CHAPTER - 4 : THE AVENUES AND IT’S NORMS.

4.1 AVENUES OF

I) National Bank for Agriculture and Rural Development (NABARD)

II) Manipur Rural Bank (MRB)

III) Manipur State Co-operative Bank Ltd. (MSCB Ltd.)

(in relation to Agriculture and allied activities).

4.2 Principle of Lending.

4.3 Loan Operation and Criteria of Overdues.

4.4 Interest and Penal Interest

4.5 Normal Time for Loan Disposal

4.6 Eligibility

4.7 Sanctioning Authority.
CHAPTER - 4 : THE AVENUES AND IT'S NORMS

In the changed context and new policy initiatives, quality of credit is an important as credit expansion. If quality is not taken care of the thrust given for credit expansion cannot be achieved. There are many components of credit, which determines the quality of credit. The major ones are listed below:

i) Utilisation of credit for the purpose for which it is given and

ii) Timely recovery of loans in other to faster recycling of resources.

The above factors help the banks in expanding credit with confidence and to increase profitability by earning more interest income. In such bank like NABARD, the sources of funds are unlimited. It can be from internal or/and external sources. Short term general line of credit from RBI, National Rural Credit Fund, Borrowings from central Government etc. are the examples of internal sources. The external sources are World Bank Group, IFAD and other countries like UK, West Germany, Canada Netherlands etc. These credits are again distributed to the eligible institutes like RRBs and SCBs from time to time by NABARD. In Manipur, MRB, MSCB Ltd. and some other banks seek refinance from NABARD. The following are the avenues of NABARD, MRB, and MSCB Ltd. in which these banks can refinance or deliver credit in agricultural and allied activities.
4.1: AVENUES OF

I. National Bank for Agriculture and Rural Development (NABARD)

NABARD is an Apex Development Bank in the country for supporting and promoting agriculture and rural development. It provides through the financial and banking system in several lines of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and other allied economic activities. The eligible institutions in which NABARD can refinance are i) Regional Rural Banks (RRBs), ii) State Co-operative Banks (SCBs), iii) State Land Development Banks (SLDBs), Commercial Banks (CBs) and iv) Other financial institutions approved by RBI. The bankable avenues of NABARD in agriculture and allied activities in the State are brought out as under:

A. Investment Credit for Agriculture.

1. Minor Irrigation:

The minor irrigation schemes are most suitable and advantageous activities for the State, as they are cost effective, easy to install, maintain, operate and have short gestation period. In the hilly areas where rainfall is heavy, water conservation structures for impounding rain water,
reclamation of foot hill areas of gentle slopes for wet cultivation can be exploited.

The central Ground Water Board has assisted total estimated potential of 17,000 ha. through construction of tube-wells in areas of Imphal West, Thoubal, Bishnupur Districts and part of Churachandpur District. Similarly, construction of dug-wells in selected areas like Sekmai and Serou can be tried to exploit ground water potential available in these areas. Installation of Windmill and Hydrams in hilly areas has a good potential.

Investment credit can be extended by the banks, to exploit the above potentials in order to increase production and productivity of land.

2. Land Development:

Land development activities like bunding, leveling, terracing, fencing, farm-ponds etc. are inevitable for improving agricultural productivity and also maintaining the ecological balance to a great extent. Discussions with Soil Conservation Department revealed that there is a scope for farm ponds and composite farm development in the State. The farm ponds are basically water-harvesting structures made for storing excess runoff for providing supplementary irrigation. The composite farm development includes investment on bunding, leveling, fencing, farm
ponds etc. Land development activities are more significant in the hill districts of the State where the topography is hilly and due to the practice of Jhum Cultivation, erosion and degradation of land takes place on a large scale.

3. **Farm Mechanisation:**

In order to maximise productivity of land, obtain economy of scale in agricultural operations and facilitate movement of agricultural inputs and outputs, use of tractors, power tillers and other farm implements are necessary. With the growth in irrigation facilities the demand for credit towards farm mechanisation increases. Therefore, investment credit in farm mechanisation is also essential.

4. **Plantation/Horticulture:**

The State has been bestowed with most suitable climatic conditions for the cultivation and introduction of different types of horticultural crops such as fruits, vegetables, flowers, ornamental plants, spices and aromatic and medicinal plants of high commercial and economic value round the year. However, horticultural crops are cultivated by farmers in homestead gardens and orchards as a non-commercial enterprise. At present, there are 27530 ha. under fruit, vegetables and spices out of the total potential area of 277069 ha.
available in the State. In the recent past, cultivation of pineapple, potato and vegetables is taken up on commercial scale in many places of the State. The major fruit crops grown in the State are Pineapple, banana, orange and lemon.

Although the State has tremendous potential for development of this sector, its growth is almost stagnant due to traditional way of cultivation, long gestation period involved in fruit crops, absence of proper transport, processing and organised marketing arrangements. Therefore, institutional credit support together with infrastructural facilities and on credit inputs is necessary to exploit vast potential available in this sector.

B. Investment Credit for Allied Activities:

1. Animal Husbandry:

In the rural areas, next to agriculture, the animal husbandry is major activity of the people of Manipur. With the introduction of commercial poultry farming, dairy development and piggery, more people are switching over to this extensive farming as a source of gainful employment and not merely a back yard activity. Institutional credit support is necessary to exploit available potential in this sector, so that production of livestock and milk, eggs, meat etc. can be increased to meet the requirements.
2. **Fisheries:**

Fishery assumes great significance in Manipur as almost all the people of the State are fish eaters. Composite fish culture and paddy-cum-fish cultural are practiced in Manipur. Around 15,000 ha. water spread area is already under fish culture, of which, 14,000 ha. are in the four valley districts. There is plenty of waterlogged area suitable for pisciculture. At present there is a deficit of 50% in the production of table fish as compared to demand in the State. A part of the deficit is met by importing fish farm neighboring States. The State has vast potentials for development of fisheries in ponds, tanks, lakes, marshy areas, swampy areas, rivers, reservoirs, submerged cropped land, low lying paddy fields etc. Institutional credit support is necessary to increase productivity of fish from fresh water resources through extensive and intensive fish farming and to provide employment to educated unemployed youth.

3. **Storage Godown/Market Yard:**

Marketing of agricultural produce in the State has not been systematically organised. There is no regulated market and the present infrastructure is not adequate to house the produce, particularly in the capital Imphal. For want of storage go-down cold storage facilities, the
bulk of the produce is sold immediately after harvest resulting in distress sale during the peak season particularly in case of perishable commodities. Therefore, there is a great necessity to inflow credit assistance in this sector.

4. **Biogas:**

Biogas as a renewable source of energy is an important element in bringing about an integrated development of the rural areas, since it meets the domestic requirements of fuel and the by-products i.e., slurry, can be used as manure in the farms. To promote this sector, institutional credit is important.

5. **Others (Work Animals/Bullock Cart):**

Bullocks and bullock cart are used extensively for farming and transporting rural farm produce. Mechanisation of farming will take some more time to replace bullocks for tilling the soil in view of the existing socioeconomic condition of the people, crop technology, small size of land holdings, etc. So, investment credit in this sector becomes more needed.
C. Crop Loan:

Paddy is the major crop in the State. It is being cultivated in about a gross sown area of 2,05,000 ha. It is followed by pulses, mustard, maize, potato, sugarcane, vegetables etc. As per the available data, about 72,000 ha. is under H.Y.V. and 43,000 ha. is under improved varieties. The annual production of paddy was about 3,86,450 tonner during 1996-97. There is a vast scope for significantly improving the productivity and production of major crops through an effective extension service, a gradual shift from traditional to modern methods of farming and adequate production credit. Due to the weaknesses of the MSCB Ltd. and MRB, crop loan support to farmers is nearly absent in the State. But, NABARD has avenues in this regard also.

II THE AVENUES OF

Manipur Rural Bank (MRB)\textsuperscript{7}:

The avenues for financial assistance given by MRB in agriculture and allied activities are:

1. **Scheme for loans for Irrigation**:

The scheme includes lifting of ground water by sinking, deepening and boring of wells which are either animal operated or on which devices like tube wells and pump sets are installed, as well as utilizing the available surface water by laying field channels or pipelines or otherwise. The proposals put up by the intending borrower must, however, be technically feasible and financially viable. Technical feasibility of the project may either be verified from the State Ground Water Survey Commission or the State Agriculture Department.

*Eligibility:*

The intending borrower must have adequate holding so as to support the proposed investment in a viable manner. If, however, the land holding of an individual farmer is smaller, the investment credit may be allowed by way of group lending to the farmers with contiguous land holdings if workable arrangement is proposed by them.

*Nature of Facility:*

Financial assistance shall be provided by the bank as a medium term loan. The mode of disbursement of which shall be depending upon the type of investment. Disbursement of the part of loan relating to the
purchase of major equipment like pump set, Persian wheel, etc., should be made by making payment to the price to the dealer on behalf of the borrower. In respect of small equipments, which may have to be purchased from more than one dealer the payment may be allowed to the borrower directly to facilitate purchase of the assets. Disbursement of loan in respect of labour charges involved in the project financed may also be made in cash to the borrower by installments at suitable stages.

Repayment:

The repayment of bank dues shall be scheduled in suitable installments linked with harvest and marketing of crops over a period of 7 to 10 years depending upon the incremental income to the farmer and his repaying capacity. The repayment period may also include repayment holiday in the initial year keeping in view the gestation period of the investment.

2. Scheme for Equipments and Implements:

Under this scheme loans may be allowed for purchase of agricultural machinery equipments and implements including threshers, harvesters, plant protection equipments, storage bin, etc.
Eligibility:

Farmers engaged in cultivation of land within the command area of the lending branch office of the bank shall be eligible to raise such loans under the scheme. It shall, however, be seen that the intending borrower has land holding enough in size to sustain the investment.

Nature Facility:

The financial assistance shall be granted as medium term loan. Disbursement of the loan may be made in one lump sum or installments according to the requirements of the project.

Repayment:

Repayment schedule proposed in respect of recovery of bank dues for purchase of equipment, etc. is for an aggregate period of 3-5 years depending upon the incremental income and capacity of the borrower to repay.
3. **Scheme for Cart and Draft Animals:**

Financial assistance for purchase of carts whether with pneumatic-tyres or with wooden-iron-rimmed wheels may be provided with an objective of facilitating the transport of agricultural inputs and farm produce and such other purposes. Like-wise the financial assistance may be required for purchase of draft animals for the purpose of either plying the cart or for other agricultural operations as well.

*Eligibility:*

The intending borrower should have at least 2 acres of land to make the proposal economically viable. The minimum land holding criteria may be reduced to one acre where specific scheme is formulated on area approved basis. Vicinity of the scheme area to the township makes the investment rather viable as the farmers would normally be engaged in vegetable cultivation, etc., which shall yield higher returns.

However, a person belonging to the category of farmers having land less than aforesaid limits or even landless agricultural labourers may also be financed under the scheme where the financing is made a view to provide the borrower with self-employment opportunity of using the cart of hire for transport of agricultural inputs and farm produce, etc.
Nature of Facility:

The loan shall be granted for purchase of cart and draft animal, as the case may be in the form of a medium-term loan. Credit may be provided only in respect of young animals within the age-group of 4 to 6 years and the animals must be castrated and draft-worthy.

Repayment:

The loan will be repayable over a period of 4-7 years depending upon the repaying capacity of the borrower. Whether financial assistance is provided only for purchase of draft animals or for purchase of both card and draft animal(s), shall also have bearing upon period of repayment of loan.

4. Scheme for Dairy Financing:

Maintenance of milch cattle is an activity ancillary to farming and it is very helpful in supplementing the income of the small farmers. The financial assistance may be provided under this scheme for the purchase of good quality indigenous cows and buffaloes or for cross breed or exotic cows with an objective of increasing family income, through sale of milk. Apart from financing for purchase of milch cattle, proposal may also
be considered under this scheme for construction of cattle sheds or for purchase of dairy equipments and feed/fodder.

*Eligibility:*

The borrower may be a small farmer or landless agricultural labourer or other persons desirous of engaging himself in dairying as his main or subsidiary activity.

*Nature of Facility:*

The financial assistance for purchase of milch cattle, construction of cattle shed or for purchase of dairy equipments, etc. shall be provided by the bank as medium-term credit. In cases where the borrowers are not capable of providing fodder for the animals maintained by them from their own fields and are dependent on purchased feed and fodder for the purpose, they may be extended additional credit facility if required for purchase of fodder and concentrates, etc., for initial period of, say 2-3 months. The financial assistance for this purpose may be provided as an integral component of the loan granted for purchase of milch cattle.
Repayment:

The repayment of loan in respect of milch animals may be scheduled in monthly installments in a maximum period of five years. If, however, the loan has been simultaneously granted for construction of shed and/or dairy equipment, etc., longer repayment period of up to six years may be allowed depending upon economic viability of the proposals and repaying capacity of the borrower. In cases, however, where the milk supply is reduced due to tenable reasons the repayment installment may be suitably rescheduled to make them commensurate with the repaying capacity of the borrower.

5. Scheme for Poultry Credit:

Farmers often take to poultry farming as one of their supplementary activities to augment their income. The activity is particularly advantageous to small farmers whose holdings are not adequate to provide them with sufficient income merely by cultivation of crops. Likewise, landless agricultural labourers also can be gainfully employed in such an activity especially for making use of their spare time. Besides, poultry farming may also be taken up as a vocation by an entrepreneur for engaging himself fully in the activity. A poultry farmer may be engaged
in egg production by keeping layers, or else, he may be running a broiler farm where birds are reared for table purpose.

*Eligibility:*

The intending borrower may belong to the category of small farmer or landless agricultural labour proposing to establish or enlarge a poultry farm. He may be an experienced entrepreneur proposing to take up the activity of poultry farming on commercial basis as his main business. However, technical feasibility and economic viability of the proposal shall be one of the important prerequisites to be ascertained before allowing financial assistance.

*Nature of Facility:*

Bank shall provide loan for construction of shed for keeping the birds, purchase of poultry equipment, purchase of day-old-chicks, feed and other working capital requirements. For the purpose of construction of shed and purchase of equipment financial assistance shall be provided as "investment credit" for meeting day-to-day requirements.
Repayment:

The investment credit shall be recovered from the poultry farmer over a period of five to six years depending upon the repaying capacity of the borrower in monthly installments. The repayment schedule shall, however, commence after suitable gestation period - nearly six to seven months in the case of layers and three months in the case of broilers after purchase of day old chicks by the poultry farmer. The repayment of production credit may start immediately after the birds start laying eggs or in the case of broilers after first lot of broiler chicks purchased is ready for sale, in a maximum period of 18 months and 12 months respectively.

6. **Scheme for Financing Piggery:**

Piggery is yet another ancillary agricultural activity and is very helpful to farmers especially the small one, in supplementing their income. The utility of these activities has increased with the distribution of surplus land amongst the erstwhile landless agricultural labour particularly those belonging to SC/ST categories.

**Eligibility:**

Farmers and landless agricultural labour desirous of setting up piggeries as ancillary or main activity will be eligible for loans under the
scheme. Persons having some experience in the line should be preferred. Adequate market arrangements for products of piggeries, is essential to ensure regular flow of income to the borrower.

_Nature of Facility:_

Financial assistance may be provided for purchase of exotic boars like Large White Yorshire, Middle White Yorkshire, Large Black, Saddle Black etc., as well as for purchase of sows of improved breed. For rearing of pigs, loans shall be provided for purchase of weaner piglets, which may have to be reared for periods of nearly nine months before they can be disposed of in the market. Besides, loans may also be provided for construction of pigpens and purchase of feed, medicines and other requirements of routine nature for a period of nearly nine months after which the pigs would be marketed.

_Repayment:_

The financial assistance for purchase of boar and sows and for construction of pigpens would be recovered as a medium term loan in quarterly or half yearly installments over an aggregate period of nearly four years. The repayment holiday of initial nine to twelve months would be allowed towards gestation period. Working capital loan, if given for
purchase of weaner piglets and feed, etc., separately shall be recovered in a period of nearly 18 months from the date of advances.

7. **Scheme for Financing Rearing of Sheep and Goats:**

Sheep and goat rearing serve as a source of subsidiary income to a large number of rural people. Main sources of income are wool, meat and manure and to a small extent goat hairs and skin of the dead animals. Some breeds of sheep and goat also provide additional income through milk products.

*Eligibility:*

Farmers and landless agricultural labourers desirous of setting up breeding and rearing units as ancillary activities or other entrepreneurs intending to adopt it as main activity may be financed by the bank.

*Nature of Facility:*

The financial assistance shall be provided in the shape of term loan and the extent of loan shall depend upon the size of the unit. Loan would not be normally required in respect of working capital requirements. However, it may be provided as an integral component of investment credit especially in the case of units run on commercial lines.
Repayment:

The term loan shall be recovered in a period of nearly 4 to 5 years in quarterly or half yearly installments with repayment holiday of nearly 9 to 12 months. The repayment of the installments shall coincide with the sale of lambs, and sheering of wool etc.

8. Scheme for Financing Fish Farming:

Development of fisheries is intimately related to the improvement of socioeconomic conditions of fishermen who are among the most under privilege sections of the society.

For fish farming, financial assistance may be required for construction of new ponds as well as renovation of existing ponds. Besides the loan may also be required for purchase of nets, ropes, hooks, shovels and other such accessories apart from purchase of fish seed and feeding material.

Eligibility:

Loans may be given to fish farmer who either have some background and technical know-how or else have undergone suitable training programme for the purpose of undertaking the activity. The
intending borrower should either be owned the pond or else he may have the pond on lease for sufficiently long period so as to derive optimum benefit out of undertaking the activity apart from repaying the bank loan.

*Nature of Facility:*

The financial assistance would be given in the shape of investment credit. The quantum of loan shall depend upon the size of the pond and the estimate of construction or renovation apart from purchase of requisite equipment, etc. The loan amount in respect of purchase of fish seed and feeding material may have to be provided as seasonal credit or recurrent basis, however, it may also be provided as an integral component of investment credit.

*Repayment:*

The investment credit provided to the fish farmer shall be recovered over a period of nearly 5-7 years in quarterly installments @ 3 installments per year, envisaging the lean period of three months each year when there is generally no catch. The repayment may start after a gestation period of about 9 months depending upon disbursement of loan and nature of the project.
III AVENUES OF

Manipur State Co-operative Bank Ltd. (MSCB Ltd.):

With the development of co-operative movement in India, a number of co-operative societies are being organised. These are namely credit co-operatives, co-operative marketing, co-operative processing, co-operative farming, consumers' co-operatives, Industrial co-operatives, Housing co-operatives, Dairy co-operatives and other forms of co-operatives. The credit co-operatives are again divided in two which are a) Agricultural credit co-operatives and b) Non-agricultural credit co-operatives. The following chart shows the structure of Agricultural credit co-operative Institutions.

**Illustration – VI: Structure of Agricultural Credit Co-operatives**

Agricultural Credit Co-operatives

Agricultural Credit Co-operatives (Short & medium term credit)

1. State Co-operative Banks in each State
2. Central Co-operative Banks in each district.
3. Primary Credit Societies in villages.

Agricultural Credit Co-operatives (Long term credit)

1. State Co-operative Land Dev. Banks in each State.
2. Primary Land Devt. Banks in each Sub-division.
The MSBC Ltd. has to mobilise financial resources and make it available for provision of short and medium term loans through PACs and LAMPS and spearhead the extention of banking facilities in rural areas. The following are the main avenues of MSCB Ltd. in agriculture & allied activities.

1. **Scheme for crop loan:**

   For cultivation of specific crops, crop production credit is essential. The amount of crop production loan to be granted to any farmer should be proportionate to his size of land holding and the type of crop to be cultivated. The scheme is short-term seasonal loan, which is not more than one year.

   **Eligibility:**

   Crop loan may be given to the farmer if he is owner- cultivator or a tenant farmer with recorded occupying rights or ancestral right on cultivation. Oral tenants are not financed by the bank, unless landowners become co-loanees. The intending borrower, however, should not be defaulter member of the Primary Agricultural Co-operative Credit and Services Societies or should not have contracted crop loan with other banks in the area.
Nature of facility & repayment:

It is a short-term loan not more than 12 to 15 months and to be adjusted by payment of principal as well as interest amount after harvesting the crop.

2. Scheme for loans for Irrigation:

It includes all the activities performed for irrigation of crops like lifting of ground water by sinking, deepening and boring of wells which are either animal operated or engine operated one. In case of electric or engine pump sets, it should be first ensured that the electric connection is either available to the farmer or shall soon be made available to him so that the investment made by him through raising bank loan does not remain idle for long.

Eligibility:

The intending borrower must have adequate holding so as to support the proposed investment in a viable manner.
Nature of facility:

The scheme under this head is a medium term loan. It is made available for periods exceeding 15 months to 5 years for meeting the cost of equipments like pump set, Persian wheel etc.

Repayment:

Repayment is made with suitable installments linked with harvest and marketing of crops over a period of 15 months to 5 years.

3. Scheme for Equipments and Implements:

It includes loans for purchasing agricultural machinery equipments and implements including harvesters, threshers, plant protection equipments, storage bins etc.

Eligibility:

Farmers with their land holdings are eligible for this scheme and he/she should engage in cultivation of land within the command area of the lending branch office of MSCB Ltd.
Nature of facility:

It is a medium term loan and the disbursement of the loan is made in one or more installments.

Repayment:

It should be made for an aggregate period of 15 months to 5 years depending upon the incremental income and capacity of the loanee to repay.

4. Scheme for Land Development:

Financial assistance may be made available under this scheme for the purpose of undertaking land development activities such as reclamation, soil conservation, leveling, landing, contouring, terracing etc. construction of farm and draft cattle sheds, godowns, farm fencing etc.

Eligibility:

The technically feasible and economically viable proposal of a farmer having land, requiring any developmental treatment within the command area of the branch office of the bank is eligible for the scheme.
Nature of facility:

It is a medium term loan and mode of disbursement of the loan amount shall be kept in view of the type of investment purposed to be made.

Repayment:

The loans shall be repaid by suitable installments linked with harvest and marketing of crops over a period of 15 months to 5 years depending upon the incremental income and repaying capacity of the farmer.

5. Scheme for rearing milch animals, poultry birds, pigs, goats and fish farming:

The financial assistance may be provided under this scheme for the purchase of good quality breeds. Apart from this, proposal may also be considered under this scheme for construction of cattle sheds or for purchase of equipments and feed/fodder.

Eligibility:
Eligibility:

The borrower may be a small farmer or landless agricultural labourer or other person desirous of engaging himself in this scheme as his main or subsidiary activity. The person should have some experience in the trade and an appropriate market for sale of products.

Nature of facility:

The scheme is under the medium term credit. The interval between the purchase of young animals should be so arranged as to ensure that the borrower will have a continuous supply of milk sufficient for maintaining the repaying capacity of the borrower after one of the milch animals goes dry and the animals are sold out. It is also there that, the loans for agricultural activities will be reckoned as priority sector advances\(^8\).

4.2 Principle of Lending:

By NABARD:

Important criteria followed by NABARD in judging whether it can provide refinance to any scheme submitted by a financing institution are:

\(^8\) The RBI Cir. UBD No. Plan. PCB.33/09.09.01/96-97 dated 13th Dec.1996.
1) Technical feasibility of the project and adequate response from the prospective beneficiaries.

2) Financial viability and adequate incremental income to the ultimate borrower to repay the loan within a reasonable period and

3) Organisational arrangements to ensure close supervision by the financing banks.

While all funds are routed through the State Land Development Banks (SLDBs) / State Co-operative Banks (SCBs) / Commercial Banks(CBs)/ Regional Rural Banks(RRBs) by NABARD, the ultimate beneficiaries of investment finance can be individuals, partnership owners, companies, State owned corporations or co-operative Societies. The ultimate beneficiaries of production credit are generally individuals who are members of primary credit institutions.

NABARD’s refinance forms a major portion of the on-lending made by the banks to the ultimate beneficiaries, ranging from 75% to 95%, the balance being met by the banks or by the concerned State Government/Government of India in case of SLDBs.
The financing banks obtain such security as it prescribed, which normally is in the form of:

i) Hypothecation of assets created

ii) Mortgage of land

iii) Personal surety

iv) Government guarantee etc.

NABARD stipulates beneficiary's contribution to the project cost in order to ensure his stake in the investment. Such margin money varies from 5 percent to 25 percent according to "type of investment and the class of borrowers". It is nominal (5 percent) in the case of small farmers. This can be by way of contribution in cash or by way of own or family labour, Corporate borrowers, such as irrigation corporations, forest development corporations etc. provide higher contribution up to 25 percent of the investment lost.

By MRB⁹:

Through lending to the target group is the basic function of the bank, the bank is required to take care of the inherent risks in the

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business of lending. Depending upon borrowed funds, bank cannot afford to take under risk in deploying the funds. Bank is, accordingly, required to follow a cautious policy while lending upon well-known canons or principles of sound lending to minimise the risks. These are given below:

*Safety:*

The banker owes on duty to his depositors to employ their money judiciously and wisely, so that losses might be avoided. 'Safety First' is therefore the most important principle of lending. This principle is to be considered from two angles, namely:

a) Safety from the point of view of the personal aspect of the borrowing customer. The banker must be conversant with the social and financial position of the customer as well as his character and integrity.

b) Safety from security point of view should be there. However, honest a borrowing customer may be, it might happen that through no fault of his, he may be unable to repay the amount. The lending banker, therefore, usually follows the established practice of lending against realisable security.
Liquidity:

Bankers are also borrowers themselves. Bankers borrow money by way of demand deposits as well as time deposits and fixed deposits. They are legally bound to repay the borrowed money either on demand or at maturity. It is not enough therefore, that the money that the banker lent will ultimately come back; it must come back fairly quickly and not tied up for an unduly long period. The borrower must normally be in a position to repay the amount on demand or at short notice whenever the banker wants him to do so.

Profitability:

No business institution can afford to run the business in loss, and banking institutions are no exception. It is the concern of the bank management to secure the best possible returns by stipulating deployment of funds mainly for such lending where higher rate of interest is admissible without deviating from the guidelines issued by the Government, Reserve Bank of India and the Sponsor bank. Though interest rates are fixed by the Reserve Bank of India for different types of facilities offered by the banks and are not amenable to manipulation by individual banks, the bank, however, may consciously affect to some extent deployment of funds in facilities fetching higher interest rate.
Likewise the rates of commission, discount, exchange and other charges for services rendered also need to be kept in view.

Unless a bank earns profits, it cannot pay interest on deposits and meet other establishment expenses like salaries, allowances and bonus to staff, rent, stationery, etc. Banks must also build up reserves out of profits and strengthen their financial position.

**Diversification:**

The lending aspect of banking business is said to be one of taking calculated risks, since an element of risk is always present in every advance, however, a banker must similarly avoid concentration of advances to a few borrowers as also accepting large amount of securities of one kind only. He should spread out the risk over a large number of borrowers, over a large variety of activities and areas and different types of securities.

**Desirability of Purpose:**

The advance required by the customer must be carefully scrutinised by the banker. Normally, the advance should be granted for a productive purpose only so that it may prove fruitful in the sense that it provides a definite raise in the income of the beneficiaries and repayment
of loan is feasible out of incremental income. A banker should ordinarily refuse any advance for non-productive personal expenses, e.g., for marriages, pleasure tours, etc.

*Emphasis on Purpose*:

The main objective of establishment of Rural banks is expansion of banking in the un-banked rural areas especially for catering to the requirements of weaker section of the rural society. Credit is an important input to promote programmes of production and self-employment and for creation of productive assets. Technological development in agriculture are scale neutral and therefore, if small farmers and other have-nots in rural hinterland can adopt improved methods of agricultural production with financial assistance from banks, prospects of their coming above the poverty line get brightened. The Government wants the banks to shift the emphasis while lending from 'security' to 'purpose'. Even after the banker is satisfied about the desirability of the purpose and sanctions a limit, the Reserve Bank of India wants him to satisfy himself that the borrowing customer uses the amount of advance for the same purpose for which it was granted and not for some other undesirable or anti-social or speculative purpose.
National Interest and Suitability:

At times, the purpose of an advance may harm the national interest, e.g., cornering and hoarding of food grains or other essential commodities with a view to creating artificial scarcity and consequent rise in prices. In such a case, the banker should not act against the interest of the nation by granting the advance, even though other principles of lending are satisfied. Moreover, the Reserve Bank of India may prohibit or restrict certain types of advances or may issue a directive to banks not to accept certain types of securities (e.g., certain food grains) as cover for advances. This policy is known as Selective Credit Control. This also needs to be kept in view while lending by the bank.

By MSCB Ltd.:

Due to the diversified activities undertaken by the co-operatives, it is very difficult to discuss about the sources and lending terms related to them. However, we can divide the activities into two groups. They are Farm and Non-farm activities. Co-operatives related to Farm activities come under agricultural credit and which is discharged by PACS and Primary Land Development Banks(PLDB). Due to the federal structure of agricultural credit co-operatives, the “Primaries” usually borrow from higher financing agencies. The Non-Farm activities related to co-
operatives, which cover the Handlooms, Coir, Sericulture, Marketing, Industrial, Consumers co-operatives etc. The requirement of funds, and the sources of its procurement also vary depending upon the nature of activities of the particular type of co-operative society.

The main principles of lending by MSCB Ltd. are as follows:

i. Lending will have to be need-based

ii. Credit must flow at a time when it is actually required

iii. MSCB Ltd. must take care to avoid over-financing or under-financing.

iv. End-use of credit must be properly supervised.

v. Constant and timely touch with the constituents should be made.

vi. The credit character of the borrower must be taken into account before a loan is advanced.

vii. Default should in no case be financed.

viii. Prompt action, legal, coercive or moral persuasion has to be taken against the defaulter.

ix. Recycling of credit is to be ensured to facilitate re-finance.
Loans are provided by hypothecation of immovable properties to the extent of 50 percent of their market value and fixed deposit receipts up to 90 percent of their face value. The loans are provided on the following securities as

i. On Government securities and life insurance policies up to 90 per cent of their value and

ii. Personal security of the borrowers and other two solvent members.

4.3 Loan Operation and Criteria of Overdues:

Loan operations of MRB, is governed by the Manuals, Directives, Circulars issued from time to time by the RBI and the licensing authority of the Bank. Loans are issued in multiples of hundred. Loan can be short term, medium term and long term depending upon the purpose for which the loan is required. While short-term loans are generally for 12 months, the period of medium term loan ranges from 15 months to 5 years. Loans beyond 5 years are long-term loans. Overdrafts and cash credits are generally granted for period not exceeding one year, renewable thereafter at the discretion of the Bank.
Any due amount, which is not paid within the time schedule of repayment incorporated in sanction-letters, shall be treated as overdue on expiry of the due dates.

In case of MSCB Ltd., the operation of loan is also governed by the materials such as Manuals, Directives etc. issued by RBI from time to time. Loans are issued in multiples of hundred and can be short, medium and long term loans. Short-term credit is usually provided for a period ranging from 12 to 15 months, for meeting the cost of seasonal agricultural operations like seed, manure, agricultural implements etc. The credit is provided at the beginning of the season and is recovered after harvest out of the sale proceeds of the crop. It is usually known as crop loan. Medium term loans are made available for periods not exceeding 15 months to 5 years for purchase of bullocks, carts and other implements. It is also available for consolidation of holdings, reclamation of land and sinking of ordinary wells etc. Long-term loans are granted for period exceeding 5 years to make permanent improvement of land, reclamation of wasteland, sinking of tube-wells, purchase of tractors etc. Normally, it is repaid within a maximum period of 20 years. Short term credit is offered on personal security or on the security of the crop, whereas medium and long term credit is given usually on the mortgage of land.
Punctuality in repayment of loan is a very important part of co-operative practice. Recovery of loans is the responsibility of board of directors and office bearers with the help of the bank supervisors and the government officials. Recovery of loan becomes easier if credit is linked with marketing.

Very often, the loans are not recovered in time and it is known as overdues. The important causes of mounting overdues are over-financing, lack of proper security for the loans advanced, mis-utilisation of loans by the loanees, in-effective supervision, grant of loans for repayment of ancestral debts etc. Sometimes paper transaction that is a type of transaction, which implies a transaction made in paper and paper only may occur. In this system, the loans become due for repayment, actually it is not being repaid. It is recorded in the books that it is repaid and a fresh loan of the same amount is advanced.

4.4 Interest and Penal interest:

The rates of interest on refinance by NABARD are fixed from time to time. It depends on the size of the amount and the bank to refinance. It is 6.5% per annum to SCBs, SLDBs, and RRBs and 8.5% to CBs when the loan amount is upto Rs.25,000/-. If the loan is over Rs.25,000/- and not more than Rs.2 lacs, there is an annual interest of 9% to SCBs,
SLDBs and RRBs and 10% per annum to CBs. It is fixed to 12% per annum to SCBs, SLDBs and RRBs and 3% below to CBs than the rate fixed by the Bank (CB) subject to a minimum of 11.5% per annum when the amount to refinance is over Rs.2 lacs. The above-mentioned rates of interest are applicable w.e.f. 15th December, 1998.

In MRB, the interest is charged on quarterly basis at the rates prescribed by the RBI from time to time. Penal interest shall be charged to the defaulters @ 3% p.a. from the date of filing arbitration case upto the date of full realisation of decreed amount process.

In MSCB Ltd., the lending and deposit rates are varying frequently and directed by the bank itself depending on the Bank's need vis-a-vis, cost of funds, cost of management and risk costs. Further the State Government have been exercising control over the lending rates of MSCB Ltd. which militate against the very purpose of de-regulated rates of interest regime. Sometimes, the rate of interest is based on local needs. The margin enjoyed by the bank is directly related to the risk born by the same bank. The present lending interest rates are 12% p.a. up to Rs.25,000, 13.5% p.a. on loan between Rs.25,000 and Rs.3 lacs. On
loan exceeding Rs.2 lacs the banks have been given freedom to fix their own rates of interest\textsuperscript{10}.

The bank charges a penal interest @ 1% to 1.5% from the defaulters.

4.5 Normal time for loan disposal:

Refinance from NABARD by an eligible bank/institution is made at any time submitting the technically feasible project and other requirements.

In MRB, prescribed loan applications are prepared and signed by the applicant and his/her surety(ies). The applications are to be accompanied with documentary evidence regarding bonafide of the purpose of loan, financial requirements, income potentialities, urgency and stages of implementation, own stake and competency to implement etc. Processing at the bank is done at two stages i.e., Branch office covering the area of the applicant and Head Office. It takes one to two months for an application to be finally disposed of, provided it is complete in all respects when submitted.

\textsuperscript{10} The RBI, vide circular UBD No.DS.PCB. Cir.12/13.01.00/97 Dated 21st Oct., 1997
The MSCB Ltd. has prescribed loan application forms and it is to be filled in by the applicant. The loan proposal signed by the applicant and the surety(ies) accompanied by all documents have to be submitted to the Branch Office concerned by the applicant.

In Manipur, we have two main seasons for cultivating crops. These are the Kharif and the Rabi. Showing for the Kharif season starts at the beginning of the South-West monsoon (June to July), as these crops, particularly rice need substantial amount of water. Showing for the Rabi crop is done at the beginning of winter (October to December). In well-irrigated fields the Kharif Crops such as paddy can also be shown as a Rabi Crop. For getting a loan, concerning with the agriculture and allied activities of Kharif Crops, the loan application has to be submitted two to two half months prior to the month of June and that of Rabi Crops is also two to two half months prior to the month of October. The loan applications are to be accompanied with the documentary evidence regarding bonafide of the loan proposal. It is submitted to the branch office of the bank concerned and again reconsidered to the Head Office to sanction the loan.
4.6. Eligibility:

NABARD refinance to any schemes related to agriculture and allied activities submitted by an eligible financing institution follows some important criteria. These are:

i) Technical feasibility of the project and adequate response from the prospective beneficiaries.

ii) Financial viability and adequate incremental income to the ultimate borrower to repay the loan within a reasonable period and

iii) Organisational arrangements to ensure close supervision by the financing banks.

The eligible institutions in which NABARD can refinance are State Co-operative Banks, State Land Development Banks, Regional Rural Banks and Other financial institutions approved by RBI.

Eligibilities to get a loan from MRB and MSCB Ltd. are almost same and listed below:
i) The applicant should be a permanent resident of Manipur.

ii) He/She should be free from any prior debt from any financial institutions, State or Central Government.

iii) He/She should able to display one or more surety(ies) who is a permanent employee of State/Central Government or undertaking organisations by State/Central Government and

iv) He/She should be able to mortgage a land of his own or family to the amount of loan to sanction. In this case, the land value is compulsorily more than the loan amount. A land valuation and non-encumbrance certificate is necessary.

4.7. Sanctioning Authority:

The sanctioning authority of NABARD to refinance the eligible institution is the DGM of the Branch/Regional office considering the refinance proposals.

Similarly, the Chairman of MRB considers applications for loan and advances and discounting of bills, and determines the terms and conditions thereof.
In MSCB Ltd., the sanctioning authority is the Board of Directors consisting of 14 members including 3 members nominated by Govt. of Manipur. In their meetings the loan applications are discussed and make decision for investments. Sometimes, the administrator of the bank also performs this activity of sanctioning.