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**MINISTRY OF FINANCE
(DEPARTMENT OF
ECONOMIC AFFAIRS—
BANKING DIVISION)**

**ESTIMATES COMMITTEE
1996-97**

ELEVENTH LOK SABHA

**LOK SABHA SECRETARIAT
NEW DELHI**

FIFTH REPORT
ESTIMATES COMMITTEE
(1996-97)

(ELEVENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS—BANKING
DIVISION)

CREDIT FACILITIES TO WEAKER SECTIONS OF THE
SOCIETY

*[Action taken by Government on the recommendations contained in the
Fifty-Second Report of Estimates Committee (Tenth Lok Sabha) on the
Ministry of Finance (Deptt. of Economic Affairs—Banking Division)
—Credit Facilities to Weaker Sections of the Society]*



Presented to Lok Sabha on 11th April, 1997

LOK SABHA SECRETARIAT
NEW DELHI

April, 1997/Chaitra, 1919 (Saka)

Corrigenda to the Fifth Report of Estimates Committee
 (Eleventh Lok Sabha) on the Ministry of Finance (Department of
 Economic Affairs Banking Division) - Credit Facilities to
 Weaker Sections of the Society

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COMPOSITION OF THE ESTIMATES COMMITTEE

(1996-97)

CHAIRMAN

Shri Rupchand Pal

MEMBERS

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3. Shri Pradeep Bhattacharya
4. Shri P.C. Chacko
5. Shri Ram Tahal Chaudhary
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SECRETARIAT

- | | | |
|-------------------------|---|-----------------------------|
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| 2. Smt. Roli Srivastava | — | <i>Joint Secretary</i> |
| 3. Shri K.L. Narang | — | <i>Deputy Secretary</i> |
| 4. Shri R. C. Kakkar | — | <i>Under Secretary</i> |

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INTRODUCTION

1. the Chairman of the Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Fifth Report on action taken by Government on the recommendations contained in the Fifty-Second Report of the Estimates Committee (Tenth Lok Sabha) on the Ministry of Finance (Deptt. of Economic Affairs—Banking Division)—Credit Facilities to Weaker Sections of the Society.

2. The Fifty-Second Report (Tenth Lok Sabha) was presented to Lok Sabha on 28th April, 1995. The replies indicating action taken on the recommendations contained in that Report were furnished by the Ministry of Finance (Deptt. of Economic Affairs—Banking Division) on 13th November, 1996. The Draft Report was considered and adopted by the Estimates Committee (1996-97) at their sitting held on 7th April, 1997.

3. The Report has been divided into the following Chapters :

- I. Report;
- II. Recommendations/Observations which have been accepted by Government;
- III. Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies;
- IV. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee; and
- V. Recommendations/Observations in respect of which final replies of Government are still awaited.

4. An analysis of action taken by Government contained in the Fifty-Second Report of Estimates Committee (10th Lok Sabha) is given in Appendix. It would be observed therefrom that out of 32 recommendations made in the Report, 29 recommendations *i.e.* 90.7 have been accepted by the Government and the Committee do not desire to pursue 3 recommendations *i.e.* 9.3 % in view of the Government's replies.

NEW DELHI;
April 7, 1997
Chaitra 17, 1919 (S)

RUPCHAND PAL,
Chairman,
Estimates Committee.

CHAPTER I

REPORT

This Report of Estimates Committee deals with action taken by Government on the Recommendations contained in their Fifty-Second Report (Tenth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Banking Division)—Credit Facilities to Weaker Sections of the Society.

1.2 The Committee's 52nd Report was presented to Lok Sabha on 28th April, 1995 and contained 32 observations/recommendations. Action taken replies have been received in respect of all 32 observations/recommendations.

1.3 Action taken replies received from the Ministry of Finance (Department of Economic Affairs—Banking Division) on the recommendations of the Committee have been categorised as follows:—

- (i) Recommendations/Observations which have been accepted by Government:
Sl. Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29 and 30.

(Total : 29 Chapter II)

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

Sl. Nos. 25, 31 and 32.

(Total : 3 Chapter III)

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

Sl. No. Nil

(Total : Nil Chapter IV)

- (iv) Recommendations/Observations in respect of which final replies of Government are still awaited :

Sl. No. Nil

(Total: Nil Chapter V)

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

Performance of Poverty Alleviation Schemes

Recommendation (Sl. Nos. 6, 7, 9, Paras 2.25, 2.26, 3.86)

1.5 In regard to performance of poverty alleviation schemes and achievement of targets as stipulated under RBI guidelines, the Committee *inter-alia* observed as follows :

“During the examination of extending credit facilities to weaker sections of the society under the poverty alleviation schemes of the Government the Committee have gathered an impression that these schemes have not been able to achieve their stated objectives. In this connection, the Special Secretary (Banking) of Ministry of Finance (Department of Economic Affairs) during the evidence before the Committee admitted that ‘we are still far away from our goals. We are trying to improve our system.’

The achievements of targets fixed in respect of priority sector advances has come down from 40.02% in March 1991 to 36.6% in March 1993 as against the target of 40% of the net bank credit to the priority sector as laid down under RBI guideline on credit policy. The achievement of targets in regard to advances to weaker sections of the society has also declined from 9.7% to 8.9% as against the stipulated target of 10% during the same period. Even the scheme-wise fulfilment of targets was far from satisfactory during these 3 years.

The Expert Committee constituted to review the IRDP was expected to submit its report by February, 1994 but they have only submitted an interim report so far. The Committee, therefore, urged the Government to expedite the final Report of the Expert Committee on IRDP as also the consideration of study report on DRI so that identification of factors responsible for poor performance of these schemes/programmes could be made without any further delay as also need for similar Expert Committee to review other poverty alleviation schemes of the Government to identify the factors responsible for their unsatisfactory performance and to suggest suitable measures for making them more effective for alleviation of poverty.”

1.6 The Ministry in their action taken reply have *inter-alia* explained the position as follows:—

“Report on study on DRI scheme has already been finalised. Banks have been suitably advised to pay special attention to those features which called for remedial measures.

Expert Committee on IRDP after submitting its interim report in October, 1994 has held two meetings so far and expected to submit its final report shortly. Incidentally, a large number of issues, solutions of which were required to be found on emergent basis have already been covered in the interim report. Certain other issues of long term implication like marketing support, technological upgradation etc. are expected to be covered in the final report. On the basis of the interim report of the Committee, banks have been advised to take a number of steps which would enhance the efficacy of IRDP.

Implementation of PMRY is being constantly reviewed by the Government as also by RBI and the banks have been advised to ensure that target fixed under the scheme is achieved by them.”

1.7 The Committee appreciate that Government have initiated some steps for improving the performance of various poverty alleviation schemes. The Committee are informed that a gist of findings of study on DRI Scheme concerning banks was also communicated in February, 1995 to all scheduled commercial banks with the advice to pay special attention to those features requiring remedial measures. The Committee would like to be apprised of the impact of the remedial measures initiated by the banks in achievement of targets under DRI-Scheme stipulated under RBI guidelines.

1.8 In regard to the IRDP Scheme, an Expert Committee constituted for the purpose submitted an interim report and its final report *inter-alia* covering marketing support, technological upgradation, etc. was expected shortly. The Committee desire the Expert Committee to expedite its final report so that Government could take remedial measures in the light of the recommendations/ findings made by them.

Regular periodical visits to Bank Offices/Branches by Senior Officers

Recommendation (Sl. No. 8, Para 2.27)

1.9 Expressing their unhappiness over the findings of the RBI, which revealed that periodical visits by Senior level officers of various banks were either not carried out or not carried out regularly. In some cases the visit notes were not recorded and in other cases notes were not sent to the branches for compliance, and even in some cases compliance of visit notes were not followed-up. The Committee felt that these visits could prove very useful in identifying the problems faced at the ground level in extending credit assistance to weaker sections of the society and suggesting remedial measures. The Committee, therefore, recommended that Ministry/RBI should take expeditious steps for streamlining the existing spot monitoring and inspection systems in the controlling offices by the visiting Senior Officers in the light of RBI observations to make them objective and purposeful.

1.10 The Ministry in their action taken reply have stated as follows :—

“The Department of Supervision (DoS) in the RBI will be issuing a circular to commercial banks emphasising the need for regular periodical visits to controlling offices/branches by Senior Executives and also to cover aspects relating to dispensation of credit to SCs/STs and other weaker sections of the society under poverty alleviation programmes.”

1.11 The Committee note the acceptance of their recommendations and desire that regular periodical visits to controlling offices/branches are undertaken by the Senior Executives *inter-alia* overseeing the aspects to dispensation of credit to weaker sections of the society. The Committee would like to be apprised of the instructions issued by RBI and their implementation by the Banks in this matter within a period of six months.

Complaints and Grievances

Recommendation (Sl. Nos. 12 to 16, Paras 3.89 to 3.93)

1.12 The Committee were concerned to note the complaints were being received by RBI/Ministry regarding delay in sanctioning of loans, non-adherence to the guidelines on priority sector advances issued by RBI, and other irregularities in dispensation of credit under various poverty alleviation schemes, etc. The Ministry also admitted that guidelines particularly in regard to time taken for sponsoring applications to banks, scrutiny of applications and sanctioning and disbursement of loans, etc. needed improvement.

1.13 The Committee *inter-alia* observed that there was an urgent need to streamline the procedure for sponsoring and disposal of applications and disbursal of loan amount to the beneficiaries under the poverty alleviation schemes of the Government so that the delay in this regard could be completely eliminated. The Committee therefore desired the Government to take appropriate corrective measures in the light of recommendations made by the High Powered Expert Committee appointed by RBI.

1.14 The Ministry in their action taken reply have stated as follows:—

“Reserve Bank of India, Rural Planning and Credit Department (RPCD) conducted a sample study through its regional offices recently on the implementation of IRDP with a view to mainly finding out whether loan applications received for sanction upto Rs. 25,000 were disposed of within a fortnight as per para 5.4 of IRDP Manual (1991 Edition) and in accordance with the RBI instructions issued from time to time. The study revealed that there is a considerable scope for improving the performance of banks under IRDP, Banks were advised to pay special attention to the shortcomings brought out by the study *vide* RBI circular RPCD No. SP. BC. 32/09-01-01/95-96 dated September 27, 1995 copy enclosed at Appendix II. Complaints regarding delay in sanctioning of loans irregularities in dispensation of credit etc., as and when received are taken up with the concerned bank for comments and rectification where necessary

Reserve Bank of India has also announced Banking Ombudsmen Scheme 1995 under the provision of the Banking Regulation Act, 1949 which provide for appointment of Banking Ombudsmen for all the States and Union Territories of the country and seek *inter-alia* to establish to system of Banking Ombudsmen for expeditious and inexpensive resolution of customer complaints pertaining to the areas specified therein. The system has designed to ensure in normal course satisfactory resolution of complaints as early as possible concerning deficiencies in service in respect of all items which have been enumerated in the scheme and those concerning loans and advances in so far as they relate to non-observance of the Reserve Bank of India directives on interest rates, delay in sanction and non-observance of prescribed time schedule for disposal of loan applications and non-observance of any other directions or instructions of Reserve Bank of India. Banking Ombudsmen have since been appointed at

Bombay, New Delhi, Bangalore, Bhopal, Chandigarh, Hyderabad, Patna, Jaipur and Kanpur.

- ◆ Complaints regarding delay in sanctioning of loans, irregularities in dispensation of credit etc. as and when received are taken up with concerned bank for requisite action wherever called for Reserve Bank of India has time and again issued instructions to the Banks to adhere to the targets fixed under IRDP etc. for disposal of applications. Banks' attention has also been drawn to the time schedule prescribed for disposal of loan applications in Reserve Bank of India's guidelines on priority sector advances. Banks have also been encouraged to encourage cluster approach and group activities so as to ensure viability of investment. Progress in the implementation of programmes is reviewed periodically in fora like Block Level Bankers' Committee (BLBC), District Coordination Committee (DCC), State Level Bankers' Committee (SLBC) etc."

1.15 The Committee note that the study conducted by RBI where loans applications received for sanction upto Rs. 25,000 were disposed of within a fortnight in accordance with their instructions has revealed that there was a considerable scope for improving the performance of the banks under IRDP.

- ◆ **The banks have been advised to pay special attention to the shortcomings brought out in the study. Further complaints regarding delay in sanctioning of loans and irregularities in dispensation of credit etc., as and when received by RBI are taken up with the concerned banks for comments and rectification wherever necessary.**

1.16 The Government have announced Banking Ombudsmen Scheme, 1995 under provision of the Banking Regulation Act, 1949 which provide for appointment of Banking Ombudsmen for all the States and Union Territories of the country and seek, *inter-alia*, to establish a system of Banking Ombudsmen for expeditious and inexpensive solution of customers complaints pertaining to areas specified therein. Banking Ombudsmen have also been appointed at Bombay, Calcutta, Bangalore, Bhopal, Chandigarh, Hyderabad, Patna, Jaipur and Kanpur. This system had been designed to ensure in normal course satisfactory solution of complaints as early as possible.

- ◆ **1.17 RBI has also issued instructions to the bankers to adhere to the targets fixed under IRDP etc. for disposal of applications. Banks have also been encouraged cluster approach and group activities so as to ensure viability of investments etc. Progress is being periodically reviewed by Block Level Bankers' Committee, District Co-ordination Committee and State Level Bankers' Committee. The Committee expect, with the introduction of aforesaid corrective measures, some improvements in the existing system for sponsoring of loan applications and sanction and disbursement of loan amount to the beneficiaries.**

1.18 The Committee also desire the Ministry to take steps for appointing the Banking Ombudsmen in the remaining States and Union Territories.

1.19 The Committee also desire the Government to impress upon the Banks to adhere to all instructions/provisions contained in the IRDP Manual, (1991 Edition) and guidelines of RBI with regard to receipt, disposal of applications, sanctioning and disbursement of loans to beneficiaries meticulously to obviate hardships to the beneficiaries.

1.20 The Committee also desire that the salient features of the system of Banking Ombudsmen for expeditious and inexpensive resolution of customer complaints on certain specified areas in the banks should be given proper publicity by prominently displaying this scheme in all branches of the Public Sector Banks.

Data on Action taken on Lapses by Bank Staff

Recommendation (Sl. No. 18, Para 3.95)

1.21 Expressing serious concern over the rampant corruption prevalent in the process of sponsoring of loan applications and actual disbursal of loans to the beneficiaries, the Committee observed as follows:—

“The data reporting system to RBI does not generate the information regarding lapses on the part of bank staff and disciplinary action taken against them in timely disbursal or otherwise of the credit facilities to the weaker sections of the society. The Committee strongly feel that Ministry/RBI should devise some ways and means for generating such a data in the reporting system RBI to plug all the loopholes in proper implementation of the poverty alleviation schemes of the Government.”

1.22 The Ministry of Finance in their action taken reply have stated as follows:—

“Banks are being advised to furnish to RBI on a yearly basis a statement showing details of lapses committed by the bank staff while implementing poverty alleviation schemes and the action taken against such employees.”

1.23 The Committee note with satisfaction that in order to implement the recommendation of the Committee, banks are being advised to furnish to RBI on an yearly basis a statement showing details of lapses committed by the bank staff while implementing poverty alleviation schemes and the action taken against such employees.

1.24 The Committe hope that furnishing of such information by the banks to RBI and periodic review by Government/RBI of such lapses of bank staff for follow-up corrective measures by the banks would considerably improve proper implementation of the poverty alleviation schemes.

1.25 The Committee would also like to be apprised of the actual implementation of RBI instructions in this regard by the banks during 1996-97.

Recovery

Recommendation (Sl. Nos. 19, 20, 21 and 22, Paras 3.96, 3.97, 3.98 and 3.99)

1.26 Feeling deeply concerned with the low recovery of loans granted to identify beneficiaries under various poverty alleviation schemes of the Government for weaker sections of the society, the Committee after taking note of the various measures initiated by Government/RBI including strengthening of recovery cells, however desired that the Ministry/RBI should take concrete measures to improve the recovery position under all these schemes. In this connection they were informed that some States Governments had enacted legislation empowering officials with the authority to issue an order having the force of a decree of civil court for payment of any sum due on any bank by sale of a property charged, mortgaged in favour of the bank to Facilitate prompt recovery of dues of Commercial banks without having resorted to protracted and time consuming litigations in civil court in compliance to the recommendations made by the Talwar Committee. Some of the States however enacted legislation to that effect. The Committee also desired the Government to persuade the remaining States for enacting the above legislation with changes/modifications if any, required in view of the shortcomings/problems identified in actual implementation of the said legislation.

◆ 1.27 The Ministry in their Action Taken Replies submitted as follows:—

“The RBI have been impressing upon the banks the need for improving their recovery performance under the various poverty alleviation schemes. A copy of circular issued in September, 1994 (RPCD No. SP. BC. 33/09-04-01/94-95 dated September 7, 1994) is attached at Appendix III. The High Level Committee on credit for IRDP has recommended that recovery cell would be strengthened in all DRDAs and systematic plan for constant and persistent recovery efforts would be initiated by DRDA authorities and District Collectors. Reserve Bank of India has also advised banks to supply up-to-date list of defaulters and overdue amount under IRDP, to DRDA *vide* circular RPCD No. SP. BC. 70/09-01/01/C. 568A(P) dated December 1, 1994 (Appendix-IV). For improving the recoveries the Expert Committee on IRDP (Mehta Committee) has made the following:—

- (i) Government of India may consider linking of certain percentage of subsidy allocation to recovery performance.
- (ii) Special Recovery Officers may be appointed by Governments.
- (iii) Loan waivers may not be declared.
- (iv) DRDAs, VOs and SHGs may help banks in recovery.
- (v) Utilisation-Reporter-cum-recovery Facilitators may be appointed on commission basis.

RBI has already written to the Government of India, Ministry of Rural Areas and Employment to consider the recommendations and initiate necessary

action *vide* RNBI letter RPCD. No. 1312/09-01-01/94-95 dated February 8, 1995. On the basis of the recommendations of the aforesaid Committee on IRDP banks have also been advised suitably *vide* circular RPCD. No. SP. BC. 115/09-01-01/94-95 dated February 7, 1995 (Appendix-V)

In terms of the Mehta Committee recommendations District Level Technical groups consisting of Lead District Officers of RBI, District Development Officer of NABARD, Lead Bank Manager, technical officials of State Governments and non-Government consultants are to be set up for preparation of project profiles. NABARD has also been requested to revise unit cost/inputs more frequently. Banks have been advised to ensure that the loan components are enhanced suitably to cover project cost so that projects undertaken would be of adequate size to generate sufficient income to enable the beneficiaries to go above the poverty line in one go. To obviate the misutilisation/non-grounding of assets, it has been decided to introduce the system of back-end subsidy. These steps are expected to improve the recovery position.

As regard enactment of legislation as per the recommendations of the Talwar Committee, RBI has advised their Regional Offices to take up the matter with the concerned State Government. (RPCD No. PLFs. ROC. 9/05-01-19/95-96 dated February 14, 1996 Appendix-VI)."

1.28 The Committee appreciate that the Ministry/RBI have initiated a number of steps for improving the recovery performance under various poverty alleviation programmes. The Committee feel that objectives of these poverty alleviation schemes can be considerably achieved if there is efficient recovery of bank dues as to enable the banks to recycle their investible resources for further loans to the beneficiaries. The Committee, therefore, desire that the Government/RBI themselves at appropriately higher level take up the matter with the State Governments and impressing upon them the need for enacting effective legislation considered for long necessary effective and efficient recovery of bank loans. The Committee would like to be informed about the steps/measures taken up by the Ministry/RBI in this direction within a period of six months.

Recovery Cells

Recommendation (Sl. No. 24, Para 3.101)

1.29 Expressing their unhappiness for not creating separate recovery cells in rest of the 8 public sector banks for continuous and effective supervision and recovery the Committee observed as follows:—

"The Committee find that there is an increasing trend in the amount of overdue, which give an impression to the Committee that the existing recovery cell/other methods adopted by the banks are not adequate to effect the recovery of the overdue. They, therefore, desire that the Ministry/Banks should take expeditious steps for creating recovery cells in the banks where these have not been set up so far. They also desire that the Ministry should devise some ways and means for strengthening the existing recovery cells to improve the recovery position of various banks."

1.30 The Ministry of Finance in their action taken reply have stated as follows:

“As per the Memorandum of Understanding between RBI and the nationalised banks, the latter are supposed to set up recovery cell. RBI has confirmed that all the nationalised banks have since set up loan recovery cell at their Head Offices. As regards other public sector banks, the RBI are pursuing the matter.”

1.31 In their recommendations the Committee had desired that the Ministry/banks should take expeditious steps for creating the recovery cells in the banks where these had not been set up so far. The Committee had also desired that the Ministry should devise some ways and means for strengthening the existing recovery cells to improve the recovery position of various banks. The Government in their action taken reply have stated that RBI has confirmed that all nationalised banks have since set up loan recovery cells at their Head Offices. As regards other public sector banks, the RBI are pursuing the matter.

1.32 The Committee feel satisfied that a provision has been incorporated in the Memorandum of Understanding between the RBI and the nationalised banks for the setting up loan recovery cells. The Committee however, desire that other public sector banks *i.e.* State Bank of India and its subsidiary should be directed to set up loan recovery cells at their Head Offices also. The Committee also desire specific reply on their recommendation that Ministry should devise ways and means for strengthening their existing recovery cells in public sector banks to improve the recovery of bank dues.

Implementation of Recommendations

1.33 The Committee would like to emphasise that they attach the greatest importance to the implementation of the recommendations accepted by the Government. They would, therefore, urge that Government should keep a close watch so as to ensure expeditious implementation of the recommendations accepted by them. In case where it is not possible to implement the recommendations in letter and spirit for any reason, the matter should be reported to the Committee with reasons for non-implementation.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation (S. Nos. 1—3, Paras 1.13 — 1.15)

The banking system in our country remains an important instrument of economic development and achievement of socio-economic goals. In this connection, the Committee note that the Government have been giving much importance to priority sector lendings particularly in view of the need for quicker upliftment of the weaker and downtrodden sections of the society. With a view to achieving this objective the Government's present credit policy aims at channelising, increasing flow of credit to the priority sector and in particular to the weaker sections of the society. This is evident from the fact that the present targets for advances to weaker sections are required to reach a level of 25% of the priority sector advances or 10% of the net bank credit at the end of previous year. This Report of the Committee specifically examines the credit facilities made available to the weaker sections of the society. The examination of this subject by the Committee had revealed that there exists a lot of scope for efficacious and purposeful implementation of the various schemes drawn up by the Government for providing credit facilities to the weaker sections of the society which are primarily income and employment generation meant for betterment of their economic conditions. The specific recommendations of the Committee have been brought out in the subsequent paragraphs of this Report.

The Committee note that in March 1984, RBI issued a comprehensive set of guidelines to be followed for advances to all categories of borrowers in the priority sector. These guidelines which also apply to advances to weaker sections who are an important component of priority sector, relate to standardised application forms, loan procedures, liberalised margin, security norms, disbursement of loan, repayment schedule, disposal of loan application, rate of interest and other charges to be levied etc. and cover all categories of priority sector lendings. According to the Ministry during surveys, evaluation studies of the Government's poverty alleviation programmes conducted by RBI in 1989 there has been revelations of some instances of non-adherence of these guidelines by the banks. This strengthens the Committee's belief that there is no systematic and effective mechanism for monitoring the implementation of these RBI guidelines by various banks. The gist of findings/conclusions of the evaluation study on the flow of credit to SC/ST beneficiaries under Government sponsored programmes under IRDP, SEEU, DRI, etc. in 1989 has been communicated to the Chairman/Managing Directors of all public sector banks with the advice to pay special attention, to these features which need remedial measures on the part of the banks. The Committee feel the Government/RBI should not remain content with issue of instructions only. There should be an effective monitoring of the remedial measures required to be taken by the banks and to obviate their recurrence in future.

The Committee, therefore, desire that close monitoring may be done by the existing cell in RBI to periodically review the progress of implementation of these guidelines with a view to ensuring their effective implementation. They would also like this monitoring cell to suggest measures for removal of any shortcomings or inadequacies in them, which may crop up during the actual implementation of these guidelines.

Reply of the Government/Reserve Bank of India

The Banks' adherence to the priority sector guidelines is monitored not only by the Cell but also by the Rural Planning and Credit Department (RPCD) as a whole in the following ways:

- (i) RPCD conducts inspection of rural and semi-urban branches of commercial banks. One of the objectives of these inspections is to find out whether RBI's guidelines on priority sector lending are adhered to by the banks.
- (ii) Branch visits are undertaken by the officers of RPCD. The officer visiting the branches interacts with the beneficiaries also to find out deficiencies, if any, in lending to the weaker sections.
- (iii) Special studies are conducted by the Department from time to time to evaluate the impact of RBI's guidelines as also to see whether these are properly followed. Such special studies as also evaluation studies have been carried out in the case of financing of SSIs and other fields of priority sector lending including implementation of poverty alleviation programmes, credit facilities to SCs/STs etc.
- (iv) In addition to this, Government of India also carries out concurrent evaluation in case of IRDP to see whether the manual provisions are being implemented.
- (v) If any specific complaint of non-adherence to the instructions/guidelines is received, the matter is taken up with the bank concerned for taking corrective action.
- (vi) Further, the guidelines are kept under constant review and changes/modifications are made therein from time to time. These relate to re-definition of activities included under the priority sector, margin and security norms, simplification of application forms etc.
- (vii) A Special Cell under the chairmanship of Deputy Governor, RBI has also been created in its Rural Planning and Credit Department for monitoring the progress of the Government sponsored schemes of PMRY and IRDP on a continuing basis. The members of the Cell meet regularly to review the progress under the schemes and remove bottlenecks coming in the way of flow of credit requirements.
- (viii) Under Banking Ombudsmen Scheme, 1995, RBI has appointed Banking Ombudsmen at various centres for redressal of grievances against deficiency in banking services such as non-observance of RBI directives relating to interest rates, delays in sanction/non-observance of prescribed time schedule etc.

[F. No. 11/14/95-Dev., Dated 5-7-1996.]

Recommendations (S. Nos. 4 and 5, Paras 2.23 and 2.24)

The main objective of the poverty alleviation schemes is to provide credit facilities to weaker sections of the society in the form of subsidy and bank loans for small productive and self-employment ventures etc. to improve their economic conditions. The success of the venture/project depends upon the proper selection of the beneficiaries, economic viability of the projects, adequate loan amount, timely disbursement, requirement of additional funds, repayment schedule, etc. and for that responsibility should necessarily be of the bank extending credit assistance. The Committee desire that Government should take into consideration positive aspects of association of non-governmental agencies/voluntary organisations in identification of eligible beneficiaries in the light of the experience on the successful functioning of the poverty alleviation schemes in the State of Karnataka. The Committee also desire that workers rendered jobless as a result of closure/sickness of mills falling within the prescribed income limit, may also be considered for benefit under the poverty alleviation programmes of the Government.

The Committee note that under each scheme of poverty Alleviation Programme eligibility criteria and procedure for identification of beneficiaries have been laid down. The identification of eligible borrowers under DRI Scheme is done by the banks with their wide network of branches in the rural areas. The beneficiaries under IRD Programme are identified by officers deputed by DRDAs and finalised with the help of Village Assembly and BDO. In regard to schemes like SEEU and PMRY, the list of eligible borrowers is finalised by a task force consisting of officials from lead banks, Government and reputed non-governmental organisations. However, the beneficiaries under SUME are identified by Urban Local Bodies consisting of Nagar Panchayats, Nagar Palikas and Municipal Bodies. While expressing some reservations about the identification procedure, the special secretary (Banking) during evidence admitted that I am not quite sure whether the system of various Government departments identifying the schemes and identifying the persons is the right way in order to improve the existing system in identification of beneficiaries the Ministry based on experience of functioning of such schemes in the State of Karnataka have suggested that association of non-governmental agencies/voluntary agencies might prove beneficial in this regard.

Reply of the Government/Reserve Bank of India

The question of making use of Non-Governmental Organisations (NGOs) and Voluntary Agencies (VAs) for improving the efficacy of the Government's poverty alleviation programme has been receiving increasing attention in recent years. It has been recognised that NGOs with their local feel and familiarity with the village level problems can provide a very effective channel for transmitting the benefits of various poverty alleviation programmes. Under a pilot programme of NABARD introduced in 1993, banks were advised to grant bulk loans to NGOs/VAs which act as intermediaries for routing credit to rural poor through the concept of Self-Help Groups (SHGs). At the RBI-NABARD consultations on Rural Credit held in September 1994, it was felt that Non-Governmental Organisations and Self Help Groups have a vital role to play. In so far as utilisation of NGOs/VAs for identifying

borrowers is concerned, such a provision has already been made in PMRY. Under this scheme, the Chairman of the Task Force which among others things, selects entrepreneurs, can co-opt one or more members from reputed NGOs. Regarding IRDP, Mehta Committee in its Interim Report (Para 6.12) has observed that one of the factors inhibiting the successful implementation of IRDP is the high transaction costs in dispensing small amounts of credit to a large number of clientele spread over the length and breadth of the country. The Mehta Committee feels that the transaction costs can be considerably reduced by enhancing the role of VOs and Self-Help Groups (SHGs) in credit dispensation ensuring its end use and providing backward/forward linkages under the IRDP. Direct involvement of the VOs in every stage of implementation of the IRDP would enable them to function as catalysts. The Mehta Committee has also recommended that in the case of projects approved by CAPART, a few Voluntary Organisations can be on a pilot basis given a list of Below Poverty Line (BPL) families for identification of borrowers to be sponsored to the banks. RBI has already written to the Government of India, Ministry of Rural Areas and Employment to consider initiating suitable action to implement the above recommendations of the Mehta Committee. The Government of India have since decided to extend financing under IRDP to groups and it has been decided to provide subsidy of 50 per cent of the project cost subject to a ceiling of Rs. 1.25 lakhs per group. Reserve Bank of India has recently advised the banks to avail of the services of VAs for improving their performance in implementation of DRI Scheme. Under SUME, provision has already been made for associating leading NGOs, if any, working in the area, with the task force entrusted with the responsibility of identification of borrowers.

As for assistance to workers rendered jobless as a result of closure/sickness of mills, they can be considered for providing loans under the Government's poverty alleviation programmes if they satisfy the eligibility criteria prescribed thereunder.

[F. No. 11/14/95-Dev., Dated 5.7.1996]

Recommendations (S. No. 6—9, Paras 2.25—2.27 and 3.86)

The Committee note that the Government of India have formulated various schemes/programmes viz., IRDP, SUME, SEEUY and DRI etc. to alleviate poverty of those people who are very poor and generally belong to the weaker sections of the society. These schemes provide for special provisions for the benefit of SCs/STs who form a major segment of the weaker sections of the society. The main objectives of the various schemes aimed at providing credit facilities to weaker sections of the society have been to provide them opportunities through a package of assistance in the form of subsidy and bank loan for small productive and self-employment ventures etc. to improve their economic conditions by enabling them to have a continuing source of income. During the examination of extending credit facilities to weaker sections of the society under the poverty alleviation schemes of the Government the Committee have gathered an impression that these schemes have not been able to achieve their stated objectives. In this connection, the Special Secretary (Banking), Ministry of Finance (Department of Economic Affairs) during the evidence before the Committee admitted that there is a great deal of disquiet within Government and

within other circles as to the efficacy of these programmes. The performance in these sectors have been somewhat mixed. There are certain other areas where there is a great deal of concern about the programme not doing well. The Special Secretary (Banking), during evidence also enumerated some of the factors *viz.*, misutilisation of subsidy, misappropriation or collusion between bank officials and the Government etc., which may be responsible for unsatisfactory performance of these schemes. He further informed the Committee that some steps have been taken by the Ministry in this regard and added that we are still far away from our goals. We are trying to improve our system.

The Committee are informed that a survey was undertaken by RBI in regard to DRI Scheme and its Study Report was under the consideration of Government. In regard to IRDP, an Expert Committee was constituted to review the programme. The Committee are concerned to note that this Expert Committee was expected to submit its report by February 1994 but they have only submitted an interim report so far. The Committee, therefore, urge the Government to expedite the final Report of the Expert Committee on IRDP as also the consideration of Study Report on DRI so that identification of factors responsible for poor performance of these schemes/programmes could be made without any further delay. The Committee also desire the Government to examine whether there is a need for similar Expert Committee to review other poverty alleviation schemes of the Government to identify the factors responsible for their unsatisfactory performance and to suggest suitable measures for making them more effective for alleviation of poverty. The Committee would like to be informed of the steps taken in this regard within six months of the presentation of this Report.

The Committee note that RBI is maintaining a separate Department namely Rural Planning and Credit Department (RPCD) which *inter-alia* monitors performance of the public sector banks in the matter of extending credit assistance to SCs/STs/Weaker Sections under the various poverty alleviation programmes of the Government. In addition to the monitoring by RPCD of RBI senior level officers of various banks from their controlling offices visit branches under their control for on-the-spot monitoring of the operations of the branches. The visiting officers are expected to record their observations in visit notes to be followed up by the branches concerned. RBI inspectors comment on the quality of such visits during their inspections of the banks concerned. The Committee express their unhappiness over the findings of the RBI, which have revealed that periodical visits were either not carried out or not carried out regularly. In some cases the visit notes were not recorded and in other cases notes were not sent to the branches for compliance. Even in some cases compliance of visit notes were not followed up. The Committee feel that these visits could prove very useful in identifying the problems faced at the ground level in extending credit assistance to weaker sections of the society and suggesting remedial measures. The Committee, therefore, recommend that Ministry/RBI should take expeditious steps for streamlining the existing spot monitoring and inspection systems in the controlling offices by the visiting Senior Officers in the light of RBI observations to make them objective and purposeful.

Reply of the Government/Reserve Bank of India

The Department of Supervision (DoS) in the RBI will be issuing a circular to commercial banks emphasising the need for regular periodical visits to controlling offices/branches by Senior Executives and also to cover aspects relating to dispensation of credit to SCs/STs and other weaker sections of the society under poverty alleviation programmes.

[F.No. 11/14/95-Dev., Dated 5.7.1996]

The Committee are perturbed to note that the achievements of targets fixed in respect of priority sector advances has come down from 40.02% in March 1991 to 36.6% in March 1993 as against the target of 40% of the net bank credit to the priority sector as laid down under RBI guideline on credit policy. The achievement of targets in regard to advances to weaker sections of the society has also declined from 9.7% to 8.9% as against the stipulated target of 10% during the same period. Even the scheme-wise fulfilment of targets was far from satisfactory during these 3 years. In regard to DRI Scheme, the achievement of target has been around 0.7% as against a target of 1% during the same period. As far as IRD Programme is concerned the target achievement in respect of women beneficiaries has ranged between 30.89% to 32.39% as against prescribed target of 40% during the same period. The Ministry have enumerated various reasons/factors responsible for non-achievement of targets. In regard to DRI Scheme preference of the target groups for other Government sponsored subsidy linked schemes rather than DRI Scheme where only concessional rate of interest is offered, difficulty in identifying the eligible borrowers and a scheme for write off and reliefs given to eligible borrowers are the main factors in the success of this scheme. Under SEEUY Scheme, the majority of SC/ST candidates having requisite qualifications are stated to be opting for salaried jobs. As far as the IRD Programme is concerned, the major reason for non-achievement of target in respect of women beneficiaries was low literacy, restrictive social practice, predominance of patriarchal society and lack of exposure of changes. In this connection Committee note that Ministry/RBI have taken a number of steps to improve the performance of various poverty alleviation schemes of Government. According to the Ministry, RBI has conducted a survey in regard to DRI Scheme and the study report was under consideration of the Government. On the basis of the findings necessary steps will be initiated in consultation with the Government. As regards IRDP, the Expert Committee has submitted only an Interim Report so far. The Final Report of the Committee is still awaited. The Committee, therefore, desire that the Ministry/RBI should take expeditious steps so that the outcome of the survey and the final report of the Expert Committee be made available to the Government/RBI to enable them to make necessary improvement/modifications in the various schemes and also take remedial measures for better target achievement of these schemes. The Committee are happy to note that notwithstanding Narasimhan Committee recommendation on target for priority sector lendings Government and RBI have made it categorically clear that the priority sector lendings obligation for banks would not be reduced.

Reply of the Government/Reserve Bank of India

Report on study on DRI scheme has already been finalised and as stated in our comments against paragraph 2.26, banks have been suitably advised. The Expert

Committee on IRDP after submitting its interim report in October, 1994 has held two meetings so far and expected to submit its final report shortly. Incidentally, a large number of issues, solutions of which were required to be found on an emergent basis have already been covered in the interim report. Certain other issues of long term implication like marketing support, technological consultation etc. are expected to be covered in the final report. On the basis of the interim report of the Committee banks have been advised to take a number of steps which would enhance the efficacy of IRDP.

Incidentally, SEEU scheme has since been merged with PMRY with effect from April 1, 1994.

1. DRI Study

Report on the study undertaken by RBI in regard to implementation of DRI Scheme has since been finalised. A gist of findings of the study concerning banks was also communicated to all scheduled commercial banks and they were advised to pay special attention to those features which called for remedial measures. A copy of the Circular RPCD. No. SP.BC. 113/09-07-01/94-95 dated 1 February, 1995 is enclosed at (Appendix VII & VIII).

2. IRDP

Expert Committee on IRDP after submitting its interim report in October 1994 has held 2 meetings so far and is expected to submit its final report shortly. Incidentally, a large number of issues, solutions of which were required to be found on an emergent basis have already been covered in the interim report. Certain other issues of long term implications like marketing support, technological upgradation, etc. are expected to be covered in the final report

As regards other schemes, it may be stated that position regarding implementation of PMRY is being constantly reviewed by the Government as also by RBI and the banks have been advised to ensure that target fixed under the scheme is achieved by them.

[F.No. 11/14/95-Dev., Dated 5.7.1996.]

Recommendations (S. Nos. 10 and 11, Paras 3.87 and 3.88)

The Committee also desire that the Government should issue necessary directions to the banks to make concerted efforts in extending credit facilities to Weaker sections of the society according to the targets stipulated under each scheme and their sub-sectors.

The Committee also expect Government/banks to make efforts to educate the eligible beneficiaries specially DRI and women beneficiaries, with a view to bestowing full advantages of these schemes which are in their interest.

Reply of the Government/Reserve Bank of India

Performance of bank in lending to priority sector and in achievement of the target/sub-targets prescribed under various categories is reviewed periodically and

if any, adverse features are noticed, the matter is taken up with the concerned bank for taking remedial measures.

Banks were also cautioned that failure to achieve the target/sub-targets might call for bank specific policy measures which could include withdrawal of refinance facilities, raising reserve requirements or such other measures deemed necessary.

Further, domestic banks have been asked to make contributions to the Rs. 2000/- crores Rural Infrastructural Development Fund (RIDF) set up in NABARD, to the extent of the shortfall in their agricultural lending subject to a maximum of 1.5 per cent of their net bank credit. Such public sector banks which failed to reach the target of 40 per cent even after taking into account their contributions to RIDF are required to contribute to the Rs. 1000/- crores consortium lending led by State Bank of India to KVIC. In addition, banks have already been advised that although the practice of allocating physical targets under IRDP has been discontinued with effect from the year 1995-96, they should continue to observe sub-targets of 40 per cent for women, 50 per cent for SCs/STs and 3 per cent for physically handicapped provided for in the programme. Further, banks are being constantly advised to ensure that targets fixed under PMRY are achieved by them. Similarly, in regard to DRI scheme, RBI have advised all banks to improve their performance regarding implementation of schemes so that the target (1 per cent of aggregate advances) is achieved. As regard educating DRI beneficiaries including women beneficiaries RBI has already advised *vide* circular RPCD. No. SP. BC. 82/09-07-01/95-96 dated February 7, 1996 (copy enclosed at Appendix IX) to take suitable measures so that these beneficiaries derive benefits of the scheme.

[F.No. 11/14/95—Dev., Dated 5-7-1996.]

Recommendations (S. Nos. 12 and 13, Paras No. 3.89 and 3.90)

The Committee are concerned to note that the Ministry and the RBI have been receiving a number of complaints regarding delay in sanctioning of loans, non-adherence to the guidelines on priority sector advances issued by RBI, various irregularities in dispensation of credit under Government sponsored schemes etc. The Committee have also been informed by the beneficiaries during their study tour to the various places in the country that DRDA took a number of months in approving and sponsoring the loan applications to the banks. As per the guidelines on priority sector lending issued by RBI to all banks, all loan applications upto Rs. 25,000/- are to be disposed of within a fortnight and those for over Rs. 25,000/- within 8 to 9 weeks.

The Committee find that in order to improve the system for expeditious disposal of applications for disbursement of loan amount to identified beneficiaries a system has been suggested in the Manual for IRDP and Allied programmes of TRYCEM & DWCRA (April 1991 Edition), which provides that the application forms of the beneficiaries for loans should be prepared in camp attended by the beneficiaries, the Block functionaries, other concerned Departments including the Revenue Department and the bankers. This system has been devised to save time and energy of the beneficiaries in running from office to office to get no dues certificate and other

requisite documents. The DRDA have also been advised to avoid bunching of applications in the last quarters as well as spreading of the sponsoring of applications throughout the year. Quarterly targets have been fixed for sponsoring applications. In this connection, the Ministry have expressed their views that the guidelines particularly in regard to time taken for sponsoring applications to banks, scrutiny of applications and sanctioning and disbursement of loans etc. needs improvement.

Reply of the Government/Reserve Bank of India

Reserve Bank of India, RPCD conducted a sample study through its regional offices recently on the implementation of IRDP with a view to mainly finding out whether loan applications received for sanction upto Rs. 25,000/- were disposed of within a fortnight as per para 5.4 of IRDP Manual 1991 Edition and in accordance with the RBI instructions issued from time to time. The study revealed that there is a considerable scope for improving the performance of banks under IRDP. Banks were advised to pay special attention to the shortcomings brought out by the study *vide* RBI circular RPCD. No. SP. BC. 32/09-01-01/95-96 dated September 27, 1995 (copy enclosed at Appendix II). Complaints regarding delay in sanctioning of loans irregularities in dispensation of credit etc., as and when received are taken up with the concerned bank for comments and rectification where necessary.

Reserve Bank of India has also announced Banking Ombudsmen Scheme 1995 under the provision of the Banking Regulation Act, 1949 which provide for appointment of Banking Ombudsmen for all the States and Union Territories of the country and seek *inter-alia* to establish the system of 'Banking Ombudsmen' for expeditious and inexpensive resolution of customer complaints pertaining to the areas specified therein. The system has designed to ensure in normal course satisfactory resolution of complaints as early as possible concerning deficiencies in service in respect of all items which have been enumerated in the scheme and those concerning loans and advances in so far as they relate to non-observance of the Reserve Bank of India directives on interest rates delay in sanction and non-observance of prescribed time schedule for disposal of loan application and non-observance of any other directions or instructions of Reserve Bank of India. Banking Ombudsmen have since been appointed at Bombay, New Delhi, Bangalore, Bhopal, Chandigarh, Hyderabad, Patna, Jaipur and Kanpur.

[F.No. 11/14/95—Dev., Dated 5-7-1996.]

Recommendations (S. Nos. 14—16, Paras No. 3.91—3.93)

Hon'ble Members of Parliament have been highlighting on the floor of the House, wherever opportunity comes, the hardships caused to the poor people in getting bank loans even under the poverty alleviation programmes due to complex procedures, delays and corruption prevalent in the bank staff.

The Committee feel there is an urgent need to streamline the procedure for sponsoring and disposal of applications and disbursal of loan amount to the identified beneficiaries under the various poverty alleviation schemes of the Government with a view to ensuring that delays in sponsoring and disbursal of loan amounts to the beneficiaries is completely eliminated, which in the opinion of the Committee is an essential pre-requisite for the success of any poverty alleviation programme/scheme of the Government.

The Committee are satisfied to note that the Government is conscious of the need for improvement. In order to bring improvement in the system for disposal of applications for disbursement of loan amount to identified beneficiaries, the matter has also been referred to the High Powered Expert Committee constituted by RBI for recommendations. The Committee desire that Government would take appropriate corrective measures with due promptitude in the light of the recommendations of the Expert Committee.

Reply of the Government/Reserve Bank of India

Complaints regarding delay in sanctioning of loans, irregularities in dispensation of credit etc. as and when received are taken up with concerned bank for requisite action wherever called for. Reserve Bank of India has time and again issued instructions to the banks to adhere to the targets fixed under IRDP etc. for disposal of applications. Banks' attention has also been drawn to the time schedule prescribed for disposal of loan application in Reserve Bank of India's guidelines on priority sector advances. Banks have also been encouraged to encourage cluster approach and group activities so as to ensure viability of investment etc. Progress in the implementation of programmes is reviewed periodically in fora like Block Level Bankers' Committee (BLBC), District Coordination Committee (DCC), State Level Bankers' Committee (SLBC) etc.

[F. No. 11/14/95—Dev., Dated 5-7-1996.]

Recommendation (S. No. 17, Para No. 3.94)

The Committee are surprised to note that the information regarding the average quantum of money given by banks to each beneficiary is not available with the Ministry. Even the Ministry could not furnish the details of cases where loans were not granted in a stipulated time, as the record was not available with the Ministry. The Committee are unable to understand why these statistics/data have not been compiled by Ministry/RBI/banks and in the absence of such an information as to how the Ministry is able to evaluate the performance of schemes from different aspects. The Committee, therefore, desire that the Ministry should take effective steps for compiling and maintaining statistics of all types of schemes pertaining to weaker sections of the society centrally either in the Ministry or RBI/banks. In the opinion of the Committee, this will provide the necessary insight into the performance of the various schemes of the Government.

Reply of the Government/Reserve Bank of India

Government/RBI are very keen to ensure that loan applications under priority sector are disposed of within the prescribed time schedule. The aspect *viz.* delay in sanction/disbursement of loans is also looked into by officers of RPCD who conduct branch visits independent of the inspection by Department of Supervision, RBI. Taking into account the large number of returns to be submitted by banks to RBI/Government, it is therefore felt that banks may not be required to furnish on a regular basis information regarding average time taken for sanction/disbursement of loans. As regards average quantum of money given by the banks to each beneficiary under various poverty alleviation schemes, necessary data is now available with RBI.

[F. No. 11/14/95—Dev., Dated 5-7-1996.]

Recommendation (S. No. 18, Para No. 3.95)

The Committee view with serious concern the rampant corruption prevalent in the process of sponsoring of loan applications and actual disbursement of loans to the beneficiaries. As admitted by the Special Secretary (Banking) during his evidence before the Committee that, there are so many schemes sponsored by the Government and by the time the person gets the money, it becomes only a small fraction of what the original amount was. The Committee are also not happy with the fact that the data reporting system to RBI does not generate the information regarding lapses on the part of bank staff and disciplinary action taken against them in timely disbursement or otherwise of the credit facilities to the weaker sections of the society. The Committee strongly feel that Ministry/RBI should devise some ways and means for generating such a data in the reporting system of RBI to plug all the loopholes in proper implementation of the poverty alleviation schemes of the Government.

Reply of the Government/Reserve Bank of India

Banks are being advised to furnish to RBI on an yearly basis a statement showing details of lapses committed by the bank staff while implementing poverty alleviation schemes and the action taken against such employees:

[F. No.11/14/95—Dev., Dated 5-7-1996.]

Recommendations (S. Nos. 19—22, Paras No. 3.96-3.99)

The Committee are highly concerned to note that the recovery of loans granted to identified beneficiaries under various poverty alleviation schemes of the Government has been very low. From the figures furnished to the Committee, it is seen that recovery position in respect of IRDP ranged between 30.8% to 41.4% during the period from June 1990 to June 1993. In respect of SEEUY scheme the recovery percentage was less than 24% from June 1990 to June 1992 and the data received from 12 banks showed that recovery under this scheme was only 15.59% as on June, 1993. Under DRI scheme as per the data made available by the Ministry indicate that the recovery varied between 34.1% and 47.8% during the period December 1988 to June 1991 as the subsequent data was stated to be not available with the Ministry. As regard bank-wise recovery position during the years 1990-91 to 1992-93 it is seen from the data furnished to the Committee that recovery has been dismal in respect of almost all the banks especially in case of Dena Bank, Allahabad Bank, Central Bank, SBI and PNB etc. In regard to overall recovery position in respect of all the programmes/schemes the Special Secretary (Banking Division) during the evidence before the Committee informed that in the last three years as of June 1993 the recovery percentage is 23.9%. The lowest was 22.8% and the highest was 26%. The Committee expressed their unhappiness over the state of recoveries of loans under various poverty alleviation schemes of the Government for the weaker sections of the society.

These wellmeaning social welfare schemes for vulnerable section of the society have been able to achieve little owing to inefficient implementation. There is considerable siphoning of funds allocated under these schemes. It is seldom that even a smart IRDP entrepreneur can get the loan sanctioned and disbursed full amount.

This had been documentedly observed by the Former Prime Minister, late Shri Rajiv Gandhi that beneficiaries under the welfare schemes of the Government get only about 30 per cent of the sanctioned financial assistance. The rest is pocketed by the intermediaries.

It is thus not surprising that the fault for repayment of loans in such accounts have been rising steadily over the years because of the marked reluctance on the part of the beneficiaries to refund the full loan for which they have been paid less than one-third of the amount.

The Committee find that the main difficulties faced as enumerated by the Government/banks for effecting recoveries are *viz.* the feeling among the beneficiaries that the loans are Government grants not meant to be repaid, the feeling among the banks that IRDP etc. are Government Programmes for which fiscal targets are to be fulfilled. Reckless disbursement of loans during loan melas is another contributing factor. In some cases the difficulties faced in non-recovery of loans are non-availability of suitable staff or effective supervision waiver of loan by Government inadequate support from the State Government machinery etc. With a view to improve the recovery position RBI is stated to have advised the banks to strengthen and gear up their organisational structure both at the controlling offices and at field level, adopt schematic approach to lending for facilitating supervision, tune up pre-lending appraisal system and post lending follow up, arrange recovery drives to coincide with harvests and organise block-wise recovery campaigns in association with the concerned State Government Officers. As regards recovery of agricultural dues of commercial banks, the Expert Group (Talwar Committee) appointed in September, 1969 had recommended that the State Governments should empower officials with the authority to issue an order having the force of a decree of Civil Court for payment of any sum due to a bank by sale of property charged/mortgaged in favour of the banks to facilitate prompt recovery of dues of commercial banks without having resort to protracted and time consuming litigation in Civil Courts. In this connection, the Committee find that only 16 States have so far enacted legislation to this effect. The Committee have also been informed that the RBI advised Indian Banks' Association to take up the matter with the concerned State Government through SLBC convenor Banks and use their good offices in getting the legislation enacted. The Committee also note that those State Government where this legislation has been enacted are encountering certain legislative shortcomings and operational problems. They hope that the necessary modifications will be made in the legislation to remove the shortcomings and problems faced in its actual implementation by State Governments.

The Committee appreciate the steps taken by the Government of India/RBI like allotting one day in a week as non-working day for visiting the borrowers in connection with the recovery of dues, not granting loans to wilful defaulters, making waiver of loans under Agricultural and Rural Debt Relief Scheme only one time measure, etc. The Committee feel that the steps taken by the Government/RBI are not proving to be very effective as is evident from the continued poor recovery position in respect of all the schemes during the last three years. The Committee agree with the Ministry that with overdue as the level of 70% to 80% of the demand

it would be highly difficult to turn any poverty alleviation programmes into a successful one. Thus, the Committee desire that the Government should again take up the matter with the remaining State Government on priority basis to persuade them to enact the above legislation with necessary changes/modifications required in view of the shortcomings/problems identified in the actual enactment of this legislation the recovery position will improve in regard to all the schemes of the Government. They would like the Ministry/RBI to take concrete measures to improve the recovery position of all the schemes. The Committee would like to be informed about the latest position in this regard.

Reply of the Government/Reserve Bank of India

The RBI have been impressing upon the banks the need for improving their recovery performance under the various poverty alleviation schemes. A copy of circular issued in September 1994 (RPCD No. SP. BC. 33/09-04/01/94-95 dated September 7, 1994) is attached at Appendix III. The High Level Committee on credit for IRDP has recommended that recovery cell would be strengthened in all DRDAs and systematic plan for constant and persistent recovery efforts would be initiated by DRDA authorities and District Collectors. Reserve Bank of India has also advised banks to supply upto date list of defaulters and overdue amount under IRDP, to DRDAs *vide* circular RPCD No. SP. BC.70/09-01/C. 568A (P) dated December 1, 1994 (copy enclosed and Appendix IV). For improving the recoveries the Expert Committee on IRDP (Mehta Committee) has made the following.

- (i) Government of India may consider linking of certain percentage of subsidy allocation to recovery performance.
- (ii) Special Recovery Officers may be appointed by Governments.
- (iii) Loan waivers may not be declared.
- (iv) DRDAs VOs and SHGs may help banks in recovery.
- (v) Utilisation-Reporter-cum-Recovery Facilitators may be appointed on commission basis.

RBI has already written to the Government of India, Ministry of Rural Areas and Employment to consider the recommendations and initiate necessary action *vide* RNBI letter RPCD. No. 1312/09-01-01/94-95 dated February 8, 1995. On the basis of the recommendations of the aforesaid Committee on IRDP banks have also been advised suitably *vide* circular RPCD. No. SP.BC.115/09-01-01/94-95 dated February 7, 1995 (Copy enclosed at Appendix V.)

In terms of the Mehta Committee recommendations District Level Technical Groups consisting of Lead District Officers of RBI, District Development Officer of NABARD, Lead Bank Manager, technical officials of State Governments and non-Government consultants are to be set up for preparation of project profiles. NABARD has also been requested to revise unit cost/input more frequently. Banks have been advised to ensure that the loan components are enhanced suitably to cover project cost so that projects undertaken would be of adequate size to generate sufficient income to enable the beneficiaries to go above the poverty line in one go. To obviate

the misutilisation/non-grounding of assets, it has been decided to introduce the system of back-end subsidy. These steps are expected to improve the recovery position.

As regard enactment of legislation as per the recommendations of the Talwar Committee RBI has advised their Regional Offices to take up the matter with the concerned State Government. (Copy of the Circular RPCD No. PLFS. ROC. 9/05-01-19/95-96 dated February 14, 1996 enclosed at Appendix VI.)

[F. No. 11/14/95—Dev., Dated 5.7.1996.]

Recommendation (S. No. 23, Para No. 3.100)

The Committee are also unhappy to note that data relating to recovery positions in respect of some schemes are not available with the Government/RBI, with the result the same could not be furnished to the Committee for their perusal. The Committee regrets why this data is not being compiled by the concerned banks or RBI centrally. In some cases the Ministry could furnish the data with respect to few banks only. In the absence of these figures Government may not be able to take stock of the exact position with regard to recoveries. The Committee have also not been furnished with any reasons for not maintaining such data by RBI. The Committee are of the view that these figures should be compiled scheme-wise by RBI centrally in order to effectively monitor the recovery position and suggest remedial measures in this regard wherever necessary. They hope that the requisite steps would be taken by the Ministry for collecting and compiling the relevant data relating to recovery position in respect of all the banks.

Reply of the Government/Reserve Bank of India

While furnishing the material to the Estimate Committee in response to the questionnaires which was received from them earlier, RBI had furnished data regarding recovery of loans in respect of agricultural advances, IRDP, DRI and SEEUY. In addition, similar data in respect of SUME and SLRS is also now being compiled by RBI. Data on recovery of loans granted under PMRY is also proposed to be compiled on a regular basis. RBI has recently advised the banks to furnish recovery statements on a half-yearly basis in respect of PMRY and IRDP with a view to closely watching the recovery position. A Committee under the Chairmanship of Chief General Manager, RPCD, RBI has been set up to review the recovery position in respect of IRDP. The monitoring cell for PMRY and IRDP set up in RBI under the Chairmanship of Deputy Governor will also be reviewing the recovery position in respect of PMRY.

[F. No. 11/14/95-Dev., Dated 5.7.1996.]

Recommendation (S.No. 24, Para No. 3.101)

The Committee note that in November, 1984 banks were advised to create separate recovery cells for cluster of nearby branches for continuous and effective supervising and recovery, where overdues exceeded 50% of demand and agricultural advances are sizeable. The Committee are unhappy to find that only 19 public sector banks have established separate recovery cells so far. The other 8 public sector banks have adopted various other means to monitor recover of overdues. The Committee have not been informed about the specific reasons for not creating recovery cells by

these 8 public sector banks so far even after lapse of a decade since such advice was given. The Ministry have however informed about the various constraints and difficulties viz paucity of staff, location of branches in remote corners etc. which the banks face for creating separate recovery cells. The Banks are stated to be adopting other means like setting up of Gramodaya Kendras, deployment of agricultural field officers and collection of cash at door steps of the borrowers etc. for monitoring the recoveries of overdues. In spite of these steps taken by various banks the Committee find that there is an increasing trend in the amount of overdues, which give an impression to the Committee that the existing recovery cell/other method adopted by the banks are not adequate to effect the recovery of the overdues. They therefore, desire that the Ministry/banks should take expeditious steps for creating recovery cells in the banks where these have not been set up so far. They also desire that the Ministry should devise some ways and means for strengthening the existing recovery cells to improve the recovery position of various banks.

Reply of the Government/Reserve Bank of India

As per the Memorandum of Understanding between RBI and the nationalised banks, the latter are supposed to set up recovery cell. RBI has confirmed that all the nationalised banks have since set up loan recovery cell at their Head Offices. As regards other public sector banks RBI are pursuing the matter.

[F. No. 11/14/95-Dev., Dated 5.7.1996.]

Recommendation (S. No. 26, Para No. 3.103)

The Committee have been informed that the diversion of funds is one of the major reasons limiting the success of Poverty Alleviation Programmes and some action have been taken to recover the misutilised portion of assistance by invoking Public Demand Recovery Act, Land Revenue Recovery Act existing in the States. From the figures furnished to the Committee with regard to number of cases where funds were utilised for purposes other than those for which they were sanctioned and the quantum of amount involved for the last three years it is seen that during these years the number of such cases have increased in respect of Dena Bank, State Bank of Indor, Bank of Mysore, Andhra Bank, State Bank of Patiala, Bank of Baroda and Oriental Bank of Commerce. Even the amount involved in such cases have also shown an increasing trend, which gives an impression to the Committee that aforesaid Acts are not adequate and effective in checking the misuse of assistance. The Committee also take note of the fact that State Government also pay an important role in the realisation of unutilised/misappropriated funds from the erring beneficiaries, as they are required to make bonds/pronote enforceable under the provisions of the local laws. The Committee are of the view that the existing mechanism for coordination among the Ministry/bank and the concerned State Government need to be strengthened for effectively monitoring such cases of defaults and subsequent recovery of dues from beneficiaries. The Committee, therefore, desire that suitable measures should be initiated to strengthen the existing mechanism for coordination and monitoring and also for making the provisions of the relevant Acts more comprehensive to deal with such situations. The Committee will also like the

Ministry to initiate suitable action against the defaulters so that the amount laying with the defaulters could be recovered and the number of these cases could be brought down to minimum. The Committee would like to be informed of the action initiated in this regard.

Reply of the Government/Reserve Bank of India

There is need for greater support from State Governments to the banks in their bid to improve recovery position. The Expert Committee on IRDP has recommended that recovery officers may be appointed by State Governments exclusively to recover bank dues. It has already been decided to strengthen the recovery cells in all DRDAs District Collectors and DRDAs would initiate systematic plans for constant recovery efforts. RBI has advised banks to supply up-to-date lists of defaulters and over-due amount to DRDAs. The Expert Committee on IRDP has also recommended that defaulters may not be allowed to hold public offices.

[F.No. 11/14/95-Dev., Dated 5.7.1996.]

Recommendations (S. Nos. 27—29, Paras No. 3.104-3.106)

The Committee note that under the guidelines issued by RBI on priority sector lending, the banks are required to maintain suitable machinery at their regional offices to entertain complaints from the borrowers if the Branches do not follow the laid down guidelines under the poverty alleviation schemes. The Committee during their study visit to banks were informed that a number of complaints were received every year and the nature of complaints generally received related to delay/non-sanction of loans or disbursement of loan, request for write-off concession in interest rate etc.

The Committee desire that existing machinery for redressal of grievances by suitably strengthened and separate data may be maintained both at Headquarters and Regional Offices for receipt, consideration and disposal of complaints received from beneficiaries under the various poverty alleviation schemes and that such complaints are disposed off promptly and to the satisfaction of complainants who are not articulate enough to get redress.

In the opinion of the Committee there is also need for monitoring the disposal of complaints received from weaker sections of the society under the Government's poverty alleviation programmes.

Reply of the Government/Reserve Bank of India

As for machinery for redressal of grievances and monitoring of disposal of complaints it may be stated that during branch visits officers of RBI are required to ascertain the difficulties experienced by the beneficiaries under weaker sections for taking necessary corrective measures.

Complaints received at RBI's Central office/Regional offices are taken up with the bank concerned for its comments and corrective action, where necessary.

RBI has also announced Banking Ombudsmen Scheme 1995 under the provisions of the Banking Regulation Act, 1949 which provide for appointment of banking ombudsmen for all the States and Union Territories of the country and

seeks *inter alia*, to established the system of banking ombudsmen for expeditious and inexpensive resolution of customer complaints pertaining to the areas specified therein. The system has been designed to ensure in normal course, satisfactory resolution of complaints as early as possible concerning deficiencies in services in respect of all items which have been enumerated in the scheme and these concerning loans and advances in so far as they relate to non-observance of the Reserve Bank of India directives on interest rates, delay in sanction or non-observance of prescribed time schedule for disposal of loan applications and non-observance of any other directions or instructions of RBI. Banking Ombudsmen have since been appointed at Bombay, New Delhi, Bangalore, Bhopal, Chandigarh, Hyderabad, Patna, Jaipur and Kanpur.

[F. No. 11/14/95-Dev. Dated 5.7.1996.]

Recommendation (S. No. 30, Para No. 3.107)

The Committee have been informed that adequate publicity to the Government's various anti-poverty programmes is given through mass media. Even the services of State Publicity Departments and other departments are utilised to provide publicity to the programmes meant for weaker sections of the society. According to the Ministry, the existing mechanism for arousing public awareness and educating the people in rural areas about various schemes is considered adequate. The Committee appreciate and desire the Ministry to take note of the suggestion made during their tour to the Estimates Committee that the Directorate of Information and Publicity of various States may be requested to maintain liaison with the convenor banker of State Level Bankers' Committee and to put effective message through the media of Press, Radio and TV and by display of posters in schools and institutions, public places and Panchayat Ghars in rural areas for disseminating the information about salient features of the various schemes to beneficiaries.

Reply of the Government/Reserve Bank of India

The aspect of giving publicity was considered by the Expert Committee on IRDP. RBI has already advised all banks that their staff may contact illiterate borrowers belonging to SCs/STs and explain to them the salient features of the schemes as also the advantages that will accrue.

Similarly, banks have also been advised that there should be good publicity about various poverty alleviation programmes of the Government wherever there is large concentration of minority communities.

[F. No. 11/14/95-Dev. Dated 5.7.1996.]

CHAPTER III

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

Recommendation (Sl. No. 25, Para No. 3.102)

The Committee also make the following recommendations:

- (i) Family income level for eligibility under DRI may be suitably raised considering the inflation.
- (ii) There is need for some nodal agency under the lead bank for survey/identification of beneficiaries in urban areas and for sponsoring applications to banks.
- (iii) There is a need for close coordination among Government agencies for implementing and administering different poverty alleviation schemes for weaker sections. The Government may also examine the feasibility of ending multiplicity of Government agencies and entrusting the implementation of different schemes to one authority.
- (iv) Banks should endeavour to reach a target of 10% to the weaker sections and 1% under DRI.
- (v) The present target of 1% of aggregate advances under DRI scheme was fixed in 1978. Considering the large number of households still below the poverty line in the country especially the need for infrastructure supporting Banks' credit deployment in rural areas there is a need for enhancement of DRI target from 1% to 2%.
- (vi) The Ministry have pointed out that problems of recovery of loans from the beneficiaries has become a very difficult because of introduction of loan waiver schemes which vitiate the recovery climate. Under IRDP the under laying urgency is to convert an unviable person to a viable person. In spite of honest intention and sincere efforts on the part of the beneficiaries the project may default. Recovery in many of these cases become very difficult as the person concerned has no capacity to pay. In order to remove hardship in such genuine cases the Government should consider taking over loanee's obligations under IRDP and DRI schemes for repayment to Banks so that banks are able to recycle the credit in rural areas.
- (vii) The banks should not hesitate in taking strong measures like recourse to legal action for recovery of bank dues against the borrowers who willfully default in repayment of loans.
- (viii) Beneficiaries who have misutilised loans or diverted the income for consumption or other needs may be made in eligible for any fresh loans.

- (ix) Many instances of benami loans have been reported. It is learnt most of the loans that become non-recoverable are benami loans. In the absence of any effective land reforms, loans meant for weaker sections might be used by other people. It is necessary that officials who are sanctioning such loans should be taken to task and real culprits should be brought to so that unwary illiterate poor people, who are used as a tool by unscrupulous elements, do not suffer.

Reply of the Government/Reserve Bank of India

- (i) Government of India introduced the Differential Rate of Interest (DRI) Scheme in June 1972. The scheme is meant to cater to the credit requirements of the weakest among the weaker sections of the society by assisting them in their efforts to improve their economic conditions through small productive ventures. At that time there was no subsidy-linked beneficiary-oriented employment generation programmes like SEEUY, SEPUP and SUME. In March 1972, Government of India asked public sector banks to lend at 4 per cent to the borrowers belonging to various categories of weaker sections. In spite of many changes in banking and monetary policy since 1972, the rate of interest under the DRI scheme has been maintained at a static level of 4 per cent per annum. In view of the increase in the borrowing rates and general lending rates by the credit institutions, the maintenance of lending rate of interest at a static level indicates an ever increasing element of subsidy to the beneficiaries under the scheme.

It is felt that any increase in the income limit for DRI scheme could lead to better-placed beneficiaries being selected, and in this way the very purpose of the scheme will be defeated. The main requirement of the operation of the scheme will be orientation and attitudinal change at the field levels in the banks, and the availability of borrowers within the existing ceiling will never be a problem. It was, therefore, decided in December 1993 that DRI scheme be continued with the existing family income limit for the scheme.

- (ii) Presently DRI scheme, SUME, SLRS, PMRY, Prime Minister Integrated Urban Poverty Eradication Programme (PMIUPEP) and Shelter Upgradation Scheme are operative in urban areas. Various agencies (Programme Specific Task Force, District Industries Centres, Urban Local Bodies etc.) as also bank themselves (for DRI scheme) are given the responsibility of identifying the beneficiaries. The guidelines for implementation of PMIUPEP scheme recently launched by Government of India provide for house to house survey in low income neighbourhoods for identifying genuine borrowers to be carried out by Community Based Organisations (CBOs/NDGOs/Research Institutes/organisation in Governmental or private sector under the guidelines for Town Urban Poverty Eradication Cell). It does not, therefore, appear necessary to have a nodal agency under lead bank for survey/identification of beneficiaries in urban areas.
- (iii) There is already close coordination among the participating Government agencies at the District Level, State Level and at the Central Level for

administering and implementing different poverty alleviation schemes for the weaker sections. Monitoring system at the District, State and Central Level provide for interaction among various agencies/Ministries for the smooth implementation of such poverty alleviation schemes.

The proposal regarding feasibility of ending multiplicity of Government agencies and entrusting the implementation of different schemes to one authority requires to be examined in depth with administrative Ministries entrusted with implementation of such schemes e.g. Ministry of Rural Areas and Employment for IRDP being implemented through DRDA, Ministry of Urban Areas and Employment for SUME and PMIUPEP being implemented through the Urban Local Bodies (ULBs) and District Urban Development Agency (DUDA) and Ministry of Industry for PMRY being implemented through District Industries Centres etc. However, as the eligibility conditions criteria for selection scale of finance, project profiles and target groups are different, it may not be feasible to merge all the implementing agencies into one unified agency without jeopardising the smooth implementation of the schemes individually and collectively.

- (iv) As far as target under DRI scheme is concerned, RBI has emphasised to the banks the need for making concerted efforts to improve their performance so as to attain atleast the targeted level of performance. As regards target for weaker section, in October, 1993 banks were cautioned that failure in their part to achieve the targets/sub-targets could invite bank specific policy measures which could include raising of reserve requirements, withdrawal of refinance facilities and/or such other measures deemed necessary. The position is being monitored.
- (v) The linkage of DRI target of 1 per cent of the aggregate advances ensures growth of DRI advances with the increase in the quantum of advances of banks. Banks have not been able to achieve this target partly due to the preference of the target groups to programmes which provide capital subsidy rather than concessional rate of interest under DRI scheme. RBI feel that increase in DRI target without increasing the rate of interest would eventually affect the banks' profitability position, RBI therefore, do not favour increase, in the DRI target from 1 per cent to 2 per cent. Incidentally, it may be stated that recovery position of DRI advances is also not satisfactory.
- (vi) As already mentioned in the para itself loan waiver scheme vitiate recovery climate. Such schemes send wrong signals to even those borrowers who are in a position to repay the loans. RBI was not in favour of Government taking over the loanee's obligations. However, in respect of IRDP loans, Mehta Committee (High Power Committee) in its interim report has recommended that rescheduling of loans may be considered where necessary, i.e. in genuine cases. Banks have already been advised accordingly.
- (vii) Banks do take recourse to legal action as a last resort in their recovery efforts.

- (viii) Some of the poverty alleviation programmes contain a provision that defaulter to a bank should not be assisted. However, efforts must be towards recoveries of the dues first.
- (ix) Some are taking action against their employees who indulge in malpractices wherever such instances come to the notice. RBI are also advising the banks to furnish on an annual basis details of lapses committed by their own employees while implementing poverty alleviation programmes and the action taken against such employees.

[F. No. 11/14/95-Dev., Dated 5.7.1996]

Recommendation (Sl. No. 31, Para No. 3.108)

That attitudinal changes may be brought in Bank staffs entrusted with the credit flow to poverty-stricken families for making sustained and conscious efforts to develop awareness among the illiterate borrowers of the salient features of the schemes as also their advantages to achieve desired objectives of these schemes for providing benefits to the intended beneficiaries.

Reply of the Government/Reserve Bank of India

Considering the level of low literacy amongst the rural poor, banks have been advised that their staff may help poor borrowers in filling their forms and completing other formalities so that they are able to get credit facility without delay. The bank staff have also been advised to contact illiterate borrowers and explain to them the salient features of the schemes as also the advantages that will accrue. During the Evaluation Study conducted by RBI in 1990, it was observed that staff members of almost all the bank branches covered by the study rendered help to SC/ST borrowers in filling up the form and completing other formalities to avoid delay in disbursing the loan. However, no special or conscious efforts were made by the bank staff to periodically contact illiterate borrowers and explain the salient features of the existing schemes available for the SC/ST categories. Banks were asked to take remedial measures. As per guidelines issued by RBI bank executives are required to chalk out well planned tours with a view to giving guidance to the staff at field level and also for ensuring that RBI guidelines are implemented by the staff at the field level. Every bank has its own training programmes for its staff and courses on poverty alleviation programmes and the attitude of staff in implementing such programmes are normally included as a course curriculum.

With a view to educating and reorienting the attitude of Manager of banks and other field functionaries and other staff so that they have proper perspective and real appreciation of the spirit behind the Government poverty alleviation/self-employment schemes RBI has once again advised the banks to initiate urgent steps to include suitable lecture session in all relevant training programmes meant for their staff *vide* their circular RPCD No. BC. 42/09-02-01/94-95 dated 5, October, 1994 (Appendix XI).

[F. No. 11/14/95-Dev., Dated 5.7.1996]

Recommendation (Sl. No. 32, Para No. 3.109)

The Committee are concerned to note that there have not been much improvement in the credit deposit ratio of scheduled Banks in several States/Union Territories (like Himachal Pradesh, Jammu & Kashmir, Arunachal Pradesh, Meghalaya, Mizoram, Sikkim, Andaman & Nicobar Islands and Goa etc.) and it continued to be less than 40% in all these States. In some of the States like Haryana, Punjab, Rajasthan, Bihar, Madhya Pradesh, Uttar Pradesh and Gujarat etc., CD Ratio has shown a declining trend. The Committee have been informed that Reserve Bank of India in June, 1980 advised the Public Sector banks to achieve a credit-deposit ratio of 60% in respect of their rural and semi-urban branches separately on all India basis, so that the objective of removing regional imbalances in economic development could be achieved. The Committee also find that Reserve Bank of India has now constituted Task Forces to identify the causes for low CD Ratio in respect of certain States like Uttar Pradesh, Bihar, West Bengal etc. and in respect of other States, State Level Bankers' Committees have been advised to review the position. The Committee regrets why these measures were not initiated much earlier. In the opinion of the Committee the claim of the Ministry that present arrangement for monitoring CD Ratio at the State level under the aegis of State Level Bankers' Committee is deemed adequate is not justified keeping in view that poor CD Ratio in various States. Though, the Committee feel that the CD Ratio may not be uniform in all the States, but they see no reason as to why CD Ratio is even less than 40% in several States/Union Territories. The Committee, therefore, desire that the Ministry should take concrete measures for bringing improvement in CD Ratio in the States where it is low and as also in those States where it has shown a declining trend. In this connection, the Committee need not over emphasize the fact that the existing monitoring mechanism in the Ministry/Reserve Bank of India for monitoring all India and State-wise CD Ratio needs strengthening.

Reply of the Government/Reserve Bank of India

A discussion on State-wise CD Ratios will have to be prefaced with a study of its limitations in arriving at meaningful conclusions. These may be summarised as below :

- (a) CD Ratio does not take into account the investment by banks in the State Government securities.
- (b) Credit availed of in one State may be actually used in another. Thus, for example, major tea companies in Assam may prefer to avail of finance from Centres where foreign exchange markets are active thereby depressing the CD Ratio of the State.
- (c) Wherever the deposit base is high CD Ratio tends to be low. For the same level of bank credit, a lower deposit level would entail a higher CD Ratio. Similar factors also apply while comparing CD Ratio of urban areas with those of rural areas.

2. CD Ratio is also to a large extent dependent upon the credit absorption capacity of a State. Increase in credit to priority sector alone may not bring about

any discernible upward movement of CD Ratio unless there are large scale industries which can absorb sizeable quantum of credit. Growth of large scale industries in a State is contingent on a number of factors like availability of infrastructural facilities, entrepreneurial talents, conducive climate for investment, recovery of bank dues, etc.

3. As regards the all India CD Ratio, it is dependent on a host of factors including, *inter alia*, the cash reserve ratio and the statutory liquidity ratio. However, in order to remove regional imbalances RBI has as early as in 1960, advised public sector banks to achieve a CDR Ratio of 60 per cent in respect of their rural and semi-urban branches separately on all India basis.

4. The issue of declining CDR has been engaging the attention of banks and Government and has always formed an important item in the agenda of various State and district-level forums of coordination. It may be stated in this connection that RBI had appointed Task Forces in some States viz, Bihar, Uttar Pradesh, West Bengal, Rajasthan, Kerala and Pondicherry to go into reasons for low CDR obtaining in these States/Union Territories and to suggest remedial measures. The Committees submitted their reports and the recommendations are being implemented by the various agencies under the aegis of the concerned SLBCs. In the case of certain other States like those in the North Eastern Region, Himachal Pradesh, Jammu and Kashmir and Goa where CD Ratios were low and Task Forces were not constituted, RBI had advised the convenor banks of the concerned States to convene special meetings of the SLBCs for identifying measures for enhancing CDR. The level of CDR is regularly monitored in these meetings where representatives of State Governments, RBI and various refinancing agencies, apart from commercial banks, are also present.

[F.No. 11/14/95-Dev., Dated 5-7-1996]

CHAPTER IV

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

NIL

CHAPTER V

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

NIL

NEW DELHI;
April 7, 1997
Chaitra 17, 1919 (S)

RUPCHAND PAL,
Chairman,
Estimates Committee.

APPENDIX I

MINUTES OF SITTING OF THE ESTIMATES COMMITTEE (1996-97)

Tenth Sitting

The Committee sat on Monday, the 7th April, 1997 from 1500 to 1530 hours.

PRESENT

Shri Rupchand Pal — *Chairman*

MEMBERS

2. Shri G.M. Banatwalla
3. Shri P.C. Chacko
4. Shri Ram Tahal Chaudhary
5. Shri Jagat Vir Singh Drona
6. Shri Udaysingrao Gaikwad
7. Shri Bijoy Krishna Handique
8. Shri Bhupinder Singh Hooda
9. Dr. G.L. Kanaujia
10. Shri C. Narasimhan
11. Shri Ramendra Kumar
12. Prof. Rasa Singh Rawat
13. Shri Mahadeepak Singh Shakya
14. Shri Mangat Ram Sharma
15. Col. Rao Ram Singh

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
 2. Shri K.L. Narang — *Deputy Secretary*
 3. Shri Raj Shekhar Sharma — *Under Secretary*
 4. Shri R.C. Kakkar — *Under Secretary*
 5. Smt. Abha Singh Yaduvanshi — *Assistant Director*
2. The Committee considered and adopted the following Draft Reports :
- (i) ** ** **
 - (ii) Action taken by Government on the recommendations contained in the Fifty-second Report of Estimates Committee (Tenth Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Banking Division)—Credit Facilities to Weaker Sections of the Society.

3. The Committee authorised the Chairman to finalise the above Draft Reports in the light of factual verification received from the respective Ministries and also to make verbal and other consequential changes therein and present them to Lok Sabha.

4. **

The Committee then adjourned.

APPENDIX II

(Vide reply of Govt. to recommendation at S.Nos. 12 to 16, Para Nos. 3.89—3.93)

“रूपलाकार्ड”

Gram : “RUPLACARD”

टेलीफोन 011-2455

Telephone 011-2318

कृपया उत्तर में लिखें

Please quote in reply

संदर्भ आरपीसीडी सं

Reference RPCD No.

SP. BC. 32/09-01/95-96

Sept. 27, 1995

Aswina 05, 1917 (Saka)

भारतीय रिज़र्व बैंक

ग्रामीण आयोजना और ऋण विभाग

केन्द्रीय कार्यालय

केन्द्रीय कार्यालय भवन, 13वाँ मंजिल,

मुम्बई 400 023

RESERVE BANK OF INDIA

Rural Planning & Credit Department

CENTRAL OFFICE

Central Office Building, 13th Floor

Bombay-400 023

टेलीफोन

Telephone } 266100 2

पोस्ट बॉक्स सं०

Post Box No. } 10014

All Indian Scheduled Commercial Banks,
(excluding RRBs)

Dear Sir,

Sample study on Integrated Rural Development Programme (IRDP) by Reserve Bank of India (RBI)—Findings

A study was conducted by the Reserve Bank of India during January 1995—April 1995 on the implementation of IRDP with a view to mainly find out (i) whether the loan applications received for sanction upto Rs. 25,000 were disposed of within a fortnight as per para 5.4 of IRDP manual 1991 Edition and in accordance with the RBI instructions issued from time to time. (ii) cases where the repayment period was fixed less than 3 years by the bank branches and (iii) the system adopted by the banks to verify/ensure that a borrower has not earlier taken loan from any other bank branch under any Government sponsored scheme.

2. The study related to the period 1991-92 to 1993-94 and covered 192 bank branches of both public and private sector banks located in 32 different blocks/districts in 16 States. A gist of findings of the study which concern banks, is given in the Annexure. It would be observed therefrom that there is a considerable scope for improving the performance of the banks under IRDP. We shall be glad if you will please pay special attention to those features indicated in the Annexure which calls for remedial measures.

Please acknowledge receipt.

Yours faithfully,
(M.K. VARTAK)

General Manager

Encl. : As above

Endt. RP (1) No. SP 380/09.01.01/95-96 of date (As per mailing list)

(K. Ramankutty)

Asstt. General Manager

Encl. As above

SAMPLE STUDY ON IMPLEMENTATION OF INTEGRATED RURAL DEVELOPMENT PROGRAMME (IRD P) — FINDINGS CONCERNING BANKS

1. Prompt disposal of loan applications

- (i) It was observed during the study that out of 34668 applications received for loans upto Rs. 25,000/-, only 22959 (60.20%) loan applications were sanctioned. The balance 11709 (33.8%) were rejected. Out of these 22959 loan applications sanctioned, only 7698 of them were sanctioned within a fortnight constituting 33.5%. Similarly out of the 23009 cases disbursed, only 13164 (57.2%) cases were disbursed within a fortnight. This position is not in conformity with the instructions contained in Reserve Bank of India circular RPCD. No. SP. BC. 8/C. 568A (P)/88-89 dated 1.8.88 read with para 5.4 of IRDP Manual 1991 edition.
- (ii) Application Registers at the bank branches were not generally maintained properly in as much as the dates of receipt, sanction, disbursement, return/rejection, the reasons for rejection, reasons for delay etc. were not found recorded in a large number of cases.
- (iii) Some private sector banks returned the applications to Block Development Officers without sanction on the plea of credit squeeze.
- (iv) Due to non-availability of technical/Field Staff at Branch level, disbursement was delayed.
- (v) There was no system in branches of banks as well as and the Controlling Offices to monitor receipt/disposal of loan applications.
- (vi) Some Branch Managers were not aware of detailed proceedings in the implementation of IRDP. No IRDP Manual/booklets/instructions were available with them for guidance.
- (vii) Some banks entered the applications on the date of sanction showing disposal within 15 days but on perusal of application forms, it was observed that time taken for sanction in such cases was beyond 15 days.

2. Shorter repayment period fixed by the bank branches

It was observed that in respect of certain IRDP loans, adjustments were made within a short period say within one year or so from the dates of their disbursement though the repayment period fixed varied from 3 to 9 years. Repayment within a short period means that the credit extended was not need based. This is a reflection on the quality of pre-sanction appraisal by bank branches. Obviously in such cases the loans were given to ineligible persons living above poverty line who were able to repay the loans out of their own sources and not out of the incremental income generated by the assets purchased out of bank finance and subsidy. Further, some of the Branch Managers were not aware of the repayment period of IRDP loans.

3. System adopted by the branches to verify whether a borrower has earlier taken loan from any other branch under any Government Sponsored Scheme

It is observed that no uniform system has been followed by banks in this regard, to detect cases of applicants who earlier availed of loans. Various methods and different systems are followed as under :—

- (i) Verification of current and old ration cards.
- (ii) Obtention of "No Dues" certificate from other banks Co-operative Societies functioning in the area.
- (iii) Obtaining a declaration from the applicant that he/she has not obtained any similar loan from any other bank.
- (iv) Local enquiries.
- (v) Bank branches in the block follow the system of obtaining credit information on IRDP borrowings from each other by exchanging lists of borrowers/applicants.
- (vi) Verification from the records of Mandal Development Officers.
- (vii) Certain bank branches maintain borrowers list; village-wise and branch-wise.
- (viii) Sponsoring agencies themselves certify in some cases that the applicant is not indebted to any other bank.
- (ix) Duly Notarised Undertaking/Affidavit on stamp paper stating among other depositions that no loan has been obtained from/no loan was outstanding at other bank branches. In this connection, it is suggested that banks may call for the loan pass book issued to borrowers under IRDP/Agricultural and Rural Development loan in terms of our circular No. RPCD. PS/BC/9-C, 568A-84 dated 14.9.1984 and RPCD/PLFS/BC/13/PS-113-87/88 dated 29 July 1987 respectively in verify whether any loan was taken by the borrower earlier. In case the applicant has not availed of any loan earlier or unable to produce the loan pass book, the bank may, at its discretion, adopt any of the system stated above to verify the availment or otherwise of loan earlier. It should, however, be ensured that the borrower is not put to any inconvenience in getting the loan sanctioned and no undue delay is caused in disbursement of the loan. It may be added that the system to be adopted by the banks and also for avoidance financing same borrower under various Government sponsored subsidy-linked programmes is being evolved in consultation with the Government of India and the banks will be advised in due course.

4. Suggestions for improvement

- (i) As already advised in various Reserve Bank of India (RPCD) circulars the matters regarding prompt disposal of loan applications, avoiding bunching of loan applications etc. may be periodically reviewed in fora like BLBC/BLCC/DCC/SLBC etc. Further cluster approach and group activities should

be particularly encouraged to ensure viability of investments. Quarterly budgetary targets as specified in para 6.3 of the IRDP Manual (April 1991) should be carefully followed. Banks should ensure that the level of investment is adequate to raise the income of the household substantially to enable the family to cross the poverty line as advised *vide* RBI RPCD. Circular No. SP. BC. 14/09.01.01/95-96 dated 11.8.1995.

- (ii) The system in regard to proper maintenance of Inward Registers of IRDP loan applications received and other relevant records should be improved.
- (iii) The reasons for rejection should be clearly recorded on the application form itself under proper authentication.
- (iv) As recommended by the Expert Committee on IRDP (Mehta Committee) the banks should fix repayment schedules realistically after taking into account the level of income generation and economic life of the assets. Further the Committee has recommended that the minimum repayment period for IRDP loans may be fixed at 5 years as against 3 years stipulated at present. Wherever necessary, banks should also provide suitable initial moratorium. The above recommendations have been communicated to all the banks *vide* our circular No. SP.BC. 115/09.01.01/94-95 dated 7.2.1995. Progress continuously, so that the targets are achieved without fail and the objectives of the scheme are fulfilled.

Please acknowledge the receipt.

Yours faithfully,

Sd/-

(M. K. Vartak)

Joint Chief Officer

APPENDIX III

(Vide reply of Govt. to recommendation S. No. 19—22 Para Nos. 3.96—3.99)

“रूपलाकार्ड”

Gram : “RUPLACARD”

टेलीफोन 001-2455

Telephone 001-2318

कृपया उत्तर में लिखें

Please quote in repl.

संदर्भ आरपीसीडी सं.

Reference RPCD No.

SP.BC.33/09.04.01/94-95

September 7, 1994

Bhadra 1916 (सक) (SAKA)

भारतीय रिज़र्व बैंक

ग्रामीण आयोजना और ऋण विभाग

केन्द्रीय कार्यालय

केन्द्रीय कार्यालय भवन, 13वीं मंजिल,

मुम्बई 400 023

RESERVE BANK OF INDIA

Rural Planning & Credit Department

CENTRAL OFFICE

Central Office Building, 13th Floor

Bombay-400 023

टेलीफोन

Telephone

पोस्ट बॉक्स सं.

Post Box No.

2661002

10014

The Chairman/Managing Director

All Public Sector Banks

(Except RRBs)

Dear Sir,

Govt. of India sponsored schemes

Recovery Performances

We have been impressing upon the banks from time to time the need to improve their *recovery performance under various Government sponsored programmes*. It is however, observed from the half-yearly reports received from the banks that the percentage of recovery to demand under the various Government sponsored schemes viz. SEEUY, SEPUP, SUME, IRDP etc. during the years 1990 to 1993 has remained more or less stagnant between 25 and 30%. For successful implementation of Government sponsored schemes it is necessary that the banks improve their recovery performance and recycle their funds. You are, therefore, advised to take effective steps to improve the recovery performance under these schemes. Banks have already been advised to report half yearly recovery performances in respect of all the above schemes including PMRY Scheme vide our circular RPCD. No. SP.BC.115/09.04.01/93-94 dated 4 March 1994. You may also keep a close watch on the recovery of loans under PMRY scheme so that timely action can be taken in case of any problems being faced in this regard.

Yours faithfully,

Sd/-

(M.K. Vartak)

Joint Chief Officer

Endt. RPCD. No. SP/513/09.04.01/94-95 of date.

Copy forwarded for information to :

(As per mailing list)

Sd/-

(R.G. Panday)

Assistant Chief Officer.

बैंक हिन्दी में भी पत्राचार का स्वागत करता है।

APPENDIX IV

(Vide reply. of Govt. to the recommendations S.Nos. 19—22 Para Nos. 3.96—3.99)

“रूपलाकार्ड”

Gram : “RUPLACARD”

टेलीफोन 001-2455

Telephone 001-2318

कृपया उत्तर में लिखें

Please quote in reply

संदर्भ आरपीसीडी से

Reference RPCD No. BP.BC/70/09.01.01/

C-568A(P)-94-95

December 1, 1994

Agrahayana 10, 1916 (सक) (SAKA)

भारतीय रिज़र्व बैंक
ग्रामीण आयोजना और ऋण विभाग
केन्द्रीय कार्यालय
RESERVE BANK OF INDIA
Rural Planning & Credit Department
CENTRAL OFFICE

All Indian Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir,

High Level Committee on Credit (HLCC) for IRDP—Supply of up-to-date lists of defaulters and overdue amounts by the banks to DRDAs

The High Level Committee on Credit support for Integrated Rural Development Programme set up by the Government of India under the Chairmanship of Secretary, Ministry of Rural Development, have taken a decision at its meeting held on 13 April 1994 that the Recovery Cells would be strengthened in all DRDAs and systematic plan for constant and persistent recovery efforts would be initiated by DRDA authorities and District Collectors. In order to enable them to do so, up-to-date lists of defaulters and overdue amounts would be supplied to the District Rural Development Agencies (DRDAs) by the concerned banks. In this connection, it may be added that the State Governments have already been advised to render all possible assistance to Bank Officials in recovering the dues from IRDP beneficiaries (*vide* para 7.11 of IRDP Manual, 1991 Edition).

We shall be glad if you will please take necessary action to implement the above decision of the HLCC for IRDP by advising your controlling offices/branches suitably under advice to us.

Please acknowledge receipt.

Yours faithfully,

Sd/-

(M.K. Vartak)

Joint Chief Officer

Endt. RPCD.SP.BC.1021/09.01.01./C.568A (P)/94-95 of date.

Copy forwarded to : (As per mailing list)

Sd/-

(K. Ramankutty)

Asstt. Chief Officer

APPENDIX V

(Vide reply of Govt. to the recommendations at Sl. Nos. 19—22, Para Nos. 3.96—3.99)

“रूपलाकार्ड”

Gram : “RUPLACARD”

टेलीफोन 001-2455

Telephone 001-2318

कृपया उत्तर में लिखें

Please quote in reply

संदर्भ आरपीसीडी सं

Reference RPCD No.

_____19

_____19 (सक) (SAKA)

भारतीय रिज़र्व बैंक
ग्रामीण आयोजना और ऋण विभाग
केन्द्रीय कार्यालय भवन,
13वीं मंजिल, मुम्बई . 400023
RESERVE BANK OF INDIA
Rural Planning & Credit Department
CENTRAL OFFICE
New Central Office Building, 13th Floor
Mumbai - 400023

RPCD. No. SP. BC/115/09.01.01/94-95

7 February 1995

The Chairman/Managing Director
All Commercial Banks (Including RRBs)

Dear Sir

Recommendation of Expert Committee on Integrated Rural Development Programme (IRDP)

As you may be aware, an Expert Committee was constituted under the chairmanship of Shri D.R. Mehta our Deputy Governor in September, 1993 to review the IRDP and recommend suitable measures for its improvement. The Committee has since submitted *its Interim Report, copies of which have already been made available to you.* Most of the recommendations of the Committee have been accepted by Reserve Bank of India. You may please take suitable action for implementing the recommendations, as detailed hereunder :

I. Identification of beneficiaries

(Para 3.3)

The Expert Committee has recommended that the BPL list drawn by block authorities should be approved by Panchayats. In the meeting convened for this purpose. Panchayats should invite bank officials, school teachers, village postmasters, representatives of grassroot NGOs and prominent village elders. The lists so approved by the Panchayats are to be displayed at prominent places such as Panchayat Offices, Post Offices, Village Chopals and bank branches. The lists approved by Panchayats should be further placed before Gram Sabha after 15 days and the date on which Gram Sabha would consider the list is to be widely publicised.

You may kindly advise your Controlling Offices/branches to attend such meetings as and when convened by Panchayats.

II. Identification of Investment Opportunities and preparation of Project Profiles

(Para 4.4 of the report)

In terms of above recommendations district level technical groups consisting of Lead District Officer of RBI, District Development Officer of NABARD, lead bank manager, technical officials of State Government, and non-Government consultants are to be set up for preparation of project profiles. Land based activities including minor irrigation as also activities in ISB sector may be given priority while preparing project profiles. The cost of preparation of project profiles will be borne by DRDAs. The Committee has also recommended that while preparing project profiles NABARD guidelines need be treated only as suggestive indicators and not as outer limits. We are also requesting NABARD to revise unit cost/coefficients of costs/inputs more frequently. We shall be glad if you will also take necessary action in the matter in consultation with DRDAs, our LDOs, DDMs, NABARD and other State Government Officials.

III. Purchase of Land

(Para 4.6)

The Committee has recommended that banks should provide loans under IRDP for acquisition of land together with short term credit for meeting current farm expenditure. As the price of land might vary from place to place depending on fertility and other factors, NABARD is being requested to issue suitable guidelines in consultation with local revenue authorities to banks for arriving at the cost of land at various places. Alternatively banks may ascertain from the local Revenue/Registration Authority either on its own or through the borrower, the price of similar type of land in the vicinity and sanction loan accordingly. In this connection your attention is also invited to Annexure VI of IRDP Manual, 1991. You may kindly advise your Controlling Offices/branches suitably in the matter.

IV. Animal Husbandry

(Para 4.7)

Although animal husbandry has been an important component of the IRDP, adequate infrastructural arrangement for supply of feed, good quality of animals and for marketing are yet to be made. You may, therefore, please advise your Controlling Offices/branches to ensure that adequate number of good quality animals as also the required linkages are available before extending credit to this sector.

V. Quantum of Investment under IRDP

(Paras 4.8 and 4.9)

The Committee has recommended that the per family/enterprise investment under IRDP should be significantly enlarged by increasing both credit and subsidy. The question of increasing the existing subsidy ceiling would be examined by Government of India. We, however, suggest that without waiting for Government

decision in this regard you may kindly advise your controlling office/branches to ensure that the loan component are enhanced suitably to cover project cost enable the beneficiaries to go above the poverty line in one go. We are also advising NABARD to consider revision of economic size of units in the light of the Committee's recommendations.

VI. Working Capital Assistance

(Para 4.10)

The Committee has recommended that working capital requirements should be fully taken into account while sanctioning loans to the IRDP beneficiaries and suitable cash credit limits sanctioned together with term loans. Even in respect of existing term loans under IRDP banks may consider sanctioning need based working capital limits to the borrowers. We shall be glad if you will kindly advise your controlling offices/branches suitably in the matter.

VII. Security Norms

(Para 4.11)

The Committee has recommended that the limit for not obtaining mortgage should be uniformly fixed at Rs. 25000 for all activities under IRDP. However, for loans above Rs. 25000 but upto Rs. 50,000 normal banking norms such as obvention of mortgage/margin etc. may be considered without however asking for any collateral security. We shall be glad if you will suitably advise your Controlling Offices/branches in the matter.

VIII. ISB Sector

(Para 4.12)

The Committee has recommended that non-farm, tiny/small enterprises and services sector should be further promoted for creating more employment opportunities. You may, therefore, please advise your Controlling Offices/branches to keep this aspect in mind while considering loan proposals under IRDP.

IX. Cash Disbursement under IRDP

(Para 4.13)

The Committee has recommended that the cash disbursement system may be extended throughout the country. Suitable instruction to DRDAs for dispensing with purchase committees will be issued by the Government. We reiterate that disbursement of cash to the IRDP beneficiaries would be subject to the conditions stipulated in our circular RPCD No. SP. BC. 9/C. 568 (CD.)-91/92 dated 13.7.1991. Meanwhile, your Controlling Offices/branches may please be advised suitably in the matter. It has also been recommended that the FCP Scheme formulated by NABARD should be encouraged. You will hear further in the matter from NABARD after which your banks/Controlling Offices may be suitably advised in the matter.

X. Development of Infrastructure

(Para 5.7)

The Committee has recommended that DRDAs must prepare a detailed perspective plan of infrastructure in consultation with District Consultative

Committees and Block Level Bankers' Committees taking into account the resource availability and the felt needs of the rural population. You may, therefore, please advise your controlling offices/branches suitably in the matter, so that such issues are meaningfully discussed in the above fora.

XI. Provision of Training Facilities

(Para 5.12)

The Committee has recommended that banks may provide Orientation Training Programme for IRDP beneficiaries. We shall be glad if you kindly initiate necessary action to implement the above recommendation.

XII. Institution/Organisational Support

(Paras 6.3, 6.4, 6.5, 6.6, 6.12)

The Committee has recommended that:—

- (a) banks should fix realistic repayment schedules after taking into account the level of income generation and economic life of the assets; the minimum repayment period for IRDP loans may be fixed at 5 years as against 3 years at present; initial moratorium may also be provided wherever required.
- (b) banks may provide group loans for various activities under IRDP; such group loans should also cover assistance required for infrastructure; rate of interest and security requirements in such cases should, however, be related to per capita quantum of loan.
- (c) The Lead Bank Officer should supervise the constitution and working of the Technical Group referred to in para 4.4 of the Report, besides maintaining liaison with controlling offices of other banks, State Government Officials, Panchayati Raj Institutions, VOs, and SHGs. For reorganising DRDAs into compact teams of professionals and technical experts credit officers may be drawn from banks, RRBs or NABARD. Such requests as and when received from DRDAs may kindly be considered favourably.
- (d) Further, the Committee has recommended *vide* para 6.4 of the Report that atleast in a few districts on a pilot basis, instead of block authorities sponsoring applications, banks may be given freedom to select beneficiaries out of BPL lists. Further instructions in this regard will be issued by us in consultation with Government of India who would also be advising DRDAs suitably in the matter.
- (e) The Committee has recommended *vide* para 6.12 of the Report that in the case of projects approved by CAPART, a few Voluntary Agencies at least on pilot basis can be given a list of BPL families for identification of borrowers for being sponsored to banks with the additional responsibility of ensuring backward/forward linkages and of verification of end use of credit. Necessary instructions in the matter will be issued by GoI to DRDAs.

**(f) Role of SHGs
(Para 6.13)**

The Committee has recommended that the formation of SHGs and their involvement in credit dispensation under IRDP should be encouraged and that for this purpose, the possibility of routing assistance to BPL families through SHGs on a larger scale should be explored. Necessary action may please be taken at your end to implement the above recommendation. Suitable instructions will be issued to DRDAs by GOI.

**XIII. Improving recovery performance
(Para 8.4, 8.7)**

- (a) The Committee has recommended that Recovery Officers may be appointed by State Govts. exclusively to recover bank date. There may be one recovery officer in every district together with the required complement of staff. If has been decided that cost of such establishments may be borne by DRDAs and lead banks. You may accordingly advise your Lead Bank Offices/Controlling Offices suitably in the matter.**
- (b) The Committee has recommended that banks may obtain the services of Utilisation Reporters-cum-Recovery Facilitators on contract basis. They could be paid suitable commission for reporting maintenance of assets. Similarly, they may also be paid commission which could be a suitable percentage of recovery effected through them. Such Utilisation Reporter/Recovery Facilitator could cover a few villages and Panchayats. You may kindly consider initiating necessary action to implement this recommendation.**
- (c) The following further recommendations have also been made by the Committee to improve recovery.**
 - (i) Group loans may be encouraged.**
 - (ii) Rescheduling of loans may be considered where necessary.**
 - (iii) More attention may be devoted to appraisal of loans.**
 - (iv) Wherever required, adequate gestation period or moratorium should be allowed in such a way that the commencement of recovery coincides with accrual of incremental income from the project.**
 - (v) In case of projects where accrual of income is low in the beginning but goes up over a period of time, size of the loan instalments in the initial period should be suitably reduced.**
 - (vi) With a view to enabling the borrower to utilise a higher percentage of incremental income for his own consumption, wherever possible longer repayment period may be allowed subject to the economic life of the asset.**

You may kindly initiate necessary action to implement the above recommendations. Instructions regarding remaining recommendations of the Committee will be issued in due course.

We would also like to add that while implementing the Committee's recommendations the entire nature and content so also the general approach to IRDP may undergo substantial changes. Banks would, therefore, be expected to rise to the occasion by improving the quality of field level and other managerial staff by imparting adequate training so that they are better equipped to deal with the IRD Programme.

Yours faithfully

Sd/-

(K.K. Mudgil)

Chief Officer

Endt. RPCD. No. 1310/09.01.01/94-95 of date

Copy forwarded to:—

(As per mailing list)

Sd/-

(R.G. Panday)

Asstt. Chief Officer.

APPENDIX-VI

(Vide reply of the Govt. to the recommendations at Sl. Nos. 19—22,
para Nos. 3.96—3.99)

Telegrams : "Ruplcard"

Telex : 011-2455
011-2318

Telephone : 266 1602

Reserve Bank of India
Rural Planning and Credit Department
Central Office
Post Box No. 10014 : 13th Floor
Central Office Building
Bombay - 400 023.

Reference RPCD. No. PLF.S. ROC. 9/05.01.19/95-96

February 14, 1996

Magha 25, 1917 (S)

The General Managers/Deputy General Managers
Rural Planning and Credit Department
(All Regional Offices)

Dear Sir

*Recovery of agricultural loans—Legislations on the lines of Talwar Committee —
Compliance with recommendations of Estimates Committee (Lok Sabha)*

As you may be aware, an Expert Group (Talwar Committee) had recommended as far back in 1971 that, for speedy recovery of agricultural dues of banks, the State Governments 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 of commercial banks without having to resort to protracted and time consuming litigation in Civil Courts. For implementing this recommendation, the Expert Group recommended enactment of legislation by various State Governments and Union Territories on the basis of "Model Bill" evolved by them titled "(State) Agricultural Credit Operations and Miscellaneous Provisions (Banks) Bill, 1970". As per the information available with us, the following 16 States have enacted the said legislation viz. (1) Assam (2) Bihar (3) Gujarat (4) Haryana (5) Himachal Pradesh (6) Karnataka (7) Madhya Pradesh (8) Maharashtra (9) Manipur (10) Meghalaya (11) Orissa (12) Punjab (13) Rajasthan (14) Tripura (15) Uttar Pradesh and (16) West Bengal.

2. The Estimates Committee 1994-95 (10th Lok Sabha) in their fifty second report on Credit Facilities to the Weaker Sections of the Society have pointed out that for speedy recovery of agricultural dues of commercial banks, we should take up the matter with the remaining State Governments for speedily enacting the said legislations. The Committee also noted that those State Governments where this legislation has been enacted are encountering certain legislative shortcomings and operational problems. They felt that necessary modifications would be required to be made in the legislation to remove the shortcomings and problems faced in its actual implementation by State Government. As regards passing of the legislation

by other States, we had requested Indian Banks' Association (IBA) to take up the matter with the concerned State Governments through SLBC Convenors and use their good offices in setting the legislation enacted.

3. We request you to kindly get in touch with Convenor SLBC of the State in your jurisdiction where the legislation has not been passed and prevail upon the State Government.

APPENDIX-VII

(Vide reply of the Govt. to the Recommendations at Sl. Nos. 6—9,
Paras 2.25—2.27 and 3.86)

“रूपलाकार्ड”	भारतीय रिज़र्व बैंक	टेलीफोन } 266 16 02
Grams : “RUPLACARD”	ग्रामीण आयोजना और ऋण विभाग	Telephone } 10014
टेलिक्स 011-2455	केन्द्रीय कार्यालय	पोस्ट बॉक्स सं० } 10014
Telex 011-2318	केन्द्रीय कार्यालय भवन, 13वीं मंजिल,	Post Box No. }
कृपया उत्तर में लिखें	मुम्बई 400 023	
Please quote in reply	RESERVE BANK OF INDIA	
संदर्भ आरपीसीडी सं०	Rural Planning & Credit Department	
Reference RPCD No.	CENTRAL OFFICE	
_____19	Central Office Building, 13th Floor	
_____19 (शाक) (SAKA)	Mumbai-400 023	

RPCD. No. SP. B.C. 113/09.07.01/94-95

February 01, 1995

Pausa 12, 1916 (S)

All Scheduled Commercial Banks,
(Excluding RRBs),

Dear Sir,

*Sample study on implementation of Differential Rate of Interest (DRI) Scheme, by
Reserve Bank of India—Findings*

A study was conducted by the Reserve Bank of India through its Regional Offices during May 1993 — July 1993 on the working of Differential Rate of Interest (DRI) Scheme. The study covered 154 bank branches of both Public and Private Sector banks and located in Rural, Semi-urban, Urban and Metropolitan areas in 18 States and 3 Union Territories. Some of the borrowers were also contacted.

The performance of the banks during 1989-90 to 1991-92 was assessed by the study team. A gist of findings of the study which concern banks, is indicated in the Annexure. It would be observed therefrom that there is considerable scope for improving the performance of the banks under DRI Scheme. Apart from increasing their own efforts and tightening of post-disbursement monitoring, banks could consider availing of assistance of voluntary agencies/Government agencies for improving the performance under the scheme. We shall be glad if you will please pay special attention to those features indicated in the Annexure which call for remedial measures.

Yours faithfully,

Sd/-

(M.K. Vartak)

Joint Chief Officer.

Encl : 3

बैंक हिन्दी में भी पत्राचार का स्वागत करता है।

*Sample Study on implementation of Differential Rate of Interest Scheme (DRI) —
Findings concerning banks*

(A)(i) Adherence to the guidelines issued by Reserve Bank of India/Government of India

It was observed that, by and large, the bank branches covered by the study had adhered to eligibility criteria prescribed for granting assistance under DRI Scheme. It was only in respect of 364 cases out of 12032 appraised during the study, ineligible beneficiaries were assisted. Out of these 364 cases, in 248 cases income criteria was not adhered to.

(ii) Margin money

Under the Scheme, no margin money has been prescribed. However, in 0.16% cases of the total beneficiaries assisted and covered by the study, margin money was insisted upon.

(iii) Security

It is stipulated that under the scheme, assets created out of the loan would form security and no collateral security or third party guarantee need be taken even when offered. This condition was not adhered to in a few cases (354). Non-adherence was mainly in the form of insistence on third party guarantee.

(iv) Hypothecation of assets created out of assistance under the scheme

This was adhered to in most of the cases perused during the study. It was only in 2.63% cases hypothecation of assets was not created by the bank branches.

(v) Compounding of Interest

Interest on advances in some branches was compounded (though as per RBI guidelines interest on current dues in respect of DRI advances is not to be compounded).

(vi) Payment of DICGC Guarantee Fee/Insurance Premium

While there was only a single case where guarantee fee was debited to the borrower's account instead of being borne by the bank itself, there were quite few cases (339) where the insurance premia was also recovered from the borrowers.

(B) Disbursement made under the Scheme

It was observed that the number of beneficiaries assisted by the bank branches covered by the study was showing a declining trend from 4585 in 1989-90 to 3290 in 1991-92. Similarly, the amount of loan disbursed under the scheme also declined from Rs. 128.87 lakhs to Rs. 85.25 lakhs during the said period.

(C) Achievement of target

Under the scheme, the banks are required to lend an amount equivalent to 1% of their total advances of the previous year. Though branch-wise target is not stipulated, most of the branches could not reach a level of advances under the scheme

which would have enabled their banks to attain the prescribed target. In respect of some of the branches the outstanding amount under DRI Scheme had increased not because of fresh disbursements but due to increase in overdues and accrual of interest on outstandings.

(D) Mis-utilisation of assistance

In 898 out of 12032 cases it was observed that the borrowers had misutilised the assistance.

(E) Income generation

The study revealed that during the period under review (1989-90 to 1991-92) there was marginal increase in the post disbursement income generation in respect of 3890 out of 12032 beneficiaries (32.33%).

(F) Recovery Performance

It was observed that the recovery percentage in respect of advances granted by the bank branches covered by the study was not only poor (average 28.60%) but was also showing a declining trend as indicated below:

Period	Recovery percentage
1989-90	30.53%
1990-91	30.98%
1991-92	24.30%

Main reasons for poor recovery

- (i) Low income generated by the beneficiaries was more often diverted to their consumption needs and the beneficiaries were also generally bogged down by frequent ailments on account of poverty and malnutrition.
- (ii) The low income generation by the beneficiaries was mainly due to lack of demand for goods and services offered by them and also poor infrastructural facilities.
- (iii) The unsatisfactory post disbursement monitoring/follow-up by bank branches and pre-occupation with monitoring of high valued advances by the bank officials had resulted in the neglect of the monitoring of DRI advances.
- (iv) The failure of tie-up arrangements in many States under Dairy, Silk and handloom weaving, had further compounded the problem of recovery.
- (v) Agriculture and Rural Debt Relief Scheme, 1990 and loan waiver schemes of some of the State Governments have adversely affected the recovery climate as the political message appeared to have been conveyed to both the urban and rural poor that their loans would be written off eventually.
- (vi) Misutilisation of the loan amounts either partially or fully by the beneficiaries.

- (vii) Even beneficiaries, who had acquired assets and were generating additional income and could have made the repayment also defaulted wilfully.
- (viii) Unrealistic repayment period fixed by the bank branches without taking into account amount available towards repayment out of the income generation and the useful life span of the assets acquired had also contributed towards poor recovery.

It was observed that low income generation had accounted for nearly 42% of the cases for poor recovery. Even the present recovery position was made possible, due to the write off under ARDR 1990 shown as recovery in the books of the bank branches. Similarly, claims preferred with DICGC under its Guarantee Cover have also contributed to the amount reported by the banks as 'recovery'.

(G) Conclusions and observations

- (i) It was observed during the study that most of the bank branches had not achieved the level of DRI advances so as to enable the bank as a whole to achieve the targetted level of 1% of the aggregate advances outstanding as at the end of the previous year. Similar was the position in regard to advances to SCs/STs.
- (ii) In view of the work load involved and the low return from advances granted under DRI Scheme the bank branches concentrated more on schemes like IRDP, SEEUY etc.

(H) Suggestions for improvement

- (i) Bank branches are reluctant to implement the Scheme due to the cost of implementation and staff constraints. Hence it would be advisable to involve non-Government agencies, Government agencies for the purpose of identification of beneficiaries as also for verification of their annual income, etc.
- (ii) Disbursement of loan under any scheme calls for close post-disbursement monitoring of utilisation of loan amount. Periodical visits to the work site of the beneficiary would ensure proper maintenance of assets acquired and also prompt repayment bank branches could consider availing of the assistance of non-Government agencies for this purpose.

APPENDIX-VIII

(Vide reply to the Govt. to the recommendations at Sl. Nos. 6—9,
Paras 2.25—2.27 and 3.86)

Chief General Manager

**RESERVE BANK OF INDIA
Rural Planning and Credit Department
CENTRAL OFFICE,
BOMBAY**

D.O. RPCD. NO. 364/09.02.01/95-96

September 18, 1995

Bhadra 27, 1917(S)

Dear Shri Srinivasan,

Formation of a Review Committee for Nehru Rozgar Yojana (NRY)

Please refer to your letter D.O. No. K-14011/2/93-UPA(NRY) dated 20th May 1995 addressed to Shri S.P. Talwar, Deputy Governor. We have examined the matter and the need for formation of the Committee to review the Nehru Rozgar Yojana (NRY) is appreciated. As you are aware, Nehru Rozgar Yojana has three Schemes viz. Scheme of Urban Micro Enterprises, Scheme of Urban Wage Employment and Scheme of Urban Employment through Housing and Shelter Upgradation. Of these, bank credit is involved only in respect of one component of Scheme of Urban Micro Enterprises. As such, the role of Reserve Bank of India and also of banks is limited only in respect of that component of Nehru Rozgar Yojana. In the fitness of things, therefore, the Committee to review Nehru Rozgar Yojana should be appropriately constituted under your Ministry. Reserve Bank of India will be prepared to nominate a Senior Officer as a Member to participate in the deliberation as far as they relate to grant of loans by banks under SUME.

With regards,

Yours sincerely

Sd/-

(R. Ramanujam)

**Shri M.S. Srinivasan
Joint Secretary
Ministry of Urban Affairs and Employment
Government of India
New Delhi-110011**

APPENDIX-IX

(Vide reply to Govt. to the Recommendations at S.Nos. 10—11,
Paras 3.87 and 3.88)

TELEPHONE : 266 16 02

Telex : 011-2455
011-2318

RESERVE BANK OF INDIA
Rural Planning and Credit Department
CENTRAL OFFICE,
CENTRAL OFFICE BUILDING
POST BOX NO. 10014
BOMBAY - 400001

Ref. RPCD. NO. SP. BC. 82/09.07.01/95-96
February 07, 1996
Magha 18, 1917 (Saka)

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir

Implementation of Differential Rate of Interest (DRI) Scheme

Please refer to our circular RPCD. NO. SP. BC. 113/09.07.01/94-95 dated 1st February 1995.

2. It has been observed that the banks' performance in implementation of the DRI Scheme continues to be unsatisfactory. As on the last Friday of March 1995, target of 1% of total advances stipulated under the scheme continued to remain unattained except by three banks. As the DRI Scheme is meant for the very poor sections of the society, continued unsatisfactory implementation of the scheme is a cause for concern. Further, it is observed that recoveries of loans under DRI Scheme are just about 40%.

3. In the circumstances, you will agree that there is an imperative need for making concerted efforts to improve the implementation of the DRI Scheme both in the matter of grant of loans as also recoveries of loans granted. We shall be glad if you will please pay urgent attention to this aspect with view to bringing about an improvement in your bank's performance. As already advised vide our circular referred to earlier, you may please consider availing of assistance of voluntary agencies/Government agencies for improving the performance. Use of these agencies may also be considered for educating eligible beneficiaries including women beneficiaries, so that they can derive maximum benefit of the scheme.

4. Please acknowledge receipt.

Yours faithfully
Sd/-
(M.K. Vartak)
General Manager

APPENDIX X

RESERVE BANK OF INDIA
Rural Planning and Credit Department
CENTRAL OFFICE,
CENTRAL OFFICE BUILDING
POST BOX NO. 10014
BOMBAY - 400023

TELEPHONE : 266 16 02

Telex : 011-2455
011-2318

RPCD. NO. SP. BC. 116/09.01.01/94-95
15 February, 1995
26 Magha, 1916 (Saka)

The Chairmen/Managing Directors
All Indian Scheduled Commercial Banks
(Excluding RBBs)

Dear Sir

*Implementation of Integrated Rural Development Programme (IRDP)
for the year 1994-95*

Please refer to our circular RPCD. No. SP.BC. 28/09.01.01/94-95 dated 29 August, 1994 forwarding therewith a copy of circular No. 25011/1/94-IRD III dated 15 April, 1994 issued by Government of India, Ministry of Rural Development regarding financial allocations and physical targets under IRDP for the year 1994-95, for information and advising adherence to the prescribed quarterly targets. It has been observed from the December 1994 statement of progress received from Ministry of Rural Development, Govt. of India that the banks have achieved only 54% of the target under IRDP, as against the stipulated cumulative target of 75% upto December 1994. We shall, therefore, be glad if you will please review the position of targets fixed for your bank *vis-a-vis* achievement and gear up your machinery to ensure that adequate measures have been taken to attain/achieve the target.

2. As you are aware, Government attaches a good deal of importance to the successful implementation of the IRDP and allied programme of DWCRA. You may, therefore, issue suitable instructions to all your branches advising them to strive to achieve the target set out for them for the current year and also to provide adequate and timely credit under the above schemes. You may also instruct your controlling offices to monitor the progress continuously, so that the targets are achieved without fail and the objectives of the scheme are fulfilled.

Please acknowledge receipt.

Yours faithfully

Sd/-

(M.K. Vartak)
Joint Chief Officer.

APPENDIX XI

(Vide reply of Govt. to the recommendations at Sl. No. 31 para 3.108)

TELEGRAM: (RUPLACARD)

RESERVE BANK OF INDIA,
Rural Planning Credit Department

TELEPHONE: 2611602

CENTRAL OFFICE,
CENTRAL OFFICE BUILDING,
POST BOX NO. 10014,
BOMBAY 400023.

TELEX: 011-2318
011-2455

Ref. No. RPCD.BC.02/09.02.01/94-95

5th October, 1994
13 Aswina, 1916 (Saka)

The Chairmen/Managing Directors
All India Scheduled Commercial Banks
(Except RBBs)

Dear Sir

Credit under Poverty Alleviation/Self Employment Schemes

Please refer to paragraph 2 of our Circular RPCD. No.SP.BC.55/PS.160-87/88 dated 2.11.1987 and Circular RPCD.No.SP.BC.17/PS.160—94 dated 10.8.1993, advising banks to include suitable lecture sessions in all relevant training programmes for providing necessary orientation to officials and other staff to enable them to have proper and appreciation of Prime Minister's 15 Point Programme.

2. The Government of India have observed that the attitude of bankers in loaning to poor under various Government Sponsored Programmes—Poverty Alleviation Schemes as well as Self Employment Schemes—is not satisfactory. There appears to be reluctance on the part of banks in extending necessary credit under these schemes. Various excuses are found to delay/deny the credit to the applicants under these schemes. It is felt that specific efforts have to be made to educate and reorient the attitude of Managers of banks, other field functionaries and other staff, so that they have proper perspective and real appreciation of the spirit behind all these Poverty Alleviation/Self-Employment Schemes like SUME, IRDP, PRMY, SLRS, DRI Schemes etc. of the Government of India.

3. You may, therefore, urgently initiate necessary steps to include suitable lecture sessions in all relevant training programmes like Induction Courses, Refresher Courses, Programmes on Rural Lending, Financing of Priority Sectors, Poverty Alleviation Programmes/Self Employment Schemes etc. The existing course contents of all such programmes may be urgently reviewed and necessary modifications made.

Please acknowledge receipt of this communication.

Yours faithfully

Sd/-

(M.K. Vartak)

Joint Chief Officer

Sndt.RPCD.No. 02/09.02.01/94-95 of date

**Copy forwarded for information to
(As per list)**

Sd/-

(R.G. Panday)

Asstt. Chief Officer

APPENDIX XII

(Vide Introduction of the Report)

Analysis of Action Taken by Government on the 52nd Report of Estimates Committee (Tenth Lok Sabha)

I. Total number of recommendations	32
II. Recommendations/Observations which have been accepted by Government (Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 26, 27, 28, 29 and 30)	
Total	29
Percentage	90.7%
III. Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies (Nos. 25,31 and 32)	
Total	3
Percentage	09.3%
IV. Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee (No. Nil)	
Total	Nil
Percentage	Nil
V. Recommendations/Observations in respect of which final replies of Government are still awaited (No. Nil)	
Total	Nil
Percentage	Nil

E.C. No. 1368

Price : Rs. 28.00

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