Chapter - VI

Loaning Policy and Operation of Uttar Pradesh State Co-operative Village Development Bank Ltd.
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LOANING POLICY AND OPERATION OF UTTAR PRADESH STATE CO-OPERATIVE VILLAGE DEVELOPMENT BANK LTD.

The previous chapter discussed the financial resources of the U.P. State Co-operative Village Development Bank Ltd. The quantum of funds available highlighted the capacity of the Bank with regard to employment of funds. An attempt has been made to review the loaning policy of the Bank and trace out the areas of fault in their policy as well as ways and means to overcome them. A credit policy conducive to smooth flow of funds to agriculture sector would ensure its unhindered growth leading to economic development of the Country.

Loan Policy and Operation of U. P State Co-Operative Village Development Bank Ltd.

The innovations in agriculture technology have opened up vast potentialities for development of agriculture. They cover a vast spectrum of requirements ranging from adequate and timely availability of various improved inputs such as high yielding varieties of seeds, fertilizers, pesticides, irrigation, improved tools and implements on reasonable price to modernization of agriculture with the help of tractors, tubewells, etc. These are the backbone of our new agriculture strategy. But mere physical
availability of these inputs equipments in the market is no
guarantee of their effective use by the farmers. The farmers can
use these inputs only when making adequate finances available to
them and that too on soft terms makes them capable of using them.

The needs of finance for farmers are both short-term and
long-term which is discussed in previous chapter. For providing
the short-term finance to them, a number of institutional agencies
are engaged for this purpose in Uttar Pradesh. But the long-term
financial needs of the farmers are mainly, if not exclusively,
provided by the Co-operative Land Development Bank. The long-
term credit in co-operative sector is mainly directed to support
agricultural development programmes. The ultimate aim of any
development programme is to increase the income of the
beneficiary and ensuring social welfare backed up by sound
economic base.

The programme must also naturally increase productivity and
production besides creating additional employment especially
among the rural poor, where both un-employment and disguised
unemployment are proverbial. To solve these problems, the long-
term loans have to correlated to the agricultural development.

**Conditions for a Sound Loaning Policy**

An essential aspect of co-operative finance is a sound
loaning policy. A sound loaning policy of a co-operative
institution must ensure the following:-

(i) **Simplicity in Procedure:** A lengthy and cumbersome
procedure must avoid a sound loan policy. It must be
simple in nature so that even illiterate cultivators may understand it.

(ii) **Adequacy of Loans:** Adequate loans to farmers must ensure a sound loan policy. Only adequate loans can ensure fuller utilization of credit and increase in production. If the credit supplied is inadequate, it will not only fail to meet the need of the production, but also encourage him to misuse the credit for purposes other than production. This may lead repayment difficulties at a large stage.

(iii) **Timely Disbursement of Loans:** The supply of credit must be available immediately when required. It is said in jurisprudence that 'Justice delayed is justice denied'. It is also applicable with equal force in regard to agriculture credit where 'credit delayed is credit denied'. In other words, untimely loans not only defeat the purpose for which they are sanctioned but instances are not rare where the moneys so received was spent extravagantly.

(iv) **Production Oriented Loans:** The basis of co-operative loans has been Hasiyat (status) of the borrowing cultivator which depends primarily on the value of loan owned by him. This enabled the well to do farmers to garb the lion's share of the advances made by U.P. SLDB. Cultivators who owned little or no land were unable to obtain any loan at all or could get very small amount. As such, their sheet anchor still remained the money-lenders even after 42 years of the functioning of the U.P. state cooperative and village development Ltd. Hence, if the co-operative want to free the cultivators from the clutches of money-lenders, they
must change their loan policy to production oriented instead of security based.

(v) **Form of credit:** It has been generally seen that the loans given in the form of cash are very easily diverted to other purposes. Hence, as far as possible, they should be given in kind.

(vi) **Reasonable cost of credit:** The cost of credit should be reasonable while very low rates of interest may encourage unnecessary borrowing and very high rates fail to benefit the cultivators.

(vii) **Credit Combined with Technical Guidance:** The disbursement of credit must be combined with technical guidance related to various agriculture operation and scientific usages of various inputs. Such credit called are 'supervised agricultural credit'. If the credit has been such a large number of misutilized or unutilised loans.

(viii) **Scientific Repayment Procedures:** The sound loan policy must ensure scientific repayment procedures. In other words, the amount given must be brought back. Proper recovery of loans is advantageous for institution, as well as, for the borrower too.

**Preparation of Application and Sanction of Loan**

The Bank accepts the loan application on the prescribed form, which can be had from the Branch Officer of the Bank on nominal cost of Rs.10. The Village Development Offices/Assistant Consolidation Officer/Field Officer of the Bank/Co-operative Societies helps in the preparation of the application for loan. The
completed prescribed application form along with the necessary documents should be handed over to above concerned authorities, who will send the application of loan through his office to the branch of Bank located in that area after making preliminary enquiry.¹

Borrower has to submit 2 attested photographs and copies of revenue record (Khasra & Khatauni) along with his application form, there after identification of borrower, field survey, completion of loan application (SGVB-4), verification of the land records Khasra and Khatauni, land valuation and appraisal of project is done by processing office. The processing may be a bank's employee or an authorized Govt. employee.

After this, the entire loan application is scrutinized by Manager (Legal) of the bank. After removal of objection, (if any) the loan application is kept before Branch Management Committee (B.M.C.) by the branch manager for sanction and sanction the L.S.O. is sent to the borrower. Branch Manager and Branch delegate can sanction loan application upto Rs. 5.00 lacs and the Branch Management Committee obtains formal approval by putting these loan applications in the B.M.C. meeting. The Head Office sanctions loan application above Rs. 5.00 lacs.

Generally, meetings of B.M.C. are convened twice in a month. After the sanction of application, mortgage deed of loan is executed at branch level. On next day of execution of mortgage deed, the Non-Encumbrances certificate (N.E.C.) is obtained through an advocate of duly constituted N.E.C. panel. In case

¹ By the Courtesy of Assistant publicity Officer, U.P. shakari Gramin Vikas Bank Ltd. Lucknow.
there is no encumbrances the first installment of the loans released by the manager. After the utilization of first installment (which is given by processing office) second subsequent installment is released.

Field visit is conducted by field staff of bank or Govt. (i.e. processing staff). The manager of the bank also conducts field survey as per requirement.

Valuation of the land is also done by processing authority according to the instructions of NABARD. (i.e. 8 times of the post development income). In some cases circle rates of the land is declared by Disst. Magistrate are also taken into account. This work is done by F.O./A.F.O. (bank employee) or Govt. employee who are authorized for this work.

The borrower has to deposit 10% of the loan amount as share money at the branch (the amount is 5% in case of small/marginal farmers). Down payment varies from 5 to 15% depending upon schemes. Under SGSY and Free Boring schemes, payment is made directly, to the cultivator.

**Documentation:-**

(1) Following documents are collected form the borrower:-

(a) Two attested recent photographs.

(b) Attested copies of land records (*Khasra & Khatauni*).
   In case of consolidation C.H-23 in needed.

(c) Rs. 20/ as advance, share money + Rs. 3/- as membership fee.

(2) Property (Land) is mortgaged by the bank in its favour & in case of default band can its dues through auction of mortgage land.
(3) Mortgage deed is prepared by licensed document writer.
(4) Deep is executed at the branch in presence of Branch Manager. A copy of mortgage deed is sent to sub-registrar (Registration) office, within 90 days of its execution.

**Disbursement of Loan**

If the application is approved and the loan is sanctioned, the farmer is informed accordingly, and is asked to come to the branch of the Bank to mortgage his land, if necessary. After completing this process, the branch pays the sanctioned loan to the farmer. With a view to avoiding the possible misutilisation and also insisting on the end use of loan, the loan is disbursed in instalments as recommended by NABARD. The numbers of instalments are fixed on the basis of amount of loan and necessary time required for completion of the project. Keeping in view, the vital importance of punctuality and adequacy of agriculture credit, attempts have been made to disburse the required loan 15 days from the date of submission of application.

**System of Loan Disbursement:**

(1) In case of M.I. schemes (Boring + Pumpset) the first installment is released for boring after getting N.E.C. Utilization certificate of first installment be submitted in the bank within 15 days by processing officers.

(2) In case of 2 animals dairy, installment for one (first) animal is released immediately while the second installment for second animal released after 4-6 months only.

(3) Completion report is given by the file processing officers/Field staff checked by Branch Manager and regional Manager from time to time.
As per banks instructions, the disbursement is made within 15 days of the loan application is received at branch. Average actual time taken, is ordinarily 15 days but it may exceed when the loanee takes much time in fulfilling conditions laid by the bank.

(4) Normally a farmer comes to the banks 4-5 time for the following purposes:-

(i) To hand over the loan application to bank/Govt. staff.
(ii) To execute the mortgage deed.
(iii) To obtain first installment of the loan.
(iv) Subsequent one or two visit for obtaining second and third installment of the loan.

(5) Last time the loan procedure was simplified in the year 1999.

It is an established fact that enhancement in agricultural productivity is possible only through adoption of modern technique of farming which requires a huge amount of investment. But under the prevailing condition, the resources owned or otherwise available to majority of the farmers in Uttar Pradesh are quite inadequate for switching over to modern technology. It is indeed, low productivity that necessarily keeps the cultivators experiencing shortage of funds. This keeps their credit worthiness and repaying capacity at low pace, which in turn, deprives the farmers of getting large amount of institutional credit for investment in agriculture.

The situation has not changed much inspite of the Government efforts to enlarge the scope of credit availability to
farmers through revitalising the co-operative credit structure and bringing the nationalised banking sector in this field. Majority of the farmers still fails to avail the credit facility not only on account of low credit worthiness and poor repaying capacity but also due to the complicated and expensive procedure of medium and long-term borrowing from institutional agencies. Also the institutional lending of these loans is land asset oriented and, thus, of little help to the small and marginal farmers. In addition, the situation aggravates since part of the loans borrowed by the farmers are not used for the purposes for which it is given and as a result the repayment of loans becomes most difficult task. The economically weaker section of farmers consequently continues to be in the clutches of private money lenders and under such conditions, farmers hardly think of long-term investment on agricultural development.

Hence, the State Government, by establishing this Bank, has opened fresh avenues to the teeming agriculturists of the State to get long-term loans at reasonable rate of interest from the Bank for agricultural development.

So far as achievement of Bank is to concerned, the Table 5.1 shows that the Bank is busy in advancing a huge amount of loans for various purposes. Out of the total loan disbursed, the major portion is utilised for purchase of tractors and farm mechanisation.

Quantum of Loan

Presently, the quantum of long-term credit advanced by the Uttar Pradesh Land Development Bank is initially linked with the acreage of land owned by the cultivator. The loaning policy of the Bank is, therefore, essentially ‘Security oriented’. In other words,
a farmer of big holding is in a position to obtain a large amount of credit because of the large size of holding than a farmer of small holdings.

Any farmer may obtain a loan from Bank upto 50% of the value of the mortgage land. However, the limit is 75% in case of small farmers. While in terms of the project, the Bank generally provides 85% to 95% of the project cost as loan and the rest of the project cost is to be borne by the farmer.

The method of calculation of credit-worthiness of the borrower, followed by the Uttar Pradesh State Cooperative Village Development Bank Ltd. is explained as below—

(i) Credit worthiness determined on the basis of incremental income (Incremental Income = Net income of benefited land after proposed project minus net income before proposed project.) of the farmer, or

(ii) 50 percent of the market value of the land to be mortgaged, or

(iii) 50 percent of land valuation (Land valuation is done on the basis of average sale statistics of the land in the area for the last 5 years or 8 times of the post development income, to be generated after the proposed development. In case of non-farm sector, valuation of land is done on the sale statistics while in cases of farm sector valuation of land is done on the basis of post development income) plus Rs. 4,000/-, Rs. 25,000 or 50 percent of the project cost whichever is less in case of minor irrigation project/purchase of tractor respectively.
The lowest credit worthiness on the basis of (i), (ii) and (iii) formulate, shall be treated as credit-worthiness of the farm for purposes of loan. But in practice, the last formula, i.e. (iii) is used by Bank for determination of credit worthiness of the borrower.

The amount arrived at as above which is considered the maximum amount of loan to the farmers subject to the maximum ceiling of loans as prescribed by NABARD from time to time.

At present, the maximum amount of advances based on unit cost prescribed by NABARD has been shown in Table 5.2.

From the foregoing discussions, it is clear that the Bank has been following, since its inception, a grossly unrealistic and defective policy of advancing loans to the farmers on the basis of their land holdings. Though emphasis on land development became the main activity of the LDB since around 1966, the traditional orientation in the field of providing long-term loans, the attitudes of staff towards land valuation and taking security from the farmers has not undergone a very much change. The attitude and the emphasis of personnel working in the Bank is still security oriented and not enterprising and efficiency oriented.

The rule of thumb policy is distined to favour only big farmers. At many occasions such a policy of advancing loans leads to red tapism, delay, inadequacy of amount, resulting ultimately misutilisation and diversion of such loans. A very simple example is clear the point. Suppose, a farmer own 2 acres of unirrigated land and pays a total land revenue of Rs. 10 per annum and farmer wants to instalment a pumpset, which costs Rs. 10,000. He has net surplus of Rs. 1,000 and need a loan of Rs. 9,000. If he applies for
a loan of 9,000 to the Bank, he will get a loan of Rs. 8,000 calculated as below—

Rs. 10 x 800 x 50/100 + 50% of project cost or Rs. 4,000 whichever is less.

TABLE 6.1
STATEMENT OF MAXIMUM CREDIT LIMIT

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Purpose</th>
<th>Maximum Loan Limit (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Diesel pump set</td>
<td>Rs. 15,000/-</td>
</tr>
<tr>
<td>2.</td>
<td>Submersible Pump set 10 H.D 6&quot; x 4&quot; 200 feet</td>
<td>Rs. 37,150/-</td>
</tr>
<tr>
<td>3.</td>
<td>Sprinkler System (Hectare Wise)</td>
<td>Rs. 14,100 to Rs. 21,600/-</td>
</tr>
<tr>
<td>4.</td>
<td>Drip System</td>
<td>Rs. 8,000 to Rs. 82,000/-</td>
</tr>
<tr>
<td>5.</td>
<td>Hybrid Cow (Two) (10 Uters)</td>
<td>Rs. 21,530/-</td>
</tr>
<tr>
<td>6.</td>
<td>Milk Cattle (Two)</td>
<td>Rs. 23,750/-</td>
</tr>
<tr>
<td>7.</td>
<td>Dunlop Cart</td>
<td>Rs. 7,300 to Rs. 9,300/</td>
</tr>
<tr>
<td>8.</td>
<td>Polutary (One hundred layers)</td>
<td>Rs. 14,100 to Rs. 17,000/</td>
</tr>
<tr>
<td>9.</td>
<td>Fisheries</td>
<td>Upto Rs. 41,700/-</td>
</tr>
<tr>
<td>10.</td>
<td>Tractors</td>
<td>85% of the actual bill</td>
</tr>
<tr>
<td>11.</td>
<td>Thresher</td>
<td>Rs. 3,000 to Rs. 6,000/-</td>
</tr>
<tr>
<td>12.</td>
<td>Small Industries</td>
<td>Rs. 50,000/-</td>
</tr>
<tr>
<td>13.</td>
<td>Mini Truck / Tram</td>
<td>Upto Rs. 5,00,000/-</td>
</tr>
<tr>
<td>14.</td>
<td>Rural Housing</td>
<td>Upto Rs. 1,50,000/-</td>
</tr>
</tbody>
</table>

Source: By the courtesy of the Publicity Officer U P. Sahkari Gram Vikas Bank Ltd., Lucknow.
Naturally, he can not buy a pumpset, as he has only Rs. 9,000 (own Rs. 1,000 and Rs. 8,000 loan from Bank) in all.

It may not be out of place to mention here that every farmer seeking to borrow from the U.P. SLDB has to contribute for a certain number of shares in proportion to the amount of loan. At present, this is 5 percent in case of small farmers while for others, it is 10 percent of the loan to be sanctioned. As a matter of fact, no borrower pays the share amount earlier. Rather it is adjusted with the loan amount. Thus this further reduces the amount of loan paid to the borrower.

In other words, the Bank sanctions loans much less than required by the borrower in large number of cases. This is mainly because present method of land valuation based on land revenue rate is not scientific and is unfavourable to farmers. In such situation, the borrower can do hardly anything else than diverting this sum toward unproductive channels or misutilies it in a manner that is socially undesirable. It calls for the nationalisation of the valuation method to improve the situation.

Reappraisal of Cost

For sinking and repairing of wells and other unidentifiable productive purposes the cost of project has been found higher or lower than the amount sanctioned for it. Under this condition, the borrowers adopt the following practices:—

(i) In case, the loan received from the Bank falls short of the requirement:

(a) to obtain additional credit which is difficult to get once the entire land of a borrowe is already mortgage to the bank; or
(b) to invest the available fund without completing the project in hand and thereby blocking the funds.

(vii) In case, the loans received from Bank are in excess of the requirement, they invest only a small amount of money in order to obtain final instalment of loan from the Bank and divert rest of the fund for other purposes.

Naturally, under the above practices, borrower do not attain the income level that could enable them to pay off instalments of loan. As a result, a good number of such projects are not able to make much headway and investment in a large of such cases get either blocked or diverted.

Thus, there is a need for flexibility in determining the cost of improvements. It is suggested that a revision of cost estimated should be undertaken before the disbursement of further instalments of loan. It at a time, the cost is found to be higher than sanctioned loan, additional amount may be sanctioned without stipulating any condition. Conversely, if the loan amount advanced thus for, exceeds the actual cost, the further instalments may be scaled down proportionately.

**Rate of Interest**

The lending rate determined by the Board of Directors in consultation with the trustee taking into consideration, the rate of interest at which the Bank can raise money of float debentures. The interest on loan is charged from its ultimate borrower on the loan amount.

**Period of Loans**

The period of loan sanctioned should normally be limited to the active economic life of the assets is the main principle of
sound land development banking. As per RBI directive, in no case the period of loan should exceed 15 years even though the economic life of the assets created out of loan might be longer. At the time of determining the actual period of loan, in addition to the amount of the net surplus from farm and non-farm income, other factors, viz., quantum of loan, repaying capacity, etc., should also be taken into account to ascertain if a reduction in the period would feasible. The Bank has fixed different loan period of different purposes which are:

1. Construction of new well/tube well 15 years
   for small farmers and 9 years for other farmers.
2. Deepening and repair of existing wells 7 years
3. Preparation of land for irrigation 7 years
4. Drainage reclamation from rivers or
   Other water or protection from floods
   Or from erosion or other damage by water
   Of land used for agriculture 7 years
5. Horticulture 4 to 10 years
6. Purchase of pumpset 9 years
7. Increase the productive capacity of
   Land by addition to it of special
   Variety of soil 5 years
8. Purchase of Tractors/Threshers and
   Other agriculture machinery 9 years
9. Construction of tank and other works
   For storage supply or distribution
   Of water 9 years
10. Construction of farm houses, cattle
Shed and sheds for processing
Agricultural produce at any stage 7 years

11. Purchase of land for consolidation
Of holding 10 years

12. Dairy development 5 years
13. Poultry 6 years
14. Drip irrigation 9 years
15. Lining of field channels 9 years
16. Gobar gas 5 years
17. Bullock cart 6 years
18. Fisheries/Sericulture/Nursery/Floriculture 6 years

It is observed that the period of loans are fixed by U.P. State Cooperative Village Development Bank in a mechanical manner without working any exercise in regard to the overall income on the replying capacity of a borrower. It has to be noted that the long-term resources for financing development programmes of agriculture are in most cases from outside sources. It would be quite appropriate, therefore, to have a rotation offered in as minimum a period of time as is legitimately possible with reference to the income and repaying capacity of borrowers.

**Supervision And follow-up Measures**

It is an irony that U.P. State Cooperative Village Development Bank Ltd. takes no follow-up measure after the disbursement of loans. All the pains taken for collecting, information regarding cropping pattern remain is the files only. But the success of the production oriented system of long-term lending depends on the effective follow-up measures by the Bank relating to the watching of the utilisation of loans and keeping is
close and continuous touch with the borrowers until the loan is fully repaid. The watching of utilisation of loans is essential, so as to stop, its spending for purposes other than sanctioned by the Bank. The continuous and close touch with the borrowers is required to ensure supply of production credit and agricultural requirements like seeds and fertilizers as well as to provide assistance by way of technical guidance from the extension staff so that they may adopt the proposed cropping pattern and get full benefit from the investments made and to able to make prompt payment of loans.

We, therefore, suggest that a system of periodical reporting should be adopted for maintaining a close watch on the economic benefits derived by the borrower from the investment made out of the bank’s loan. Under this system, the field staff should maintain active contact with the borrowers and maintain the relevant information in the form of a credit card or a file for each one of them. If there is an adverse result, it should be reported to the branch concerned for corrective and necessary action.

**Quantitative Expansion of Credit**

Today, the Bank not only provides loans for traditional items like new wells, pumpset, lining of field channel, tractor, dunlop cart etc. under the NABARD and Government sanctioned schemes, but it is also providing loans for other diversified purposes like dairy, animal husbandry, poultry, fisheries and horticulture etc. to make the state self reliant in terms of food grain production and to raise the living standard of the farmers of the state. The loan advanced by the Uttar Pradesh State Cooperative Village
Development Bank Ltd. during the year 1960-61 to 2001-2002 are presented in table 6.2

From the table, it shows that the bank has played a vital role in building-up the rural economy of the state by providing long-term credit for the various schemes. During the first five year of its working i.e., 1960-61 to 1965-66, the quantum of advances was satisfactory. During this stage the bank has advances a total loan of Rs. 8.58 Crores which increases from Rs. 0.03 Crores in the year 1960-61 to Rs. 5.97 Crores in the year 1965-66. Similarly, the progress of loan disbursement in the next five year i.e. between 1965-66 to 1970-71 was Rs. 74.96 Crores which was 262.14% increases from the same last five year.

The progress of loan disbursement during the period 1970-71 to 1975-76 was very slow. There was only 7.17% increase in the period was achieved due to the political unstability and war between India and Pakistan. Further, the position improved in the next five year. There was 126.97% increase between 1975-76 to 1980-81. The total loan advanced during this period was Rs. 245.09 Crores. The progress of loan advancement during this period can be said satisfactory. But again between 1980-81 to 1985-86, the progress of loan was not satisfactory. Rs. 310.03 Crores were advanced between this period which only 42.19% increase as compared to the proceeding period.

But the position of loan disbursement was improved during the period 1985-86 to 1990-91. The total amount advanced during the period was Rs. 570.17 Crores which was 103.65% more than the period of 1980-81 to 1985-86. The progress in loan advancement after 1990-91 to 1995-96 was progressive. It was
TABLE – 6.2

YEAR WISE BREAKUP OF LOANS OF
U.P. STATE COOPERATIVE VILLAGE DEVELOPMENT
BANK LTD.
(DURING 1960-61 TO 2001-2002)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount Advanced</th>
<th>Progressive</th>
<th>percentage Increase/</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>0.03</td>
<td>0.03</td>
<td>—</td>
</tr>
<tr>
<td>1965-66</td>
<td>5.97</td>
<td>8.58</td>
<td>19800</td>
</tr>
<tr>
<td>1970-71</td>
<td>21.62</td>
<td>83.54</td>
<td>262.14</td>
</tr>
<tr>
<td>1975-76</td>
<td>23.17</td>
<td>218.11</td>
<td>7.17</td>
</tr>
<tr>
<td>1980-81</td>
<td>52.59</td>
<td>463.20</td>
<td>126.97</td>
</tr>
<tr>
<td>1985-86</td>
<td>74.78</td>
<td>773.23</td>
<td>42.19</td>
</tr>
<tr>
<td>1990-91</td>
<td>152.29</td>
<td>1343.40</td>
<td>103.65</td>
</tr>
<tr>
<td>1991-92</td>
<td>180.95</td>
<td>1524.35</td>
<td>18.82</td>
</tr>
<tr>
<td>1992-93</td>
<td>198.97</td>
<td>1723.32</td>
<td>9.96</td>
</tr>
<tr>
<td>1993-94</td>
<td>211.36</td>
<td>1934.68</td>
<td>6.23</td>
</tr>
<tr>
<td>1994-95</td>
<td>257.06</td>
<td>2191.74</td>
<td>21.62</td>
</tr>
<tr>
<td>1995-96</td>
<td>294.28</td>
<td>2486.02</td>
<td>40.48</td>
</tr>
<tr>
<td>1996-97</td>
<td>365.71</td>
<td>2851.73</td>
<td>24.27</td>
</tr>
<tr>
<td>1997-98</td>
<td>416.20</td>
<td>3267.93</td>
<td>13.81</td>
</tr>
<tr>
<td>1998-99</td>
<td>512.16</td>
<td>3780.09</td>
<td>23.06</td>
</tr>
<tr>
<td>1999-00</td>
<td>580.97</td>
<td>4361.06</td>
<td>13.44</td>
</tr>
<tr>
<td>2000-01</td>
<td>661.64</td>
<td>5022.70</td>
<td>13.89</td>
</tr>
<tr>
<td>2001-02</td>
<td>680.15</td>
<td>5702.85</td>
<td>2.80</td>
</tr>
</tbody>
</table>

Rs. 152.29 Crores in 1990-91 to Rs. 211.36 Crores in 1993-94 and it reached to Rs. 294.28 Crores in the year 1995-96. The average percentage increase in this period was 6% to 21%.

The credit disbursement keeps it progressive trend and it reached up to Rs. 5702.85 Crores in the year 2001-2002 upto 31st March Rs. 365.71 Crores has been advanced in the year 1996-97 was Rs.580.97 Crores in 1999-2000. It was Rs. 661.64 Crores in 2000-2001 and it reached Rs. 680.15 Crores in 2001-2002 up to 31st March. The percentage increase between this period was 13% to 23% and there was only 2.80% increase in the year 2001-2002 as compared to the preceding year.

**Loan Disbursement – A Purpose-Wise Analysis**

The committee on Direction of Rural Credit Survey (1954) recommended that the land mortgage (now development) banks should orient their operations to productive purposes i.e., they should give first priority to applicants for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipments and similar productive purposes. They should discourage application for non-productive loans. The committee also recommended that the applications for loans above a specific figure should not be entertained. Unless the loan was for agricultural development and special effort should be made to popularize productive loans.9 Inspite of these specific recommendations of all India Rural Credit Survey Committee and

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9. All India Rural Credit survey Committee Report. RBI, Bombay 1954. P. 368.
### TABLE - 6.3

**Purposewise Loans Disbursement by Uttar Pradesh State Cooperative Village Development Bank Ltd. Up to 31st March, 2002**

*(Rs. in Crores)*

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Purpose</th>
<th>No. of Persons Benefited</th>
<th>Amount</th>
<th>% of Total Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Minirirrigation</td>
<td>3153435</td>
<td>290196.87</td>
<td>50.89</td>
</tr>
<tr>
<td>2</td>
<td>Farmmechanisation</td>
<td>165808</td>
<td>80638.62</td>
<td>14.14</td>
</tr>
<tr>
<td>3</td>
<td>Diversified</td>
<td>894289</td>
<td>172893.83</td>
<td>30.31</td>
</tr>
<tr>
<td></td>
<td>(a) Dunlupcart</td>
<td>316163</td>
<td>35294.50</td>
<td>6.19</td>
</tr>
<tr>
<td></td>
<td>(b) Dairy</td>
<td>367747</td>
<td>89970.68</td>
<td>6.19</td>
</tr>
<tr>
<td></td>
<td>(c) Animal Husbandry</td>
<td>86805</td>
<td>15344.53</td>
<td>2.69</td>
</tr>
<tr>
<td></td>
<td>(d) Poultry</td>
<td>15154</td>
<td>3214.16</td>
<td>0.56</td>
</tr>
<tr>
<td></td>
<td>(e) Fisheries</td>
<td>7581</td>
<td>2138.96</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td>(f) Horticulture</td>
<td>100839</td>
<td>26931.00</td>
<td>4.72</td>
</tr>
<tr>
<td>4</td>
<td>Non-Farm Sector</td>
<td>88328</td>
<td>20971.92</td>
<td>3.68</td>
</tr>
<tr>
<td>5</td>
<td>Rural Housing</td>
<td>6469</td>
<td>3470.21</td>
<td>0.61</td>
</tr>
<tr>
<td>6</td>
<td>Other</td>
<td>4912</td>
<td>309.64</td>
<td>0.05</td>
</tr>
<tr>
<td>7</td>
<td>Institutional Finance</td>
<td>...</td>
<td>1804.01</td>
<td>0.32</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>4313241</strong></td>
<td><strong>570285.1</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

directions of the RBI from time to time, these banks continued to advance loans for redemption of prior debts.

Agricultural Refinance Corporation later on renamed as Agriculture Refinance and Development Co-operation (ARDC) opened a new era in the history of land development banking in 1963. It enhanced the scope for the introduction of production oriented system of lending by LDBs as the refinance facilities provided by ARDC were based on production oriented system. In 1964-65, the Reserve Bank of India went a step further in this regard. It announced that those LDBs which advanced at least 80 percent of their loans for productive purposes would be eligible for contribution to their debenture issues by RBI, SBI and LIC. This percentage was further enhanced to 90 percent in 1967-68. Subsequently, in 1969, RBI decided that LDBs should advance 90 percent of the loans for productive purposes of which at least 70 percent should be for easily identifiable productive purposes.10

It would be interested to note that Uttar Pradesh State Cooperative Village Development Bank Ltd. has disbursed a credit of Rs. 570285.10 Lacs up to 31 March 2002. Since its inception. Of this Rs. 290196.87 lacs and Rs. 80638.62 lacs have been provided for the purpose of Minor Irrigation and Farm Mechanisation respectively, which stood 50.89% and 14.14% of total credit. The bank has provided a total of Rs. 172893.83 lacs for diversified purposes which is 30.31% of the total credit. The

diversified purposes include (a) Dunlop cart (b) Dairy (c) Animal Husbandry (d) Poultry (e) Fisheries; and (f) Horticulture.

The bank has also provided loans for the purpose of Rural Housing, non-farm sector and other purposes. For Rural Housing the bank has disbursed Rs. 3470.21 lacs which is 0.61% of the total credit. It has provided Rs. 20971.92 lacs for non-farm sector which is 3.68% of the total credit.

Table 6.3 shows the total loan provided upto 31st March 2002 by the Bank for different purposes and credit provided by the bank is the last three years.

The foregoing discussion leads to the conclusion that the lending policy of the Bank lack much to the desired. It is infact inhibiting the smooth flow of credit. Also, the valuation of land method adopted by the Bank needs the input of scientific measures. To bring about improvement in the loaning policy as well as land valuation methods the following steps are considered necessary for adoption by the Bank.

As far as the lending policy of U.P. State Cooperative Village Development Bank Ltd. is concerned, the Bank officials should follow a fresh strategy. The official should give up their present policy of advancing loans only to those who are pushing enough to knock at the bank door, ask for the loan and get it. Instead, they will have to adopt a more dynamic and active policy of waking up the underdo, shaking the apathetic among the farmers out of their alumber of age and unhering them into an era of new activities and taking advantage of the technology development.
U.P. State Cooperative Village Development Bank Ltd. should change its lending criteria from 'security oriented' to 'development oriented', i.e. criterion for advancing loans to the farmers should not be the size of land owned by the borrowers, but the economic worth of the project for which loan is required.

An overall programme of branches are fixed on the past recovery performance of concerned branch by U.P. State Cooperative Village Development Bank Ltd. These programmes, besides being unrealistic, were prepared on adhoc basis without being linked to the specific needs and scope for agricultural development in the area concerned. Since lending for agricultural development has to be on planned basis, U.P. State Cooperative Village Development Bank Ltd. will have to ensure that the branches should advance loans with reference to potential for development in specific need of local areas under their jurisdiction. The introduction of a system of specific linking of the annual lending programme of the branches to the development potential in specific area with reference to the need of different categories of cultivators, specially marginal farmers and other weaker sections of the community will bring about a systematic approach in loaning operation of branches and would, thus, make the annual lending programmes realistic instead of their being adhoc and general.

The U.P. State Cooperative Village Development Bank Ltd. should be in close and continuous touch with the borrowers until the loan is fully repaid. As per the practice 'prevalent today, the U.P. State Cooperative Village Development Bank Ltd. officials tend to meet the beneficiary only twice, once, at the time of
disbursing the loan and other, at the time of recovery drive. But the success of production oriented long-term lending depends on effective follow up of the project undertaken by the borrower.

A scientific method of land valuation should take into account different factors such as type of soil, its input absorption capacity, cropping pattern, crop yields and the price trend affect the farm income. But it is not possible to keep factors into consideration for each farm because of small land holding and thereby making the whole exercise highly expensive for the bank. Therefore, to start with a compromise solution may be adopted with the help of technical experts. The Bank may divide each area (Tehsil or District) on the basis of homogeneity of agricultural situation. For homogeneous tracts, land appraisers may determine the average value for dry/irrigated land separately. While doing this, proper weightage may particularly be given to the factors mentioned above. The average value of land determined by the experts, may serve a standard, and the individual cases in the tract may be decided in the context of this standard. It may be mentioned that industrialists are required to submit feasibility reports for projects for getting loans from banks/financial institutions. Similar procedure should be followed by the Land Development Bank also while advancing to the farmers. This will help in determining the profitability of the project undertaken by the borrower.

To keep farm records and do not practice of farm planning and budgeting is the only problem by the farmers. But if the Bank starts insisting on such a criterion, the farmer would automatically start falling in line. They may take the help of experts from the
Government Agricultural Department or the experts of Bank itself in preparing the economic feasibility plan of their farming for which the loan is being sought from the land Development Bank. This will also enable them to know about the details on their projects.