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STANDING COMMITTEE ON FINANCE (2003)

THIRTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

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

FIFTY - FIFTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2003/Agrahayana, 1925 (Saka)

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Presented to Lok Sabha on 22 December, 2003
Laid in Rajya Sabha on 22 December, 2003

LOK SABHA SECRETARIAT
NEW DELHI

December, 2003/Agrahayana, 1925 (Saka)

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3. Shri Raashid Alvi
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37. Shri M. Rajasekara Murthy
38. Dr. Biplab Dasgupta
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40. Shri Amar Singh

41. Shri Prem Chand Gupta

42. Shri Palden Tsering Gyamtso
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44. Shri Praful Patel
45. Shri Dinesh Trivedi

SECRETARIAT

1.	Shri P.D.T. Achary	-	Additional Secretary
2.	Dr. (Smt.) P.K. Sandhu	-	Joint Secretary
3.	Shri R.K. Jain	-	Deputy Secretary
4.	Shri S.B. Arora	-	Under Secretary

** Nominated to this Committee w.e.f. 07.04.2003

*Nominated to this Committee vice Sh. Mukhtar Abbas Naqvi w.e.f. 26.3.2003

INTRODUCTION

I, Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf present this Fifty-fifth Report on the Credit Flow to Agriculture - Crisis in Rural Economy and Crop Insurance Scheme.

2. The Committee at their sitting held on 14th July, 2003 took oral evidence of Reserve Bank of India (RBI) and the Commission on Agriculture Cost and Prices on problems, measures and policy related matters pertaining to the Credit Flow to Agriculture – Crisis in Rural Economy and Crop Insurance Scheme. They again took oral evidence of RBI on 14th October, 2003.

3. At their sittings held on 23rd September and 28th October, 2003 the Committee took oral evidence of the Ministry of Finance (Department of Economic Affairs – Banking and Insurance Division), National Bank for Agriculture and Rural Development and Agriculture Insurance Company of India Ltd. on issues, measures and policy matters related to the subject.

4. Before the Committee could conclude their evidence on 28th October, 2003 they interacted with various banks, farmers fora, State Governments and Agricultural Experts during tour to various places to know the problems being faced by farmers, corrective measures and desired policy changes etc.

5. The Committee considered and adopted the draft report at their sitting held on 18th December, 2003.

6. The Committee wish to express their thanks to the Officers of the Ministry of Finance, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Agriculture Insurance Company of India Limited, Commission on Agriculture Cost and Prices, State Governments, various Banks and experts for co-operation extended in placing before them their considered views and perceptions on the subjects and for furnishing written notes and information that the Committee had desired in connection with the examination of the subject.

7. For facility of reference, the observations/recommendations of the Committee have been printed in thick type.

NEW DELHI
18 December, 2003
27 Agrahayana, 1925 (Saka)

N. JANARDHANA REDDY
Chairman
Standing Committee on Finance

REPORT

PART – A

CREDIT FLOW TO AGRICULTURE – CRISIS IN RURAL ECONOMY

INTRODUCTORY

One of the preconditions for development of the economy is growth in agriculture sector. Therefore agriculture has been assigned foremost importance in any development scheme. In India it is a predominant economic activity. Access to credit plays a crucial role in augmenting private investment in agriculture growth. This is particularly true for a country like India where about 85 percent of the operational holdings are small and marginal that do not generate investible surplus of their own and also when farm input costs are rising, rapidly. Unfortunately however, farmers accessibility to credit is reported to be not only inadequate, but also uneven among regions. In fact, slow growth of agriculture in Eastern and Central Regions of the country is primarily due to low level of both public and private investment in agriculture, the latter being largely influenced by low size of holdings and the shortage of institutional credit facilities.

2. During 1990-91, the cultivable land of our country aggregated to 1656 lakh ha. The pattern of land holdings by marginal, small, medium and large farmers and their respective share of the holdings to the total cultivable area is as follows:

Details of cultivable area operated and percentage of holding during 1990-91				
Category of farmers	No. of holdings ('000 Nos)	% to total	Area operated ('000 ha.)	% of total
Marginal (below 1 ha.)	62,110	58.99	24,260	14.87
Small (between 1-2 ha.)	19,970	18.97	28,710	17.34
Semi Medium (between 2-4 ha.)	13,910	13.21	38,350	23.16
Medium (between 4-10 ha.)	7,630	7.25	45,050	27.20
Large (10 ha and above)	1,670	1.59	28,890	17.45
All groups	105,290	100	165,600	100.00

Source: CMIE, Agriculture – December, 2002

(Statistics based on data released by the Directorate of Economics and Statistics under Ministry of Agriculture, GoI).

It may be observed from the above table that roughly more than 76% of the total holdings belong to small and marginal farmers but in terms of the area operated, they constitute around 32% of the total area.

3. The performance of agriculture sector can go a long way in improving the income and living standards of the bulk of population. Precisely, the achievement of basic goals of growth with equality, self reliance and modernization are conditioned upon rapid and sustained growth in agriculture sector along with rural development. This will also have large ramifications for ameliorating poverty and unemployment in rural India.

4. Hence the Government of India has attached great importance to rural and agricultural development by way of various policy initiatives as well as legislations. The state governments are striving to achieve this by implementing the policies and programmes for agricultural development. The National Agriculture Policy adopted in July 2000 envisages annual growth in agriculture of over 4% per annum and highlights the need for adequate and timely supply of credit to farmers. One of the important constituents of agricultural development is financing of agriculture. In India, both institutional and non institutional sources of finance are engaged in the field of agricultural financing. The major institutional source of finance comes from the banks. They play pivotal role in supporting agriculture and rural development by extending credit assistance and participating in various government sponsored programmes. Flow of ground level credit to agriculture and allied activities from all agencies has increased from Rs. 31.956 crore in 1997-98 to Rs. 70,810 crore in 2002-03.

5. Agricultural credit is disbursed through a multi-agency network consisting of, inter alia, Co-operatives, Scheduled Commercial Banks (SCBs) and Regional Rural Banks (RRBs). The Reserve Bank has been taking a series of steps for providing timely and adequate credit to the rural sector through National Bank For Agriculture and Rural Development (NABARD). It provides NABARD a General Line of Credit (GLC) to enable it to meet the short-term credit requirements of cooperative banks and RRBs.

6. NABARD as an apex development bank has been entrusted with the responsibility to promote integrated rural development. In order to meet the objective, NABARD provides refinance assistance to Cooperative Banks, RRBs, Commercial Banks, for investment credit for farm and non-farm activities in the country. In addition to providing refinance for investment credit, NABARD also provides short-term credit for Seasonal Agriculture Operations (SAO) and operations other than it to Cooperative banks and RRBs. NABARD also provides loans to the State Governments for contributing to the share capital of Cooperative Credit Institutions. NABARD also extends loan assistance to State Governments towards infrastructure development

projects undertaken by them. Besides providing financial support, NABARD also plays a developmental and promotional role by strengthening rural credit delivery system through institutional development measures and promoting and supporting policies, practices and innovations conducive to rural development.

7. As per RBI guidelines (which were based on the recommendations of the working group constituted under the chairmanship of Shri A. Ghosh, the then Deputy Governor of RBI), it is stipulated for scheduled commercial banks to extend 40 percent of net bank credit to priority sector; there is also a sub-target that 18 percent of net bank credit should flow to agriculture. It has been made mandatory that any shortfall in fulfilling the target or sub-target would have to go to the corpus of Rural Infrastructure Development Fund (RIDF) which was started in 1995-96. This fund has been set up in NABARD for completion of the on -going rural infrastructure projects. Initially, the fund was intended to supplement efforts of the State Governments for completing the incomplete infrastructure projects especially in the irrigation sector. Presently, a wide range of activities are being financed out of this Fund and these include rural roads and bridges, watershed development, flood protection, command area development, drainage, shore infrastructure for fisheries, forest development, construction of primary school buildings, integrated cold chains, buildings for primary health centres, systems improvement and mini-hydel projects under power sector, connectivity of villages through IT based projects, etc. To assess the performance of the banks on the basis of annual disbursement of agricultural advances, RBI has introduced since 1994-95 agriculture credit planning system of SPECIAL AGRICULTURE CREDIT PLAN (SACP) which envisions augmenting the flow of credit to agriculture by at least 20 to 25% over previous year disbursement. The plan is segregated into quarterly targets which is monitored by the RBI.

8. Micro-finance is a novel approach to 'banking with poor' with the apparent advantage of lower transaction costs and high repayments due to inter alia, the involvement of potential beneficiaries of rural credit in the credit delivery mechanism. As a result, various micro-finance initiatives have gathered pace in the recent years. The major thrust of these initiatives is towards setting up of institutions such as Self Help Groups (SHGs), Non Governmental Organisations (NGOs), Credit Unions, etc., and strengthening their financial intermediation capabilities.The National Agricultural Policy stipulates promotion of micro-credit as an effective tool for alleviating poverty and development of Self Help Groups (SHGs) – Bank linkage system as a supplementary

mechanism for bringing the rural poor into the formal banking system. Banks were accordingly advised in Feb, 2000 to make micro-credit an integral part of their corporate credit plan. Micro credit is reckoned as part of bank's priority sector lending since February, 2000. In this regard, NABARD's role has been two-fold, viz., promotional and financial. While promotional efforts assumed the form of the SHG-Bank Linkage Programme and facilitating training, financial involvement is in terms of providing Refinance, Revolving Fund Assistance and Grants.

9. Further, with a view to providing an additional avenue for bank's lending to agriculture and increasing the outreach of banks in rural areas, lending by banks to non banking financial companies (NBFCs) for on-lending to agriculture is reckoned for the purpose of priority sector lending as indirect finance to agriculture since April, 2000.

10. To provide adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of all inputs in a flexible and cost effective manner, a Model Kisan Credit Card Scheme was introduced in the year 1998 for implementation by all the rural financial institutions in the country. The Credit extended under the scheme is in the nature of revolving cash credit and provides for any number of drawals and repayments within the limit which is fixed on the basis of operational land holding, cropping pattern and scale of finance, etc.

11. Thus it is obvious that there has been noticeable change in the field of agricultural finance. Now farmers are provided with wider opportunity to access finance. The institutional share of credit for the past five decades has shown a commendable growth from 7.3 percent in the year 1951 to 66 percent by the year 1990-91 and the share of non-institutional credit arrangement has been progressively declining from 92.7% in the year 1951 to 30.6 percent by the year 1990-91.

12. Indian agriculture, the dominant sector of the rural economy, is undergoing a substantial and significant transformation. It is reflected in changes in seasonal cropping patterns, with progressively larger areas being devoted to rabi crops; diversification of the cropping pattern, with the so-called commercial crops acquiring progressively larger share and superior cereals accounting for larger cultivated area among food-grains; changes in the input base of crop production; rise in per hectare poultry, animal husbandry and fisheries. Moreover private capital is being encouraged in agricultural sector. The rural financial institutions will have to be more flexible in their scale of finance, terms of repayment, margin money and security requirements and so on, to remain attractive.

13. It is distressing to note that in spite of widespread coverage of institutional finance stated above, the moneylenders continue to have a stronghold in the field of agricultural credit. Moreover due to certain other factors, the farmers are sometimes not able to generate enough income, which reduces their capacity to pay back the loans. This forces the farmers to take extreme steps like committing suicides, which has been spotted recently in various parts of the country. Besides, a large number of farmers in our country are still landless. The committee have undertaken a study on credit flow to agriculture to look into the deficiencies and loopholes on account of which farmers are still facing the problem of resource crunch.

14. A major landmark in the history of Indian agriculture has been the successful introduction of the Green Revolution in the late sixties. Since then, Indian agriculture has made tremendous progress in terms of output, geographical base and cropping pattern. Spectacular progress has also been observed in agricultural financial system.

15. In one of their replies, the Government have furnished information on total estimated agricultural credit requirement, availability of credit for small and marginal farmers and institutional set up for rural credit disbursements, stated, as below:

> " the institutional credit requirement for the agricultural sector during the 10th Five Year Plan is projected at Rs, 7,36,570 crore comprising Rs. 3,59,701 crore for production needs and Rs. 3,76,869 crore for investment purposes (as per the 10th Plan Document).
>
> The ground level flow of credit to agriculture from all agencies (commercial banks, cooperatives and RRBs) was estimated at Rs. 64,000 crore during the year 2001-02. The total amounts of loans in respect of small and marginal farmers outstanding with scheduled commercial banks as at the end of the June 1999, 2000 and 2001 are furnished below:

TOTAL AMOUNT OF LOANS BY SCHEDULED COMMERCIAL BANKS –outstanding TO SMALL & MARGINAL FARMERS (RS. CR.)

	Small farmers		Marginal farmers		Total loans to Small and Marginal Farmers	Total agri. Loans*	% of small & marginal to total agri. Farmers
YEAR	S.T. loans	Term loans	S.T. loans	Term loans			
Jun-99	3293.75	2217.6	3058.85	2621.07	11191.27	23842.25	46.94
Jun-00	3778.11	2406.5	3596.56	2848.82	12629.99	27348.91	46.18
Jun-01	4499.11	2715.68	4188.53	3119.79	14523.11	31485.96	46.13

* Excluding allied activities

> The Government of India and the Reserve Bank of India have taken a series of measures during the last five decades to improve the flow of credit to the agriculture sector. The broad thrusts of these

measures were institutionalisation of credit, simplification of procedures for sanction of loans and strengthening of Rural Financial Institutions. A number of Committees were set up to examine the problems facing the rural credit structure and to recommend policy measures, procedural reforms and other steps necessary for enlarging the volume of credit for agriculture. Acting upon the recommendations of these Committees, a multi-agency approach for financing the rural sector was adopted. Various institutions like the State Bank of India, Agriculture Finance Corporation, Regional Rural Banks, Agriculture Refinance Development Corporation, National Bank for Agriculture and Rural Development were set up to cater to the needs of rural credit in general and agriculture in particular.

Considering the fact that co-operatives are the backbone of agricultural sector, RBI simultaneously undertook a series of measures to strengthen these institutions though state partnership, training of personnel, constitution of rehabilitation programmes, etc. Besides RBI/NABARD have been extending refinance support to the co-operative banks for augmenting their resources for lending to agriculture.

In order to ensure adequacy of credit flow to the agriculture sector, priority sector lending targets including that for agriculture credit were fixed. Through a centrally administered interest rate regime, cost of credit was maintained at reasonable levels for the borrowers.

Of late, emphasis has been given for simplification of the procedures for enabling farmers to avail loans, such as introduction of Kisan Credit Cards to make available timely, adequate and hassle free credit to the farmers.

Public Sector Bank's advances to agriculture under priority sector as on June 1969 and as on the last Friday of March during the last five years are as follows:

Amount outstanding (Rs. crore)

	June 1969	March, 1998	March, 1999	March 2000	March 2001	March 2002
Agriculture	162 (5.4)	34,305 (15.7)	40,078 (16.3)	46,190 (15.8)	53,685 (15.7)	63,083 (15.8)
i) Direct	40 (1.3)	28,303 (13.0)	31,681 (12.9)	34,432 (11.8)	38,003 (11.1)	44,909 (11.3)
Ii) Indirect	122 (4.0)	6,002 (2.8)	8397 (3.4)	11,758 (4.0)	15,682 (4.6)	18,174 (4.5)

Figures in brackets represent percentage to net bank credit (NBC)

In June 1969, credit flow to agriculture was 5.4 percent of net bank credit and has risen to 15.8 percent as on March, 2002.

Banks provide credit for agriculture either directly to farmers or indirectly through other institutions. Steps have been taken pursuant to the recommendations made by various Committees as mentioned above to improve credit flow to agriculture through the multi-agency approach comprising cooperatives, commercial banks, RRBs etc. Important issues in this connection are:

- Target of 18 percent of NBC has been stipulated for lending to agriculture by domestic scheduled commercial banks.
- Public sector banks have been formulating Special Agricultural Credit

Plans (SACP) since 1994-95 on an annual basis.

- Kisan Credit Cards have been introduced.
- The scope of lending to agriculture by commercial banks has been expanded to include lending through NBFCs, loans to agri-clinics and agri-business centres, loans for purchase of land by small and marginal farmers etc.
- Ceilings under priority sector of various activities have been enhanced (such as distribution of inputs for allied activities, supply of drip/sprinkler irrigation/other agricultural machinery)
- Ceiling of produce (marketing) loan has been enhanced from Rs 1 lakh to Rs 5 lakh and the period raised from 6 months to 1 year."

The Expert Committee on Rural Credit (ECRC) appointed by NABARD has in its report submitted in July 2001 referred to the major problems encountered with availability and disbursal of credit to agriculture. The Committee has, inter alia, mentioned that RFIs are not able to reach a large number of the rural poor, particularly rural women. They have been found wanting in their support to high-value high tech agriculture, non-crop agricultural activities, as well as non-agricultural rural enterprises. Their linkages with support systems (research, extension, input supplies, marketing and processing) are weak if not tenuous. The legal and regulatory mechanisms are inadequate, resulting in poor financial and organisational health of a large number of RFIs. Thus, unless reformed, they may not be able to meet growing demands of agriculture and allied activities in the foreseeable future."

16. However, the Committee in their study and discussions with various banks and State Government representatives have found that Indian agriculture is still in the clutches of various problems which is throttling its full fledged growth. Several Committees have been appointed since 1950 to look into the problems of agricultural credit which have studied these problems and made useful recommendations as listed below:-

(i) The All India Rural Credit Survey Committee set up by Reserve Bank of India undertook a comprehensive and detailed analytical survey of the rural credit system so as to strengthen the credit delivery system. The Committee submitted its report in 1954. The major recommendations of the Committee included:

- the establishment of State partnered cooperatives with a three tier structure,
- integration of cooperative credit with cooperative marketing and processing,
- professionalisation of the management of co-operatives.

The recommendation of the Committee have led to establishment of State Bank of India in 1955, setting up of a Standing Advisory Committee on Agriculture and establishment of two Funds in Reserve Bank of India in 1956 *i.e.* the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund. The Report of the Committee formed a corner stone of the entire edifice of rural credit policy.

(ii) The second significant Committee established in the year 1966 was the All India Rural Credit Review Committee. This Committee reviewed the entire gamut of policy initiatives taken since 1954. It submitted its report in 1968. This Committee is significant for its following major recommendations:

- Firstly, it was of the view that the co-operative credit structure was making an important contribution to rural credit. However, the co-operatives needed to step up their own efforts for resource mobilization for their institutional strengthening.
- Secondly, the Committee envisaged a multi-agency approach to agricultural credit and a new role for the commercial banks especially the nationalized banks as active partners of the State in giving a developmental thrust.

- It had also recommended a dynamic role to the th Agricultural Refinance Corporation (which later transformed into the present day NABARD) and adopti of various measures to ensure timely and adequate flow credit for agriculture through commercial banks a co-operatives.

(iii) The third major Committee was the Working Group Regional Rural Banks (RRBs) set up in the year 1975. Its maj observations/recommendations are as follows:

- The Working Group examined the issue of establishment RRBs to cater to the needs of the small and marginal farme and the poorest of the poor in a defined area of operatio It concluded that re-organization in the co-operative commercial banking system could not meet the maj regional and functional gaps in rural credit within reasonab time.

- It, therefore, recommended establishment of five Region Rural Banks on a pilot basis. These banks were expected combine within them a unique blend of the local feel a familiarity of the co-operative banks with th commercialization and the managerial expertise of th commercial banks.

(iv) In 1978, the Reserve Bank set up the Committee to Revie Arrangements for Institutional Credit for Agriculture and Rur Development (CRAFICARD). The major recommendation of th Committee was:

- for the establishment of an apex bank for agriculture an rural development, the existing Agricultural Refinance an Development Corporation (ARDC) and Agricultural Cred Department of RBI were merged to form NABARD as apex bank.

(v) In 1986, a senior expert group, called the Agricultural Cred Review Committee, 1986 popularly known as Khusro Committee wa constituted by the RBI. Its major recommendations are as follows:

- Land reforms should receive top priority so as to boo productivity of investments in agriculture.

- High priority should be accorded to dry land farming.
- A lateral linkage between development plans and credit plans at the district, block and village levels, and a horizontal linkage among base level financial institutions needs to be developed.
- Service Area Approach should be adopted whereby the bank with the largest presence in a block will be allotted that block for financing and development.
- The tendency on the part of the State Governments to grant rebates on interest rates needs to be curbed.
- Government of India and State Governments should set up the National Agricultural Credit Relief Fund for giving relief to farmers affected by consecutive crop failures.
- The Committee had also recommended merger of RRBs with the sponsor banks.
- It also recommended establishment of a National Co-operative Bank of India.
- It suggested introduction of a comprehensive crop insurance scheme to guard against seasonal and cyclical fluctuations in crop production. This was implemented as the Rashtriya Krishi Bima Yojana in 1998.

(vi) The RBI set up a High Level Committee on Agricultural Credit in 1997 popularly known as the R.V. Gupta Committee.

- The significant suggestion of the Committee related to the need for rationalization and simplifications of forms and procedures and reduction of paper work to enable the flow of credit in a timely and hassle free manner to enable easy access to credit for the farmers.
- It also recommended introduction of new loan products and allowed discretion to banks on matters relating to margin/security requirements for agricultural loans above Rs. 10,000.

- It also suggested the introduction of a composite cash cre limit to farmers which would enable them to avail of cre not only for fulfilment of production needs but also f meeting household and other expenses.
- It also recommended delegation of enough powers to th branch managers to enable them to exercise discretion a their level.

(vii) In 1999 a Task Force to study the Co-operative Credit Structur was set up. The mandate of the Committee was:

- to study the question of revitalization of the co-operatives to make them strong, viable member driven institutions;
- to study the cost spreads and effectiveness at various tiers of the co-operative credit structure and make suitable recommendations for their rationalization;
- make recommendations for improving the financial health of the co-operatives to make them efficient and cost effective instruments for delivery of rural credit; and
- to review the existing supervisory and regulatory mechanisms for the co-operative credit structure.

The Committee concluded that notwithstanding systemic weaknesses of the co-operative banks they continued to play an important role and their fragility did not augur well for the flow of credit to the rural sector.

- It therefore recommended recapitalisation of the co-operative banks and stressed the need for financial and operational strengthening of the co-operative banks.
- It brought out the need for delayering of the co-operative credit structure and stressed the need for business diversification and for strengthening internal control mechanism and audit in the co-operative banks.
- It also strongly suggested professionalisation of the Boards of the co-operative banks.

Thus it visualized all encompassing changes in the co-operative structure leading to their financial, managerial, organizational and systemic restructuring.

(viii) In 2000 NABARD established an Expert Committee on Rural Credit headed by Prof. V.S. Vyas to review the emerging scenario of rural credit systems and recommend strategies and approaches to meet the challenges of the future. The following are some of its major recommendations:

- Contract farming, with adequate safeguards, should be encouraged.
- High value, high tech agriculture needs to be promoted, with consortium approach, if necessary, to meet larger demands and risks involved.
- The Government of India should act expeditiously on the recommendation of the Jagdish Capoor Task Force to revitalize the co-operatives.
- Autonomy and accountability of co-operatives should be brought about by adopting the model bill by State Governments as suggested by the Chaudhary Brahma Prakash Committee and by amending the B.R. Act, 1949.
- Financing dry land agriculture.
- Financing crop production.
- Financing private capital formation.
- Financing rural non-farm activites.
- Strengthening co-operative credit institutions and revitalization of co-operatives.
- Integration of long and short term credit structures.
- Relaxation of norms for refinance for co-operatives.
- Reduction of interest rates on RIDF deposits.
- Recapitalisation and reforms of Regional Rural Banks.

- Human Resources Development in banks.

The other important Committees set up by the Government of India are as under:

(ix) Government of India appointed an Expert Committee on Strengthening and Developing of Agricultural Marketing 2000 under the chairmanship of Shri Shankarlal Guru (Chairman, International Society for Agricultural Marketing) to review the present system of agricultural marketing in the country and to recommend measures to make the system more efficient and competitive. The important recommendations made so far by the Committee are as follows:

- Credit flow to agricultural sector need to be substantially stepped up to meet increasing demand for capital expenditure for developing marketing infrastructure and for pledge finance.
- A system of negotiable warehouse receipt also need to be introduced in the country for agricultural commodities to improve credit delivery, better loan recovery and convenience in commodity management.
- Information Technology needs to be extensively promoted.
- Extension and training services need to focus on assisting small and marginal farmers.

(x) With a view to examining the findings and recommendations of the Expert Committee and to suggest measures to implement them, the Ministry of Agriculture constituted a Task Force on Agricultural Marketing Reforms 2001 under the Chairmanship of Shri R.C.A. Jain, Additional Secretary, Deptt. of Agriculture & Co-operation. The Task Force identified nine priority areas to work out a road map for strengthening the agriculture marketing system which are:

- Legal Reforms.
- Direct Marketing.
- Market Infrastructure.

- Pledge Financing.
- Warehousing receipt system.
- Forward and futures markets.
- Price Support Policy.
- IT in Agricultural Marketing.
- Market Extension, Training and Research.

(xi) In 2001, the Working Group to suggest amendments in the RRB Act 1976 was set up under the chairmanship of Shri M.V.S. Chalapati Rao, MD, NABARD. This Committee recommended changes in:

- Capital structure.
- Structure and ownership pattern of RRBs.
- Structural consolidation of RRBs.
- Changes in the regulatory and supervisory system.
- Diversification and business of RRBs.
- Management of investment portfolio of RRBs.
- Operating structure of RRBs.
- Changes in human resources management and development in RRBs. It stressed the need for adoption of technology by RRBs.
- It suggested amendments in the RBI Act, 1976.

(xii) The Committee on issues pertaining to Rural Credit 2002, under the Chairmanship of Shri Anant Geete, the then Hon. Minister of State of Finance was set up in 2002 to look into the issues pertaining to rural credit with emphasis on credit to small and marginal farmers and introduction of Kisan Credit Cards Scheme. The major recommendations are as follows:

- measures to improve financing of small and marginal farmers.

- fixation of repayment periods and installments on the basis of cash flows.

- reduction of high rates of interest and other charges levied on agricultural loans by the co-operative banks and RRBs.

- operation modalities for cyclical credit to be explored.

- timely issuance of Kisan Credit Cards.

- sensitization and awareness building of banks.

17. Inspite of all such studies and recommendations, there is little that has resulted in substantial progress. The problem of adequate financing of agriculture still persists. The Committee observed that there are still certain glaring issues, particularly in the field of agricultural credit that need to be addressed. The most important of these issues, which invited the attention of the Committee are as below:

1. Direct and Indirect Agricultural Advances

18. The Committee found that though there has been various guidelines and minimum stipulations regarding agricultural lending, but practically, they have not been properly implemented. A working group headed by the then Deputy Governor, Reserve Bank of India, Shri A. Ghosh, had recommended that banks should lend atleast 18% of their Net Bank Credit (NBC) to agriculture sector (13.5% stipulated for direct lending and 4.5% for indirect lending) and overall priority sector lending including agriculture should be 40% of NBC. Accordingly, banks are required to lend 40% of their net bank credit to priority sector, out of which 18% should be accounted for by agriculture. Data relating to outstanding agricultural advances of public sector and private sector banks as on the last reporting Friday or March 2000, March 2001, March 2002 and March 2003 are furnished below (data provisional).

Public Sector Banks

(% to net bank credit)

Last Friday of March	Direct Lending	Indirect Lending	Total agricultural advances
2000	11.75	4.01	15.77
2001	11.15	4.60	15.65
2002	11.31	4.58	15.81
2003	10.84	4.54	15.34

Private Sector Banks

(% to net bank credit)

Last Friday of March	Direct Lending	Indirect Lending	Total agricultural advances
2000	4.97	4.14	9.11
2001	4.02	5.53	9.55
2002	4.03	8.74	8.53
2003	6.28	8.06	10.78

From the above it is clear that private sector banks have been lending an increasing percentage of their total net bank credit to agricultural sector during last four years. On the other hand, the performance of public sector banks has not shown any remarkable improvement.

19. The annual compound growth rate of direct institutional credit (disbursement) to agriculture and allied activities improved marginally from 12.0 per cent during the 1980s to 12.7 per cent during the 1990s. However, the credit delivery scenario at the disaggregated level in the 1990s is somewhat unsettling as there is a deceleration in the scheduled commercial banks' disbursements of direct finance to small farmers from 15.1 percent in the 1980s to 11.0 percent in the 1990s. Similarly, the annual compound growth rate of direct finance (disbursements) to marginal farmers, decelerated to 13.0 percent from 18.1 percent during the same period. The annual compound growth rates of medium/long term loans disbursed to agriculture and allied activities (direct advances), which are important for private sector capital formation in agriculture, have shown deceleration to 9.7 percent in the 1990s from 11.5 percent in the preceding decade. During discussion with various banks and also in their written replies, the

Committee found that for most of the banks, direct agriculture lending was far below the prescribed level, while indirect lending exceeded the target. This is evident from the following data on direct and indirect lending by public and private sector banks:-

Advances of Public Sector Banks to Agriculture and Weaker Section

(As on the last reporting Friday of March 2003)

(Amount in Rs crore)

Sr. No.	Name of the bank	Direct agricultural Advances		Indirect agricultural Advances		Total agricultural advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
1	2	3	4	5	6	7	8
1	Allahabad Bank	1,497.51	11.82	640.15	5.05	2,137.66	16.32
2	Andhra Bank	1,448.19	13.23	180.00	1.64	1,628.19	14.87
3	Bank of Baroda	2,955.11	12.12	1,114.22	4.58	4,069.33	16.62
4	Bank of India	3,296.72	11.38	875.00	3.02	4,171.72	14.41
5	Bank of Maharashtra	961.69	10.28	325.72	3.48	1,287.41	13.76
6	Canara Bank	3,922.00	11.18	1,486.00	4.24	5,408.00	15.42
7	Central Bank of India	1,958.03	8.62	1,839.23	8.10	3,797.26	13.12
8	Corporation Bank	499.46	5.27	425.23	4.49	924.69	9.75
9	Dena Bank	616.10	7.41	859.11	10.34	1,475.21	11.91
10	Indian Bank	1,475.26	14.37	375.04	3.65	1,850.30	18.03
11	Indian Overseas Bank	1,781.47	12.18	585.97	4.01	2,367.44	16.18
12	Oriental Bank of Commerce	1,162.59	7.30	1,069.75	6.71	2,232.34	11.80
13	Punjab National Bank	4,730.18	11.83	2,329.34	5.83	7,059.52	16.33
14	Punjab & Sind Bank	696.21	11.65	440.91	7.38	1,137.12	16.15
15	Syndicate Bank	1,928.47	14.72	247.08	1.89	2,175.55	16.61
16	Union Bank of India	2,444.03	10.51	1,244.07	5.35	3,688.10	15.01
17	United Bank of India	650.00	8.31	476.00	6.09	1,126.00	12.80
18	UCO Bank	1,224.00	8.24	818.00	5.51	2,042.00	12.74
19	Vijaya Bank	702.79	9.94	444.24	6.28	1,147.03	14.44
	Nationalised Banks	**33,949.81**	**10.79**	**15,775.06**	**5.01**	**49,724.87**	**15.29**
20	State Bank of India	11,354.28	9.87	4,516.48	3.93	15,870.76	13.80
21	State Bank of Bikaner & Jaipur	985.14	14.65	195.93	2.91	1,181.07	17.57
22	State Bank of Hyderabad	1,372.63	14.09	148.77	1.53	1,521.40	15.62
23	State Bank of Indore	781.92	15.09	170.57	3.29	952.49	18.38
24	State Bank of Mysore	657.35	14.07	125.56	2.69	782.91	16.76
25	State Bank of Patiala	1,337.00	13.53	448.00	4.53	1,785.00	18.03
26	State Bank of Saurashtra	751.68	16.55	98.78	2.17	850.46	18.72
27	State Bank of Travancore	609.39	8.23	228.71	3.09	838.10	11.32
	State Bank Group	**17,849.39**	**10.94**	**5,932.80**	**3.64**	**23,782.19**	**14.58**
	Public Sector Banks	**51,799.20**	**10.84**	**21,707.86**	**4.54**	**73,507.06**	**15.34**

Notes:
1. Data are provisional.
2. NBC - net bank credit.
3. Indirect Agricultural advance taken to the extent of 4.5 per cent.

Source : Data furnished by respective banks.

Sr. No.	Name of the bank	Direct agricultural Advances		Indirect agricultural Advances		Total agricultural advances	
		Amount	Per cent to NBC	Amount	Per cent to NBC	Amount	Per cent to NBC
1	2	3	4	5	6	7	8
1	Bank of Rajasthan Ltd.	81.80	3.90	179.97	8.58	261.77	8.40

2	Bharat Overseas Bank Ltd.	20.88	3.24	44.71	6.94	65.59	7.74
3	Catholic Syrian Bank Ltd.	25.00	2.13	17.53	1.49	42.53	3.62
4	City Union Bank Ltd.	33.36	2.74	66.75	5.47	100.11	7.24
5	Development Credit Bank Ltd.	67.24	2.67	169.82	6.73	237.06	7.17
6	Dhanalakshmi Bank Ltd.	35.52	3.79	43.05	4.59	78.57	8.29
7	Federal Bank Ltd.	336.21	7.45	9.48	0.21	345.69	7.66
8	Ganesh Bank of Kurundwad Ltd.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
9	ING Vysya Bank Ltd.	414.02	7.98	233.37	4.50	647.39	12.48
10	Jammu & Kashmir Bank Ltd.	124.89	2.09	346.52	5.81	471.41	6.59
11	Karnataka Bank Ltd.	328.08	8.91	138.81	3.77	466.89	12.68
12	Karur Vysya Bank Ltd.	180.38	5.92	244.03	8.00	424.41	10.42
13	Lakshmi Vilas Bank Ltd.	128.63	8.46	62.68	4.12	191.31	12.58
14	Lord Krishna Bank Ltd.	7.09	0.95	58.26	7.81	65.35	5.45
15	Nainital Bank Ltd.	18.94	10.57	8.06	4.50	27.00	15.06
16	Ratnakar Bank Ltd.	14.08	4.45	31.32	9.89	45.40	8.95
17	Sangli Bank Ltd.	63.07	11.94	52.42	9.92	115.49	16.44
18	SBI Commercial & International Bank Ltd.	10.92	8.94	61.71	50.54	72.63	13.44
19	South Indian Bank Ltd.	111.02	4.27	45.35	1.75	156.37	6.02
20	Tamilnad Mercantile Bank Ltd.	148.89	7.55	52.41	2.66	201.30	10.21
21	United Western Bank Ltd.	188.36	6.31	97.87	3.28	286.23	9.58
22	Bank of Punjab Ltd.	30.71	1.74	22.10	1.25	52.81	3.00
23	Centurion Bank Ltd.	5.94	0.49	249.96	20.48	255.90	4.99
24	Global Trust Bank Ltd.	23.50	0.82	232.96	8.11	256.46	5.32
25	HDFC Bank Ltd.	704.53	7.51	1,333.05	14.22	2,037.58	12.01
26	ICICI Bank Ltd.	1,561.47	14.18	705.42	6.41	2,266.89	18.68
27	IDBI Bank Ltd.	45.16	1.17	396.48	10.31	441.64	5.67
28	IndusInd Bank Ltd.	219.85	5.99	433.52	11.81	653.37	10.49
29	Kotak Mahindra Bank Ltd.	—	—	—	—	—	—
30	UTI Bank Ltd.	271.20	3.86	1,334.25	18.97	1,605.45	8.36
	Total	5,200.74	6.28	6,671.86	8.06	11,872.60	10.78

Notes:

1.Data are provisional.

2.NBC - net bank credit.

3. Indirect Agricultural advance taken to the extent of 4.5 per cent.

Source:Data furnished by respective banks.

From the table, it is evident that direct agricultural advances of public sector banks, as on last Friday of March 2003 was 10.84% of NBC and indirect agricultural advances was 4.54%. The lending position of private sector banks was still worse. Their direct agricultural lending was 6.28% of NBC while indirect agricultural lending was 8.06%. The total agricultural lending of public and private sector banks was 15.34% and 10.78% of NBC respectively. RBI had asked all SCBs to comply with these targets upto March, 2003 but many of the banks have still failed to reach upto the specified level. The names of public sector and private sector banks who have not achieved the level of agricultural credit (18% of NBC) as on the last reporting Friday of March 2003 are furnished in the table:

furnished in the table:

1. Public Sector Banks

		% of total agri. to NBC
1.	State Bank of India	13.8
2.	State Bank of Bikaner & Jaipur	17.55
3.	State Bank of Hyderabad	16.44
4.	State Bank of Mysore	16.76
5.	State Bank of Travancore	11.32

6.	Allahabad Bank	16.85
7.	Andhra Bank	15.34
8.	Bank of Baroda	16.62
9.	Bank of Maharashtra	13.11
10.	Canara Bank	15.42
11.	Central Bank of India	13.12
12.	Corporation Bank	9.64
13.	Dena Bank	11.91
14.	Indian Overseas Bank	16.5
15.	Oriental Bank of Commerce	11.54
16.	Punjab National Bank	16.33
17.	Punjab & Sind Bank	16.15
18.	Syndicate Bank	16.61
19.	Union Bank of India	15.01
20.	United Bank of India	13.57
21.	UCO Bank	13.09
22.	Vijaya Bank	14.3
2. Private Sector Banks		
1.	Jammu & Kashmir Bank	6.59
2.	Bank of Rajasthan	8.4
3.	Karnataka Bank	12.46
4.	ING Vysya Bank	12.48
5.	Catholic Syrian Bank	3.62
6.	Dhanalakshmi Bank	8.23
7.	Federal Bank	7.72
8.	Lord Krishna Bank	5.46
9.	South Indian Bank	6.02
10.	Ratnakar Bank	8.94
11.	Sangli Bank	16.73
12.	United Western Bank	9.58

13.	Bharat Overseas Bank	8.13
14.	Karur Vysya Bank	11.21
15.	Lakshmi Vilas Bank	12.58
16.	City Union Bank	7.24
17.	Tamilnad Mercantile Bank	10.2
18.	Nainital Bank	15.06
19.	SBICI Bank	13.44
20.	UTI Bank	8.36
21.	Indus Ind Bank	10.49
22.	Global Trust Bank	5.32
23.	HDFC Bank	12.02
24.	Centurion Bank	6.59
25.	Bank of Punjab	6.24
26.	Development Credit Bank	7.16
27.	IDBI Bank	5.67

20. Giving reasons for shortfall in agricultural credit by banks and steps taken to rectify it, the Secretary, Financial Sector said following during his oral evidence before the Committee:

> "The primary reasons for this shortfall are these. Firstly, the credit expansion is taking place in a bigger scale in sectors other than agriculture. The growth of credit in the non-agriculture sectors has been faster. Secondly, there is low capital formation in agriculture and consequent lack of credit absorption capacity. That is well-know, Sir. The capital formation in agriculture has been extremely slow. Also, Sir, there is low recovery in agriculture credit in some areas like North-East and this has discouraged further credit to agriculture. The writing off of non-performing assets has also infected the net bank credit. In certain cases recovery has improved which has had its own impact on net bank credit outstanding. In the more recent years, the drought situation in some parts of the country has also adversely affected credit absorption. And finally, in certain cases, the price of agricultural commodities has crashed, discouraging lending as well as borrowing. The RBI and NABARD are taking several measures to rectify the situation and to increase the credit flow to agriculture. These measures include special agriculture credit plans which are required to be prepared by public sector banks and linkage of self-help groups with banks for increasing the quantum of micro credit. In addition, the shortfall in agriculture lending is required to be contributed through creation of a corpus which is the Rural Infrastructure Development Fund and which is utilised for projects directly and indirectly related to agriculture and rural development. Again, in order to exert pressure on banks to go in for more direct lending to agriculture than resorting to RIDF contribution, the rate of interest on bank deposit of RIDF has been modified. Effective from RIDF-7, the rate of interest on deposits placed by banks in the Fund is inversely linked to the shortfall in agriculture lending. The greater the shortfall in agriculture lending, the lower the rate of interest which is paid to the banks on their deposits in this RIDF corpus. Therefore, there is a kind of a penal rate of interest which is, of course, inversely related."

21. During discussion with the Committee, most of the banks, however, agreed that agricultural lending was a profitable venture. Their representatives told that the diminishing growth in direct agricultural lending was due to certain other reasons such as legal and procedural hurdles, lack of proper education to farmers etc.

22. With regard to credit deposit ratio of public and private sector banks in rural areas vis-à-vis others, the RBI have furnished following information:-

"The credit deposit ratio of all the public and private sector banks in rural, semi-urban, urban and metropolitan areas as at present.

The credit deposit ratio of the public and private sector banks, as groups, in rural, semi-urban and metropolitan areas as on June, 2003 (latest available) are as follows:-

Credit Deposit Ratio of the scheduled commercial banks

- Bank Group wise and Population wise

Bank Group	Credit Deposit Ratio on June 2003			
	Rural	**Semi-Urban**	**Urban**	**Metropolitan**
Public Sector Banks	42.70%	34.25%	63.29%	76.22%
Nationalised Banks	43.58%	32.32%	60.96%	73.20%
Public Sector Banks	42.70%	34.25%	63.29%	76.22%
Private Sector Banks (Other scheduled Commercial Banks)	33.32%	32.70%	69.05%	76.95%

23. The NPAs in agriculture vis-à-vis other sectors, as given in Trend and Progress of Banking, annual publication of RBI is as below:-

Sector wise non performing assets of Public Sector Banks(as at end March, 2003)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Priority Sector Amount	Priority Sector Per cent to total	Public Sector Amount	Public Sector Per cent to total	Non-Priority Sector Amount	Non-Priority Sector Per cent to total	Total
1	2	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Nationalised Bank	**16,885.52**	**47.10**	**561.33**	**1.57**	**18,401.97**	**51.33**	**35,848.82**
1	Allahabad Bank	772.97	41.98	7.60	0.41	1,060.93	57.61	1,841.50
2	Andhra Bank	312.76	53.86	—	—	267.94	46.14	580.70
3	Bank of Baroda	1,673.73	42.81	0.05	0.00	2,236.18	57.19	3,909.96
4	Bank of India	1,498.20	42.87	23.51	0.67	1,973.22	56.46	3,494.93
5	Bank of Maharashtra	574.28	59.97	—	—	383.26	40.03	957.54
6	Canara Bank	1,300.34	54.33	11.12	0.46	1,081.89	45.20	2,393.35
7	Central Bank of India	1,721.04	53.06	123.00	3.79	1,399.41	43.15	3,243.45
8	Corporation Bank	271.37	41.28	20.79	3.16	365.18	55.55	657.34
9	Dena Bank	734.03	45.41	3.02	0.19	879.54	54.41	1,616.59
10	Indian Bank	755.48	48.90	3.21	0.21	786.26	50.89	1,544.95
11	Indian Overseas Bank	689.38	39.18	104.26	5.92	966.05	54.90	1,759.69
12	Oriental Bank of Commerce	500.37	43.65	5.11	0.45	640.78	55.90	1,146.26
13	Punjab & Sind Bank	575.14	46.09	20.49	1.64	652.26	52.27	1,247.89

14	Punjab National Bank	2,039.91	40.96	35.72	0.72	2,904.43	58.32	4,980.06
15	Syndicate Bank	705.99	49.85	136.79	9.66	573.44	40.49	1,416.22
16	UCO Bank	596.26	49.43	17.12	1.42	592.78	49.15	1,206.16
17	Union Bank of India	1,193.08	49.97	1.19	0.05	1,193.34	49.98	2,387.61
18	United Bank of India	630.00	65.69	48.19	5.02	280.89	29.29	959.08
19	Vijaya Bank	341.19	67.49	0.16	0.03	164.19	32.48	505.54
	State Bank Group	**8,052.84**	**47.49**	**525.82**	**3.10**	**8,379.44**	**49.41**	**16,958.10**
22	State Bank of Bikaner & Jaipur	328.56	56.62	26.68	4.60	225.05	38.78	580.29
20	State Bank of Hyderabad	377.96	51.09	43.95	5.94	317.93	42.97	739.84
21	State Bank of India	6,171.23	46.55	381.20	2.88	6,704.84	50.57	13,257.27
23	State Bank of Indore	177.22	60.02	—	—	118.03	39.98	295.25
24	State Bank of Mysore	270.78	48.18	12.65	2.25	278.57	49.57	562.00
25	State Bank of Patiala	221.22	41.44	22.12	4.14	290.51	54.42	533.85
26	State Bank of Saurashtra	224.32	63.31	20.15	5.69	109.87	31.01	354.34
27	State Bank of Travancore	281.55	44.32	19.07	3.00	334.64	52.68	635.26
	Public Sector Banks	24,938.36	47.23	1,087.15	2.06	26,781.41	50.72	**52,806.92**

Note : Data is based on domestic operations of respective banks.
Source: Based on off-site returns.

Sector wise non performing assets of Private Sector Banks (as at end March, 2003)

(Amount in Rs. crore)

Sr. No.	Name of the Bank	Priority Sector		Public Sector		Non-Priority Sector		Total
		Amount	Per cent to total	Amount	Per cent to total	Amount	Per cent to total	
1	2	9 (3+5+7)	10	11	12	13	14	15 (9+11+13)
	Old Private Sector Banks	1,761.90	38.00	8.40	0.18	2,865.75	61.81	4,636.05
1	Bank of Rajasthan Ltd.	66.83	25.12	—	—	199.25	74.88	266.08
2	Bharat Overseas Bank Ltd.	27.40	34.23	—	—	52.65	65.77	80.05
3	Catholic Syrian Bank Ltd.	96.98	47.94	—	—	105.32	52.06	202.30
4	City Union Bank Ltd.	64.99	37.70	—	—	107.42	62.30	172.41
5	Development Credit Bank Ltd	113.07	43.54	—	—	146.64	56.46	259.71
6	Dhanalakshmi Bank Ltd.	42.93	28.98	—	—	105.23	71.02	148.16
7	Federal Bank Ltd.	232.51	44.04	8.27	1.57	287.21	54.40	527.99
8	Ganesh Bank of Kurundwad Ltd.	6.97	36.06	—	—	12.36	63.94	19.33

9	ING Vysya Bank Ltd.	151.87	74.86	0.13	0.06	50.87	25.08	202.87
10	Jammu & Kashmir Bank Ltd.	120.50	47.59	—	—	132.72	52.41	253.22
11	Karnataka Bank Ltd.	155.17	28.84	—	—	382.84	71.16	538.01
12	Karur Vysya Bank Ltd.	83.17	32.56	—	—	172.30	67.44	255.47
13	Lakshmi Vilas Bank Ltd.	91.12	43.16	—	—	120.00	56.84	211.12
14	Lord Krishna Bank Ltd.	11.46	13.58	—	—	72.90	86.42	84.36
15	Nainital Bank Ltd.	8.06	73.54	—	—	2.90	26.46	10.96
16	Ratnakar Bank Ltd.	19.26	49.10	—	—	19.97	50.90	39.23
17	SBI Commercial & International Bank Ltd	3.61	4.15	—	—	83.31	95.85	86.92
18	Sangli Bank Ltd.	39.08	52.10	—	—	35.93	47.90	75.01
19	South Indian Bank Ltd.	121.81	29.38	—	—	292.76	70.62	414.57
20	Tamilnad Mercantile Bank Ltd.	178.65	52.46	—	—	161.91	47.54	340.56
21	United Western Bank Ltd.	126.46	28.25	—	—	321.26	71.75	447.72
	New Private Sector Banks	683.50	9.45	86.11	1.19	6,460.77	89.36	7,230.38
22	Bank of Punjab Ltd.	16.93	9.98	—	—	152.68	90.02	169.61
23	Centurion Bank Ltd.	9.69	4.24	—	—	218.74	95.76	228.43
24	Global Trust Bank Ltd.	204.92	22.38	—	—	710.90	77.62	915.82
25	HDFC Bank Ltd.	31.31	11.94	—	—	230.97	88.06	262.28
26	ICICI Bank Ltd.	344.46	6.85	86.11	1.71	4,596.81	91.44	5,027.38
27	IDBI Bank Ltd.	12.09	10.50	—	—	103.08	89.50	115.17
28	IndusInd Bank Ltd.	43.14	16.20	—	—	223.14	83.80	266.28
29	Kotak Mahindra Bank Ltd.	5.89	35.74	—	—	10.59	64.26	16.48
30	UTI Bank Ltd.	15.07	6.58	—	—	213.86	93.42	228.93
	Private Sector Banks	**2,445.40**	**20.61**	**94.51**	**0.80**	**9,326.52**	**78.60**	**11,866.43**

Note: Data is based on domestic operations of respective banks.
Source: Based on off-site returns.

NPAs in agricultural sector for public sector banks as in March,2003

Sr. No.	**Name of the Bank**	**Agriculture**	
		Amount	**Per cent to total**
1	2	3	4
	Nationalised Bank	**4,733.83**	**13.20**
1	Allahabad Bank	229.42	12.46
2	Andhra Bank	93.93	16.18
3	Bank of Baroda	591.64	15.13
4	Bank of India	492.20	14.08

5	Bank of Maharashtra	200.12	20.90
6	Canara Bank	372.20	15.55
7	Central Bank of India	441.10	13.60
8	Corporation Bank	84.37	12.84
9	Dena Bank	141.30	8.74
10	Indian Bank	183.38	11.87
11	Indian Overseas Bank	188.72	10.72
12	Oriental Bank of Commerce	123.52	10.78
13	Punjab & Sind Bank	123.73	9.92
14	Punjab National Bank	512.23	10.29
15	Syndicate Bank	220.22	15.55
16	UCO Bank	172.86	14.33
17	Union Bank of India	294.97	12.35
18	United Bank of India	184.00	19.19
19	Vijaya Bank	83.92	16.60
	State Bank Group	**2,973.52**	**17.53**
22	State Bank of Bikaner & Jaipur	93.33	16.08
20	State Bank of Hyderabad	123.89	16.75
21	State Bank of India	2,369.39	17.87
23	State Bank of Indore	68.53	23.21
24	State Bank of Mysore	98.19	17.47
25	State Bank of Patiala	66.59	12.47
26	State Bank of Saurashtra	72.32	20.41
27	State Bank of Travancore	81.28	12.79
	Public Sector Banks	**7,707.35**	**14.60**

NPAs in agricultural sector for Private Sector Banks as in March, 2003

Sr. No.	**Name of the Bank**	**Agriculture**	
		Amount	**Per cent to total**
1	2	3	4
	Old Private Sector Banks	**299.97**	**6.47**
1	Bank of Rajasthan Ltd.	17.75	6.67
2	Bharat Overseas Bank Ltd.	6.22	7.77
3	Catholic Syrian Bank Ltd.	5.23	2.59
4	City Union Bank Ltd.	4.95	2.87
5	Development Credit Bank Ltd	2.60	1.00
6	Dhanalakshmi Bank Ltd.	1.63	1.10
7	Federal Bank Ltd.	51.18	9.69
8	Ganesh Bank of Kurundwad Ltd.	1.72	8.90
9	ING Vysya Bank Ltd.	60.71	29.93

10	Jammu & Kashmir Bank Ltd.	14.73	5.82
11	Karnataka Bank Ltd.	30.53	5.67
12	Karur Vysya Bank Ltd.	5.66	2.22
13	Lakshmi Vilas Bank Ltd.	11.32	5.36
14	Lord Krishna Bank Ltd.	1.87	2.22
15	Nainital Bank Ltd.	1.64	14.96
16	Ratnakar Bank Ltd.	2.65	6.76
17	SBI Commercial & International Bank Ltd	—	—
18	Sangli Bank Ltd.	18.15	24.20
19	South Indian Bank Ltd.	18.05	4.35
20	Tamilnad Mercantile Bank Ltd.	14.62	4.29
21	United Western Bank Ltd.	28.76	6.42
	New Private Sector Banks	**236.81**	**3.28**
22	Bank of Punjab Ltd.	1.16	0.68
23	Centurion Bank Ltd.	—	—
24	Global Trust Bank Ltd.	8.41	0.92
25	HDFC Bank Ltd.	1.66	0.63
26	ICICI Bank Ltd.	219.14	4.36
27	IDBI Bank Ltd.	—	—
28	IndusInd Bank Ltd.	1.04	0.39
29	Kotak Mahindra Bank Ltd.	—	—
30	UTI Bank Ltd.	5.40	2.36
	Private Sector Banks	**536.78**	**4.52**

The above figures show that NPAs in agriculture as against other sectors is not high. As compared to 50.72 % NPAs in Non priority sector, the priority sector NPAs was 47.23 %, of which agriculture accounted for only 14.60%. Similarly for private sector, the NPAs in non priority sector was 78.60%, while it was only 20.61% in priority sector, out of which agriculture had only 4.52% of NPAs.

24. On this issue, the Secretary, Financial Sector, offered his explanation during the course of oral evidence as below:

> "You have mentioned about the NPA of agriculture and non-priority sector. The difference is very limited and it is correct. We have also not made out a case that it is entirely because of NPAs that the lending has been low. In fact, I would say that the role of NPAs must be a very limited one. But what you say is entirely correct that it is a irksome job to distribute loans which have to be given in a vast scattered area where transportation cost may be high; where loans are of small quantity; where accessibility is difficult and therefore there could be a natural disinclination to provide loans to a sector where transaction costs are high as compared to transaction amounts for a big corporate where it is easy to give money and then indicate that your business target has increased and also reflect higher profit. I would certainly say that this could be one disincentive or one reason for disinclination. That is why it has been kept as a part of the priority sector lending and a certain mandatory provision has been kept that at least 18 percent of this net bank credit must necessarily flow to

agriculture. But certain other measures also need to be taken. Those measures are really improving the capital formation in agriculture. This is something which I think will help a great deal the agricultural sector. Once irrigation facilities are improved, naturally the capacity to absorb that credit will also improve. Marketing facilities, diversification to more profitable agricultural and commercial crops would step up the demand for agricultural credit. These measures also need to be taken apart from certain other measures by way of urging the banks, directing them, giving them certain incentives and disincentives for greater efforts in agricultural sector, certain economic measures, certain policy measures, also are required to see that the credit absorption capacity and the demand for agricultural credit improves."

25. On the issue of recovery of agricultural advances and steps taken to improve them, the Ministry furnished following information:

"Percentage of recovery to demand of scheduled commercial banks in respect of direct agricultural advances during last three years (June, 1999, 2000, 2001) is furnished below, which indicates an increasing trend:

June 1999	66.83
June 2000	68.23
June 2001	68.62

An Expert Group (Talwar Committee) had recommended in 1971 that for speedy recovery of agricultural dues of commercial banks, the State Government should empower an official with authority to issue an order having the force of a decree of a Civil Court for payment of any sum due to a bank by sale of property charged/mortgaged in favour of the bank to facilitate prompt recovery of dues in commercial banks without having to resort to protracted and time consuming litigation in Civil Court. For implementing these recommendations the Expert Group recommended enactment of Legislation by various State Governments/Union Territories on the basis of 'Model Bill' evolved by them titled "(State) Agricultural Credit Operation and Miscellaneous Provisions (Banks) Bill, 1970" which covers the bank advances for agricultural purposes. Sixteen State Governments have enacted the legislation so far. (Assam, Bihar, Gujarat, Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Meghalaya, Orissa, Punjab, Rajasthan, Tripura, Uttar Pradesh and West Bengal)."

26. Regarding the details of branch network of private banks in rural areas, the RBI submitted following reply:

"As per the extant guidelines, new private sector banks are required to open 25% of their branches in rural/semi-urban centres. For old private sector banks, no such norm has been prescribed, as these were mostly regional banks and almost all of them have a good number of branches in rural centers. The percentage of rural branches of old private sector banks comes to around 24% of their total number of branches.

The new private sector banks which are required to open 25% of their branches in rural/semi-urban centers have maximum of their branches in semi-urban centers rather than in rural centers. The new private sector banks being technologically advanced banks require advanced infrastructure facilities viz. Uninterrupted power supply, connectivity, etc. which, at times is not available at rural centers.

In view of the Finance Minister's announcement in his budget speech 2003-04, RBI has advised new private sector banks vide letter dated 19th April, 2003 to open more branches at rural centers also. Some of the old private sector banks too which have less than around 15% of branches in rural centers have also been advised vide our letter dated 19th April, 2003 to open more branches in rural areas."

Net work of branches of private sector banks as on March 31, 2003 is furnished in the table below:

No. of Branches bank-wise & Pop. Gr.-wise—As on 31st March, 2003.

Private Banks (Old)		Rural	Semi-urban	Urban	Metro	Total	%of Rural to Total
1	2	3	4	5	6	7	8
1.	Bank of Rajasthan Ltd.	105	72	75	80	332	31.83
2.	Bharat Overseas Bank Ltd.	8	8	32	31	79	10.13
3.	Catholic Syrian Bank Ltd.	33	168	58	26	285	11.58
4.	City Union Bank Ltd.	32	34	36	23	125	25.60
5.	Dhanalakshmi Bank Ltd.	23	82	35	19	169	14.47
6.	Federal Bank Ltd.	30	252	80	56	418	7.18
7.	Ganesh Bank of Kurundwal Ltd.	8	11	7	2	28	28.57
8.	Jammu & Kashmir Bank Ltd.	221	34	95	43	393	56.23
9.	Karnataka Bank Ltd.	95	87	101	79	362	26.24
10.	Karur Vysya Bank Ltd.	41	67	74	35	217	18.89
11.	Lakshmi Vilas Bank Ltd.	40	81	62	32	215	18.60
12.	Lord Krishna Bank Ltd.	12	47	22	16	97	12.37
13.	Nainital Bank Ltd.	17	14	15	11	57	29.82
14.	Ratnakar Bank Ltd.	22	22	16	10	70	31.43
15.	Sangli Bank Ltd.	51	45	46	39	181	28.18
16.	South Indian Bank Ltd.	70	200	64	47	381	18.37
17.	Tamilnadu Mercantile Bank Ltd.	46	56	41	22	165	27.88
18.	United Western Bank Ltd.	49	61	54	65	229	21.40

1	2	3	4	5	6	7	8
19.	Vysya Bank Ltd.	107	88	104	76	375	28.53
	Total	1010	1429	1017	712	4168	24.23
New Private Banks							
1.	Bank of Punjab Ltd.	0	27	30	34	91	0.00
2.	Centurion Bank Ltd.	1	14	18	26	59	1.69
3.	Development Credit Bank	2	10	10	36	58	3.45
4.	Global Trust Bank Ltd.	8	15	17	45	83	7.23
5.	HDFC Bank Ltd.	12	42	85	93	212	5.66
6.	ICICI Banking Corporation Ltd.	82	82	88	102	354	23.16
7.	IDBI Bank Ltd.	5	19	33	35	92	5.43
8.	IndusInd Bank Ltd.	0	13	16	22	51	0.00
9.	UTI Bank Ltd.	0	34	43	58	135	0.00
	Total	108	256	320	451	1135	9.52

27. During the study tour of the Committee, some of the experts such as Shri Hanumantha Rao, Former Member, Planning Commission, Shri T.D.Janardhan Rao, Chairman, APCOB, Dr. B. Yerram Raju, Expert, Agricultural Economy in their representation submitted before the Committee have expressed their opinion as under:

> " Credit requirements of the farmers should be measured on the basis of current price index. However it was seen that Five Year Plans were formulated by the Planning Commission on the basis of price indeed prevailing at that time.
>
> There had been a steady decline in the share of agricultural advances and net bank credit (NBC). Advances to agriculture constituted 15.8% of the NBC at the end of March 2000, as against the target of 18% and also marginally lower than the achievement of 16.4% at the end of March 1999. The Share of direct agricultural advances which was 15.3% of NBC in June 1999, had declined and reached the lower level of 11.8% by March, 2000. A study revealed that the growth of scheduled commercial banks' credit to the agricultural sector had decreased from around 21% in the 1980s to 16% in 1990s.
>
> The RBI should monitor the targeted flow of credit for the farm sector, in terms of the credit plans the Banks should be insisted upon to prepare in accordance with the guidelines issued under the Service Area Approach. Banks should resurvey the villages under their area of operation and prepare those plans, which should specify the component of the small and marginal farmers and the leaseholders/tenants/sharecroppers/oral tenants. At the time of the approval of the plan the aggregate must be slightly in excess of the targeted flow for the sector out of the anticipated total advances of each Bank.
>
> The priority sector target should be disengaged from the contribution to RIDF and SIDBI Bonds.

Responding to a query on rate of interest being charged by commercial banks, the Ministry in their written submission stated as below:

> In the past, the structure of lending rates of scheduled commercial banks was characterized by an excessive proliferation of rates. There were not only a number of rate prescriptions for each activity but also borrowers were charged vastly different rates for the same loan amount. A necessity was, therefore, felt to undertake a rationalization of then prevailing lending rate structure of scheduled commercial banks. The present lending rates of the banks linking interest rates to the size of loan was prescribed and that significantly reduced the multiplicity and complexity of interest rates. Further, pricing is decided by the banks, based on various factors such as the cost of funds, credit rating of the borrowers, the cash flow profile of the credit products, the availability of security etc. At present, loans upto Rs. 2 lakh carry the prescription of not exceeding the Prime Lending Rate (PLR) and on the loans above

Rs. 2 lakh, banks are free to determine rate of interest subject to PLR and spread guidelines. Keeping in view the international practice and to provide further operational flexibility to commercial banks in deciding their lending rates, it has been decided to relax the requirement of PLR being the floor rate of loans above Rs. 2 lakh. Banks may now offer loans at below PLR rates to exporters or other creditworthy borrowers including public enterprises on the lines of a transparent and objective policy approved by the respective Boards. Banks will continue to declare the maximum spread of interest rates over PLR. However, given the prevailing credit market in India and the need to continue with concessionality for small borrowers, the practice of treating PLR as the ceiling for loans upto Rs. 2 lakh will continue. "

28. Further, the RBI have provided following details about recent measures adopted to provide cheaper loans to farmers:

" The High Rate of interest on agricultural loans charged by banks, including co-operative banks had been a matter of concern, which was expressed at various fora. There had been a general perception that the benefits of lowered interest rates had not percolated to agricultural sector.

The Union Finance Minister, in his Budget Speech on 28th February, 2003, stated that the full benefits of the declining rates of interest had not percolated to critical sectors such as agriculture and small scale industry and this had to be rectified. Referring to State Bank of India's announcement of interest rate band of 2 percent above and below its prime lending rate (PLR) for secured advances, he stated that the Indian Banks' Association (IBA) was advising all member banks to adopt a similar interest rate band. Agriculture and SSI would hereafter have to pay no more than an extra 2 percentage points than the best bank customers. Accordingly, IBA advised the Chief Executives of their member banks, in March 2003, to take appropriate action in the matter for introduction of interest rate band of 2 percent above and below its PLR for secured advances, similar to that announced by SBI.

Later, the Hon'ble Finance Minister, in a joint press conference with the Hon'ble Agriculture Minister on July 16, 2003, had expressed concern for providing credit to agriculture and agricultural equipments on terms similar to motor cars etc., and announced a reduction in the lending rate for agriculture stating that to enable the full benefit of declining interest rates to reach agriculture sector, particularly the small and marginal farmers, the Indian Banks' Association had advised all public sector banks to reduce their lending rate to a single digit rate of not more than 9% per annum on crop loans up to a ceiling of Rs. 50,000/-. This single digit 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.

In view of the concern expressed in certain quarters that the instructions relating to reduction in interest rates on crop loans up to Rs. 50,000 to 9 percent made applicable to public sector banks had not percolated down to grass-root level, public sector banks have been advised in October 2003 to reiterate the instructions to their branches and ensure that farmers are not deprived of the benefit of the reduction in interest rates. In response, banks have confirmed having issued suitable instructions to their branches in this regard."

29. On being asked, as to why the loans upto Rs. 50,000 are made eligible for lower rate of interest of 9%, the Ministry replied as under:

> " Public sector banks had agreed to give crop loans upto Rs. 50,000/ at a rate of interest not exceeding 9 percent per annum. Public sector banks are currently lending as per the above agreement. Loans up to Rs. 50,000 are eligible for lower rates of interest as the small loans are expected to benefit the small and marginal farmers. The interest rate has to take into account all costs elements which the banks have to incur. Default premium will also have to be factored in. therefore, 9 percent interest rate is an arbitrary figure fixed to provide concession to the poorest.
>
> Incidentally, consequent on the budget announcement made on 28th February, 2003 regarding the need for passing on the benefits of lower rates of interest to agriculture and the SSI sector, the Indian Bank's Association has advised the Chief Executives of their member banks, in March 2003, to take appropriate action in the matter of introduction of interest rate band of 2 percent above and below its PLR for secured advances, similar to that announced ."

30. The farmers complained to the Committee during their tour that the banks were compounding the interest on agriculture loans without taking into account the harvesting or marketing seasons.

31. In terms of existing instructions of RBI (Circular PLFS.BC/129 dated 29 June, 1998), bankers are required to fix the due dates taking into consideration cash flow with borrowers and harvesting/marketing seasons and compound the interest only if the loan/instalment becomes overdue. Addressing the issue, the Geete Committee had also observed that contrary to the instructions some banks were compounding the interest on agriculture loan and had recommended as under:-

> "Existing instructions that banks should not compound interest on crop loan is to be reiterated with examples so as to clarify the issue"

32. 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 is 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 is 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.

33. 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 disbursements in such areas.

34. 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 take serious note of this disturbing trend. They recommend that the target for direct lending by banks should be monitored independently. The 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%.

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-à-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 targets.

36. 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 will 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 has 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 percent should be reduced further in tandem with the rate of interest in other sectors.

37. 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.

2. Problem of small and marginal farmers/oral tenants / sharecroppers

38. A still prevalent, big problem of farmers in the country is that of oral tenancy. A large chunk of farming community is involved in this type of tenancy. These tenants cultivate on others land, as they are landless. These tenants have nothing but only oral tenancy that gives them the license to till, orally i.e. without any legal basis.

39. During their study visit, the Committee enquired about the problem of oral tenants. Many State Governments such as West Bengal and Gujarat have categorically denied the existence of any oral tenants in their States on the plea that land reforms have been completed there.

40. When the Committee enquired about existence of any loan scheme for these farmers, various bank representatives apprised the Committee that there was no scheme of loan for oral tenants. In this regard the RBI, furnished following information:

> "As per the existing instructions issued to commercial banks, banks may use their discretion on matters relating to margin/ security requirements for agricultural loans above Rs. 10,000. As regards additional collateral security, banks may ensure that the value of security taken is commensurate with the size of loan and desist from asking additional collateral by way of guarantors where the land mortgaged is considered adequate. The Committee set up for examining the issues pertaining to rural credit (Shri Anant Geete Committee, July-August 2002) had, inter-alia, observed that tenant farmers and share croppers face difficulties in obtaining bank credit for their farming operations on account of non-recognition of their tenancy. The Committee had, therefore, recommended that instructions be issued to banks in this regard. We had referred the issue to Indian Banks' Association (IBA) in February 2003.
>
> As per the enquiries made by IBA with some of the member banks, the following practices were found to be prevailing.
>
> - Only persons who are permanent resident of the village and cultivating crops are considered for loans.
> - Banks follow service area approach in such lending.
> - Small loans (upto Rs. 25000/-) are given without collateral security.
> - Banks also seek group guarantee or guarantees of two landowners.
> - Some banks obtain record of possession from revenue authorities indicating that land cultivated is cultivated by the applicant.
> - Some banks obtain declaration letter/co-obligation from the owners enabling banks to lend to the tenant farmer.
>
> IBA had advised their member banks (in November, 2002) to formulate borrower friendly schemes for financing tenant farmers/sharecroppers and landless farmers. Banks were advised

to give preference to the groups approaching for loans and while considering such cases take cross guarantee so that peer group pressure on Joint Group Model (Group Lending Guarantee) will act as a positive factor for timely recovery. It has also been suggested to banks that financing landless farmers through compact groups under SHG scheme could also be explored.

Incidentally, while introducing Kisan Credit Card Scheme in August, 1998, banks were, inter alia, advised that the credit limit under the card may be fixed on the basis of operational land holding, cropping pattern, scale of finance etc. Further, while fixing the annual credit card limits, operational land holding will include the leased in land.

It is proposed to discuss the issue of financing landless labourers/oral tenants further with bankers so as to improve the system of lending to such farmers."

41. On being asked about the credit facilities available to small and marginal farmers and oral tenants, the Ministry in their written reply, submitted following:

"The existing instructions permit the banks to lend to share croppers and oral lessees based on certification by Talati/Society Secretary and third party guarantee."

A number of steps have been taken to strengthen the flow of credit to small and marginal farmers which include the following:

- Banks should not insist on margin money for crop loans/term loans granted to small and marginal farmers upto Rs. 10,000
- Banks should not insist on collateral security/third party guarantee for crop loans upto Rs.10,000. Hypothecation of crops can be taken as security.
- As regards loans above Rs. 10,000, banks have discretion in the matters relating to margin/security.
- Payment of interest should be insisted upon only at the time of repayment of loan instalments fixed.
- Banks should not compound interest on current dues in respect of long duration crop loans and instalments not falling due in respect of term loans.
- Total interest debited to the accounts of small and marginal farmers should not exceed the principal amount in respect of short term advances.
- Small and marginal farmers form part of weaker sections under the Priority sector. (A target of 10% of NBC has been stipulated for lending by domestic scheduled commercial banks to the 'weaker sections'.
- Special One Time Settlement (OTS) Scheme for small and marginal farmers: The Union Finance Minister in his budget speech for the year 2002-03, had announced One Time Settlement scheme for small and marginal farmers to cover loans upto Rs. 50,000/- As a follow-up all public sector banks have been advised to formulate a policy, with the approval of their Boards, for recovery of these loans keeping in view certain

parameters provided to them. The guidelines will be operative up to March 31, 2003.

RBI has moved away from an administered interest rate regime and at present interest rates on loans given by commercial banks above Rs. 2 lakh have been fully deregulated, while for loans upto Rs. 2 lakh, it has been stipulated that the interest rate should not exceed the Prime lending rate (PLR) of a bank. Hence, the rates of interest are set by banks and may vary depending on the tenure and quantum of loans. In order to pass on the benefits of lower interest rates to agriculture, IBA has advised all Member Banks on 5.3.2003 to adopt an interest rate band of 2 percent above and below PLR for several agriculture advances."

42. Responding to a query regarding formation of groups, the Ministry replied as under:

"Banks have already been suitably advised in this regard. Under the Self Help Groups (SHGs) bank linkage programme of NABARD, any group of ten members or more with homogeneity could form a group. Similarly, under SGSY members belonging to BPL families could form a group and then the group is eligible for facilities from the bank. The sharecropperes/oral tenants could form a group and such group is eligible for the normal facilities available from the bank for group finance.

There exist SHGs having members belonging to such community although no specific data is captured in the existing Management Information System (MIS)."

43. The Committee on issues pertaining to rural credit headed by Shri Anant Geete had recommended following in respect of Credit for sharecroppers/oral lessees:

"Existing instructions allow lending to share croppers or oral lessees based on certification by Talati/Society Secretary and third party guarantee. Considering the fact that the number of landless poor as also the small and marginal farmers are on the increase there is a need to have a relook into their credit requirements and explore new avenues for meeting the same. In case of these categories of farmers/tillers they have very little or no security to offer in the traditional sense. The need, therefore, lies in identifying alternate collateral substitutes and innovations in risk management. The Expert Committee on Rural Credit (ECRC) had recommended various measures such as formation of Joint Liability Groups, freeing of lease mortgage, contract farming, etc.

Joint Liability Groups may be encouraged by the banks as this would help the bankers to gain from reduced appraisal, monitoring and recovery costs by dealing with the group rather than the individual member. The borrowers could also avoid a substantial amount of transaction cost by dealing with the group instead of bank branches.

Commission Agents play an important role in the rural financial system and in the commodity market. Support through institutional credit would enable these agents to gain greater access to funds to cater to more number of farmers by brining them under the ambit of formal credit channels. Transaction costs to the banking institutions would also decline on account of bulk lending. However, safeguards need to be built in to ensure that exploitative practices do not creep in on account of availability of institutional credit to such agents and certain controls would be essential for the purpose. Another mode of providing access to institutional funds to these categories of farmers/tillers to finance corporate bodies/contractors who would provide quality inputs, credit and technical advise to the farmers and also ensure recovery of loans granted.

Existing instructions that provide for cooperative banks and commercial banks financing tenants and share croppers need to be reiterated.

Banks to explore financing through alternative models like SHGs, Joint Liability Groups, Financing through commission agents, using other micro finance institutions/NGOs as intermediaries, RBI, NABARD)."

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 scheme 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 can 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.

3. Rural Infrastructural Development Fund (RIDF)

45. Rural Infrastructural Development Fund was set up with NABARD under the initiative of the Central Government in 1995-96 to provide loans to State Governments for financing rural infrastructure projects. Since then, nine tranches of RIDF with aggregate corpus of Rs. 34000 crore have been established. Since 1999-2000 (RIDF-V), the scope has been widened to enable utilisation of loans by Panchayati Raj Institutions, Self- help groups (SHGs), Non Government Organisations (NGOs) etc.

46. The commercial banks are required to make contributions towards the Fund in accordance with the shortfall in their priority sector lending. It has been seen that most of the banks have failed to fulfill the prescribed target of 18% in respect of lending to agriculture. They are depositing the shortfall in agricultural lending in RIDF and earning interest thereon.

47. V.S. Vyas committee appointed by NABARD on rural credit with regard to interest rates on RIDF funds recommended that the interest rates on RIDF should be reduced to 9 percent for a shortfall of less than 2 percentage points. For a shortfall of 2 percentage or more it should be 7 percent. If the shortfall of less than 2 percentage points continues, the interest rate should be 7 per cent only, which would cover the 6.24 percent average financial cost of raising resources in 1999-2000. Reduced rates of interest should apply to future deposits under earlier trenches of RIDF also.

48. Responding to a query on implementation of recommendation of V S Vyas Committee , the Government have furnished following reply:

> "Government of India and RBI have been reducing the rate of interest payable on deposits to the contributing banks every year. While the interest payable on deposits under first tranche of RIDF was 12.5 percent, the interest payable under VIII tranche has been fixed between 5 percent to 8 percent (depending upon the extent of shortfall in agricultural lending). Details of tranche-wise interest payable on deposits and interest charged to the State Governments is as under:-

Interest rates on deposits and loans from RIDF

Tranche	Interest rate on deposits% p.a.	Interest rate on loans % p.a.
I	12.5	13
II-V	11.5	12
VI	11	11.5
VII	7 to 10@	10.5
VIII	5 to 8 @	8.5 (i.e. Bank Rate Plus 2%)

@ Depending upon the extent of shortfall in agricultural lending vis-à-vis the stipulated target of 18% of the Net Bank Credit.

With a view to discourage from under-lending to agriculture & allied activities and parking the funds as RIDF deposits, interest rates payable on deposits by these banks have been reduced. Further, interest rates are linked inversely (higher the shortfall lesser the rate of interest payable) to the shortfall in their lending to the agriculture sector vis-à-vis the targets stipulated (viz. 18% of net bank credit). This penal provision of reduced interest rates was introduced with effect from VII tranche of RIDF. The interest rates payable on deposits under RIDF VII and VIII are detailed below:

Interest rates payable on deposits made towards RIDF by the Banks

(percentage per annum)

Shortfall in lending to Agricultural in terms of Percentage to NBC	Rate of interest Receivable on deposits Under RIDF VII	Rate of interest receivable on Deposits under RIDF VIII
Less than 2 percentage points	10	8
2 percent to 4.99 percentage points	9	7
5 percent to 8.99 percentage points	8	6
Above 9 percentage points	7	5

The rate of interest payable on RIDF deposits is linked to the performance of banks under agricultural lending. The rate of interest chargeable to the State Government is linked to the Bank Rate and as such the rate will move in alignment with the RBI's Bank Rate."

49. When asked to give their views in this regard most of the banks agreed that investment in RIDF was not profitable after the reduction in interest rate. The Committee came to know that huge amount of shortfall was still pending with the banks because the demand to deposit the same with NABARD was not coming. A glance at the table (Annexures) will reveal that the shortfall that was to be deposited with NABARD since 1995-96, was still lying with the Banks.

RIDF-Allocation *vis-a-vis* Funds as on 31 January, 2002

(Rs. in crore)

Agency Public/Private Sector Banks	RIDF I		RIDF II		RIDF III		RIDF IV		RIDF V		RIDF VI		RIDF VII		Total	Total
	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn	Funds Allocated	Funds Drawn
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Public Sector Banks																
1. Allahabad Bank	54.84	43.482	219.31	190.74	225.00	182.88	249.46	131.59	94.31	43.87	44.19	13.62	27.43	1.49	914.54	607.67
2. Andhra Bank	0.00	0.000	77.18	67.20	0.00	0.00	0.00	0.00	0.00	0.00	10.65	3.34	41.89	2.27	129.72	72.81
3. Bank of Baroda	153.83	121.962	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	46.09	2.48	199.92	124.44
4. Bank of India	118.58	94.084	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	83.36	4.51	201.94	98.59
5. Bank of Maharashtra	33.39	26.496	0.00	0.00	7.00	5.70	0.00	0.00	30.61	14.20	55.37	17.10	71.84	3.89	198.21	67.39
6. Canara Bank	120.62	95.674	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	87.48	26.97	112.08	6.05	320.18	128.69
7. Central Bank of India	99.44	78.856	173.15	150.74	182.00	147.94	0.00	0.00	456.88	212.71	393.13	121.47	161.78	8.75	1466.38	720.46
8. Corporation Bank	22.31	17.776	0.00	0.00	37.00	30.08	0.00	0.00	212.55	98.94	173.60	53.64	122.04	6.59	567.50	207.03
9. Dena Bank	36.14	28.718	31.57	27.40	79.00	64.21	0.00	0.00	63.21	29.51	64.95	20.02	34.34	1.87	309.21	171.73
10. Indian Bank	54.93	43.630	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	54.93	43.63
11. Indian Overseas Bank	51.67	40.934	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	51.67	40.93

1		2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
12.	Oriental Bank of Commerce	40.88	32.475	0.00	0.00	0.00	0.00	0.00	0.00	167.47	77.92	170.34	52.70	96.47	5.22	475.16	168.32
13.	Punjab National Bank	140.59	26.970	130.05	0.00	314.00	34.95	0.00	0.00	447.74	28.21	0.00	0.00	254.86	2.57	1287.24	92.70
14.	Punjab & Sindh Bank	33.91	111.544	0.00	113.10	43.00	255.22	0.00	0.00	60.39	208.46	0.00	0.00	47.54	13.78	184.84	702.10
15.	State Bank of Bikaner and Jaipur	26.89	21.262	19.32	16.74	53.00	43.06	0.00	0.00	40.33	18.78	0.00	0.00	19.36	1.06	158.90	100.91
16.	State Bank of Hyderabad	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.65	4.90	18.76	5.85	0.00	0.00	29.41	10.75
17.	State Bank of India	550.54	436.804	1630.03	1418.10	1057.00	859.13	1532.20	808.00	633.46	295.06	567.81	175.39	688.68	37.18	6659.72	4029.66
18.	State Bank of Indore	17.18	13.638	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.80	3.33	0.91	0.06	28.89	17.03
19.	State Bank of Mysore	24.73	19.682	0.00	0.00	3.00	2.43	0.00	0.00	0.00	0.00	0.00	0.00	21.58	1.17	49.31	23.28
20.	State Bank of Patiala	12.42	9.836	38.67	33.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.64	0.36	57.73	43.91
21.	State Bank of Saurashtra	19.13	15.228	0.00	0.00	29.00	23.57	0.00	0.00	15.69	7.34	0.00	0.00	0.00	0.00	63.82	46.14
22.	State Bank of Travancore	5.97	4.760	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	8.70	0.46	14.67	5.22
23.	Syndicate Bank	55.27	43.788	39.56	34.37	5.00	4.07	0.00	0.00	79.40	37.00	0.00	0.00	0.00	0.00	179.23	119.22
24.	UCO Bank	50.44	39.986	98.16	85.49	61.00	49.58	7.43	3.86	93.13	43.37	252.32	78.00	366.50	19.80	928.98	320.08
25.	Union Bank of India	78.79	62.522	43.00	37.41	95.00	71.22	0.00	0.00	113.29	52.81	316.29	97.72	164.45	8.89	810.82	330.58
26.	United Bank of India	43.46	34.436	0.00	0.00	20.00	16.26	0.00	0.00	61.63	28.69	111.41	34.47	89.22	4.82	325.72	118.68
27.	Vijaya Bank	30.51	24.274	0.00	0.00	4.00	3.25	0.00	0.00	27.66	12.88	0.00	1.61	25.03	1.36	87.20	43.37
	Total	1876.46	1488.817	2500.00	2175.00	2214.00	1793.54	1789.09	943.44	2608.40	1214.66	2277.10	705.23	2490.79	134.63	15755.84	8455.32

RIDF-Allocation *vis-a-vis* Funds as on 31 January, 2002

(Rs. in crore)

Agency Public/Private Sector Banks	RIDF I Funds Allocated	RIDF I Funds Drawn	RIDF II Funds Allocated	RIDF II Funds Drawn	RIDF III Funds Allocated	RIDF III Funds Drawn	RIDF IV Funds Allocated	RIDF IV Funds Drawn	RIDF V Funds Allocated	RIDF V Funds Drawn	RIDF VI Funds Allocated	RIDF VI Funds Drawn	RIDF VII Funds Allocated	RIDF VII Funds Drawn	Total Funds Allocated	Total Funds Drawn
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Private Sector Banks																
1. Bank of Punjab Ltd.	0.00	0.000	0.00	0.00	0.00	0.00	13.15	6.98	59.42	27.72	71.06	21.97	132.48	7.16	276.11	63.83
2. Bank of Rajasthan Ltd.	8.64	6.824	0.00	0.00	55.00	44.71	42.27	22.28	0.00	0.00	68.64	21.29	35.20	1.90	209.75	96.99
3. Benaras State Bank Ltd.	1.60	1.264	0.00	0.00	12.00	8.94	13.42	7.10	0.00	0.00	0.00	0.00	2.89	0.03	29.91	17.33
4. Bharat Overseas Bank Ltd.	1.84	1.432	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.02	0.54	11.86	1.97
5. Catholic Syrian Bank Ltd.	6.28	4.918	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.76	1.40	32.04	6.32
6. Centurion Bank Ltd.	0.00	0.000	0.00	0.00	105.00	84.51	100.77	53.17	118.88	47.43	384.12	71.67	105.62	0.00	814.39	256.77
7. City Union Bank Ltd.	2.49	1.906	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	35.42	11.00	23.45	1.27	61.36	14.18
8. Development Credit Bank Ltd.	0.00	0.000	0.00	0.00	14.00	11.38	0.00	0.00	0.00	0.00	0.00	0.00	33.44	1.81	47.44	13.19
9. Dhanalakshmi Bank Ltd.	2.06	1.590	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31.23	9.61	22.76	1.25	56.05	12.45
10. Federal Bank Ltd.	14.13	11.258	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.81	0.39	20.94	11.65

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
11.	Global Trust Bank	0.00	0.000	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	84.25	25.73	74.87	3.77	159.12	29.50
12.	HDFC Bank Ltd.	0.00	0.000	0.00	0.00	0.00	0.00	0.00	0.00	6.53	3.10	30.24	9.33	19.55	1.06	56.32	13.49
13.	ICICI Bank Ltd.	5.28	4.118	0.00	0.00	0.00	0.00	22.19	11.70	115.94	53.96	199.20	61.45	83.85	4.54	426.46	135.77
14.	IDBI Bank Ltd.	0.00	0.000	0.00	0.00	54.00	43.89	26.74	14.08	0.00	0.00	29.66	9.18	23.04	1.25	133.44	68.40
15.	Indus Ind Bank Ltd.	0.00	0.000	0.00	0.00	0.00	0.00	0.00	0.00	107.54	50.04	195.57	60.34	373.52	20.17	676.63	130.55
16	Jammu & Kashmir Bank Ltd.	17.40	13.806	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	144.73	43.16	190.27	10.29	352.40	67.26
17.	Karnataka Bank Ltd.	8.12	6.498	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	63.42	19.62	37.33	2.03	108.87	28.15
18.	Karur Vysya Bank Ltd.	3.86	3.022	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	72.92	22.53	51.79	2.81	128.57	28.36
19.	Lakshmi Vilas Bank Ltd.	3.40	2.696	0.00	0.00	1.00	0.81	0.00	0.00	0.00	0.00	0.00	0.00	20.60	1.11	25.00	4.62
20.	Lord Krishna Bank Ltd.	0.96	0.790	0.00	0.00	3.00	2.43	0.00	0.00	0.00	0.00	27.71	8.63	32.09	1.73	63.76	13.58
21.	Nainital Bank Ltd.	0.72	0.642	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.74	0.03	1.46	0.67
22.	Nedungadi Bank Ltd.	2.04	1.590	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	21.04	0.00	23.08	1.59
23.	Ratnakar Bank Ltd.	0.88	0.642	0.00	0.00	4.00	3.25	9.69	5.12	8.63	4.08	9.92	3.07	12.98	0.71	46.10	16.87
24.	Sangli Bank Ltd.	3.54	2.854	0.00	0.00	2.00	1.63	0.00	0.00	19.30	8.97	38.07	11.84	37.56	2.03	100.47	27.32
25.	SBI Commercial & International Bank	0.00	0.000	0.00	0.00	0.00	0.00	18.59	9.84	13.68	6.36	57.85	17.79	25.34	1.38	115.46	35.37

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
26. South Indian Bank Ltd.	8.25	8.498	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	40.16	2.16	48.41	8.66
27. Tamilnad Mercantile Bank Ltd.	5.58	4.444	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	37.19	2.01	42.77	6.45
28. United Western Bank Ltd.	7.40	5.876	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	71.67	3.87	79.07	9.75
29. UTI Bank Ltd.	0.00	0.000	0.00	0.00	36.00	29.26	324.83	171.32	441.68	205.69	618.10	190.85	879.13	47.48	2299.74	644.60
30. Vysya Bank Ltd.	19.07	15.070	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	60.79	18.79	78.07	4.21	157.93	38.07
Total	123.54	97.738	0.00	0.00	286.00	230.80	571.65	301.56	891.60	497.35	2222.90	637.85	2509.22	128.39	6604.91	1803.69
Grand Total	2000.00	1586.555	2500.00	2175.00	2500.00	2024.34	2360.74	1245.00	3500.00	1622.01	4500.00	1343.08	5000.01	263.02	22360.75	10259.01

50. These figures show that amount of contribution to RIDF funds by banks has always been less than shortfall in their agricultural lending. When the Committee enquired NABARD about this, the representatives informed that this was due to lower intake of funds by State Governments.

51. In this regard, the Ministry informed the Committee as below:

> "As at the end of the January 2003 an aggregate amount of Rs.25983.69 crore were sanctioned to 29 States under tranches I to VII of RIDF. As per the norms fixed for availment of RIDF assistance, the States are required to approach NABARD for release of funds on phase-wise completion of the projects. Thus, as against financial phasing of RS.23561.89 crore as on 31 January 2003 under all the tranches, the disbursement was to the extent of Rs. 15371.44 crore which works out to more than 65%. While States like Andhra Pradesh, Himachal Pradesh, Punjab, Rajasthan, Tamil Nadu have been able to draw more than 70% of their financial targets, States like Bihar, Jharkhand, Manipur, Nagaland, Tripura have been able to draw to a lesser extent only. Drawal of funds mainly depends on the speed of response and implementation by respective State Governments. The State Governments are experiencing delay in implementation due to a variety of reasons viz., Delay in completion of land acquisition/ compensation formalities, delay in tendering/start up activities, change of design in work, delay in fund flow and issuance of Letter of credit by Finance Department of the State Government to Project Implementation Department, inadequate budget provision by State Governments, etc. On its part, NABARD has been impressing upon the State Governments, etc. On its part, NABARD has been impressing upon the State Governments of the need for timely completion of the projects, regular monitoring and review, holding of seminars etc. Statewise sanctions, phasing and disbursements as on 31 January, 2003 is given in table.

RIDF—Statewise allocation/sanction and disbursements
(As on 31.01.2003)

Name of State	Sanction	Phasing	Disbursement	%disbursed to sanction	%disbursed to Financial Target
1	2	3	4	5	6
Andhra Pradesh	3206.38	2906.25	2047.54	63.86	70.45
Bihar	209.82	174.89	53.35	25.43	30.50
Chhattisgarh	419.98	368.12	248.04	59.06	67.38
Goa	50.66	49.76	28.59	56.44	57.46
Gujarat	1592.45	1528.98	993.44	62.38	64.97
Haryana	695.14	593.04	347.36	49.97	58.57
Himachal Pradesh	747.82	620.66	457.37	61.16	73.69
Jammu & Kashmir	779.58	622.08	364.19	46.72	58.54
Jharkhand	214.27	214.27	2.48	1.16	1.16
Karnataka	1709.68	1622.68	999.80	58.48	61.61
Kerala	907.69	825.10	496.10	54.66	60.13
Madhya Pradesh	1830.67	1582.64	974.93	53.26	61.60
Maharashtra	2361.74	2259.56	1527.29	64.67	67.59
Orissa	1110.44	1016.64	659.67	59.41	64.89
Punjab	1073.25	940.11	679.68	63.33	72.30
Rajasthan	1529.66	1326.04	1020.00	66.68	76.92
Tamilnadu	1754.07	1569.67	1145.84	65.32	73.00
Uttar Pradesh	2621.22	2545.46	1750.91	66.80	68.79
Uttranchal	164.02	128.88	8.90	5.43	6.91
West Bengal	1977.14	1713.55	1043.67	52.79	60.91
Total	24955.68	22608.38	14849.15	59.50	65.68

1	2	3	4	5	6
NER States & Sikkim					
Arunachal Pradesh	183.01	160.17	86.84	47.45	54.22
Assam	390.87	379.42	241.54	61.80	63.66
Manipur	10.08	10.08	0.96	9.52	9.52
Meghalaya	103.67	97.35	57.22	55.19	58.78
Mizoram	67.64	67.27	42.00	62.09	62.43
Nagaland	81.06	80.96	27.86	34.37	34.41
Tripura	151.64	118.22	31.35	20.67	26.52
Sikkim	40.04	40.04	34.52	86.21	86.21
Total	1028.01	953.51	522.29	50.81	54.78
Grand Total	25983.69	23561.89	15371.44	59.16	65.24

52. During the course of oral evidence, the Governor, RBI submitted following before the Committee regarding performance of RIDF:

> "Then there is the question of operating instruments. What are the operating instruments by which RBI is trying to push the credit? So, we try a variety of things. An eighteen percent prescription was made. Then we introduced RIDF. Then, we tried to have some penalties. Some incentives and disincentives were there. But as you rightly said, all of them seem to have some purpose. They also seem to have some problems. In particular, it has been recognised that sometimes given the nature of the interest structure, the banks may find it easier and more convenient, as the Committee rightly pointed out, to deposit the money or assure that money can be given under RIDF. To an extent, even the State Governments' idea was that to the extent infrastructure is provided in the rural areas, that will improve the conditions of the farmers and thus help credit flow. But, as you said, to an extent, it is going to roads, etc. Perhaps one has to really look and see whether RIDF has to be revisited in order to ensure that credit goes somehow or the other. So, I think, certainly RIDF also requires them. Some improvements have been made. Some more review is required."

53. The RBI has provided latest information on interest structure on RIDF funds as stated below:

> "keeping in view the declining interest rates scenario and the need to further rationalise the interest rate structure under RIDF, it has been decided, with the approval of the Government of India, to restructure the lending and deposit rates in respect of the undisbursed amounts of RIDF IV to IX with effect from November 1, 2003. The revised rates are as under:

RIDF	Deposit rates payable to banks (per cent per annum)		Lending rates payable by State Government (Percent per annum)	
	Existing	Revised	Existing	Revised
IV	8	6	9	7
V	8	6	9	7
VI	8	6	9	7
VII	8	6	9	7
VIII	Linked to shortfall, varying between 8 to 5	Linked to Shortfall, Varying between The Bank rate and Bank Rate – 3 (i.e. Currently varying Between 6% and 3%)	8.5	Bank rate + 0.5 (i.e. currently 6.5%)

IX	Linked to shortfall, varying between the Bank rate + 1.5 to Bank rate 1.5 (i.e. 7.5 to 4.5 at present)	Linked to Shortfall, Varying between The Bank rate and Bank Rate – 3 (i.e. Currently varying Between 6% and 3%)	Bank rate + 2 (*% at present)	Bank Rate + 0.5 (i.e. currently 6.5%)

54. The Committee also came across with farmers in some areas who told that lack of infrastructural facilities were coming in the way of boosting agricultural growth. There were not sufficient storage, transport and marketing facilities. This forced farmers to go for distress sale of their produce which provided them with little returns.

55. RIDF fund was created to finance rural infrastructure projects undertaken by State Governments. However, as has been noted earlier, the demand for these funds by State Governments has been lower. Therefore demand for RIDF funds by NABARD has not been forthcoming leaving much of the funds with banks unused. This is explicit from the written information furnished by NABARD in this regard:

> "The amount of money allocated and deposited by public and private sector banks separately since inception of RIDF is furnished in the following table:

Public Sector Banks

(Rs crore)

RIDF Tranche	Total Allocation	Total funds drawn so far
I	1876.46	1488.82
II	2500.00	2175.00
III	2214.00	1793.54
IV	1789.09	943.44
V	2608.40	1214.66
VI	2277.10	705.23
VII	2490.79	134.63
Total	**15755.84**	**8455.32**

Private Sector Banks

(Rs crore)

RIDF Tranche	Total Allocation	Total funds drawn so far
I	123.54	97.74
II	-	-
III	286.00	230.80
IV	571.65	301.36
V	891.60	407.35

VI	2222.90	637.85
VII	2509.22	128.39
Total	**6604.91**	**1803.69**

56. On the issue of measures taken to strengthen rural infrastructure, the Ministry of Finance, in their written submission stated as below:

"Rural Infrastructure

Rural infrastructure like irrigation, roads, bridges, etc. play a critical role in accelerating the overall growth rate of agriculture and rural development. One of the basic limitations of developing the rural infrastructure, is the lack of resources with the State Governments. With a view to augmenting the resources of the State Governments for strengthening rural infrastructure, the Government of India in its Budget for 1995-96 announced the establishment of Rural Infrastructure Development Fund (RIDF) to be operationalised by NABARD. Thus, NABARD provides loans to State Governments from the RIDF for various rural infrastructure such as irrigation, rural roads and bridges, mini hydel projects, agricultural market yards, etc.

As on 31 March 2002, aggregate loan assistance sanctioned to the State Governments under RIDF-I to VII amounted to Rs. 23432.49 crore against which disbursements aggregated Rs. 20573.85 crore or around 88% of the total sanctioned amounts under RIDF I to VII. Details of irrigation, rural roads and bridges, hydel projects, etc. sanctioned and completed and the amounts involved are as follows:

Details of rural infrastructure projects sanctioned under RIDF I-VII

(Position as on 31 March 2002)

(Amount in Rs. Crore)

Nature of Infrastructure	Amount Sanctioned	Number of projects Sanctioned	Anticipated benefits
Irrigation	8332.7	165,165	Potential of 6071 million ha. Created
Rural roads	9151	35,954	119317 Kms. To be constructed
Rural bridges	3090.2	7,593	222071 mts. To be constructed

Financing Post Harvest infrastructural facilities

Apart from providing loans for rural infrastructure, loans from RIDF are also granted to the State Government for post harvest infrastructure like godowns, cold storages, etc. Further, NABARD and Ministry of Agriculture have formulated a subsidy linked scheme for construction of cold storages, onion storages and rural godowns for strengthening post harvest infrastructural facilities in rural areas thereby facilitating increased incomes and avoidance of distress sale.

Under the cold storage scheme, NABARD has so far sanctioned 472 cold storage projects for creation of capacity aggregating 22.36 lakh m.t. in 18 States. The bank loan sanctioned for the purpose was Rs. 349.52 crore against which NABARD had sanctioned refinance to the tune of Rs. 269.69 crore. As against this, 270 schemes with a total storage capacity of 11.49 lakh m.t. have been completed/commissioned. Subsidy sanctioned was Rs. 144.78 crore against which subsidy to the extent of Rs.107.98 crore has been released.

In regard to rural godowns, 406 schemes with an aggregate capacity of 30.48 lakh m.t. have been sanctioned in 7 states. Bank loan and refinance sanctioned for the purpose was Rs. 221.49 crore and Rs. 171.94 crore respectively. The amount of subsidy involved was Rs. 69.69 crore against which Rs.19.46 crore was released.

Progress under NABARD's Normal Scheme of Storage Godowns.

In addition to the above, NABARD supports the banks in financing storage godowns, market yards by individuals, cooperative, etc. NABARD has so far provided refinance to the extent of Rs. 617 crore for such purposes.

Agriculture Export Zone (AEZ)

In the Union Budget speech for the year 2001-02, the Hon'ble Finance Minister had announced formation of Agri Export Areas of different states. So far 45 zones have been identified. NABARD has identified financing of farmers in agri export zones as a thrust area for providing credit facilities. It has been decided to provide refinance to commercial banks for financing farmers for cultivation/production of identified crops/commodities in the AEZs under contract farming."

57. With regard to improvement in infrastructure facilities, the ICICI Bank suggested following:

"Infrastructure is of paramount importance for the development of agriculture. The post harvest infrastructure for agriculture produce handling, storage and transportation is poor and nearly 80% of the agriculture produce is stored in open leading to huge losses. Infrastructure development helps to improve the efficiency across agri value chain and hence any financial assistance for rural infrastructure development including rural roads, markets, silos, transport systems etc. should be classified as priority sector."

58. The representatives of Kisan Cell in their interaction with the Committee in Andhra Pradesh stressed the need for investment in storage infrastructure for finished goods especially for perishable goods.

59. While considering the Demands for Grants (2003-04), the Committee had recommended that the provision of rate of interest on RIDF should be abolished.

Responding to this the Reserve Bank of India furnished the following reply:

> "In thinking of the future policy, the interests of the public depositors of the banks concerned have also to be kept in view. Any measures need to be carefully examined for their implications on the interests of the depositors. A final view on punitive measure can be considered by RBI in consultation with IBA, in the light of the discussions and suggestions emerging from the deliberations of the Hon'ble Committee.
>
> We have taken steps to stiffen the penalty for depositing in RIDF on account of non-achievement of agricultural lending target. The rate of interest has been lowered and is charged in inverse proportion to the extent of default. We have also exercised persuasion through discussions to compel the banks to achieve the agricultural lending target."

60. In their Action Taken Reply, the Government furnished following reply in response to above recommendation of the Committee:

> "Reserve Bank of India (RBI) is monitoring the performance of banks in lending to agriculture on an on-going basis through periodic returns as well as meetings with banks at various fora. Banks which fail to achieve the target/sub-targets under priority sector lending, are advised to take necessary steps to reach the targets in a time-bound manner. Meetings were taken with the Chief Executives of public sector banks and private sector banks in September, 2002 where the performance of banks and the factors affecting the performance in lending to agriculture were discussed and the need for achievement of targets in a time bound manner was impressed on the banks. Further, banks which did not achieve the agricultural lending target as on the last reporting Friday of September, 2002 were advised to take necessary steps in this regard. The matter is being followed up with the banks.
>
> In the case of Rural Infrastructure Development Fund (RIDF) – I to VI, the rate of interest on deposits placed by banks with National Bank for Agriculture and Rural Development (NABARD) was uniform for all banks. However, with a view to bringing in an element of penalty for banks which were not reaching the agricultural lending target, effective from RIDF –VII, the rate of interest on RIDF deposits has been inversely linked to the shortfall in achieving the agricultural lending target (18%). Thus, in the case of RIDF –VIII, the interest rate on deposits ranged between 8 percent and 5 percent per annum. Banks having a larger shortfall were given interest at a lower rate and this should prove to be disincentive for banks having larger shortfalls to make deposits in RIDF and induce them to improve their agricultural lending. As regards RIDF-IX, which has been established with a corpus of Rs. 5500 crores, a similar approach would be followed."

61. Considering these observations and unsatisfied with replies, the Committee reiterated their recommendation in the Action Taken Report as follows:-

> "The Committee are not satisfied with the reply of the Government and observe with deep concern the dismal performance of the banks in regard to agricultural lending for want of any deterrent action against them. They find that almost all the banks are yet to fulfil their minimum obligations in this regard. The Committee also note that there are large variations in the lending pattern by banks in different regions. The Committee feel that this is a serious problem which should be addressed immediately by Government/RBI to ensure uniformity in lending pattern by banks. They want that Government should come forward with a concrete scheme to get it implemented. The Committee are also not convinced by the reply of the Government wherein they have stated that banks responsible for higher shortfall in agricultural lending will get lesser interest on RIDF deposits. They are of the view that it has not achieved the desired results as banks are still getting interest for under lending to agriculture Reiterating their earlier recommendation, The Committee desire that the provision of interest on RIDF funds should be dispensed with at the earliest. They further want that the agricultural sector lending by banks may be monitored periodically by Government/RBI and the results made known to the Committee quarterly."

62. When asked about monitoring mechanism at NABARD, the representative from NABARD, while deposing before the Committee during oral evidence said the following:

> "In a year we do about ten thousand field visits directly or through consultants or through other agencies to see that the money is being utilised for the same purpose for which it has been granted………….. NABARD is doing ten thousand visits to monitor all the projects sanctioned by it. Other than NABARD, State Governments are expected to strengthen their own monitoring system."

63. Regarding under utilisation of RIDF funds, by State Governments, the Secretary, Financial Sector stated following during his oral evidence:

> "In so far as its utilisation by State Governments is concerned, they also need to play their own role and use it responsibly. In case there is diversification of those resources into channels which are not desirable, then they must be also responsible for it. They also play a role. It is not ipso facto a fault of the policies. It is not the flawed policy as such, but it is the implementation which has been responsible for this kind of a situation."

64. 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.

65. 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 Demands 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.

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 31 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 tranches 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 underutilisation 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.

4. Kisan Credit Card Scheme (KCC)

67. Kisan Credit Card (KCC) Scheme which was operationalised during 1998-99 is a landmark in the history of rural credit in India. The scheme aims at improving the quality of institutional credit delivery for agricultural purposes and is an innovative attempt at further refining the crop loan system.

68. Under this scheme there is the provision of revolving cash credit facility involving any number of drawals and repayments within the limit. Farmers eligible for production credit of Rs. 5000 or more are eligible for issue of Kisan Credit Card. These cards are valid for 3 years subject to annual review and each drawal is to be repaid within 12 months. While fixing the credit limit, entire production credit needs for full year plus ancillary activities related to crop production are considered. Conversion/reschedulement of loans is also permissible in case of damage to crops due to natural calamities. The implementation of the scheme has been taken up by 27 commercial banks, 183 Central Cooperative banks and 144 Regional Rural Banks. The KCC Scheme has been refined on the basis of suggestions by R V Gupta Committee as well as High Power Committee. National Bank for Agriculture and Rural Development has also effected relaxations in the eligibility norms to cover more farmers under the scheme.

69. As per Annual Report (2001-02) of the Ministry of finance, several steps have been initiated by NABARD to ensure that the banks gear up their efforts to enhance the coverage of the scheme. Besides the need for publicity to increase the coverage, there is a need to educate the farmers to use it efficiently. All the banks have therefore been advised to intensify their efforts to generate more and more awareness about the scheme and more importantly educating the KCC cardholders on the effective use of the cash credit facility by adopting various means of publicity measures. While furnishing the details of Kisan Credit Card Scheme, the Ministry of Finance, in their written reply, stated as under:

> "Kisan Credit Card Scheme is an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle free manner. The scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs in a flexible and cost effective manner. Cumulative position of disbursements made by all the agencies under Kisan Credit Card Scheme as on 31 December, 2002 is given in Annexure.
>
> The 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. Since inception of the Scheme in 1998-99, all the agencies have issued an aggregate of 294.46 lakh cards (upto 31 December, 2002). Cooperative Banks with 185.72 lakh cards account for the largest share of about 63.1% of the total cards issued, followed by Commercial Banks with 86.11 lakh cards (29.2%) and by RRBs with 22.64 lakh cards (7.7%). A summary of year-wise progress made by various agencies is as under.

Agency-wise, year-wise no. of KC cards issued (upto 31st December, 2002)

(No. of cards in lakh)

Year	Cooperative Banks	RRBs	Commercial Banks *	Target	Total
1998-1999	1.55	0.06	4.45	-	6.06
1999-2000	35.95	1.73	13.66	50	51.34
2000-2001	56.14	6.48	23.9	75	86.52
2001-2002	54.36	8.34	30.71	100	93.41
2002-2003 (upto 31 Dec 2002)	37.72	6.03	13.39	100	57.13
Total	185.72	22.64	86.11		294.46
% share in Total	63.1%	7.7%	29.2%		100%

* CBs data upto 30 Sept. 2002

Simplified sanction procedures and documentation with a validity of 3 years at a stretch, availability of adequate credit in a timely and hassle-free manner which are the advantages of the KCC Scheme have helped the farmers in lowering their transaction costs. The loans sanctioned under KCC during the last three years are as follows:

Agency-wise/year-wise loans sanctioned under KCC Scheme (upto 31st December, 2002)

(Rs.Crore)

Year	Cooperative Banks	RRBs	Commercial Banks	Total amount Sanctioned **
1998-1999	826.10	10.68	1246.63	2083.41
1999-2000	3605.64	405.41	3537.08	7548.13
2000-2001	9411.71	1400.42	5615.23	16427.36
2001-2002	15952.17	2382.33	7523.80	25858.30
2002-2003	14497.61	2162.43	3666.35	20326.39
Total	44293.23	6361.27	21589.09	72243.59

** Data provisional

70. With regard to the time taken for the issue of KCC, the Anant Geete Committee has observed as under:

> " A maximum period of 10-15 days to be stipulated for issuance of KCC. Bank branches should indicate all the information/other requirements to the borrower in one instance. Information regarding the requirements to be fulfilled for being eligible for KCC should be displayed prominently in the bank branches. This would facilitate the farmers to fulfil the requirements to the satisfaction of bankers. Applications complete in all respects to be promptly accepted and the KCC should be issued within 10-15 days."

71. During their study visit, the Committee observed that gradually Kisan Credit Card Scheme was becoming popular. The number of KCC holders was increasing. The credit extended under the KCC scheme is fixed on the basis of operational land holding, cropping pattern and scale of finance etc.

72. During their study tour, the Committee were informed by farmers that sometimes banks take inordinate time in processing the application and issuance of KCCs. This fact was conceded by the Bankers in their interaction with the Committee. They also came to know that credit facility under KCC required a lot of paper work. This was discouraging factor. Moreover, illiterate farmers could not approach for credit under KCC on account of much documentation. In one of their replies, the RBI inter-alia stated that:

> "Incidentally, while introducing Kisan Credit Card Scheme in August 1998, banks were, inter-alia, advised that the credit limit under the card may be fixed on the basis of operational land holding, cropping pattern, scale of finance etc. Further, while fixing the annual credit card limits, operational land holding will include the leased in land."

73. RBI have further provided following information in this regard:

> "the Kisan Credit Card Scheme was introduced in August 1998 and is being administered through commercial banks, co-operative banks and regional Rural Banks. Cumulatively all public sector banks have issued 101,48,819 KCCs since inception till March 2003. Position of KCCs issued by Co-operative banks and RRBs is being monitored by NABARD. For the purpose of fixation of Kisan Credit Card Limits, operational Land holdings include the leased land."
>
> In pursuance of the Union Finance Minister's announcement in his budget Speech for the year 2001-02, banks have been asked to provide personal insurance package to the KCC holders, as is often done with other credit cards, to cover them against accidental death or permanent disability, up to maximum amount of Rs. 50,000/ and Rs. 25,000/- respectively.

As announced by the Union Finance Minister in his Budget Speech for the year 2001-02 as also by the Hon'ble Prime Minister in his Independence Day (2002) Address, all eligible agricultural farmers are required to be covered under the KCC Scheme by March 2004."

74. Regarding total number of beneficiaries of Kisan Credit Cards as at present including those working on leased land the Ministry provided following information:

Agency- wise, year – wise number of Kisan Credit Cards (KCC) issued upto 31 march 2003 is as under:

(Number of Cards in lakh)

Year	Cooperative Banks	RRBs	Commercial Banks	Total
1998-99	1.55	0.06	4.45	6.06
1999-00	35.95	1.73	13.66	51.34
2000-01	56.14	6.48	23.9	86.52
2001-02	54.36	8.34	30.71	93.41
2002-03	45.79	9.64	26.81	82.24
Total	193.79	26.25	99.53	319.57
% Share in total	61.0%	8.0%	31.0%	100%

75. During oral evidence while discussing the effectiveness of Kissan Credit Card Scheme, the representative from Ministry of Finance stated as under:

"The Government itself feels that it is necessary to evaluate as to how this scheme is performing, whether it is effective as it was envisaged, whether it is effective as it was envisaged, whether there are certain deficiencies and how it can be improved. Therefore, the National Council of Applied Economic Research has been engaged to undertake a study by the RBI to see how effective it is, what the deficiencies are and how we can make the whole system more effective. The essential concept as you know was that the paper work can be reduced and there can be easy access to credits. To some extent, this has been successful. But we need to improve upon it."

76. 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 31.0%, 61.0% and 8.0%. 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.

77. 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.

5. Gold Loans

78. The countrywide study visit of the Committee enabled them to get acquainted with many other problems that the farmers were facing in various areas and regions. For instance, in some of the States, particularly in southern parts of the country, the farmers are provided loans against the pledge of gold. The major problem faced by the farmers in respect of gold loans was that of lack of nomination facility. The farmers could not nominate successor to deal with any untoward incident. This restricted the scope of Gold loans.

79. In this connection, the Committee were informed that some of the Banks had the provision of gold loans. However, there was no system prevailing in the Bank for appointing nominee in this regard. On the issue of unclaimed gold deposited with the Bank without nomination against loan, the Committee were told that the Bank were not allowing the gold loans to continue for long and taking appropriate steps for liquidating the loans. If any borrower dies, immediately steps were initiated to contact legal heirs for recovery of loans and settling the claim. Moreover there were some operational problems like valuation.

80. When asked to furnish a brief note on gold loans, the Ministry of Finance stated:

" Advances against gold ornaments and other jewellery.

(i) The banks should ascertain the purpose, genuineness of the credit needs of the borrower and ensure the end-use of funds while granting advances against gold ornaments and other jewellery.

(ii) When the gold ornaments and jewellery are accepted as security for agricultural advances, the under noted criteria should be satisfied.

(a) The borrower should be an agriculturist.
(b) The interest rate should be as per the directives on interest rate issued by the Reserve Bank of India.
(c) The amount of loan is fixed according to the prescribed scale of finance for agricultural loans.
(d) Seasonalities observed in regard to both disbursement and recovery.

(iii) Where gold ornaments and jewellery are accepted as security for other priority sector advances e.g. advances granted to artisans, the conditions for classification of advances as in the case of agricultural loans would apply mutatis mutandis to other borrowers in the priority sector.

(iv) Advances against gold ornaments upto Rs. 2,000/- could be sanctioned by the banks as pure consumption loans (based on Sivaraman Committee Report), e.g. to meet medical expenses, educational needs, marriage ceremonies, etc.

(v) In the case of advances against the Security of gold ornaments and other jewellery other than to priority sector borrowers for purposes like meeting unforeseen liabilities, medical treatment, etc. the banks should with the approval of the Board of Directors stipulate such ceiling as may be considered appropriate.

Advances against bullion/primary gold

Banks are not permitted to grant advances against bullion/primary gold.

RBI has issued a circular to banks on January 01, 2002 in the matter of release of assets (including securities held against advances after adjustment) to the survivors/claimants of deceased customers, 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 the genuineness of the claimants being the only legal heir/s of the customer.

In case the above safeguards are not available, banks may call for succession certificates from legal heirs of deceased customers."

81. Regarding the issue of nomination facility on gold loans, Syndicate Bank have suggested following in their written submission:

"A nominee gives a valid discharge in respect of settlement of deposit accounts. However in redeeming pledged goods, there is no provision in law for a nominee. In the event we accept a nominee under pledge loans, like jewel loans, then the nominee will redeem the jewels on the demise of the pledgor, in which case nomination tantamount to a will which may not be acceptable in law.

What is required is a legislation providing for nomination facility in jewel loans, which will mitigate the hardship experienced by the poor people."

82. In this regard, the Canara Bank have put forward their suggestion as below:

"As per the Banking Company (Nomination) Rules, 1985 (which forms part of the Banking Regulation Act) nomination facility is available only for;

1. Deposit accounts
2. Articles in safe deposit lockers/safe custody articles.

If this facility is extended to gold jewellery pledged under gold loans, it will be helpful to customers of the bank. For this purpose, appropriate legislative amendments are required. Section 45 of Banking Regulation Act will have to be amended to include claims in respect of Gold Loans also."

83. When asked about the nomination facility, the RBI furnished following reply:

> " 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 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.
>
> 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 the 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."

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 fulfilment 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 to 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.

6. Self Help Groups

85. The operation of self help groups have helped in disbursing credit to poor farmers who, otherwise, do not have capacity to access institutional finance. The Self Help Groups are self reliant autonomous local financial intermediaries. Ninety percent of the members of these SHGs are women. The SHGs mobilize their own savings, transform them into loans to members and plough their earnings from interest income back into equity. On that basis, SHGs and banks enter into commercial relations of mutual benefit, with low bank and client transaction costs and negligible risks. In the absence of interest rate restrictions and with repayment rates greater than 99%, SHG banking is highly profitable – a message that has convinced hesitant bank managers in increasing members. SHGs are now forming local networks with their own cooperative financial institutions . The program has turned into a social movement, with high expansion rates in recent years.

86. With regard to the role of SHGs in agricultural financing, the Ministry of Finance, furnished following reply:

> "The focus under the micro Finance initiatives is largely on those rural poor and especially women who have had no access to the formal banking system. The target group would broadly comprise small and marginal farmers, agricultural and non-agricultural labourers, artisans and craftsmen and other poor engaged in small businesses like vending, hawking, etc.
>
> Self Help Groups (SHGs) of 10 to 20 persons are formed and nurtured by an NGO or a bank branch or a government agency called a Self Help Promoting Institution (SHPI).The members are encouraged to regular thrift on a weekly or fortnightly basis and use the pooled thrift to give interest bearing small loans to needy members. The SHPI trains the members to maintain simple accounts of the collected thrift and loans given to members. The regular meetings also provide a platform to discuss and resolve many social and common issues, thus fortifying their togetherness. A savings bank account is opened with a bank branch and regular thrift collection and loaning to members build up the financial discipline among the members to encourage the bank to provide larger loans to the group.
>
> Thus the SHG formation helps them access to the banking system for loans effectively through the SHG Bank Linkage Approach. The groups are encouraged to choose their own leader, take their own decisions in regard to their choice of business, repayments, maintenance of account, etc. Thus, in a way SHG formation has other spin offs like empowerment, confidence in own abilities, etc. apart from easier access to bank funds.
>
> The SHG Bank Linkage Programme has a wide acceptance in the southern states and has picked great momentum in Andhra Pradesh.

It is not so widely spread in other parts of the country. However, in the last two years it has been growing fast in the northern and eastern parts of the country. Similarly the acceptance of the programme by banks initially was slow. But banks have taken keen interest after realising the benefits of he programme and are supporting the same in a major way. The specific strategy for upscaling the SHG Bank Linkage Programme and to keep up the pace of rapid growth uniformly in all parts of the country is as follows:

- Focus on backward districts identified by the Planning Commission and the Ministry of Social Justice and Empowerment.
- Intensive focus on identified potential districts and enlarging the partner spread.
- Awareness building and identification of NGOs and other partners.
- Organising direct training for staff of banks/NGOs for field level functionaries.
- Providing training inputs on SHG financing for internalising training at banks' level.
- Providing technical support to banks to evolve suitable intermediate structures into VVV/Farmers' clubs to increase the outreach of the branches in promotion and linking of SHGs.
- Encouraging and supporting innovations such as banks, especially the Regional Rural Banks and Cooperatives, to take on the role of Self Help Promoting Institutions.
- Associating Panchayati Raj Institutions (PRIs) in adopting group processes for maximising of empowerment.
- Support SHG Federations.
- Encouraging NGO Networking.
- Setting up of a micro finance Development Fund for meeting the promotional costs."

87. Region/State-wise data regarding comparative agency –wise performance in respect of SHG bank linkage programme is furnished in table below:

SHG-Bank Linkage – Agency –wise Cumulative Participation upto 31 March 2003

(Rs. million)

No.	Region/state	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
		No.of SHGs	Bank Loan	No.of SHGs	Bank Loan	No.of SHGs	Bank Loan	No.of SHGs	Bank Loan
A.	**Northern Region**								
1.	Haryana	359	26.56	1,165	42.88			1,524	69.44
2	Himachal Pradesh	3451	45.10	1,365	24.16	4,059	101.47	8,875	170.73
3	Punjab	330	15.30	141	11.13	371	13.57	842	40.00
4	Jammu & Kashmir	405	7.53	315	5.52	168	11.49	888	24.54
5	Rajasthan	8807	161.06	11,526	247.50	2,409	54.00	22,742	462.56

6	New Delhi	52	4.02					52	4.02
	Sub Total	13404	259.57	14,512	331.19	7,007	180.53	34,923	771.29

B. North Eastern Region

7.	Assam	282	2.82	3,158	41.91	37	0.77	3,477	45.50
8	Manipur	162	4.81					162	4.81
9	Meghalaya	62	5.48	117	0.31			179	5.79
10	Sikkim	24	0.66					24	0.66
11	Tripura	2	0.16	96	0.74	6	0.08	104	0.98
12	Nagaland			15	0.58			15	0.58
13	Arunachal pradesh	108	2.00					108	2.00
	Sub Total	640	15.93	3,386	43.54	43	0.85	4,069	60.32

C. Eastern Region

14	Bihar	2,873	43.99	5,197	72.96	91	3.95	8,161	120.90
15	Jharkhand	4,518	195.44	3,247	71.39			7,765	266.83
16	Orissa	12,451	126.81	24,621	317.73	5,200	65.86	42,272	510.40
17	West Bengal	7,731	58.45	8,287	102.17	16,629	143.99	32,647	304.61
18	A &N Islands (UT)					48	1.60	48	1.60
	Sub Total	27,573	424.69	41,352	564.25	21,968	215.40	90,893	1,204.34

D. Central Region

19	Madhya pradesh	5,054	129.74	8,326	136.35	1,891	41.36	15,271	307.45
20	Chhatisgarh	565	4.40	4,286	37.54	1,912	11.88	6,763	53.82
21	Uttar pradesh	17,151	133.46	35,644	731.15	901	10.03	53,969	874.64
22	Uttaranchal	4,780	173.69	811	31.81	262	6.05	5,853	211.55
	Sub Total	27,550	441.29	49,067	936.85	4,966	69.32	81,583	1,447.46

E. Western Region

23	Goa	194	8.21			46	3.17	240	11.38
24	Gujarat	8,535	94.48	4,120	53.03	1,220	13.21	13,875	160.72
25	Maharashtra	14,989	413031	9,339	203.92	3,737	79.79	28,065	697.02
		23,718	516.00	13,459	256.95	5,003	96.17	42,180	869.12

F. Southern Region

26	Andhra pradesh	174,992	6,341.10	99,558	3,221.86	6,788	190.91	281,338	9,753.87
27	Karnataka	23,680	438.00	21,929	604.83	16,569	397.31	62,178	1,440.14
28	Kerala	14,068	402.75	4,218	90.66	2,726	151.46	21,012	644.87
29	Tamil nadu	55,436	2,655.76	29,859	1,221.67	13,889	417.93	99,184	4,295.36
	Sub Total	268,176	9,837.61	155,564	5,139.02	39,972	1,157.61	463,712	16,134.24
	Grand Total	361,061	11,495.09	277,340	7,271.80	78,959	1,719.88	717,360	20,486.70

88. While furnishing information on total number of Self Help Groups being financed by various institutions and their performance, the Ministry stated as under:

The comparative agency-wise performance in respect of Self-Help Group (SHG)-under bank linkage scheme across the country as on March 31, 2002 has been as under:

Agency	SHGs		Bank Loan(Rs. in crore)	
	No.	% to the total	No.	% to the total
Commercial Banks	3,61,061	50	1149.50	56
RRBs	2,77,340	39	727.20	36
Cooperatives	78,959	11	172.00	8
Total	7,17,360		2048.70	

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 percent 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.

7. Cooperative Banks

90. Cooperative credit institutions occupy an important position in the financial system of the economy in terms of their reach, volume of operations and the purpose they serve. Rural cooperative banks play a pivotal role in the rural credit delivery system with credit cooperatives forming almost 70 per cent of the rural credit outlets. Rural cooperative banks account for around 30 per cent of rural deposits and 44 percent of the outstanding loans and advances of the banking system for agriculture and rural development. About 55 per cent of the short term production loans for the agriculture sector come from cooperative credit institutions.

91. The Cooperative banking system in India is structured as follows:-

The urban areas are served by the Primary (Urban) Co-operative Banks (PCBs/UCBs) which includes salary earners' banks, whereas the rural areas are largely served by two sets of institutions dispensing short-term and long-term credit, respectively. The former group has a three tier structure with the State Co-operative Banks (StCBs) at the apex level, the District Central Co-operatve Banks (CCBs) at the intermediate level and the Primary Agricultural Credit Societies (PACs) at the grass root level. Under the long-term credit structure, State Co-operative Agriculture and Rural Development Banks (SCARDBs) are at the apex level and the Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are at the base level.

92. As per information available, the rate of interest being charged by the cooperative banks under crop loans in certain major states is as follows:

Name	Rates of interest charged (Range) (% per annum)		
	By Cooperatives		
	SCB to DCCB	DCCB to PACS	PACS to members
	2002-03	2002-03	2002-03
Tamil Nadu	6.25	9 – 10	12 – 16
Orissa	6.5 – 8.5	10.5 –12	14 – 15.5
Madhya Pradesh	6.5 - 8.0	11 – 12.5	14 – 18
Uttar Pradesh	5.5 – 7.75	10	12 – 14.5
Maharashtra	8 – 9	9 – 12.5	12 – 17
Harayana	7.5	10.5	13 – 14
Punjab	5.5 – 7	10.25	13.5
Gujarat	7.5 – 9.5	10.5 – 12	12.5 – 16.5
A.P	6.5 – 7.5	9.75	12

Thus it may be observed from the above that as against interest

> rates on NABARD refinance ranging between 5.5% p.a. to 6.75 p.a., the rates of interest charged by cooperative to the ultimate borrowers in the above mentioned states ranges between 12% to 18% p.a. because of high administrative and other costs at multiple levels involved in the credit delivery by State Government institutions.
>
> Despite the freedom given to cooperative banks in fixing the lending rates, it has been the endeavour of NABARD that the banks appreciate in proper perspective, the spirit and objective behind the discretion given to them by the RBI in the matter of fixing interest rates. In pursuance of this, a circular dated 19 July, 2001 was addressed by NABARD to all SCBs and DCCBs advising them that it has to be ensured that farmers do not perceive the cooperative credit as very expensive."

93. Responding to a query on rate of interest charged by Cooperative Banks, the Ministry furnished following information, in their written reply:

> "The Cooperative Banks have been empowered to decide the rates of interest to be charged to their customers irrespective of the size of the loan. In practice, the cooperative banks like the other banks have fixed the interest on slab basis which is uniform for all sectors. As per the Geete Committee, the Cooperative 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%.
>
> The Committee observed that in general, the rates of interest charged by the Cooperative Banks were higher than that charged by the RRBs and Commercial Banks. The interest rates can be reduced through reduction in the cost of raising funds by mobilising low cost deposits, reducing transaction costs, improving recoveries and mitigating risks, etc.
>
> The limited resource base of cooperative banks inevitably lead to low level of business notwithstanding the continuously increasing demand for credit. Therefore, the resource base has to be strengthened through infusion of capital, mobilisation of deposits through attractive deposit schemes, removing the restrictive provisions of State Cooperative Acts/Bye-laws, appropriate funds management and further augmenting the resources through improved recoveries for recycling of the funds. The operation of the banks needs to be professionalised and made accountable to meet the challenge of external environment. The overlapping control which restricts the operational freedom and functional autonomy needs to be removed."

94. When asked about the excess of rate of interest charged by Cooperative Banks over those of NABARD, the RBI submitted following reply:

> "Rate of interest charged on short term (Seasonal Agricultural Operations – SAO) refinance provided by NABARD to Cooperative Banks

Sl. No.	Percentage of SCB's average Borrowings from NABARD under SAO To DCCBs' average loans outstanding Against PACS	Rate of Interest (%p.a.) prior to 1.7.2003	Rate of interest (% p.a.) w.e.f. 1.7.2003
1.	Less than 35	5.50	5.50
2.	35 and above, but below 40	6.00	6.00
3.	40 and above but below 45	6.50	6.25
4.	45 and above	7.00	

During 2001-02, 68% of the refinance provided by NABARD to the cooperative banks under SAO was at rates equal to or lower than the borrowing rate payable by NABARD to RBI at 6% p.a. Again of this 68%, 45% of the refinance provided by NABARD to the cooperative banks was at an interest rate of 5.50% p.a. which is 0.50% lower than the borrowing rate of NABARD under GLC."

95. On being asked about penal rate being charged by cooperative banks from farmers on overdue accounts, the Ministry provided following information:

"Additional interest rates (penal interest) charged on overdue loans (over and above the normal rates) by the cooperative banks in 13 states as in the month of July 2003 are given below:

(percentage per annum)

State	**Penal interest charged**
Maharashtra	2%
Tamil Nadu	1%
Uttar Pradesh	1% above for short term and 2% above for long term loans
Haryana	3%
Punjab	1.5%
Karnataka	2%-3% above for short term and 2% for long term loans
Jammu & Kashmir	1%-2% for short term loans and 1.5%-3% on long term loans
Kerala	2% for short term loans and 2.5% for long term loans
Himachal Pradesh	1%-2% on short term loans
Andhra Pradesh	0.75%
Madhya Pradesh	1% for short term and 2.5% on long term loans
Goa	2% for short term
Rajasthan	3 to 5% for short term and 3% for long term

96. Pointing out the lacunae in grant of loans by cooperative banks, the Ministry further stated:

- In many states case by case approval of crop loans issued by PACS are required to be obtained even when PACS disbursed loans from their own deposit resources
- Sizeable amount of loans are of poor quality often granted without proper appraisal.
- Further, a sizeable amount of the lending portfolio have a high level of non-performing assets (NPAs) / mounting overdues.
- In majority of the cases, there are high transaction costs for the banks with low financial margins.
- Inadequate internal checks and control systems lead to occurrence of frauds, misappropriation etc.
- Non adherence of income recognition and asset classification norms, prudential norms of exposure and credit risk management especially those related to marketing processing and non farm sector units.
- Manuals on credit appraisal, credit risk management, accountability and responsibility, control and supervision, etc. have neither been properly developed nor been updated. "

97. Regarding revitalisation of cooperatives, the Ministry submitted following information:

> " On 9 April, 1999 Government of India had constituted a 'Task Force to study the functioning of Co-operative Credit System and Suggest Measures for its Strengthening', under the Chairmanship of Shri Jagdish Capoor, the then Dy. Governor of RBI. To further suggest detailed modalities for revitalisation assistance, as envisaged in the 'Capoor Committee' Report (July 2000), the Government appointed, in September, 2001, a 'Joint Committee on Revitalisation Support to Co-operative Credit Structure' under the Chairmanship of Shri Balasaheb Vikhe Patil, the then Hon'ble Minister of State for Finance. This Committee, in its Report (December, 2001) had made specific recommendations regarding sharing pattern of assistance between Government of India and States; the funding and accounting mechanisms of the assistance and other related issues. In the Budget for 2002-03, an initial allocation of Rs. 100 crore, towards GOI's share of revitalisation assistance has been made.
>
> As envisaged in the Joint Committee Report, the revitalisation assistance should be linked to certain reforms, to be carried out by the State Governments, which include, (a) adoption of essential features of Model Cooperative Societies Act, particularly removal of duality of control between State Governments and RBI/NABARD; (b) autonomy to Coop Credit Institutions; (c) regular conduct of elections; (d) audit of SCB/DCCB/SCARDB by Chartered Accountants and freedom of PACS for this purpose; (e) professionalisation of management (f) transparent HRD policies and (g) abolition of common cadre system of PACS' secretaries etc.
>
> A draft Scheme on Revitalisation of cooperative credit structure based on Capoor Committee and Joint Committee recommendations has been prepared and the scheme is awaiting the approval of the competent authority."

98. The Ministry has provided following further information in this regard :

> "The Recommendations of the Jagdish Capoor Task Force and the Joint Committee under the chairmanship of Shri Balasaheb Vikhe Patil, former Union Minister for Finance have been considered by the Government and a Scheme for revitalization of Cooperative Credit Structure is being finalized shortly. The modalities of financing the scheme was discussed by Government in a meeting held on 27-8-2003 and Reserve Bank of India and National Bank for Agriculture and Rural Development (NABARD) are finalizing the Scheme in consultation with the concerned agencies. On receipt of the Scheme from RBI, approval of the competent authority would be obtained at the earliest."

99. To improve the performance of cooperative Banks Shri T.D. Janardhan Rao, Chairman APCOB in his written submission put forth the following suggestions:-

(i) Recapitalisation measures to Coops should be taken up immediately and immediate implementation of Jagdish Capoor Task Force Recommendations might be taken up.
(ii) Reduction in interest rates of refinance by NABARD to Coop Banks.

(iii) Exemption to Cooperatives from Income Tax Act.
(iv) Automation of Coop, Credit Institutions - Need to provide assistance from GOI
(v) Scheduled Status to SCBs and DCCBs.
(vi) Licensing of SCBs and DCCBs – Need to review the existing norms."

100. In their written reply, the RBI provided following information on percentage of recovery to demand in case of Cooperative Banks:

"the percentage of recovery to demand for Cooperative Banks during 1999 to 2001 is as follows:

Agency	Percentage of recovery to demand (position as on June)		
	1999	2000	2001
SCBs	81	83	84
DCCBs	70	69	67
PACS	NA	NA	NA
SCARDBs	62	62	58
PCARDBs	60	58	53

Measures taken for improvement in recovery:

NABARD has been consistently sensitising the cooperative banks and the State Governments regarding the need to ensure healthy banking practices, quality of lending and conducive repayment climate. With a view to boost the recovery climate further, NABARD has taken following initiatives:

- While NABARD has switched over to the NPA related norms in respect of commercial banks, from 2000-01, it intends to switchover to NPA recovery norms in respect of cooperative banks and RRBs in future.
- NABARD charges penal interest on the amount defaulted by cooperative banks to induce them to ensure high level of recovery and satisfactory repayment of dues therefrom to NABARD.
- Every year, NABARD issues DO letters to the State Governments providing analysis of the operations of the cooperative institutions in the respective state and insisting on appropriate measures to ensure satisfactory recovery level through government support and monitoring.
- In annual discussions with the State Governments, Chairman/ Managing Director of NABARD takes up the various issues with the concerned government and impresses upon them the need for creating conducive repayment climate for the benefit of cooperatives.

Further, the NABARD Act, 1981 has been amended to enable NABARD to provide refinance directly to DCCBs, thereby reducing one tier in the system. This is expected to reduce the interest rate charged to the ultimate borrower."

101. Recapitulating the recent measures and problems confronted by RBI in reducing interest charged by Cooperative Banks, the Deputy Governor, RBI submitted following before the Committee, during oral evidence:

"Firstly a very important and a major step was recently taken to reduce the ultimate cost to the borrowers vis-à-vis the cooperative sector. The main point was that the interest rates in the cooperative sector to the ultimate agriculturists are not coming down, while as you said, the industrialists and others are getting money at a very cheap rate. So, very recently, in the Parliament, amendments to the NABARD Act had been brought. They have been approved by both the Houses of Parliament, and President's Assent had since been received. Now NABARD can directly refinance, the District Cooperative Banks, provided such of those State Governments are willing to participate in this on a voluntary basis. In such case, the transmission of funds from the Apex Cooperative Banks will save the spread and administrative cost of about 2 percent to 3 percent.

NABARD has been consistently giving refinance at the average rate of 5.25 percent to about 6 to 6.50 percent. That is the range in which we have been providing refinance to the various State Cooperative Apex Banks. But by the time it comes down finally to the PACS to the agriculturists, that rate is getting translated into 13 percent or 14 percent. This is one aspect on which NABARD has taken a very concrete action.

Secondly, following the Budget Speech of the Finance Minister this year, the maximum lending rates up to this particular has been defined as 2 percent on either side of PLR. So, it should not exceed 2 percent either side of the PLR. Many of the banks have correspondingly brought down their rates for lending to agriculture, and some of the banks could be lending at 8.75 percent. That is a major and significant improvement that is happening in the commercial banks. But I must regret to say that as far as cooperative sector is concerned, they are very unhappy with this legislation that has just gone through. In fact, they say they cannot lend it at anything less than 13 percent or 14 percent. This is the problem that we are confronting.

102. 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 5.5% 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.

103. 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-operative 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.

104. 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 opine 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.

8. Regional Rural Banks (RRBs)

105. The Regional Rural Banks (RRBs) were set up under RRBs Act, 1976 with the following objectives:

- to take banking services to the door steps of rural masses, particularly, in hitherto unbanked rural areas.
- To make institutional credit available to the weaker sections of the society.
- To mobilise rural savings and channelise them for supporting productive activities in rural areas.
- To create a supplementary channel for flow of credit from the central money markets to the rural areas through refinance.
- To generate employment opportunities in rural areas.
- To bring down the cost of purveying credit in rural areas.

106. There are at present 196 RRBs with a network of 14390 branches in the country. RRBs are jointly owned by the GOI, the State Government and the sponsor bank holding shares in the ratio of 50:15:35 respectively. The Authorised Capital of each RRB is Rs 5 crore and the issued capital is Rs 1 crore each. As on 31 March, 2002, Share Capital, Share Capital Deposit, Reserves and Borrowings of RRBs stood at Rs. 195.81; Rs. 2080.62 crore, Rs 1782.40 crore and Rs. 4524. 37 crore, respectively. Deposits outstanding as on 31 March, 2002 was to the extent of Rs. 44539 crore covering over 5 crore deposit accounts. During 2001-02, as many as 167 RRBs earned profit of Rs. 699.92 crore as against 32 RRBs earning profit of Rs. 29 crore during 1994-95. On the other hand, during the same period, the total losses incurred by the loss-incurring RRBs declined from Rs. 423 crore (164 RRBs) to Rs. 92.05 crore (29 RRBs). The viability-based categorisation of RRBs as on 31 March, 2002 shows that of the 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 total loans disbursed by RRBs have increased from Rs. 1440 crore in 1993-94 to Rs. 10571 crore in 2001-02. The total advances outstanding of RRBs which stood at Rs. 5253 crore as on 31 March 1994 increased to Rs. 18629 crore as on 31 March 2002. The recovery performance of RRBs has shown improvement from around 40 % in 1991-

92 to 70.5% during the year 2001-02. The gross NPAs levels have also been declining and as against 43% of the gross advances as on 31 March 1996 it stood at 16.44% as on 31 March, 2002.

107. Listing out the factors, that have affected the growth of RRBs, the Ministry of Finance in their written reply stated as under:

"The major issues that have affected the growth of RRBs are:-

- Under-capitalisation when reviewed in relation to business size.
- High degree of covariant risk exposures on account of a limited area of operation and a narrow band of business activities.
- The limited geographical coverage affecting viability on account of small scale operations.
- The RRBs do not have adequate integration with the financial markets of the country and for every financial/business initiative they are heavily dependent on sponsor banks.
- Low quality loans portfolio, stemming high level of exposure to loans under government programmes and inadequate appraisal capacity.
- High cost of staff and comparatively low productivity.

108. In their written reply, the Ministry stated following measures:

Policy measures

- Bank-specific development action plans (DAPs) have been prepared for improving the performance of RRBs in a specified time frame. For ensuring performance according to these plans, RRBs are required to sign memorandum of understanding (MOU) with their sponsor banks on an annual basis
- Prudential exposure limits have been fixed on RRBs' loans to individual borrowers and group of borrowers.
- Income recognition and asset classification norms have been introduced from 1995-96 and provisioning norms from the year 1996-97.
- The interest rate structure has been completely deregulated.
- RRBs, on selective basis, have been permitted to collect deposits from Non Resident Indians.
- One time settlement scheme had been introduced to reduce NPAs in the year 2001-02.
- RRBs have been encouraged to adopt Self Help Group approach for channeling credit to the poor. RRBs have also introduced Kisan Credit Cards for facilitating adequate and timely credit to the farming community.
- A non-conventional Human Resources intervention was launched known as Organisational Development initiatives to bring about an attitudinal re-orientation in the mindset of RRB employees to improve their motivation level.

Structural measures

1. RRBs have been permitted to relocate their loss making branches to better business location/centres.
2. The composition of the Board has been broad based with a view to introducing professionalism in the RRBs.
3. Sponsor banks have been entrusted with full managerial and operational responsibilities and RBI and NABARD will deal with matters of regulatory and supervisory nature only, besides, monitoring the performance of RRBs

.

Financial Measures

1. The paid up share capital of all RRBs have been raised from Rs. 50/75 lakh to Rs. 1 crore each.
2. As a part of the restructuring exercise, a Recapitalisation Programme has been undertaken, under which 187 RRBs have been provided financial support to the extent of Rs. 2188.44 crore in six phases.
3. RRBs permitted to issue bank guarantees, purchase/discount of Demand Drafts and Cheques, issue Rupee Traveller's cheques, drafts and Money Transfers, provide locker facilities etc."

109. While furnishing information on rate of interest charged by RRBs, the RBI stated following in their written reply:

Purpose	Rate of interest (% p.a.)	
	Prior to 1.7.2003	w.e.f. 1.7.2003
ST (SAO)	7%	6.75%

110. As per information, the rate of interest being charged by the RRBs under crop loans in certain loans in certain major states is as follows:

Name	Rates of interest charged (Range) (% per annum)
	SAO
Tamil Nadu	13.5-17
Orissa	12 – 14.5
Madhya Pradesh	NA
Uttar Pradesh	11 - 16.5
Maharashtra	NA
Harayana	12 – 14.5
Punjab	12 – 15
Gujarat	11.5 – 16.5
A.P	13 – 17

111. Thus it may be observed from the above that as against interest rates

on NABARD refinance ranging between 5.5% p.a. to 6.75% p.a., the rates of interest charged by RRBs ranges between 11% to 17% p.a.

112. Replying to a query on relaxation given to RRBs in terms of non priority sector lending and investment in order to restore their viability and sustainability, the RBI stated in their written reply, as follows:

> "Earlier, the RRBs were permitted to finance the non-target group borrowers to the extent of 40% in the first step and subsequently upto 60% so as to enhance the profitability and viability of these institutions. On a review it was decided that from the financial year beginning 1st April, 1997, the advances. Within the overall target of 40%, the advances granted by RRBs to weaker sections of society should constitute 25% of the priority sector advances (10% of total outstanding advances). The RRBs were thus brought at par with commercial banks in so far as the lending to priority sector is concerned. This was reviewed in 2002-03 and the target for lending to priority sector was enhanced to 60% of their outstanding advances with a sub-target of outstanding advance, to weaker sections of the society.
>
> The basic objectives of RRBs remains unchanged as provided in the Regional Rural Banks Act, 1976. With the increase in target for priority sector lending from 40% to 60% and sub-target for weaker section from 10% to 15%, a greater focus has been laid on rural lending in general and weaker section of the society in particular. The loans disbursed by RRBs increased from Rs. 8823 crore in the year 2000-01 to Rs. 10571 crore in the year 2001-02 registering a growth of 19.80%.
>
> The performance of RRBs in regard to disbursement of rural credit could be further improved by issuance of more Kisan Credit Cards and promoting and financing more Self Help Groups in their area of operations. Sponsor banks have an important role to play in this effort."

113. Regarding measures for effecting attitudinal and functional changes to bring about improved credit disbursement by RRBs, the RBI furnished following reply:

> " In order to bring about attitudinal and functional changes in the RRBs, following measures have been taken:
>
> - The organisational Development Intervention Programme has been carried out in a large number of RRBs by NABARD to bring about attitudinal changes in the mindset of the staff of RRBs and create ownership of the organisation among the staff.
> - In order to improve the performance of loss incurring RRBs, sponsor banks have been advised to evolve Strategic Action Plans to achieve turnaround in a definite time frame.
> - Racapitalisation support by the stakeholders to the extent of Rs. 2188 crore was sanctioned to 187 RRBs by GOI.
>
> Besides, some other policy measures such investment avenues on par with commercial banks, lending to priority sectors to the extent of 60 % of their outstanding loans, enhancement in the per borrower housing loan

limit (Rs. 10 lakh), introduction of prudential norms and other various measures have been introduced to improve the lending as well as functioning of RRBs."

114. On the issue of recovery of loans, in case of RRBs, the RBI stated in their written reply as under:

"The percentage of recovery to demand for RRBs during 1999 to 2001 is as follows:

Agency	Percentage of recovery to demand (position as on June)		
	1999	2000	2001
RRBs	64	68	71

Measures taken for improvement in recovery:

As a part of NPA management, recovery of NPA dues from borrowers is accorded top priority by RRBs as it helps the banks to recycle the funds for providing further credit for development of rural economy. In order to improve further the recovery performance of RRBs, following measures may be emphasised:

- Formulation of transparent recovery policy indicating role of branch managers/field officers/HO officials.
- Recovery through courts and existing legal system in chronic/wilful cases.
- Recovery with the help of government machinery, district administration particularly under government, sponsored programme.
- Introduction of One Time Settlement Scheme for chronic NPAs.
- Approaching Lok Adalat for compromise settlement for recovery of chronic overdues.
- Involvement of NGOs and Self Help Groups.
- Recovery through compromise settlement on case-to-case basis in respect of sticky advances.
- Tie up with other agencies (Sugar factories, Milk Societies) for recovery of loans.
- Introduction of package of incentives for regular and prompt payment of dues.

Non-performing assets are a major problem in these institutions. This increase the effective cost of lending substantially. State Governments and banks have to take further measures and necessary authority should be accorded to them in this regard. "

115. The recommendations of the Working Group headed by Shri M.V.S. Chalapathi Rao constituted to suggest amendments in the RRB Act, 1976 as furnished by RBI in their written submission are as below:-

"i) Change in Capital Structure and Ownership Pattern of RRBs: RRBs categorized into four categories on the basis of their financial strength.

ii) Structural Consolidation of Regional Rural Banks by way of amalgamation of Socio-economic Zone basis as per the requirements, not as a general rule but a national view to be taken as against the isolated instances. NABARD to initiate a dialogue with sponsor banks to encourage amalgamation of their weaker RRBs with stronger ones.

iii) The number of Directors not to be fixed uniformly for all RRBs and to be decided by the Board with prior approval of Sponsor Institution. The representation on the Board to be based on the proportional shareholding.

iv) The Chairman with requisite qualification to be identified by the Sponsor Institution, in consultation with the Supervisory Authority from out of its own officers or from any other organization or even by an open market search. The terms and service conditions of the chairman to be decided by the Board in consultation with the Sponsor Institution.

v) The role of Sponsor Institutions to be that of owners i.e. guiding and supporting the RRBs, prescribing performance parameters and discharging other functions statutorily prescribed for them.

vi) The regulatory framework for RRBs to be on the lines of those for commercial banks with provisions for such bank-specific relaxations as may be necessary for a specific time period.

vii) The capital adequacy norms to be introduced for RRBs in a phased manner with due adaptations in respect of elements of the capital under Tier I and Tier II, starting with 5% of risk weighted assets with effect from the year beginning 1 April, 2003, to be increased by one percentage point every year to being it at par with commercial banks.

viii) The aspects such as statutory inspection, supervisory concerns, issuance of directives and instructions and statutory returns, imposition of penalties etc. to be handled by one "Supervisory Authority" to prepare an annual report on the affairs of the RRBs for submission to the Government of India and Reserve Bank of India covering the entire gamut of developments of relevance to these authorities.

ix) The need for strong self-supervisory system so as to improve monitoring of adherence to be statutory and regulatory requirements as also to internal policy guidelines, operation of Risk Management and Assets – Liability Management

Systems, Transparency and Disclosures and various Internal Control Measures. With the strengthening of the computer based data management system and likely increase in number of branches as also their geographical span in view of proposed consolidation, the emphasis to be more on off-branch surveillance of the branches.

x) RRBs to introduce appropriate Assets-Liability Management systems and Risk Management systems.

xi) The organizational structure in the post-consolidation era to be decided by the Boards of RRBs themselves. However, a suggestive three- layer structure has been given by the Working Group.

xii) Major considerations for the technology induction in RRBs would be its appropriateness in the rural context and the level of infrastructure available in rural areas, integration with the banking network in existence, compatibility with the systems obtaining particularly in the Sponsor Institutions and the Supervisory Authority and the ability to shoulder costs involved in technology induction. A nuclear branch concept for induction of Information Technology has been recommended under which the nuclear branch would provide computerization support to the rural branches which , in turn, would be linked to the district branch as also the Head Office for both-way traffic of information; the Head Office would be the central point of the computerization.

xiii) To provide soft-loan assistance on specified terms to potentially viable RRBs, setting up of a Rural Banking Technology Fund of the order ot Rs. 100 crore with a centralized agency at national level with contributions from GOI, NABARD and sponsor institutions as also other international donor agenies interested in technical collaboration is recommended."

116. When asked about present status of action taken on recommendation of Working Group headed by Shri M. V. Chalapathi Rao to suggest amendments in the RRBs Act 1976, the Ministry submitted following reply:

" Working Group to suggest amendment in the Regional Rural Bank Act 1976 was set up under the chairmanship of MVS Chalapathirao. The Working Group submitted its report to the Government of India in August, 2002. Since State Government and sponsor banks are stakeholders in RRBs, Banking Division has consulted them by obtaining their views. Sponsor banks have already furnished their comments on the recommendations. However, 11 State Government are yet to give their comments. In the meantime, Banking Division has initiated internal consultation involving NABARD and RBI. In recent past, Government of India has disbursed Rs. 1094 crores as 50% share in recapitalising the RRBs. Sponsor banks have also contributed their share of 35%. However, seven States are yet to make their contribution of 15% towards recapitalisation of RRBs. Since the

Working Group has recommended enhanced role for sponsor institutions in the management and supervision of RRBs, several options are being examined including merger of RRB with sponsor bank or making them subsidiary of the sponsor bank. The consultation process is yet to be completed in the matter."

117. The RRBs were set up in 1976 with manifold objectives of rural development. The foremost of these was to mobilise 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 categorisation 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.

118. 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.

119. 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 cannot 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.

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%.

9. Other issues

(i) Excessive documentation and stamp duty

121. In their study visit, the Committee were apprised by the farmers that Banks force the farmers to fill plethora of documents which prevent them to approach the Banks and instead they prefer to take loans from local money lenders. Moreover the stamp duty required on these documents further prove another deterrent. In some of the states, the Committee learnt that stamp duty was very high and many of them had increased it only recently. Moreover lending from institutions involves a lot of documentation which discourage intake of credit by farmers.

122. Regarding prevalent structure of stamp duty and efforts made to reduce them, the Ministry of Finance submitted following reply:

> "As levying of stamp duty is a State subject, the amounts vary from State to State.
>
> Studies conducted on the implementation of KCC Scheme in various States indicate that in most of the States, no stamp duty is required in regard to loan applications for amounts upto the Individual Maximum Borrowing Power (IMBP) fixed by the Registrar of Cooperative Societies. Further, mortgage of security attracts payment of stamp duty at the time of registration which is based on the amount involved."

123. On this issue, further the Ministry submitted following reply:

> "This question falls within the jurisdiction of the State Governments. Punjab and Haryana Governments have taken steps to waive stamp duty on small loans to farmers."

124. In their written submission, the representatives of Dena Bank suggested following with regard to reduction in stamp duty:-

> 'levying of stamp duty on mortgages discourages rural borrowers from approaching banks against security of immovable property. The reduction/rationalization of stamp duty on agricultural credit being availed from Banks may be considered.'

125. In their suggestions, the United Bank of India, stated that stamp duty on documentation of Agriculture loans should be waived. On this issue the ICICI Bank put forth their views as below:-

> "The various concessions available to cooperative banks for documentation and stamp duty on mortgage for agriculture loans should be extended to all institutional lenders including scheduled commercial banks. Banks should be dispensed with the documentation for hypothecation of crop for crop loan upto Rs. 2.00

lakh .All such advances should be considered secured by way of letter of undertaking along with the application form from the farmer. This will greatly simplify the paper work for agriculture credit. "

126. When enquired about the concessions that were available to Cooperative banks, a representative of ICICI Bank further stated that waiving of stamp duty and documentation were the concessions available in some of the states.

127. In response to a query on waiving off of stamp duty on agricultural loans RBI furnished following reply:

> " R.V. Gupta Committee had observed that stamp duty on agricultural loans inhibits the flow of funds to the sector by adding costs and procedures to all such transactions. In view of this the Committee had recommended that steps be taken to abolish stamp duty on agricultural loans in all states.
> The suggestion has been referred to Government of India for consideration and accordingly advise State Governments appropriately in the matter."

128. During the course of oral evidence, the Deputy Governor, RBI, submitted following before the Committee regarding stamp duty:

> " For, bringing about uniform stamp duty, we have already taken up the issue through the Government of India to the various States. This is the information I have on this subject. But for the simplification of documentation for agricultural borrowers, I think that across all the banking system we have been working with them so that the documents get simplified and they become uniform. But on this stamp duty part we have to still get it and the Ministry of Agriculture is also looking to come out with a new State Act to amend the old Act. This is the information I have on the subject."

(ii) Under-valuation of land by banks

129. In their study visit the Committee also found that the poor farmers do not receive adequate amount of loans against their lands due to fixation of lower limits set by banks for their lands. The Committee noted that these limits were far from actual prices of lands and thus the farmers are not receiving adequate loans against their lands. This also forces them to approach the moneylenders who would exploit them.

130. A demand to increase the amount of loan against mortgage of land was made by the representatives of farmers in their interaction with the Committee. For example they were apprised that in Himachal Pradesh, the banks gave loan of only Rs.

13000 against landholding of one bigha. This loan amount was meagre compared to actual price of land, therefore the farmers demanded that amount should be increased. They also informed the Committee that the banks insisted upon securities of value exceeding the loan amount sought by farmers.

131. Regarding reasons for lower limit of land fixed by banks and steps taken to increase them, the Ministry furnished following reply:

> "Normally the size of the loan is determined with regard to the requirement of the asset/activity to be financed. While in most cases, the value as fixed by the Sub Registrar is taken into account, in some cases bank officials and land valuers determine the value of land. As per the existing instructions of RBI/NABARD, the guidelines on valuation of land for the purpose of security are as under:
>
> The banks may value the land at 8 times the annual net post developmental income from agriculture and 50% of the amount so arrived at could be treated as outer limit for determining the loan eligibility on the basis of security. If the banks do not follow the above norm, they can increase the loan limit against the security of land upto 80% of the recorded price of land wherever the records of sale are maintained by the State Government. The said Committee has recommended the continuance of the valuation of the land as per the norms fixed by NABARD or as per the valuation adopted by the Land Registry Offices for Stamp Duty purposes whichever is lower."

132. The Committee note that the stamp duty on mortgage for agriculture loan in various States is very high. In addition, the plethora of documentation that is required in ordinary course is also cumbersome 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 desire 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.

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.**

Part B

CROP INSURANCE SCHEME

Background

134. In a country like India, where crop production has been subjected to vagaries of weather and large-scale damages due to attack of pests and diseases, crop insurance has to assume the role of a very vital institution for the stable growth of the sector.

India adopted and introduced an all-risk Comprehensive Crop Insurance Scheme (CCIS) for major and crucial crops in 1985, coinciding with the introduction of the VII - five year plan and subsequently National Agricultural Insurance Scheme (NAIS) w.e.f. 1999-2000. These Schemes have been preceded by years of preparation, studies, planning, experiments and trials on a pilot basis.

Comprehensive Crop Insurance Scheme (CCIS)

135. The Comprehensive Crop Insurance Scheme (CCIS) was introduced with effect from 1st April, 1985 by the Government of India with the active participation of State Governments. The Scheme was optional for the State Governments. The Scheme was linked to short term crop credit and implemented on Homogeneous Area approach. 15 States and 2 UTs implemented the Scheme until Kharif 1999. These were 1. Andhra Pradesh, 2. Assam, 3. Bihar, 4. Goa, 5. Gujarat, 6. Himachal Pradesh, 7. Karnataka, 8. Kerala, 9. Madhya Pradesh, 10. Maharashtra, 11. Meghalaya, 13. Tamilnadu, 14. Tripura, 15. West Bengal, 16. Andaman & Nicobar Islands and 17. Pondicherry.

The States of Rajasthan, Uttar Pradesh, Jammu & Kashmir, Manipur and Delhi had initially joined the Scheme but subsequently opted out after few years.

136. Main Features of the Scheme :

(i) It covered farmers availing crop loans from Financial Institutions for growing food crops & oilseeds on compulsory basis. The coverage was restricted to 100% of crop loan subject to a maximum of Rs. 10,000/- per farmer.

(ii) The premium rates were 2% for Cereals and Millets and 1% for Pulses and Oil seeds. 50% of the premium payable by Small and Marginal farmers was subsidized equally by Central and State Governments.

(iii) Premium & claims were shared by Central & State Government in 2:1 ratio.

(iv) The Scheme was optional to State Governments.

(v) The Scheme was a multi agency effort, involving Government of India, Departments of State Governments, Banking Institutions and GIC.

137. The summary of coverage particulars until Kharif 1999 since inception is as follows :

Total number of farmers covered	:	7,62,65,438
Total area covered (Hectares)	:	12,75,70,282
Total Sum-insured (Rs. Crores)	:	24949
Total insurance charges (Rs. Crores)	:	403.56
Total claim (Rs. Crores)	:	2303.45
Claims ratio	:	1 : 5.71

Majority of the claims were paid in the States of Gujarat - Rs. 1086 crores (47%), Andhra Pradesh - Rs. 482 crores (21%), Maharashtra - Rs. 213 crores (9%) and Orissa - Rs. 181 crores (8%)

Experimental Crop Insurance Scheme (ECIS)

138. While, CCIS was still being implemented, attempts were made to modify the existing CCIS from time to time as demanded by the States. During 1997, a new scheme, viz. Experimental Crop Insurance Scheme (ECIS) was introduced during Rabi 1997-98 season which was implemented in 14 districts of five States.

139. The Scheme was similar to CCIS, except that it was meant only for all small/marginal farmers with 100% subsidy in premium. The Central and State Governments in 4:1 ratio shared the premium subsidy and claims.

140. The ECIS was implemented only for one season during Rabi 1997-98 and subsequently withdrawn for following reasons :

i) The farmers were required to open bank accounts requiring a photograph and minimum deposit, which was a problem for many farmers.

ii) Banks with poor network faced difficulties in catering to the farmers and requirements under ECISs.

iii) As against the premium income of Rs. 2.84 crores, the claims reported were Rs. 37.80 crores, a very high claim ratio of 1:13.3.

141. The Scheme covered 4,54,555 farmers for a sum insured of Rs. 168.11 Crores and the claims paid were Rs. 37.80 crores against a premium of Rs. 2.84 crores.

National Agricultural Insurance Scheme (NAIS) - Rashtriya Krishi Bima Yojna

142. Keeping in view the demands of States for improving scope and contents of CCIS, a broad-based "National Agricultural Insurance Scheme (NAIS)" was introduced in the country w.e.f. Rabi 1999-2000 season. The scheme is administered by the Ministry of Agriculture and implemented by General Insurance Corporation of India now Agriculture Insurance Company of India Ltd. (AIC) on their behalf.

143. The salient features of the scheme are summarised as follows:

a) States & Areas covered: The scheme is available to all States/UTs.

b) Farmers covered: Covers all farmers, including sharecroppers, tenant farmers. Loanee farmers are covered on compulsory basis, while non-loanee farmers are covered on voluntary basis.

c) Risks covered: Basically all-risk insurance covering all yield losses due to natural, non-preventable risks.

d) Sum Insured: Sum insured can extend upto value of 150% of average yield. In case of loanee farmers the sum insured is equivalent to at least 100% of loan amount availed for the crop.

e) Premium rates: Premium rates may range from 1.5% to 3.5% for food crops & oilseeds or actuarial rates, whichever is less and on commercial lines (actuarial basis) for annual commercial/horticultural crops.

f) Premium subsidy: Small/Marginal farmers are eligible for premium subsidy @ 50% which is to be phased out on sun-set basis in a period of three to five years subject to review of financial results.

g) Nature of scheme: It is yield guarantee scheme operating on "Area approach" basis. If the actual average yield per hectare of the insured crop for the defined area (on the basis of requisite number of Crop Cutting Experiments) in the insured season, falls short of specified Threshold yield, all the insured farmers growing that crop in the defined area are deemed to have suffered shortfall in their yield and the scheme seeks to provide coverage against such contingency.

h) Risk sharing: Implementing Agency (GIC) shall bear, until transition to actuarial regime is made, all claims upto 100% of premium for food crops & oilseeds and balance claims are shared between govt. of India and States on fifty-fifty basis. In respect of annual commercial/horticultural crops, Implementing Agency shall bear all claims upto 150% of premium in the first 3 or 5 years and 200% of premium thereafter. All claims beyond the liability of GIC shall be paid out of Corpus Fund.

i) Corpus Fund: To meet claims of catastrophic nature, a Corpus Fund has been created with contributions from Central Government and participating States on fifty-fifty basis. The fund shall be managed by Implementing Agency.

Scope of the Scheme

144. The Scheme basically covers all field crops (Cereals, Millets, Pulses & Oilseeds) and also annual commercial / horticultural crops. The major group of crops, which are presently not covered are perennial commercial/horticultural crops.

145. This group of crops are presently not covered because of the reason that (i) the economic component consists of tree as also yield, unlike the annual crops where the economic component is yield, (ii) it can be best implemented on individual basis, unlike NAIS which is implemented on 'homogenous area' approach basis, (iii) typical non bearing period, (iv) this group of crops are presently insured by Public Sector Insurance Companies on 'input basis.

146. However, on the basis of demands/suggestions received from various quarters, the Govt. of India decided in principle to cover a few major perennial horticultural (fruits) crops in selected states, on experimental basis, the details of which are follows :

Sl. No.	State	Crop
1.	Andhra Pradesh	Mango
2.	Himachal Pradesh	Apple
3.	Uttar Pradesh	Mango
4.	Maharashtra	Orange
5.	Meghalaya	Pineapple
6.	Tamil Nadu	Banana

Status of implementation of NAIS

147. During Rabi 1999-2000 season, nine States/UTs implemented the Scheme, viz. Assam, Goa, Gujarat, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Orissa and Pondicherry. By Kharif 2000 season, seven more States/UTs joined the Scheme, viz. Andhra Pradesh, Bihar, Karnataka, Meghalaya, Tamilnadu, Uttar Pradesh, and Andaman & Nicobar Islands. The newly carved States of Chhattisgarh, Jharkhand have joined the Scheme from Rabi 2000-01 season, besides West Bengal. The States of Sikkim and Tripura joined the scheme during Kharif 2001 and Rabi 2001-02, respectively, followed by Uttaranchal during Rabi 2002-03, and Jammu & Kashmir and Rajasthan during Kharif 2003 season taking the total number of States/UTs to24.

148. The season-wise coverage of past 6 seasons is as follows:

Rs. Lakhs

	Farmers covered	Area (Hectares)	Sum Insured	Premium	Claims
Rabi 1999-2000	5,79,940	7,80,569	35640.71	542.48	769.26
Kharif 2000	84,09,374	132,19,827	690338.34	20673.39	122249.41
Rabi 2000-01	20,91,733	31,11,322	160268.52	2778,76	5950.22
Kharif 2001	85,68,387	127,60,907	730081.75	25698.00	47015.27
Rabi 2001-02	20,82,676	32,72,676	169882.56	3477.73	6442.99
Kharif 2002	97,64,438	155,25,878	942943.93	32722.78	*200000.00
TOTAL	314,96,548	486,71,179	2729155.81	85893.14	382427.15

*The claims of Kharif 2002 in certain states are still under process and therefore, the figures given above is a fair estimate.

149. It was pointed out by the farmers' fora during their interaction with the Committee that non-loanee farmers particularly in the remote areas face difficulties in getting their crops insured through banks. The Committee desired to know the reasons for such apathy shown by the banks. In its reply, the Agriculture Insurance Company of India Ltd. (AIC) submitted as under :-

"(a) …………There are also few instances of problems in the coverage of non-loanee farmers especially in rural areas where the branches of the banks are working with bare minimum staff (often one man-run branches). This is only a temporary problem which is expected to be resolved overtime. As regards the awareness among farmers, AICL has undertaken the publicity campaign which, inter-alia, includes distribution of posters and handbills; newspaper advertisements; messages in agriculture magazines; crop insurance message on bus panels; wall paintings in rural areas; jingles in All India Radio; stalls in agri-exhibitions; workshops at state and district level, etc.

(b) There is no general apathy towards farmers in the mindset of Bankers; there could be some exceptions. However, as indicated above, there are instances of inadequate coverage of non-loanee farmers in rural areas where branches are working with bare minimum staff. This problem can be rectified by issue of instructions/ guidelines to the banks and also through adequate publicity measures.

(c) The measures proposed in this regard include the following:-

(i) RBI, NABARD and other Apex Banking Institutions will be advised to issue instructions/guidelines to ensure compliance by the bank branches/Primary Agriculture cooperative Societies (PACS) with scheme provisions and to provide necessary service to farmers, including crediting claim amount in respective beneficiary accounts immediately, and in any case within 15 days.

(ii) The Implementing Agency would also be advised to test check the working of Banks to give feed back to the government from time to time to initiate necessary corrective measures.

(iii) AICL will step up their publicity campaign for increasing awareness of farmers on the issue of crop insurance."

Separate Agency for implementation of Agricultural insurance

150. The scheme provided that a separate agency might be set up for implementation of NAIS. Accordingly, a high powered committee was set up by the Ministry of Agriculture to examine the modalities of setting up new agency and its report was also submitted to the Government. Meanwhile, the Union Finance Minister in his budget speech on 28th February, 2002 announced separate agency for Agricultural Insurance. Accordingly the new agency "**Agricultural Insurance Company of India Limited**" promoted by GIC, NABARD and 4 existing public sector general insurance companies was incorporated on 20th December, 2002. The new company has also received 'in principle' approval of IRDA for registration. The new company has taken over the implementation of NAIS w.e.f. April, 2003.

151. Elaborating on the constitution of Agriculture Insurance Company of India Ltd. (AIC), the Secretary, Ministry of Finance (Financial Sector), during oral evidence stated:-

> "As I have mentioned, Sir, both CCIS and NAIS were being implemented by the "Crop Cell" of General Insurance Corporation. In order to meet the needs of farmers better, a new insurance company, namely, 'Agriculture Insurance Company of India Limited' has been incorporated on 20th December, 2002 with capital participation of General Insurance Corporation, four public sector general insurance companies and NABARD. GIC has contributed 35 per cent of the share capital and NABARD's contribution is 30 per cent. The four public sector general insurance companies have contributed 8.75 per cent each. The authorised capital of the new organisations is Rs.1,500 crore, of which Rs. 200 crore has already been subscribed."

Role of the Government, Banks and Financial Institutions etc.

152. The role of Central & State Government and IA in smooth implementation the Scheme is as follows:

Central Government:

(a) Policy matters & review of the Scheme
(b) Issuance of appropriate and suitable instructions to State Governments, Financial Institutions & IA from time to time
(c) Sharing various liabilities as provided in the Scheme
(d) Making available necessary funds of the Government
(e) Adequate publicity.

State Government/UT

(a) Notification of Crops & Areas
(b) Furnishing of past yield data of requisite number of years and current seasons' yield data
(c) Reducing Insurance Unit to the level of Gram Panchayat in a maximum period of three years.
(d) Release of contributions to Corpus Fund and various other liabilities as provided in the Scheme
(e) Strengthening Crop Estimation Surveys (CES) in general, and estimation procedures in case of multiple picking crops in particular, besides providing assistance in assessing crop loss of individual insured farmers in case of operation of localized perils.
(f) To set up various monitoring Committees as required.
(g) Adequate publicity of the Scheme through State Extension & Field machinery.

Implementing Agency (IA):

(a) Implementation of the Scheme
(b) Management of funds
(c) Building up crop yield database and preparation of Actuarial premium rates through a Professional agency
(d) Underwriting and Claims finalisation
(e) Responsibility for claims to the extent provided in the Scheme
(f) Negotiating Re-insurance arrangement in the international market
(g) Co-ordination in organizing training, awareness and publicity programs
(h) Providing returns/statistics to the Government of India

Financial Institutions

(a) Compulsory coverage of crop loans for notified crops
(b) Provide services to non-loanee farmers
(c) Submission of Declarations and premium to implementing Agency
(d) Crediting the account of beneficiary farmers as soon as compensation is received
(e) Creating awareness among farmers
(f) Maintaining proper records

153. When asked about the shortcomings or difficulties faced by the Government in implementing the National Agriculture Insurance Scheme and the remedial ways to overcome those difficulties, the Ministry in their reply have stated as under:-

"The important shortcoming or difficulties faced by the Government in implementation of NAIS based on past three years are as follows:

(a) Despite best efforts agriculturally important states like Punjab and Haryana have still not adopted NAIS. Consequently reasonable good spread of risk which is very important for insurance could not be achieved.
(b) The scheme despite being compulsory for loanee farmers, financial institutions in implementing States have neglected the coverage. The actual coverage under NAIS is much below the potential coverage in the implementing states.
(c) Non-loanee farmers for whom the scheme is optional, are joining the scheme selectively i.e. only during adverse seasons. It is leading to adverse selection against the scheme.
(d) Scheme provided that every implementing state should reduce the insurance unit to the level of Gram Panchayat in three years period. However, almost all states expressed their reservations in reaching G.P. because of the man-power and financial constraints.
(e) States continue to take longer time in submission of average yield data after harvesting, and also not able to release state's share of funds in time, is affecting timely payments of claims.
(f) States are demanding coverage of perennial horticultural crops.

(g) Higher premium rates for annual commercial/horticultural crops, combined with compulsory coverage for loanee farmers have led to the demand that the scheme should be made voluntary for these crops.
(h) The states are demanding for restoration of 50% premium subsidy for small/marginal farmers.
(i) Continuous occurrence of natural calamities in the past 3 to 5 years have reduced the guaranteed yield. Therefore, states have been requesting for fixing the guaranteed yield based on either normal yield or best 3 out of 5 years, instead of present continuous 3 or 5 years.

The remedial measures suggested/adopted include introduction of Small Area crop Estimation method (SACEM) to reduce insurance unit to GP level, coverage of selective perennial horticultural crop on experimental basis, restoring 50% premium subsidy to small & marginal farmers, making the scheme voluntary in case of cotton, calculating Threshold Yield based on preceding 5 years instead of 3 years for wheat and rice, etc."

154. When Committee desired to know about the instructions issued by the commercial Banks to their Nodal Agencies as well as crop loan disbursing branches to ensure smooth functioning of the Scheme, the Ministry in their written reply have stated as under :

"As soon as the scheme is launched in 1999, The Banking Division (MOF) circulated the Scheme, highlighting the role played of financial institutions to RBI, NABARD etc. In turn RBI and NABARD have circulated these guidelines to the corporate offices of commercial banks, cooperative banks and regional rural banks. The corporate offices of banks and their controlling offices do circulate these guidelines to its nodal branches from time to time. The important guidelines include.

1. On receipt of the communication on notification of crops and areas from the State Government/UT, the Nodal banks will communicate the same to the branch offices under their control.
2. The FIs would advance additional loan to loanee farmers to meet requirement of Insurance charges/premium.
3. Each such Nodal point would submit crop-wise, defined area-wise, monthly Crop Insurance Declarations to the Office of IA, in the prescribed format, along with insurance charges payable on all crop loans coming under the purview of the Scheme in case of Loanee farmers and based on Proposals received in case of other farmers.
4. For insurable crop loans disbursed under Kissan Credit Card (KCC), the FIs shall maintain all controls and records as required under the Scheme.
5. The banks shall credit the claims to the beneficiary account within one week from receipt of claims cheques.

Other functions of FIs:

- To educate the farmers on the Scheme features.
- To guide the farmers in filling the proposal forms and collecting the required documents.
- Following the guidelines while disbursing crop loans and ensuring proper end-use of loan disbursed.
- To prepare the consolidated statements for Loanee and Non-Loanee members, forwarding the same to the branch along-with the premium amount.
- Maintaining the records of proposal forms, other relevant documents, statements for the purpose of verification by the district committee or representative of the insurer.

155. When the Committee desired to know about the reason that though banks play a pivotal role in successful implementation of the Crop Insurance Scheme but even after extensive training conducted for banks by the Implementing Agency the Scheme is not showing the desired results, the Ministry in their reply have stated as under :

> "The NAIS is implemented on a multi-agency approach, under which banks are used as 'delivery mechanism' both as points of insurance and claims settlement. Therefore, banks play a pivotal role in successful and effective implementation of the scheme. At the time of launching of NAIS (1999), Implementing Agency conducted extensive training programmes for the banks, which are repeated from time to time. However, there have been problems due to constraint of manpower and the multiple tasks the banks handle. In some cases, it has been observed that farmers are not willing to be covered on compulsory basis as they feel the area approach would not fetch them claims even when losses occur. Therefore, such farmers pressurise the banks not to deduct premium. In some cases, especially in the cooperative sector, some societies have obtained stay orders from courts against compulsory implementation of the scheme.
>
> However, despite the above constraints, banks are encouraged to play their important role in successful implementation of the scheme. Some of the measures in this direction include payment of service charges to banks @ 2.5% of premium; training of banks' personnel; sustained awareness and publicity campaign targeting the farmers; frequent interactions with banks at controlling office level to sustain the interest in implementation of the scheme."

Crop Cutting Experiments (CCE) and Unit Area

156. As regards Crop Cutting Experiments (CCEs) and 'approach area' the Ministry in their reply, submitted as under :-

> "All crop insurance schemes based on 'area approach' will have to depend on yield data for processing claims. The yield data in our country is collected on the basis of CCEs. The crop insurance

scheme adopted crop cutting methodology because of the reason that is already existing for crop estimation surveys. What needed was increase the numbers and strengthen the system. However, the dependence on CCEs have posed atleast two problems - (a) non-coverage of crops which do not have past yield data, (b) delay in settlement of claims, as yield data is generally received only after 2 to 3 months after harvesting. Considering the above, the government is examining the prospects of using 'Remote Sensing Technology' in this area."

157. It was pointed out that the sample crop cutting experiments may differ from state to state because the agricultural products (yield), methodology, process and type of cultivation differ from area to area and state to state. In his reply, the Secretary, Ministry of Finance (Financial Sector) deposed before the Committee as under: -

"It is a fact that these crop cutting experiments are being primarily organised at the State Government level. Although, to be very honest with you, I have no information on the quality of these experiments, but it is obvious that at the level at which they are carried out, in the kind of scrutiny that goes on, and on account of lack of standardisation or any common training methods, there could perhaps be a lot of variation in both the methodology and results."

158. With regard to the use of advanced technology for purpose of calculating the threshold yield and the benefits to be derived as a result thereof, the following information was furnished to the Committee:-

"(a) The use of advanced technologies will provide greater credibility to AIC's efforts towards Re-insurance since these technologies are being used in developed countries such as USA.

(b) Unbiased objectives independent data to cross-check and supplement other field information inputs. The very fact of independent information source will check unbridled inflated claims, and periodic independent ground investigations based on satellite and GIS derived anomalous areas will further limit such claims.

(c) The remote sensing data on crop area and relative productivity levels will be available well before the cut-off date for receipt of crop yield data provided by the Department of Economics and Statistics (DES), facilitating adequate ground validation. In-season monitoring will assist monitoring of crop progress and provide advance warning of expected claims after the season.

(d) The geo-referenced GIS database provides the basis for reliable analysis and hazard mapping zones.

(e) The use of advanced technologies will facilitate progress towards individual based assessment, and towards commercial premiums in future.

Therefore the Remote Sensing Technology has plenty of potential to provide supplementary, complimentary and value added functions/inputs for Crop

Insurance. However, cost factor has to be considered while using Remote Sensing Technology."

159. As regards area approach for CCE, the CMD, Agriculture Insurance Company of India Ltd. (AIC), in his oral evidence, stated :-

> "With regard to crop cutting experiments, recently the area approach is being taken. As you have rightly said, the tehsil or taluka, which is a bigger area is taken, depending upon what it is being called in different States. Sixteen crop cutting experiments are required and they are being implemented throughout India in a uniform manner; and accordingly whatever data is available we do it. Even 20 years' data is available now. We are taking 7 years crop cutting experiments' data as the average for insurance under NAIS."

160. When enquired about the ideal approach for CCE, a representative of AIC, in his submission, stated:-

> "The ideal is individual approach. Due to the constraint that we have in India, the next best is village Gram Panchayat."

161. He added:-

> "Sir, we have National Sample Survey Organisation which is actually monitoring experiments done by the Directorate of Economics in various States. Today, they are conducting about five lakh experiments on all India level. If you want to reduce the unit to Gram Panchayat, according to the estimate made by the National Sample Survey and also by the Indian Agricultural Research Institute, the number will have to be raised to 56 lakh experiments from the present level of five lakh experiments per annum. So, there is a huge jump which involves huge expenditure also."

162. Asked about the estimated expenditure to do the CCE at Gram Panchayat level, the representative explained:-

> "Sir, in the year 2000, the Government of India made an estimate to know if we want to allow the Gram Panchayat to do the job in each of the state, what would be the cost. So the parameter taken was that if there are four crops in each Gram Panchayat which needs experiments at Gram Panchayat level, the estimated cost is Rs. 180 crore for all the crops in the whole country."

163. The Committee desired to know whether the unit area vary from State to State and crop to crop. In their written submission, the Ministry furnished the following information:-

> "The unit area is the defined area for each notified crop, where CCEs are planned and conducted by the State Government. Unit area may be a Gram Panchayat, Mandal, Hobli, Circle, Phirka, Block, Taluka etc. to be

decided by the State/ UT Government. The present size of insurance unit in various states is as follows:

S. No.	State	Unit of Insurance
1.	Andhra Pradesh	Mandal/group of Mandals
2.	Assam	Distt./Sub-division/Circle/Group of Circles
3.	Bihar	Paddy - Block/Panchayat Maize - District
4.	Chattisgarh	Tehsil
5.	Goa	Taluka
6.	Gujarat	Taluka
7.	Himachal Pradesh	Tehsil/Sub - Tehsil/Block
8.	Jharkhand	Paddy - Block/Panchayat; Maize - District
9.	Karnataka	Taluka /Hobli
10.	Kerala	Zone comprising of 4-5 villages
11.	Madhya Pradesh	Tehsil (planning for patwari Halka for some crops of 2003-04)
12.	Maharashtra	Circle/group of circles
13.	Meghalaya	Community Development Block
14.	Orissa	Block
15.	Rajasthan	Tehsil
16.	Tamilnadu	Block
17.	Uttar Pradesh	Sugarcane - District; other crops - Block
18.	West Bengal	Block
19.	Pondicherry	Commune Panchayat
20.	A & N Islands	Gram Panchayat
21.	Sikkim	District
22.	Tripura	Block
23.	Uttranchal	Taluka /Block
24.	J and Kashmir	District

164. Asked whether there is any proposal to reduce the size of unit area, the Ministry in a written reply stated :-

> "Though National Agricultural Insurance Scheme (NAIS) operates on 'Area Approach' basis which may be a Gram Panchayat, Mandal, Hobli, Circle, Phirka, Block, Taluka etc, the Scheme provides that each participating State/UT Government will be required to reach the level of Gram Panchayat as the unit in a maximum period of three years. Since a minimum of 8 CCEs were prescribed per crop at Gram Panchayat level, the requirement of CCEs would go up by almost 10 to 15 times. Therefore, the States expressed reservations due to man-power and financial constraints.
>
> In view of the above, the Ministry of Agriculture in consultation with Indian Agricultural Statistical Research Institute (IASRI), designed an alternative method 'Small Crop Estimation Method' (SACEM) to report yields at GP level."

165. Advocating for the reduction in the size of unit area, the Secretary, Ministry of Finance in his oral evidence, submitted:-

> "We must lower the unit of crop cutting experiments from tehsil level or block level to panchayat level because then we can get a much better data and individual variations in losses can be taken care of better."

166. CMD, Agriculture Insurance Company further added: -

> " The Agriculture Ministry has already accepted it. They have asked us to accept this at panchayat level. This will be ideal in our country because the other approach may not be sustainable or possible. Panchayat level will be really reasonable and it will not have hardship to many of the farmers."

167. CMD also informed the Committee that they have written to the State Governments about the proposed unit area.

168. Asked about the measures being taken by the Government to bring about changes in crop cutting experiments so as to facilitate early settlement of farmers' claims, the Government in their reply stated as follows:-

> "In order to expedite claims processing, Government of India and AIC have been requesting the States to streamline crop cutting machinery and furnish the yield data within 15 days to 1 month from harvesting. States are also encouraged to fix cut off dates for submission of yield data on the basis of each crop, instead of waiting for complete harvest of all crops. The quality of CCEs is important to avoid further verification of claims and hence, the States have also been requested to maintain quality and have proper monitoring system."

Premium Rates :

169. The premium rates for different crops for Rabi seasons are as under:-

S.No.	Season	Crops	Premium rate
1.	Kharif	Bajra & Oil seeds	3.5% of SI or Actuarial rate, whichever is less
		Other crops (cereals, other millets & pulses)	2.5% of SI or Actuarial rate, whichever is less
2.	Rabi	Wheat	1.5% of SI or Actuarial rate whichever is less
		Other crops (other cereals, millets, pulses & oilseeds)	2.0% of SI or Actuarial rate, whichever is less
3.	Kharif & Rabi	Annual Commercial/ annual Horticultural crops	Actuarial rates

170. When asked about the reasons for fixing different premium rates for Kharif and Rabi Crops, the Ministry, in a written answer, submitted as under:

> "The flat rate fixed during Kharif are higher than Rabi because of the reason that the claims experience during Kharif is adverse compared to a safe and secured Rabi season. Within Kharif season, the rates for Oilseeds and Bajra are kept at 3.5% because of the reason that the claims experience of these crops during CCIS, which preceded NAIS was adverse. The rates for annual comm../hort. Crops have been set on actuarial lines due to the reason that most of these crops are grown by well-to-do farmers.
>
> The present premium rates are still very low compared to the loss experience. Therefore, it would not be feasible to reduce the rates. However, the government is also thinking of actuarial regime where the commercial rates of premium will be subsidised across the board.
>
> As regards making the scheme optional for loanee farmers, the Ministry of Agriculture has already moved a proposal to make the Scheme voluntary for loanee farmers in case of Cotton crop."

171. When asked about the mode for collection of small amount of premium from large number of scattered farmers, the Ministry of Finance (Department of Economic Affairs - Insurance Division) in a written reply, stated as under: -

> "Implementation of the National Agriculture Insurance Scheme (NAIS) is based on multi agency approach, where crop loan lending branches of financial institutions and various departments of State Governments are involved in implementation of the scheme along-with Agriculture Insurance Company of India Ltd. (AIC). Since, the Scheme is compulsory for loanee farmers, the premium amount is collected by the financial institutions and passed on to AIC as and when crop loan is disbursed for the notified crops in the state. In case of non-loanee farmers, for whom the Scheme is optional, the network of rural financial institutions is used for the purpose. The farmers desirous to cover their crops through insurance, submit their applications to the nearest Bank Branch/Primary Agriculture Cooperative Society (PACS) and pay the requisite premium. The consolidated premia along-with coverage details are passed on to AIC on monthly basis."

172. It has been provided in NAIS that 50% subsidy in premium is allowed in respect of Small and Marginal farmers, to be shared equally by the Government of India and State/UT Govt. The premium subsidy will be phased out on sunset basis in a period of three to five years, subject to review of the financial results and the response of the farmers at the end of the first year of the implementation of the scheme. Asked whether there have been any dispute regarding sharing of premium and claims between

agencies involved particularly central and States/UTs, the Ministry in written reply stated:-

> "There is no dispute between Centre and States in sharing premium subsidy and claims liabilities. However, in view of increased financial burden arising out of coverage of more crops and farmers; higher sum-insured limits etc., States have been requesting that the claims liability of the Government should be shared in the ratio of 2:1 by the Centre and State, instead of present 1:1.
>
> As regards premium subsidy, it is being shared by Centre and State in 1:1, similar to CCIS.
>
> As per the scheme provisions, the premium subsidy of 50% was reduced to 20% during 2003-2004. However, on the basis of demands from farming community and requests from States, restoring premium subsidy to 50% is presently under the consideration."

173. During interaction with farmers on tour, it was complained to the Committee that the premium deducted by the banks at the time of disbursement of loan, was not passed on to the insurance agency nor any receipt to that effect was given to the loanee farmers with the result they were deprived of the insurance claim for failure of their crops. The Committee desired to know the views of the Government in this regard. In their reply, the Government furnished the following information:-

> "It is true that some cases where premium deducted is not sent to implementing agency have been reported in Madhya Pradesh, Tamilnadu, Karnataka etc.
>
> The premium amount (especially in case of loanee farmers) is not actually collected from the farmers. It is additional finance extended by Bank and therefore normally no receipt is issued.
>
> The remedial measures presently in operation to ensure that the premium collected is promptly sent to Implementing Agency are:
>
> (a) The Scheme already provides that Banks shall submit crop-wise, unit-wise and month-wise Declarations to Implementing Agency, along-with premium.
> (b) Banks are advised to maintain complete record of details received from branches/PACS and periodically check premium advices/remittances received with premium remittances sent to IA to ensure that premium remittances are not retained at Banks level.
> (c) Banks and PACS are to maintain a checklist of activities related to crop insurance and verify for compliance at regular/monthly intervals.
> (d) In order to make the banks accountable, the Scheme already provides that banks are entirely responsible for the claims arising out of omissions/commissions at their end. This should be

monitored at different levels in Banks and AIC, as well as concerned department of State Government."

174. When asked whether there is any provision for deferring the payment of premium when the farmers were unable to pay it due to failure of crops or other natural calamities, the Ministry in their written reply have stated as under :-

> "The premium rates charged for both loanee and non-loanee farmers are low and flat except for annual commercial/horticultural crops. Further, small and marginal farmers are given subsidy in premium rates. Apart from this, the premium amount in the case of loanee farmers is financed by the bank in addition to the crop loan amount. Therefore, at present, there is no proposal under consideration to defer the premium payable by the farmers."

Settlement of Claims

175. The Committee was informed that the Ministry of Agriculture at the beginning of financial year communicates to the States the administrative approval for implementation of the scheme during the year, with a specific request that necessary budget provisions be made for meeting financial obligations under the scheme. Implementing Agency (IA) also send communication to States giving broad requirement of funds under various heads with a request to make available the necessary funds.

176. The details of premiums received and claims paid/payable since inception of NAIS are as follows:

S.No.	Season	States/UTs participated	Premium (Rs Lakhs)	Claims Paid/Payable (Rs. Lakhs)
1.	Rabi 1999-2000	9	542.48	769.26
2.	Kharif 2000	17	20673.39	122249.41
3.	Rabi 2000-01	18	2778.76	5949.28
4.	Kharif 2001	20	25698.00	47010.92
5.	Rabi 2001-02	20	3477.73	6442.99
6.	Kharif 2002	21	32722.23	179070.05**
7.	Rabi 2002-2003	21	3850.19	6883.11**
Total			**89742.78**	**368375.02**

In order to expedite claims processing, Government of India and AIC have been requesting the States to streamline crop cutting machinery and furnish the yield data within 15 days to 1 month from harvesting. States are also encouraged to fix cut off dates for submission of yield data on the basis of each crop, instead of waiting for complete harvest of all crops. The quality of CCEs is important to avoid further verification of claims and hence, the States have also been requested to maintain quality and have proper monitoring system."

177. The details of outstanding claims as on 9 July, 2003 along-with the reasons therefore are as follows :-

S. No	State	Season	Total Claims	IA's share	GOI's share	S.G.'s share	Reason
1	Madhya Pradesh	Kharif 2002	12.65	0.00	6.33	6.33	S.G.'s share awaited
2	Jharkhand	Rabi 2000-01	1.05	1.05	0.00	0.00	Prem. Sub. Awaited
3	Maharashtra	Rabi 2000-01	23.45	0.00	11.73	11.73	S.G.'s share awaited
4	Jharkhand	Kharif 2001	1.75	1.75	0.00	0.00	Prem. Sub. Awaited
5	Karnataka	Kharif 2001	15.52	0.00	7.76	7.76	S.G.'s share awaited
6	Kerala	Kharif 2001	170.44	0.00	85.22	85.22	S.G.'s share awaited
7	Assam	Rabi 2001-2002	12.11	4.81	3.65	3.65	S.G.'s share awaited
8	Jharkhand	Rabi 2001-2002	2.03	1.23	0.40	0.40	S.G.'s share awaited
9	Kerala	Rabi 2001-2002	1.56	1.56	0.00	0.00	Prem. Sub. Awaited
10	Maharashtra	Rabi 2001-2002	0.51	0.00	0.26	0.25	S.G.'s share awaited
11	Assam	Kharif 2002	0.79	0.79	0.00	0.00	S.G.'s share awaited
12	Bihar	Kharif 2002	1308.82	179.00	564.91	564.91	S.G.'s share awaited
13	Gujarat	Kharif 2002	704.03	704.03	0.00	0.00	Prem. Sub. Awaited
14	Karnataka	Kharif 2002	2941.12	640.22	1150.45	1150.45	S.G.'s share awaited
15	Kerala	Kharif 2002	16.80	16.80	0.00	0.00	Prem. Sub. Awaited
16	Madhya Pradesh	Kharif 2002	11779.95	2467.75	4656.10	4656.10	S.G.'s share awaited
17	Maharashtra	Kharif 2002	2509.46	2146.87	181.29	181.29	S.G.'s share awaited
18	Meghalaya	Kharif 2002	5.87	5.87	1.19	2.34	S.G.'s share awaited

19	Orissa	Kharif 2002	24402.92	2970.69	10716.11	10716.12	S.G.'s share awaited
20	Tamilnadu	Kharif 2002	273.63	51.11	111.26	111.26	S.G.'s share awaited
21	Tamilnadu	Rabi 2002-2003	2900.42	145.27	1377.57	1377.57	S.G.'s share awaited
	TOTAL		**47084.88**	**9334.12**	**18875.37**	**18875.37**	

178. During their study tours, the Committee were informed by farmers that many Banks do not credit the accounts of beneficiaries as soon as the compensation is received by them. When asked about the Government's view and the corrective measures proposed in this regard, the Government stated as under :-

(iii) "(a) The Agriculture Insurance Company of India Ltd. (AICL), while releasing the claims to the banks, stipulates that claims amount should be credited to the beneficiary farmers within a fortnight. Since the dues are recovered by crediting the claims amount, the banks also benefit by timely crediting the claim. Therefore, it is in the interest of the bank to credit the amount within the stipulated time. However, there are instances of aberrations in crediting the claim amounts to the beneficiaries.

179. When Committee asked about the mechanism available for settlement of claims and redressal of grievance of farmers in this connection, the Ministry in their written reply submitted as under :-

"The sequence of events leading to settlement of claims under the Scheme is as follows :-

i) Furnishing of Yield Data by State Govt. as per the cut-off dates, which could be January to March for Kharif and July to August for Rabi.
ii) Processing & data entry of yield data and processing of claims by IA which is generally done within one month from the date of receipt of Yield Data.
iii) Approval by Competent Authority (AIC Board) which normally takes a week.
iv) Release of claims soon after receipt of funds from the GOI and concerned State. If claims are within 100% of premium in case of Food crops & Oilseeds or 150% of premium incase of annual commercial/horticultural crops, the same will be settled by IA, immediately. For claims exceeding the liability of IA, settlement is done on receipt of funds from the State and Centre.

The Scheme and the implementing Agency believes in time bound settlement of claims. It's our endeavor that claims of current season are settled before the commencement of same season next year. Some of the steps towards time-bound settlement of claims include

(a) Computerisation of all underwriting operations by IA, (b) impressing the States to reduce all possible delays in submission of yield data soon after harvesting, (c) prior intimation to States regarding possible fund requirement.

There is not formal mechanism available in the Scheme for redressal of grievances of farmers. However, the informal mechanism available is as follows:

i) Farmers do send letters of representations/grievances to various Crop Insurance Offices which are promptly replied.
ii) Sometimes the letters are received through VIPs/Local Politicians etc. which are again promptly replied.
iii) In some cases such letters are routed through Ministry of Agriculture or Ministry of Finance (GOI), for which replies are sent by Crop Insurance Deptt. based on comments of local office of IA.
iv) Interactive T.V./Radio programs are also organised, in which queries of farmers are replied instantly.
v) Officers of Crop Cells conduct field visits in districts, during which farmers meet them for their grievances and clarifications.

Problem Areas

180. The Committee desired to know the administrative and financial difficulties being faced by the implementing agency. The Agriculture Insurance Company summarise its difficulties as under:-

Administrative:

- As the network of AIC is limited to State Headquarters, it is dependent to a large extent on financial institutions and District Administration of State Governments. Complete functional integration with the grass root level institutions, however, would take time.

- Though the scheme is compulsory for loanee farmers, yet about only 40% of insurable crop loans are covered under the scheme. The main reason for this appears to be selective coverage leading to high adverse claims ratio.

Financial:

- The premium rates paid by the farmers for foodcrops and oilseeds range from 2.5% to 3.5% during Kharif and 1.5% to 2% during Rabi seasons, while the rates for annual commercial/horticulture crops are Actuarial. These actuarial rates for crops like cotton in some States range from 10% to 15%. Some of the farmers perceive these rates unaffordable. Even the loanee farmers for whom the scheme is compulsory are finding the rates very high.

- The claims exceeding 100% of premium in case of foodcrops & oilseeds and 150% of premium in case annual commercial/horticulture crops are borne by the Government of India and concerned State Governments on 50:50 basis. Often, there is inordinate delay in settlement of claims due to delay in release of funds by the State Governments.
- The Scheme provides that every implementing State should lower the insurance unit to the level of gram panchayat (GP) within 3 years. However, due to huge increase in number of crop cutting experiments and consequent costs involved, States are not in a position to lower the insurance unit.
- Due to non-participation of agriculturally important states (Punjab, Haryana, etc.) and non-notification of less risky crops, proper risk pooling is not achieved in the scheme, leading to higher financial implications in terms of claims.
- Non-loanee farmers seem to participate only during adverse seasons, thus increase in claims cost.

181. The representatives of Farmers' Fora during study tours to various states apprised the Committee the other problem areas and requested that these need to be addressed for a hassle free operation of the Scheme. The suggestions/problem areas enumerated in this regard before the Committee are detailed out below :

i) The size of the insurance unit should be brought down to the level of the village / Gram Panchayat.

ii) The Scheme should be extended to all farmers like oral farmers/landless farmers and there should be Individual Coverage & assessment.

iii) Restoration of premium subsidy to small and marginal farmers.

iv) Coverage of more crops desired, especially perennial horticultural crops, like apple, orange, Mango, vegetable crops, garlic, dhaniya, aqua-culture/ fisheries, poultary/animal husbandary, medicinal crops like safed musli etc.

v) The services of rural agents should be used for greater penetration of the scheme.

vi) High premium rates for Commercial Crops like Cotton need to be addressed.

vii) Majority of crop loans are disbursed prior to on-set of monsoon (e.g.: loans are disbursed during April - May, while crop season commences in June/July), which increases the interest burden of farmers. To the extent possible, loans may be disbursed close to agricultural season.

viii) The Banking system is one of the largest beneficiaries of crop insurance. Their huge network in the rural areas should be utilised for popularising crop insurance, for which definite guidelines can be issued.

ix) Despite the scheme being compulsory for loanee farmers, in the past considerable quantum of insurable loans were left uncovered, mainly due to negligence of banks at grass root level. RBI/NABARD may issue specific guidelines in effecting proper coverage, as also should monitor their lending vis-à-vis crop insurance.

x) There is no formal mechanism available in the Scheme for redressal of grievances of farmers.

xi) Non loanee farmers' participation through banks is not encouraged by a few banks.

xii) Fixing Threshold Yield based on preceding five years (instead of three years for rice and wheat)

xiii) Minimum balance requirement for opening an account by a non-loanee farmer is very high in some banks; Bankers are demanding DD charges/postage charges from non-loanee farmers to operate the scheme .

xiv) Use of Remote Sensing Technology in effective implementation of Crop Insurance Scheme, etc.

182. The representatives of the State Governments have highlighted the following issues for consideration of the Committee :

i) The liabilities under the Scheme should be shared between the GOI and the States in the ratio of 2:1, instead of 1:1.

ii) Minimum number of Crop Cutting Experiments (CCEs) for notified crops at the insurance unit level is a pre-requisite for settlement of claims under this scheme. Conduction of large volume of CCE's to the tune of 5 lacs per state in a season strain the finances of the State Governments. Hence, it is suggested that the States should be provided support the financial assistance to conduct CCEs.

iii) Govt. of Uttar Pradesh has suggested that it is desirable for the Implementing Agency to open branch offices in all districts at least on regional basis for effective monitoring & implementation of the Scheme.

iv) The claims/indemnity should be paid by GIC in lump sum to the State and the matter of how the amount should be distributed amongst affected farmers should be left at the wisdom and judgement of the State.

183. The representatives of the State Governments of Punjab, Haryana and Rajasthan while deposing before the Committee during tour have informed that they have examined the NAIS proposal but have found the same not suitable for their agricultural conditions. They further pointed out the following reasons/ lacunae which have discouraged them in participating in the Scheme :

i) Difficulty to ascertain the yield of individual farmers.

ii) The unit level of Insurance should be a Village instead of a Block.

iii) Threshold yield should be fixed on the basis of 3 to 5 normal years instead of immediate past yield of 3 to 5 years.

iv) There is no exit option for loanee farmer in the scheme.

184. 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 is being implemented in 24 States/UTs.

185. 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 20 December, 2002 which has taken over the implementation of NAIS w.e.f April, 2003.

186. The Committee are, however, deeply concerned to observe that even the National Agricultural Insurance Scheme (NAIS) which inter-alia aimed at stabilising 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.

187. 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 have 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.

188. The impeding 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.

189. 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 popularising 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 Island to Distt. in J&K may be standardised and fixed as Gram Panachayat 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. Remote 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 will 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 actuarial 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.

NEW DELHI;
18 December, 2003
27 Agrahayana, 1925 (Saka)

N. JANARDHANA REDDY
Chairman,
Standing Committee on Finance

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING COMMMITTEE ON FINANCE IN THE FIFTY-FIFTH REPORT

Sl No.	Para Nos.	Conclusion/Recommendation
1	2	3
1.	32, 33, 34, 35, 36 and 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 is 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 is 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 disbursements 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 take serious note of this disturbing trend. They recommend that the target for direct lending by banks should be monitored independently. The 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 note that percentage of recovery in agriculture is fairly satisfactory. This is self evident in the data on NPAs in agriculture vis-à-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 targets. 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 will 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 has 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 percent 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.
2.	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 scheme 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 can 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.
3.	64, 65 & 66	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 Demands 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. 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 31 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 tranches 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 underutilisation 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.

4.	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 31.0%, 61.0% and 8.0%. 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.
5.	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 fulfilment 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 to 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.

6.	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 percent 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.
7.	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 5.5% 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-operative 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 opine 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.
8.	117, 118, 119& 120	The RRBs were set up in 1976 with manifold objectives of rural development. The foremost of these was to mobilise 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 categorisation 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 cannot 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. 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%.
9.	132 & 133	The Committee note that the stamp duty on mortgage for agriculture loan in various States is very high. In addition, the plethora of documentation that is required in ordinary course is also cumbersome 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 desire 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. 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.
10.	184	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 is being implemented in 24 States/UTs.
11.	185	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 20 December, 2002 which has taken over the implementation of NAIS w.e.f April, 2003.
12.	186	The Committee are, however, deeply concerned to observe that even the National Agricultural Insurance Scheme (NAIS) which inter-alia aimed at stabilising 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.
13.	187	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 have 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.

14.	188	The impeding 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.
15.	189	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 popularising 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 Island to Distt. in J&K may be standardised and fixed as Gram Panachayat 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. Remote 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 will 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 actuarial 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.

APPENDIX

MINUTES OF THE THIRTEENTH SITTING OF STANDING COMMITTEE ON FINANCE (2003)

The Committee sat on Monday, 14 July, 2003 from 1200 to 1330 hours and again from 1500 to 1700 hours.

PRESENT

Shri N. Janardhana Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri Omar Abdullah
3. Smt. Renuka Chowdhury
4. Shri Trilochan Kanungo
5. Shri Rattan Lal Kataria
6. Dr. C. Krishnan
7. Shri Sudarsana E.M. Natchiappan
8. Capt. Jai Narain Prasad Nishad
9. Shri Raj Narain Passi
10. Shri S. Jaipal Reddy
11. Shri T.M. Selvaganapathi
12. Shri Kharabela Swain

Rajya Sabha

13. Dr. Manmohan Singh
14. Dr. T. Subbarami Reddy
15. Shri S.S. Ahluwalia
16. Shri Swaraj Kaushal
17. Shri M. Rajasekara Murthy
18. Shri P. Prabhakar Reddy
19. Shri Amar Singh
20. Shri Prem Chand Gupta
21. Shri Dinesh Trivedi

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri S.B. Arora — *Under Secretary*

Witnesses

Reserve Bank of India

1. Dr. Bimal Jalan, Governor
2. Shri Vepa Kamesam, Deputy Governor
3. Shri A.V. Sardesai, Executive Director
4. Shri Varughese John, Chief General Manager
5. Smt. Deepali Pant Joshi, General Manager
6. Shri R.N. Dash, Dy. General Manager

Commission on Agricultural Cost and Prices (CACP)

1. Dr. T. Haque, Acting Chairman
2. Shri Ramadhar, Member

Agriculture Insurance Company of India Limited

1. Shri Suparas Bhandari, Chairman and Managing Director
2. Shri B.M. Sharma, Manager

Part I

2. At the outset, the Chairman welcomed the representatives of the Reserve Bank of India to the sitting of the Committee and invited their attention to the Direction 55(1) of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives of the Reserve Bank of India on 'Credit Flow to Agriculture—Crisis in Rural Economy.'

The evidence was concluded.

A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

Part II

2. At the outset the Chairman welcomed Dr. T. Haque, Acting Chairman, Commission on Agriculture Cost and Prices (CACP) and Sh. Suparas Bhandari, CMD, Agriculture Insurance Company of India Limited to the sitting of the Committee and invited their attention to Direction 55(1) of the Directions by the Speaker, Lok Sabha.

3. Thereafter, the Committee heard the views of Dr. T. Haque Acting Chairman, Commission on Agriculture Cost and Prices (CACP) and Shri Suparas Bhandari, CMD, Agriculture Insurance Company of India Limited on the subjects 'Credit Flow to Agriculture—Crisis in Rural Economy' and 'the Crop Insurance Scheme'. The Chairman then asked them to furnish information on certain issues on which clarifications were sought by the Members.

The evidence was concluded.

A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTIETH SITTING OF STANDING COMMITTEE ON FINANCE (2003)

The Committee sat on Tuesday, the 23rd September, 2003 from 1100 hours to 1300 hours.

PRESENT

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Ramesh Chennithala
5. Smt. Renuka Chowdhury
6. Dr. C. Krishnan
7. Shri Sudarsana E.M. Natchiappan
8. Capt. Jai Narain Prasad Nishad
9. Shri Rupchand Pal
10. Shri Prabodh Panda
11. Shri Prakash Paranjpe
12. Shri Ramsinh Rathwa
13. Shri Chada Suresh Reddy
14. Shri S. Jaipal Reddy
15. Shri T.M. Selvaganapathi
16. Shri Kirit Somaiya
17. Shri P.D. Elangovan

Rajya Sabha

18. Dr. Manmohan Singh
19. Shri Prithviraj D. Chavan
20. Shri Swaraj Kaushal
21. Shri M. Rajasekara Murthy
22. Shri Amar Singh
23. Shri Prem Chand Gupta
24. Shri Dinesh Trivedi

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
2. Shri R.K. Jain — *Deputy Secretary*
3. Shri S.B. Arora — *Under Secretary*

Witnesses

Ministry of Finance

1. Shri N.S. Sisodia, Secretary, Financial Sector
2. Shri P.M. Serajuddin, Joint Secretary

Reserve Bank of India

1. Shri A.V. Sardesai, Executive Director
2. Shri C.S. Murthy, Chief General Manager-in-Charge, RPCD

NABARD

1. Shri G.K. Aggarwal, Executive Director
2. Shri K.G. Karmakar, Executive Director
3. Shri N. Srinivasan, CGM

Agriculture Insurance Co. of India Ltd.

Shri Suparas Bhandari, C&MD

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Economic Affairs—Banking and Insurance Divisions), Reserve Bank of India, National Bank for Agriculture & Rural Development and Agriculture Insurance Company of India Ltd. to the sitting of the Committee and invited their attention to provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of the Ministry of Finance (Department of Economic Affairs—Banking Division), RBI and NABARD on the Credit Flow to Agriculture—Crisis in Rural Economy.

4. The evidence of the Ministry of Finance (Department of Economic Affairs—Banking Division) on the Credit Flow to Agriculture—Crisis

in Rural Economy was concluded. However, the Committee desired to have certain clarifications from the Reserve Bank of India.

5. Since the subject 'Crop Insurance Scheme' could not be taken up, the Committee decided to take oral evidence of the Ministry of Finance (Department of Economic Affairs—Insurance Division), NABARD and the Agriculture Insurance Company of India Limited in due course.

A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-SECOND SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 14 October, 2003 from 1100 hrs. to 1240 hours.

PRESENT

Shri N. Janardhana Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri Raashid Alvi
3. Smt. Renuka Chowdhury
4. Dr. Daggubati Ramanaidu
5. Shri Rattan Lal Kataria
6. Dr. C. Krishnan
7. Shri M.V.V.S. Murthi
8. Shri Sudarsana E.M. Natchiappan
9. Capt. Jai Narain Prasad Nishad
10. Shri Rupchand Pal
11. Shri Prabodh Panda
12. Shri Raj Narain Passi
13. Shri Pravin Rashtrapal
14. Shri Chada Suresh Reddy
15. Shri S. Jaipal Reddy
16. Shri Kirit Somaiya
17. Shri Kharabela Swain

Rajya Sabha

18. Dr. Manmohan Singh
19. Shri Murli Deora
20. Shri Prithviraj D. Chavan
21. Shri S.S. Ahluwalia
22. Shri Swaraj Kaushal
23. Shri M. Rajasekara Murthy

24. Shri Amar Singh
25. Shri Prem Chand Gupta
26. Shri Palden Tsering Gyamtso
27. Shri Praful Patel

SECRETARIAT

1. Shri P.D.T. Achary	—	*Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu	—	*Joint Secretary*
3. Shri R.K. Jain	—	*Deputy Secretary*
4. Shri S.B. Arora	—	*Under Secretary*

Witnesses

Reserve Bank of India

1.	Dr. Y.V. Reddy	Governor
2.	Shri Vepa Kamesam	Deputy Governor
3.	Shri A.V. Sardesai	Executive Director
4.	Shri O.P. Aggarwal	Chief General Manager
5.	Shri C.R. Muralidharan	Chief General Manager
6.	Dr. K.V. Rajan	Chief General Manager

2. At the outset, the Chairman welcomed the representatives of the Reserve Bank of India to the sitting of the Committee and invited their attention to provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of the Reserve Bank of India in connection with the examination of Credit Flow to Agriculture-Crisis in Rural Economy.

4. The evidence of the representatives of the Reserve Bank of India was concluded. However, the Committee decided to take the oral evidence of the representatives of the Ministry of Finance (Department of Economic Affairs—Insurance Division), National Bank for Agriculture and Rural Development and Agriculture Insurance Company of India Limited in connection with the examination of Crop Insurance Scheme in due course.

5. The witnesses then withdrew.

6. A copy of the verbatim proceeding has been kept.

The Committee then adjourned.

MINUTES OF THE TWENTY-THIRD SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 28 October, 2003 from 1500 hours to 1630 hours.

PRESENT

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Omar Abdullah
3. Shri Trilochan Kanungo
4. Shri Rattan Lal Kataria
5. Shri M.V.V.S. Murthi
6. Shri Sudarsana E.M. Natchiappan
7. Shri Rupchand Pal
8. Shri Prabodh Panda
9. Shri Prakash Paranjpe
10. Shri Raj Narain Passi
11. Shri Chada Suresh Reddy
12. Shri T.M. Selvaganapathi
13. Shri Kharabela Swain
14. Shri P.D. Elangovan

Rajya Sabha

15. Dr. Manmohan Singh
16. Shri Prithviraj D. Chavan
17. Shri S.S. Ahluwalia
18. Shri M. Rajasekara Murthy
19. Shri Amar Singh
20. Shri Prem Chand Gupta
21. Shri Palden Tsering Gyamtso
22. Shri Dinesh Trivedi

SECRETARIAT

1. Shri P.D.T. Achary	—	*Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu	—	*Joint Secretary*
3. Shri R.K. Jain	—	*Deputy Secretary*
4. Shri S.B. Arora	—	*Under Secretary*

Witnesses

Ministry of Finance

1. Shri N.S. Sisodia, Secretary (Financial Sector)
2. Shri G.C. Chaturvedi, Joint Secretary (Bkg. & Ins.)
3. Shri G. Bhujabal, Director (Insurance)

National Bank for Agriculture and Rural Development (NABARD)

1. Dr. K.G. Karmakar, Senior Executive Director
2. Shri S.K. Mitra, Executive Director
3. Shri N. Srinivasan, Chief General Manager

Agriculture Insurance Company of India Ltd.

1. Shri Suparas Bhandari, C&MD
2. Shri B.M. Sharma, Manager, AICL
3. Shri K.N. Rao, Deputy Manager, AICL

At the outset, the Chairman welcomed the representatives of the Ministry of Finance, National Bank for Agriculture and Rural Development (NABARD) and Agriculture Insurance Company of India Ltd. to the sitting of the Committee and invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

2. After introduction, the Committee took oral evidence of the representatives of the Ministry of Finance, National Bank for Agriculture and Rural Development (NABARD) and the Agriculture Insurance Company of India Ltd.

3. Thereafter, the Chairman, Standing Committee on Finance asked the representatives to furnish detailed notes/data on some of the points

to which full information was not readily available with the representatives.

4. The evidence was concluded.

5. A verbatim record of the proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-SIXTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 18 December, 2003 from 1500 hours to 1615 hours.

PRESENT

Shri N. Janardhana Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Smt. Renuka Chowdhury
3. Dr. Daggubati Ramanaidu
4. Shri Rattan Lal Kataria
5. Dr. C. Krishnan
6. Shri Sudarsana E.M. Natchiappan
7. Capt. Jai Narain Prasad Nishad
8. Shri Rupchand Pal
9. Shri Prabodh Panda
10. Shri Ramsinh Rathwa
11. Shri Kirit Somaiya
12. Shri Kharabela Swain

Rajya Sabha

13. Shri Prithviraj D. Chavan
14. Dr. Biplab Dasgupta
15. Shri Palden Tsering Gyamtso

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri S.B. Arora — *Under Secretary*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and requested them to consider the Draft Report on Credit Flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme.

3. The Committee then took up for consideration the above Draft Report and adopted the same with modifications/amendments as shown in the *Annexure*.

4. The Committee, thereafter authorised the Chairman to finalise the Report on Credit Flow to Agriculture—Crisis in Rural Economy and Crop Insurance Scheme in the light of the above amendments/ modifications and also to make verbal and other consequential changes arising out of factual verification and present the report to both the Houses of Parliament.

The Committee then adjourned.

Page	Para		Modification
1	2		3
36	36	For	They also recommend that the rate of interest of 9% should be reduced further in tandem with the rate of interest in other sectors.
		Substitute	It is widely known that the rate of interest in other sectors has fallen sharply and in housing sector it has been 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.
55	65	Add at the end	At the same time, they also want that accountability/responsibility may be fixed on the concerned officials and appropriate penalty imposed on them.
55	66	Add at the end	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.

1	2		3
77	103	Add at the end	so that farmers may be able to avail loans from the co-operative banks at lower rate of interest as being charged by commercial banks.
87	117	Add at the end	They also desire that Government may consider the setting-up of an apex body *viz.* National Rural Bank of India with State-wise zonal centres.
120	189	Add at the end	(xiv) Central Government and State Governments may set-up the National Agricultural Credit Relief Fund for giving relief to farmers affected by consecutive crop failures.