

A Study on Land Development Banks (LDB) - Banking & Credit

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ABSTRACT: *This paper deals with land development bank limited time exercises, and additionally unmistakably demonstrate the utilitarian project, limbs advance requisition methodology and generally speaking exercises about the area advancement bank. LDB have many branches in India, the main functioning of this bank is to develop the agriculture and tried to avoid the land corruption. Because, land corruption is the real issue of Indian Agriculture. A large portion of the area zone in our nation shows confirmation of corruption, influencing accordingly the profitable asset base. Out of 329 million hectares of area in the nation, something like 175 million ha. (53 %) is experiencing corruption in some structure or the other. There are 7.61 M ha of salt influenced soils in India according to the Ministry of Agriculture, Government of India. Still our government provide many facilities to improve the agriculture activities in rural areas.*

Keywords: *Land Development, Agriculture Importance, Land Importance*

I. INTRODUCTION

The long-term finance required by the agriculturists for the purchase of agricultural machinery and for effecting permanent improvements on land cannot be provided by commercial banks and co-operative banks for the reason that these institutions obtain most of their funds in the shape of short-term deposits.

The necessity therefore has arisen for the establishment of the institutions with the object of providing long-term credit to agriculturists at moderate rates of interest and providing for the repayment of loans in easy annual or semiannual installments spread over a number of years. These institutions are the Land Development Banks.

Land Development Banks have developed a special technique for conducting their business. They obtain their funds, not in the shape of short-term deposits like commercial banks but by the issue of long dated debentures sometimes carrying State Government guarantee with regard to payment of interest and repayment of principal.

Thus, they are able to lend their money for long periods to agriculturists. On account of their importance to the nation they enjoyed special powers for the recovery of defaulted loans, exemption from taxes and in some cases state guarantee for these bonds.

Land Development Banks differ from one another in their functions and their constitution. Some Land Development Banks specialize in providing fund against agricultural properties; some continue their business to advancing loans against urban properties, some advance loans to public bodies and municipalities.

Some have combined all these different kinds of functions. Land Development Banks also differ from one another in their constitutions. Some are organized on co-operative basis, some on joint stock basis and some on quasi co-operative basis, incorporating the co-operative and joint stock principles.

The special banks providing Long Term Loans are called Land Development Banks (LDA). The history of LDB's is quite old. The first LDB was started at Jhang in Punjab in 1920. But the real impetus to these banks was received after passing the Land Mortgage Banks Act in 1930's (LDB's were originally called Land Mortgage Banks). After passing this Act LDB's were started in different states of India.

The Agriculture Credit Review Committee (ACRC) in 1989 emphasized the bigger role for the LDBs and recommended to incorporate development of agriculture and its allied activities including wastelands and non-farm sector development. The banks in due course diversified their activities and at the instance of the NABARD in the year 1982 they started financing for agriculture and rural development activities including wastelands. However, late eighties and the beginning of nineties were the crucial period in which LDBs adopted financing long term loans for more significant rural development activities like, village and cottage industries, rural artisans etc. Besides financing for rural housing schemes under NHB refinance was introduced by the banks in selected states like Kerala, Karnataka, Uttar Pradesh, Maharashtra, West Bengal etc. In view of broader role of LDBs they are now known as **State Co-operative Agriculture and Rural Development Banks (SCARDBs)**.

"Every agricultural holding is characterized by a system that is the way they are joined together, quantitatively and qualitatively, land, labor and capital. The optimal combination of these elements ensures maximum income. When the organizer of exploitation has no capital or earth or workforce that can develop within the optimum exploitation, he builds at lower proportions, adapted to the factor, which is the minimum. As other elements can be combined with that factor in various technical reports, the organizer is required to find that combination that guarantees maximum revenue."

1.1 Importance of agriculture in Industrial development:

Many industries dependent on agriculture, raw material from agriculture is supplied to many industries e.g. sugar industries, Cotton Industries, Paper Industries, tobacco industries, Chilies, turmeric etc. Many industries supply the inputs to the agricultural industry e.g. fertilizers, insecticides, pesticides, implements and machineries like tractors etc.

1.2 Role of agriculture in the field of international trade:

Many agricultural products like tea, sugar, oilseeds, tobacco, spices contribute the major share in export. In addition to this, we are exporting fruits some vegetables and flowers to the other countries. Now days we are exporting basmati rice to foreign countries. The proportion of agri. goods is to the tune of 50%. In addition to this goods manufactured from agriculture products contribute 20 percent. Thus, agriculture contributes 70% in export.

In addition to the above the role played by agriculture in Indian is as under.

- Many agriculture produce like food grains, fruits are transported by roadways and railways. Thus, it helps in employment of many people in this field.
- If the agricultural production is good, cultivators will earn more income. They will be in position to purchase manufactured products and other inputs required in agriculture. In short, we can say that the prosperity of the country will depend upon the prosperity of agriculture.

1.3 Agriculture as a source of livelihood:

In India about 65 to 70 per cent population dependent on agriculture, the population remains almost constant for number of years. On the other hand in the developed countries less than 10 per population dependent on agriculture.

II. LAND DEVELOPMENT BANKS IN INDIA

Land Development Banks in India are of quasi-commercial type. Although they are all registered under the Co-operative Societies Act, they are associations of borrowers as well as non-borrowers organized on the principle of limited liability.

The borrowing capacity of a member is generally determined according to the number of shares he holds in the bank, though each member has only one vote according to co-operative principle, irrespective of the number of shares he holds

2.1 CO-OPERATIVE BANKING IN INDIA:

Even though the first Land Development Bank was started in Punjab in 1920, the real progress began when the Land Development Bank was established in Chennai in 1929. The Land Development Banks are Co-operative Institutions established on limited liability principle with borrowers and non-borrowers as members to supply long-term capital against development of land and building.

2.1.1 Types of Cooperative Governance:

- Non-monetary cooperative
- Retailers' cooperative
- Worker cooperative
 - Volunteer cooperative
- Social cooperative
- Consumers' cooperative
- Business and employment cooperative
- New generation cooperative

2.1.2 Types and number of Cooperatives

- Housing cooperative:
- Utility cooperative
- Agricultural cooperative:
- Credit unions, cooperative banking and Co-operative insurance
- Federal or secondary cooperative
- Cooperative wholesale society
- Women in cooperatives

2.1.3 Objective:

The main objective of the land development bank is to promote the development of agriculture and increase the agricultural production. The CLDBs provide long-term finance to PLDBs affiliated to them or finance directly through their branches.

2.1.4 Structure

These Banks have two-tier structure,

1. **Primary Land Development Bank** at district level with branches at taluk level.
2. **State Land Development Bank.** All primary Land Development Banks are federated into Central Land Development Bank at the State Level. In some States, there is “ Unitary structure” wherein, there is only one State Land Development Bank at the state level operating through its branches and sub-branches at district and below levels.

2.1.4.1 Primary Land Development Banks (PLDB):

These banks were originally organized to cover one or a few taluks in the district. At present they are eligible to cover one development block. All land owners are eligible to become members and borrow funds by mortgaging their land. The principal borrower is enrolled as ‘A’ class member and others who have interest in the mortgaged property are admitted as ‘B’ class members.

2.1.4.2 Central Land Development Bank (CLDB):

These members of the CLDBs are the PLDBs and a few individual promoters. It grants long-term loans to agriculturists through the PLDBs and branches of CLDBs. It raises funds through floating debentures, which are guaranteed by the State Government. When PLDB obtains loan from the CLDB, it assigns the mortgage deeds obtained from the borrowers to the CLDB. The CLDB floats debentures and raises funds against the security of these properties. The NABARD and LIC subscribe for the debentures in large amounts and the former also extends refinance assistance to LDBs.

2.1.5 Raising Funds:

The main function of raising funds is carried out by the Central or State Land Development Bank which can really deal with the money market of the country effectively and advance loans to primary LDB's. The sources of funds of State LDB's are:-

- ❖ Share capital.
- ❖ Issue of debentures
- ❖ Loans from NABARD
- ❖ Reimbursements of subsidies from the Govt.
- ❖ Other funds.

Issue of debentures is the main source of funds for the LDB's. Debentures is a 'Bond' conveying and acknowledging the debt and also containing the provision of promise for payment of interest at stipulated rate and return of the principal amount. The period of debentures varies from 7 to 15 years. As LDB's require funds of longer duration to advance LT loans to borrowers, the debenture is a convenient instrument of raising funds. Because it guarantees that funds will remain with the Banks for a specified period.

There are three types of debentures,

- ❖ Regular debentures
- ❖ Rural debentures
- ❖ Special development debentures.

These debentures are mostly purchased by financial institutions like LIC, Commercial Banks, Co-op. Banks, NABARD, and State Governments, as there is limited response from the public. The State Govt. give incentive subsidies for many development activities by individual farmer including purchase of tractor. The amounts of subsidies are reimbursed to the LDB's.

2.1.6 Interest rate:

The rates of interest for LT Loans are generally low and within the paying capacity of farmers. They are around 11 to 12%.

2.1.7 Loan Procedure:

The Branch offices receive applications from the prospective borrower. Then Agricultural Finance Officer or Inspector scrutinizes these applications, they visit places of the application and ascertain the purpose of borrowing, verify the genuineness of the proposal and its economic viability, repaying ability of the farmers, adequacy of security etc. After completing those formalities, the loan is granted by the appropriate authority at appropriate level depending upon the delegation of powers by the Banks.

2.1.8 Credit Services by SCARDBs:

Financing of the long-term credit (5 years and above) for agriculture and its allied activities and also for NFS, Rural Housing, Wastelands development is the main objective of the SCARDBs. Thus, the credit delivery system of SCARDBs may be divided broadly into three sectors. Farm sector, non-farm sector and rural housing sector.

A) Farm sector:

Under farm sector the purposes for which the long-term loans are advanced by the SCARDBs are as follows:

- ❖ **Minor Irrigation works**
 - a) Digging/renovation of wells,
 - b) Installation of pump sets,
 - c) Construction of irrigation channels,
 - d) Pipelines,
 - e) Sprinkler/drip irrigation system, Community wells,
 - f) Lift irrigation system etc.
- ❖ **Farm Mechanization**
 - a) Tractor/power tillers with accessories,
 - b) Combined harvester,
 - c) Trolleys,
 - d) Power threshers etc.
- ❖ Land Development/Land Reclamation including water conservation
- ❖ Horticulture development (fruit crops, floriculture, mushrooms, vegetables etc)
- ❖ Plantation crops (coconut, cashew, arecanut, rubber, coffee, cardamom, tea, bamboo etc.)
- ❖ Diversified activities (dairy, poultry, piggery, rabbit, fishery, sheep & goat rearing, gobar gas/bio-gas, farm house, sericulture, rural godowns, bullocks and bullock carts/camel carts, APMC, cold storages/storages etc.)
- ❖ Wastelands development/afforestation, dry land development.
- ❖ Payment of old debts

- ❖ Purchase of land

B) Non-farm Sector:

- ❖ Village and cottage industries,
- ❖ Rural artisans,
- ❖ Small-scale industries/agro-processing, food processing units,
- ❖ Small Road Transport Vehicles (upto 16 tonnes pay load capacity)

C) Rural Housing:

- ❖ Construction of new houses upto Rs.5 lakhs
- ❖ Renovation/repairs of old houses upto Rs. 1 lakh.

2.1.9 Terms & Conditions:

Loan – Upto 95% loan may be sanctioned to borrowers depending upon the purposes for which loan is required.

Security - LT loan is granted on land/agricultural land mortgage as main security. Besides hypothecation of assets, surety etc., will be treated as collateral security.

Land Valuation - The eligibility criteria of loan will be fixed on land valuation 60 per cent of which will be taken as loan value.

Repayment period- LT loans are granted for five years and above up to 15 years depending upon the loan purpose. Grace period is granted on specific projects.

2.1.10 Whom to approach for loan/details of scheme:

Primary Agriculture and Rural Development Banks/Branches of SCARDBs are located at each Taluk/block in the country. The needy person may contact Manager of the PCARDBs/Branches during working hours for details for detailed enquiry about schemes, terms and conditions, loan application etc.

2.1.11 Deposit Mobilization:

To strengthen the resource base of SCARDBs, RBI has granted permission for accepting rural deposits from the borrowers/non-borrowers of SCARDBs in rural areas. SCARDBs have formulated their various deposit mobilization schemes and are accepting deposits ranging from one year onwards.

2.2 LAND DEVELOPMENT BANK IN TAMILNADU:

Table 2.2.1: Table shows the list of LD Banking areas in Tamilnadu

Infrastructure					
Land Development Bank					
Sl. No.	District	No. of Villages	Sl. No.	District	No. of Villages
1	Coimbatore	17	15	Ramanathapuram	5
2	Cuddalore	29	16	Salem	28
3	Dindigul	21	17	Sivaganga	6
4	Dharmapuri	9	18	Theni	6
5	Erode	17	19	Thiruvallur	37
6	Krishnagiri	21	20	Thanjavur	11
7	Kanyakumari	11	21	Tirunelveli	26
8	Kancheepuram	24	22	Tiruchirappali	22
9	Madurai	11	23	Thoothukudi	13
10	Nagapattinam	18	24	Thiruvannamalai	33
11	Nilgiris	7	25	Thiruvarur	10
12	Namakkal	39	26	Vellore	44
13	Pudukottai	20	27	Virudhunagar	8
14	Perambalur	6	28	Villupuram	32

2.2.1 Capital:

The Land Development Banks derive their funds from share capital reserves, deposits and debentures. The debentures, which account for most part of the funds on the bank, may be issued by the banks themselves or by the State Co-operative Banks on their behalf.

They are subscribed for by the public or the Government in some cases, the principal and interest of these debentures are guaranteed by the Government.

In Mumbai and Chennai Central Land Development Banks were established to finance Primary Land Development Banks by centralized debenture issues. These debentures are classified as trustee securities.

2.2.2 Loans and Advances

The loans granted by land development banks are repayable within 20 to 30 years. Normally, loans are granted up to 50% of the value of the land or up to 30 times the revenue. Loans are granted only after a thorough verification of security title-deeds as well as the necessity for the loan.

2.2.3 Defects of Land Development Banks:

Land development banking made little progress in India. Many states are without a single Land Development Bank. The following have been noticed in the working of Land Development Banks,

- (i) Loans given by them are predominantly for discharging of prior debts and not for purpose connected with land improvements.
- (ii) These banks do not have the necessary specialized staff for assessing the technical soundness of scheme and adequate supervising staff for verifying that the schemes are in fact executed. Although State Government possesses such staff, there is coordination between them and Land Development Banks.
- (iii) These banks do not prescribe different periods for different types of loans.
- (iv) They are not able to raise sufficient funds although their debentures are guaranteed by the State Governments.
- (v) There is no co-ordination between the activities of State Co-operative Bank and Land Development Bank.
- (vi) Delay in Granting loans.

The Land Development Banks are now called (State Co-operative) Agriculture and Rural Development Banks (ARDBs) since they are providing long-term funds for various agriculture related projects besides development of land.

III. REVIEW OF LITERATURE AND RELATED STUDY

3.1 Land Development Banks in India: Structure, Working and Progress of LDBs!

Indian farmers need three types of credit, viz., short-term, medium-term and long-term. Their short-term and medium-term credit requirements are fulfilled by the co-operative banking institutions like PACs, CCBs and SCBs.

Farmers have to borrow also for the long-term (for a period of 5 years to 20 years) for buying equipment like pump sets, tractors, etc., and for other development purposes, such as reclamation of land, fencing, digging of new wells, construction of a tank or tube-well, or buying additional land. Thus, a need for a special kind of institution to provide long-term finance to the Indian agriculturists was earnestly felt. Consequently, land development banks came into existence.

Initially, the land development banks were instituted in the form of co-operative land mortgage banks. The first co-operative land mortgage bank was established at Jhind, in Punjab in 1920. However, it did not function well. A real beginning was made by the establishment of the Central Land Mortgage Bank in Madras in 1929. Later on, the movement spread to many other states.

The land mortgage banks grant long-term loans to the farmers against the conveyance of land as security. Since, 1966-67, the land mortgage banks are renamed as land development banks.

3.1.1 Organisation and Structure of Land Development Banks:

The Land Development Banks (LDBs) are essentially co-operative institutions. All the LDBs are registered under the Co-operative Societies Act. In a strict sense, however, they are semi co-operatives. In fact, they are limited liability associations of agricultural borrowers, as their members have limited liability. Further, unlike other co-operatives, LDBs do not have personal involvement in their functioning.

The working capitals of LDBs are raised from share capital, deposits and debentures, and borrowings from the State Bank of India, commercial banks and the State Co-operative Banks. However, a large part of their funds are raised through long-term debentures. The debentures can be issued only by the Central Land Development Banks and not by the Primary Land Development Banks.

The Land Development Banks have no uniform pattern. In some states, they are unitary and in some others, they are federal in nature. States like Bihar, Gujarat, Maharashtra, and Uttar Pradesh have a unitary structure of the LDBs. Other states have a federal structure.

Under its federal structure, the LDB consists of two-tier institutions: (i) the Central Land Development Bank at the State level, and (ii) the Primary Land Development Bank at the district or Taluka level.

Obviously, there is only one Central Land Development Bank in each state and one primary development bank at the district level. Thus, a state is normally supposed to have many primary land development banks as there are a number of districts. The Primary Land Development Banks are affiliated to the Central Land Development Bank in the State.

In States like *Himachal Pradesh and West Bengal*, however, there is a mixed type of LDBs combining the features of both the unitary and federal structure.

Under the federal structure, the Primary Land Development Banks deal with the farmers directly and the Central Land Development Bank deals with the primary land development banks.

Under unitary structure, however, the state may have more than one Central Land Development Bank and they make direct deals with the farmers. In some cases, the Central Land Development Bank has its branches spread over the State and they do direct business with the agriculturists.

In some cases, the Central Land Development Bank serves as a department of the State Co-operative Bank.

This heterogeneity of the LDBs must be removed if we wish to evolve LDB institution of the first order in our country.

3.1.2 The Working of the LDBs:

The LDBs provide long-term loans to the agriculturists for permanent improvements on land. They usually charge 9 per cent interest. They grant loans against the security of land or other agricultural property. Loans are usually given on the first mortgage and sometimes even on the second mortgage of land or agricultural property. Generally, they give loans up to 50 per cent of the market value of the mortgaged property.

Several defects have been noticed on the operational side of the LDBs.

1. They charge very high rates of interest.
2. On account of red-tapism, there are the usual delays up to more than a year in granting loans.
3. No second loans are given until the first one is repaid.
4. They give loans only up to 50 per cent of the value of the land mortgaged. Thus, a very high margin is kept.
5. They adopt complicated procedures which ultimately force the illiterate farmers to resort to money-lenders to meet their financial requirements.
6. Quite often, loans are granted to discharged prior debts rather than for land improvement.

A major problem of the LDBs is, however, the mounting over-dues. Another problem is of the inadequacy of trained personnel. A third difficulty is regarding land as a form of security. Its valuation, titles, ownership etc., are to be checked. As a result, the LDBs cannot avoid some usual delays in sanctioning loans to their borrowers.

The Reserve Bank of India had appointed a Committee on Co-operative Land Development Banks, under the chairmanship of Shri K.M. Das in 1973 to examine the working of land development banks.

The Committee submitted its Report in December 1974 and made a number of recommendations, such as: (1) there should be an integration of the short-term and long-term credit structures. (2) concrete efforts should be made to recover overdues, (3) lending operations of LDBs should be diversified by linking them with specific and other rural developmental programmes, (4) there should be strengthening of the technical and managerial staff.

No adequate steps have been taken by the state governments to implement these recommendations.

3.1.3 Progress of LDBs:

A remarkable progress has been made by the LDBs in providing long-term finance to the agriculturists. The total number of LDBs (central and primary) increased from 481 in 1960-61 to 920 in 1984-85. In 1984-85 their number of membership had gone up to 10.6 lakhs. In 1984-85, their loans outstanding were to the tune of Rs. 3,643 crore and loan overdues amounted to Rs. 409 crores.

3.2. Problems of Land Development Banks - October 2nd, 2010:

3.2.2 Problems of LDBs:

Land development banking is yet to take strong roots in India barring few States. However, LDBs have contributed in large measure to agricultural development by lending specially for minor irrigation. All their loans are for productive purposes benefiting mostly the small farm holders. Though land development banking has made considerable progress in recent years, it has not really contributed much to the improvement of the financial position of the farmers. A large number of factors are responsible for the relative ineffectiveness of LDBs.

3.2.3 Overdues Problems:

Mounting overdues in most of the LDBs have crippled the structure badly, in recent years. Overdues at the level of primary land development banks have been put between 42 to 44 percent. Overdues have caused innumerable financial problems besides limiting the capacity of LDBs to lend and operate as viable units.

The financial discipline imposed on the banks in the matter of eligibility to undertake fresh lending based on recovery performance has been the main limiting factor quantitative growth of credit operations.

To some extent, the banks themselves are to be blamed for this predicament due to faulty loaning policies, inadequate supervision, over-utilization of loans, ineffective measures for recovery etc. Which have contributed to the deterioration in recovering the loans?

IV. CONCLUSION

Despite the fact that farming is the primary occupation in India, yet it is retrogressive. Agrarian benefit in India is still low. On the eve of autonomy the agrarian social order was legislated by semi-feudal standards. There was treacherous arrangement of area residency which denies a substantial number of cultivators, the proprietorship right. There was Zamindari System in India. The farmers own small pieces of land.

The issues of fracture and uneconomic possessions additionally cause low profit. The institutional elements like-the feudal structure of social order, the little size of area possessions, the vicinity of Zamindars or delegates, high land rents and frailty of occupancy rights prompted the backwardness of social order. After

autonomy India felt the requirement of area changes programme to break the socio-monetary structure of country India and to stop the abuse of the real tilters of the dirt and pass on the responsibility for to them.

The primary goal of the area advancement bank is to push the improvement of agribusiness and expansion the rural creation. The CLDBs furnish long haul account to PLDBs associated to them or back specifically through their extensions.

The five-year arrangements propose to decrease the sufferings of the landless individuals. With the evacuation of delegates, the cultivators came in immediate contact with the legislature. A respectable range of cultivable waste area and private timberland land which went under the hand of the legislature was dispersed around the landless and farming labourers.

In the ninth-five-year plan, it had been called attention to that provincial neediness is to a great extent around the landless and the minor agriculturists. The arrangement proposed redistribution of surplus land, occupancy changes for recording privileges of occupants, merging of possessions and so forth. The tenth five-year arrange additionally conveys further the changes in the agrarian part which were prior disregarded.

It might be said that if area change measures are successfully and entire heartedly actualized it might be great in reducing the issues of country individuals. With the Green Revolution area changes have been additionally helped in expanding rural preparation and sort of enhancing the state of the country individuals.

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