Working Group Report on

AGRICULTURE AND ALLIED SECTOR

EXECUTIVE SUMMARY AND RECOMMENDATIONS

A summary of the major recommendations /observations of the Working Group is presented in the following paragraphs.

1. OVERVIEW OF AGRICULTURE AND ALLIED SECTOR

1.1 Status of Agriculture:

Agriculture continues to be an important sector of the economy with a 24.8% share in the Gross Domestic Produce (GDP). Its contribution in terms of providing employment to nearly two third of the work force has been critical in maintaining livelihoods especially in the rural areas. The planned approach to development has helped the country to reach a stage where the country is self sufficient in food grains and has a comfortable buffer stock. These achievements have been possible mainly through the favourable policy framework. The policy of Indian Agriculture was to achieve food security by providing incentive for growth alongwith equitable access to food. As a result terrible famines have become events of the past and the agricultural production does not show large variation even in the event of adverse climatic condition. It is, however, revealed that the growth rate of agricultural production declined from 3.72% in eighties to 2.35% in the nineties indicating towards the need of sustainability in agriculture. Indian agriculture is still beset with problems like inadequate capital formation, low productivity, high cost of production, uneven growth etc. **(Para 1.1.5)**

1.2 Economic Reforms and Agriculture

1.2.1 India initiated the process of economic reforms in 1991 in response to the changes in the external and internal economic environment. The major objectives of economic reforms were market orientation of the economy, increasing private sector initiative, improving efficiency in Government spending, enhancing export competitiveness, foreign capital inflow, stabilizing balance of payment and revamping many sectors of the economy such as Industry, Trade, Finance, Infrastructure etc. The response of the economy to the reform efforts has been both positive and not so positive in different sectors. Not many reforms were initiated in the agriculture sector on account of the perception that in the early phase of reforms, food security and agricultural growth should be maintained. Reforms, on account of unexpected consequences that they might produce should not be allowed to threaten food security. The agriculture sector has seen very little direct reform efforts though the rest of the economy has been undergoing reforms and restructuring. But the reforms in the other sector have had an impact on the agriculture sector. The changes brought about in the monetary policy, banking policy, credit policy, trade policy, exchange rate policy and the like have had different effects on agriculture sector. **(Para 1.2)**

1.3 Problems faced by Agriculture Sector

1.3.1 Though not many direct reform initiatives have been taken for the sector, the indices of terms of trade between agriculture and non agricultural sector showed that it has moved somewhat against agriculture. The indices showed an improvement in terms of trade in favour of agriculture during the period 1980-81 to 1990-91 which improved from 82.9 to90.0 and further to 91.7 during 1990-91 to 1994-95. However, during 1994-95 to 1997-98 it moved down to 88.5. **(Para 1.4)**

1.3.2 The growth rates in yields achieved in the eighties could not be sustained in most of the crops in the nineties **.** With the agriculture being exposed to international markets the productivity levels do not compare well with other countries. **(Para 1.4.3.)**

1.3.3 The target of IX Plan could not be achieved as the growth rate of Agricultural Production declined to 2.35% per annum as compared to 3.72% achieved during the eighties. Agriculture in India has been the preserve of small and marginal farmers necessitating the need of taking policy incentives on land holdings consolidation and land reforms and also to safeguard the interests of the tenant farmers and the share croppers. There is an urgent need for improvement in technology and farming methods so that production rises to higher levels by the end of Xth Plan. The profitability of the agriculture has also declined on account of yields and market prices failing to keep pace with rising input costs. **(Para 1.4.2. & 1.4.4.)**

1.3.4 .The overall growth in capital formation in agriculture has been inconsistent with the share of public sector showing a negative growth rate of 0.22%. The State

Governments did not allocate sufficient funds for agriculture and rural development. There is a need to have long term agricultural trade policy to induce investments necessary for production and processing technologies consistent with international markets. **(Para 1.4.6.)**

1.3.5. One serious impact of various policies like subsidisation of inputs is the distortion in the use of inputs and resources. The increased and inappropriate use of chemicals, pesticides and fertilizers and resulting vulnarablities due to spread of monoculture have had in the long run an adverse impact on the productivity, environment and health. **(Para 1.4.5.)**

1.4 WTO and its Impact

1.4.1. The WTO provides threats as well as opportunities in the agriculture sector. While agriculture on the whole might not be affected under WTO, certain crops and crop groups might be adversely affected, while other crops may gain. An analysis of the input of WTO agreement on product specific basis on rice, maize, edible oil and oil seeds has shown that liberalisation of trade would raise domestic wholesale and farm level prices of rice and maize, whereas, the prices of edible oils and oilseeds like rapeseed/ mustard would decline. The impact would be moderate on rice price and quite strong on maize. Free import of rapeseed/ mustard oil would render its seeds substantially cheaper. **(Para 1.6.1.)**

1.4.2. Analysts feel that the fear that the removal of QRs would flood the Indian market with cheap foreign produce has been disproved by past behaviour. This is partly due to a combination of comparatively high import duties and low purchasing power. The real problem lies in how the producers respond to the changes, especially when the customs tariffs are brought down over the years. If the developed countries continue to offer agricultural subsidy at their present level, the Indian farmers would face difficulties in competing with them unless proper support is forthcoming from the Government. **(Para 1.6.2.)**

1.5 National Agriculture Policy (NAP)

The National Agriculture Policy has been announced by the Government of India which seeks to actualise the vast untapped growth potential of Indian Agriculture, strengthen rural infrastructure to support faster agriculture development, promote value addition, accelerate the growth of agribusiness, create employment in rural areas, secure a fair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges arising out of economic liberalisation and globalisation. It aims at attaining a growth rate in excess of 4% per annum in the agriculture sector. The agriculture credit and the role of cooperatives have been assigned an important place in the policy. The projected goal of 4% agriculture growth rate would require enhanced agricultural credit flow with atleast 25% growth in credit every year during the X plan. **(Para 1.5)**

2. Reivew of Agricultural Credit During IX Plan

2.1 Credit is a key factor in agricultural development. In the context of technological upgradation and commercialisation of agriculture which is envisaged in the coming years, it is necessary that credit support to agricultural sector is stepped up considerably. It may be appropriate here to point out that the ratio of inputs to outputs in agriculture has been a constant 0.25 over the last six years from 1990-91. Bank credit to agriculture was 15.6, 15.6 and 15.2% of gross bank credit on the last day of March 1998, 1999 and 2000 respectively. While the ciontribution of agriculture in GDP has been of the order of 25.4, 26.2 and 24.8 at current prices respectively. A comparison with the flow of credit to industry shows the substantially large flows to the manufacturing, mining and industrial sector. **(Para 2.1)**

2.2 During the VIII Five year plan agricultural credit flow was projected at Rs.133358 crore against which the achievement was Rs.98850 crore. Further, the flow of ground level credit to agriculture sector has been registering a positive growth rate and has increased from Rs.26411 crore during 1996-97, the terminal year of VIIIth five year plan to Rs.44612 crore in 1999-2000. The annual compound growth rate in agricultural credit envisaged during the IX plan was 16.1%. However, the actual annual growth rate during the first three years of the plan has been quite good and it fluctuated from 21% during 1997-98 to 15% in 1998-99 and again improving to 21% during 1999-2000. By the end of IX Five Year Plan the compounded annual growth rate is expected to be around 20.3%. **(Para 2.2.1.)**

2.3 Agency wise analysis indicates that the share of Cooperative Banks in the ground level credit for agriculture and allied activities has been declining. Details given in **Annexure-III**. It declined from 45% in 1996-97, the terminal year of VIIIth Plan to an estimate of 41% during 2000-2001. The decline has been uniform under both production credit and investment credit. The compound growth rate of credit has been consistent and increased from 9.5% during 1997-98 to 15% in 1998-99 and to 18.6% in 1999-2000. The share of long term structure was around 22% of credit flow through the cooperative structure but the compound growth rate, though positive has been declining from 15.78% in 1997-98 over 1996-97 to 14.9% in 1998-99 to 11.2% in 1999-2000. **(Para 2.3)**

2.4 The Commercial Banks have improved their share from 49% in 1996-97 to 52% in 2000-01. Thus the CBs have become the major agency for dispensing credit in agriculture and allied sector. However, they still fall short of their achievement of the priority sector target of 18%. Direct agricultural advances by the CBs was only 11.8% of the total net bank credit in March 2000. The RRBs are stagnating at 7% only. **(Para 2.3.1.)**

2.5 Rural indebtedness has been a bane of the rural agricultural sector. According to Debt and Investment survey 1991 of NSSO, the share of rural households in the indebtedness in the country was 59%. Amongst the rural households the share of cultivator house holds was about 80% of the total rural debt. The exploitative nature of the non-institutional credit, high rate of interest, the unproductive loans, the misuse of loans, the declining profitability in agriculture are some of the reasons identified for indebtedness. **(Part –B, Chapter – II)**

2.6 Kisan Credit Card Scheme

2.6.1. As a pioneering credit delivering innovation, the Kisan Credit Card Scheme was introudced with effect from 1998-99 for timely and easy availability of the production credit to the farmers. The scheme is being implemented by the Commercial Banks and Regional Rural Banks. Each farmer is provided with a Kisan Card and a pass book or a Card-cum-pass book for providing a revolving cash credit facility whereby the farmers is permitted any number of drawals and repayments within a stipulated limit, which is fixed on the basis of land holding, cropping pattern and scale of finance. The farmer has to repay each drawal within 12 months. The total number of KCCs issued till 31st March, 2001 were 144 lakhs approx. (Cooperative 94 lakhs CBs-42 lakhs and RRB – 8.00 lakhs) **(Para 2.3.3. & 6.6)**

3. Potentials Of Credit Absorption

3.1 Production Credit

The production credit requirements for farming have been growing rapidly. Production credit as a proportion of purchased inputs was a little over 40% in 95-96 and needs to be stepped up significantly. Commercialisation of agriculture and diversification has increased the credit intensity of production operations. To fulfill the production credit needs an overhaul of the system of fixing scales of finance is needed. Restrictions on individual's maximum borrowing have to be removed. Innovations in delivery mechanism and procedures such as the Kisan Credit Card should be increasingly adopted. Crop diversification should be supported with emphasis on strategic crops like oilseeds and fodder crops for the animal husbandry sector. It is considered that as per the macro level estimates total requirement of production credit would be around Rs. 312800 crores for the X Plan. **(Annexure IV)**

3.2 Investment Credit

Total requirement of investment credit has been given in **Annexure X** sector wise and year wise.

3.2.1 Plantation and Hortilculture

Being the second largest producer of horticultural crops, India is in a position to supply to the global market. It has to overcome infrastructure constraints, shortage of planting material and lack of post harvest management facilities to become a credible exporter. The emphasis should be on avoidance of wastage and spoilage of crops through appropriate post harvest management, packing and storage. Specialised transport and storage arrangements should become part of the chain from farm to market. The credit requirement for X Plan has been accessed as Rs. 18056 crore **(Para 3.2.3.)**

3.2.2. Minor Irrigation

Role of minor irrigation is critical in sustaining the agricultural production and productivity. An assessment of credit requirement of Rs. 39970 crore has been worked out for the X Plan **(Para 3.2.1.)**

3.2.3. Land Development

The watershed development in the rainfed areas, conservation of soil fertility, reclamation of saline, alkaline, acidic and waterlogged land are the government priorities for agricultural development and would require huge investment. The requirement of this sector has been worked out as Rs. 6939 crore for X Plan. (**Para 3.2.2.)**

3.2.4. Fisheries

Future potential for growth in fisheries lies in deep sea and inland fisheries. The coastal fisheries have reached their plateau in terms of production potential. A sound aquaculture policy which ensures environmental sustainability with equity is necessary to ensure credit continued support through banks. Processsing and storage facilities for fish need to be upgraded to provide better price realisation for fishermen. Requirement for this sector is around Rs. 6010 crore for X Plan.**(Para 3.2.5.)**

3.2.5. Agro processing

The access to a global market in recent times cannot be fully exploited unless investments take place in value addition Agro processing industry has a significant role to play in value addition. Apart from improving shelf life through appropriate packing and grading efforts at establishing brand names could augment revenues for the Indian farmers. The credit requirement of this sector has been assessed as Rs. 25886 crore for X Plan.**(Para 3.2.9.)**

3.2.6. Farm Mechanism

Technologies upgradation is important for increasing the production and productivity. The credit requirement for this sector for X Plan would be around Rs. 78440 crore **(Para 3.2.7.)**

3.2.7. Storage, Godown and Market Yards

Avoidance pf post harvest losses through storage and preservation is of critical importance. It would require huge investment. The credit assessment for this sector would be around Rs. 1205 crore for the X Plan. **(Para 3.2.8.)**

3.3 North Eastern Region and Hilly Areas

The North Eastern Region accounts for around 4% of the total population of the country. Nearly 34% of the working population in the region is engaged in agriculture. The region receives heavy rainfall with annual precipitation being more than 1000 m.m. Productivity of foodgrains is however far below the national average. While traditional method of cultivation is prevalent in the plains of the region Jhum cultivation is prevalent in the hilly areas. Mono cropping is largely prevalent in the entire area. The NER, therefore, is the most important thrust area for augmenting the credit requirement **(Para 3.3.1.).**

3.4 Small Farmers/Marginal Farmers (SF / MF)

Agriculture in India has been the preserve of small and marginal farmers. In terms of number of holdings, the small and marginal farmers (less than 2 ha. land) account for 78% of the holdings in 1990-91. In 1960-61, these categories accounted for only 63% of the number of holdings. The average size of holdings across all categories of farmers was 1.57 ha. in 1990-91 which is substantially lower than the average holdings of 2.69 ha. in 1960-61. However, access of SF/MF to credit is limited due to several institutional and non-institutional factors. This is the area which would need special attention during the X Plan. **(Para 3.3.3.)**

3.5 Scheduled Castes/Scheduled Tribes

Since Independence development of Scheduled Castes / Scheduled Tribes (SC / ST) has been one of the most important priorities of the Government of India. According to 1991 Census, SCs account for 138.23 million (16.5 percent), STs 67.76 million (8.1 percent) and Minorities 145.31 million (17.2 percent). The incidence of poverty among SC/ST population is much higher than the average for the country as a whole. Nearly half of the SC population (48.4%) and 51.1% of the ST population live Below the Poverty Line (BPL) (as per 1993-94 estimate) as against 35.9% of the total population deemed to be poor. The strategy to be adopted for upliftment of these categories of people should focus both on economic and social empowerment. **(Para 3.4)**

3.6 Access of Credit to Women

Women constitute nearly half of the population of the world and make up one-third of the labour force. In India, women and children who represent 67.7% of the country's total population should constitute the most important target groups for the development of the country. Over a span of nearly five decades, though, the literacy level of women has increased from 0.6% percent to 39.19 percent, a majority of the women are still illiterate, without having any access to property and credit. Therefore, for the overall upliftment and economic independence, it is very important to facilitate their entry into income generating economic activities. **(Para 3.5)**

4. Projections For Agricultural Credit

4.1 The total credit requirement as per macro estimate has been worked out at Rs.616957 crore of which Rs.312809 crore is for short term credit and Rs.304148 crore for long term. The compounded annual growth rate in credit flow during the X Plan period works out to around 23% which is higher than the IX Plan estimate of 16.1%. But this estimates when adjusted for current prices, rises to Rs.736570 crore. **(Para 4.2.)**

4.2 Since the growth trends of past have a relevance for examining the practicability of achievement of any targets that may be set, the IX Five Year Plan trends were analysed and based on the same the projections were made. The projections worked out to around Rs.601425 crore. **(Para 4.3)**

4.3 NABARD prepares Potential Linked credit Plans for each district in the country based on the ground level demand and feasibility of commissioning investments. These projections aggregated at the national level were analysed for the IX Plan period. The trend in projections based on the same were worked out and it is estimated that Rs.618311 crore could be forecast as the credit flow during the X Plan. **(Para 4.4.)**

4.4 The total credit flow found feasible from the point of view of institutional capacity is of the order of Rs.629767 crore over the X Plan period which is Rs.12810 crore (2.1%) higher than the estimates based on macro level indicators. However, the institutional capacity if lower than macro estimates adjusted for current prices at Rs.736570 crore. **(Para 4.5)**

4.5 The statement showing relationships between foodgrain productivity, net irrigated area, credit and govt. expenditure on agriculture and allied activities is given in **Annexure – IX.** In respect of Investment Credit, the credit demand and potentials were assessed by technical experts based on the growth prospects of different sub- sector. This estimates works out to Rs.236376 crore. **(Annexure-X).**

4.6 A comparative table containing credit flow projections based on five different models of assessment is furnished in **(Annexure XI).**

4.7 The macro level estimates made at 2.8 Incremental Capital Output Ratio (ICOR) at a growth rate of 4% in agriculture seems reasonable and may be adopted for the X Plan purposes. Credit flow required in real terms to achieve the X Plan growth targets under the macro estimates of the order of Rs.736570 crore at current prices. The comparative chart of different projection for agricultural credit for X Five Year Plan period is given in **Annexure-V. (Para 4.6)**

5. Working of the Rural Financial Institutions

5.1 In the formal sector, the agricultural credit is disbursed through a multi agency network consisting of Commercial Banks (CBs), RRBs and Credit Cooperatives. The institutional structure is shown in the **Annexure – IIA (Para – 5.1).**

5.2 As per All India Credit Survey 1991, the share of institutional credit in the total credit flow in the country was around 62%. In the agricultural credit, however, the informal sources like money lenders, arhatias, commission agents still have an important place because of their easy accessibility and availability. In spite of a number of institutional development initiatives and financial sector reforms, we have not been able to weed out the exploitative informal sector.

5.3 Commercial Banks

5.3.1. The All India Rural Credit Review Committee (1969) recommended a significantly enlarged role for CBs in agricultural credit. With the nationalisation of banks, the branch banking in the rural areas acquired a new momentum and the outreach was considerably enlarged within a relatively short period. **(Para 6.2).**

5.3.2. During the year 2000-01, the share of the CBs in agriculture credit increased to 52%. In the MT/LT credit, their share is about 67%. The total agriculture credit disbursed by the CBs increased from 12783 crores in 1996-97 to 24693 crores in 2001 **(Para 5.2.2.).**

5.3.3. In spite of recapitalisation and all round improvements in their finances, products and customer relationship, the CBs have a bias towards the urban and metropolitan areas. As per RBI sources, the CBs out of their total credit disbursement in 2000, disbursed only 10.1% in rural areas and 11.7% in semi urban areas against 78.2% in urban/metropolitan areas **(Para 5.9.3.).**

5.3.4. As against the priority sector lending sub target of 18% for the agricultural sector, the share of the CBs was 11.7% of the net direct bank credit in March 1999 **(Para 5.2.2.).**

5.3.5. The CBs generally view agriculture lending as a risky proposition. It is noticed that the NPAs of the CBs in priority sector have decreased over the years. Between 1995-99, the NPAs in priority sector increased only by about 3400 crores as against 13300 crores in the non-priority sector **(Para 2.4.2.).**

5.3.6. There is some clash between the objectives and expectations from the CBs. One of the objectives of CBs is profit maximization as against the objective of rural banking based on equitable access at affordable cost **(Para 2.4.4.).**

5.4 Regional Rural Banks (RRBs)

5.4.1. After recapitalisation and other restructuring measures, the financial position of RRBs has visible improvement. By March 2000, out of 196 RRBs, 55 RRBs attained sustainable viability and 107 achieved current viability **(Para 5.8.2.).**

5.4.2. However, the improvements have been induced by external factors like recapitalisation support, concessional refinance, support from sponsoring banks etc. The RRBs have now to start shouldering all the costs of their operations **(Para 5.8.2.).**

5.4.3. The CD ratio of RRBs is a cause of concern. It has declined from 86% in 1990 to 41% in 2000. Many RRBs have adopted the route of investment to increase their profitability and reduced the risk of lending **(Para 5.8.2.).**

5.4.4. The share of RRBs in agricultural credit is stagnant at just 7% **(Para 5.2.2.).**

5.5. Cooperative Banks

5.5.1. Cooperatives are most important F.Is in the rural areas. In terms of network, outreach and coverage, they account for about 43% share in the credit flow for agriculture, 31% rural deposits and cover 4.40 crore farmers (44%). The credit cooperatives cater to the needs of about 50% of the small and marginal farmers **(Para 5.3.3.).**

5.5.2. Many of the cooperative credit institutions are, however, far from being strong and self-sustaining business enterprises. For a long, these institutions have been functioning under considerable operational limitations. Low resource base, inadequate volume of business, poor recovery management, high NPAs, lack of professionalism, poor governance, etc. have been some of the factors responsible for the weaknesses of the cooperatives **(Para 5.11).**

5.5.3. The credit cooperatives continue to rely heavily on external support and are not self reliant in respect of resources through deposit mobilisation and share capital growth. The own resources of these institutions in the form of share capital and reserves are just 12%. Their deposits constitute 52% and the borrowings 36% **(Para 5.11.7.).**

5.5.4. High transaction costs, poor funds management, mounting overdues and NPAs add to the financial vulnerability of these institutions **(Para 5.11).**

5.5.5. On the organisational and institutional front, the cooperatives suffer from the absence of democratisation, dormant membership, external interference, duality of control, lack of professionalism, absence of appropriate HRD policies, poor management, etc. **(Para 5.11).**

5.5.6. The growth of cooperatives across the country has also witnessed regional, sectoral and sectional skewnesses **(Para 5.11.9.).**

5.5.7. The lower tier of the cooperative structure i.e. the primary level cooperatives have been ignored the most and the whole structure stands on a weak foundation.

6. Institutional Development Initiatives

6.1 The rural credit strategy in the country has been founded on the philosophy of “growth and equity”. Financial viability and bankability of the investments were the major planks on which bank credit was made available. Various measures like administered interest rates, setting targets of lending to the agricultural sector coupled with availability of refinance to the banks at softer terms, had helped in increasing the flow of credit. **(Para 6.3)**

6.2 Recognising that the nationalised banks need to augment their capital base to cope up with the changing operational environment, the government has undertaken recapitalisation of the nationalised banks and RRBs. The Government had contributed an aggregate amount of Rs. 20,446.12 crore towards recapitalisation of nationalised banks and equity support to RRBs amounting to Rs. 2188 crores. **(Para 6.5.3. and 6.5.4.)**

6.3 The Agricultural Credit Review Committee (ACRC) under the Chairmanship of Dr. A.M. Khusro made wide ranging recommendations for improving the quality of credit and strengthening its efficiency and effectiveness. In view of the structural weaknesses, revamping of credit cooperatives was suggested. Government also initiated a number of measures based on the recommendations of the Committee on Financial System (Narsimaham Committee). The financial sector reform constituted interest rate deregulation, prudential norms, transparency, risk management and institutional reforms. These reforms measures were gradually extended to Cooperative Banks and RRBs from 1996-97. **(Para 6.5 and 6.5.2.)**

6.4 RBI appointed a high level committee under Sh. R.V. Gupta for suggesting reforms in CBs. It made wide ranging recommendations which included simplification of procedure, documents, delegating powers, cash credit limits etc. These recommendations were accepted by RBI for implementation by CBs **(Para 6.5.6.)**

6.5 With a view to strengthening the Cooperative Banks and RRBs and keep them as a viable units on sustainable basis, in addition to recapitalisation of RRBs, the system of preparing Development Action Plans (DAPs) and entering into Memorandum of Understanding (MoU) with the concerned agencies was launched in 1993-94. **(Para 6.5.8)**

7. The Future Institutional Development Strategies

7.1 General Strategies

7.1.1. There is a general belief that a major factor contributing to poor credit discipline in the rural sector is its close identification with the state. The waiver of loans, implementation of programme like IRDA with involvement of state machinery, regulated rate of interest have led people to believe that the rural credit was not commercial credit but a dispensation made by the state. This has affected the recovery. Therefore, there has to be a ban on the waiver of loans **(Para 7.1.2.).**

7.1.2. Difficulty in creation of equitable mortgage on hereditary property, stamp duty on mortgages in a number of states, tenant farmers not being considered for sanction of credit as most of such tenancies are oral or unregistered are some of the stumbling blocks in the flow of credit to the poorer sections. These problems need to be sorted out immediately **(Para 7.2).**

7.2 CBs & RRBs Specific Strategies

7.2.1. Though the interest rates have been deregulated, the CBs are required to charge a rate not exceeding PLR in r/o loans upto Rs. 2.00 lacs. There is a tendency on the part of the CBs to prefer larger loans limiting the credit flow to the small and marginal farmers and the weaker sections. This needs review to rectify the situation **(Para 7.6.2.).**

7.2.2. Though, the R.V. Gupta Committee recommended the simplification of documents and procedures, the CBs still continue with the old system making to obtain a loan from the bank, a cumbersome and restrictive process particularly for the poorer sections. The recommendations of Gupta Committee need to be enforced strictly. **(Para 7.6.5.)**

7.2.3. Behavioural change in the bankers, developmental orientation sensitisation of the bank staff, dedicated banking institutions with a clear development banking objectives coupled with appropriate incentives are some of the measures suggested for increasing the involvement of the CBs in the agricultural and rural development **(Para 7.6.3 and 7.6.4).**

7.2.4. It should be made compulsory for the CBs/RRBs to lend directly at least 18% of the total bank credit in the agriculture sector and some disincentives should be prescribed for adopting the safer route of RIDF **(Para 7.6.6.).**

7.2.5. The RRBs should desist from taking the route of investment to increase their profitability alone and reduce the risk of lending. They were established with a view to cater to the credit requirement of the rural areas. Having a 41% CD ratio put a question mark on the very basis for which they came into existence. The group recommends atleast 15% step up in their CD ratio. **(Para 4.5.1. and 4.5.3.).**

7.3 The Cooperative Specific Strategies

7.3.1. The cooperative banks which suffer from the dependency syndrome need to be converted into self-reliant efficiently managed and vibrant enterprises to serve the rural masses and the agricultural sector in a better way. Under the prevailing economic scenario of liberalization & globalisation, the cooperatives have to be strong enough to compete in the open market. For the success of the cooperatives a multi-pronged approach of legislative and policy initiatives and financial restructuring is urgently required. **(Para 7.7.1.)**

7.3.2. The cooperatives are basically economic enterprises requiring appropriate legislation and policy support aimed at creation of an environment conducive to their healthy development. Chowdhary Brahm Parkash Committee appointed by the Planning Commission had suggested a Model Cooperative Law which has not been adopted so far and provisions continue to remain in the cooperative laws which hinder the development of these institutions. The Group recommends the enforcement of Model Cooperative Law immediately in accordance with the envisaged National Policy on Cooperatives. **(Para 7.8.1.)**

7.3.3. Most of the cooperatives are facing the problem of resource crunch because of the low resource base and poor recovery of their loans resulting in high degree of overdues and NPAs. The Group recommends that all credit cooperatives should be declared as banks for monitoring deposits and an effective mechanism of recovery of cooperative dues through special Cooperative Loans Recovery Tribunals. **(Para 7.8.4.)**

7.3.4. The cooperatives urgently need organizational reforms. There is a feeling that the 3-tier structure of the credit cooperatives and the separate ST & LT structures tend to increase the cost of management and burden thereof on the farmers. The Group felt that the State Governments and the Federations should jointly take the decision to suit their local conditions and requirements. The Group also feels that immediate measures should be taken for amalgamation/merger of the primary level cooperative banks and also winding up of defunct institutions. **(Para 7.9.1.)**

7.3.5. The Groups feels that cooperative federations need to assume more responsibilities of promotion, guidance, information, etc. towards their affiliate members. There should be a system of integrated cooperative structure where the higher tier should promote the lower tier instead of competing with it. The federations should also undertake the responsibility of ensuring timely conduct of elections, general body meetings and audit, etc. The dormant membership and the absence of active participation of members in the mangement have not only resulted in sickness but also encouraged the dominance of vested interests in the control of the cooperatives. The Group therefore, recommends greater participation of the members in the management of the cooperatives by promoting the concept of user members. **(Para 7.9.3 and 7.9.6.)**

7.3.6. All the State Cooperative Banks and the District Central Cooperative Banks which fulfil the norms and criteria laid down by the RBI should be given scheduled status to enable them to accept deposits from the government departments and other statutory bodies. The banking functions to be regulated by the RBI/NABARD and the mangement/administrative functions discharged by the government/RCS should be clearly defined so as to obviate any chances of overlapping and duality of control. **(Para 7.9.7.)**

7.3.7. The recapitalisation and revamping of the cooperative credit institutions is absolutely essential. The functioning of these institutions with serious financial weaknesses is inconsistent with the objective of transforming them into strong viable and self-sustaining institutions. The recapitalisation requirement for cleansing the balancesheets of these banks was estimated to be around 7200 crores in 1994-95. There is a strong demand from the cooperative sector that the cooperative banks should also be recapitalised on the pattern of commercial banks and RRBs. The Group suggests that the recommendations of the Jagdish Capoor Committee should be implemented immediately, may be by making suitable modifications in the recommendations as per the financial and feasibility requirements of these institutions. **(Para 7.10.1.)**

7.3.8. The cooperative banks at the primary level i.e. the PACS should be declared as Banks so that they can mobilise funds through deposits. The Group also feels that the quantum of refinance provided by NABARD should be increased substantially from the present level of 23% to around 50% atleast. The cooperative banks have to diversify their business portfolios of devising attractive banking products for mobilizing savings. The cooperative banks have to have an effective fund management strategy and mechanism by formulating institution specific investment policies. **(Para 7.10.2.)**

7.3.9. The group feels that the PACS are of crucial importance for purveyal of agricultural credit. They should be immediately strengthened. The group recommeds for immediate decaderisation of Secretaries and the PACS should be allowed to choose their own staff as per their capacity. **(Para 7.9.5.)**

7.3.10. In order to meet the growing requirement of agricultural credit and to fulfill the target of the Xth Plan, the Group feels that there should be a separate National Bank for Cooperatives to supervise, monitor and meet the financial requirements of cooperatives. **(Para 7.9.9.)**

7.3.11. The Group feels that in order to enable the cooperative institutions to diversify their business, they should be allowed to undertake the insurance activitity on their own. **(Para 7.9.10.)**

7.3.12. The cooperatives suffer from lack of professionalism and HRD policies. The Group therefore recommends the need for a well specified HRD policy for the recruitment, placement, training, career progression and managerial upgradation, etc. The Group feels that there should be an objective and transparent policy of recruitment of staff, their training and depoliticisation of the cooperatives. **(Para 7.11.1.)**

7.3.13. The cooperatives need to have appropriate internal control systems like internal and concurrent audit and better MIS for an effective supervision and monitoring. For operational efficiency and better communications the Group recommends introduction of information technology in all the cooperative credit institutions. **(Para 7.11.3. and 7.11.4.)**

8. DEVELOPMENT OF NON-CREDIT COOPERATIVES

8.1 The non-credit cooperatives are playing an important role in the national economy. The societies have a wide network in the country at the national, state, district and village levels. In all, there are about 3.61 lakh non-credit cooperatives with a membership of about 6.5 crores. The Govt. has established a National Cooperative Development Corporation for the promotion of the cooperatives. **(Para 8.1.1.)**

8.2 There are about 27,000 consumer cooperatives, 8,800 marketing societies, 263 cooperative sugar factories, 173 spinning cooperative mills, 87,000 dairy cooperatives, 90,000 housing cooperatives, 13,000 fishery cooperatives, 28,900 labour cooperatives, 19,900 industrial cooperatives, 8,000 women cooperatives and 6,100 transport cooperatives. **(Para 8.1.2.)**

8.3 The cooperatives cover almost 100% villages and 67% house-holds in the rural areas. They purvey about 43% of the total institutional credit, distribute 35% of the total fertilizer distribution, and produce 19% fertilizers. The sugar cooperatives produce about 55% of the total sugar production in the country.The cooperatives are engaged in agro-processing of sugar, cotton and oilseeds marketing and storage, dairying, fisheries, agro-inputs, labour, housing, consumers etc. **(Para 8.2.1.)**

8.4 In the area of agro processing, cooperatives have played an important role particularly in the sugar production, cotton processing and oilseeds processing. In the fertilizers production, the IFFCO and KRIBHCO have emerged as giants in the cooperative sector. About 55% sugar and about 23.5% fertilizer is produced in the cooperative sector. About 55% handlooms are in the cooperative sector. In the area of agro processing the Group recommends the following :-

i) Sugar production needs to be deregulated and market oriented.

ii) System of State Advised Prices for sugarcane needs to be abolished.

iii) Re-enactment of Sugar Promotion Act.

iv) Modernisation and rehabilitation of the sick sugar and spinning mills.

v) Provision of funds under Technology Upgradation Fund.

vi) Strengthening of linkages through strategic alliance with private sector. **(Para 8.4)**

8.5 The agricultural marketing is an important area in which the marketing cooperatives have an important role because of their structure and presence in the rural area. In view of the economic liberlisation and globalisation, the agricultural marketing assumes a central place and, therefore, strengthening of the marketing cooperative is essential. The NAFED and TRIFED should create marketing infrastructure and networking of the marketing cooperatives to explore new markets. The group feels that there should be integrated marketing system. There should be linkage between credit and marketing societies. The marketing societies should adopt new technologies and enter into joint ventures and branding, etc. The multiplicity of societies at the grass route level should be done away with. The general marketing societies and commodities specific marketing societies having the same area of operation should be merged. The concept of farmers markets should be encouraged. **(Para 8.4.7.)**

8.6 The cold storage linked subsidy scheme extended to cover rural godowns should be implemented in the 10th Plan through both NABARD and NCDC. The godowns other than warehouses are not recognized as warehouses under the Warehousing Act. To enable farmers to obtain loans from banks against the storage receipts, these receipts should be declared as negotiable instrument. There should be emphasis on renovation and upgradation of existing godowns. **(Para 8.4.11.)**

8.7 With a view to bringing faster and rapid growth of the dairy sector, Deptt. of Animal Husbandry & Dairying is implementing various schemes through NDDB. The World's largest dairy development programme Operation Flood has been completed. There are about 85,000 village dairy cooperatives, 170 milk unions and State Federations in the country which are playing vital role in the cooperative sector. NCDC is also implementing a scheme for development of dairy cooperative. The Group suggests that Integrated Dairy Development Project (ICDP) in the non-operation flood, hill and backward areas should be encouraged. Institutional finance may be provided to the cooperatives directly without State Government guarantee. **(Para 8.4.9.)**

8.8 NCDC is implementing an Integrated Cooperative Development Project (ICDP) and this scheme should be continued in the 10th Plan also. Keeping in view the effectiveness and usefulness of the scheme for the primary level cooperatives, the reduction in the rate of interest on loans should be considered as interest rate on NCDC loans comparatively higher. The scheme may also be made flexible to allow project implementation agency to use the subsidy for providing loan at further concessional rate of interest to the beneficiary societies. **(Para 8.4.12.)**

8.9 Cooperative housing sector although doing well, is facing in number of constraints. The State Governments should provide loan to housing cooperative at the rate at which acquired on priority basis. Financing institutions should provide additional loan to housing cooperative at reasonable rate of interest. **(Para 8.4.15.)**

8.10 The four tier structure of Consumer Cooperative comprises of 26500 primary cooperatives, 700 wholesale stores and 28 state federations. Unfortunately 50% of the consumer stores are incurring losses due to various reasons. The NCCF and State level consumer federations should explore the possibility of entering alliance with the manufacturers for marketing of their products. The Government may consider making structural changes in the set up of consumer cooperatives by making them two tier system instead of four tier system to cut various administrative costs. The NCCF should play a role for strengthening of the consumer cooperatives. **(Para 8.4.16.).**

8.11 The vast coast line of India provides enough scope for fish production which apart from its contribution towards foreign exchange earnings, provides, employment opportunities to the poorer people. However, cooperatives have not been able to make any major impact on the fisheries sector across the country. There is, therefore, need for policy reforms to help cooperatives to enter this area in a large scale by enhancing the institutional credit to the fishery cooperatives. **(Para 8.4.6.)**

Priorities for the 10th Plan

8.12 Cooperative sector has played an important role in the economy of the country and will have to be recognised as an integral part of the national economy. To face the challenges which the new environment will throw up, the cooperatives will have to be structurally strong, financially competitive and functionally autonomous. The thrust of the 10th Plan should, therefore, be on enhancing the level of performance and efficiency of cooperatives with emphasis on technology upgradation, marketing, processing, professionalism of management. The small producers specially of perishable commodities will have to combine and coordinate their efforts to secure benefits and value additions through credit warehousing, processing and marketing to compete in the international market. **(Para 8.3)**

8.13 There is an urgent need to enforce the model cooperative law for democratic functioning, functional autonomy, operational efficiency and financial viability of the non-credit cooperatives. The National Policy on Cooperatives recently formulated by the GOI should go a long way in improving the functioning of these cooperatives. **(Para 8.3)**

8.14 Rehabilitation of non-credit cooperatives requires immediate attention. Grass root level institutions which have become sick and have potential for revival are required to be rehabilitated and institutionally supported like those in other sector of the economy under BIFR. A Centrally Sponsored Scheme for rehabilitation of sick cooperatives particularly in the processing sector is immediately required. **(Para 8.4.17.)**

8.15 The Group has identified the broad areas that have perceived scope and potential for future development as agro clinic, irrigation-water-harvesting, watershed development, bio-fertilizer, bio-product, organic farming, service sector cooperatives. Partnership amongst cooperative and their strategic alliance with private or public sector organisation should be undertaken by the cooperatives. **(Para 8.4.19.)**

8.16 Another area of policy intervention is Information Technology. It will help the cooperatives to participate in decision making activities and in internal personal communications. The easy access to cyber cafes for local market rates will help the rural people to get a price for their produce without middlemen eating into their profits. Information Technology has got good potential for the cooperatives. **(Para 8.4.18.)**

8.17 With the opening of insurance sector, the intense presence of cooperatives in rural areas need to be utilised in spreading the activity of insurance as the rural insurance in India has not really picked up to the desired level. The cooperatives should take advantage of the opportunities in the insurance sector. **(Para 8.4.20.)**

8.18 Keeping in view the resource problems of the cooperatives it is felt that there should be a cooperative equity/development fund especially for the processing cooperatives where upto 40% of the project cost has to be met by way of equity. The cooperative needs some alternative like the National Equity Fund for small and medium industries. On the same analogy a cooperative equity fund can be thought of both at the Central and State levels from which shortfall in the promoters equity can be met. **(Para 8.4.21.)**

8.19 NCDC has been given the prime responsibility for promotion of the cooperatives. The activities and scope of NCDC has, therefore, to be widened suitably by amending the NCDC Act. NCDC should be converted into an equity based financial institution to enable it to raise its resources. It is required to coverage/dovetail its schemes with other institutions doing the similar job like NABARD, NCUI, etc. NCDC should be declared as a public financial institution. Funds to NCDC should be provided by Central Government on concessional terms for implementing the programmes with socio economic objectives. **(Para 8.4.22.)**

9. Training And HRD of Cooperatives

9.1. Human Resources Development (HRD) is designed for improving the human performance by increasing human capacity and productivity for ensuring a better quality of life to the individuals in and outside the organization. Human resources development is a process of advancement of knowledge, skills, discipline and will of the individuals for enabling them to behave and perform in the manner in which the individuals, organisations and societies prosper by fulfilling their objectives fully. **(Para 9.4)**

9.2 The management development and management education programmes conducted by the institutes under the umbrella of NCCT and other agencies need to be suitably modified to include the concept of value based professional management in cooperatives. It would be in fitness of the things that the manual prepared by ICA/NCCT is adopted by the cooperative training institutes and manual based series of programmes organised on continuous basis. **(Para 9.3.1.)**

9.3 In the context of fast changing economic scenario, cooperatives have to realize that their survival depends largely on improving the competitive strength and modernizing the business operations. Information technology has been recognized as an effective instrument full of potential to build up the competitive strength, particularly in the context of flow and utilization of information relating to markets, competitors, products etc. However, due to traditional perception and dependence on government support, the cooperatives have been rather slow to capitalize the gains and opportunities emerging from the growth and expansion of information and communication technology. **(Para 9.3 and 9.4)**

9.6. The prime responsibility for HRD has to be that of the cooperatives themselves. Therefore, they have to shed away their dependence on the government and others for financing their HRD requirements. They must make provisions in their budget for this important activity. **(Para 9.11)**

9.7 Cooperatives should introduce management trainee scheme in order to induct qualified and competent people at the middle level management. At middle and higher level management, at least 50% of the posts should be reserved to be filled only by direct recruitment. **(Para 9.14)**

9.8 VAMNICOM, Pune should pay greater attention to create appropriate software, programmes in the field of information technology and computerization apart from sensitizing top level leaders and policy makers in the cooperative sector and government officials. **(Para 9.23.1.)**

9.9 The Group strongly endorses the recommendations of an expert committee constituted to evaluate the working of the NCCT regarding creation of Corpus Fund of Rs.300 crores to make the NCCT self-reliant over a period of time. The pattern of contribution to this Corpus Fund may be adopted. **(Para 9.26)**

9.10 In view of the tangible impacts created by the education field projects scheme which is implemented through the NCUI, the Group recommends that 30 additional projects may be established during the Tenth Five Year Plan period @ 6 projects each year. This proposal and on going 40 projects will require total outlay of Rs.2660 lakhs from the GOI. **(Para 9.27)**

9.11 The cooperative education programmes and projects are presently monitored by the NCUI and the cost of monitoring is shared in the ratio of 80:20 by the NCUI and the GOI. The Group recommends that the same pattern may continue for Tenth Five Year Plan. This will require a outlay of Rs.615 lakhs during the plan period. **(Para 9.3.28.)**

9.12 The Boards of management of RRBs need to be evolved as on empowered bodies to enable them to be more responsive to the emerging changes. Each RRB should have clearly defined promotional policy specifying the standards and conditions. **(Para 9.32)**

9.13 The government and the sponsoring banks should sponsor their nominee Board members for appropriate training to be conducted at CAB, BTC, BIRD etc. to sensitise them appropriately about their role. Where the RRBs are in profit, a part of the expenses can also be borne by the RRBs. The areas of training should cover, in addition to the ongoing orientation, specific areas such as investment management, bank management, business and profitability planning, regulatory environment, managing industrial relations, etc. **(Para 9.33.6.)**

9.14 Each RRB should prepare a comprehensive phase-wise plan for computerisation covering all branches by the end of X Five Year Plan period. The sponsor banks, NABARD, RBI may provide financial assistance in the form of soft loan/grant for this purpose. **(Para 9.32.4.)**

10. Risk Management And Crop Insurance

10.1 Farmers who spend most of their time in open fields, are also prone to personal accidents and injuries. The scheme, therefore should strive to provide package insurance, which includes insurance of agricultural implements, produce stored in go-down and coverage of personal accident. **(Para 10.7.9)**

10.2 The possibility of using Remote Sensing methodology with ground level data deserves attention. Presently the Scheme depends on manual sources of collection for various data requirements. It includes yield data, cropped area, crop health etc. The Remote sensing technique which is being constantly refined and standardised, if used many provide greater credibility to the scheme, besides facilitating technology based services, including supplementary and complimentary services. The costs of data can also be reduced in the long run. **(Para 10.8)**

10.3 The decision regarding separate agency be taken quickly and such an agency should have appropriate authority and autonomy to deal with the GOI, State Governments and Reinsurers. **(Para 10.7.12.)**

10.4 Perennial horticultural crops such as apple, coconut, orange, mango etc. are presently not covered under NAIS because of their multiple-picking yield and non-availability of adequate past yield data. States like Himachal Pradesh, Andhra Pradesh, Maharashtra, Tamil Nadu etc. have been insisting for their inclusion. It is recommended that coverage to selected perennial crops in selected districts on experimental basis may be made at the first stage. Inclusion of other perennial horticultural crops can be considered on the basis of experience gained. **(Para 10.7.13.)**

10.5 Farmers despite normal production, often fail to maintain their income due to fluctuations in market prices. Farmers' income, therefore is a function of marketable surplus and market prices of the produce. Prices, besides being an inter-play of supply and demand, are also influenced by quality of produce. The Group recommends for considering revenue coverage i.e., price fluctuations of produce combined with yield guarantee under NAIS. **(Para 10.7.15.)**

10.6 Actuarial rates should form basis of premium calculation. Farmers would, however continue to pay the premium at existing rates and the difference between actuarial rates and flat rates to be subsidised by the Central and State Governments, while the responsibility for claims should be with Implementing Agency. The arrangement is thought essential to make the scheme viable and to infuse a degree of caution and accountability on Implementing Agency. **(Para 10.7.7.)**

10.7 Reinsurance: The improvement in the scope and content of Scheme has also widened the scope for significantly higher financial liabilities, which are often open-ended. An appropriate Reinsurance technique can reduce the financial liabilities of the Government and Implementing Agency. It is therefore, felt that an appropriate reinsurance may be negotiated in the international Reinsurance market. **(Para 10.7.16.)**

11. Programmes And Schemes

11.1 Several schemes designed to strengthen the credit delivery system, development of non-credit cooperatives, human resource development, insurance of crops were prepared by Department of Agriculture & Cooperation. The schemes for capacity building of RRBs and Cooperatives through implementation of DAPs/MOUs prepared by NABARD in consultation with Ministry of Finance and RBI during the VIII Plan were continued with revised budgetary allocations during the IX Plan. **(Para 11.1.1.)**

11.2. Schemes and projects prepared by NABARD for different sector/sub-sector of agriculture were implemented by NABARD during the IX Plan. **(Para 11.4.3.)**

11.3. NABARD has identified financing, promotion and development of Rural Non-Farm Sector as one of its thrust areas and has introduced certain measures to enlarge and diversify the credit and promotional activities in the field of Rural Non-Farm Sector. **(Para 11.4.3.)**

11.4 Under the capital subsidy scheme for storage the aim is to create upto 2002, an additional storage capacity of 12 lakh tonnes and rehabilitation/moderanisation/expansion of capacity for 8 lakh tonnes. As on 31st March 2001, a total of 243 schemes with total capacity of 12.75 lakh tonnes have been sanctioned with outlay of Rs.338 crore. **(Para 11.4.3.)**

11.5 In order to encourage watershed development through the participation of local people, a Watershed Development Fund (WDF) has been set up with a contribution of

Rs.100 crore and matching contribution of Rs.100 crore is also being made by Government of India. **(Para 11.4.3.)**

11.6 The following new schemes are proposed during the Xth Plan

11.6.1 Department of Agriculture and Cooperation

(i) Recapitalisation and revamping of Cooperative Credit structure.
(ii) Strengthening of infrastructure and MIS of the PACS.
(iii) Janta Personel Accident Insurance Scheme.
(iv) Strengthening of Information Technology of State Cooperative Departments.

11.6.2. National Cooperative Development Corporation

(i) Rehablitation of Cooperative Grower's Spinning Mills.
(ii) Setting up of new Cooperative Ginning and Pressing Units.
(iii) Scheme for Fisheries Development.
(iv) Creation of water harvesting and irrigation facilities in rainfed areas.

11.6.3. NCUI/NCCT

(i) Distance Learning Programme.
(ii) Interstate Study Visits.
(iii) Scheme to assist Junior Cooperative Training Centres and State Cooperative Unions.