LETTER OF TRANSMITTAL

C.P.Swarnkar
Chairman,
Working Group to Examine the
Procedures and Processes
of Agricultural Loans

April 04, 2007

Dear Smt. Thorat,

Report of the Working Group to Examine the Procedures and Processes of Agricultural Loans

I have the pleasure of submitting the final Report of the above Working Group constituted to examine the procedures and processes of agricultural loans. The Group has studied the ground realities on procedures on agricultural loans and suggested measures for easing the hardships faced by the farmers, particularly the small and marginal farmers, including tenant farmers and agricultural labourers as well as borrowers with small loans/credit limits.

2. On behalf of my colleagues and on my own behalf, I thank you for entrusting me with this responsibility.

With kind regards,

Yours sincerely,

(C.P.Swarnkar)

Smt. Usha Thorat
Deputy Governor
Reserve Bank of India
Mumbai

Working Group to Examine Procedures and Processes for Agricultural Loans

(C.P.Swarnkar - Chairman)

(Anup Banerji –Member)

(Dr. K.V.Rajan – Member)

(G.Jaganmohan Rao – Member)

(F.R.Joseph – Member)

(K.V.Subba Rao – Member)

(K.Pothiraj –Member)

(Smt. R. Sebastian – Member Secretary)

Acknowledgements

The Working Group is grateful to Dr. Y.V.Reddy, Governor, Reserve Bank of India, for entrusting this task of national importance and providing constant inspiration and encouragement. The Group is also thankful to Smt. Usha Thorat, Deputy Governor of Reserve Bank for taking active interest in the deliberations of the Group and providing useful inputs to the group.

The Group, during its field visits to the states of Andhra Pradesh, Maharashtra, Kerala, Rajasthan and Uttar Pradesh met with a large number of farmers, representatives from banks, State Governments, Non-Government Organisations etc. in its effort to get a holistic view of the problem and acknowledge their valuable inputs.

The Group is also thankful to the Regional Offices of Reserve Bank of India at Nagpur, Lucknow Kochi Jaipur and Hyderabad, Lead Banks and branch managers of rural branches for efficiently organizing the various meetings of the Group and the field-visits by the sub-groups, and providing excellent logistic and secretarial support.

The Group wishes to place on record the excellent secretarial support and inputs provided by Smt. Rosemary Sebastian, Member – Secretary, General Manager, Reserve Bank of India, Shri Kausik Chakrabarti, Asst. General Manager, Rural Planning and Credit Department of the Reserve Bank and Shri G.K. Makkar, Assistant General Manager, State Bank of India. They have also immensely contributed in preparation of this report, for which the group is grateful.

C.P. Swarnkar
Chairman

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Executive Summary

Flow of credit to agriculture had always been a matter of concern for the Government and Reserve Bank of India. Increasing the access of formal credit to farmers, particularly small and marginal farmers, as a part of financial inclusion, continues to be a formidable challenge to the Indian banking industry. In the fiercely competitive world of today, quality of service provided and customer orientation are the key determinants of a bank's success. In this context, Reserve Bank of India had been receiving, inter alia, feedback from farmers. The feedback related to the problems faced by the farmers in the bank branches, where they had approached for agricultural loan. The problems had both systemic and personal dimensions, ultimately resulting in the farmers losing interest in availing institutional credit. Therefore, a need was felt to revisit the procedures and processes for agricultural loans as practiced by the banks at ground level. In the above background, Reserve Bank of India constituted a Working Group under the Chairmanship of Shri C.P.Swarnkar, CMD, Syndicate Bank and comprising other eminent bankers from commercial banks and Reserve Bank of India to suggest measures to further simplify the procedures and processes, thereby reducing the cost and time for obtaining agricultural loan, especially by small and marginal farmers. The members of the group visited various parts of the country and had interaction with the farmers, members of farmers' clubs/organisations, bankers working in rural areas, as well as those looking after agri-business in the zonal offices, government officials from the departments of co-operation, land revenue, agriculture etc. and also village level functionaries like village pradhans.

Findings of the group based on these interactions are summarized below:

➢ Detailed guidelines have been provided by all banks regarding procedures and documents required for processing applications.

- **It was observed during the visits that branches do not generally stick to the laid down norms. *Loan Applications Received and Disposal Register* is either not introduced or if introduced, not properly maintained at the branches. These registers are not updated regularly. Applications received in case of loans other than Govt. sponsored schemes are generally not entered in this register. Applications are entered in the register only at the time of sanction/disbursement of the loan instead of when the applications are received. The group observes that the entries in the 'Loans Receipt and Disposal Register' are made more as a matter of compliance from the inspection angle than to monitor timely disposal. In general no details are available at the branches for the rejected applications. This leads the group to believe that loan applications are not dealt with promptly and a**

farmer has to make several rounds to the branch for sanction of loan. This widely prevalent practice needs to be discouraged.

- During the course of interaction with farmers, it was observed by the members that farmers have to spend considerable effort, time and money to procure No-Dues Certificates from the banks operating in the area and the Search report from the advocate approved by the bank. It was also noted that the requirements of various documents are intimated in a piecemeal manner resulting in undue delay.

- The group noted that the banks generally do not sanction crop/term loan if the farmer has outstanding crop/term loan with any commercial bank/RRB/Co-operative/Land Development bank. Some flexibility is observed in case a crop loan is availed by a farmer from a co-operative/RRB, the requirement for investment credit is at times met by the commercial banks. Take-over of credit facilities from one lending institution by another lending institution is generally not happening.

➢ Inspite of a number of measures taken by Reserve Bank of India and Government of India which includes stipulation of a target of 18 per cent of Net Bank Credit (within the overall target of 40 per cent of Net Bank Credit set for priority sector lending) for lending to agriculture by domestic scheduled commercial banks and stipulation of a a sub-target of 10 per cent of Net Bank Credit for the 'weaker sections' under priority sector, which also includes small and marginal farmers with land holding of 5 acres and less etc., a number of problems continued to plague the farmers, especially the small and marginal farmers at the ground level.

➢ In order to address various issues the group has made the following recommendations:

➢ ***Issues relating to banks***:

The application form needs to be simple and uniform across the banks containing two parts – a) basic application form and b) the relevant annexure depending on the activity. The Group is of the view that NABARD may prescribe and circulate the uniform application form amongst the banks for mandatory use. Seeking of additional information by the banks should be discouraged. The Group further observes that the use of local language in application forms should be mandatory. (Para 3.2)

The Group recommends that one uniform set of documents consisting of DP note and security documents viz., hypothecation agreement/mortgage deed/guarantee deed, as applicable, may be prescribed by NABARD and circulated among the banks. In case of any specific enactment in a particular State/territory, a separate annexure may be obtained to meet the specific legal requirement. To start with, this should be applicable to all agricultural advances up to Rs. 50,000/-. Gradually, this may be extended to all individual farm loans. (para 3.3)

It has been observed by the Group that in a few branches, land documents were obtained and retained at the branch even in cases for loans up to Rs. 50,000/- though no legal charges have been created. This practice needs to be curbed (Para 3.4).

The Group is of the view that for small loans up to Rs. 50,000/-, to small and marginal farmers, share croppers etc., the banks may dispense with NDC as a requirement. Instead, a self-declaration from the borrower may be insisted upon to make the procedure simple. For loans of higher value and up Rs. 3 lakh, the Group suggests that the bankers may exchange the list of farmers who have availed loans in fora like Block Level Bankers' Committee (BLBC) (Para 3.5).

Having examined the various practices, the Group is of the opinion that a notified/designated authority, viz., the Lead Bank/ local government revenue officer may issue "Kisan Smart Card" to the farmers. These smart cards may be loaded with all the necessary information pertaining to their borrowings, land holdings etc. This will make all the information pertaining to an individual borrower available at a single point and thus render the need for NDCs redundant. However, considering the cost implications, the Group recommends that this may be started on a pilot basis in a state/district, where the awareness level of the farmers is high. Thereafter, the scheme may be expanded depending on experience gained. (Para 3.5).

The Group recommends that guidelines giving bankers the freedom to decide the loan amount may be reiterated and DLTC norms should only be used as a broad indicator. The Group further recommends that there ia a need for further liberalization in this regard. The discretion to exceed the scale of finance prescribed by DLTCs by the branch managers/immediate controlling office may be decided by the individual banks.(Para 3.6).

The Group recommends that the banks should lay down a transparent and well-defined accountability policy in respect of credit to agriculture, more particularly to small and marginal farmers. Non-obtention of NDCs and other procedural lapses, unless proved malafide, should be kept outside the purview of disciplinary proceedings. (para 3.7)

In order to obviate the difficulties of small and marginal farmers, with credit limits up to Rs. 50,000/- no service charge in any form should be collected. For loan accounts exceeding Rs. 50,000/-, the banks should not levy service charges (including inspection charges) exceeding 0.25% of the loan limit per annum. (Paras 2.4(b) and 3.8)

The Group recommends that

i)The rural branches need to be adequately staffed to undertake extensive work in the pre-sanction and post-sanction stage; In addition, the business correspondent/business facilitator model should be propagated and adopted on a larger scale.

ii)The staff posted may be trained to develop a positive attitude;

iii)The banks may devise a suitable incentive structure for rural posting including monetary benefits in such away that rural posting is not considered inferior to other postings. The incentives could have a mix of performance based monetary incentives plus a tenure based posting after which the staff may be given preferential posting to the centre of their choice. An appropriate mix of incentives may be decided by each bank such that it is not rendered unfruitful;

iv)Suitable training modules should be developed for agricultural loans for rural staff. (Para 3.9)

The banks may actively encourage formation of “Farmers’ Clubs”. In order to make the farmers’ clubs more responsive to the needs of the small and marginal farmers, the Group recommends that NABARD may encourage the farmers’ clubs to incorporate more members in order to have at least 50% members consisting of small and marginal farmers. An informal credit delivery system through Self Help Groups (SHGs) and Joint Liability Groups(JLGs) may also help individual borrowers, who are wary of approaching the banks for loans. The bank-SHG linkage programme needs to be expanded further for this purpose. The Group is of the view that in order to provide focused attention to this vital area, Reserve Bank of India/NABARD may take steps to propagate financial education through counseling etc. in backward areas with necessary funding, if required. In order to accelerate financial inclusion, a few districts (other than those identified by the SLBC of the respective States) of each State may be selected by taking the services of outside agencies such as NGOs, Farmers’ Clubs etc. This will upscale financial inclusion. (para 3.10)

The Group further recommends that the banks should actively consider opening of counseling centers, either individually or with pooled resources, for credit and technological counseling. The bank branches should also display as much information as possible for the benefit of the farmers. The counseling centers should have the facility of on-line submission of applications, which may be forwarded to the branches.(para 3.10)

The banks under the aegis of Lead Banks should hold ‘awareness melas’ in districts wherein agriculture related issues including improved agricultural practices, minor irrigation, lending schemes of various banks etc. could be discussed extensively. The concerned extension officers/development officers of the local government should also be involved in the process. (Para 3.10).

A special thrust in matters of financial education is required in the relatively under-developed regions. Banks may consider evolving a generic financial education module in different languages. Broadly, the module content can be: need for savings, budgeting, advantages of banking with formal financial institutions, various products offered by the banks, insurance companies etc. These modules should be easily understood and should be widely disseminated through different media through awareness melas and counseling centers. (Para 3.10).

Banks may consider setting up of Centralised Processing Centres at regional levels to bring uniformity of approach and achieve efficient allocation of scarce human resources (Para 3.11).

The Group recommends that RBI instructions to banks on KCCs may be reiterated and the review mechanism may be strengthened with focus on small and marginal farmers. (Para 3.12)

The Group is of the view that all loans up to a credit limit of Rs. 50,000/- may be disposed of by the banks within a fortnight and those for higher credit limits, say, up to Rs. 3 lakh, within 4 weeks (Para 3.13)

The Group recommends that the internal inspection of the banks should invariably comment on the implementation of the guidelines relating to rejection of applications and any non-observance thereof should be accorded attention at the highest level (Para 3.14).

The Group recommends that the banks may consider extending credit to the landless labourers, share-croppers and oral lessees based on the certificates provided by local administration/Panchayati Raj Institutions regarding cultivation for a minimum period of three years and overall viability criteria (Para 3.15).

The branch visits and the reporting system of the LDOs should be made more effective. (Para 3.16)

The Group recommends that agricultural loans may be extended as a part of a composite loan package comprising various components as per the requirement of the farmers on the basis of 'whole-farm' approach. (Para 3.17)

The Group feels that it is a worthwhile suggestion to examine the feasibility of treating short term agricultural advances akin to CC advances of non agricultural operations for the purpose of classification of assets. Such advances may be sanctioned as regular Working Capital Limits subject to yearly reviews. (Para 3.18).

The Group also recommends that just as export credit extends from pre-shipment to post-shipment credit with 180 days time given for realization of the proceeds of export, the farmer should be given a comprehensive package which will enable him to undertake his pre-sowing and pre-harvest activities as also his post harvest requirements until sale of the produce. (para 3.19)

- ***Issues relating to State Governments:***

The Group is of the view that the SLBCs of the respective States should take up issues relating to Stamp Duty with the State Governments concerned to resolve the problem. (Para3.20)

The Group suggests that the state governments should take up the work of computerization of land records in right earnest and assign utmost importance to updating the database (Para 3.21).

Simplified procedures not only encourage farmers to take loans but also encourage them to repay. On the other hand, if the repayment record is good, the bankers would be encouraged to adopt simplified procedure. (Para 3.22).

Support from the state governments in the recovery efforts of the banks will also encourage them to lend more aggressively. The Group recommends that SLBCs in the respective states may bring this fact to the notice of the respective state governments and coordinate with them in this regard (Para 3.22).

In order to take banking facilities to the doorstep of the farmers, the Group recommends that the banks in a particular region may organize a loan mela in association with the state government during crop seasons so that the services related to application, processing, sanction, documentation and disbursal may be offered to the farmers through a 'single window' system. (Para 3.23)

The State Government (Department of Agriculture) may associate with private service providers for crop mapping services and co-ordinate with the farmers so that they can take a holistic and considered view in respect of the suitability of the crop to be cultivated. (Para 3.24)

➢ The problems confronting the farmers in India today are multi-dimensional in nature. Apart from simplified processes and procedures for agricultural loans, the other issues that are equally important to the farmers are availability of water, electricity, proper marketing infrastructure, warehousing, proper extension services and counseling. In this connection the observations of the group includes:

- Sustainability of agriculture will depend a lot on effective management of water resources.
- Availability of adequate electricity is a must for sustenance of agriculture.
- Provision of adequate extension services and effective counseling can help in improving the condition of the farmers.
- There is an urgent need to ensure standardization of the inputs used in agriculture.
- It becomes imperative to develop the marketing infrastructure for the agricultural commodities.
- A thought needs to be spared to break the impasse of fragmentation of land.
- The crop insurance schemes may be made optional.

The Group is of the view that while a lot of effort has already been made to simplify the procedures and processes of agricultural lending, the real benefit of simplification will accrue to the farmers if there is a substantial change in the lending methods and attitudinal change at ground level.

CHAPTER – I

Introduction

Considering the dominant role of agriculture in the Indian economy and the vast untapped potential of the sector, the scope for dispensation of institutional credit to the millions of farmers is enormous. Given the enormity of credit requirements and complexities prevalent at the ground level, financing agriculture had been a gigantic task for banks in India. Though the share of agriculture in the GDP has declined over the years due to industrialization and growth of the services sector, it still retains a very important position in Indian economy. Farming is a way of life and principal means of livelihood for about 65% of India's population.[1]

1.2 Of the total farming community, at least 65 per cent comprises farmers with small or marginal holdings. As per 2001 census, 73 per cent of total workers in rural India are involved in agriculture either as cultivators or agricultural labourers. Credit delivery to the farm sector should therefore address the smooth flow of credit to this section of the population. In practice, however, it has been noticed that the small and marginal farmers are often in a disadvantaged position. Illiteracy and lack of awareness about the processes and procedures of bank loan make them shy of the formal banking system. Increasing the access of formal credit to farmers, particularly small and marginal farmers, as a part of financial inclusion, continues to be a formidable challenge to the Indian banking industry. In the fiercely competitive world of today, quality of service provided and customer orientation are the key determinants of a bank's success.

Genesis of the Working Group

1.3 In the given scenario, the real trigger for introspection was provided, inter alia, by the feedback received by Reserve Bank of India from farmers. The feedback related to the problems faced by the farmers in the bank branches, where they had approached for agricultural loan. The problems had both systemic and personal dimensions, ultimately resulting in the farmers losing interest in availing institutional credit. Therefore, a need was felt to revisit the procedures and processes for agricultural loans as practiced by the banks at ground level.

Formation of the Working Group

1.4 In the above background, Reserve Bank of India constituted a Working Group to suggest measures to further simplify the procedures and processes, thereby reducing the cost and time for obtaining agricultural loan, especially by small and marginal farmers.

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[1] Source: National Commission on Farmers.

The members of the Working Group comprised:

1. Shri C.P.Swarnkar, CMD, Syndicate Bank – Chairman
2. Shri Anup Banerji, DMD, State Bank of India
3. Dr. K.V.Rajan, RD, RBI, Bhopal
4. Shri F.R.Joseph, RD, RBI, Chennai
5. Shri Jaganmohan Rao, RD, RBI, Bhubaneshwar
6. Shri K.V. Subba Rao, RD, RBI, Lucknow
7. Shri K.Pothiraj, General Manager, Bank of India
8. Smt. Rosemary Sebastian, General Manager, RPCD, CO, RBI, Mumbai- Member Secretary.

Terms of Reference

1.5 The terms of reference of the Group were to:

i) examine the documentation and other requirements prescribed by banks in providing agricultural loans, particularly to small and marginal farmers;

ii) examine the entire process of disposal of loan applications from receipt of application to disbursement of the loan by banks in respect of agricultural loans to small and marginal farmers;

iii) make suggestions to simplify the procedures and documentation, so as to deliver agricultural credit at minimum cost and time to the borrower by streamlining the process in the delivery of agricultural loans, in particular, by adoption of suitable technology; and

iv) examine any other related matter.

Methodology adopted

1.6 The Group primarily depended on first hand interaction with the farmers, members of farmers' clubs/organisations, bankers working in rural areas, as well as those looking after agri-business in the zonal offices, government officials from the departments of co-operation, land revenue, agriculture etc. and also village level functionaries like village pradhans. Accordingly, sub-Groups of the Working Group were formed, who had meetings with a cross section of farmers, farmers' clubs, government authorities, representatives from commercial banks and Regional Rural Banks (RRBs) and a few NGOs active in helping farmers with documentation etc. The members of the Group had also visited a few rural branches of the commercial banks in Maharashtra, Kerala, Rajasthan, Uttar Pradesh and Andhra Pradesh to gain first hand information about the procedures and processes being practiced by the branches in respect of agricultural credit. These visits provided valuable inputs to the members in formulating their recommendations.

Organisation of the Report

1.7 The report is divided into five chapters. The introductory first Chapter is followed by Chapter-II, where the present procedures and processes for agricultural lending followed by various banks have been enumerated. Chapter –III contains the issues relating to procedures and processes for agricultural loans that need simplification. Chapter-IV examines the broader issues beyond the realm of procedures and processes, which have a direct bearing on the conditions of the agriculturists in so far as creation of an enabling environment for the simplified procedures to work effectively in favour of the farmers. The recommendations of the Group are contained in Chapter – V, which is the last chapter.

CHAPTER – II

The present scenario – existing processes, documentation and other requirements

The Group interacted directly with the branch functionaries of various banks' rural branches and farmers in different parts of the country. It was observed that banks adopt varied practices for disposal of loan applications and obtain various documents. The following are the existing general guidelines issued by different banks to their branches:

2.2 (i) **Disposal of loan applications**

(a). When a farmer approaches the branch, he is provided with an application form along with a checklist of documents to be enclosed. After receipt of the loan application, during the discussion held on the proposal; further data / information requirements of the banks should also be specified to the prospective borrowers so that they submit applications complete in all respects.

(b) Loan applications, which are complete in all respects as per the checklist, should be acknowledged immediately by the branch. It should thereafter be entered in the "Loan Applications Received and Disposal Register" on the same day and monitored for quick disposal.

(c) A definite date may be indicated for discussion, clarification, etc., if considered necessary. The period for the purpose of the timeframe for disposal would be reckoned from the date of receipt of application, complete in all respects, till the credit decision is finally communicated to the applicant. The decision of the branch regarding credit assistance should be communicated to the applicant within the stipulated time period as given in the subsequent paragraphs.

(d) The Field officer/s may seek, as far as possible, all relevant information in one instalment and avoid piecemeal enquiries.

(e) The Branch Manager should verify the '*Loan Applications Received and Disposal Register'* at periodic intervals to monitor disposal of applications received /pending at the Branch. Date and status of disposal of applications by way of sanction / rejection, if rejected the reasons therefor, should be recorded in the register. The controlling authorities should scrutinize this register during their visits to the branches. The fact of rejection or curtailment of limits applied for may be informed to the applicant concerned by the sanctioning authority.

In the case of loan applications received from SC/ST applicants, rejection should be accorded by the head of Controlling Office.

(f) A date chart must accompany every proposal. It should be the responsibility of the sanctioning authority to ensure that this chart is completed at all levels.

(g) The reasons for rejection of an application should be briefly mentioned in the "*Loan Applications Received and Disposal Register".* The sanctioning authority may take decision to reject a loan proposal except for SC/ST applicants.

(h) In order to ensure that there are no delays in the disbursement of sanctioned facilities and also to avoid any need to change the collateral security after obtaining sanction, a preliminary scrutiny of the documents relating to the property should be carried out at the branch level to establish that, *prima facie,* the title rests with the owner who is offering the security. This should be done prior to submitting the proposal to the sanctioning authority.

2.2 (ii) **Time limits for Disposal of applications**

- All loan applications up to a credit limit of Rs.25,000 /- are to be disposed of within a fortnight,
- All loan applications over Rs.25000/- are to be disposed of within 8 to 9 weeks from the respective dates of receipt of the loan proposals complete in all respects.

2.2 (iii) **Time gap between sanction and disbursement**:

Sanctions, which are not availed within six months, are considered lapsed and borrowers would be required to give fresh application. These applications are subject to fresh due-diligence

Observations of the Group:

It was observed during the visits that branches do not generally adhere to the above norms. *Loan Applications Received and Disposal Register* is either not introduced or if introduced, not properly maintained at the branches. These registers are not updated regularly. Applications received in case of loans other than Govt. sponsored schemes are generally not entered in this register. Applications are entered in the register only at the time of sanction/disbursement of the loan, not when the applications are received. The Group observes that the entries in the 'Loans Applications Received and Disposal Register' are made more as a matter of compliance from the inspection angle than to monitor timely disposal. In general no details are available at the branches for the rejected applications. This leads the Group to believe that loan applications are not dealt with promptly and a farmer has to make several rounds to the branch for sanction of loan. This widely prevalent practice needs to be discouraged.

2.3 Documentation:

There is no uniformity of documentation among the banks. Generally a farmer has to produce following documents to the bank branches for sanction of a loan:

i) Revenue record pertaining to his land showing rights of his ownership/cultivation

ii) No dues certificate from different banks operating in the area/self declaration or an affidavit to the effect that he is not indebted to any other financial institution.

iii) Ration card/Voter's Identity card /or any other proof of Identity.

iv) Photographs.

v) Stamp papers as per the requirements of the Bank.

vi) Search report from bank's advocate (in case of loans above Rs 50,000/- but in some instances branches call for the same for lower loan amounts also)

vii) Mutation certificate from concerned Patwari to the effect that the mutation has been entered in revenue records.

Apart from the above, banks, commonly, obtain the following documents for their use & record from the farmer borrower at the time of sanction/ documentation. This also varies from bank to bank.

a) Application (common for crop/production and investment credit).

b) Annexure to the application (different for various activities) as per NABARD guidelines.

c) DP Note.

d) DP Note Take Delivery letter.

e) Terms & conditions letter.

f) Hypothecation Agreement to be executed for all loans where hypothecation charge on the securities financed by the Bank is created.

g) Deed of guarantee, wherever applicable.

h) Deed of mortgage, wherever applicable.

At the time of review/renewal, following additional documents are taken:

a) Fresh set of land records to prove that there is no change in right of ownership/cultivation and the search report thereon.

b) Revival letter for hypothecation.

c) Revival letter for guarantee.

d) Revival letter for mortgage.

Observations of the Group:

During the course of interaction with farmers, it was observed by the members that farmers have to spend considerable effort, time and money to procure No-Dues Certificates from banks operating in the area and the Search report from the advocate approved by the bank. It was also noted that the requirements of various documents are intimated in a piecemeal manner resulting in undue delay.

2.4 Other processes/ requirements:

a) ***Mode of disbursement of loans:***

To ensure the end use of bank's money, most of the banks directly disburse the loan amount to the vendors of repute for supply of implements, vehicles, machinery, etc. against proper letters of authority from the borrowers. The payments made to the suppliers are at the risk and responsibility of the borrowers. Feedback from a few places revealed that this method of disbursement puts the farmers in disadvantageous position with regard to choice of vendors, implements, machinery etc. The farmers desired to have more flexibility to avail market related benefits. On the other hand, the bankers apprehended difficulties in ensuring end-use of funds. The Group recommends a balanced view in this regard.

b) ***Inspection charges***:

As per extant RBI guidelines, no service/inspection charges are to be levied for loan amounts up to Rs. 25,000/- in priority sector. But for loan amounts exceeding Rs.25,000/-, banks levy inspection charges ranging from Rs 120/- to Rs 225/- per visit. The Group is of the view that rationalization of the same is required. The Group suggests that for loan amounts exceeding Rs. 50,000/-, the banks should not levy service charges exceeding 0.25% of the loan limit per annum.

c) *Margin*:

As per RBI guidelines no margin is stipulated by banks for loans up to Rs.50,000/- for both crop loan and term loan. No margin is stipulated in case of term loans & cash credits up to Rs. 5 lac for Agri-Clinics and Agri-Business Centres.

In case of term loans & cash credits exceeding Rs. 5 lacs for Agri-Clinics and Agri-Business Centres the margin requirements is 15% to 25% of the project cost/unit cost depending on purpose and quantum of loan and subject to NABARD's requirement, where refinance is contemplated.

For other loans exceeding Rs.50,000/- , the banks have prescribed margin stipulations ranging from 15 to 25 per cent of the total funds requirement depending on the purpose, risk perception and quantum of loan. No separate margin is stipulated in case of lending on the basis of scale of finance.

Where subsidy equal to or more than the stipulated margin money is available, the same is treated as margin and no further margin money is stipulated. Generally, margin money is insisted upon at the beginning of the investment. However, in case where investment is in stages, margin can also be brought in stages, as and when the investment takes place.

The crop loans and agricultural term loans are not to be clubbed together for the purpose of determining the margin requirements i.e the margin is stipulated facility-wise.

d) *Concurrent borrowing*:

The Group noted that the banks generally do not sanction crop/term loan if the farmer has outstanding crop/term loan with any commercial bank/RRB/Co-operative/Land Development bank. Some flexibility is observed in case a crop loan is availed by a farmer from a co-operative/RRB, the requirement for investment credit is at times met by the commercial banks. Take-over of credit facilities from one lending institution by another lending institution is generally not happening.

e) ***Security***

In terms of the directives of RBI, banks are not to take any collateral security for all loans (crop loans as well as term loans) up to Rs 50,000/-. Loans shall be granted only on hypothecation of the assets created. For loans above Rs 50,000/-, banks have the discretion to take collateral security of mortgage of land. Some banks have relaxed collateral security norms (e.g. in tie-up loans and contract farming tie-up loans no collateral security as mortgage of land up to Rs 1,00,000/- is obtained.) Farmers, in general, are of the view that no collateral security (charge on or mortgage of land) should be asked for loans up to Rs 1,00,000/-, to which most of the banks have expressed reservations.

CHAPTER - III

Study visit findings and recommendations

Flow of credit to agriculture had always been a matter of concern for the Government and Reserve Bank of India. In order to channel an assured portion of credit to this sector, Reserve Bank of India had stipulated a target of 18 per cent of Net Bank Credit (within the overall target of 40 per cent of Net Bank Credit set for priority sector lending) for lending to agriculture by domestic scheduled commercial banks. The 'weaker sections' under priority sector, for which a sub-target of 10 per cent of Net Bank Credit has been stipulated, also includes small and marginal farmers with land holding of 5 acres and less, landless labourers, tenant farmers and share croppers. Further, to boost agricultural credit, Government of India had advised the banks to double the flow of credit to agriculture within a span of three years from 2004-05 to 2006-07.

3.1 However, a number of problems continued to plague the farmers, especially the small and marginal farmers at the ground level. As a result, they were often deprived of adequate and timely credit at a reasonable cost. These issues confront us from various angles and they need to be addressed in its entirety. The Group has deliberated these issues with the farmers, their representatives, bankers and government authorities and the recommendations are given in the following paragraphs.

A. Issues relating to Banks

Application forms

3.2 It is, imperative that the application form should be very simple, user friendly and brief, as it is the basic document to be completed by the farmer. It has been observed by the Group that there is no uniformity in the format of the application forms prescribed by various banks. The application form needs to be simple and uniform across the banks containing two parts – a) basic application form and b) the relevant annexure depending on the activity. **The Group is of the view that NABARD may prescribe and circulate the uniform application form amongst the banks for mandatory use. Seeking additional information by the banks should be discouraged. The Group further observes that the use of local language in application forms should be mandatory.**

Documentation

3.3 Similarly, documentation for agri-loans needs to be kept simple. At present, banks prescribe different sets of documents for this purpose. There is no uniformity in the contents of the formats, as well. **The Group recommends that one uniform set of documents consisting of DP note and security documents viz., hypothecation agreement/mortgage deed/guarantee deed, as applicable, may be prescribed by NABARD and circulated among the banks. In case of any specific enactment in a particular State/territory, a separate annexure may be obtained to meet the specific legal requirement. To start with, this should be applicable to all agricultural advances up to Rs. 50,000/-. Gradually, this may be extended to all individual farm loans.** The uniformity of format and content of documents prescribed by NABARD will help in allaying fears in the minds of farmers about any unilateral conditions being imposed by banks.

Collateral/ Margin

3.4 As per extant instructions no collateral /margin is to be taken for agri-loans upto Rs.50,000/-. Banks have been given discretion to decide on the collateral requirements for loans above that amount. However, **it has been observed by the Group that in few branches, land documents were obtained and retained at the branch even in cases of loans up to Rs. 50,000/- though no legal charge on land has been created. This practice needs to be curbed.**

No Dues Certificate

3.5 One of the biggest irritants faced by the farmers approaching for bank loans is the 'No Dues' Certificate (NDC) that they have to produce to the bank granting the loan, from various banks/co-operatives operating in the area. The concept of NDC was introduced prior to the days of "Service Area Approach" to ensure that no multiple financing takes place. With the discontinuation of "Service Area Approach" (except for Government sponsored schemes), Reserve Bank has, from time to time, issued circulars clarifying the non-compulsory nature of NDC. The banks have been given discretion to devise ways and means to avoid multiple financing. Yet, the practice of obtaining NDCs has continued. It has been observed by the Group that bankers are more or less uniformly in favour of continuance of this certificate. However, for the farmers this entails a considerable amount of time and money to be spent even to get a small loan and leads to delay in obtaining the loan. Though it was seen that often the RRBs and co-operatives did not levy any charges to issue NDC, many banks charge amounts ranging from Rs 25/- to Rs 125/- to issue this certificate. On a rough estimate, it was found that on an average a farmer in Vidarbha spends four to five days and about Rs. 1000/- (which includes his opportunity cost) just to collect the NDC from various banks. Therefore, an alternative to this requirement needs to be found. During discussions with bankers, farmers/ farmers' associations, alternatives such as self-declaration, affidavit, placing information regarding borrowers on a common website so that banks could readily access the information, etc., emerged. However, these suggestions could not be considered by the Group for uniform adoption by banks as they either did not provide comfort to the bankers in matters of multiple finance, or they added to the farmers' cost, or there were practical problems such as, updating of information, availability of power supply and possibility of technical glitches and breakdown. **The Group is, therefore, of the view that for small loans up to Rs. 50,000/-, to small and marginal farmers, share croppers etc., the banks may dispense with NDC as a requirement. Instead, only a self-declaration from the borrower may be insisted upon to make the procedure simple. For loans of higher value and up to Rs. 3 lakh, the Group suggests that the bankers may exchange the list of farmers who have availed loans in fora like Block Level Bankers' Committee (BLBC). The Group recognizes the attitudinal change that the bankers may have to undergo to make the sharing of information effective.**

It has been observed that in certain states like Kerala, there used to be a system earlier whereby all loans granted by banks/co-operatives were entered in the Ration Card which was considered useful by branch officials, but the practice was subsequently discontinued by the State authorities. In states like Rajasthan, there is a concept of Agricultural Pass-book, where all information relating to a borrower are entered. In this case, a farmer is required to produce NDCs only for the first time when he approaches for loan. Thereafter, all loans granted to him by various banks /co-operatives could be entered in such pass-book, that he may produce for subsequent loans. **Having examined the various practices, the Group is of the opinion that a notified/designated authority, viz., the Lead Bank/ local government revenue officer may issue "Kisan Smart Card" to the farmers. These smart cards may be loaded with all the necessary information pertaining to their borrowings, land holdings etc. This will make all the information pertaining to an individual borrower available at a single point and thus render the need for NDCs redundant. However, considering the cost implications, the Group recommends that this may be started on a pilot basis in a state/district, where the awareness level of the farmers is high. Thereafter, the scheme may be expanded depending on the experience gained.** SBI and ICICI Bank have already started implementing pilot projects in selected districts wherein the business facilitators/correspondents carry a hand held device to swipe the biometric smart cards of the farmer customers and incorporate all the credit information in respect of them. The outcome of this Pilot Project needs to be watched with interest.

Scale of Finance

3.6 For a farmer, timely and adequate credit is of immense importance. However, it has been observed that many areas the credit (crop loans) sanctioned / disbursed is not sufficient. This is mainly due to the concept of “Scale of Finance”, whereby crop-wise/acre-wise scale of finance is decided by the District Level Technical Committee (DLTC), comprising the representatives of NABARD, banks and co-operatives. RBI has specifically issued instructions to the effect that scale of finance need not be the sole criterion in deciding the extent of finance for crop loans. Though in many banks there exists a provision to exceed the scale of finance, in practice, at branch level, often they prefer to stick to this. It has come to the notice of the Group that in some instances, the scale of finance had not been reviewed for long time. Such practices not only result in insufficient finance for the farmers, but also drive them to informal sources of credit, which is costly. **The Group recommends that guidelines giving bankers the freedom to decide the loan amount may be reiterated and DLTC norms should only be used as a broad indicator. The Group further recommends that there is a need for further liberalization in this regard. The discretion to exceed the scale of finance prescribed by DLTCs by the branch managers/immediate controlling office may be decided by the individual banks.**

Accountability Issues

3.7 The Group has observed that the field level bankers are rigid on issues of No-Dues certificates (NDCs)/documentation/seeking additional information arising out of their concern for the staff accountability aspects. **The Group recommends that the banks should lay down a transparent and well-defined accountability policy in respect of credit to agriculture, more particularly to small and marginal farmers. Non-obtention of NDCs and other procedural lapses, unless proved malafide, should be kept outside the purview of disciplinary proceedings.**

Service Charge

3.8 It has been reported that many banks levy heavy service charge for processing agricultural loans. There is no uniformity amongst banks in this regard. It is also observed that, since service charge is to be paid irrespective of whether the loan is sanctioned or not, this often acts as a deterrent for the farmers to approach the banks for loans. **In order to obviate the difficulties of small and marginal farmers, with credit limits up to Rs.50,000/- no service charge in any form should be collected. For loan amounts exceeding Rs. 50,000/-, the banks should not**

levy service charges (including inspection charges) exceeding 0.25% of the loan limit per annum.

Sensitisation of staff at the rural branches

3.9 The small and marginal farmers approaching the banks for loans are often apprehensive about the urbane nature of the bank personnel. This leads them to the clutches of the money lenders. In order to reverse this, the farmers need to be encouraged to approach banks for credit. The Agricultural Officers and Rural Development Officers in the rural branches can play an active role in this regard. It has been observed that dispensation of rural credit requires more time and effort particularly in dealing with the small and marginal farmers, who are often not well informed. Therefore, the rural branches need to be adequately staffed. It has been further observed that mostly the staff posted at rural branches do not stay locally and therefore are unable to have intensive interaction with the farmers and bond with them. The rural officers of the banks should act as friend-philosopher and guide to the farmers. In this backdrop, proper sensitization of staff at the rural branches is a major issue that requires attention.

The Group recommends –

i) The rural branches need to be adequately staffed to undertake extensive work in the pre-sanction and post-sanction stage. In addition, the business correspondent/business facilitator model should be propagated and adopted on a larger scale;

ii) The staff posted may be trained to develop a positive attitude;

iii) The banks may devise a suitable incentive structure for rural posting including monetary benefits in such a way that rural posting is not considered inferior to other postings. The incentives could have a mix of performance based monetary incentives plus a tenure based posting after which the staff may be given preferential posting to the centre of their choice. An appropriate mix of incentives may be decided by each bank such that it is not rendered unfruitful;

iv) Suitable training modules should be developed for agricultural loans for rural staff.

Awareness level of the farmers

3.10 A major problem confronting the farmers desirous of availing bank loans is their lack of awareness about the various schemes available with the banks. Procedures and processes, which have already been simplified to a great extent by the banks, could not yield the desired results on account of low awareness levels of the farmers. It has been observed that at places, where awareness levels are high (e.g., Kerala, parts of Rajasthan), farmers have less complaints about the extant procedures and processes. The lack of awareness often makes the farmers shy of approaching the banks directly. Therefore, the Group feels that a concerted and coordinated effort on the part of the banks is needed to spread awareness among the rural population as a whole and the farmers in particular. A certain amount of hand-holding may actually make the task easier for the banks. Therefore, **the banks may actively encourage formation of "Farmers' Clubs", which can act as focal points for dissemination of information. In order to make the farmers' clubs more responsive to the needs of the small and marginal farmers, the Group recommends that NABARD may encourage that farmers' clubs should incorporate more members in order to have at least 50% members consisting of small and marginal farmers.** An informal credit delivery system through Self Help Groups (SHGs) and Joint Liability Groups(JLGs) may also help individual borrowers, who are wary of approaching the banks for loans**. The bank-SHG linkage programme needs to be expanded further for this purpose.** It has been observed that there are great disparities across the various regions of the country in implementing this programme. **The Group is of the view that in order to provide focused attention to this vital area, Reserve Bank of India/NABARD may take steps to propagate financial education through counseling etc. in backward areas with necessary funding, if required. In order to accelerate financial inclusion, a few districts (other than those identified by the SLBC of the respective States) of each State may be selected by taking the services of outside agencies such as, NGOs, Farmers' Clubs etc. This will upscale financial inclusion.**

A special thrust is required in the relatively under-developed regions. **The Group further recommends that the banks should actively consider opening of counseling centers, either individually or with pooled resources, for credit and technological counseling. This will make the farmers aware of their rights and responsibilities to a great extent. The bank branches should also display as much information as possible for the benefit of the farmers. The counseling centers should have the facility of on-line submission of applications, which may be forwarded to the branches.**

The banks under the aegis of Lead Banks should hold 'awareness melas' in districts wherein agriculture related issues including improved agricultural practices, minor irrigation, lending schemes of various banks etc. could be discussed extensively. The concerned extension officers/development officers of the local government should also be involved in the process.

Banks may consider evolving a generic financial education module in different languages. Broadly, the module content could be: need for savings, budgeting, advantages of banking with formal financial institutions, various products offered by the banks,

insurance companies etc. These modules should be easily understood and should be widely disseminated through different media (print, audio, T.V., video etc.) through these counseling centers and awareness melas.

Central Processing Centres

3.11 Though Reserve Bank has already issued recommendatory guidelines regarding processing of cases under priority sector including agriculture, it has been observed that the time taken to process varies across regions and branches. In order to obviate this, **banks may consider setting up of Centralised Processing Centres at regional levels to bring uniformity of approach and achieve efficient allocation of scarce human resources.**

Kisan Credit Cards – expansion of scope

3.12 In order to ensure a hassle-free system in dispensing credit to the farmers, the concept of Kisan Credit Cards (KCCs) was introduced in 1998. Subsequently, the scope of this scheme was further expanded in October 2004 to provide adequate and timely credit for the comprehensive credit requirements of farmers under single window, with flexible and simplified procedure, adopting whole farm approach, including short-term credit needs and a reasonable component of consumption needs. The scheme is at present implemented by all commercial banks, RRBs, State Co-operative banks/DCCBs/PACS and scheduled primary co-operative banks. Under this mechanism, short-term credit/crop loans, working capital credit for activities allied to agriculture and term credit is sanctioned. The borrowers are eligible to avail of any or all credit facilities given under KCC, as per their requirement. They can also utilize the term credit for acquiring one or more assets as per their requirement and phase their installments accordingly. NABARD refinance is available in certain categories of finance and to certain categories of banks. No refinance is available for the consumption credit component. This method of agricultural lending has gained immense popularity because of its simplified processes and procedures. As per available data, the co-operative banks, RRBs and commercial banks have issued 59.09 million KCCs till March 2006 since the inception of this scheme.[2] While interacting with the farmers, the Group received suggestions pertaining to expansion of scope of the KCC mechanism. The suggestions include increase in the consumption component. Besides, in certain cases, investment credit component was not forming part of KCC. Since, these two aspects are very important to an average farmer, **the Group recommends that RBI instructions to banks may**

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[2] (Source: Report on Trend and Progress in Banking 2005-06)

be reiterated and the review mechanism may be strengthened with focus on small and marginal farmers.

Disposal of applications

3.13 As per extant RBI guidelines, banks should give acknowledgement for loan applications received from weaker sections. Towards this purpose, it may be ensured that all loan application forms have perforated portion for acknowledgement to be completed and issued by the receiving branch.

It has also been stated in the above guidelines that all loan applications up to a credit limit of Rs. 25,000/- should be disposed of within a fortnight and those for over Rs. 25,000/-, within 8 to 9 weeks, provided the loan applications are complete in all respects and are accompanied by a 'check list'. **The Group is of the view that there is scope for improvement in this regard. All loans up to a credit limit of Rs. 50,000/- may be disposed of by the banks within a fortnight and those for higher credit limits, say, up to Rs. 3 lakh, within 4 weeks.**

3.14 Further, it has been clarified that branch managers may reject applications (except in respect of SC/ST) provided the cases of rejection are verified subsequently by the Divisional/Regional Managers. In the case of proposals from SC/ST, rejection should be at a level higher than that of Branch Manager. A register is required to be maintained at the branch, wherein the date of receipt, sanction/rejection/disbursement with reasons therefor, etc., should be recorded. The register should be made available to all inspecting agencies. Thus, the role of internal controls of the banks assumes a lot of importance to check the effectiveness of the well-intentioned guidelines laid down to make the processes and procedures simple and transparent. Therefore, **the Group recommends that the internal inspection of the banks should invariably comment on the implementation of the above guidelines and any non-observance thereof should be accorded attention at the highest level.**

3.15 Landless labourers, share croppers and oral lessees form the lowest strata of the farming community. Unfortunately, their share in the bank credit is far from adequate. The main problem facing the above category of farmers is the lack of land documents or any other documents verifying their identity and status. As a result, by and large they remain deprived of bank loan. In order to overcome this problem**, the Group recommends that the banks may consider extending credit to them based on the certificates provided by the local administration/Panchayati Raj Institutions regarding cultivation for a minimum period of three years and overall viability criteria.**

3.16 The Lead District Officers (LDOs) of RBI should observe the rural lending procedures and practices being followed by the branches during their branch visits and also the extent/quality of compliance with RBI guidelines and instructions and report any aberrations to enable the regional office of RBI to take necessary corrective action. **The branch visits and the reporting system of the LDOs should be made more effective.**

3.17 Increasingly it has been brought home that for the small and marginal farmer agriculture has become unsustainable. At present, it has been observed that the farmer generally receives, in isolation, either a loan for farm activities or for other purposes. Therefore loans for agriculture should be composite loans with provision for purchase of milch animal/ Poultry/Piggery etc. and other facility towards marketing of the produce or even for non-farm activity, if required. **The Group recommends that agricultural loans may be extended as a part of a package comprising various components as per the requirement of the farmers.**

Treating short term agricultural accounts akin to Working Capital Cash Credit (CC) accounts – Whole Farm Approach.

3.18 **On the issue of hassle free credit delivery to small and marginal farmers, the Group feels that the existing system of treating crop loan accounts as NPAs i.e. the loans are overdue for more than two harvesting seasons in respect of short term crop loans or for one harvesting season for long duration crops, needs to be looked into de novo. Considering the fact that short term agricultural operations are in the nature of continuous activity like any productive economic activity, there is a case for according similar treatment to short-term agricultural advances as that of CC advances. Traditionally, banks have been extending finance in the form of cash credit to retail traders, SSI, medium and large scale industries. Credit limits are fixed taking into account business cycle of specific industry, inventory holding, as well as, working capital gap. It may be recalled that in order to facilitate easy credit delivery to SSI units and later to other non manufacturing borrowers with credit limit up to Rs. 5 crore/2 crore, banks have been advised to fix working capital limits based on turn over method (notwithstanding business cycle of specific activities). Looking at this measure initiated for smooth credit delivery, the present regulatory dispensation with regard to treatment of crop loan accounts, with a caveat that unless the crop loan advances are repaid within the aforesaid stipulated period or brought back to credit, such advances should be treated as NPAs does not appear to be a justifiable stance. In respect of CC accounts, as long as the transactions in these accounts are normal and the interest is serviced at regular intervals, notwithstanding the debit balances in CC accounts, they are treated as standard assets. Drawing from the same logic, if short term agricultural operations are in the nature of continuous economic activity (there are areas where more than two crops are raised and**

in some fertile irrigated areas, between the crops, a short intervening crop is also raised), perhaps it may not be a rational stance for treating these advances as NPAs if the entire principal and the interest is not paid within the stipulated period. Essentially crop loans are in the nature of working capital finance and if the farmer services the interest on the advance at the prescribed intervals, and if there are credit transactions in the loan accounts, such accounts should not be treated as NPAs. This measure in addition to bringing in regulatory parity between CC accounts given to non agricultural borrowers and the crop loan beneficiaries may also bring in positive motivation in banks. The Group, therefore, feels that it is a worthwhile suggestion to examine the feasibility of treating short term agricultural advances akin to CC advances of non agricultural operations for the purpose of classification of assets. While allowing the above treatment the approach should be to assess the total Working Capital requirements of the farmers over a period of one year to 15 months based on land holding, cropping pattern, scale of finance, minimum consumption needs etc. based on a whole-farm approach. The borrower should be under obligation to bring a minimum portion of the sale proceeds to pass through the accounts. This will facilitate the farmers to meet his intra-crop needs for funds. Such advances may be sanctioned as regular Working Capital limits subject to yearly reviews.

Offering agri-credit as a package including both pre and post harvest stages.

3.19 Agricultural activities consist of overlapping cycles viz. pre-planting/preparation of soil for sowing, sowing operations, maintenance of crop leading to harvest, post harvest activities, storage, warehousing and sale. Most banks extend the credit in a two stage process i.e. towards pre harvest and post harvest activities, in each instance he has to separately apply for the finance. The farmer is expected to repay his dues at the time of harvest. However, at this stage the prices of the produce generally crash owing to glut in availability of the produce. There is also a requirement of a “core component” of finance which will enable a farmer to carry out his operations without approaching the bank time and again at each of the above stages. This core component could be specifically worked out for individual crop/ type of land, etc. but on a rule of thumb 40 to 50 per cent of his total requirement of finance. Even in the case of KCC presently, the farmer has to make good his dues before any further amounts could be sanctioned. **Therefore, the Group recommends that just as export credit extends from pre-shipment to post-shipment credit with 180 days time given for realization of the proceeds of export, the farmer should be given a comprehensive package which will enable him to undertake his pre-sowing and pre-harvest activities as also his post harvest requirements until sale of the produce. Banks can fix the due date of the loan in a more realistic manner at a reasonable period after the post harvest stage. This measure can be adopted by the banks without in any way changing the existing prudential norms for arriving at NPAs for**

agricultural loans. If this measure is implemented, the farmer would be greatly benefited in that he would not have to apply to the bank for separate loans at each stage of the crop cycle upto sale.

B. Issues relating to State Governments

Stamp Duty

3.20 While some States such as Uttar Pradesh have liberalized stamp duty requirements for farmers and raised the minimum amount of loan for paying stamp duty to Rs. 5 lakh; Stamp Duty imposed by some state governments (e.g., Maharashtra) on agreements for agricultural loans pose a big problem for average farmers. It not only adds to the cost of loans but also leads to delays on account of non-availability of stamp paper in remote places. At times, the farmers have to go to the far away district headquarters more than once to procure stamp papers. **The Group is of the view that the SLBCs of the respective States should take up the matter with the State Governments concerned to resolve the problem.**

Land Records

3.21 Another major area that affects the bankers and the farmers alike is the lack of proper and retrievable land records system in many parts of the country. Though many State Governments have initiated the process of computerization of land records, a stable database is yet to emerge. In many places, either the computerization process is incomplete or the charge on land holdings is not properly recorded. The available database is not being updated at regular intervals. This leads to delays in sanctioning loans and also increases the transaction cost to the farmers. **The Group suggests that the State Governments should take up this work in right earnest and assign utmost importance to updating relevant database.**

Recovery Procedures

3.22 Of late, the farmers in many areas have been susceptible to propaganda against repayment of their dues. This, in turn, discourages the banks to lend in such areas where repayment record is bad. Simplified procedures and quick repayment of loans are two sides of the same coin. Simplified procedures not only encourage farmers to take loans but also encourage them to repay. On the other hand, if the repayment record is good, the bankers would be encouraged to adopt simplified procedure. Proper counseling and financial education can help the farmers to see through this and understand the nuances. Support from the State Governments in the recovery efforts of the banks will also encourage them to lend more aggressively. **The Group**

recommends that SLBCs in the respective states may bring this fact to the notice of the State Governments and coordinate with them in this regard.

Credit camps during crop seasons

3.23 There is always high demand for loans during crop seasons. This creates tremendous work pressure in the rural branches during this period. At the same time, the farmers find it extremely inconvenient to visit the branch, which may be located at quite a distance from the village. In order to take banking facilities at the doorstep of the farmers, **the Group recommends that the banks in a particular region may organize credit camps in association with the State Government during crop seasons so that the services related to application, processing, sanction, documentation and disbursal may be offered to the farmers through a 'single window' system.**

Crop mapping

3.24 Automated image classification is one of the most widely used techniques to extract thematic information from remote-sensed data on earth. The thematic information is increasingly being used in various fields, such as in agriculture to monitor and estimate crop development and its spatial distribution. This is commonly known as Crop mapping. The up-to-date information provided by such analyses form the basis for deciding and implementing policies and plans for management of agricultural crops in local, regional and global scale. This information can be effectively used by the state governments to decide the suitability of a particular crop at a particular location of the country depending on soil and weather conditions and availability of water. Farmers who decide to cultivate new type of crops of high yielding variety may be swayed by promises of rich harvest, good prices and ready market for certain crops, without having adequate inputs on suitability of the crop for the specific soil and weather conditions, fertilizer and water requirements etc. leading to distress and increasing the burden of indebtedness, often with disastrous outcomes. Given this information asymmetry confronting the farmers, the Group feels that this technique needs to be widely popularized and publicized in order to help the farmers decide on the crop to be cultivated. **The State Governments (Department of Agriculture) may associate with private service providers for crop mapping services and co-ordinate with the farmers so that they can take a holistic and considered view in respect of the suitability of the crop to be cultivated. The Group feels that this kind of hand-holding will be of immense benefit to the farmers.**

CHAPTER – IV

Beyond procedural issues

The problems confronting the farmers in India today are multi-dimensional in nature. Inadequacy of institutional credit due to complex processes and procedures and subsequent indebtedness to the informal sector is only one, albeit, the most important aspect of the crisis. But they can hardly be looked at, or addressed, in isolation. The condition of the farmers is such that by merely encouraging them to approach the institutional sources of credit by simplified processes and procedures and providing them with more and more credit will not solve their problem. In fact, more and more credit will only place them into a quagmire of further indebtedness unless adequate and simultaneous attention is paid to providing an overall enabling environment to agriculture. In fact, the various sub-Groups formed by the members of the Group for interaction with the farmers in various parts of the country had been told on a number of occasions that apart from simplified processes and procedures for agricultural loans, the other issues that are equally important to the farmers are availability of water, electricity, proper marketing infrastructure, warehousing, proper extension services and counseling.

Irrigation and related issues

4.1 As Indian agriculture continues to be mostly weather dependent, provision of adequate water during crop season assumes a lot of importance. However, in reality, availability of water continues to be a problem in the rural areas. Generally, there is shortage of water during the dry months and excessive rains during monsoon. The ground water level is depleting very fast in many parts of the country. While irrigation had long been considered as the only solution to this situation, in the changing scenario, methods of proper water harvesting have been receiving the attention of the experts, policy makers and farmers alike. As water resources become increasingly scarce, sustainability of agriculture will depend a lot on effective management of water resources.

Electricity

4.2 One factor that affects the life of a farmer today is shortage of electricity. As mechanization of farming activities has spread far and wide across the country, farmers have become dependent on tools like pump-sets to draw water for their crop. Therefore, availability of electricity during the farming hours (i.e., mostly during day time) is of vital importance for the farmers. Unfortunately, the power situation in the rural areas of the various states is abysmal. An average of five to six hours of load-shedding/power-cuts during day-time has become the order of the day. In some places, this can extend even further. As a result, the farmers are handicapped to a great extent. Corrective action in this regard is the need of the hour. Only then, sustainability of agricultural operations can be ensured.

Extension services in Agriculture/Counseling

4.3 Today the rural landscape in India is characterized by the lack of adequate extension services in agriculture. There has not been much of an organized effort to streamline the system of extension services. Instead, it is observed that the extension services are largely producer driven. As a result, the producer of an input like seeds, fertilizer or pesticide encourages farmers to use more and more of his product without informing him about the optimum combination of quantities required. The farmers, on one hand, spend much more than required to procure the costly inputs, whereas the output brings in further disappointment. Provision of more credit in such a situation does more harm to the farmer since the tendency is to channelise more and more resources to acquire costly inputs, which may not be necessary at all. The only way to counter this phenomenon is to educate the farmers about the use of costlier inputs, their optimum combination and the possible pitfalls. Provision of extension services and adequate counseling could address this problem and help in improving the condition of the farmers.

Quality of inputs

4.4 As Indian economy gets more and more integrated with the world economy, agriculture in India is getting exposed to different kinds of inputs, which are not time tested like the traditional varieties. A farmer today uses inputs in the form of seeds, fertilizers and pesticides manufactured by numerous agencies and companies. One problem regularly affecting the farmers is the lack of quality assurance in this regard. In many cases, the output is not comparable to the promises made by the manufacturers. There is an urgent need to ensure standardization of these inputs. Further, a serious thought needs to be spared for the accountability aspect for non-performance of these inputs as against the promise made by the manufacturers.

Problems in Marketing

4.5 Marketing of agricultural products has been posing a big problem for the farmers. Problems pertaining to warehousing and transportation are widespread. Existence of middlemen leads to a situation where the farmers do not derive the benefit of increase in prices. The mechanism of Minimum Support Prices (MSP), of late, has not been effective in improving the returns to the farmers. Since the farmers receives low prices for their produce, agriculture, as an occupation becomes unprofitable and therefore, unviable. In this scenario, it becomes imperative to develop marketing infrastructure for agricultural commodities.

Fragmentation of land

4.6 As the population increases, the land size per farmer gets smaller leading to fragmentation of land. As a result, an individual farmer is often left with a farm, which is too small to be viable. Provision of more credit at this juncture does not help matters. Therefore, a thought needs to be spared to break the impasse. However, land being an emotional issue, a sensitive approach needs to be adopted. Counseling can also play a big role in this context.

Crop Insurance

4.7 Farmers all across the country were unanimous in suggesting that crop insurance adds on to their cost without much benefit accruing to them. They, therefore, wanted that the compulsory nature of crop insurance should be immediately removed. The Group therefore suggests that the crop insurance schemes may be made optional.

CHAPTER – V

Conclusions and Summary of Recommendations

The summary of recommendations of the Group and the conclusions arrived at are given below:

1. The application form needs to be simple and uniform across the banks containing two parts – a) basic application form and b) the relevant annexure depending on the activity. The Group is of the view that NABARD may prescribe and circulate the uniform application form amongst the banks for mandatory use. Seeking of additional information by the banks should be discouraged. The Group further observes that the use of local language in application forms should be mandatory. (Para 3.2)

2. The Group recommends that one uniform set of documents consisting of DP note and security documents viz., hypothecation agreement/mortgage deed/guarantee deed, as applicable, may be prescribed by NABARD and circulated among the banks. In case of any specific enactment in a particular State/territory, a separate annexure may be obtained to meet the specific legal requirement. To start with, this should be applicable to all agricultural advances up to Rs. 50,000/-. Gradually, this may be extended to all individual farm loans. (para 3.3)

3. It has been observed by the Group that in a few branches, land documents were obtained and retained at the branch even in cases for loans up to Rs. 50,000/- though no legal charges have been created. This practice needs to be curbed (Para 3.4).

4. The Group is of the view that for small loans up to Rs. 50,000/-, to small and marginal farmers, share croppers etc., the banks may dispense with NDC as a requirement. Instead, a self-declaration from the borrower may be insisted upon to make the procedure simple. For loans of higher value and up Rs. 3 lakh, the Group suggests that the bankers may exchange the list of farmers who have availed loans in fora like Block Level Bankers' Committee (BLBC) (Para 3.5).

5. Having examined the various practices, the Group is of the opinion that a notified/designated authority, viz., the Lead Bank/ local government revenue officer may issue “Kisan Smart Card” to the farmers. These smart cards may be loaded with all the necessary information pertaining to their borrowings, land holdings etc. This will make all the information pertaining to an individual borrower available at a single point and thus render the need for NDCs redundant. However, considering the cost implications, the Group recommends that this may be started on a pilot basis in a state/district, where the awareness level of the farmers is high. Thereafter, the scheme may be expanded depending on experience gained. (Para 3.5).

6. The Group recommends that guidelines giving bankers the freedom to decide the loan amount may be reiterated and DLTC norms should only be used as a broad indicator. The Group further recommends that there ia a need for further liberalization in this regard. The discretion to exceed the scale of finance prescribed by DLTCs by the branch managers/immediate controlling office may be decided by the individual banks.(Para 3.6).

7. The Group recommends that the banks should lay down a transparent and well-defined accountability policy in respect of credit to agriculture, more particularly to small and marginal farmers. Non-obtention of NDCs and other procedural lapses, unless proved malafide, should be kept outside the purview of disciplinary proceedings. (para 3.7)

8. In order to obviate the difficulties of small and marginal farmers, with credit limits up to Rs. 50,000/- no service charge in any form should be collected. For loan accounts exceeding Rs. 50,000/-, the banks should not levy service charges (including inspection charges) exceeding 0.25% of the loan limit per annum. (Paras 2.4(b) and 3.8)

9. The Group recommends that

   i) The rural branches need to be adequately staffed to undertake extensive work in the pre-sanction and post-sanction stage;

   ii) The staff posted may be trained to develop a positive attitude;

   iii) The banks may devise a suitable incentive structure for rural posting including monetary benefits in such a way that rural posting is not considered inferior to other postings. The incentives could have a mix of performance based monetary incentives plus a tenure based posting after which the staff may be given preferential posting to the centre of their choice. An appropriate mix of incentives may be decided by each bank such that it is not rendered unfruitful;

iv) Suitable training modules should be developed for agricultural loans for rural staff. In this regard, the business correspondent/business facilitator module should be propagated and adopted on a larger scale. (Para 3.9)

10. The banks may actively encourage formation of "Farmers' Clubs". In order to make the farmers' clubs more responsive to the needs of the small and marginal farmers, the Group recommends that NABARD may encourage the farmers' clubs to incorporate more members in order to have at least 50% members consisting of small and marginal farmers. An informal credit delivery system through Self Help Groups (SHGs) and Joint Liability Groups(JLGs) may also help individual borrowers, who are wary of approaching the banks for loans. The bank-SHG linkage programme needs to be expanded further for this purpose. The Group is of the view that in order to provide focused attention to this vital area, Reserve Bank of India/NABARD may take steps to propagate financial education through counseling etc. in backward areas with necessary funding, if required. In order to accelerate financial inclusion, a few districts (other than those identified by the SLBC of the respective States) of each State may be selected by taking the services of outside agencies such as, NGOs, Farmers' Clubs etc. This will upscale financial inclusion. (para 3.10)

11. The Group recommends that the banks should actively consider opening of counseling centers, either individually or with pooled resources, for credit and technological counseling. The bank branches should also display as much information as possible for the benefit of the farmers. The counseling centers should have the facility of on-line submission of applications, which may be forwarded to the branches.(para 3.10)

12. The banks under the aegis of Lead Banks should hold 'awareness melas' in districts wherein agriculture related issues including improved agricultural practices, minor irrigation, lending schemes of various banks etc. could be discussed extensively. The concerned extension officers/development officers of the local government should also be involved in the process. (Para 3.10).

13. A special thrust in matters of financial education is required in the relatively under-developed regions. Banks may consider evolving a generic financial education module in different languages. Broadly, the module content can be: need for savings, budgeting, advantages of banking with formal financial institutions, various products offered by the banks, insurance companies etc. These modules should be easily understood and should be

widely disseminated through different media through awareness melas and counseling centers. (Para 3.10).

14. Banks may consider setting up of Centralised Processing Centres at regional levels to bring uniformity of approach and achieve efficient allocation of scarce human resources (Para 3.11).

15. The Group recommends that RBI instructions to banks on KCCs may be reiterated and the review mechanism may be strengthened with focus on small and marginal farmers. (Para 3.12)

16. The Group is of the view that all loans up to a credit limit of Rs. 50,000/- may be disposed of by the banks within a fortnight and those for higher credit limits, say, up to Rs. 3 lakh, within 4 weeks (Para 3.13)

17. The Group recommends that the internal inspection of the banks should invariably comment on the implementation of the guidelines relating to rejection of applications and any non-observance thereof, without sufficient ground, should be accorded attention at the highest level (Para 3.14).

18. The Group recommends that the banks may consider extending credit to the landless labourers, share-croppers and oral lessees based on the certificates provided by local administration/Panchayati Raj Institutions regarding cultivation for a minimum period of three years and overall viability criteria (Para 3.15).

19. The branch visits and the reporting system of the LDOs should be made more effective. (Para 3.16)

20. The Group recommends that agricultural loans may be extended as a part of a composite loan package comprising various components as per the requirement of the farmers on the basis of 'whole-farm' approach. (Para 3.17)

21. The Group feels that it is a worthwhile suggestion to examine the feasibility of treating short term agricultural advances akin to CC advances of non agricultural operations for the purpose of classification of assets. Such advances may be sanctioned as regular Working Capital Limits subject to yearly reviews. (Para 3.18).

22. The Group also recommends that just as export credit extends from pre-shipment to post-shipment credit with 180 days time given for realization of the proceeds of export, the farmer should be given a comprehensive package which will enable him to undertake his pre-sowing and pre-harvest activities as also his post harvest requirements until sale of the produce. (para 3.19)

23. The Group is of the view that the SLBCs of the respective States should take up issues relating to Stamp Duty with the State Governments concerned to resolve the problem. (Para3.20)

24. The Group suggests that the state governments should take up the work of computerization of land records in right earnest and assign utmost importance to updating the database (Para 3.21).

25. Simplified procedures not only encourage farmers to take loans but also encourage them to repay. On the other hand, if the repayment record is good, the bankers would be encouraged to adopt simplified procedure. (Para 3.22).

26. Support from the state governments in the recovery efforts of the banks also will also encourage them to lend more aggressively. The Group recommends that SLBCs in the respective states may bring this fact to the notice of the respective state governments and coordinate with them in this regard (Para 3.22).

27. In order to take banking facilities to the doorstep of the farmers, the Group recommends that the banks in a particular region may organize credit camps in association with the state government during crop seasons so that the services related to application, processing, sanction, documentation and disbursal may be offered to the farmers through a 'single window' system. (Para 3.23)

28. The State Government (Department of Agriculture) may associate with private service providers for crop mapping services and co-ordinate with the farmers so that they can take a holistic and considered view in respect of the suitability of the crop to be cultivated. (Para 3.24)