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CHAPTER - III  
LONG TERM FINANCE  
BY THE BANK

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Policies and Procedure :

The District Central Co-operative (DCC) Banks are normally allowed to advance short term loan and medium term loan. DEC Banks are not normally allowed to make long term financing for agricultural development. The Land Development (LDB) Banks are provide long-term finance for agricultural development in the capacity of a long term financing agency under M.C.S. Act 1961. But then, the Limited branches of the LDB and shortage of funds with them, so also the lengthy loan procedure followed by this bank, the demands of the farmers for long term loans required for their capital improvement projects are not fully satisfied by the LDB. And as such the primary Agricultural Credit Societies (PACS) who are fully dependent on DCC Banks for their S.T. and M.T. loan requirements were pressurising the banks to give loans for longer repayment period. This very fact was put before on different forms by the DCC Banks and request were made to allow these banks to do long term financing.

Reserve Bank of India (RBI), as desired by the Govt. of India ( GOI) and in consultation with them appointed in September 1975

a Committee for studying the feasibility of integrating the two wings i.e. (i) S.T. & M.T. & (ii) L.T. Financing of the co-operative credit structure in the country, under Chairmanship of Dr. R.K. Hazari, Deputy Governor of the RBI and Chairman of the ARDC, recommend that the two wings of the co-operative credit structure should be integrated at all levels, viz. the primary, the intermediate ( district) and the apex (state). The Short-term & long-term wings of the co-operative credit institution have different structural patterns. In the integrated structure, the Committee visualised that there would be a three-tier structure comprising the apex level, the intermediate level and the primary level institutions. These recommendations could not be implemented because of resistance from the co-operative workers, particularly working in LDBS.

Another historical development needs a mention at this stage. National Bank for Agriculture and Rural Development (NABARD) was established in 1982. A part of Agricultural Credit Department (ACD) of Reserve Bank of India and the Agricultural Refinance and Development corporation ( ARDC) were merged into NABARD at the time of its establishment. Under Section 25 of the National Bank for Agriculture & Rural Development Act of 1981, NABARD

will provide long term loans and advances by way of refinance on such terms and conditions as it may think fit to impose on LDBs, scheduled banks, SCBs or any other financial institution for promoting agricultural and rural development.

NABARD, after its establishment favourably considered the request of DCC Banks of 'Credit for Development' approach making 10% rate of interest to the ultimate borrowers for their long term projects and allowing one to three years as gestation period for the implementation of project. This allowance made by the NABARD was very widely accepted by all the DCC Banks and also the State Co-operative Banks.

Policies of Long-Term Finance :

There is no specific financial provision made by the Bank for long term finance. As and when necessary, as per demands made by the farmers for lift irrigation schemes, the Bank tries to meet the needs for Long Term Financing.

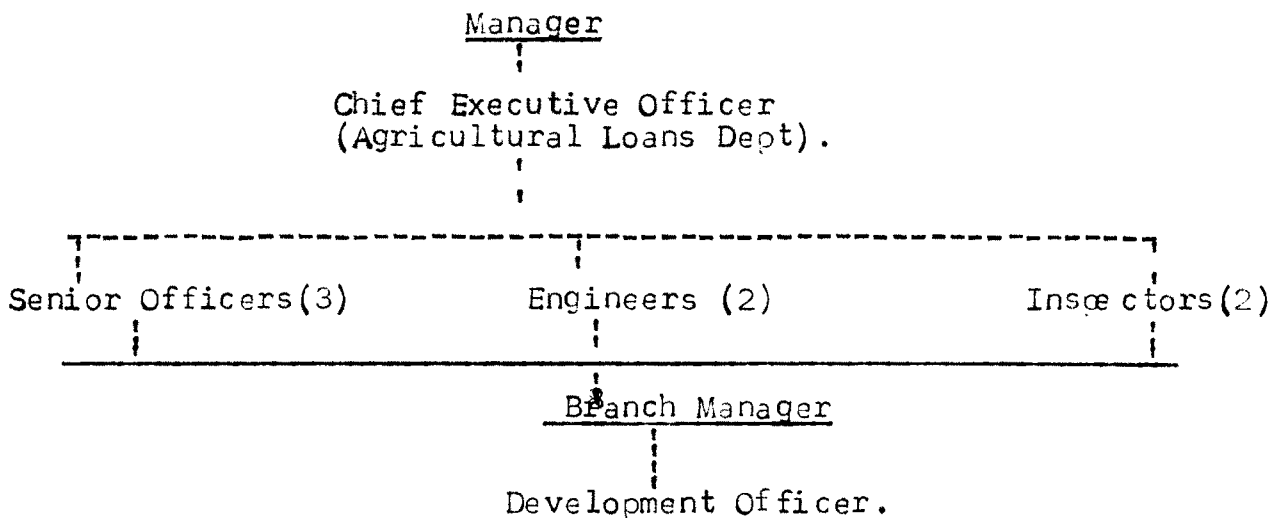
The Bank has been allowed by the Commissioner for Co-operation and Registrar, Co-operative Societies, Maharashtra State, Pune to work as Land Development Bank under Sec. 142 of the Maharashtra Co-operative Societies Act, (MCS Act) 1960.

It is one of the condition of the permission given by the Commissioner for cooperation and the Registrar Co-operative Societies, Maharashtra State, Pune that the L.T. Finance should be made to such purposes which are approved by the NABARD and such purposes for which NABARD gives refinance. These purposes are minor Irrigation, Lift Irrigation, Schemes, Pipe lines, Poultry, Horticulture, Grape Garden, Social Forestry etc. But today the Bank advances, long term loans only for following purposes.

- i) Construction of Godowns ( to PACS)
- ii) Construction of houses by the Bank Employees
- iii) Lift Irrigation Schemes.

Organisational Aspects :

Organisation Chart ( Partial) in respect of Long-term lending for agricultural development as obtained in the Bank may be drawn in the following manner :-



Senior Officers, looking after agricultural loans, are three in number followed by Engineers ( two , in number) . Inspectors (are expected to visit the schemes. Engineers look after the technical appraisal. Loan applications are scrutinised and put up for sanction through Chief Executive Officer ( Agricultural Loans section) and Manager of the Bank. After sanction of loans, the sanctioned loan-papers are sent to the Branch Manager concerned for execution of Mortgage Deed and disbursement of loan. Branch Manager is assisted by Development Officer who supervise the work of Lift Irrigation Scheme, recommend payment of loan instalment if the work is satisfactorily progressing and look after the recovery of loans .

Legal Procedure :

As per loan policy formulated by the Bank the Finance made to lift Irrigation schemes, is to be repaid within a period of more than 7 years, extended maximum upto of 15 years. Technical feasibility and economic viability of the L.I. Schemes are the major factors considered by the Bank at the time of sanctioning the loan. New irrigation schemes as well as extension of the old schemes are eligible to get the long term finance made by the Bank. Apart from technical feasibility and economic viability schemes considered for sanction must satisfy other conditions of the NABARD.

Loan Limits :

Loan will be sanctioned after considering the total expenditure, income and repaying capacity of the beneficiaries taken together. The beneficiaries' capacity of raising loan will be taken to be 60% of the total value of land. The value of the land will be eight times of the net incremental income. This is further subject to about 85% to 90%, of the total capital expenditure for the scheme.

Demand for Loan :

Previously the loan application was to be forwarded to the Bank alongwith the project report. Henceforth as per the improved loan policy the society should take technical sanction to the L.I. Scheme. After obtaining this sanction from the Bank, a demand of individual members for long term loan must be made to Bank.

Project Report :

The Society is to arrange for the six copies of the report of the scheme, prepared by the authorised engineers. A copy of resolution, in prescribed form, for demanding the loan is to be attached to the loan application. It is to be submitted to the

to the concerning branch inspector. After his scrutiny it will be forwarded to the Divisional Officer. The Divisional Officer should register it in the inward register and sign it after mentioning the inward date on it. When it is taken in the inward register the Divisional Officer is to get it confirmed that all the papers are submitted by the PACS as per the NABARD check-list. If some papers are not submitted then it should be conveyed to the concerned society in writing, a copy of which is to be submitted to the Head Office, of the Bank. If all the requirements are fulfilled in the prescribed form, 5 copies of such application are to be sent to the head office of the Bank for sanction.

Such proposal will be scrutinised by the civil engineers of the bank. If the project is technically feasible and economically viable, on sanctioning of the scheme by Executive Committee or the Board of Directors of the bank technical sanction will be conveyed to the society.

The society should obtain the following papers from the beneficiaries :-

1. Members' applications for the loan
2. a) 8A and 7/12 abstracts of the command area according to 3A ( except 7/12 abstracts of area below 5 gunta).  
b) Papers about any change in the ownership of land within a period of immediately preceding 12 years. If there is no change the Talathis' Certificate about it.



3. Members' agreement. Undivided
4. Consent of the Karta (Head) of the Hindu/family (HUF) related to beneficiaries for the L.T. Loan.
5. Consent form regarding irrigable area of the well.
6. Certificate regarding the society's overdues.
7. No dues Certificate from Talathi about dues of the Revenue Department.

After taking the above papers from the beneficiaries the society is to arrange for the following :-

1. Loan application of Lift Irrigation ( LI SOCIETY)Society/ Scheme.
2. Resolution of the L-I.Society demanding loan.
3. Demand sheet of loan
4. Extracts of financial position of last month of the society.
5. List of defaulter members
6. List of outstanding loan of the members of managing committee of the society.
7. Permission letter from the Irrigation Dept. of the Govt. for lifting water from the notified rivers from which the water is to be lifted for the scheme for a minimum period of 12 years.

8. Permission letter from M.S.E.B. regarding supply of Electricity for the scheme.
9. Resolution giving authority to the Bank to re-mortgage the land which is already mortgaged.

Alongwith the papers mentioned above, the society is to be forwarded the application of loan to the concerned Divisional Officer through the concerned branch inspector of the Bank.

As per the provisions of M.S.C. Societies Act and Rule No. 93 (8) Proforma 'S' the Divisional officer is to prepare Proforma 'S' i.e. a Public notice in 5 copies and send them alongwith a copy of members' application to the Registrar/Assistant Registrar, co-operative Societies or to the Block Development Officer. This is to be done within two days after the demand for the loan is made.

The Public Enquiry Officer ( the Assistant Registrar or the Block Development Officer) is to give 8 days public notice to all the concerned persons to take objection, if any, regarding the land to be mortgaged. The Public Notice is fixed at the village Chavadi and also for giving publicity by beat of drums at the village and copy of the notice is also to be exhibited at the office of the society/L.I. Society.

The Public Enquiry Officer is to send order in the prescribed form No.13 to the Enquiry Officer of the Bank( i.e. concerned Divisional Officer) within two days after the ' hearing ' date for the " Public Notice " is over. As per record from Registrar of Taluka, the Bank Enquiry Officer is to prepare a chart in the prescribed form regarding sales-purchase transactions of the beneficiaries land since last 12 years. The beneficiaries, in the presence of the panch ( i.e. five persons) is to evaluate the land as per the norms and the existing rate in that locality and ' Panchnama' is to be made in the prescribed form. Under Rule 93 (ii) the Enquiry Officer is to arrange for all such papers within 15 days after receiving the necessary papers from Public Enquiry Officer. At least 75% of the total beneficiaries' land as well as 75% of the total land should be worthy of mortgage.

Cost per acre will be finalised by the bank after technical sanction of the scheme. Capital expenditure per acre excluding 5% to 15% own investment is to be recommended for the beneficiaries as per their area to be benefitted ( As per NABARD definition proportion of own investment is 5% to small farmers ( holding 1 to 2 hectares of land) 10% to medium farmers ( holding more than 2 and below 10 hectares of land). 15% to Big farmers ( holding more than 10 hectares of land) ).

Excluding the non-cultivable land as shown by the 7/12 abstracts, the remaining area is to be treated as area under cultivation. After arranging for all such necessary papers the Divisional Officer is to forward this loan proposal to the Head Office of the Bank within one month after the demand for the loan.

Disbursement and Utilisation of Loan :

After the sanction of the loan from the Head Office of the Bank, the conditions governing the sanction of loan should be fulfilled by the society . The Divisional officer should look after it before any amount is disbursed. As per the conditions laid down in the sanction & letter of the loan & Steering Committee' to which the ' Panch Committee' has given the authority, is to be established. The president of society, the Engineer appointed, the Enquiry Officer, of Bank will be members of this committee. This Committee should look after the day to-day work of issuing, sanctioning tender's and quotations and implement the scheme on making necessary agreements with the companies or contractors on the basis of the quotation.

Before receiving the amount of loan, the society must have fully utilised its amount of own investment. In this connection the engineers of the Bank must accept the certificate of the

of the engineers appointed by the society. The land of the members is to be mortgaged to the society. The Society should obtain the authority letter from the beneficiaries for transferring the sanctioned loan to current account of the society in the proforma prescribed by the Bank. The Branch Inspector/ Divisional Officer should allow the demand of the society after fulfillment of the security i.e. mortgage of the land. The loan which is to be sanctioned is to be transferred to the current account of the society.

On the basis of the certificate from the appointed engineer and the recommendations of the engineers of the Bank the Divisional Officer may disburse the amount of loan.

Recovery of Loan :

First instalment of the loan is due after 23 months from the first disbursement of the loan. During this period, society should pay only the interest amount due. From the 24th month i.e. from the 2nd year, society should pay the instalment of principal amount as also the interest due on it.

Methods of Financing by the Banks :

The Bank advances long term loans for lift irrigation in following three ways-

Direct Financing :

- A) Loan to be given for meeting capital expenditure of the Lift Irrigation schemes, to lift Irrigation societies registered under MCS Act.

Indirect Financing :

- B) Loan for Lift Irrigation through PACS.  
C) Loan to the lift Irrigation section of PACS.

Procedure of advancing loan under this method is outlined earlier in this chapter. Other terms and conditions are as follows :-

Eligibility of Lift Irrigation Society : -

1. The work of the society demanding for the loan should be satisfactory and the managing committee should be efficient.
2. There should not be any overdues of the society and any kind of fraud in the society.
3. There should be provision for raising long term loan in the bye-laws of the society. If this provision is not sufficient then such permission should be sought from the Co-operative Department.

4. Only such schemes are taken into consideration where sufficient water is available.
5. As per demands of the society, 50% of the total loan will be given to the society and remaining part of it will be given after obtaining sanction from the NABARD.
6. The land, building, machinery and other immovable property of the society must be mortgaged to the Bank and other movable property of the L.I. Society hypothecated to the Bank.
7. The Managing Committee members of the society are jointly and severally responsible for the loan repayment.
8. The Machinery and other property of the L.I. Society must be insured every year in the name of the society and the Bank jointly and such policy should be kept in the custody of the concerned branch of the Bank. The Bank will have the authority to make this requirement compulsory. If the society fails to do so then necessary insurance premium will be debited to the account of the society and paid to the Insurance Company.
9. Loan is given only if the utilization of the previous disbursement of loan is found satisfactory.
10. Before raising loan, the society should arrange for an agreement in prescribed form with company/firm supplying the material like machinery, pipe line etc.

11. Loan sanctioned by the Bank is to be shown in the names of respective members in proportion to the land to be brought under irrigation.
12. Loan shown in the members' names should be deposited on Expenditure deposit Account of the society. Under any circumstances, a member will not get the loan in cash.
13. Water charges collected from the beneficiaries should be debited to the loan account of the L.I. Society and deposited on the Bank Account of the Lift Irrigation Scheme.
14. Members should give authority to the concerned Lift Irrigation Society to take 1/3 amount of sale of crops for water charges.
15. After taking water charges and subtracting the daily expenses of the scheme, the remaining amount should be deposited on the capital loan and it should be further debited to the members' deposit accounts.

B) Loan for Lift Irrigation Through PACS:

Procedure of advancing loan and terms and conditions under this method are as mentioned earlier. Additional conditions are as follows :-



1. PACS should have at least 75% recovery of the loan during the last co-operative year. The concerning branch inspector of the Bank must ensure that loan would be repaid in time.
2. Beneficiaries and PACS should give their authority letter for remitting amount/loan amount to the Lift Irrigation society without their permission.
3. Managing Committee of PACS should pass resolution to the effect that it takes guarantee of depositing loan amount in the accounts of the beneficiaries of the Lift Irrigation society.
4. The amount so deposited should not be paid to any beneficiary without prior permission of the Bank and such resolution of guarantee should be furnished.
5. After subtracting the daily expenses, the remaining amount of the water charges collected by the Lift Irrigation Society from the beneficiaries should be debited to the deposit account of beneficiary & should be credited to the loan account of the PACS.

C) Loan to the Lift Irrigation Section of PACS.

Procedure of advancing loan and other terms and conditions are same as mentioned under A and B above.