerned.

The money-lenders at present are not amenable to any banking discipline, although they have invested a fairly sizeable amount in the financing of agriculturists. The laws relating to money lenders in different states have not been able to check the various objectionable practices resorted to by them. It is for serious consideration whether individual money-lending should be declared illegal and all lending to the agriculturists should be through institutional agencies. Institutionalisation of entire credit flow to agriculture can be possible only when the resources of money-lenders are attracted to the institutional banking fold. This will require a revolutionary change in the attitude of money-lenders. They should be compelled to satisfy themselves with a reasonable return on this measure of declaring individual money-lending as illegal has been suggested in view of the fact that all legal measures for rationalisation and control of individual money-lending have failed. The idea is not to eliminate the individual money-lender but to allow him to exist with a sense of social responsibility towards the development of agricultural community and the national economy.

The Reserve Bank of India from its very inception appreciated the need for expansion and coordination of credit facilities available to the agricultural sector. Reserve Bank's participation in providing
development finance is mainly limited in the form of contributions to the debentures floated by the Central Land Development Banks. Debentures are purchased as per provisions of Reserve Bank of India's Act. In addition to this, the bank advances loans to the State Governments for enabling them to buy the shares of Land Development Banks. The entire assistance to the Land Development Banks by the Reserve Bank is, therefore, indirect whereas in the case of short and medium-term agricultural credit, it is direct. It is for consideration of Reserve Bank's authorities whether direct assistance can be extended to the Land Development Banks by way of advancing long-term loans directly to them. Further, in the case of short-term agricultural advances, the Reserve Bank charges interest at the rate of 2 percent below the bank rate and in the case of medium-term loans, the Reserve Bank charges 1 1/2 percent below the bank rate. In case of long-term credit, the indirect assistance in the form of debentures subscription is made at 6 percent generally which is the bank rate at present. There is no element of concessional finance so far as long-term credit to agriculturists is concerned. It is desirable that the Reserve Bank should consider providing long-term loans to the Land Development Banks as in the case of short-term and medium-term loans are advanced to the District Cooperative Banks. Due to paucity of resources, the Land Development Banks are resorting to interim accommodation from the State Bank of India against Government guarantee. The rate of interest on interim accommodation is 8 to 8 1/2 percent which is rather costly. It is suggested that the Reserve Bank may sanction an interim limit for each Land Development Bank at the bank rate so that the Land Development Banks may be able to get interim accommodation at cheaper rates. The Reserve Bank is issuing guidelines to the Land Development Banks from time to time. One of the suggestions made by the Reserve
Bank of India is that loans should not be advanced for redemption of debts as far as possible while it is desirable that most of the loans should be for the productive purposes. It may be pointed out here that there are certain states where mortgages with transfer of possession to the mortgagees are permitted under the tenancy laws. In such cases, most of the borrowers belong to the category of small farmers and if loans for redemption of such debts are not advanced by the Land Development Banks, such borrowers will continue to remain perpetually in debt. It is suggested that in those states where transfer of possession of the mortgaged lands to the mortgagee is permitted under the law, the Land Development Banks should be permitted to make advances for redemption of debts.

The Land Development Banks which are advancing long-term loans for agricultural development have not been able to rationalize their loan procedure so as to ensure a 'Production Oriented System of Lending.'

Following are some of the suggestions:

(i) Most of the banks at present are calculating the repaying capacity as the difference between total income and total expenditure of the individual borrower. According to latest expert opinion the repaying capacity is to be correlated with the incremental income arising out of the development project implemented by the borrower. The idea behind the concept of incremental income is to ensure the self-liquidating character of the development loan which in other words means that the additional income accruing to the cultivator, should be sufficient to repay the loan instalments as a result of new investment. The Land Development Banks will, therefore, have to make an estimate of the incremental income of the borrowers. This estimate, however, can be possible only when the Land Development
Banks have a complement of technically qualified staff competent to make such type of assessment.

(ii) The period of long-term loans is in most cases uniformly fixed at ten, twelve or fifteen years. The period of loans should be linked with the repaying capacity of an individual borrower. In cases where the repaying capacity of the borrower is higher, the number of instalments fixed should be lower and vice-versa. The period of loan may be more in case of small farmers with a lower repaying capacity and the period of loan in case of big farmers with greater repaying capacity should be lower. The period of the loan may further be regulated with the purpose for which a loan is sanctioned. For instance, the period of tractor loan should be lower than that of a loan for pump-set because a tractor loan is required by a big cultivator and a pumping set is required by a medium cultivator.

(iii) Some of the Land Development Banks are advancing loans for purposes which could not be identified and as a result of which there is mis-utilisation of loans and the loans advanced have taken the form of ways and means advances. Purposes like bunding, levelling, fencing etc. are difficult to be identified and loans for such purposes should be kept at the minimum.

(iv) The Land Development Banks are making advances against mortgagge of land as a security for loan. No Collateral Security in the form of hypothecation of the equipment purchased out of the loan is insisted upon. It would be better if the tractor, pumping set, tube-well etc. purchased out of the loan is hypothecated in favour of Land Development Banks advancing the loans.
(v) Delay in sanction of loan has been observed in some cases and it is desirable that the borrowers should be advanced loans within the shortest possible time. The delays are mainly on account of time taken in examining the title, verifying encumbrances and registering the mortgage deeds, etc. The delays are also caused due to a faculty method of making scrutiny of loan applications. It is suggested that the procedure for advancing loans on the Maharashtra pattern may be adopted by other states by making suitable amendments in the cooperative societies acts.

(vi) The Land Development Banks in most of the States are not having a strong capital base. It is desirable that the position of owned funds should be improved so that the banks may be in a position to absorb the shocks of overdues which are showing an increasing trend. The State Land Development Banks of Maharashtra and Gujarat have been able to increase their own funds to a considerable extent and it is suggested that U.P. Land Development Bank and other Land Development Banks of different States should also adopt the pattern of Maharashtra and Gujarat for augmenting their own funds.

(vii) The scarcity of resources for financing agricultural development is one of the major problems facing the Land Development Banks. The existing method of raising resources is by flotation of debentures—ordinary, special and rural. In the case of ordinary and special debentures, the entire subscriptions are raised by institutional agencies. The support to the debentures programmes largely depends upon the availability of resources with the subscribing institutions. It is suggested that ordinary and special debentures should be made open for subscription by individual investors, having surplus investible funds. This can, however, be possible when the
terms and conditions are made more attractive and the debentures attain the status of easy marketability as in the case of other trustee securities. Alternatively, the Land Developments should be permitted to raise the medium-term and long-term deposits from the public so as to fulfil their programme of long-term financing. So far as the rural debentures are concerned, the investors are at times finding it difficult to dispose of these debentures. Apart from this, the interest which rural debentures offer to the subscribers is much below the interest rate prevailing in rural areas. This acts as a deterrent to the rural people having surplus resources to invest. The terms and conditions of rural debentures should be made more attractive so as to enthuse the rural investors.

(viii) Delay in issue of guarantee by the State Governments for the debentures floated by the Land Development Banks is causing at times difficulties in issuing debentures despite the approval of Reserve Bank of India for proposed series of debentures. It is suggested that the state Government should adopt the system of fixing in advance the limit of guarantee for debentures, to be issued by the Central Land Development Bank of a state during the year as suggested by the Reserve Bank.

(ix) There has been an increase in over-dues with the expansion in the quantum of credit provided by the Land Development Banks. Ordinarily there should be no overdues in the case of development loans which are expected to regenerate adequate repaying capacity of the borrower. The growing trends of overdues in the Land Development Banks is a matter of serious concern and requires effective action in this regard. The overdues mainly arise due to defects in the loan policy of a bank and the failure of administrative and
supervisory machinery of the banks to take timely and suitable action for the recovery of overdues. The State Government should help the banks in the matter of recovery by delegating powers to the officials of the banks to conduct sales of mortgaged land. In the case of natural calamities, the State Government should come to the rescue of the Land Development Banks by providing adequate subsidies towards the portions defaulted. It may be worth while to adopt a scheme of crop insurance as has been adopted in Canada. This will provide a significant security in case of crop failure for the farmers and the bank supplying credit.

Security is a very important limitation on the size of a loan advanced by a Land Development Bank. The eligibility of a borrower for a loan is determined ultimately by the value of hypotheca which is normally 50 percent of the value of land offered as security. The methods of valuation of land offered as security differ from state to state and even in certain cases from region to region within a state. The field studies conducted by All India Rural Credit Review Committee Report revealed that the valuation of land by Land Development Banks was generally lower than the valuation followed by the Government in taccavi loans. There are two methods of valuation – the average of sales statistics of similar lands in a village for a prescribed period or prescribed multiple of land revenue. The basis of valuation fixed at a multiple of land revenue appears to be better as compared to the valuation based on average sale statistics of land which is at times difficult to obtain. In case of small farmers where 50 percent of the valuation of land offered as security is less than the amount of loan applied for, the state Governments should guarantee the deficits in security thus offered so that a small farmer may not suffer for lack of security to offer a loan.
Alternatively a system of group loan for small farmers may be introduced where a number of small farmers may join together to obtain a long-term loan for their development. It may be added here that Landschaften (Rural Real Estate Credit Banks) of West Germany allow loans upto 2/3 rd of the ascertained value of the mortgaged property. The Farm Credit Administration of Canada sanctions long-term mortgage loans to farmers upto 75 percent of the appraised value of farm lands on securities of which the loans are made. In England also, the loans sanctioned by 'Agricultural Mortgage Corporation' do not exceed 2/3 rd of the value of mortgaged property. In U.S.A. the 'Federal Land Banks' advance loans upto 65 percent of the normal value of farm mortgaged as security. It is, for consideration whether the Land Development Banks in India can advance loans to the extent of 75 percent of the value of hypotheca as is being done in most of the countries of the world.

The rate of interest charged by the Land Development Banks in India varies between 8 to 10 percent. The rate is high because Land Development Banks are mostly working on borrowed funds and have practically no sufficient resources of their own. The rate of interest charged in foreign countries is much less. For instance, the Federal Land Banks' of U.S.A. charged only 6 1/2 percent per annum. The 'Landschaften' of Germany charged only 5 1/2 percent. The 'Farm Credit Corporation' of Canada charged about 7 percent interest on long-term advances. The rate of interest charged by the Indian Land Development Banks is much higher than the rates charged by their counterparts in foreign countries. The reduction in interest rate on loans advanced by the Land Development Banks is possible only when they are in a position to borrow at lower rate of interest. The
Governments in foreign countries used to advance funds at nominal rates of interest and in U.K., the Government have provided interest free loans to the Agricultural Mortgage Corporation.

In Canada, there is system of the borrowers taking an Insurance policy for the amount of the loan borrowed by them and in case of death of the borrower, the Insurance Company used to pay the outstanding loan amount. It is, therefore, said that the debt died with the debtor. Such a system of Insurance for the borrowers may be introduced by the Land Development Banks also in India.

Large number of enactments have been made in different states in India to facilitate the flow of long-term credit to the needy cultivators. All the acts permit the land holders to freely mortgage their lands in favour of Land Development Banks. A fairly sizeable number of farmers are represented by bataidars and share croppers in different parts of the country. Such cultivators cannot borrow from the Land Development Banks as they do not possess lands to offer as security, although they are continuously undertaking farming of other's lands. Unless the tenancy laws permit the share croppers and bataidars to avail of long-term credit for agricultural development, this class of borrowers can never become eligible to borrow from Land Development Banks. In some of the States, the Adhiwasis and scheduled caste borrowers are required to take permission of the collector for mortgaging their lands. Necessary legislations may be passed authorising these tenants to borrow from Land Development Banks without the formality of taking permission from Collector.

The procedure for recovery of loans has not been prescribed in certain states of India like, U.P., Bihar etc. On account of which the Land Development Banks are finding it difficult to proceed against
defaulters and to recover the overdues. In U.P., although the Land Development was established more than a decade ago, the procedure for recovery of loans is yet to be finalised by the State Government.

The State Cooperative Land Development Bank of U.P. has made a good progress so far as the dispensation of long-term agricultural credit is concerned. The bank is, however, depending for its loan operations on the agency of village level workers who are responsible for collecting the loan applications. The bank has so far not appointed its own staff for collection of loan applications in all the districts of Uttar Pradesh. The bank has also not been able to appoint its own technical staff for making an assessment of the repaying capacity in different parts of the state. There are a lot of regional disparities in U.P. in the dispensation of long-term agricultural credit. The Eastern districts of U.P., the Bundelkhand region and the hilly areas of the State are the few pockets where the Land Development Bank has not been able to disburse sizeable quantity of loans. With the result that agriculture in these parts has continued to remain at a subsistence level. Effective steps will have to be taken for advancement of development loans in these tracts.

Long-term agricultural credit in India is being provided by several agencies like the State Government Commercial Banks, the private money-lenders and the Land Development Banks. Apart from making long term credit a civil liberty for each cultivator desireous of implementing a development programme, it has to be ensured that benefits of agricultural finance are not confined to a few affluent farmers and are not out-weighted by a continuous population explosion in the country. We have to make simultaneous efforts for providing optimum facilities for development credit in the agricultural sector.
The optimum provision of farm credit has to be linked with an optimum size of population otherwise all the provisions for development credit and the benefits of development would be eaten away by a steadily increasing population. Credit planning and population planning will have to go therefore hand in hand. For each district which forms the unit of development planning, it would be necessary to make an assessment of the long-term credit requirements for development of agriculture. After this assessment is made the various credit supplying agencies will have to work in close coordination with each other so that the existing credit gaps may be met effectively.

Long-term finance forms the bedrock of any development effort in agriculture. The provision of Long-term finance to agriculturists requires a close dovetailing of efforts among the Government, financing institutions and agriculturists. It shall be able to build the necessary infra-structure for a rapid growth of agriculture if the Government makes sincere efforts to enthuse the financing institutions to enter the field of agricultural finance on a large scale, the institutions on their part evince sincere interest in this sphere and honestly implement various schemes of financing, formulated on realistic assumptions and the agriculturists in their turn re-orient their thinking to suit the requirements of production on the one hand and of the financing agencies on the other. Now, the salvation of Indian agriculture lies in timely and adequate provision of long-term finance.