

Approved Terms of reference for Internal evaluation of the Study on Utilisation Pattern of Crop loans availed by farmers during the period 2009-10 to 2013-14 at concessional interest rates through co-op institutions.

1. Study Title:

The title of the evaluation study is “*Evaluation of the Study on Utilisation Pattern of Crop loan availed by famers at concessional interest rates through co-op institutions for the period 2010-11 to 2013-14*”.

2. Background:

a. Details of the Scheme:

The Government of Karnataka has launched the scheme of providing agricultural short term, medium term and long term loans at concessional **rate of 6% p.a.** to the farmers through co-operative institutions w.e.f 01-04-2004 vide G.O. No. CMW 107 CLS 2008 dated 10.12.2004. To enable the co-operative institutions to lend agricultural loans at 6%, these institutions have been reimbursed the differential cost (at an average of 5.50%) on the loans advanced during 2004-05, by way of interest subsidy. The scheme has been continued in the year 2005-06 also.

The Government has reduced the rate of interest on agricultural short term, medium term and long term loans provided through co-operative institutions to **4% p.a.** w.e.f. 01-04-2006 and the differential cost (at an average of 7.50%) on the loans advanced during 2006-07 has been provided by way of interest subsidy. The scheme of advancing agricultural loans at 4% p.a. has been continued in the year 2007-08 also.

However a slight modification in claiming the interest subsidy has been made from the year 2007-08. As against the claim of interest subsidy being made against the loans advanced by co-operative institutions during the earlier years, the claims for interest subsidy from the year 2007-08 was to be made only after the farmers repaid the loan availed along with interest to the co-operative institutions.

The Government has further reduced the rate of interest on agricultural loans to **3% p.a.** w.e.f 01-04-2008. The scheme has continued in the years 2009-10 and 2010-11.

Further from 01-04-2011 the interest rate on Short Term agricultural loans to farmers up to Rs. 3 lakhs has been reduced to **1% p.a.** and short term Agricultural loans over and above Rs.3 lakhs are advanced at normal rate of interest and Medium and long term Agricultural loans up to Rs. 10.00 lakhs were continued to be lent at 3 % p.a.

With effect from 01-04-2012 the interest rate on Short term agricultural loans up to Rs. 1 lakh is reduced to **0% (interest free)** and entire crop loans above Rs.1 lakh

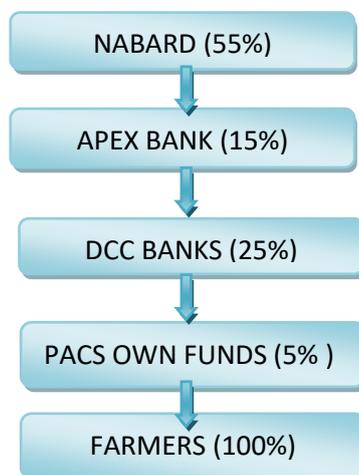
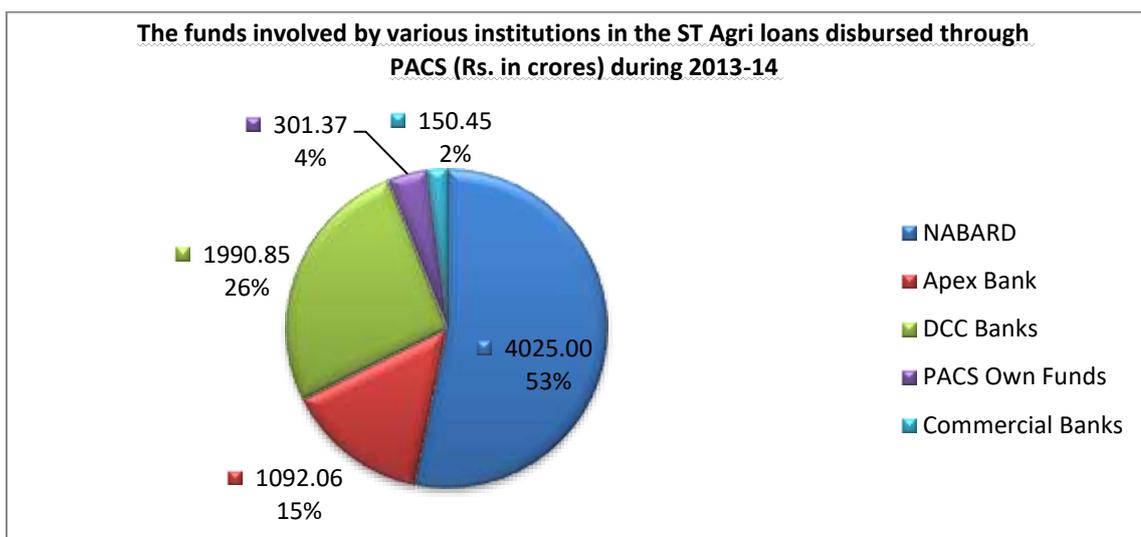
upto Rs.3 lakhs are continued at 1% p.a. The short term crop loan above Rs.3 lakhs are advanced at normal rate of interest. The scheme of lending Medium and Long Term Agricultural loans up to Rs.10 lakhs at 3% p.a. continued in the year 2012-13.

During the year 2013-14 the ceiling of crop loans lent at 0% (interest free) has been raised to Rs.2 lakhs and crop loans above Rs.2 lakh up to Rs.3 lakhs were lent at 1% p.a. The scheme of lending Medium and Long Term Agricultural loans up to Rs.10 lakhs at 3% p.a. continued in the year 2013-14.

The Government has announced the enhancement of loan amount up to Rs.3 lakhs at 0% (interest free) for the year 2014-15 and Medium and Long Term Agricultural loans up to Rs.10 lakhs are being advanced at 3% p.a.

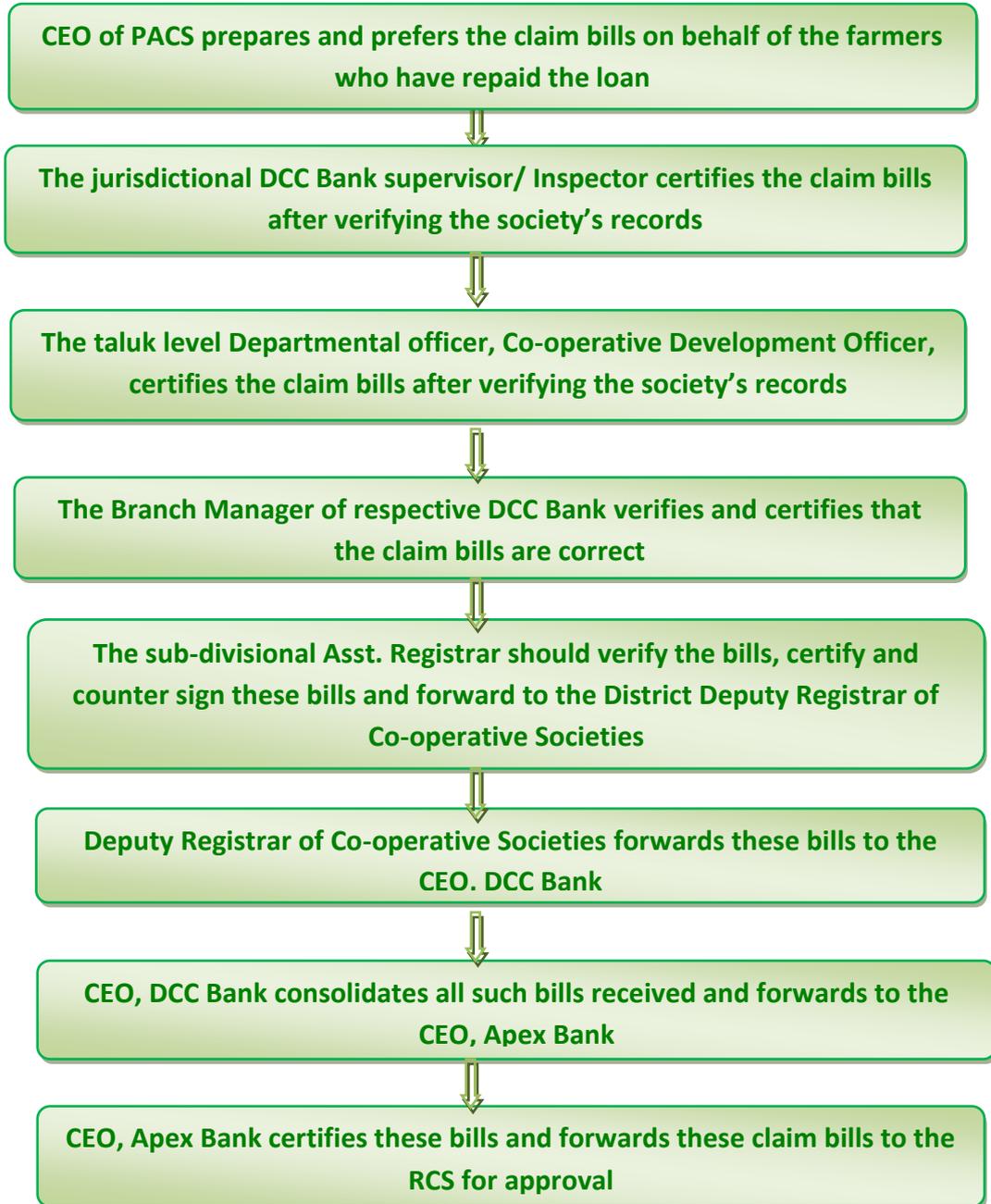
b. Pattern of lending:

The co-operative short-term credit structure in Karnataka consists of three-tier, with Karnataka State Co-operative Apex Bank Ltd at the State level, 21 District Central Co-operative Banks (DCC Banks) at the district level and around 5,266 Primary Agricultural Co-operative Societies (PACS) at the village level. The ground level short term credit for production purpose is mainly met by the following players:



c. Claim of Interest subsidy:

At the end of each financial quarter the Chief Executive Officer (CEO) of PACS prepares and prefers the claim bill on account of those farmers who have repaid the agricultural loans availed on or before the due date. The claim bill passes through the following stages and finally submitted to the Registrar of Co-operative Societies (RCS) for approval.



The subsidy amount is released to Apex Bank, which passes on the subsidy amount to the respective DCC Banks, which in turn after appropriating their share of subsidy on the amount lent by them pass on the subsidy claims to PACS. There is a time lag of at least six months from the date of preferring claims to the time the subsidy amount is received at the PACS level.

It may be noted here that while the loan amount is disbursed by the co-operative institutions to the farmers at concessional rate, the interest subsidy from the Government is released to these institutions and not the farmers.

The details of loans disbursed are enclosed as **Annexure 1**.

3. Objectives of the Scheme:

1. To strengthen the credit delivery system to the farmers and make available easy credit at concessional rate of interest.
2. Thereby, reimburse the differential rate of interest (cost of funds) to the co-operative societies by way of interest subsidy.
3. To increase the food production by providing timely credit for purchase of seeds/ fertilizers and pesticides, this will help in providing food security.
4. To improve the economic and social status of small/marginal farmers, agricultural labourers, economically backward and weaker sections of the society.
5. To mitigate the financial burden of farmers on account of loans borrowed at high interest rate borrowed from money lenders/ traders of fertilizers, seeds and pesticides/ traders in the agricultural markets and induce them into the sector of institutionalized credit system.
6. To support and encourage agriculture and allied activities in Co-operative sector in the rural areas.

4. Scope of the Study

This scheme is implemented in all the districts of the state. There are 5,266 Primary Cooperative Agricultural Societies (PACS) in the state and around 21 lakh farmer members have availed the loan facility.

It is emphasized that loans of Rs. 25000 and less, which were waived off by the government of Karnataka, should not be evaluated except for answering question number of evaluation questions.

5. Evaluation Questions (inclusive not exhaustive)

The evaluation of the project should cover and answer the following questions at least:

1. Whether the loan is utilised for purchase of agriculture implements? If no, what far the amount is utilised & are the farmers still availing loans for agriculture implements from private money lenders?

2. Whether the farmers are purchasing seeds, fertilisers and pesticides from societies like in the past? If yes, whether the cost of these purchases is reconciled from loan amount sanctioned? If no, why they are not purchasing seeds, fertilisers and pesticides from societies?
3. What is the basis/process and criteria followed for selecting the person to be given a loan amongst or all applications? Is this transparent, fair and correct? If not, what suggestions can be made to make it more transparent? Is there any public domains information available for all loans sanctioned and recovered made?
4. Whether the disbursal of loan is on time i.e. in accordance with the cropping season or not? If not, why not?
5. Whether the loan is sanctioned as per the scale of finance of crops fixed by District Level Technical Committee? Whether there is any mechanism to check, whether the crop grown is same as for which finance is made? Are there differences in crop exhibited in RTCs vis a vis the crop that was financed for? If yes, what is the explanation for this?
6. Is crop insurance made for all the crops and premia made for all the crops and premium paid or not? If no, the reasons there for. Whether the crops insured was different from that financed? If yes, how can it be explained?
7. Whether the land owners/absentee land lords and big farmers are sub lending the land to small farmers on contract basis and utilising the loan amount for other purposes or investing this amount in banks and other financial institutions to get higher interest rates?
8. Has the loan been given to other members of the same family thereby depriving the loan facility to other farmers who really need the loan?
9. Are the financial institutions availing the crop loan in the fictitious names of farmers and misusing the loan amount meant for farmers? If yes, what is the number of societies and quantum of amount being misused?
10. Whether the crop loans are given to small and marginal farmers, back ward class and SC/ST members of the co-op institutions in proportion to their land holdings? If not, how many such farmers have got lesser amount and what is the quantum of loan?
11. Are the small and marginal farmers not coming forward to avail the crop loan for reasons-
 - a. Land holdings are small & they get lesser amount of loan.
 - b. Expenditure involved for preparation of documents such as-
 - i) No dues certificate.
 - ii) Mortgage deed.
 - iii) Application fees etc.
12. Whether the loan repayment is done by farmers by selling the produce? If no, are the farmers getting further loan from money lenders and repay the amount?
13. Whether the rate of interest subsidy given by government is sufficient for maintenance or is in excess of the expenditure of co-op institutions?

14. What is the amount required for meeting establishment, contingency, infrastructure & recurring expenditure of Co-operative Institutions for every 100 Rupees of loan given.
15. In the PACS studied, what have been the number of and the quantum of loans received by women, SC & ST, physically handicapped and minority farmers?"
16. In case of Medium Term Loans and Long Term Loans given by PACS to farmers, has the loan been utilized for the purpose for which it has been given? If yes, whether asset/work commensurate with the quantum of finance made is visible and correct? In case of deviations in both the previous sub questions, their proportion in total lending and reasons for doing so may be given.
17. What is the present method of lending the loan? (Cheque, Cash, ECS, account transfer etc). Whether there needs to be a change of process for better/faster disbursal? What will it be?
18. What is the average time within which the loan amount is used by the beneficiary? (Time taken for 'n' loan amount to become zero, or nearly so).
19. Are there sudden or immediate huge withdrawals (within say a month of crediting the loan) from the beneficiaries account? In how many cases is this seen? Details may be provided.
20. Should disbursal of loans be done in stages and after exercise of checks and balances/actual usage verification so that loan amounts are not used for purposes other than that for which it was given?
21. Whether the Government of Karnataka order no CO 87 CLS 2013 dated 28-08-2013(condition No.16) of 25% of the loan amount to be mandatorily given to new farmers (those members who have not availed of the loan in current/previous year) has been followed? If not, why not?
22. Whether the utilization certificates prescribed by the Government in the release orders being followed by all concerned (PCARD, DCC, DRCS etc) in time and at time? If not, why not?
23. Whether members of PACS repay the loan as per schedule? If not, what is the percentage of cases where –
 - a. Loan was repaid, but belatedly.
 - b. There has been default to repayment?
 What are the reasons for these? Have those who delayed in repayment or defaulted, given loans despite delay/default? Percentage wise figures for PACS studied for the period 2009-10 to 2013-14 may be provided?
24. Whether any social audit of the functioning of PACS has been done? Is it desirable to have one per year for each PACS?
25. Is there any policy at the PACS/DCC level specifying the percentage to be lent to existing and new borrowers?
26. Whether the amount received under revival package to PACS is used for business development as prescribed by the Vaidyanathan Committee report or is being used for a purpose other than that? Example: repaying loan amount.

27. Is any kind of additional charge being levied on the farmers availing the loans? If yes, what is the rationale behind it and what is the amount so collected?
28. Though the government mandates that lending rate in Short Term Loan shall be 0%, is any kind of interest rate being levied on the farmers availing the loans? If yes, what is the rationale behind it and what is this rate of interest?
29. Whether the 3% interest subvention (Government of India provision) is being passed down to the borrowing farmers account? Whether claims are being submitted by PACS to NABARD to claim the subvention amount?
30. A study on the subject was done by NABARD Consultancy Services Private Limited (NABCONS) in 2012-13 for the loans given up to 2009-10. What are the actions taken on the findings and recommendations? Whether any measures were taken to act on the findings and recommendations at all?
31. Whether any money (either in the form of charges or otherwise) is collected from the farmers for sanctioning of loans?
32. The loan disbursed to the farmers is used for the purpose which it is lent or are the farmers investing the crop loan availed in the form of Fixed Deposits in co-operative/ Commercial Banks.
33. A study of the amount released as crop loans for onward lending by DCC Banks to their branches, from branches to PACS and PACS to farmers (a definite period may be selected to observe whether the entire amount released by DCC Banks is released to the farmers).
34. Whether the waivers of loans less than Rs 25000 made by the government of Karnataka within the period being studied benefitted the loanees or the lending agencies or both? If yes, how?
35. Can it be inferred as to whether there has been any impact of these crop loans on the production, productivity or cropping pattern (including number of crops taken in a year)? If yes, the extent and type of impact may please be elaborated.
36. Has there been any impact on the farm income or way of living of the farmers or both due to this scheme? If yes, the extent and type of impact may please be elaborated.
37. Have there been any unintended consequences or negative impact on desirable qualities due to the implementation of this scheme? If yes, they may please be elaborated along with suggestions as to how to set them right?

6. Evaluation Methodology and Sampling

At the level of the department concerned and KEA, it was decided to have the evaluation confined to two districts of each revenue division, since the number of PACS is about 5000. Randomly, the districts selected in the divisions are-

Sl.No	Revenue Division	Districts Selected
1	Bangalore	Kolar and Shimoga
2	Mysore	Chikamagalur and Mangalore
3	Belgaum	Belgaum and Bijapur
4	Gulbarga	Gulbarga and Bidar

It is decided to evaluate at least 20 PACS in each district selected, such that, following the nomenclature of the study done by NABARD Consultancy Services Private Limited (NABCONS) in 2012-13, 10 of them are weak PACS and other 10 strong.

Simultaneously, at least 2 DCC banks in the selected districts should be evaluated.

The evaluation is to be done using questionnaire that will be answered by individual loan borrowing farmers, secretary of PACS and DCC Bank managers. Also, Focussed Group Discussions (FGD) may be resorted to in answering evaluation questions. Further, individual savings accounts of loan borrowing farmers (to verify date of loan, extent and time in which loan is utilized, huge withdrawals etc) and credit entries of loan accounts (for checking repayment of loan) will have to be done.

It is expected that the evaluation report will confirm yet again, or deny with evidence, any findings of the previous i.e. NABCONS report.

8. Deliverables time Schedule :

The Registrar of co-op societies will provide year wise district wise lists of co-op societies/farmers members who have availed the loan, PACS, DCC Banks etc to the evaluating agency. The Registrar of Cooperative Societies will issue necessary instruction to the DRCS/ARCS and Managers of the concerned banks to co-operate and facilitate for collection of the necessary data during the course of study. It is expected to complete the study in 5 months time excluding the time taken for approval. The evaluating agency is expected to adhere to the following timelines and deliverables.

- | | |
|----------------------------|---|
| a. Work plan submission | : One month after signing the agreement. |
| b. Field Data Collection | : Three months from date of work plan approval. |
| c. Draft report Submission | : One month after field data collection. |
| d. Final Report Submission | : One month from draft report submission. |
| e. Total duration | : 6 months. |

7. Qualification of Consultant

Consultants should have and provide details of evaluation team members having technical qualifications/capability as below-

- i. Social Scientist,
- ii. Commerce qualified personnel preferably a CA/ICWA/CFA,
- iii. Retired Banker, and,
- iv. Civil/Structural/Construction/Agricultural Engineer.

And in such numbers that the evaluation is completed within the scheduled time prescribed by the ToR.

Consultants not having these number and kind of personnel will not be considered as competent for evaluation.

8. Agency for evaluation:

The Evaluating agency should be finalized as per provision of the Karnataka Transparency in Public Procurement Act and Rules, but without comprising on the quality.

9. Contact person to get further details about the study:

Sri. M. D. Matapathi, Additional Registrar of Co-operative Societies (Credit) (Ph No. 9342018537), Sri. Abdul Bari K., Assistant Registrar of Co-operative Societies (Credit) (Phone no.9845592766) and Sri. D. V. Sampath Kumar, Inspector of Co-operative Societies, Credit Section (Ph No.9986160453) will be the contact persons for giving information and details for this study.

10. Qualities Expected from the Evaluation Report :

The following are the points, only inclusive and not exhaustive, which need to be mandatorily followed in the preparation of evaluation report:-

- a) By the very look of the evaluation report it should be evident that the study is that of Cooperation department of the Government of Karnataka, and Karnataka Evaluation Authority (KEA) which has been done by the Consultant. It should not intend to convey that the study was the initiative and work of the Consultant, merely financed by the Cooperation department of the Government of Karnataka, and Karnataka Evaluation Authority (KEA).
- b) Evaluation is a serious professional task and its presentation should exhibit it accordingly. Please refrain from using glossy, super smooth paper for the entire volume overloaded with photographs, graphics and data in multicolor fancy fonts and styles.
- c) The Terms of Reference (ToR) of the study should form the first Appendix or Addenda of the report.
- d) The results should first correspond to the ToR. In the results chapter, each question of the ToR should be answered, and if possible, put up in a match the pair's kind of table, or equivalent. It is only after all questions framed in the ToR that is answered, that results over and above these be detailed.
- e) In the matter of recommendations, the number of recommendations is no measure of the quality of evaluation. Evaluation has to be done with a purpose to be practicable to implement the recommendations. The practicable recommendations should not be lost in the population maze of general recommendations. It is desirable to make recommendations in the report as follows:-

(A) Short Term practicable recommendations

These may not be more than five in number. These should be such that it can be acted upon without major policy changes and expenditure, and within say a year or so.

(B) Long Term practicable recommendations

There may not be more than ten in number. These should be such that can be implemented in the next four to five financial years, or with sizeable expenditure, or both but does not involve policy changes.

(C) Recommendations requiring change in policy

There are those which will need lot of time, resources and procedure to implement.

11. Cost and Schedule of Budget release

Output based budget release will be as follows-

- a. The **First instalment** of Consultation fee amounting to 30% of the total fee shall be payable **as advance** to the Consultant after the approval of the inception report, but only on execution of a bank guarantee of a scheduled nationalized bank valid for a period of at least 12 months from the date of issuance of advance.
- b. The **Second instalment** of Consultation fee amounting to 50% of the total fee shall be payable to the Consultant after the approval of the Draft report.
- c. The **Third and final instalment** of Consultation fee amounting to 20% of the total fee shall be payable to the Consultant after the receipt of the hard and soft copies of the final report in such format and number as prescribed in the agreement, along with all original documents containing primary and secondary data, processed data outputs, study report and soft copies of all literature used to the final report.

Tax will be deducted from each payment as per rates in force. In addition, the evaluator is expected to pay statutory taxes at their end.

This is an internal evaluation study, which means that the cost of the study will be borne by the line department. The Cooperation department is expected to allot the work to a competent evaluating agency following the procedure of Karnataka Transparency in Public Procurement Act and Rules and in consultation with the Karnataka Evaluation Authority. This should be done as early as possible but not later than 30 days from the approval of the ToR. The evaluating agency should present the inception report before the Technical Committee of the KEA within 30 days of the allotment of study to them.

The entire process of evaluation shall be subject to and conform to the letter and spirit of the contents of the government of Karnataka order no. PD/8/EVN(2)/2011 dated 11th July 2011 and orders made there under.

This ToR received the approval of the Technical Committee of the KEA in its 12th meeting held on 23rd June 2014.

Chief Evaluation Officer
Karnataka Evaluation Authority

Annexure-1

(Rs.in crore)

Agricultural loan disbursement										Interest subsidy details		
Year	Short term		Medium term		Long term		Total		Rate of interest	Budget provision	Releases	No of Beneficiaries
	No	Amount	No	Amount	No	Amount	No	Amount				
2004-05	670815	1188.08	9452	24.34	24689	119.13	704956	1331.55	6	60.00	45.00	
2005-06	1067700	2331.34	23531	92.17	31477	177.31	1122708	2600.82	6	80.00	80.00	580024
2006-07	826125	2082.4	51503	137.98	43837	250.86	921465	2471.24	4	76.50	76.50	1285247
2007-08	1251326	2849.5	10160	98.54	26250	210.43	1287736	3158.47	4	162.13	153.4	1026598
2008-09	1281554	3290.68	14463	114.4	23510	177.65	1319527	3582.73	3	147.26	117.5	1212367
2009-10	1334559	3576.68	11463	166.6	20227	183.42	1366249	3926.7	3	109.89	109.9	938547
2010-11	1439727	4468.89	16931	232.33	20315	186	1476973	4887.22	3	277.00	277.00	1476551
2011-12	1626766	5631.05	19625	243.17	17270	190.51	1663661	6064.73	1	625.00	435.00	1703561
2012-13	1628831	6030.28	23998	314.38	18791	205.52	1671620	6550.18	0&1	292.04	292.03	1335398
2013-14	2109361	7559.07	16607	309.08	16375	212.00	2142343	8080.15	0&1	627.50	627.50	1666083