10

STANDING COMMITTEE ON FINANCE (2004-2005)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

CREDIT FLOW TO AGRICULTURE—CRISIS IN RURAL ECONOMY AND CROP INSURANCE SCHEME

[Action taken by the Government on the recommendations contained in the Fifty-Fifth Report of the Standing Committee on Finance on Credit flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme of Ministry of Finance (Department of Economic Affairs)]

TENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2004/*Pausa*, 1926 (*Saka*)

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Presented to Lok Sabha on 22.12.2004

Laid in Rajya Sabha on 22.12.2004

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December, 2004/*Pausa,* 1926 *(Saka)*

COF No. 10

Price : Rs. 27.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eleventh Edition) and Printed by Jainco Art India, New Delhi.

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4. Shri R.C. Kakkar	—	*Under Secretary*

INTRODUCTION

I, the Chairman, Standing Committee on Finance, having been authorised by the Committee to submit the Report on their behalf, present this Tenth Report on action taken by Government on the recommendations contained in the Fifty-Fifth Report of the Committee (Thirteenth Lok Sabha) on Credit Flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme of the Ministry of Finance (Department of Economic Affairs).

2. The Fifty-Fifth Report was presented to Lok Sabha/laid in Rajya Sabha on 22 December, 2003. The Government furnished the replies indicating action taken on all the recommendations on 14th October, 2004. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 20 December, 2004.

3. An analysis of action taken by Government on recommendations contained in the Tenth Report (Fourteenth Lok Sabha) of the Committee is given in the Appendix.

4. For facility of reference observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
20 *December,* 2004
29 *Agrahayana,* 1926 *(Saka)*

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

1. This Report of the Standing Committee on Finance deals with Action taken by the Government on the recommendations/observations contained in their Fifty-Fifth Report (Thirteenth Lok Sabha) on Credit flow to agriculture—Crisis in rural economy and Crop Insurance Scheme of the Ministry of Finance (Department of Economic Affairs) which was presented to Lok Sabha and laid in Rajya Sabha on 22.12.03.

2. Action taken notes have been received from the Government in respect of all the recommendations contained in the Report. These have been analysed and categorised as follows:

(i) Recommendations/Observations that have been accepted by the Government:

Sl. Nos. 4, 6 & 8

(Para Nos. 76, 77, 89, 120)

(Total 4)

(Chapter II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Sl. Nos. 1, 3, 5, 8, 9

Para Nos. 35, 64, 65, 84, 117, 118, 119, 133

(Total 8)

(Chapter III)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Sl.Nos. 1, 2, 3, 7, 9, 10

Para Nos. 32, 33, 34, 36, 37, 44, 66, 102, 103, 104, 132, 184, 185, 186, 187, 188, 189

(Total 17)

(Chapter IV)

(iv) Recommendation/Observation in respect of which final reply of the Government is still awaited:

Sl.No. Nil

(Nil)

(Chapter V)

3. The Committee desire that replies in respect of the recommendations contained in Chapter-I should be furnished to the Committee expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their recommendations.

DIRECT AND INDIRECT AGRICULTURAL ADVANCES

Recommendation (Sl. No. 1, Para Nos. 32, 33, 34, 36, 37)

5. The Committee noted that as per RBI guidelines, banks had to deploy 40 percent of the total net bank credit (NBC) in the priority sector. Out of this 40 percent, minimum 18 percent (13.5% for direct lending and 4.5% for indirect lending) should be used for lending to agriculture. However, the Committee found that actual credit disbursement by most of the banks was far short of stipulated level. The percentage of total agricultural advances as in March, 2003 was 15.34% for public sector banks out of which 10.84% of NBC was deployed for direct financing of agriculture and 4.54% of NBC was given as indirect credit to agriculture. The share of total agriculture lending by private sector banks was 10.78 percent in March, 2003, with 6.28% of NBC going for direct lending and 8.06% for indirect lending to agriculture. The Committee expressed their deep concern over this dismal performance of the banks in agriculture lending. Moreover they were perturbed by the continuous decline in share of direct credit disbursement of public and private sector banks. Most of the banks had not been able to reach the prescribed target in agriculture lending by specified period of March, 2003. The Credit Deposit Ratio in rural areas for both public and private sector banks was substantially low as against urban and metropolitan areas. It was startling to note that as on June 2003, this ratio was 42.70% for public sector banks, even though they had large network of rural branches. The credit deposit ratio for private sector banks was equally low being 33.32%. The banks' unwillingness to step up agricultural credit disbursement and Government/RBI's failure to exert pressure on them in this regard was revealed by the low CD ratio. Therefore, they recommended that the Government and RBI should take measures to bring about a change in attitude of bankers. Further, the banks should develop necessary relationship with the rural clients. In addition they should launch more innovative products in rural areas specific to their credit needs and take steps to make farmers aware of such products.

6. It was seen that as per extant guidelines new private sector banks were required to open up 25 percent of branches in rural/semi-urban areas. However, these banks had only 9.52% of branches in rural areas and the old private sector banks had 24.23 percent of such branches. As a result these banks had failed to reach rural masses on

a large scale. Hence the Committee opined that the private banks should be asked to open more branches in rural areas and step up their credit disbursement in such areas.

7. Further, the Committee had found more proclivity towards indirect agricultural finance rather than direct loans for undertaking agricultural activities. That is why there had been spectacular growth particularly in certain private sector banks in indirect credit as against faltering growth registered in the case of direct credit. The Committee took serious note of this disturbing trend. They recommended that the target for direct lending by banks should be monitored independently. Besides, the RBI should ensure that banks did not increase the indirect lending at the cost of direct lending in order to cover up the shortfall under the overall limit of 18%.

8. The Committee took note of the recent directive to charge a single digit interest rate of not more than 9% per annum on crop loans up to a ceiling of Rs. 50,000. The Committee felt that Government's specification of maximum 9% rate of interest for agricultural loans was still on higher side in the present day scenario of falling interest rates. Moreover, the Committee felt that the limit of Rs. 50,000 was very meagre and such a limit would hardly provide any relief to farmers. It was widely known that the rate of interest in other sectors had fallen sharply and in housing sector it had reduced to as low as 6% but the falling interest rate had not been witnessed in agricultural sector. The Committee, therefore, recommended that the rate of interest of 9 percent should be reduced further in tandem with the rate of interest in other sectors.

9. The Committee were concerned to note that banks generally compounded interest in defiance of clear instructions issued in this regard by RBI. They wanted that Banks should invariably follow the RBI instructions scrupulously in this regard which should be monitored by RBI.

10. In reply to this, the Government have stated following in their action taken note:

> "The observations of the Committee have been noted. As per the Standing guidelines, domestic scheduled banks are required to meet a target of 18 percent of net bank credit for lending to agriculture under the system of direct lending. There is a further stipulation that indirect lending should not exceed 4.5 percent of net bank credit or one-fourth of credit target of 18 percent, to ensure that banks concentrate on the direct advances, to agriculture.

Although most public and private sector banks did not meet this target, advances to agriculture in absolute terms have steadily increased over the years, as may be seen from the table given below:

Outstanding Credit to Agriculture by Public and Private Sector Banks

	March, 1994	March, 2003	March, 2004
Public Sector Banks			
Net Bank Credit	1,40,914	4,77,899	5,56,500
Total Agri advances outstanding	21,204	73,507	86,681
Direct Agri. advances	19,256	51,799	61,692
Indirect Agri. advances	1,949	21,708	24,989
Private Sector Banks			
Net Bank Credit	9,545	71,760	1,11,515
Total Agri. advances outstanding	591	11,873	16,599
Direct Agri. advances	515	5,201	8,606
Indirect Agri. advances	76	6,671	8,926

The table given below shows that many banks were yet to reach the required level by March, 2004.

As of last Reporting Friday	Public Sector Banks		Private Sector Banks	
	On Target	Off Target	On Target	Off Target
March, 2001	4	23	1	30
March, 2002	6	21	2	1
March, 2003	5	22	2	27
March, 2004	7	20	2	28

A meeting was taken by Finance Minister on 9th September, 2004 with Chief Executives of public sector banks in which agriculture lending by public sector banks was also reviewed. The banks have been advised to make all possible efforts to achieve the target of 18% of net bank credit to agriculture during 2004-05.

Reserve Bank of India has advised both old and new private sector banks to make earnest efforts to open more branches in rural areas *vide* its communication in April, 2003.

11. Further the Ministry stated:

It may be mentioned that for computing a bank's performance under the 18% target, indirect advances are reckoned to the extent of only 4.5% of NBC even if the actual indirect advances of the banks are above this level.

12. Further, as for lending by private sector banks, the outstanding advances to agriculture, both direct and indirect, as at March 2001, 2002, 2003 and 2004 are as under:

	March, 2001	March, 2002	March, 2003	March, 2004
Direct Agriculture	2269.26	2533.66	4865.38	8718.04
Indirect Agriculture	3125.14	5489.12	6575.00	8930.54
Total Agriculture	5394.40	8022.8	12087.78	17648.58
% of total agriculture to NBC (taking indirect agriculture only upto 4.5%)	8.52	8.53	10.84	12.31

13. It may be observed from the above table that after March, 2001, both direct and indirect advances have increased significantly especially in March 2003 and March 2004. The total agricultural advances at 12.31 percent of net bank credit as on the last reporting Friday of March 2004 was after taking indirect advances only up to 4.5% of NBC. If the entire amount of indirect advances to agriculture are taken into account, the outstanding advances of private sector banks to the agriculture sector will be at a higher level than what is shown above.

14. Over a period of time various rates have been falling, and the bank's benchmark rates *i.e.* the prime lending rates have also been declining. However, there has been some concern expressed that some

of the sectors have benefited more on account of the fall whereas sectors like agriculture etc. have been benefited in equal measure. The Indian Bank's Association (IBA) has, therefore, advised all public sector banks to prescribe lending rate for agriculture at not more than 9% per annum on crop loans upto Rs. 50,000. This lending rate is expected to benefit most of the crop loan account holders and cover almost all small and marginal farmers, enabling them to access credit and boost productivity of agriculture.

15. The interest rates charged by banks are a function of many variables and hence may vary from bank to bank. However, some of the banks have even gone below the level of 9%. Further, the NABARD Act, 1981 has been amended to enable NABARD to provide refinance, subject to certain conditions, directly to District Central Cooperative Banks (DCCBs), thereby reducing one tier in the system. This is expected to reduce the interest rate charged to the ultimate borrower.

16. The Vyas Committee has observed in its report that the interest rate is an important aspect of credit. It takes cognizance of the growing borrower expectations of uniformly lower interest rates on loans by different agencies extending credit to agriculture. As single mandatory rate for all banks is, however, not feasible at present, as capacity of the various agencies to deliver agricultural loans at lower rate of interest varies due to their differential cost structure. What ultimately matters to the borrowers in addition to the rate of interest is the timeliness and adequacy of credit as well as the concomitant costs that they may have to incur to avail credit. Accordingly, the banks have been advised to pay attention to their systems and procedures to make their lending cost effective and also consider measures to save the borrower avoidable expenses for getting a loan sanctioned.

17. Banks have been advised to follow the instructions in the matter of compounding of agricultural loans. Besides this, the instructions are being reiterated from time-to-time while extending additional relief package for the persons/farmers affected by natural calamities."

18. The Committee are not willing to accept the reply of the Government that increase in absolute advances to agriculture by banks should be taken as an excuse for low percentage of their agricultural disbursement. If mere increase in absolute terms were deemed satisfactory, then why the targets for credit delivery to agriculture were fixed for banks. The Committee are unhappy to find that as many as 20 public sector banks and 28 private sector banks were off target in respect of agricultural credit, till March

2004. They further note that a meeting was convened by the Finance Minister with Chief Executives of Public Sector Banks on 9th September, 2004, in which banks were advised to make all possible efforts to achieve the target of 18% of net bank credit to agriculture during 2004-05. The Committee are of the view that the Government/RBI should take effective measures to impress upon the banks to achieve the targets immediately. They further recommend that the Government should make it mandatory for all banks (both public and private sector) to meet the target of 18 per cent in agricultural credit disbursement and take punitive action, other than requiring to deposit the shortfall in RIDF, against those banks who make default in this respect. In addition banks should be asked to increase their rural credit deposit ratio as this will result in increased benefit to agriculture sector in the long run. The Committee again recommend that the Government and RBI should take measures to bring about a change in attitude of bankers as this alone can help in bringing about sea change in agricultural credit disbursement by banks.

19. The Committee had found that new private sector banks had only 9.52 percent of their branches in rural areas while old private sector banks had 24.23 per cent of such branches inspite of the fact that there were specific guidelines for new private sector banks to have 25 per cent branches in these areas. They, therefore, desired that these private sector banks should open more branches in rural areas and step up their credit disbursement in such areas. The Government in their action taken replies have simply informed that a communication was issued by the RBI in April, 2003 advising both new and old private sector banks to open more branches in rural areas. They are not satisfied with the casual reply of the Government to a specific recommendation. The Government should have furnished the details of the branches opened by these banks after April, 2003. Hence, while reiterating their earlier recommendation, the Committee would like to be apprised of the total number of branches and number of branches in rural areas (both absolute and as percentage of the total branches) opened by private sector (both old and new) and public sector banks during 2003, 2004 and as on date. Further the Committee would like to have a copy of the communication issued by RBI for their perusal.

20. The Committee observe that after March, 2001, both direct and indirect advances increased significantly especially in March 2003 and March 2004 in case of private sector banks. The total agricultural

advances of private sector banks was 12.31 percent of NBC as on the last reporting Friday of March 2004. While the Committee appreciate the rapid growth in credit to agriculture by private sector banks, they desire that this pace should be maintained and these banks should meet the targeted 18% of agricultural lending soon. The Committee are unhappy to note that the Government have not mentioned anything about independent monitoring of all the banks in case of direct lending. Therefore, in order to enhance the component of direct lending, they reiterate that the target for direct lending should be monitored independently.

21. The Committee are not satisfied with the reply of the Government that the maximum lending rate of 9% per annum on crop loans upto Rs. 50,000 is expected to benefit most of the crop loan account holders and cover almost all small and marginal farmers enabling them to access credit and boost productivity of agriculture. In their view the maximum rate of interest could further be lowered. Besides the loan limit is too meagre against the rising cost of agricultural operations. They have been informed that a single mandatory rate for all Banks is not feasible because capacity of the various agencies to deliver agricultural loans at lower rate of interest varies due to their differential cost structure. They want Government/ RBI to advise the banks to take effective steps towards lowering their cost so that interest rates could be lowered. They further want that loan limit for agricultural loans should be suitably hiked.

22. It is seen that the Banks have been advised to follow the instructions with regard to compounding of interest on agricultural loans. The Committee are, distressed to find that these instructions are old and have not been issued just recently but the Banks are compounding interest in defiance of these instructions. Hence, they are not willing to accept the casual reply from the Government in this regard. The Government should have informed the Committee about outcome of these instructions as to whether these are being followed by all the Banks in right earnest. They want to be informed in this regard at the earliest.

PROBLEM OF SMALL AND MARGINAL FARMERS/ORAL TENANTS/SHARECROPPERS

Recommendation (No. 2, Para No. 44)

23. The Committee had observed that there was a large number of farmers in India who did not actually own the land but cultivated the land of others without any legal documents and were called oral tenants. The Committee were given to understand that since these tenants did not have any security to offer, they could not get loans from the banks. Also, there were no separate schemes of loans for such farmers. However, various banks suggested that they (the banks) would be able to extend loans to them only if they (farmers) formed groups and collectively approached for loans. They were given to understand by Indian Banks' Association (IBA) about the prevalent practices for disbursement of credit to such tenants. The Committee also noticed that Anant Geete Committee had recommended that tenancy of landless farmers should be given recognition to do away with problems of these farmers in obtaining bank credit for their farming operations. The Committee felt that inspite of several schemes for this purpose, majority of them remained on paper. The oral tenants were still reeling under severe resource crunch which could be checked only if the policy decisions taken in this regard were actually translated into action. Therefore they recommended that the oral tenancy should be given recognition and they should be provided credit for agricultural activities.

24. In their Action Taken notes, the Government have furnished following reply:

> "The Vyas Committee constituted by Reserve Bank of India has recommended that Joint Liability Group (JLG) and Self Help Group approaches have the potential of addressing the issues relating to the oral tenants and lessees. Accordingly, the banks have been advised by RBI to explore these financing models through pilot projects until such time as States address the issues relating to legislating tenancy."

25. The Committee have been informed by the Government that in case of oral tenants the banks have been advised to explore the

financing models such as Joint Liability Group (JLG) and Self Help Groups (SHG) through pilot projects until such time as States address the issues relating to legislating tenancy. They want that banks should be advised by Government/RBI to popularise these schemes among poor and landless farmers so that large number of such groups could be formed to avail the benefit of getting agricultural loan from banks. They further want the Government to persuade the States to make their tenancy laws without further delay. The Committee would also like to be apprised of the progress made in this regard from time to time.

RURAL INFRASTRUCTURAL DEVELOPMENT FUND

Recommendation (No. 3, Para No. 66)

26. The Committee were constrained to find that required demand for funds were not coming from NABARD which was revealed by the fact that as on 31 January, 2002 out of Rs. 15755.84 crore allocated, only Rs. 8455.32 had been drawn. As the demands were less than shortfall in agricultural lending, these funds were not deposited by the banks in different tranches of RIDF maintained by NABARD and the Bank's money remained with the banks for several years despite the default committed by them. This paucity of demand was due to slow disbursements of loans as against sanctions since State Governments were not able to expeditiously complete the projects financed by RIDF. This was resulting in under-utilisation of RIDF funds. In view of the above, it was imperative to review and evaluate the scheme. The Committee felt that measures should be taken to impress upon State Governments to expedite the rural infrastructure projects and get them financed through NABARD without delay. They further recommended that farmers fora might also be involved invariably to identify the rural infrastructure projects linked with agriculture production with more emphasis on irrigation, power etc. and post-harvesting activities such as storage, marketing etc.

27. In their action taken reply the Ministry of Finance have stated as under:

> "The Rural Infrastructure Development Fund (RIDF) was established with NABARD in the year 1995-96 in terms of the Budget Speech. The fund is to be used for assisting State Governments/State-owned corporations in quick completion of on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructrure. The domestic scheduled commercial banks, both in the public and private sectors, having shortfall in lending to priority sector/agricultural lending target, are required to deposit in RIDF. Funds under RIDF are disbursed to the State Governments on reimbursement basis depending on the physical progress in implementing the approved projects."

28. The Committee express their unhappiness over the terse reply from the Government with regard to RIDF funds. Mere parking of funds by banks in this corpus will not solve the problems of agricultural credit and infrastructure. Utmost priority should be given to proper utilization of funds. As the implementation part of RIDF scheme has not been very encouraging the Committee again emphasise the need for review and evaluation of the scheme. They desire that they should be informed of the results of such review. They further reiterate that farmers fora may also be involved invariably to identify the rural infrastructure projects linked with agricultural production with more emphasis on irrigation, power etc. and post-harvesting activities such as storage, marketing etc.

COOPERATIVE BANKS

Recommendation (No. 7, Para Nos. 102, 103, 104)

29. The Committee observed that cooperative banks played an important role in rural credit delivery system with credit cooperatives forming almost 70% of the rural credit outlets. They noted that about 55 per cent of the short-term production loans for the agriculture sector came from cooperative credit institutions. However the Committee were disturbed by the fact that even though Cooperative banks were getting cheap funds from NABARD, they were charging exorbitant rates of interest on loans lent to farmers. They were alarmed to note that the rates of interest charged by the cooperative banks were far higher than the Commercial Banks. As against interest rates ranging between 5.5% p.a. to 6.75% p.a. charged by NABARD on refinance, the rate of interest charged by Cooperative banks ranged between 12% to 18% p.a. These banks normally charged interest rates between 12% to 16% per annum for loans upto Rs. 25000/-and between 12.25% to 17% for loans upto Rs. 2,00,000/-. For loans above Rs. 2,00,000, the maximum interest charged was upto 17%. In addition these banks were also charging penal rate of interest on overdue amount, with cooperatives in Rajasthan, Haryana & Karnataka, charging highest penal rate on short term loans.

30. The Committee found that this higher rate of interest was on account of various problems such as high transaction cost, mismanagement, lack of professionalism, multiplicity of control, lack of audit, multilayered structure etc. The Committee observed that the Task Force to study the functioning of Co-operative Credit System under the Chairmanship of Shri Jagdish Capoor and the Joint Committee on Revitalisation Support to Co-opertive Credit Structure' headed by Shri Balasaheb Vikhe Patil, were constituted to go into the working in the cooperative banks. All these Committees had repeatedly recommended for strengthening these banks but still the problems of these banks were prevalent. Therefore, the Committee desired that the Government should take necessary expeditious steps to overcome the deficiencies noticed by various Committees so that farmers might be able to avail loans from the cooperative banks at lower rate of interest as being charged by commercial banks.

31. The Committee observed that NABARD Act had been amended recently which would dispense with one intermediary layer. In the opinion of the Committee this was a welcome step. However mere abolition of one layer might not result in substantial reduction in rate of interest. Therefore, Committee opined that NABARD should finance Primary Agricultural Credit Societies (PACSs) directly instead of routing the funds through different layers. Hence, the Committee strongly recommended that the structure of Cooperative banks should be recast to bring down the cost of transaction and margin of rate of interest. The Committee also took note of the fact that in many States PACS were required to obtain case by case approval of crop loans even when PACS disbursed loans from their own deposit resources. This system should be changed as it unnecessarily delays granting of loans.

32. In their Action Taken Reply the Ministry have stated as under:

"Some Co-operative Banks have reduced the rate of interest charged to farmers on crop loans. However, in the three tier cooperative credit structure, each tier adds its margin to the rate of interest, thus leading to a higher rate being charged to the ultimate borrower. The amendments to Sections 21 and 22 of NABARD Act, 1981, enabling NABARD, subject to concurrence of the concerned State Government, to extend refinance support to the District Centre Cooperative Banks (DCCBs) directly for financing Short Term Seasonal Agricultural Operations {ST (SAO)} is expected to reduce the interest rates charged by cooperative banks. The Vyas Committee has observed in its report that, a single mandatory rate of interest would affect various institutions differentially, mostly adversely, and is therefore not feasible at present. Measures to reduce costs of funds, transactions and risks, could lower the cost to borrowers without impairing viability of rural financial institutions (RFIs).

In terms of the announcement made by the Union Finance Minister in his Budget Speech for the year 2004-05, Government of India has appointed a Task Force under the Chairmanship of Prof. A Vaidyanathan, Madras Institute of Development Studies, Chennai. The Terms of Reference are as follows:

(a) To recommend an implementable action plan for reviving the Rural Cooperative Banking Institutions, taking into consideration, *inter-alia*, the main recommendations made by various Committees including Jagdish Capoor Committee and Vikhe Patil Committee in this regard.

(b) To suggest an appropriate regulatory framework and the amendments which may be necessary for the purpose in the relevant laws.

(c) To make an assessment of the financial assistance that the Cooperative Banking Institutions will require for revival, the mode for such assistance, its sharing pattern and phasing.

(d) To suggest any other measures required for improving the efficiency and viability of Rural Cooperative Credit Institutions.

The Task Force is required to submit its report by October 31, 2004.

The NABARD Act has been amended to enable NABARD to provide direct short term refinance to DCCBs for financing Seasonal Agricultural Operations. The Scheme is not applicable generally but selectively, *i.e.*, only to those DCCBs which comply with Section 11 (1) of B.R. Act, 1949 (AACS) and certain other conditions.

As a result of lack of proper management information system for PACS in many States and PACS not being under the domain of BR Act, 1949 a reliable view of the methodology of the working of the PACS may not be possible as RBI does not have any supervisory power over them. Direct finance to PACS by NABARD may also militate against the federal structure of cooperative credit delivery system. The present federal structure also empowers the apex institution to play a supervisory role over the lower tiers besides providing policy and financial support to them. Most importantly the higher tiers ensure adherence to financial discipline by the lower tiers. Choosing the ground level layer for direct finance from NABARD would weaken the principle of risk sharing enshrined in the fundamental structure of cooperatives. Administratively, it may neither be feasible nor cost effective for NABARD to provide direct finance to PACS."

33. The charging of excessive rates of interest by cooperative banks from farmers is a cause of major concern since a large chunk of agricultural loans are made available to farmers by them. The Committee agree that multi layered structure of cooperative banks may have contributed towards shooting up the interest rate charged from ultimate borrowers. They also note that a number of committees and task forces have been formed to address these problems in the past. However they are distressed to note that the Government

instead of taking any action based on earlier reports has formed another task force to look into the same problems as analysed earlier. Therefore, they are constrained to state that the Government has merely engaged itself in constituting Committee after Committee to address the problems of cooperative banks without taking any concrete action in this regard. In their opinion such an exercise by Government would merely delay the revival and restructuring of cooperative banking system. Hence, the Committee, expect that the Government would take suitable measures immediately after the submission of report by the latest Task Force. The Government should also apprise the Committee of the recommendations of the Task Force and action taken by the Government thereon.

34. The Committee further note the reply of the Government with regard to Primary Agricultural Credit Societies (PACS) wherein it has been stated that as these are not under the domain of Banking Regulation Act, 1949 a reliable view of the methodology of the working of the PACS may not be possible as RBI does not have any supervisory power over them. Therefore in their view the State Governments should be asked to make a proper evaluation of working of PACS and accordingly make changes in their respective Acts to help efficient disbursement of funds for agricultural operations through PACS.

OTHER ISSUES

Recommendation (No. 9, Para No. 132)

35. The Committee found that the stamp duty on mortgage for agriculture loans in various States was very high. In addition, the plethora of documentation that was required in ordinary course was also combersome for illiterate farmers. This discouraged farmers from availing loans from banks and they would fall in the clutches of usurious moneylenders. The Committee, in view of this, desired that stamp duty should be lowered besides minimizing the requirement of documentation. For this State Governments might be persuaded to reduce stamp duty. They desired that the norms with regard to providing credit to farmers should be simplified and paper work involved therein should be reduced to the barest minimum. This would attract the farmers to institutional finance and save them from falling prey to the moneylenders trap. Further, in consonance with the views of ICICI bank, the Committee desired that the concession for documentation and stamp duty on mortgage for agriculture loans which had been made available to the borrowers by some of the States, should not only be extended to all the States but should also be made applicable in the case of loans taken from other Institutional lenders.

36. The Ministry have replied in their action taken note stated as below:

> "The stamp duty exemptions are not uniform. Banks generally approach the State Governments through SLBC, meetings of the State concerned for granting stamp duty exemption on agricultural and non-farm sector loans."

37. The Committee have been informed that the stamp duty exemptions are not uniform. Besides this the banks generally approach the State Governments through State Level Bankers Committee (SLBC) meetings of the State concerned for granting stamp duty exemption on agriculture and non farm sector loans. The Committee are of the view though stamp duty exemptions are negotiated by banks through SLBC meetings of the State Governments, the Union Government could still impress upon States to reduce stamp duty.

38. They are deeply concerned to note the Government's silence on their recommendation on simplification of paper work. They are of the view that the Government should have taken the views of the Committee seriously and furnished a suitable reply. They, therefore, reiterate their earlier recommendation that the concession available in some of the States regarding stamp should be extended to all the States and this concession should be made available in respect of loans taken from all other institutional lenders without further delay. Besides, the procedural formalities should also be minimised. They want to be informed of steps taken by the Government in this regard at the earliest.

CROP INSURANCE SCHEME

Recommendation (No. 10, Para Nos. 184, 185, 186, 187, 188, 189)

39. The Committee found that an all risk Comprehensive Crop Insurance Scheme (CCIS) for major and crucial crops introduced in April, 1985 by the Government of India with active participation (optional) of State Governments and the Experimental Crop Insurance Scheme (ECIS) implemented only for one season during Rabi 1997-98 could not achieve the desired results. Accordingly a broad based new Crop Insurance Scheme known as National Agriculture Insurance Scheme (NAIS) or the Rashtriya Krishi Bima Yojana (RKBY) was introduced in the country w.e.f. Rabi 1999-2000 season. At present (Kharif 2003), the scheme was being implemented in 24 States/ UTs.

40. As the scheme provided for the setting up of a separate agency for implementation of NAIS, a new agency namely the Agriculture Insurance Company of India Ltd. (AIC) promoted by GIC, NABARD and four existing public sector general insurance companies were incorporated on 20 December, 2002 which had taken over the implementation of NAIS w.e.f. April, 2003.

41. The Committee were, however, deeply concerned to observe that even the National Agriculture Insurance Scheme (NAIS) which *inter-alia* had aimed at stabilising the farm incomes particularly in disaster years and to encourage farmers to adopt progressive farming practices, had also fallen short of achieving the desired objectives due to the poor coverage of non-loanee farmers, slow inclusion of new crops within the Scheme, high premium rates for commercial crops like cotton, withdrawal of subsidy in premium meant for small and marginal farmers on sunset basis in 3 to 5 years, dispute between Centre and States in sharing premium subsidy, large size of unit area for insurance, non-coverage of perennial horticultural crops, medicinal crops, agricultural allied activities namely aquaculture, animal husbandry and poultry etc. within the ambit of the Scheme.

42. The Committee were further perturbed to find that the apathy on the part of the bankers in participating in the Scheme, inadequate

branch network of the implementing agency, saddling the States with the entailing financial burden of Crop Cutting Experiments (CCEs), absence of adequate redressal mechanism, delayed/tardy claim disbursals and low penetration of the scheme into muffsil/remote areas had immensely affected the utility of the Scheme in addressing the growing concerns of the farmers in general and the small and marginal farmers in particular. They also noted with concern that the non availability of past yield data on CCEs had been depriving the North Eastern States from the benefits of the crop insurance scheme.

43. The impeding issues which had hindered the sustainability and viability of the erstwhile Comprehensive Crop Insurance Scheme and Experimental Crop Insurance Scheme were also evident in NAIS but Government had not taken any step to resolve the persisting lacunae in the NAIS.

44. In view of the above and considering the need to have an effective mechanism to squarely meet the growing demands of farming community to a greater extent and to make the NAIS successful, the Committee recommended as under:—

(i) The Scheme should be extended to all farmers which might include oral and landless farmers, sharecroppers, tenant farmers etc.

(ii) As far as possible all field crops, annual commercial/horticulture crops, medicinal crops, agricultural allied activities like aquaculture, animal husbandry, poultry etc. should be included in the ambit of National Agriculture Insurance Scheme (NAIS);

(iii) The banking industry had been one of the main beneficiaries of the scheme. Their huge network might be utilised for popularising the scheme. At the same time it was important that they should create friendly environment and extend helping hand to the illiterate farming community. The documentation should be made less cumbersome and procedure should be made simple so that the farmers might feel free to avail of the institutional financial help. Proper receipt and other documents should be given to the loanee farmers so that they might claim the amount of insurance in case of failure of their crops.

(iv) The unit area or the area approach for insurance which differed from State to State and varied from Gram Panchayat in A&N Island to Distt. in J&K might be standardised and fixed as Gram Panchayat for the whole of the country. This area approach might operate through Small Area Crop Estimation Method (SACEM) which might report yields at Gram Panchayat level as designed by the Ministry of Agriculture in consultation with the Indian Agriculture Statistics Research Institute (IASRI).

(v) As per estimation of the Agriculture Insurance Company the expenditure for conducting Crop Cutting Experiments (CCEs) at Gram Panchayat Level came about Rs. 180 crore for all the crops in the whole country. Accordingly, the Committee felt that it may not be difficult for the Govt. of India to provide the financial assistance to State Governments which might otherwise strain their finances and show reluctance to conduct CCEs.

(vi) The advanced technology *i.e.* Remote Sensing Technology provided greater credibility and unbiased objective independent data to cross check and supplement other field information inputs for crop insurance. Therefore, this advanced technology should be used to assess the reliable crop yield. This would help to check the unbridled inflated claims.

(vii) Threshold yield should be based on preceding normal 3-5 years instead of immediate past 3-5 years;

(viii) The Committee found that the premium on annual commercial/horticulture crops which was calculated on the actuarial rates, is very high. They felt that this actuarial rate together with interest was unaffordable for loanee farmers with the result that they were not inclined to avail of the financial assistance form banks and ultimately were not able to derive the benefits of the Scheme. The Committee, therefore, desired that the Government should reduce the premium rate on annual commercial/horticulture crops to the extent possible.

(ix) Premium subsidy for small and marginal farmers @ 50% which was to be phased out as per the scheme on sunset basis in a period of 3 to 5 years should not be withdrawn and wherever it had been withdrawn, it should be restored.

(x) The Government might also reconsider the sharing of premium subsidy and insurance claims in the ratio of 2:1 which was presently being shared between the Centre and the States in the ratio of 1:1.

(xi) The cropping pattern and local conditions should be taken into account and loan might be disbursed close to agriculture seasons or as and when required by the farmers.

(xii) A proper redressal mechanism should be evolved within the AIC for the redressal of farmers' grievances where maximum period for resolving the disputes should be prescribed.

(xiii) Since the 'claim' was the main area which invites complaints from the farmers, the Committee desired that the data entry and processing of insurance claims might be computerised and the claims might be settled and disbursed within the stipulated time. In case of disputes, the matter might be referred to the 'Redressal Cell' for settlement. While referring the case to such a Cell, all the facts and documents might be submitted to it in one go so that the disputes could be resolved expeditiously.

(xiv) Government of India and State Governments should set up the National Agriculture Credit Relief Fund for giving relief to farmers affected by consecutive crop failures.

45. The following replies were received from the Government in their action taken note:—

(i) "All farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage under the National Agriculture Insurance Scheme (NAIS).

(ii) Under the National Agriculture Insurance Scheme (NAIS), the following three broad groups of crops are covered subject to availability of past yield data of requisite number of years and capacity of the State Government to conduct requisite number of crop cutting experiments.

(a) Food crops (*i.e.* cereals, millets and pulses).

(b) Oilseeds.

(c) Annual Commercial/horticultural crops *i.e.* sugarcane, potato, cotton, ginger, onion, turmeric, chillies, pine-apple, banana, jute and tobacco.

Ministry of Agriculture, the nodal Ministry of Crop Insurance has set up a Joint Group on 31st August, 2004 to study the improvements required in existing Crop Insurance Scheme. The group will explore the possibility for extending the scope of coverage under the scheme.

(iii) The crop Insurance Programme is conceived in such a way that not only the existing infrastructure of Banks, but also the framework and guidelines of Seasonal Agricultural Operations (SAO) loans are being used in the effective implementation of the scheme. Crop loan taken by the farmers for growing insurable crops is automatically covered under NAIS. The claims, if any, at the end of the crop season are adjusted against the loan taken by the farmer. Therefore, simplification in lending procedures help in the coverage of loanee farmers and also making timely payment of insurance claims. RBI & NABARD have issued guidelines, from time to time, for effective implementation of the scheme. The Banks are also paid service charge @ 2.5% of premium for the services rendered by them under the scheme.

(iv) At present, the Scheme is operating on the basis of Area Approach for wide spread calamities. The unit of insurance under Area approach could be Gram Panchayat, Mandai, Hobli, Circle, Firka, Block, Taluka, etc. as decided by State Government, for each notified crop. For localised calamities, such as hailstorm, landslide, cyclone and localised flooding, the scheme operates on individual farmer basis. However, it is tried out in limited areas only, and will be extended to more areas in the light of operational experience. The reduction in unit area of insurance will help in more realistic assessment of claims, but it may be difficult for implementing States to an assessment of yield based on Crop Cutting Experiments (CCEs) at smaller unit area level as it will involve a large number of CCEs. The implementing States do not have adequate infrastructure to conduct required number of CCEs. Ministry of Agriculture has made efforts to explore alternative methods for making assessment of yield at smaller unit area through Small Area Crop Estimation Method (SACEM), which was based on farmer's appraisal, was experimental in selected districts/crops and it was not proved as an effective method. Inspite of all this, the issue of reduction in the unit area of insurance is under consideration as a part of the review of NAIS.

(v) The Joint Group set up to study the improvement required in NAIS will look into all possibilities. A copy of the order dated 31st August, 2004 issued by the Ministry of Agriculture is annexed.

(vi) Agriculture Insurance Company of India Ltd. (AICL) is already implementing a pilot project using Remote Sensing Technology (RST) in 3 districts one each in the States of Andhra Pradesh (Ananthpur District), Maharashtra (Ahmednagar District) and Gujarat (Rajkot District) for average estimation, crop health report and yield estimation during kharif 2004. On the basis of findings of the pilot project, expansion of the project will be considered.

(vii), (viii) & (ix) A joint Group has been set up to study the improvements required in the existing Crop Insurance Scheme *i.e.* NAIS. The Group will consider various suggestions including the suggestion given by the Committee.

(x) Keeping in view the risk involved and the limitation of financial resources the matter, at present, is not under the consideration of the Government.

(xi) Under the existing Crop Loan system loans are provided on the basis of scale of finance for different crops which are fixed, after taking into account all the requirements *i.e.* cost of cultivation, cropping pattern, variation in local climatic conditions etc. Loans are provided to the farmers close to agriculture season and as per the requirement of the farmers. Apart from this, the Kisan Credit Card has facilitated timely access of agricultural credit to the farmers.

(xii) & (xiii) The Government is already aware about the need for timely payment of the admissible insurance claims. Currently, all the operations of AIC are computerised but the delay in settlement of claim is mainly due to time lag involved in submission of yield data and release of matching funds by the State Governments. The Joint Group recently constituted to study the improvements required in the existing Crop Insurance Schemes will deliberate and suggest appropriate mechanism for monitoring and disbursal of timely insurance claims.

(xiv) To help the farmers affected by consecutive crop failures due to natural calamities, Calamity Relief Fund (CRF)/

> National Calamity and Contingency Fund (NCCF) are available. Besides this, National Agricultural Insurance Scheme (NAIS) is in vogue since Rabi 1990-2000. The scheme envisage coverage of all farmers (loanee and non-loanee both) irrespective of their size of holdings, more crops (including annual/horticultural/commercial crops) and more risks. To broad base the scope of its coverage and to make it more comprehensive a review process has already been initiated. In view of the above, setting up of the National Agriculture Credit Relief Fund is not required."

46. The Committee find that a Joint Group has been constituted w.e.f. 31 August 2004 to review various aspects of National Agriculture Insurance Scheme (NAIS) including recommendations/ suggestions put forward by Committee to improve its functioning. It is expected to submit its report by 31st October 2004. The Committee hope that this group may have submitted the report by this time. They therefore desire that reports of the Groups may be provided to them as early as possible. Besides, the Government should take concerted efforts with regard to implementation thereof so that concerns of the farmers are addressed adequately.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl.No. 4, Para Nos. 76, 77)

"It is observed that the Kisan Credit Card (KCC) Scheme is being implemented in all the States and Union Territories by all the Public Sector Commercial Banks, State Cooperative Banks/District Central Cooperative Banks and RRBs. It is facilitating quick accessibility to minimum amount of loan required for farming. The Committee note that respective shares of Commercial banks, Cooperative Banks and RRBs in issue of KCCs are 30.01%, 61.01% and 8%. Since at times there is inordinate delay in the issue of KCC hence the Committee are of the view that a maximum period of 15 days as suggested by the Geete Committee should be fixed for processing and issuing the Kisan Credit Cards and the same should be adhered to scrupulously.

"The Committee have been informed that the National Council of Applied Economic Research (NCAER) was engaged to undertake a study of KCC scheme to see its effectiveness. They hope that NCAER might have submitted its report by now. The deficiencies noticed by NCAER may be addressed properly with a view to make the scheme more effective. The Committee may be apprised of the findings of NCAER and the action taken by the Government in this regard. At the same time efforts to generate more and more awareness about the benefits of the KCC Scheme should be intensified. In this regard, the highlights of the scheme may be given wide publicity by banks through various modes of communication to enlighten the farmers of the benefit of the scheme."

Reply of the Government

As recommended in the Report of the Committee on Issues pertaining to Rural Credit (Chairman: Shri Anant Geete), Commercial Banks have already been advised to issue Kisan Credit Cards within 15 days of the receipt of the application, complete in all respect.

The National Impact Assessment Survey (NIAS) of Kisan Credit Card (KCC) Scheme was commissioned by Reserve Bank through

National Council of Applied Economic Research (NCAER), New Delhi to make an objective assessment of the scheme. The report submitted by NCAER has brought to light several positive developments out of the scheme which are as under:

- Credit flow to agriculture sector has been augmented.
- The cost of borrowings for the KCC holders works out about 3% lower than that for non-KCC holders.
- There has been a significant drop in the number of borrowers depending exclusively on informal sources for their short-term credit needs.
- With the introduction of the KCC scheme, interest rates in the informal sector have registered a decline.
- Farmers are able to save on time and avoid the hassels of the pre-KCC system.
- The scheme has benefited financial institutions in that it has helped them avoid repeat appraisals, processing of papers, etc. The savings in terms of time and effort have been noted by bankers covered in the survey.

The study has also helped to identify some areas where further fine-tuning is warranted. These are as follows:

- Security conscious banks are imposing many restrictions on the issuance of KCCs. This is restricting credit flow to agriculture.
- Card holders are unable to use KCCs in branches other than the issuing branch due to the restrictions imposed by the banks.
- Customers perceive that there are no incentives/rewards extended to them for timely repayments.
- Credit limits are thought to be too low by farmers. The study has estimated that credit limits need to be raised by 1.5 times on an average, to meet the farmers' requirements.
- The awareness level/provision of the Personal Accident Insurance Scheme appears to be quite low.

Reserve Bank of India intend to follow up the study for making KCC scheme more farmer friendly in terms of smooth access to bank credit, savings in cost and increase in coverage without making sacrifices on financial disciple.

[Ministry of Finance, Deptt. of Economic Affairs, (Banking Division) u.o. no. 6-2/2004-AC dated]

Recommendation (Sl.No. 6, Para No. 89)

The Committee note that Self Help Groups (SHGs) have emerged as an important channel for providing credit to agriculture. They note that the SHG Bank Linkage programme has a wide acceptance in the southern States and has picked great momentum in Andhra Pradesh. 50 per cent of the total SHGs are being financed by commercial banks while RRBs and cooperatives have a share of 39% and 11% respectively in financing of these groups. These groups also have excellent performance in terms of recovery. Therefore, they are provided finance easily. The Committee are of the view that increasing number of such groups should be financed. Also poor farmers should be made aware of benefits of these groups. They should be encouraged to form such groups and take assistance of any NGO, or a bank branch or a Government agency called Self Help Promoting Institution (SHPI). This will increase the flow of credit to these farmers. In addition, emphasis should be given to increase area coverage of SHGs. There is great regional variation in the presence of SHGs. Micro financing should be stressed in all the areas and across the States. Therefore, special efforts need to be made to encourage such groups in other parts of the country.

Reply of the Government

As on 31st March 2004, more than 10.79 lakh SHGs have been credit linked with banks of which 3.98 lakh SHGs were formed and financed in the 13 Priority States in North and Eastern Regions. As at the end of August, 2004, additionally 59,118 groups have been credit linked to banks during the current year, of which 26,000 SHGs were in the Non-Southern States. NABARD has initiated pilot projects in 10 States, *i.e.* in Gujarat, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal, to evolve a sustainable and replicable model for providing hand holding services to the members of the matured SHGs for undertaking Micro Enterprise activities. Government of India has also announced credit linkage of 5.85 lakh SHGs during the next three years, of which 1.85 lakh SHGs would be linked during the current year, 2 lakh SHGs in the year 2005-06 and another 2 lakh SHGs in 2006-07.

RBI has issued comprehensive guidelines to banks, *vide* circular dated February 18, 2000, for mainstreaming micro credit and enhancing the outreach of micro credit providers. These guidelines stipulated that micro credit extended by banks to individual borrowers directly or through any intermediary would henceforth be reckoned as part of their priority sector lending. The banks were given freedom to formulate their own model(s) or choose any conduit/intermediary for extending micro credit. Banks were advised that such credit should cover not only consumption and production loans for various farm and non-farm activities of the poor but also include their other credit needs such as housing and shelter improvements. Banks were asked to keep the loan application forms, procedures and documents simple for providing prompt and hassle-free micro credit.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

Recommendation (Sl. No. 8, Para No. 120)

As observed by the Committee elsewhere in the report, the share of RRBs in the issue of KCCs is just 8%. Expressing their displeasure for this abysmally poor performance, the Committee strongly recommend that RRBs should step in to increase their share in issuing KCC to a reasonable level. Likewise, they should increasingly come forward to finance SHGs which is at present only 39%.

Reply of the Government

As on 30 June, 2004, the agency-wise cumulative position of Kisan Credit Cards issued is as under:

Cooperative Banks	—	2,48,56,703
Regional Rural Banks	—	40,77,081
Commercial Banks	—	1,32,42,927
Total	—	4,21,76,711

It may be seen from the above that the share of RRBs in issue of KCCs has increased to about 9.66% as on 30th June, 2004.

RRBs have been playing an important role in promoting Self-Help Groups (SHGs) in rural areas. The cumulative number of SHGs linked by RRBs as of March 31, 2004 was 405998. The SHGs linkage has helped RRBs to increase their outreach and has become a platform for successful implementation of many other development programmes.

The details of progress with regard to SHGs and KCD by RRBs during the last three years are given below:

SHG

Year	No. of SHGs linked during the year	Amount of Bank Loan (Rs. Crore)	Cumulative Position No. of SHGs linked	Amount of Bank Loan (Rs. Crore)
2001-02	82137	189.53	188738	345.94
2002-03	102268	381.24	277340	727.18
2003-04	128658	551.08	405998	1278.26

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Sl. No. 1, Para No. 35)

The Committee note that percentage of recovery in agriculture is fairly satisfactory. This is self evident in the data on NPAs in agriculture *vis-a-vis* other sectors. The Committee were told in their discussions with various banks that agriculture lending was a profitable venture. Since NPAs in agriculture sector has been lower than that of other sectors, they are of the view that there is no reason why the credit disbursement to agricultural sector should not be stepped up. The Committee, therefore, desire that lending institutions should increase the component of agricultural lending so as to meet the stipulated target.

Reply of the Government

The credit flow to agriculture is monitored by the Banking Division and Reserve Bank of India closely and the need for increased flow of credit to agriculture from banking sector is constantly impressed upon commercial banks. Recently, Government has announced a series of measures on 18th June, 2004 envisaging doubling the flow of agricultural credit in three years.

The Kisan Credit Card Scheme, is being implemented to provide hassle free credit facilities to farmers. Financing of Agriclinics and Agribusiness centres was included as direct finance to agriculture. The scheme aims at supplementing the existing network to accelerate the process of technology transfer to agriculture and supplement the efforts of State agencies in providing input and extension services to farmers. Advances by dealers in drip irrigation/sprinkler irrigation system/ agricultural machinery, irrespective of their location qualify as indirect finance to agriculture. In order to further improve credit delivery to the priority sector the credit limit to farmers against pledge/ hypothecation of agricultural produce (including warehouse receipts) has been increased to Rs. Five Lakh (from Rs. 1 lakh) for inclusion under priority sector as direct finance to agriculture. The repayment schedule for such credit has also been enhanced to not exceeding twelve months' from six months. It is expected that with this liberalization, farmers can have maximum benefit in marketing their agricultural products.

In addition, subsequent to FM's announcement on June 18, 2004, the flow of credit to agriculture for the year 2004-05 has been projected to increase by 30 per cent from Rs. 80,000 crore to Rs. 1,05,000 crore. Banks have been advised to implement measures to provide relief for farmers affected by natural calamities, to provide for One Time Settlement (OTS) Scheme for small and marginal farmers, to provide fresh finance to farmers whose earlier debts have been settled and to provide relief measures for farmers indebted to non-institutional lenders.

[Ministry of Finance, Deptt. of Economic Affairs, (Banking Division) u.o. no. 6-2/2004-AC dated]

Recommendation (Sl. No. 3, Para Nos. 64, 65)

It is distressing to note that almost all of the banks have failed to meet the stipulated requirement of agricultural lending and are depositing the fund equivalent to shortfall in Rural Infrastructure Development Fund (RIDF) with NABARD. The banks, in turn are receiving interest on these NPA free funds. This means that banks are being rewarded for giving lesser credit to agriculture.

The Committee note that in pursuance of the recommendations of V.S. Vyas Committee interest rates have now been inversely related to the shortfall in agriculture lending however the Committee find that the rate of interest of 8% on a shortfall of less than 2 percentage points in agriculture lending is still on the higher side. This is not a penal rate of interest in any case. They are not inclined to accept the views of RBI that total abolition of interest on RIDF funds would hamper the interests of depositors and banking system as a whole. They are of the view that unless strict compliance is impressed upon the defaulting banks, they would continue with shortfall. Therefore, they recommend that RBI should step in to check/prevent misuse of this provision. In view of the Committee, the most effective disincentive for banks would be to totally abolish provision of interest on RIDF funds. A recommendation to this effect was made by them earlier while considering the Demand for Grants for the year 2003-04. Maintaining their earlier stand, the Committee reiterate, that the provision of interest on RIDF funds should be dispensed with immediately. At the same time, they also want that accountability/

responsibility may be fixed on the concerned officials and appropriate penalty imposed on them.

Reply of the Government

Keeping in view the declining interest rates scenario and with a view to further proving disincentive to the banks for not achieving the agricultural lending target, the lending and deposit rates in respect of the undisbursed amounts of RIDF IV to IX were restructured, with the approval of the Government of India, with effect from November 1, 2003. Accordingly, the banks would be paid 6 per cent in respect of the disbursed amounts of RIDF IV to VII uniformly and varying rates of interest between the Bank Rate minus 3 percentage points (i.e. currently varying between 6% to 3%) in respect of RIDF VIII and RIDF IX.

In the case of RIDF-VIII and IX, therefore, the rates of interest on deposits continued to be linked to the shortfall in lending to agriculture and were as follows:

Sl.No.	Shortfall in lending to agriculture in terms of percentage to Net Bank Credit	Rate of interest on the entire deposit to be made in RIDF-VIII and RIDF-IX (Per cent per annum)
1.	Less than 2 percentage points	Bank Rate (6% at present)
2.	2 and above, but less than 5 percentage points	Bank Rate minus 1 per cent
3.	5 and above, but less than 9 percentage points	Bank Rate minus 2 per cent
4.	9 percentage points and above	Bank Rate minus 3 per cent

Thus banks having a larger shortfall in lending to agriculture are being given interest at a lower rate (*i.e.* currently 3%, this being substantially lower than the banks' average cost of funds) and this should prove to be disincentive for such banks to make deposits in RIDF and induce them to improve their agricultural lending. Further reduction of interest rates on deposits placed by banks in RIDF would drastically affect the profitability of banks, particularly the smaller banks, thereby endangering the interest of the depositors.

Recommendation (Sl. No. 5, Para No. 84)

It is observed that gold loans are available to farmers only in southern parts of the country. It is an innovative scheme of financing poor farmers who do not have land, but may have gold, which could be pledged for obtaining loans. The Committee find that, though otherwise good, this scheme has one lacuna *i.e.* lack of nomination facility. In this regard, they take note of suggestions tendered by banks, that such facility could be extended by them if Section 45 of Banking Regulation Act, 1949 is amended. The Committee find that as per prevailing system the banks release assets taken as security in case there is no dispute and all the legal heirs join in indemnifying the bank or the bank has no doubt about the genuineness of the claimants. But they find that the existing system does not redress the grievances of the farmers as non fulfillment of safeguards will empower the banks to call for succession certificate which may entangle them in prolonged legal battle failure of which may deprive the families of poor farmers of their precious possession. The Committee are of the view that due to lack of such facility poor and landless farmers are losing even this avenue to avail credit from banks of finance agricultural operations. The Committee are of the opinion that this is a necessary facility, which should be provided by the banks as they have provided in respect of other deposits/accounts. The Government should initiate measures to amend the Banking Regulation Act, 1949.

Reply of Government

Nomination facility can be afforded without any difficulty when there are no dues to the bank. It is because of this that the Banking Regulation Act, 1949 provides nomination facility in respect of deposits, safe custody of articles and contents of lockers with the bank. It does not, however, provide for release of other assets, such as securities for loans, to the nominees. Hence it is not considered necessary to amend BR Act to include Gold loans for providing nomination facility.

However, in order to mitigate the difficulties faced by the survivors of deceased customers, RBI has advised banks, in the matter of release of assets (including securities) to such claimants, subject to the following safeguards:

- There are no disputes and all legal heirs join in indemnifying the bank or,
- The bank has no doubt about genuineness of the claimants being the only legal heir/s of the customer.

In case the above safeguards are not available, banks are free to call for legal representation from the claimant/survivor of the borrower before releasing the security.

Recommendation (Sl.No. 8, Para Nos. 117, 118, 119)

The RRBs were set up in 1976 with manifold objectives of rural development. The foremost of these was to mobilize rural savings and channelise them for supporting productive activities in rural areas. The Committee note that many of the RRBs have plunged into heavy losses. They, however, note that due to recapitalisation, they have been able to make a turn around. The viability based categorization of RRBs as on 31 March, 2002 shows that of the total 196 RRBs, 86 RRBs have wiped off their accumulated losses and attained sustainable viability whereas 81 other RRBs have achieved a turn-around and attained current viability status, leaving only 29 RRBs which have continued to incur losses. The Committee take note of the recommendations of the Working Group headed by Shri M.V.S. Chalapathi Rao which was formed to suggest amendments in the RRB Act. This working group has recommended *inter alia* that ownership pattern and capital structure of RRBs should be changed and role of sponsor institutions should be that of owners. The regulatory framework for RRBs should be on the lines of those for commercial banks. They desire that recommendations of Chalapathi Rao Group should be implemented at the earliest. They also desire that the Government may consider the setting up of an apex body *viz*. National Rural Bank of India with State-wise zonal centres.

The Committee find that Non Performing Assets (NPAs) in these banks is on higher side. It was 36% in 1999, 32% in 2000 and 29% in 2001. Hence they are of the opinion that recovery of NPA dues from borrowers should be accorded top priority so that these banks are able to recycle the funds for providing further rural credit.

The Committee note with utmost concern that as in the case of Cooperative Banks, the RRBs also have massive spread in interest rates. The rate of interest charged by RRBs varies between 11 to 17% as against rate of interest on NABARD refinance ranging between 5.5 to 6.75%. The Committee are of the view that rural lending through RRBs can not be of any help unless the rate of interest is reduced. They recommend that RRBs should evolve a mechanism for ensuring efficient management of funds. For this, sponsoring banks must be assigned a greater role. The sponsoring banks should ensure that RRBs do not deviate from their basic objective while maintaining viability at the same time. The Committee recommend that sponsoring banks should be made responsible for ensuring greater credit disbursement in rural areas by RRBs. Besides the officers and management of RRBs should be made accountable for failure in agricultural credit delivery. RBI should issue guidelines to banks in this regard.

Reply of the Government

As on 31.3.2004 165 Regional Rural Banks (RRBs) were making profit whereas loss making RRBs were 31. Similarly, 105 RRBs have wiped off their accumulated losses as on 31.3.2004.

The RRBs financial health has been indifferent from their inception. Financials have recently improved mainly on account of the recapitalisation done by shareholders and by taking recourse to investment route for making profits. The indifferent financial health of the RRBs is caused by factors such as limited area of operation, narrow client base, high cost of servicing of numerous small accounts, poor human resources of RRBs and their managerial deficiencies. Several Committees have suggested various remedies—lending to non-target groups (Dantwala Committee 1978), recapitalisation and investment in high yield Government securities (Kelkar Committee 1986) and possible merger with rural subsidiaries of sponsor banks (Narsingam Committee 1995).

The Chalapathy Rao Committee (2002) made extensive recommendation on the capital structure, share holding pattern etc. These suggestions involved extensive amendments in the RRB Act. Employees of the RRBs were totally opposed to the Chalapahty Rao recommendations on restructuring.

A select group of CMDs of Public Sector Banks under the Chairmanship of SBI was asked to conduct a study and suggest a restructuring proposal. The Group considered several options for restructuring and come to the tentative conclusion that RRBs should be amalgamated on a zonal basis (6 Regions), so as to make it viable on a sustainable basis in the current competitive environment. The proposal for consolidating the RRBs under a National Rural Bank or NABARD has not been favoured so far for various reasons. State Governments and sponsor banks were consulted in a meeting taken by Secretary (FS) on 1.5.2004 on the proposal made by the select Group of CMDs. Sponsor Banks were supportive of the proposal but most of the States favoured state level amalgamation without any additional financial support.

Prof. Vyas Committee appointed by RBI has also looked into restructuring of RRBs and has submitted its report on 30.6.2004. The Committee considered the various options for restructuring of RRBs. The Committee noted that each of options considered has certain merits and demerits. Subsidization of the RRBs may require huge capitalization by the sponsor bank. Creation of the National Rural Bank of India may lead to monolithic institution with a vast area of operation and an unmanageable number of branches. Continuing with the existing structure would result in perpetuation of the problems, zonal level merger of RRBs will result in loss of the regional and state focus while the State level mergers may cause problems of amalgamation of diverse work cultures. The Committee felt that none of the above options could apply in isolation because of the diverse socio-economic conditions and region-specific problems prevailing across the country. The Committee also felt that a hybrid model combining several options has to be evolved to make RRBs more vibrant. Any restructuring of the RRBs will involve extensive amendments in the RRB Act. The Committee, therefore recommend that RRBs Act 1976 may be repealed and replaced by a new Act with suitable provisions for functional autonomy to the restructured RRBs and professionalisation of management and Board of Directors.

Therefore, discussions on the restructuring of RRBs at this stage are inconclusive. In the meantime Government has decided that each sponsor bank will be held squarely accountable for the performance of RRBs under its control. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for restructuring. Sponsor Banks have since been advised to take effective measure to improve the performance of RRBs.

The RRBs had non-performing assets of Rs. 3289 crore as on March 31, 2004. The RRBs showed steady improvement on this front as witnessed from the gradual decline in their NPAs from 43.07% as on March 31, 1996 to 12.61% as on March 31, 2004.

In order to reduce the interest rates of RRBs, NABARD reduced the rates of interest to 6% to 6.5% on the refinance provided to RRBs for various purposes under agriculture and requested them to revise their margin and lending rates so that the benefit of reduced rates of interest is passed on to ultimate borrowers. One of the terms of reference of Vyas Committee appointed by RBI in January 2004 is to suggest measures to increase the credit flow to agriculture and to reduce the rate of interest on agriculture credit given by commercial, co-operative and RRBs. The committee is expected to submit its recommendations in this regard by April 30, 2004. In his budget speech for 1997-98, the Hon'ble Finance Minister stated that he intended to allow a greater role to sponsor banks in ownership and management of RRBs. In pursuance of the above, RBI has issued a circular RPCD.

RRB. No. BC. 57/03.05.85/97-98 dated November, 29, 1997 advising sponsor banks that the entire responsibility of monitoring and guiding (ownership functions) RRBs would henceforth be taken over by sponsor banks except for those supervisory/regulatory matters which are required to be performed statutorily by RBI/NABARD.

The Union Finance Minister has announced in his Budget speech for the year 2004-05 that each sponsor bank would be held squarely accountable for the performance of RRBs under its control. RRBs that adopt a new governanace standard and those that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring.

[Ministry of Finance, Deptt. of Economic Affairs, (Banking Division) u.o. no. 6-2/2004-AC dated]

Recommendation (Sl.No. 9, Para No. 133)

The Committee are concerned to note that the farmers are not getting adequate loans commensurate with their land holdings. In this regard they are not satisfied with the reply of the Government wherein it has been stated that land valuation is done as per norms fixed by NABARD *i.e.* land has to be valued at 8 times the annual incremental income arising from it or the valuation adopted by the land registry offices for stamp duty purposes, whichever is lower. They desire that the formula should be changed so that the value of land is determined as per the prevalent market value. Besides the banks should be asked to call for security of value commensurate with loan amount.

Reply of the Government

In the matter of security norms it may be stated that as recommended by the R.V. Gupta Committee, commercial banks have been advised to use their discretion on matters relating to margin/security requirements for agricultural loans above Rs. 10,000. Banks have also been advised to ensure that the value of security taken is commensurate with the size of the loan and desist from asking additional collateral by way of guarantors where the land mortgaged, is considered adequate.

As per RBI's policy announced on 18th May, 2004, collateral/margin money for loans upto Rs. 50,000 under Farm Sector and upto Rs. 5,00,000 in respect of agri-clinic and agri-business centres has been waived. Necessary instructions in this regard have been issued to Commercial Banks by RBI and to Cooperative Banks and RRBs by NABARD.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl.No. 1, Para No. 32, 33, 34, 36, 37)

The Committee note that as per RBI guidelines, banks have to deploy 40 percent of the total Net Bank Credit (NBC) in the priority sector. Out of this 40 percent, minimum 18 percent (13.5% for direct lending and 4.5% for indirect lending) should be used for lending to agriculture. However, the Committee find that actual credit disbursement by most of the banks is far short of stipulated level. The percentage of total agricultural advances as in March, 2003 was 15.34% for public sector banks out of which 10.84% of NBC was deployed for direct financing of agriculture and 4.54% of NBC was given as indirect credit to agriculture. The share of total agriculture lending by private sector banks was 10.78 percent in March, 2003, with 6.28% of NBC going for direct lending and 8.06% for indirect lending to agriculture. The Committee express their deep concern over this dismal performance of the banks in agriculture lending. Moreover they are perturbed by the continuous decline in share of direct credit disbursement of public and private sector banks. Most of the banks have not been able to reach the prescribed target in agriculture lending by specified period of March, 2003. The Credit Deposit Ratio in rural areas for both public and private sector banks was substantially low as against urban and metropolitan areas. It is startling to note that as on June 2003, this ratio was 42.70% for public sector banks, even though they have large network of rural branches. The credit deposit ratio for private sector banks was equally low being 33.32%. The banks' unwillingness to step up agricultural credit disbursement and Government/RBI's failure to exert pressure on them in this regard was revealed by the low CD ratio. Therefore, the Government and RBI should take measures to bring about a change in attitude of bankers. The banks should develop necessary relationship with the rural clients. In addition they should launch more innovative products in rural areas specific to their credit needs and take steps to make farmers aware of such products.

It is seen that as per extant guidelines new private sector banks are required to open up 25 percent of branches in rural/semi-urban areas. However, these banks have only 9.52% of branches in rural areas and the old private sector banks have 24.23 percent of such branches. As a result these banks have failed to reach rural masses on a large scale. Hence the Committee opine that the private banks should be asked to open more branches in rural areas and step up their credit disbursement in such areas.

Further, the Committee find that there is more proclivity towards indirect agricultural finance rather than direct loans for undertaking agricultural activities. That is why there has been spectacular growth particularly in certain private sector banks in indirect credit as against faltering growth registered in the case of direct credit. The Committee took serious note of this disturbing trend. They recommended that the target for direct lending by banks should be monitored independently. RBI should ensure that banks do not increase the indirect lending at the cost of direct lending in order to cover up the shortfall under the overall limit of 18%.

The Committee take note of the recent directive to charge a single digit interest rate of not more than 9% per annum on crop loans up to a ceiling of Rs. 50,000. The Committee feel that Government's specification of maximum 9% rate of interest for agricultural loans is still on higher side in the present day scenario of falling interest rates. Moreover, the Committee feel that the limit of Rs. 50,000 is very meagre and such a limit would hardly provide any relief to farmers. It is widely known that the rate of interest in other sectors has fallen sharply and in housing sector it had reduced to as low as 6% but the falling interest rate has not been witnessed in agricultural sector. The Committee, therefore, recommend that the rate of interest of 9% should be reduced further in tandem with the rate of interest in other sectors.

The Committee are concerned to note that banks generally compound interest in defiance of clear instructions issued in this regard by RBI. They want that Banks should invariably follow the RBI instructions scrupulously in this regard which should be monitored by RBI.

Reply of the Government

The observations of the Committee have been noted. As per the Standing guidelines, domestic scheduled banks are required to meet a target of 18 percent of net bank credit for lending to agriculture under the system of direct lending. There is a further stipulation that indirect lending should not exceed 4.5 percent of net bank credit or one-fourth of credit target of 18 percent, to ensure that banks concentrate on the direct advances, to agriculture.

Although most public and private sector banks did not meet this target, advances to agriculture in absolute terms have steadily increased over the years, as may be seen from the table given below:

Reserve Bank of India has advised both old and new private sector banks to make earnest efforts to open more branches in rural areas *vide* its communication in April, 2003.

Outstanding Credit to Agriculture by Public and Private Sector Banks

(Rs. in Crores)

	March, 1994	March 2003	March 2004
Public Sector Banks			
Net Bank Credit	1,40,914	4,77,899	5,56,500
Total Agri advances outstanding	21,204	73,507	86,681
Direct agri advances	19,256	51,799	61,692
Indirect agri advances	1,949	21,708	24,989
Private Sector Banks			
Net Bank Credit	9,545	71,760	1,11,515
Total agri advances outstanding	591	11,873	16,599
Direct agri advances	515	5,201	8,606
Indirect agri advances	76	6,671	8,926

The table given below shows that many banks were yet to reach the required level by March, 2004:

Number of Banks Achieving Target for Agriculture Credit

As of last Reporting Friday	Public Sector Banks		Private Sector Banks	
	On Target	Off Target	On Target	Off Target
March, 2001	4	23	1	30
March, 2002	6	21	2	1
March, 2003	5	22	2	27
March, 2004	7	20	2	28

A meeting was taken by Finance Minister on 9th September, 2004 with Chief Executives of public sector banks in which agriculture lending by public sector banks was also reviewed. The banks have been advised to make all possible efforts to achieve the target of 18% of net bank credit to agriculture during 2004-05.

It may be mentioned that for computing a bank's performance under the 18% target, indirect advances are reckoned to the extent of only 4.5% of NBC even if the actual indirect advances of the banks are above this level.

Further, as for lending by private sector banks, the outstanding advances to agriculture, both direct and indirect, as at March 2001, 2002, 2003 and 2004 are as under:

(Amount in Rs. Crore)

	March, 2001	March, 2002	March, 2003	March 2004
Direct Agriculture	2269.26	2533.66	4865.38	8718.04
Indirect Agriculture	3125.14	5489.12	6575.00	8930.54
Total Agriculture	5394.40	8022.8	12087.78	17648.58
% of total agriculture to NBC (taking indirect agriculture only upto 4.5%)	8.52	8.53	10.84	12.31

It may be observed from the above table that after March, 2001, both direct and indirect advances have increased significantly especially in March 2003 and March 2004. The total agricultural advances at 12.31 percent of net bank credit as on the last reporting Friday of March 2004 was after taking indirect advances only up to 4.5% of NBC. If the entire amount of indirect advances to agriculture are taken into account, the outstanding advances of private sector banks to the agriculture sector will be at a higher level that what is shown above.

Over a period of time various interest rates have been falling, and the bank's benchmark rates *i.e.* the prime lending rates have also been declining. However, there has been some concern expressed that some of the sectors have benefited more on account of the fall whereas sectors like agriculture etc. have been benefited in equal measures. The Indian Bank's Association (IBA) has, therefore, advised all public sector banks to prescribe lending rate for agriculture at not more than 9% per annum on crop loans upto Rs. 50,000/-This lending rate is expected to benefit most of the crop loan account holders and cover almost all small and marginal farmers, enabling them to access credit and boost productivity of agriculture.

The interest rates charged by banks are a function of many variables and hence may vary from bank to bank. However, some of the banks have even gone below the level of 9%. Further, the NABARD Act,. 1981 has been amended to enable NABARD to provide refinance, subject to certain conditions, directly to District Central Cooperative Banks (DCCBs), thereby reducing one tier in the system. This is expected to reduce the interest rate charged to the ultimate borrower.

The Vyas Committee has observed in its report that the interest rate is an important aspect of credit. It takes cognizance of the growing borrower expectations of uniformly lower interest rates on loans by different agencies extending credit to agriculture. A single mandatory rate for all banks is, however, not feasible at present, as capacity of the various agencies to deliver agricultural loans at lower rate of interest varies due to their differential cost structure. What ultimately matters to the borrowers in addition to the rate of interest is the timeliness and adequacy of credit as well as the concomitant costs that he may have to incur to avail credit. Accordingly, the banks have been advised to pay attention to their systems and procedures to make their lending cost effective and also consider measures to save the borrower avoidable expenses for getting a loan sanctioned.

Banks have been advised to follow the instructions in the matter of compounding of agricultural loans. Besides this, the instructions are being reiterated from time to time while extending additional relief package for the persons/farmers affected by natural calamities.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

Comments of the Committee

(Please *refer* Para Nos. 18, 19, 20, 21, 22 of Chapter I)

Recommendation (Sl.No. 2, Para No. 44)

The Committee observe that there is a large number of farmers in India who do not actually own the land but cultivate the land of others without any legal documents and are called oral tenants. The Committee were given to understand that since these tenants did not have any security to offer, they could not get loans from the banks. Also, there were no separate schemes of loans for such farmers. However, various banks suggested that they (the banks) would be able to extend loans to them only if they (farmers) formed groups and collectively approach for loans. They are given to understand by Indian Banks' Association (IBA) about the prevalent practices for disbursement of credit to such tenants. The Committee also notice that Anant Geete Committee had recommended that tenancy of landless farmers should be given recognition to do away with problems of these farmers in obtaining bank credit for their farming operations. The Committee feel that inspite of several schemes for this purpose, majority of them remain on paper. The oral tenants are still reeling under severe resource crunch which could be checked only if the policy decisions taken in this regard are actually translated into action. Therefore they recommend that the oral tenancy should be given recognition and they should be provided credit for agricultural activities.

Reply of the Government

The Vyas Committee constituted by Reserve Bank of India has recommended that Joint Liability Group (JLG) and Self Help Group approaches have the potential of addressing the issues relating to the oral tenants and lessees. Accordingly, the banks have been advised by RBI to explore these financing models through pilot projects until such time as States address the issues relating to legislating tenancy.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

Comments of the Committee

(Please *refer* Para No. 25 of Chapter I)

Recommendation (Sl.No. 3, Para No. 66)

The Committee are further constrained to find that required demand for funds are not coming from NABARD which is revealed by the fact that as on 31st January, 2002 out of Rs. 15755.84 crore allocated, only Rs. 8455.32 have been drawn. As the demands are less than shortfall in agricultural lending, these funds are not deposited by the banks in different branches of RIDF maintained by NABARD and the Bank's money remain with the banks for several years despite the default committed by them. This paucity of demand is due to slow disbursements of loans as against sanctions since State Governments are not able to expeditiously complete the projects financed by RIDF. This is resulting in under utilisation of RIDF funds. In view of the above, it is imperative to review and evaluate the scheme. The Committee feel that measures should be taken to impress upon State Governments to expedite the rural infrastructure projects and get them financed through NABARD without delay. They further recommend that farmers fora may also be involved invariably to identify the rural infrastructure projects linked with agriculture production with more emphasis on irrigation, power etc. and post harvesting activities such as storage, marketing etc.

Reply of the Government

The Rural Infrastructure Development Fund (RIDF) was established with NABARD in the year 1995-96 in terms of the Budget Speech. The fund is to be used for assisting State Governments/State-owned corporations in quick completion of on-going projects relating to medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructrure. The domestic scheduled commercial banks, both in the public and private sector, having shortfall in lending to priority sector/agricultural lending target, are required to deposit in RIDF. Funds under RIDF are disbursed to the State Governments as reimbursement basis depending on the physical progress in implementing the approved projects.

Comments of the Committee

(Please *refer* Para No. 28 of Chapter I)

Recommendation (Sl.No. 7, Para Nos. 102, 103, 104)

The Committee observe that cooperative banks play an important role in rural credit delivery system with credit cooperatives forming almost 70% of the rural credit outlets. They note that about 55 per cent of the short term production loans for the agriculture sector come from cooperative credit institutions. However the Committee are disturbed by the fact that even though Cooperative Banks are getting cheap funds from NABARD, they are charging exorbitant rates of interest on loans lent to farmers. They are alarmed to note that the rates of interest charged by the cooperative banks are far higher than the Commercial Banks. As against interest rates ranging between 5% p.a. to 6.75% p.a. charged by NABARD on refinance, the rate of interest charged by Cooperative banks ranges between 12% to 18% p.a. These banks normally charge interest rates between 12 to 16% per annum for loans upto Rs. 25000/-and between 12.25% to 17% for loans upto Rs. 2,00,000/-. For loans above Rs. 2,00,000, the maximum interest charged is upto 17%. In addition these banks were also charging penal rate of interest on overdue amount, with cooperatives in Rajasthan, Haryana & Karnataka, charging highest penal rate on short term loans.

The Committee find that this higher rate of interest is on account of various problems such as high transaction cost, mismanagement, lack of professionalism, multiplicity of control, lack of audit, multilayered structure etc. The Committee observe that the Task Force to study the functioning of Co-operative Credit System under the Chairmanship of Shri Jagdish Capoor and the 'Joint Committee on Revitalisation Support to Co-opertive Credit Structure' headed by Shri Balasaheb Vikhe Patil, were constituted to go into the working in the cooperative banks. All these Committees have repeatedly recommended for strengthening these banks but still the problems of these banks are prevalent. Therefore, the Committee desire that the Government should take necessary expeditious steps to overcome the deficiencies noticed by various Committees so that farmers may be able to avail loans from the cooperative banks at lower rate of interest as being charged by commercial banks.

The Committee observe that NABARD Act has been amended recently which will dispense with one intermediary layer. In the opinion of the Committee this is a welcome step. However mere abolition of one layer may not result in substantial reduction in rate of interest. Therefore, Committee opined that NABARD should finance Primary Agricultural Credit Societies (PACS) directly instead of routing the funds through different layers. Hence, the Committee strongly recommend that the structure of Cooperative banks should be recast to bring down the cost of transaction and margin of rate of interest. The Committee also take note of the fact that in many States PACS are required to obtain case by case approval of crop loans even when PACS disbursed loans from their own deposit resources. This system should be changed as it unnecessarily delays granting of loans.

Reply of the Government

Some Co-operative Banks have since reduced the rate of interest charged to farmers on crop loans. However, in the three tier cooperative credit structure, each tier adds its margin to the rate of interest, thus leading to a higher rate being charged to the ultimate borrower. The amendments to Sections 21 and 22 of NABARD Act, 1981, enabling NABARD, subject to concurrence of the concerned State Governments, to extend refinance support to the DCCBs directly for financing Short Term Seasonal Agricultural Operations [ST (SAO)] is expected to reduce the interest rates charged by cooperative banks. The Vyas Committee has observed in its report that, a single mandatory rate of interest would affect various institutions differentially, mostly adversely, and is therefore not feasible at present. Measures to reduce costs of funds, transactions and risks, could lower the cost to borrowers without impairing variability of rural financial institutions (RFIs).

In terms of the announcement made by the Union Finance Minister in his Budget Speech for the year 2004-05, Government of India has appointed a Task Force under the Chairmanship of Prof. A Vaidyanathan, Madras Institute of Development Studies, Chennai. The Terms of Reference are as follows:—

(a) To recommend an implementable action plan for reviving the Rural Cooperative Banking Institutions, taking into consideration, *inter-alia*, the main recommendations made by various Committees including Jagdish Capoor Committee and Vikhe Patil Committee in this regard.

(b) To suggest an appropriate regulatory framework and the amendments which may be necessary for the purpose in the relevant laws.

(c) To make an assessment of the financial assistance that the Cooperative Banking Institutions will require for revival, the mode of such assistance, its sharing pattern and phasing.

(d) To suggest any other measures required for improving the efficiency and viability of Rural Cooperative Credit Institutions.

The Task Force is required to submit its report by October 31, 2004.

The NABARD Act has been amended to enable NABARD to provide direct short term refinance to DCCBs for financing Seasonal Agricultural Operations. The Scheme is not applicable generally but selectively, *i.e.*, only to those DCCBs which comply with Section 11 (1) of B.R. Act, 1949 (AACS) and certain other conditions.

As a result of lack of proper management information system for PACS in many States and PACS not being under the domain of BR Act, 1949 a reliable view of the methodology of the working of the PACS may not be possible as RBI does not have any supervisory power over them. Direct finance to PACS by NABARD may also militate against the federal structure of cooperative credit delivery system. The present federal structure also empowers the apex institution to play a supervisory role over the lower tiers besides providing policy and financial support to them. Most importantly the higher tiers ensure adherence to financial disciple by the lower tiers. Choosing the ground level layer for direct finance from NABARD would weaken the principle of risk sharing enshrined in the fundamental structure of cooperatives. Administratively, it may neither be feasible nor cost effective for NABARD to provide direct finance to PACS.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

Comments of the Committee

(Please *refer* Para No. 33, 34 of Chapter I)

Recommendation (Sl.No. 9, Para No. 132)

The Committee note that the stamp duty on mortgage for agriculture loans in various States is very high. In addition, the plethora of documentation that is required in ordinary course is also cumber some for illiterate farmers. This discourages farmers from availing loans from banks and they fall in the clutches of usurious moneylenders. The Committee, in view of this, desire that stamp duty should be lowered besides minimizing the requirement of documentation. For this State Governments may be persuaded to reduce stamp duty. They desired that the norms with regard to providing credit to farmers should be simplified and paper work involved therein should be reduced to the barest minimum. This will attract the farmers to institutional finance and save them from falling prey to the moneylenders trap. Further, in consonance with the views of ICICI bank, the Committee desire that the concession for documentation and stamp duty on mortgage for agriculture loans which have been made available to the borrowers by some of the States, should not only be extended to all the States but should also be made applicable in the case of loans taken from other Institutional lenders.

Reply of the Government

The stamp duty exemptions are not uniform. Banks generally approach the State Governments through SLBC meetings of the State concerned for granting stamp duty exemption on agricultural and non-farm sector loans.

[Ministry of Finance, Deptt. of Economic Affairs (Banking Division) u.o. no. 6-2/2004-AC dated]

Comments of the Committee

(Please *refer* Para No. 37, 38 of Chapter I)

Recommendation (Sl.No. 10, Para Nos. 184, 185, 186, 187, 188, 189)

The Committee find that an all risk Comprehensive Crop Insurance Scheme (CCIS) for major and crucial crops introduced in April, 1985 by the Government of India with active participation (optional) of State Governments and the Experimental Crop Insurance Scheme (ECIS) implemented only for one season during Rabi 1997-98 could not achieve the desired results. Accordingly a broad based new Crop Insurance Scheme known as National Agriculture Insurance Scheme (NAIS) or the Rashtriya Krishi Bima Yojana (RKBY) was introduced in the country *w.e.f.* Rabi 1999-2000 season. At present (Kharif 2003), the scheme was being implemented in 24 States/UTs.

As the scheme provided for the setting up of a separate agency for implementation of NAIS, a new agency namely the Agriculture Insurance Company of India Ltd. (AIC) promoted by GIC, NABARD and 4 existing public sector general insurance companies was incorporated on 20th December, 2002 which has taken over the implementation of NAIS *w.e.f.* April, 2003.

The Committee are, however, deeply concerned to observe that even the National Agricultural Insurance Scheme (NAIS) which *inter-alia* aimed at stabilizing the farm incomes particularly in disaster years and to encourage farmers to adopt progressive farming practices, has also fallen short of achieving the desired objectives due to the poor coverage of non-loanee farmers, slow inclusion of new crops within the Scheme, high premium rates for commercial crops like cotton, withdrawal of subsidy in premium meant for small and marginal farmers on sunset basis in 3 to 5 years, dispute between Centre and States in sharing premium subsidy, large size of unit area for insurance, non-coverage of perennial horticultural crops, medicinal crops, agricultural allied activities namely aqua culture, animal husbandry and poultry etc. within the ambit of the Scheme.

The Committee are further perturbed to find that the apathy on the part of the bankers in participating in the Scheme, inadequate branch network of the implementing agency, saddling the States with the entailing financial burden of Crop Cutting Experiments (CCEs), absence of adequate redressal mechanism, delayed/tardy claim disbursals and low penetration of the scheme into muffsil/remote areas had immensely affected the utility of the Scheme in addressing the growing concerns of the farmers in general and the small and marginal farmers in particular. They also note with concern that the non-availability of past yield data on CCEs have been depriving the North-Eastern States from the benefits of the crop insurance scheme.

The impending issues which have hindered the sustainability and viability of the erstwhile Comprehensive Crop Insurance Scheme and Experimental Crop Insurance Scheme are also evident in NAIS but Government has not taken any step to resolve the persisting lacunae in the NAIS.

In view of the above and considering the need to have an effective mechanism to squarely meet the growing demands of farming community to a greater extent and to make the NAIS successful, the Committee recommend as under:

(i) The Scheme should be extended to all farmers which may include oral and landless farmers, sharecroppers, tenant farmers etc.

(ii) As far as possible all field crops, annual commercial/horticulture crops, medicinal crops, agricultural allied activities like aquaculture, animal husbandry, poultry etc. should be included in the ambit of National Agriculture Insurance Scheme (NAIS).

(iii) The banking industry is one of the main beneficiaries of the scheme. Their huge network may be utilised for popularizing the scheme. At the same time, it is important that they should create friendly environment and extend helping hand to the illiterate farming community. The documentation should be made less cumbersome and procedure should be made simple so that the farmers may feel free to avail of the institutional financial help. Proper receipt and other documents should be given to the loanee farmers so that they may claim the amount of insurance in case of failure of their crops.

(iv) The unit area or the area approach for insurance which differ from State to State and vary from Gram Panchayat in A&N Islands to Distt. in J&K may be standardised and fixed as Gram Panchayat for the whole of the country. This area approach may operate through Small Crop Estimation Method (SACEM) which may report yields at Gram Panchayat level as designed by the Ministry of Agriculture in consultation with the Indian Agriculture Statistics Research Institute (IASRI).

(v) As per estimation of the Agriculture Insurance Company the expenditure for conducting Crop Cutting Experiments (CCEs) at Gram Panchayat Level comes to about Rs. 180 crore for all the crops in the whole country. Accordingly, the Committee feel that it may not be difficult for the Govt. of India to provide the financial assistance to State Governments which may otherwise strain their finances and show reluctance to conduct CCEs.

(vi) The advanced technology *i.e.* Romote Sensing Technology provides greater credibility and unbiased objective independent data to cross check and supplement other field information inputs for crop insurance. Therefore, this advanced technology should be used to assess the reliable crop yield. This would help to check the unbridled inflated claims.

(vii) Threshold yield should be based on preceding normal 3-5 years instead of immediate past 3-5 years;

(viii) The Committee find that the premium on annual commercial/horticulture crops which is calculated on the actuarial rates, is very high. They feel that this acturarial rate together with interest is unaffordable for loanee farmers with the result that they are not inclined to avail of the financial assistance from banks and ultimately are not able to derive the benefits of the Scheme. The Committee, therefore, desire that the Government should reduce the premium rate on annual commercial/horticulture crops to the extent possible.

(ix) Premium subsidy for small and marginal farmers @ 50% which is to be phased out as per the scheme on sunset basis in a period of 3 to 5 years should not be withdrawn and wherever it has been withdrawn, it should be restored.

(x) The Government may also reconsider the sharing of premium subsidy and insurance claims in the ratio of 2:1 which is presently being shared between the Centre and the States in the ratio of 1:1.

(xi) The cropping pattern and local conditions should be taken into account and loan may be disbursed close to agriculture seasons or as and when required by the farmers.

(xii) A proper redressal mechanism should be evolved within the AIC for the redressal of farmers' grievances where maximum period for resolving the disputes should be prescribed.

(xiii) Since the 'claim' is the main area which invites complaints from the farmers, the Committee desire that the data entry and processing of insurance claims may be computerised and the claims may be settled and disbursed within the stipulated time. In case of disputes, the matter may be referred to the 'Redressal Cell' for settlement. While referring the case to such a Cell, all the facts and documents may be submitted to it in one go so that the disputes could be resolved expeditiously.

(xiv) Government of India and State Governments should set up the National Agriculture Credit Relief Fund for giving relief to farmers affected by consecutive crop failures.

Reply of the Government

(i) All farmers including sharecroppers, tenant farmers growing the notified crops in the notified areas are eligible for coverage under the National Agricultural Insurance Scheme (NAIS).

(ii) Under the National Agricultural Insurance Scheme (NAIS), the following three broad groups of crops are covered subject to availability of past yield data of requisite number of years and capacity of the State Government to conduct requisite number of crop cutting experiments.

(a) Food crops (*i.e.* cereals, millets and pulses)

(b) Oilseeds.

(c) Annual Commercial/horticultural crops *i.e.* sugarcane, potato, cotton, ginger, onion, turmeric, chillies, pine-apple, banana, jute and tobacco.

Ministry of Agriculture, the nodal Ministry of Crop Insurance has set up a Joint Group on 31st August, 2004 to study the improvements required in existing Crop Insurance Scheme. The group will explore the possibility for extending the scope of coverage under the scheme.

(iii) The crop Insurance Programme is conceived in such a way that not only the existing infrastructure of Banks, but also the framework and guidelines of Seasonal Agricultural Operations (SAO) loans are being used in the effective implementation of the scheme. Crop loan taken by the farmers for growing insurable crops is automatically covered under NAIS. The claims, if any, at the end of the crop season are adjusted against the loan taken by the farmer. Therefore, simplification in lending procedures help in the coverage of loanee farmers and also making timely payment of insurance claims. RBI & NABARD have issued guidelines, from time to time, for effective implementation of the scheme. The Banks are also paid service charges @ 2.5% of premium for the services rendered by them under the scheme.

(iv) At present, the Scheme is operating on the basis of Area Approach for wide spread calamities. The unit of insurance under Area approach could be Gram Panchayat, Mandal, Hobli, Circle, Firka, Block, Taluka, etc. as decided by State Government, for each notified crop. For localised calamities, such as hailstorm, landslide, cyclone and localised flooding, the scheme operates on individual farmer basis. However, it is tried out in limited areas only, and will be extended to more areas in the light of operational experience. The reduction in unit area of insurance will help in more realistic assessment of claims, but it may be difficult for implementing States to an assessment of yield based on Crop Cutting Experiments (CCEs) at smaller unit area level as it will involve a large number of CCEs. The implementing States do not have adequate infrastructure to conduct required number of CCEs. Ministry of Agriculture has made efforts to explore alternative methods for making assessment of yield at smaller unit area through Small Area Crop Estimation Method (SACEM), which was based on farmer's appraisal, was experimented in selected districts/crops and it was not proved as an effective method. Inspite of all this, the issue of reduction in the unit area of insurance is under consideration as a part of the review of NAIS.

(v) The Joint Group set up to study the improvements required in NAIS will look into all possibilities. A copy of the order dated 31st August, 2004 issued by the Ministry of Agriculture is annexed.

(vi) Agriculture Insurance Company of India Ltd. (AICL) is already implementing a pilot project using Remote Sensing Technology (RST) in 3 districts one each in the States of Andhra Pradesh (Ananthpur District), Maharashtra (Ahmednagar District) and Gujarat (Rajkot District) for average estimation, crop health report and yield estimation during Kharif 2004. On the basis of findings of the pilot project, expansion of the project will be considered.

(vii), (viii) & (ix) A joint Group has been set up to study the improvements required in the existing Crop Insurance Scheme *i.e.* NAIS. The Group will consider various suggestions including the suggestion given by the Committee.

(x) Keeping in view the risk involved and the limitation of financial resources the matter, at present, is not under the consideration of the Government.

(xi) Under the existing Crop Loan system loans are provided on the basis of scale of finance for different crops which are fixed, after taking into account all the requirements *i.e.* cost of cultivation, cropping pattern, variation in local climatic conditions etc. Loans are provided to the farmers close to agriculture season and as per the requirement of the farmers. Apart from this, the Kisan Credit Card has facilitated timely access of agricultural credit to the farmers.

(xii) & (xiii) The Government is already aware about the need for timely payment of the admissible insurance claims. Currently, all the operations of AIC are computerised but the delay in settlement of claim is mainly due to time lag involved in submission of yield data and release of matching funds by the State Governments. The Joint Group recently constituted to study the improvements required in the existing Crop Insurance Schemes will deliberate and suggest appropriate mechanism for monitoring and disbursal of timely insurance claims.

(xiv) To help the farmers affected by consecutive crop failures due to natural calamities, Calamity Relief Fund (CRF)/ National Calamity and Contingency Fund (NCCF) are available. Besides this, National Agricultural Insurance Scheme (NAIS) is in vogue since Rabi 1990-2000. The scheme envisages coverage of all farmers (loanee and non-loanee both) irrespective of their size of holdings, more crops (including annual/horticultural/commercial crops) and more risks. To broad base the scope of its coverage and to make it more comprehensive a review process has already been initiated. In view of the above, setting up of the National Agriculture Credit Relief Fund is not required.

[Ministry of Finance O.M. No. 57 (43)-Ins. I/2003, dated 5.10.2004]

Comments of the Committee

(Please refer Para No. 46 of Chapter-I)

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

—Nil—

NEW DELHI;
20 *December*, 2004
29 *Agrahayana*, 1926 *(Saka)*

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

ANNEXURE-I

No. 16012/05/2004-Credit-II
Government of India
Ministry of Agriculture
Deptt. of Agri & Coopn.

Krishi Bhawan, New Delhi
Dated: 31st August 2004

Subject: Constitution of Joint Group to study the improvements required in the existing Crop Insurance Schemes—regarding.

The undersigned is directed to say that while reviewing the status of National Common Minimum Programme (NCMP) Hon'ble Prime Minister has directed that the Ministry of Agriculture will constitute a Joint Group with Ministry of Finance to expeditiously study the improvements required to be made in the existing Crop Insurance Scheme. Accordingly, it has been decided to constitute a Joint Group with following composition:

Sl.No.	Name and Designation	
1.	Shri A.K. Shah, Additional Secretary, Ministry of Agriculture, Department of Agriculture & Cooperation, Krishi Bhawan, New Delhi	Chairman
2.	Shri Satish Chander, Joint Secretary, Ministry of Agriculture, Department of Agriculture & Cooperation, Krishi Bhawan, New Delhi.	Member
3.	Shri G.C. Chaturvedi, Joint Secretary (Insurance & Banking), Ministry of Finance, Deptt. of Economic Affairs, Jeevandeep Building, Parliament Street, New Delhi.	Member
4.	Shri Suparas Bhandari, Chairman-cum-Managing Director, Agriculture, Insurance Company of India Ltd., New Delhi	Member

2. The Terms of Reference of the Group are given as under:

(i) To review the status position of existing Crop Insurance Schemes *i.e.* National Agricultural Insurance Scheme (NAIS), Pilot Project of Farm Income Insurance Scheme (FIIS), Varsha Bima Yojana and other agriculture related schemes floated by Private General Insurance Companies.

(ii) Improvements required in NAIS.

(iii) To develop broad parameters/concepts paper of an appropriate and farmer's friendly crop insurance scheme after taking into account the professional inputs obtained from experts and private sector general insurance companies.

(iv) To make an assessment of up-front subsidy, if any, to be paid by the Government.

3. The Group should finalise its recommendations and submit its report by 31.10.2004.

4. This issues with the approval of competent authority.

Sd/-
(S.S. Prasad)
Director (Credit)

[Ministry of Finance, Deptt. of Economic Affairs, (Banking Division)
U.O. No. 6-2/2004-AC dated]

ANNEXURE II

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 20 December, 2004 from 1530 hrs. to 1600 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Das Gupta
3. Shri Shyama Charan Gupt
4. Shri Madhusudan Mistry
5. Shri Shriniwas D. Patil
6. Shri K.S. Rao
7. Shri Jyotiraditya Madhavrao Scindia
8. Shri G.M. Siddeshwara
9. Shri M.A. Kharabela Swain

Rajya Sabha

10. Shri Jairam Ramesh
11. Shri M. Venkaiah Naidu

SECRETARIAT

1. Shri P.D.T. Achary	—	*Additional Secretary*
2. Shri R.K. Jain	—	*Deputy Secretary*
3. Shri R.C. Kakkar	—	*Under Secretary*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. ** ** ** ** ** **

4. ** ** ** ** ** **

5. ** ** ** ** ** **

6. ** ** ** ** ** **

7. The Committee then considered the draft action taken report of the Ministry of Finance (Department of Economic Affairs) on the Credit Flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme and adopted the same with changes as suggested by some of the Members as shown in Annexure IV.

8. The Committee then authorised the Chairman to finalise the Reports in the light of amendments suggested as also to make verbal and other consequential changes and present the same to both the Houses of Parliament.

The Committee then adjourned.

ANNEXURE-III

[Modifications/Amendments made by Standing Committee on Finance in their Draft Report on the Action Taken Report on Credit Flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme of the Ministry of Finance (Department of Economic Affairs) at their Sitting held on 20 December, 2004]

Page	Para	Line	Amendment/Modification
1	2	3	4
7	17	13	After immediately. Add: "They further recommend that the Government should make it mandatory for all banks (both public and private sector) to meet the target of 18 percent in agricultural credit disbursement and take punitive action, other than requiring to deposit the shortfall in RIDF, against those banks who make default in this respect."
7	17	—	After para 18 Add new para 19: The Committee had found that new private sector banks had only 9.52 percent of their branches in rural areas while old private sector banks had 24.23 percent of such branches inspite of the fact that there were specific guidelines for new private sector banks to have 25 percent branches in these areas. They, therefore, desired that these private sector banks should open more branches in rural areas and step up their credit disbursement in such areas. The Government in their action taken replies have simply informed that a

1	2	3	4
			communication was issued by the RBI in April, 2003 advising both new and old private sector banks to open more branches in rural areas. They are not satisfied with the casual reply of the Government to a specific recommendation. The Government should have furnished the details of the branches opened by these banks after April, 2003. Hence, while reiterating their earlier recommendation, the Committee would like to be apprised of the total number of branches and number of branches in rural areas (both absolute and as percentage of the total branches) opened by private sector (both old and new) and public sector banks during 2003, 2004 and as on date. Further the Committee would like to have a copy of the communication issued by RBI for their perusal.

APPENDIX

(*Vide* Para 3 of the introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTY-FIFTH REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE CREDIT FLOW TO AGRICULTURE—CRISIS IN RURAL ECONOMY AND CROP INSURANCE SCHEME OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

		Total	% of total
(i)	Total number of recommendations	29	
(ii)	Recommendations/Observations which have been accepted by the Government: (*vide* Recommendations at Sl. Nos. 4, 6 & 8)	4	13.79
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies: (*vide* Recommendations at Sl. Nos. 1, 3, 5, 8 and 9)	8	27.58
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee: (*vide* Recommendations at Sl. Nos. 1, 2, 3, 7, 9 and 10)	17	58.62
(v)	Recommendations/Observations in respect of which final reply of the Government is still awaited:	Nil	