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### **Present arrangements for agricultural credit**

#### **Report of The High-Level Committee on Agricultural Credit through Commercial Banks**

**5.01** Under the present arrangement, agricultural credit for all purposes relating to agricultural production and activities allied to agriculture whether of short, medium or long duration is provided by an extensive network of commercial bank branches in the rural and semi-urban areas.

**5.02** Credit requirements for raising crops and working capital expenses for agricultural and livestock operations are extended as short-term loans or cash credit facilities while those for investment credit given as term loans for three to nine years.

**5.03** The credit mechanism is operated through the rural and semi-urban branches of commercial banks within designated service areas. However, applications received from borrowers outside the service area, but within the taluka are also considered subject to production of No Dues Certificates (NDC) from other banks, co-operative credit societies, etc. The Committee was informed that in order to mitigate the hardships faced by borrowers in obtaining NDCs from various agencies, certain banks have introduced the practice of obtaining a No Dues Affidavits instead.

**5.04** At the branch level, the agricultural credit portfolio is looked after by branch managers with the assistance of field officers belonging, in some cases, to a specialised and technically qualified cadre. Responsibilities at the branch level include survey of villages, assessment of demand and potential for activities to be financed, identification and counselling of customers, sanction of loans and recovery of dues.

**5.05** At the Regional Level, senior managers / managers function under the overall supervision of Regional Managers, sanction loans beyond the delegated power of branch managers, assist branches in the development of agricultural business, facilitate the preparation of schemes including those eligible for NABARD refinance, finalise the Service Area Credit Plans and represent the bank at district level fora for co-ordination with other agencies.

**5.06** At the next i.e. Zonal level, the agriculture credit portfolio is usually handled by a chief manager / senior manager. The Zonal Office guides the regions in sorting out local problems, sanctions loans, usually of high value, canvasses support for major projects, assists co-ordination at the SLBC / SLCC fora, liaises with Government authorities and local offices of RBI & NABARD and maintains an overall watch on the status & progress of agricultural lending and recoveries thereunder.

**5.07** The Head Office deals with issues of policy and provides guidance and direction within the system and monitors and reviews the macro level flows to the sector.

**5.08** Applications for seasonal agricultural operations are generally obtained directly. However, for crops where forward linkages have been established or activities which are institutionally intermediated, proposals are received through the concerned institutions / agencies. Applications under subsidy linked credit programmes are sponsored by the respective Government Departments both for production and investment purposes.

**5.09** The application form is required to be supported by documents validating the information furnished. These documents broadly fall into four categories:

- Loan documents such as demand promissory note, letter of undertaking / hypothecation, legal opinion, papers pertaining to collateral security / mortgage.
- Documents evidencing title to land : ownership / cultivation status, cropping patterns, survey map, mutation certificate .

- No Dues Certificate from the revenue authority indicating that the borrower has no dues to the Government; similar certificates from the LDB, PACS and other banks and for guarantors where required.
- Activity specific certificates: These certificates are specific to the activity in respect of which loan is sought. Thus, if the proposal is for milch animals, a certificate from the village dairy society to the effect that the borrower is a member and that the society undertakes to deduct the loan instalment and remit the same to the bank; if the proposal is for purchase of an electric motor, oil engine, pump set, pipe line, tractor or other equipment, quotations from authorised dealers; if the proposal is for digging a well, a certificate from Ground Water Survey & Development Agency indicating the water availability; if the loan is for a lift irrigation scheme, plan and estimates from professional consulting engineers, etc.

**5.10** If the proposal received is found prima-facie in order, a pre-sanction inspection is undertaken to verify details regarding ownership / possession of land, applicant's residence in the area, financial status, reputation, and the technical and economic feasibility of the proposal under reference.

**5.11** If the pre-sanction inspection report is positive, the eligible loan / credit limit is worked out by the Credit Officer on the basis of scales of finance approved by the `Technical Committee' in respect of production credit and unit costs indicated by NABARD for investment credit purposes.

**5.12** The case is then recommended to the branch manager who sanctions the same, if within his delegated powers, after ensuring compliance with norms stipulated in regard to security, margin, interest rates and repayment schedule .

**5.13** At the ground level, sanctioning powers vary from Rs.0.10 lac to Rs.4.00 lac depending upon the bank, the category of branch and the purpose of the loan. No margin is stipulated for loans upto Rs.10,000/-. For loans above that amount, margin requirements vary between 15% and 25%. The security requirements for crop loans depend upon the amount availed; for small loans upto Rs.1,000/- a Demand Promissory Note is deemed sufficient while for large loans, for example above Rs.25,000/-, farmers are required to hypothecate their crops supported by mortgage of land or third party guarantee. In the case of investment credit, the security is contingent on the nature of the assets created. Security documents vary with the type of facility and the purpose of the advance. Rates of interest for loans below Rs.2.00 lac are as per the guidelines of the Reserve Bank of India and for loans above Rs.2.00 lac are deregulated and vary from bank to bank. The repayment schedule is fixed consistent with the projected income from the proposed activity. For the purpose of crop loans, repayment period is upto the crop harvest and subsequent marketing of produce and for term loans it is in the range of three to nine years depending upon the activity undertaken by the farmer. In respect of activities involving a gestation, a suitable moratorium is provided. Certain banks have introduced a system of fixing one day a week exclusively for disbursement of loans to farmers and other priority sector borrowers. However, renewal / disbursement of crop loans and production credit is done on all working days. Borrowers are provided with loan passbooks for information regarding the status and conduct of their accounts.

**5.14** The sanctioned loans are disbursed after execution of the loan documents. Production credit is disbursed in two components-cash and kind- generally in a 40/60 ratio. The kind portion for procurement of seeds, fertilisers, etc., is disbursed either by way of banker's cheque to the input dealer or paid in cash on production of cash bills. the loan amount for investment credit, alongwith margin money, is disbursed in stages depending upon the progress of work, directly to the suppliers of inputs/machinery. Post sanction visits/inspections are undertaken at prescribed periods for verification of assets, their productive use and also for recovery of dues.

**5.15** The sanctions/rejections made by the branch manager are entered in a `Reporting Register' on a day to day basis and an extract is sent to the controlling office for review purposes. Rejection of applications received from SC / ST borrowers is done at one level higher level than the branch manager. Proposals beyond the discretionary powers of the branch manager are sent to higher authorities at the Regional / Head Office levels with appropriate recommendations.

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