CHAPTER I

INTRODUCTION

After a modest growth of 3.8% during the first year of the X Five Year Plan, the Indian economy has recorded strong growth for three successive years in an environment of macroeconomic and financial stability. The real GDP growth has averaged over 8% during the last three years of the X Five Year Plan and over 7% in the first four years (2002-03 to 2005-06) of the X Five Year Plan, as against 5.5% recorded during the entire Ninth Five Year Plan. The high growth momentum in recent years has been led by strong performance of the services and manufacturing sectors. The Reserve Bank of India has, in its Annual Policy Statement for 2006-07, placed real GDP growth, for policy purposes, in the range of 7.5% to 8.0% during 2006-07. Thus, India has emerged as one of the fastest growing economies among the major emerging nations, and is expected to be one of the four largest economies by 2050 A.D., along with Brazil, Russia and China. A positive feature of this growth is that it has been achieved in the face of deficient South West monsoons during the last two years and consistent hardening of international oil and steel prices. The continued recovery of manufacturing activity, in both the capital and consumer goods sectors, has been led by both investment and consumption demand, increased capacity utilization, augmentation of capacities and positive business and consumer confidence. However, the infrastructure sector has witnessed subdued performance. The services sector has also recorded high growth rates consistently and has remained the key driver of economic growth during the Tenth Five Year Plan. A favourable market is emerging for services products from India as evident by the trebling of India's share in world export of services from 0.6% in 1995 to 1.8% in 2004.

2. The strengthening of economic activity in recent years has been supported by consistent increase in the gross domestic investment rate from 23.0% of GDP in 2001-02 to 30.1% in 2004-05. The gross domestic savings rate has improved from 23.6% to 29.1% over the same period, led by a turnaround of 4.2% of GDP in public savings, from a negative saving of 2.0% of GDP in 2001-02 to positive savings of 2.2% of GDP in 2004-05, mainly reflecting the fiscal consolidation process and reforms initiated by the GoI in terms of the implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003, etc. The Reserve Bank of India has played a proactive role in strengthening the financial sector in terms of proactive liquidity management, effective inflation control measures, tightening of prudential measures, and of late, more emphasis on financial inclusion and improvement in customer services. Initiatives to strengthen the other segments of the banking system included focus on amalgamation of RRBs to improve their efficiency, setting up of a Committee on Financial Inclusion, a Committee on Financial Plan for the North Eastern Region, and acceptance of the package for revival of the Short Term Cooperative Structure as envisaged by the Prof. Vaidyanathan Committee.

3. The importance of agriculture in the Indian economy, in terms of providing livelihood opportunities to 65 million of its population and raw material for a large number of its industries, cannot be overstated. For the Indian economy to maintain its growth momentum on a sustained basis, the agriculture sector would have to play a more important role than it has in recent years. The actual growth in the agriculture sector during the first four years of the X Five Year Plan has averaged only about 2% per annum as against 4% per annum as envisaged during the Plan period (2002-07). While the share of agriculture GDP in the overall GDP has declined from around 35% in 1980-81 to around 20% at present, the fall in the proportion of population dependent on the sector has not been significant. The rapidly worsening ratio between the per capita income from farm and non-farm sectors is causing serious concern. While a majority of the workforce is still dependent on agriculture, the GDP growth in agriculture is marginally above the rate of growth of population, in contrast to the high growth in the non-agricultural sector. Secondly, the growth has been uneven across regions and crops. Thus, despite achieving self-sufficiency in foodgrains production at the national level and technological advancements in agriculture, starvation deaths and suicides continue to plague a large section of the farming community in different parts of the country. Legislative, institutional and attitudinal changes to supplement enhanced public and private investment may be required to be constituted urgently. **A well**

spread and consistently higher growth rate in agriculture sector is a pre-requisite for more inclusive growth of the economy.

4. The decline in the share of the agricultural sector's capital formation in GDP from 2.2% in the late 1990s to 1.7% in 2004-05 is a matter of concern. At constant (1999-2000) prices, investment in agriculture was only Rs. 43,123 crore in 2004-05 as against Rs. 43,473 crore during 1999-2000. The decline is mainly on account of private investment, which has fallen from Rs. 35,719 crore in 1999-2000 to Rs. 30,532 crore in 2004-05, while public sector investment in agriculture has shown signs of revival, increasing from Rs. 7,754 crore to Rs. 12,591 crore in 2004-05. The decline in profitability of agriculture during the nineties by 14.2% could be one of the major reasons for lack of growth in the private sector investment in agriculture. Investment in irrigation, land development, watershed development, agricultural marketing infrastructure and rural roads are important in increasing agricultural productivity and incomes. Revival of Cooperative Credit Institutions through legal and institutional reforms and financial support is expected to improve the flow of credit to the agriculture sector and financial support and increase investment in the sector.

5. In addition to the decline in overall investment in the agriculture sector, infrastructure bottlenecks, particularly in regard to irrigation facilities, markets and marketing, and connectivity continue to impede the growth of the sector. Indian agriculture continues to be heavily dependent on the monsoons. The coverage of irrigated area is only about 40%. Furthermore, water use efficiency in Indian agriculture is among the lowest in the world. Increasing outlays on irrigation, improving the efficiency in use of water resources and appropriate pricing policies would help. Besides, given the price and production risks that farmers face, there is an urgent need to put in place effective risk mitigation policies. The risk-cost-benefit ratio in agriculture has become discouraging. **A comprehensive public policy on risk management in agriculture could incentivise efficient commercialized agriculture and also provide relief to distressed farmers**.

6. Credit has a very important role to play in supporting agricultural production and investment activities. As against a target of Rs. 7,36,570 crore, the total credit flow to agriculture during the X Five Year Plan is expected to be of the order of Rs. 6,50,000 crore, i.e., a likely compound annual growth rate (CAGR) of 26.38%, as against the CAGR of 18.63% achieved during the IX Five Year Plan. The total credit to agriculture increased from Rs. 62,045 crore during 2001-02, the terminal year of the X Five Year Plan to Rs. 1,67,775 crore (provisional figures) in 2005-06 and is expected to reach Rs. 2,00,000 crore during 2006-07, the final year of the X Five Year Plan. The share of Commercial Banks in total agricultural credit increased from 54% in 2001-02 to around 69% in 2004-05. An encouraging feature is that the share of investment credit increased from 35% in 2001-02 to around 41% in 2004-05, despite the negative growth achieved by the long term cooperative credit structure. However, although the total agricultural credit has increased during the last two years, there are serious quantitative as well as qualitative concerns. The poor outreach of the formal institutional credit structure is a serious issue that needs to be corrected expeditiously. The findings of the National Sample Survey Organisation (NSSO) 59th Round (2003), reveal that only 27% of the total number of cultivator households received credit from formal sources while 22% received credit from informal sources. The remaining households, comprising mainly small and marginal farmers, had no credit outstanding. Comprehensive measures aimed at financial inclusion in terms of innovative products and services to increase access to institutional credit are urgently required. Other issues such as credit flow to tenant farmers, oral lessees and women cultivators, complex documentation processes, high transaction costs, lack of availability of quality inputs across all regions, inadequate and ineffective risk mitigation arrangements, poor extension services, weak marketing links and sectoral and regional issues in credit are also required to be addressed expeditiously. The GoI and RBI have already initiated some steps in this direction.

7. The Working Group on Outreach of Institutional Finance and Cooperative Reforms was constituted by the Planning Commission on 07 July, 2006 under the Chairmanship of Shri Y C Nanda, Member, National Commission on Farmers, to review the status of cooperatives and their role in rural development, suggest measures for speedy revamping of the rural cooperative credit institutions, to assess the flow of credit to the disadvantaged sections of the population as also to the North eastern region and suggest measures for encouraging greater credit flow, and to suggest procedural simplifications for devising a borrower-friendly and efficient agricultural credit system. The Terms of Reference of the Working Group also included study of the legal framework for loan recovery, suggesting an appropriate mechanism for risk management in financing disadvantaged sections and risk prone agricultural activities through creation of dedicated funds, study of the magnitude of indebtedness of farmers and its impact on the flow of agricultural credit, critical evaluation of the performance of the Rural Infrastructure Development Fund (RIDF), the coverage of credit facilitation through extension network and critical review of the on-going schemes of the GoI, RBI and NABARD. Finally, the Working Group was asked to review the flow of institutional credit to the agriculture sector during the X Five Year Plan, to assess the short term and long term credit requirements for agricultural production, to work out targets for the XI Five Year Plan and suggest measures/ strategies to fulfill the requirements, especially investment credit. The Terms of Reference also included reviewing the efficacy and adequacy of the structure of agricultural credit and the relative performance of its major components, to study the regional disparities in the flow of agricultural credit, suggest suitable programmes for removing regional disparities in the flow of agricultural credit and to formulate strategies to meet gaps in supply of agricultural credit in relation to the development needs of regions, sectors and client groups.

8. The Working Group was, accordingly, constituted with 29 members with domain knowledge in the field of agriculture, institutional finance, extension, cooperation, etc. The Working Group, in turn, constituted 7 Sub Groups on : Cooperative Reforms, Agricultural Credit Flow to Disadvantaged Sections, Simplification of Lending Procedures, Loan Recoveries, Indebtedness of Farmers, Extension and Infrastructure and Flow of Institutional Credit. The Report of the Working Group along with recommendations, has been presented in the following chapters based on the detailed analysis and recommendations made by each of the Sub Groups.

9. In view of the facts stated in the foregoing paragraphs, the Working Group feels that the efforts to achieve 3.9% growth in the agriculture sector during the XI Five Year Plan would be required to be supported by timely, affordable and farmer friendly credit system to the hitherto unreached sectors and sections, integrated financial products that take care of all aspects of the production chain right upto marketing, agricultural diversification, region and crop specific technologies and an effective risk mitigation system. The revitalisation of the cooperative credit structure in order to transform them into vibrant and viable democratic financial institutions would also require focus during the XI Five Year Plan.

CHAPTER II

TERMS OF REFERENCE OF THE WORKING GROUP

i. To review the flow of institutional (Cooperative Banks, Regional Rural Banks and Commercial Banks) credit to the agriculture sector during the 10th Plan, giving State-wise/Region-wise and sub-sectoral break-up and identify the factors affecting the growth of such credit. To assess the short term and long term credit requirement for agricultural production and work out target for 11th plan. Also suggest measures/strategies to fulfill the requirements especially investment credit.

ii. To review the efficacy and adequacy of the structure of agricultural credit and the relative performance of its major components including Kisan Credit Card (KCC) Scheme, Self-Help Group (SHG) Bank Linkage Programme, Special Agricultural Credit Plan (SACP), etc. Also suggest the changes in these components to facilitate greater flow of agricultural credit to various categories of farmers.

iii. To assess the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless labourers and identify the impediments in the flow of credit to them and suggest measures for easy availability of credit to them for agricultural production and other agricultural activities.

iv. To study the cost of funds to lenders, cost of borrowing and lending margins and their impact on the flow of agricultural credit and to suggest measures to reduce the cost of borrowing including rate of interest on agricultural credit.

v. To study the regional disparities in the flow of agricultural credit, identify the factors inhibiting the farm credit flow in the States and suggest suitable programmes for removing regional disparity in the flow of agricultural credit.

vi. To formulate strategy to meet gaps in supply of agricultural credit in relation to development needs of regions, sectors and client groups.

vii. To suggest procedural simplifications including relaxation in the collateral/ security/ margin requirements for devising a borrower-friendly and effective agricultural credit delivery system.

viii. To study the legal framework for recovery, its relevance/ adequacy and suggest a better system for farm loan recovery which improves overall recovery climate without being harsh to the farmer

ix. To evolve an appropriate mechanism to cover the risk in financing disadvantaged section and risk prone agricultural activities through creation of separate dedicated funds and other institutional arrangements other than insurance cover.

x. To review the magnitude of indebtedness of farmers (institutional and non institutional sources) and its impact on the flow of agricultural credit and to suggest measures for covering all the farmers within institutional credit fold and meeting their entire credit requirements including consumption credit for reducing their dependence on informal sources.

xi. To review the present status of agricultural credit in the North Eastern States, identify the constraints/ bottlenecks in the flow of agricultural credit to the farmers of this region and suggest concrete measures for encouraging greater flow of bank credit for agricultural production and other agricultural activities in the region.

xii. To critically evaluate the performance of Rural Infrastructure Development Fund (RIDF) and also suggest measures for its enhanced/ better utilisation for agriculture and allied activities

xiii. To review the coverage of credit facilitation through extension network and suggest modalities for improvement

xiv. To critically review the performance of the on-going schemes of the Department of A&C, RBI, NABARD and Department of Banking and suggest any modifications/ discontinuation of any new schemes to be taken up to meet the desired goal.

Cooperative Reforms

i. To review the status of Cooperatives and its role in the economic development of the country in general and in the agricultural economy of the country, in particular.

ii. To study the regional disparity in the development of cooperatives, identify the factors inhibiting the development of cooperatives in the states and suggest suitable programmes for encouraging cooperatives in the cooperatively under developed states.

iii. To suggest measures for Human Resource Development in the Agricultural Cooperatives.

iv. To review the magnitude of agricultural indebtedness and also status of over dues, financial health of PACs (Primary Agricultural Credit Societies) and Land Development Banks, identify the factors affecting financial health and efficiency of Cooperative Credit Societies and suggest measures and institutional framework for making the Cooperative Credit Societies more efficient.

v. To study the progress of revamping/strengthening of rural cooperative credit institutions following the Report of the Task Force on Revival of Rural Cooperative Credit Institutions and to suggest measures for hastening the revamping process.

vi. To study the short term impacts of economic reforms on cooperative credit structure.

vii. To suggest suitable programmes, schemes and strategic reforms in cooperative sector for the 11th Plan to address agricultural growth and distress.

CHAPTER III

METHODOLOGY

The methodology for preparation of the report of the Working Group was discussed and finalized during its first meeting held on 22 July, 2006. In order to give pointed focus to each of the terms of reference assigned to the Working Group, it was decided to constitute seven Sub Groups, each Sub Group to be headed by members of the Working Group who are eminent experts with vast experience in specific fields of relevance to the Group. It was also decided to allocate specific terms of reference to each Sub Group *. The Group also decided to co-opt five additional members, from among experts in the fields of cooperation, agriculture finance and agricultural extension and infrastructure. The Sub Groups held several meetings and also conducted field level workshops/visits in order to garner first hand experiences. The Sub Group leaders met on 22 August, 2006 and 28 September, 2006, to discuss the draft reports and the implementable recommendations. Finally, the recommendations of the Sub Groups were discussed and finalized in the Meeting of all the members held on 17 November, 2006. Thereafter, the Working Group finalized its recommendations on the basis of action required to be initiated at the policy and operational levels by various stakeholders as also those requiring financial support from the GoI. Last but not the least, the recommendations have been categorized into those which would require immediate action, followed by those requiring action over medium term and long term respectively.

It is hoped that the recommendations of the Working Group, particularly those with regard to the assessment of short term and long term credit requirements for agriculture during the XI Five Year Plan are found useful by the Planning Commission.

- List of the Working Group Members, Sub-Group wise and details of Meetings held is appended herewith.

- **LIST OF MEMBERS OF SUB-GROUPS OF THE WORKING GROUP ON OUTREACH OF INSTITUTIONAL CREDIT AND COOPERATIVE REFORMS**

Sub Group	Name of Sub-Group Leaders	Members	Dates of Meeting
Sub Group I on "Cooperative Reforms"	Shri JNL Srivastava, Former Secretary (A&C), GoI, Managing Trustee, IFFCO Foundation	Shri B Subrahmanyam, Executive Director, National Federation of State Cooperative Banks	11.08.06 29.08.06 12.09.06 25.09.06
		Shri Satish Chandra, IAS, Joint Secretary, (Credit, Cooperation & Crop Insurance)	
		Shri P Uma Shankar, Managing Director, National Cooperative Development Corporation (NCDC)	
		Shri Bhagwati Prasad, Chief Executive, National Cooperative Union of India, Director, Vaikunth Mehta National Institute for Cooperative Management	
		Shri Alok Ranjan, Managing Director, National Agricultural Coop.Federation (NAFED)	
		Shri Rajesh Srivastava, MD, Corporate & Commercial banking, Rabo Bank	
Sub Group II on "Agricultural Credit Flow to Disadvantaged Sector"	Smt. Usha Thorat, Deputy Governor, Reserve Bank of India	Shri Rajendra Mishra, Joint Secretary, Ministry of Development of Northern East Region, GoI,	16.08.06 31.08.06
		Ms. H A Daruwala, Chairperson & Managing Director, Central Bank of India	
		Shri A K Garg, Managing Director, Agriculture Finance Corporation Ltd	
		Shri Nachiket Mor, Executive Director, ICICI Bank	
Sub Group III on "Simplification of Lending Procedures	Shri S S Kohli, CMD, Indian Infrastructure Finance Ltd. (IFCL)	Shri Sanjiv Bhasin, CEO, Rabo Bank	22.08.06 12.09.06
		Shri Jagjit Singh Hara, Progressive Farmer	
		Shri R. Bhaskaran, Chief Executive Officer, Indian Institute of Banking and Finance	
		Shri Alok Ranjan, Managing Director, National Agricultural Coop.Federation (NAFED)	
Sub Group IV on "Loan Recoveries"	Shri T S Bhattacharya, Managing Director State Bank of India	Shri K.K.Ravindran, Managing Director, National Cooperative Agriculture & Rural Development Bank Federation	02.09.06 19.09.06
		Shri Anil Diggikar, Commissioner for Cooperation & Registrar Cooperative Societies, Govt of Maharashtra	
		Shri Bharat D Doshi, Progressive Farmer	
Sub Group V on "Indebtedness of farmers"	Prof S S Johl, Vice Chairman, Punjab State Planning Board.	Prof. N Rath, Indian School of Political Economy	11.09.06 25.09.06 12.10.06 31.10.06
		Shri Deepak Tikku, MD, Natonal Dairy Development Board	
		Dr. Amar Singh, Former Addl. Commissioner, Dept. of Agriculture	
		Prof. V S Vyas, Chairman, Institute of Development Studies	
		Shri Bhupinder Singh Mann, National President, Bharatiya Kissan Union	

Sub Group VI on **“Extension and Infrastructure”**	Shri M Balachandran, CMD, Bank of India	Shri S V Reddy, President, Participatory Rural Development Institute (PRDIS)	28.08.06 11.09.06 20.09.06
		Dr. P N Jha, Former Vice Chancellor, RAU, PUSA	
		Mr Himmat Singh, MD Punjab Agro-Industries Corporation Ltd.	
Sub Group VII on “Institutional credit”	Shri Y C Nanda, Former Member, National Commission on Farmers	Dr.K G Karmakar, MD, NABARD	21.08.06
		Shri G C Chaturvedi, Joint Secretary (Banking & Insurance)Deptt. of Economic Affairs, Ministry of Finance	
		Shri Amitabh Verma, Jt. Secy.(Banking & Insurance, MoF, GoI)	
		Shri P Uma Shankar, Managing Director, National Cooperative Development Corporation (NCDC)	
		Mr Alok Ranjan, Managing Director, NAFED,	
		Shri B Subrahmanyam, Executive Director, National Federation of State Cooperative Banks	

Dates of Meeting of the Working Group

Meetings of all the Members of the Working Group	22.7.06 17.11.06
Meetings of Leaders of all the Sub-Groups of the WG	22.8.06 28.9.06

CHAPTER IV

TERMS OF REFERENCE NO. I, II, V & VI OF THE WORKING GROUP – BASED ON THE REPORT OF THE SUB GROUP "A" ON OUTREACH OF INSTITUTIONAL FINANCE – REVIEW OF CREDIT FLOW – PROJECTIONS FOR THE XI PLAN – DISPARITIES IN CREDIT FLOW – REGIONAL, SECTORAL AND CLIENT GROUPS

Terms of Reference :

- To review the flow of institutional (Cooperative Banks, Regional Rural Banks and Commercial Banks) credit to the agriculture sector during the X Five Year Plan, giving State-wise/Region-wise and sub-sectoral break-up and identify the factors affecting the growth of such credit. To assess the short term and long term credit requirement for agricultural production and work out target for the XI Five Year Plan. Also suggest measures/strategies to fulfill the requirements especially investment credit. (Corresponds to the ToR of the Working Group as at (i)).
- To review the efficacy and adequacy of the structure of agricultural credit and the relative performance of its major components including Kisan Credit Card (KCC) Scheme, Self-Help Group (SHG) Bank Linkage Programme, Special Agricultural Credit Plan (SACP), etc. Also suggest the changes in these components to facilitate greater flow of agricultural credit to various categories of farmers. (Corresponds to the ToR of the Working Group as at (ii)).
- To study the regional disparities in the flow of agricultural credit, identify the factors inhibiting the farm credit flow in the States and suggest suitable programmes for removing regional disparity in the flow of agricultural credit. (Corresponds to the ToR of the Working Group as at (v)).
- To formulate strategy to meet gaps in supply of agricultural credit in relation to development needs of regions, sectors and client groups. (Corresponds to the ToR of the Working Group as at (vi)).

The members of the Sub-Group met on 21 August 2006 to formulate the strategies and recommendations to be incorporated in the report of the Sub-Group.

I. <u>ToR No. I of the Working Group - Review of Credit Flow of institutional credit to Agriculture during the X Five Year Plan, giving state wise/region wise and sub sector wise break up and identify the factors affecting the growth of such credit.</u>

I. (i). Analysis :

Credit related

- The credit flow for agriculture and allied sectors during the X Plan period had been estimated at Rs.7,36,570 crore, with a break up of Rs.3,59,701 crore (48.8%) for production credit and Rs.3,76,869 crore (51.2%) for investment credit. Earlier, the credit estimates made during the IX Plan period at Rs.2,29,750 crore had been exceeded by the end of the Plan period. The credit estimates for the Tenth Plan were designed keeping in view the desired agricultural growth rate of 3.9% estimated for the Plan period.
- The overall growth in agri-credit flow during 2002-03, 2003-04, 2004-05 and 2005-06 have been 12.11%, 25.04%, 44.06% and 33.89% respectively, with a Compound Annual Growth Rate (CAGR) of 28.23%. A substantial increase in credit flow was possible during the last two years on account of the "Farm Credit Package" announced by the GoI.
- The share of Commercial Banks increased from 54.13% (in 2001-02) to 69.41% (in 2005-06). The declining share of Cooperative Banks during the IX Five Year Plan continued during the

X Five Year Plan also and their share in total credit flow declined from 37.91% in 2001-02 to 22.20% during 2005-06. The credit share of RRBs recorded a slight increase from 7.82% to 8.39% during the same period.

- Banks in the Southern Region maintained the highest share of agri-credit flow at 34.45%, 34.43% and 34.14% respectively, during the first three years of the X Five Year Plan, although there was a slight decline in the share. The share of the Eastern States and North Eastern States remained very low at 7% and 1% respectively.
- During 2002-03, the States which recorded highest credit flow (in descending order) were Punjab, Andhra Pradesh, Tamil Nadu and Uttar Pradesh. However, during 2003-04 and 2004-05, Andhra Pradesh recorded the highest credit flow, followed by Punjab, Uttar Pradesh and Tamil Nadu respectively. The States of Arunachal Pradesh, Mizoram, Uttaranchal, Dadra & Nagar Haveli and Daman & Diu recorded negative growth during 2003-04 over their achievements of 2002-03. Similarly, Meghalaya and Lakshadweep recorded negative growth during 2004-05.
- On an analysis of the broad sector wise credit flow through all agencies of institutional credit (Commercial Banks, Cooperatives and Regional Rural banks) from 2001-02 to 2004-05, it is seen that the ratio between production and investment credit works out to 65:35.
- The sub-sector wise flow of term credit from institutional sources during the last few years revealed that the major share of investment credit disbursed was for farm mechanization, minor irrigation and hi tech agriculture. Other sectors/ sectors allied to agriculture such as land development, poultry, fisheries, plantation and horticulture, etc., were given relatively less priority in the loan portfolios of banks.
- A Special ‘Farm Credit Package’ as enunciated by the Government of India (GoI) on 18 June 2005 for doubling the credit flow to agriculture, contained various innovative propositions for credit growth. As per provisional figures available for 2005-06, the credit flow to agriculture during 2005-06 was Rs. 1,67,775 crore, forming 119% of the target of Rs. 1,41,000 crore, and registering an annual growth of 34%. While Commercial Banks registered a growth of 43% during the year, Cooperative Banks recorded 19% growth, followed by RRBs at 13%.

I (ii) <u>Factors affecting the growth of credit flow to agriculture were</u> :

- Not so efficient credit delivery system and high cost of credit delivery
- Inadequate agricultural extension services
- Lack of effective and farmer- friendly risk mitigation measures
- Lack of adequate agricultural infrastructure
- Hassles in credit sanctions/disbursements, etc.
- Poor credit discipline
- Declining profitability in agriculture during the 1990s
- Problems regards land records/land laws and practices

I (iii)(i) Recommendations for improving Agriculture Credit Flow and outreach :

Banking Related :

- There is a need to have a long term ”Agriculture Credit Policy” with clearly defined roles for RBI, NABARD, State Governments, Banks and other institutions engaged in the purveyance of agriculture credit. The policy may emphasise the “Multi Agency Approach” to institutional credit. There is a need to review the mandate of NABARD after nearly 25 years of its formation and take a relook at its business model.
- The two traditional goals of prudential regulation – safety of depositors’ funds and stability of the financial system should be supplemented by a third goal :- “Achieving universal access to financial services”.

- The banks need to redesign their business strategies to incorporate specific plans to promote financial inclusion of low income groups; treating it both a business opportunity as well as a corporate social responsibility.
- Policy emphasis should be given to strengthen those elements of financial infrastructure that are essential in managing risk and in reducing transaction costs.
- For building of inclusive financial sector, a deliberate policy to broaden and strengthen financial infrastructure that enhances risk mitigation arrangements needs to be adopted. This type of infrastructure could include establishment of a "Credit Information Bureau" and unique identification numbers that facilitate information sharing.
- Creation of a favourable policy environment while minimizing direct intervention in and control of agricultural sector and credit by government is more important at this juncture.
- Strengthening and revitalising cooperative credit structure urgently is the best bet to improve outreach of the banking system.
- Deregulation of the financial sector and support of competitive environment would lead to reduction in the interest rates rather than prescribing low interest rates for agricultural sector.
- The performance of banks should be evaluated in terms of outreach of their target clientele and financial self sustainability.
- Financial outreach may be increased by adoption of entire villages, particularly in less banked areas, for financial inclusion, provision of General Credit Cards to at least one member of each rural household and make available "No Frills" accounts with limited overdraft facilities, particularly aimed at low asset based households.
- Setting up of Post Bank/using Post Offices as the outposts of banks would hasten the process of financial inclusion.
- The banks may extend financial outreach by utilising the services of civil society organisations, Farmers' Clubs, NGOs, Post Offices, etc., as "Business Facilitators" or as "Business Correspondents". NABARD could look into the reasons which are coming in the way of the banks using intermediaries as facilitators/ correspondents and approach RBI for necessary changes/ amendments in the instructions on the subject.
- Banks may also make efforts to mainstream the traders and moneylenders by arranging to provide limits to them for on lending at reasonable rates of interest.
- The central cooperative banks are weak in many States. Therefore, synergy needs to be built between Commercial Banks and good working PACS so that Commercial Banks may consider financing functional PACS/credit societies (Vyas Committee).
- Use of IT in a cost effective manner could reduce the transaction cost of banks, thereby making rural credit/agricultural credit profitable.
- The credit limit to farmers under KCC could be (a) sub-limit for production needs, (b) a sub-limit for pledge loan, for marketing of produce for a shorter period of 90-120 days and (c) a separate limit for consumption loans, could be particularly useful for small/marginal farmers.
- "Contract Farming" approach has the potential to expand credit outreach, especially to the small/marginal farmers and oral lessees.

I (iii)(ii) Setting up of National Agricultural Credit (Short Term) Fund with NABARD : Resource Related :

The Cooperatives and RRBs depend on concessional refinance support from NABARD for extending production credit at affordable rates of interest at the ground level. For this purpose, NABARD was hitherto accessing low cost funds by way of GLC support from the Reserve Bank of India and was also allowed to borrow funds from the market by way of Priority Sector /Capital Gains Bonds. However, these avenues of funding are no longer made available to NABARD. Accordingly, NABARD has now to access market funds at much higher cost and this is affecting its ability to provide concessional refinance to Cooperative Banks and RRBs, which may ultimately affect their ability to provide ST(SAO) loans at 7% at the ground level. A National Agricultural Credit (Short Term) Fund of Rs. 18,000 crore may therefore be set up with NABARD during the XI Five Year Plan, with equal contributions by the GoI and the Reserve Bank of India. (The cooperatives and RRBs are localized institutions, their cost of funds and risk profile are much higher. These institutions require low cost funds).

I (iii)(iii) Risk Mitigation Arrangements - Setting up of Agriculture Risk Fund for successive crop loss :

An "Agriculture Risk Fund**",** with an initial contribution of Rs. 10,000 crore, may be set up with NABARD. The Fund may be used to provide relief to farmers, especially small/ marginal farmers, after three consecutive natural calamities, by writing off part or entire loan amount/ interest. The Fund may be created by contributions of Rs. 5,000 crore from the Government of India and the remaining amount from Banks, RBI, NABARD and State Governments. Further, a cess may be levied from all the loanees to augment the Fund.

I (iii)(iv) Infrastructure related

Flow of credit in rural areas is closely linked to availability of rural infrastructure. Improving rural and agriculture infrastructure would help in credit expansion and deepening.

I(iii)(v) Marketing related

- Weak marketing links often deny farmers their due share in price, thereby adversely affecting their cash flows. In some States, the Agriculture Produce Marketing Committees (APMC) Acts have since been amended. Other States may also be persuaded to do the needful at the earliest.
- Professionally managed wholesale markets by farmers cooperatives, producer cooperatives and private sectors may be allowed to come up, whereby farmers may have a lead role in marketing their produce. The existing marketing system can be modernised by attracting private investment. The APMC Acts in many States need amendment. Where amendments have been done, the State Governments need to create supportive environment and play a pro-active role for developing these markets.
- The State Governments may support setting up of farmer's markets for direct sale of agriculture produce to the consumers.
- Integration and shortening of the agricultural supply chain is a must in order to ensure higher/remunerative returns for farmers.
- The restrictive provisions of the Essential Services Maintenance Act (ESMA) regarding physical boundaries with regard to marketing of produce may be removed, to enable farmers to obtain remunerative prices for their produce. Further, farmers may be allowed to undertake processing of their produce, which would also enable them to obtain better prices for the same.

I(iii)(vi) Extension related

- Information dissemination on demand and supply can dramatically alter cropping pattern. On-line farm extension services and use of IT to help farmers on establishing a reliable price discovery mechanism may be considered,
- ICAR/State Agricultural Universities may be leveraged to provide proven

location/region/crop specific technologies, which may be made part of the public information domain.

- Farmers' Clubs have since established their utility in matters of loan recovery, transfer of technology and various other community initiatives. Upscaling of Farmers' Clubs can play an important role in accelerating the flow of credit. It is, therefore, proposed that NABARD may facilitate formation of 1,00,000 Farmers' Clubs during the XI Five Year Plan, in partnership with different stakeholders. A budget of Rs. 22 crore a year (Rs. 110 crore during the XI Five Year Plan) may be allocated for the purpose considering an amount of R. 11,000 would be required for forming and nurturing a Farmers' Club. (The current number of Farmers' Clubs is around 18,000 as on 31 March 2006).

- The agricultural research system may consider building synergy with farmers and the private sector, particularly, corporates like ITC, Hindustan Lever, etc.

- The Ministry of Agriculture, Government of India, may set up an agency to handle subsidised private consultancy services in India. The agency may be publicly funded and its activities may be privately executed by certified technology firms and individuals. The agency may provide the services of technology firms/individuals to farmers on payment basis. Farmers who avail the services of the agency may sign an annual contract and contribute say, 20% of the total cost. This will gradually reduce the dependence of farmers on the public sector extension services.

- **Chambers of Agriculture** may be constituted in every district on the lines of Chambers of Industry and Commerce. Representatives of Farmers' Associations, Training Centres, activity specialists, members of District level Cooperatives, etc., may be inducted as members of the Chamber of Agriculture. Among other activities, these Chambers may decide and advise regarding the extension work to be undertaken by the Government Departments.

- The public extension system may work under the management and control of Committees of Farmers. The work of extension agents may be decided and planned by progressive Farmers' Committees at Taluka level. The Government may formulate rules/laws regarding the functioning of the system, ensure formation of Farmers' Management Committees, annually, and also work out a broad framework to work for the committee.

- A substantial need exists for the opening up of Agriclinics and Agribusiness Centres (ACABCs) in rural areas. Such agriclinics could become increasingly efficient with the passage of time as they acquire a deeper understanding of the complexities of agriculture and rural development. However, large scale incentives to agriculture graduates, for setting up units particularly in backward areas could help in reducing disparities across regions. Besides, the continuance of the annual target for setting up 1000 Agriclinics and Agribusiness Centres during the next two to three years, would ensure the establishment of at least one such unit in each district of the country. There is a need to support NGOs which could do hand holding for such units. A sum of Rs. 25000 to Rs. 30000 may be provided for successfully establishing each Agriclinic/Agribusiness Centres.

- **Setting up 500 Farmers' Training Centres :**
  All Public Sector Commercial Banks may establish Farmers' Training Centres (FTCs). During the XI Plan Period, efforts may be made by Public Sector Commercial Banks to establish at least 500 such Farmers' Training Centres, which will enable them to train 5 million farmers a year. An amount of Rs.150 crore, may be contributed equally by GoI and banks for the purpose.

I(iii)(viii) A Rural Banking Technology Development Fund (RBTDF) may be set up by way of grants from the Government of India, NABARD and international donor agencies with an initial corpus of Rs.1,000 crore. The resources of the Fund may be utilised to enable banks, particularly RRBs and Cooperative Banks, to computerise their operations and build network capabilities. The technology infrastructure cost met by banks in rural areas and contribution made by banks to proposed RBTDF may be included for computation of bank's target for priority sector advances.

I(IV). Assessment of Agricultural Credit during the XI Five Year Plan

I(IV)(i)Financial targets for Credit flow

The targeted growth rate for the XI Five Year Plan has been placed at 9% per annum and growth of GDP in agriculture sector at 3.9% per annum as per the Draft Approach Paper to the XI Five year Plan Document (Planning Commission). As against this, agriculture is expected to grow at a slow pace of only 1.8% during the X Five Year Plan. One of the factors influencing agricultural growth is provision of adequate and timely credit. Against the background for achieving around 3.9% growth rate in agricultural GDP during the XI Plan, projections have been made in respect of flow of credit to agriculture and allied activities. In order to arrive at realistic estimates, seven different models were used which are given in the following paragraphs.

I(IV)(ii) Assessment of GLC Flow to agriculture based on :

- Institutional Capacity to purvey credit
- Agency wise growth on trend basis.
- Statewise growth trends.
- Share of Agri-credit to Agri-GDP
- Protections based on Multi-variate Regression Analysis.
- Term Structure wise Approach
- Capital Resource based Approach

I(IV)(III)(I). Assessment of GLC Flow to agriculture based on Institutional capacity to purvey Credit flow :

- Within the agencies, the share of ST and LT credit is based on past trends. The total credit flow found to be feasible for deployment during the XI Five year Plan from the point of view of institutional capacity is of the order of Rs. 19,59,524 crore for the XI Five Year Plan period.

- **Assessment of GLC Flow to agriculture based on Agency wise growth trend**

  According to this methodology, the Commercial Banks, RRBs and Cooperatives are expected to disburse Rs.10,97,288 crore, Rs.1,28,019 crore and Rs.2,78,757 crore respectively and other agencies Rs.1,500 crore, bringing the estimated credit flow by all agencies at Rs.15,05,563 crore.

- **Assessment of Agriculture Credit Flow during XI Five Year Plan based on State-wise Growth Trends**

  The estimated credit flow arrived at through the above method is Rs. 15,03,468 crore.

- **Projections based on share of Agri-Credit to Agri-GDP**

  If we assess the agri-credit to be deployed in the economy if agri-GDP is to grow at 3.9%, then Rs.16,25,509 crore of agri-credit must be deployed during the XI Five Year Plan.

- **Projections based on Multi-Variate Regression Analysis.**

  Using the above regression equation a ground level agriculture credit flow of Rs. 15,17,521 crore has been projected during XI Five Year Plan.

- **Estimated Agri-credit flow based on Term Structure Wise Approach**

The estimated production credit based on the above methodology works out to Rs. 8,86,584 crore while investment credit works out to Rs. 8,02,489 crore and total agri-credit based on the above works out to Rs. 16,89,073 crore.

- **Estimated Agri-credit flow based on Capital Resource based Approach**
    - The total agri-credit flow by all agencies works out to Rs. 16,72,657 crore.
    - A summary of the estimated agri-credit during the XI Five Year Plan based on all the above methodologies is placed at **Annexure I**.
    - Keeping in view the emphasis on financial inclusion, increasing agricultural diversification and commercialisation, requirement of 3.9% GDP growth rate of agriculture during the XI Five Year Plan as also the strengthening of RFIs particularly in the light of the implementation of the Vaidyanathan Committee recommendations and amalgamation of RRBs into financially stronger entities, it is felt that a compound annual growth rate of 23.77%, as envisaged under Methodology I would be feasible. Accordingly, the estimated agri-credit flow of Rs. 19,59,524 crore may be adopted for the XI Five Year Plan purposes. **(Annexures II & III).**

I(V). Measures/strategies to increase flow of investment credit:

I (V) (i) Growth of Investment credit - Need

- Capital formation (both public and private) plays a crucial role in improving productivity and overall development of the agriculture sector. The share of gross capital formation (GCF) in agriculture in total GDP, declined from 2.2% in the late 1990s to 1.7% in 2004-05, which is a matter of serious concern.

- It may be seen from the above that, though the share of investment credit has increased from 35% during 2002-03 to 41% during 2004-05, it is still much less than the share envisaged during the X Five Year Plan.

- Higher investment credit for agriculture is necessary for ensuring higher growth in agriculture.

- An analysis of agency wise investment credit reveals that, while Commercial Banks have recorded a high Compound Annual Growth Rate (CAGR) during the last four years, the Cooperatives have recorded a negative CAGR of 4.9%.

- Sub-sectoral data for the first three years of the X Five Year Plan, indicate that investment credit is strongly weighed in favour of farm mechanisation with inadequate emphasis on land development, minor irrigation, animal husbandry, plantation and horticulture, etc., whereas, the share of the animal husbandry and plantation and horticulture sectors in total GDP has been increasing significantly over the years.

I(V)(ii) Some of the Recommendations of earlier Committees to increase Investment credit to agriculture

- ***Land consolidation, updating land records, etc.***
  ACRC♣ stressed the need for identifying true tenants through village committees and other methods.

♣ ACRC : Agriculture Credit Review Committee

The ECRC[*] recommended legislation for fixed tenure lease of land and enabling mortgage of lease rights, which it felt would reduce oral leases considerably, if not eliminate it altogether.

- ***Waiver of stamp duty***
  The Advisory Committee observed that in some States, heavy stamp duty is levied for executing documents that are required for availing credit from non-cooperative channels. The Advisory Committee suggested bringing down the stamp duty on such documents on par with that charged on borrowings from Cooperative Banks.

- ***Integrating investment and production credit***
  The ACRC highlighted the need to have a composite credit system and a change in banking culture. The one window concept would provide the farmer with both production and investment credit.

  The Advisory Committee was of the view that as the farmers use credit for a wide variety of activities. It is felt that a "Grameen Credit Card" could take care of the consolidated credit needs of farmers and other rural entrepreneurs.

- ***Hi-value Hi-tech Agriculture***
  The Committee suggested strengthening rather than closing hi-tech branches, so that such branches possess the requisite skilled staff to take up the added business in future.

- ***Activities allied to agriculture***
  The ECRC identified credit support to qualified technocrats, NGOs providing services to poultry units, feed processing units, activities related to creation of infrastructure for processing, packaging and preservation and marketing of poultry products, as areas for financing by RFIs.

- ***Infrastructure and Linkages***
  Considering the impact of infrastructural gaps in the flow of institutional credit, the Expert Group on C-D Ratio recommended Special Sub-Committees of the District Consultative Committee (DCC) for executing a time bound, specific action plan for financing such gaps through RIDF.

I(V)(iii) Strategy for increasing Investment credit

The broad thrust areas for increasing investment and investment credit in agriculture are as under:

- Continued emphasis needs to be laid on traditional investments such as land development, irrigation and farm mechanisation and integration of small and marginal farmers in the mainstream in the case of marketing and exports;
- Focus of investment must be on value addition in the entire value chain of agricultural products;
- In particular, reform of agricultural markets and investments in enabling competitive markets deserves priority;
- Public investment in agricultural infrastructure should get greater priority, especially in poorer States viz., Eastern and North Eastern regions, and districts with low CD Ratio, for facilitating greater private investment.

I(V)(iv) <u>Recommendations</u>

<u>Legal Provisions/computerisaton of land records</u>

[*] ECRC : Expert Committee on Rural Credit

- Absence of proper land records in several States is one of the impediments in improving flow of agricultural credit. This calls for updating and computerization of land records.

- Appropriate legislative measures or administrative orders for recognition of tenancy rights may be instituted. In order to facilitate provision of small loans up to, say Rs.50,000 to agricultural borrowers, a system of Land Possession Certificate by the Village Panchayat or any other Local Body may be made available for providing documentary proof of the right to till the land;

- There is a need for amendment of Transfer of Property Act for removing the concept of notified cities for creation of equitable mortgage by deposit of title deeds, which can presently be done only in notified towns. Two alternatives are suggested : (i) either to do away with the concept of notifying town for the purpose of creating equitable mortgage or (ii) insert an enabling provision by which equitable mortgage can be created in all the branches of banks including Cooperative Banks.

I(V)(v) <u>Credit Information :</u>

- Provision of Smart Card/biometric card/ unique identification numbers to each of the borrowers/ prospective borrowers, and setting up of Rural Credit Information Bureau will facilitate information sharing and consequent smooth inclusion. The Smart Card identity may be linked to bank accounts, insurance, land records and may also be used as unique identification for adult suffrage, rural health monitoring, rural employment guarantee schemes, census details and internal security. This would entail an expenditure of Rs. 6,200 to Rs. 7,400 crore, for approximately 15.4 crore adult rural population, assuming the cost of issue/maintenance of such cards at around Rs. 100/- to Rs. 120/-, which may be shared by the Central Government and respective State Governments. The delivery of subsidies may also be targeted by direct electronic credit to the accounts of cardholders.

- State Governments may undertake steps to issue Pass Books, on the lines of the Karnataka Pass Book Act, for recording financial transactions of all borrowers, from both formal and informal sources.

I(V)(vi) <u>Legal support for recovery</u>

- State Governments may make suitable amendments in the Public Demand/Revenue Recovery Act and extend all possible help to banks in their recovery efforts. Across the board announcement of loan waiver/ write off, interest waiver/ write off adversely affect the recovery climate. No such announcement may be made by the Government unless it is recommended by the State Level Banker's Committee and approved by the Reserve Bank of India.

I(V)(vii) <u>Rural Infrastructure</u>

- Infrastructure gaps in rural areas need to be identified and projects prepared by district level Government officials. There is a need to prepare District Level Rural Infrastructure Plan for at least 10 years.

I(V)(viii) Participatory community investments:

- Watershed development projects implemented by NABARD under Indo-German Watershed Development programme (IGWDP) in water scarce districts of Maharashtra could be worth replicating in other States having similar problems. Special banking plans may also be prepared for the developed watersheds.

I(V)(ix) Institutional credit mechanism

- **Financing value chain:**

Banks should increasingly adopt financing of the agri-products 'value chain'. In this connection, investment potential in emerging areas such as grading, standardising, certification, setting up of laboratories for research and handling facilities, needs to be explored.

- **Location specific strategy** :
  For increasing flow of investment credit, the strategy has to be location specific in tune with climatic conditions and resource endowments in different regions, instead of a single, uniform 'one size fits all' strategy. The region /location specific strategy should be supported by adoption of project approach entailing identification and formulation of area based investment projects.

- **Enlarging the focus from primary production to value addition:**
  The present system of financing agriculture is predominantly 'crop-based'. While the credit requirements for primary production should continue to be focused upon by credit institutions, they may increasingly cater to the credit demand for diversification in agriculture and for a series of other value chain activities. State Governments also have to be more pro-active for promoting agriculture related activities and providing appropriate infrastructure.

- **Support for diversified agriculture: Wasteland Development**
  A transparent leasing policy for leasing of wasteland to individuals/ groups/ PRIs/ corporates may go a long way in development of wastelands.

I(V)(x) Capacity Building of farmers :

- The PNB Farmers' Welfare Trust model, could be emulated by various banks. All Public Sector Commercial Banks may establish Farmers' Training Centers (FTCs). During the XI Plan Period, efforts may be made by Public Sector Commercial Banks to establish at least 500 such Farmers' Training Centres, which will enable them to train 5 million farmers a year, to improve quality and productivity and upgrade farming operations. NABARD may also be involved in this endeavour. Each major Commercial Bank may also be advised to establish Regional Farmers' Training Trust/Foundations for this purpose.

II Terms of Reference No. II of Working Group

Efficacy and adequacy of structure of agricultural credit and the relative performance of its major components including KCC scheme, SHG bank linkage programme, Special Agricultural credit Plan(SACP), etc. Also, suggest changes in these components to facilitate greater flow of agricultural credit to various categories of farmers:

II (i) Two of the innovative credit products and channels, which stand out in terms of sheer outreach and performance, were SHG-Bank linkage programme and the Kisan Credit Card (KCC).

- As per data received under the Farm Credit Package, accounts of tenant farmers, oral lessees and share croppers constituted barely 1.3% of total accounts financed by them during 2005-06. In case of Cooperative Banks and RRBs, the figures were 0.49% and 1.35% while coverage by Commercial banks was 1.45%.

- The large number of tenant farmers, share croppers and oral lessees who are still outside the purview of the institutional credit delivery system on account of lack of land titles, would be benefited through group financing.

II(ii) Efficacy of Self Help Groups /Joint Liability Groups :

- The SHG model of accessing credit for the poorest of the poor, has made certain dents.

- Female headed households have less access to basic credit needs as the procedure for credit delivery requires land title, which is normally indicated in the name of the male member of the family, as collateral.

- By using different models of JLGs, the idea is to build material trust and confidence between bankers and rural clients as collateral enhancers and collateral substitutes.

- During the financial year 2005-06, 6.20 lakh new SHGs and 3,44,502 existing SHGs had availed bank loans to the tune of Rs.4,499 crore from the banking system taking cumulative SHGs credit linked and bank loans provided at the end of the year, to 22.38 lakh and Rs.11,397.55 crore, respectively. This has covered around 3.30 crore rural poor families. The impact studies have clearly shown that the Programme has lightened the burden of life for an average member of an SHG. It has enabled increase in assets of the rural households, improved saving patterns, enhanced employment rates besides pecuniary benefits, has significantly contributed in improving self-confidence ; inculcated a feeling of self-worth and improved communication levels as also their ability to resist social evils. Thus, the implementation of more credit instruments to reach the unreached should continue during the XI plan period. However, there is a need to pay more attention to the qualitative aspects of SHGs. A very large number of NGOs/Banks/ Government Departments have been associated with formation of SHGs. Many of these lack competence / long term stake in the health of the SHGs. There is a need for focused attention and formation of structures to look at the SHGs and improve their working. To begin with, such structures may have to be created at State Level. NABARD may have to take a lead in the matter and try doing it in 2-3 State.

- Replication of the Andhra Pradesh experiment of financing through Rythu Mitra Groups can serve as a conduit for technology transfer, facilitate access to market information and markets, assist in carrying out activities like soil testing, training, health camps, assess in input requirements, etc., for the group members which is the need of the hour.

- Financing through JLGs/SHGs and/or outsourcing of banking operations by adopting them as banking correspondents and banking facilitators would be effective in increasing access, reducing transaction costs as also improving recovery.

II (ii) KCC

- KCC has an inbuilt component for consumption needs of the farmers, as they need access to credit when their cash in-flows are very low. Modifications to cover specific sub-limits for production loan, marketing of produce and for allied activities including non-farm activities as also for personal purposes including repayment of debt to money lenders, as per the choice of the farmer, are required to be incorporated to take care of the integrated credit needs of a farmer household. The product should tailor repayment plans to the expected cash flow of the farmer household. RBI/IBA/NABARD may undertake a coordinated initiative to ensure that the new product is tested on a pilot basis in a suitable district, identified for the purpose.

- Possibility of issuing KCC to women farmers on the basis of certain documentation, needs to be taken up. In addition, documentation could be devised to allow women to use the KCC issued in their husband/ father's name, if they have temporarily migrated (seasonal migration) Implementation of the suggestion on a pilot basis by RBI/NABARD, in a carefully identified district may be step in the right direction.

- A funding arrangement may be worked out for small, marginal and tenant farmers from Government / Planning Commission in order to enable them to meet the 2/3rd of the premium in Personal Accident Insurance Cover in respect of KCCs issued by cooperative banks.

II (iii) Recommendations :

Against the above backdrop, the Group's recommendations for increasing the outreach and related aspects are as under :

- Credit dispensation through alternate channels, viz., mFIs, SHGs, NBFCs, Housing Finance Companies, franchisees through Post Offices would be effective in increasing access, reducing transaction costs as also improving recovery. Outsourcing banking operations through correspondents and internalizing/mainstreaming moneylenders would improve the outreach.
- Improving the financial health and working of the cooperative credit institutions could be the single most important step to improve the effective outreach of the banking system.
- The Cooperative Credit Structure (CCS) is weak in many States. This prevents many eligible farmer members, particularly, those who were earlier availing credit from the CCS from accessing credit. Therefore, synergy needs to be built between Commercial Banks and good working PACS so that Commercial Banks may consider financing functional PACS/credit societies in the area of the very weak banks.
- Considering achievements of banks in expansion of outreach under doubling credit to agriculture sector similar initiatives need to be continued during the XI Plan, more importantly the initiative of covering 50 lakh new farmers every year, the initiative of covering 50 lakh new farmers every year, for 5 years.
- The Ministry of Finance, Government of India, may consider the need to have a sub-target of covering at least 5 lakh new tenant farmers/oral lessees every year.
- For making available hassle free credit to the unreached through formal financial institutions, SHG/JLG model for coverage of small and marginal farmers, artisans and traders living in the villages should to be continued during the XI Plan period.
- Fixing separate growth targets for production and investment purposes under SACP rather than uniform targets could further enhance investments in agriculture.
- To take care of the integrated credit needs of a farmer household, KCC with modifications to cover specific sublimits for production loan, marketing of produce, allied activities, non-farm activities as also personal purposes including repayment of debt to money lenders, may be considered.
- Issuing KCCs to women to provide them access to credit, especially in the areas having large migration of male members for employment purposes, where women manage the agricultural operations would be step in right direction.
- Presently, PACS have hardly any role in credit disbursal. In fact, KCC are sanctioned, issued and operated by the DCCBs. Modification of the extant product may be considered to suit the multi-tiered structure of the Cooperatives.
- KCC should become an entitlement for every land holder.
- Conversion of KCC into Smart Card could serve the purpose of reducing transaction costs as well as ensuring better customer services.

III (i). <u>Analysis of regional disparities in the flow of agricultural credit (ToR V of the Working Group)</u>

- The flow of agriculture credit has not been uniform across States and Regions. Agriculture credit has been substantially high in the Southern States followed by Northern and

Central Regions. While the ratio has shown an increasing trend in the Southern Region, in other regions it was almost stagnant. NER is having the least share.

- Even within States, there are sharp differences between credit flow to developed regions, regions with greater access to physical infrastructure or regions closer to urban centres as compared to under-developed districts or regions.

- The alarming spread of the Naxalite Movement across major States in the country cannot be seen as a mere law and order problem but rather as a socio-economic problem over 175 districts of the country and continues to expand.

III (ii) Reasons for Regional Disparities

- Different agro-climatic conditions
- Geographical disparities**-** Large tracts of some States such as Chattisgarh, Madhya Pradesh and Rajasthan are covered by forest, or are hilly/desert areas
- Law and Order Problems
- Lack of irrigation facilities and other infrastructural support - linkages
- The Cooperatives and RRBs, which mostly cater to the small and marginal farmers, are in poor financial health in many States/ Regions
- Virtual non existent public as well as private extension network
- Rural connectivity, lack of storage and marketing facilities

In short, resource poor dry land regions, tribal dominated and hilly areas, areas with law and order problems, regions with inadequate infrastructure, etc., have attracted low level of credit flow**.**

III (iii) Strategies to reduce Inter Regional and Intra regional Disparities[♣] (Terms of Reference No. VI of Working Group) :

Creation of Infrastructure :

Better infrastructure, particularly, irrigation, power and connectivity may be provided urgently. There is a need to strengthen the base of agriculture. Similarly, creation of marketing infrastructure, upgrading and modernising existing market yards and setting up of new market yards is also necessary.

Area Development Schemes may be prepared for development of command area of irrigation projects implemented under RIDF.

III(iv) Extension Services :

The State Government extension machinery needs to be strengthened. However, the public extension network needs to be complemented by private efforts. There is a need for a better coordination between agencies involved in extension work.

III (v) Agricultural diversification :

Crop diversification and intensification may have to be explored consistent with soil and water conservation, nutrient management, post harvest management, etc.

III (vi) Institutional Arrangements :

Banks may prepare individual /Area Development Projects for implementation, adopt a “Credit Plus” approach for linking finance with technology and other linkages, adopt a cluster approach for financing for rural non farm sector activities and upscale the SHGs from mere savings groups to micro enterprises.

[♣] Client Group Disparities covered earlier.

III (vii) Rain Water Harvesting System :
Conservation / harvesting of rain water during monsoon by constructing suitable structure will go a long way, particularly in dry land areas, to provide protective irrigation to crops. The existing scheme for Rain Water Harvesting for SC/ST should be made applicable to all small / marginal farmers through out the country and should be implemented in dry land areas in all States. A subsidy of Rs. 54.60 crore may be provided for the purpose.

IV <u>ToR No. VI of the Working Group –</u>
<u>Promotion of Dryland Farming</u> :-
In order to create a situation of sustainability in dry land farming, there is a need to have a change in the strategy of implementation of best practices of dry land farming, rather than bringing in any new practices. Therefore, a more co-ordinated approach involving different agencies along with a package approach (services + bank loan package) should perhaps be tried to ensure that the loose ends are firmly tied up. The cyclical credit needs to be tried on a larger scale in dryland agriculture areas.

- Weather Insurance for the crops to be grown may be covered by a master policy.
- Loans for small animal husbandry / other income generating activities in addition to production loans to boost the farmers' annual income which will also partially act as insulators against the problem of crop failure.
- A minimum of 5-6 deep rooted horticulture fruit plants per acre of land (suitable to dry land) to give the farmer additional yearly income and 5-6 timber plants which can give him some firewood in the initial years.
- Selected bank branches to act as *One stop shop* to provide loans, extension support and financial advice to the farmers.
- Automatic restructuring of crop loan and rescheduling of term loan facilities in the event of failure of rains and grant of fresh crop loan should be a part of the package.

IV (ii) Policy for Hill States :
A special policy may be adopted for the Hill States with predominant tribal population. There could be immense potential in hill areas for development of traditional industries in non –farm sector (such as handloom and handicraft). Most of the hilly regions possess scenic locales and natural parks which offer good scope for tourism related investments. The need is to develop different products suitable for these areas.

IV (III) <u>Special Package for development of Resource Poor/Economically Backward Regions</u>:
An approach for development of resource poor regions may include the following:
- Wider replication of Watershed models through grant-cum-loan products.
- Targeting development of tribal families through adoption of "Wadi" model in areas with substantial tribal population - use of grant and interest free / low interest loans for the purpose.
- Adoption of cluster model for technological intervention and poverty alleviation;
- Participatory approach for local involvement through involvement of civil society / peoples' organisations;
- Integrated development approach - simultaneous focus for creation of infrastructure, provision of extension services, capacity building of farmers / tribals, provision of adequate credit, etc.
- Infrastructure creation- Creation of essential socio economic infrastructure, particularly in terms of connectivity, irrigation, power and marketing infrastructure is imperative. Higher normative allocation under RIDF may be considered for the less developed districts, with differential rate of interest for backward districts. Emphasis may be placed on irrigation projects, connectivity and markets.

- Access to credit may be increased by facilitating implementation of a policy of financial inclusion.
- Villages may be adopted by Commercial Banks, RRBs and Cooperatives for 100% financial inclusion.
- Financing through “Group Mode” may be increasingly adopted for ensuring greater coverage of small, marginal and tenant farmers.
- PRIs/NGOs may be mobilized to identify the rural poor still not having access to formal credit.
- Sanctioning credit limit for the entire village to get the benefit of peer pressure for repayment of loans could be tried on experimental basis.
- Village Knowledge Centres could also be promoted through RIDF/direct financing to Corporates.
- Strengthening Cooperatives in backward States/Regions should be accorded priority.
- NABARD may be involved in setting-up of RUDSETI - type institutions for both Farm and Non-farm activities. Training may be imparted on NRM – Organic Farming, Participatory JFM. Training farmers on finance, risk management & market information may be attempted.
- State Governments may adopt “Remote Area Development Policy” on the lines of the Andhra Pradesh Government to pay focussed attention for development of remote areas.

TERMS OF REFERENCE NO. III, IV & XI OF THE WORKING GROUP - BASED ON THE REPORT OF THE SUB GROUP "B" - FLOW OF AGRICULTURAL CREDIT TO DISADVANTAGED SECTOR

Terms of Reference :

- To assess the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless laborers and identify the impediments in the flow of credit to them and suggest measures for easy availability of credit to them for agricultural production and other agricultural activities. (Corresponds to ToR III of the WG)
- To study the cost of funds to lenders, cost of borrowing and lending margins and their impact on the flow of agricultural credit and to suggest measures to reduce the cost of borrowing including rate of interest on agricultural credit. (Corresponds to ToR IV of the WG)
- To review the present status of agricultural credit in the North Eastern States, identify the constraints/bottlenecks in the flow of agricultural credit to the farmers of this region and suggest concrete measures for encouraging greater flow of bank credit for agricultural production and other agricultural activities in the region. (Corresponds to ToR XI of the WG).

The Sub Group met on August 16, 2006 and August 31, 2006 to discuss the three items listed in the terms of reference and the various options available to it. Shri H. R. Khan, Chief General Manager and Principal, College of Agricultural Banking, Pune was invited to both meetings of the Sub Group. Opinion was also collected from banks and Non Government Organization (NGO) leaders regarding the approach to increase outreach and reduce the cost of intermediation.

1. Introduction:

The Sub-Group on Flow of Agricultural Credit to Disadvantaged Sector, constituted under the Working Group on Outreach of Institutional Credit and Cooperative Reforms deliberated upon the flow of credit to the disadvantaged sections such as small and marginal farmers, tenant farmers, oral lessees and landless labourers; impediments in flow of credit to them; cost of funds to lenders, cost of borrowing and the measures required to ensure provision of hassle-free credit to them for agricultural production and other agricultural activities.

On the terms of reference with respect to credit flow to North-Eastern Region, the Sub-Group reiterates the findings and recommendations contained in the report of the Committee on Financial Sector Plan for North-Eastern Region appointed by the Reserve Bank for addressing issues related to increased credit flow in the region.

2. Estimates of institutional credit flow to disadvantaged sector:

The disadvantaged sector for agricultural credit comprises small and marginal farmers, tenant farmer including oral lessees and landless labourers. The NSSO estimates[2] put the total number of disadvantaged sector at 75 million households, i.e., 84% of total farmer households in the year 2003.

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[2] Indebtedness of Farmer Households, NSS 59th Round (Jan-Dec 2003), NSSO, MoSPI, May 2005.

2.Though the number of KCC issued by the banks is nearly 60 million and coverage under the SHG-Bank Linkage programme is over 31 Million.

Out of 74.97 million small and marginal farmer households, 13.17 million are covered by scheduled commercial banks (excluding Regional Rural Banks), while 13.68 million households are covered by co-operative banks and Regional Rural Banks (RRBs) as on June 30, 2005. Assuming no multiple financing, this works out to an overall coverage of 26.85 million households[2], i.e., 35.8% of total small and marginal farmer households, by the banking system. This leaves 48.12 million small and marginal farmer households i.e., 64.2% outside the cover of institutional credit.

3**. Impediments to institutional credit flow to disadvantaged sector:**

The constraints in reaching the SMF sector arise primarily out of higher perceived risk, high transaction cost, susceptibility to various types of calamities, higher uncertainty in price realization and procedural and attitudinal barriers in banks. Administered interest rates that do not cover costs and not having flexibility for discriminating between low and high-risk borrowers also act as a disincentive for lending.

4. **Measures taken and work in progress for improving credit flow to disadvantaged sector:**

The specific schemes to improve outreach of institutional finance and credit flow to disadvantaged sector include SHG-Bank Linkage Programme introduced by the National Bank for Agriculture and Rural Development (NABARD), Kisan Credit Cards (KCC) and General Credit Cards (GCC) schemes, monitoring of credit flow to agriculture under Special Agriculture Credit Programme (SACP), business facilitator/correspondent models and financing of tenant farmers and oral lessees by use of Joint Liability Groups (JLGs) / Self-Help Group (SHG) models.

In order that defaults for small amounts do not exclude them from fresh funds, a “One Time Settlement” for loans of less than Rs 25,000 aimed at providing small borrowers an opportunity to settle their Non Performing Assets (NPA) accounts with banks and become eligible for fresh finance has been devised.

The “National Pilot Project for Financial Inclusion” has been initiated in Puducherry with the objective of opening savings bank accounts with limited overdrafts for all financially excluded individuals at their doorsteps in the rural/semi urban areas over a period of one year starting January 2006. On the same lines, Reserve Bank had advised all SLBC convener banks in April 2006 to initiate action for identifying at least one district in their State/UT for 100 per cent financial inclusion.

The work in progress in this regard is:

a. Scheme for enabling commercial banks to purvey rural credit in association with Post Offices is being formulated in Maharashtra for implementation on a pilot basis;
b. Issues related to mitigation of distress among farmers, including credit guarantee and financial counseling are being examined by a Working Group constituted by Reserve Bank under the Chairmanship of Prof.S.S.Johl; and
c. A Technical Group appointed by Reserve Bank is studying money lending legislation and practices in different states.

5. Cost of institutional credit to disadvantaged sector:

The Central Bank of India and ICICI Bank conducted a sample study for costing of agricultural loans of Rs.25,000 and less to determine their all-inclusive cost. The studies show that the all-inclusive cost works out to 21% of loan amount. ICICI Bank study shows that the cost is inversely related to the size of the loan and that transaction cost of small amount lent through an intermediary Micro finance Institution (MFI) is lower than a loan of same amount advanced through a bank's branch. However, the cost difference between these two delivery models declines as the size of the loan increases.

The Central Bank of India estimated the cost of agricultural lending by Regional Rural Banks at 15%. Estimates of costs received from scheduled commercial banks range from 7.5% to 13.5%.

6. Reducing cost and improving flow of institutional credit flow to disadvantaged sector:

Reduction in cost of credit to disadvantaged sector requires action in the following broad areas:

a. Reduction in operating cost through:
   i. Use of technology to manage outreach efforts effectively, maintain internal control and safeguard against fraud and for efficient Management Information System;
   ii. Business process re-engineering; and
   iii. Group liability approach and expansion of business in existing rural branches;

b Reduction of transaction cost for the borrowers through simplified procedures and processes including those relating to providing proof of cultivation of land, land holding etc.; and

c Reduction in risk cost through personal and occupational risk mitigates**.**

For improving the flow of credit, action is required in the following areas:

a. Creation of enabling environment to overcome constraints in purvey of credit services to the disadvantaged sector;
b. Strengthening RRBs and the Cooperatives for leveraging their strengths in agricultural lending to disadvantaged sector;
c. Overcome information asymmetry;
d. Overcome hurdles faced by the disadvantaged through state intermediation;
e. Improve the credit absorption capacity of the disadvantaged sector through increased investment in rural infrastructure; and
f. Maintain healthy credit and recovery culture.

7. Credit flow to North Eastern Region

7.1 The financial outreach is low in North-Eastern Region as reflected by the following indicators :

   i. Credit to Net State Domestic Product (NSDP) ratio of all the States ranges between nine in Nagaland and 41 in Meghalaya, compared to the national average of 62; and.
   ii. The ratio of current and savings accounts of scheduled commercial banks per 100 adult population as on March 31, 2005, ranges between 19.5 in Manipur and 40.9 in Meghalaya, with a regional average of 37.3, compared to the national average of 59.2.

7.2 **Factors impeding financial development in the NER**

The committee on Financial Sector Plan for NER has identified the following factors that impede financial development including the flow of credit to the region:

   a. Sparse population;

b. Infrastructural bottlenecks;

c. Socio-economic factors like low level of commercialisation, general lack of entrepreneurship as compared to some other parts of the country and the land tenure system, especially in hilly areas.

d. Governance related factors - law and order conditions in some parts of the NER, development strategy based on grants rather than loans; and

e. Banking related factors - low network of branches, lack of simple customized and flexible financial products to suit the needs of the local population, poor loan recovery experience, lack of awareness of banking services, inadequate payment systems, etc.

7.3. Major recommendations made by the Committee on financial sector plan for NER.

a. Banks in the NER should draw up plans for each branch to provide “no frills” account to at least 50 households per month in the next 4 years;

b. Massive awareness campaign and sensitisation of the staff and clientele along with adequate groundwork in the region for this purpose;

c. Keeping in view the local conditions, extensive recourse to SHG-Bank Linkage Programme, business correspondent/business facilitator models may be resorted to;

d. IT based solutions, including smart cards based and mobile payment systems, for carrying out banking transactions from non-branch locations;

e. Recognising that community ownership and non-transferable rights on land lead to problems in offering land as collateral, simplified alternatives like Land possession certificate/certificate from the group/local tribal bodies/farmers clubs/village development boards (VDBs) regarding the borrowers’ right to cultivate land;

f. Revising the existing *ad hoc* incentive package for the banks’ staff with a fresh package comprising two components. While one component would cover usual facilities including suitable cash allowance along with prescription of minimum effective tenure in the region, the other component would involve performance based cash incentive based on parameters suggested by the Committee;

g. Revamping of RRBs and Co-operative Banks, including strengthening of staff and market recruitment of CEOs for RRBs;

h. Specific measures for improving currency management and payments /settlement system in the region;

i. Location specific activity-wise Action Plans for stepping up flow of credit to agriculture, allied activities and SME sector.

8. Recommendations of the Sub Group and related action points :

8.1 Reducing cost and improving flow of institutional credit to disadvantaged sector:

The recommendations of the Sub-Group and action points that emerge are as under**:**

A. <u>State Governments</u>:

8.1.1 Administrative Action

a. Good law and order situation is a prerequisite for any economic activity. For any banking service to exist, the role of the State and its law and order agencies is absolutely essential;

b. Appropriate legislative measures or administrative orders for recognition of tenancy rights may be instituted. In order to facilitate provision of small loans up to, say Rs.50,000 to agricultural borrowers, a system of Land Possession Certificate by the Village Panchayat or any other Local Body may be made available for providing documentary proof of the right to till the land;

c. Computerization of land records to systematize records and make the data accessible to the financing institutions; and

d. Improvement of recovery climate by desisting from announcing across the board waivers, helping banking officials in recovery process and extending the provisions of Public Debt Recovery Act to banks' dues in States where it has not yet been done.

8.1.2 Policy Measures

a. Constitution of calamity relief fund for areas facing repeated natural calamities;

b. Exemption of small and marginal farmers from payment of stamp duty;

c. Crop insurance - State and Central Governments may review the element of subsidies being provided to crop insurance and see if these can be directed more effectively to disadvantaged sector;

d. Agriculture extension services and capacity building support;

e. Facilitating contract farming by expediting amendments to the APMC Act and addressing the issues related to arbitration in contract farming; and

f. Encouraging farmer collectives and cooperatives for ensuring that value addition accrues to farmers.

8.1.3 Economic and Social Infrastructure

a. Providing rural infrastructure - including roads, transport, power and water alongside health and education services;

b. Supply chain for supply of quality inputs and effective marketing infrastructure for marketing of agricultural produce;

c. Dissemination of information - through awareness generation among target group;

d. Panchayati Raj Institutions may be made front line mechanism in implementation, review and monitoring of development activity; and

e. Empowerment of women.

B. <u>Commercial Banks</u>:

8.1.4 The commercial banks need to initiate action in the following areas:

a. Effective implementation of financial inclusion initiatives - Issue of General Credit Card and opening 'no frills' accounts, One Time Settlement, financing of Joint Liability Groups and achievement 100% financial inclusion in the identified district(s). Performance in these areas should be suitably rewarded and made a part of business target for the branch as also for the bank as a whole;

b. Adopt low cost, efficient delivery strategies by optimizing use of technology, intermediaries and existing infrastructure;

c. Credit counselling linked with agro-extension services;

d. Set up institutions like farmers training centres and Rural Development and Self Employment Institutes (RUDSETI) for enhancing knowledge and expertise in rural areas; and

e. Sponsor banks to take complete responsibility for performance of RRBs and this should become **a part of their MoU with Government of India.**

C. Regional Rural Banks:

8.1.5 **The RRBs need to act in the following areas:**

a. Formulate a clear strategy for enhancing overall business levels and diversify into non fund activity so as to provide all services that a commercial bank does;

b. Take measures for financial inclusion - General Credit Card, 'no frills' account and use of financial intermediaries;

c. Adopt technology for improving operations;

d. Strengthen human resources and address motivational factors; and

e. Leverage local presence and credibility to expand business in their area of operation.

D. NABARD:

8.1.6 The action points for NABARD are as under:

a. Set up Rural Banking Technology Development Fund for promotion of technology in rural banking;

b. Provide necessary inputs for exploring ways to help SHG members to take up micro enterprise and income generating activities; and

c. To accelerate assistance from the Micro Finance Development and Equity Fund.

E. Reserve Bank of India:

8.1.7 **Action points for Reserve Bank are:**

a. Progress towards financial inclusion may be one of the factors taken into consideration for branch expansion and regulatory approvals;

b. Institute a Credit Guarantee Scheme for distressed farmers;

c. Incentivise efforts for providing financial education, especially to the poor and disadvantaged; and

d. Create enabling environment for greater interest rate flexibility for agricultural credit so as to cover cost and discriminate between low and high-risk borrowers.

8.2 Credit flow to North Eastern Region:

The action points emerging from the report of the committee on financial sector plan for North Eastern Region may be implemented expeditiously. A high level committee comprising representatives from Reserve Bank, public and private sector banks, leading civil society organisations, State and Central Governments should oversee the implementation of the recommendations of the committee.

TERMS OF REFERENCE NO. VII OF THE WORKING GROUP BASED ON THE REPORT OF THE SUB GROUP "C" - SIMPLIFICATION OF LENDING PROCEDURES

Terms of Reference :

- **To suggest procedural simplifications including relaxation in the collateral/ security/ margin requirements for devising a borrower friendly and effective agricultural credit delivery system. (Corresponding to ToR No. VII of the WG)**

(A) Empowerment of Farmers

2.1 A well-informed farmer commands hassle free credit at the right time and in right amount. Government / Banks may initiate measures to create / enhance awareness among the farmers.

2.2 The banks may display the credit policy / procedures / broad terms and conditions / documents required, in the notice board of each branch / controlling offices as is being done for SSI sector. Pamphlets in vernacular containing those particulars could be made available to inquisitive farmers / entrepreneurs. SLBC Convenor Bank could publish features of various credit schemes / credit linked subsidy schemes / broad terms and conditions in vernacular language and circulate the same.

2.3 A comprehensive checklist of documents / information to be furnished for availing of loans be made available to the prospective borrower.

2.4 A designated officer with necessary background may be placed in the Lead District Manager's Office for counselling / creating awareness among the borrowers. Credit Counselling could also be outsourced to retired bank officers by individual banks. Good Farmers' Club / SHGs / NGOs could also be involved.

2.5 All Commercial Banks should establish Farmers' Training Centres (FTCs). During the XI Plan Period efforts should be made by PSU Banks to establish at least 500 such Farmers' Training Centres which will enable them to train 5 million farmers a year. NABARD can be a partner in this endeavour. Planning Commission can set aside funds for placing with NABARD for the purpose.

2.6 Banks may upscale their efforts in setting up of farmers' organizations like Farmers' Clubs. Each branch of Commercial Bank and RRB should form 3-4 Farmers' Clubs during the XI Five Year Plan. The ultimate objective would be to cover all villages by some farmers' forum.

(B) Institutional Arrangements - Banks

2.7 The banks may recruit personnel with agriculture background for manning the controlling offices / branches on regular basis.

2.8 The banks may undertake measures to ensure necessary orientation, motivation and proficiency in different areas of banks' activities, among the staff working in rural areas. The training system of the banks could incorporate necessary inputs in the training modules, accordingly.

2.9 Motivational measures could include incentives like advantage of seniority of one year for two years of rural posting beyond the fixed tenure for promotion, training in prestigious institutions, foreign exposure, posting to the centre of choice, improvement in accommodation and education facilities, corporate recognition, etc. The tenure of rural posting should be reasonably long.

2.10 The banks may review, at regular intervals, powers delegated for sanction of loans so as to ensure sanction of most of the credit proposals (at least 80%) by the branches. The next higher authority must approve any rejection with reasons. The issue of exercise of the discretionary powers also needs to be reviewed.

2.11 Associating new entities like Post Offices in credit delivery / filling up borrower profile and appraisal scorecard / receipt of recovery could be attempted on pilot basis. Association of Indigenous Bankers as outlets for retailing credit could also be attempted on pilot basis. The legal framework / institutional arrangement could be worked out and put in place.

2.12 The branches may adopt one or two villages and facilitate credit / non-credit interventions covering 100% of households. Success stories will act as demonstration models for replication.

(C) Institutional Arrangements - Government

2.13 State Governments may computerize land records and arrange to issue Land Pass Books. The particulars of the land records could be put in the Website for reference / verification.

2.14 A legal framework for recognition of land tenancy may be examined by the Government.

2.15 State Governments may look into the issue of establishing functional co-ordination between credit institutions and extension agencies.

2.16 State Governments may involve banks in the operational arrangements of Agriculture Technology Management Agency (ATMA) Programmes to facilitate integration of credit with it. Credit Schemes and allied matters could form an integral part of training curriculum of Krishi Vigyan Kendras (KVKs).

2.17 State Governments should ensure backward and forward linkages required for successful implementation of credit programmes for which district wise infrastructure plan could be put in place.

2.18 Smaller areas, i.e. village / cluster of villages / Gram Panchayat may be taken as the unit area instead of block in Rashtriya Krishi Bima Yojana (RKBY). RKBY should be adopted by all states. Price Insurance / Rainfall insurance could be offered.

2.19 All State Governments may put in place a legal framework for recovery of agriculture credit. They may also create appropriate legal environment in the country to tackle the recovery constraints. State Governments may review the legal procedures and simplify the same. For example: There could be a simple procedure (could be by mere declaration) for creation of charge on land. More locations for equitable mortgage may be considered by State Governments. Stamp duty on mortgage of land for loans up to Rs.5 lakh could be waived by all the states. The procedure for filing cases/ execution of decrees could be simplified.

(D) Process Related Issues

D.1 Planning Process

2.20 Commercial Banks may formulate Special Agriculture Credit Plan (SACP) so as to ensure that within next 3/4 years they would achieve the benchmark of 18% of net bank credit for direct agriculture.

2.21 The Bank wise / branch wise plans prepared with Potential Linked Credit Plans (PLP) of NABARD as reference document should form the Performance Budget of the Banks.

In the context of declining ratio of Gross Capital Formation (GCF) to Gross Domestic Product (GDP), banks may make efforts to enhance the investment credit flow in agriculture.

D.2 Process connected with Operations

2.23 Banks may assess total credit requirements (livelihood and consumption requirements) of the family and provide the same. Kisan Credit Card (KCC) could factor in the total credit requirements of the family and accordingly, a consolidated limit could be sanctioned. The portion of limit in KCC representing consumption requirement could be maintained at maximum ceiling not exceeding 25% of the total limit.

2.24 The accommodation provided on the above basis could be treated as agriculture loan, which could continue to be given at 7% (for loans up to Rs 3 lakh) as announced by GoI.

2.25 The Repayment Schedule for such accommodation could factor income of the household from all sources. For small borrowers the repayment period could be made longer due to their small cash flows.

2.26 The banks may ensure that their branches follow RBI's instructions on 'No dues Certificate' strictly.

2.27 The banks could upscale financing of oral lessees / share croppers through financing JLGs.

2.28 Organizing and involving individual volunteers, farmers' clubs or NGOs / SHGs as 'direct selling agents' in every village could be attempted by banks for creation of awareness about banks' schemes, mobilisation of loan proposals / feed back about the prospective borrowers, facilitating preliminary appraisal / carrying out monitoring functions etc.

2.29 The members of Panchayati Raj Institutions (PRIs) could be involved in identification of tenant farmers / oral lessees.

2.30 The simple format of documentation for small loans up to Rs1 lakh developed by Core Group of Bankers/ NABARD, may be adopted by all banks for all loans up to Rs.3 lakh.

2.31 The Controlling Offices of the banks may rationalize the MIS so as to reduce the workload at the branches.

2.32 The instructions of RBI for not compounding interest on current agriculture credit dues may be strictly adhered to.

2.33 No margin/ collateral security may be insisted upon for agricultural loans up to Rs.1 lakh.

2.34 Banks may review the practice of levying various charges such as processing fee, folio charges, inspection fees, Legal fees, search fee etc., on agricultural loans and rationalise the charges.

2.35 **KCC**

- The banks may issue suitable instructions to the branches so that the deficiencies in issue and management of KCC do not recur.
- Some funding arrangement could be worked out for Co-operative Banks from Government / Planning Commission in order to enable them to meet the 2/3rd of the premium required in Personal Accident Insurance Cover in KCC.

2.36 Banks may ensure that deficiencies like over-financing / under-financing / unduly long time taken for sanction of term loan / shorter repayment period do not recur.

D.3 Products Related Issues

2.37 Banks may upscale introduction of borrower friendly products like KCC/ GCC/ Swarozgar Credit Card. Banks may consider to introduce a tailor made products for small / marginal farmers / agriculture labourers on the pattern of GCC, the nature of which could be a term loan. In these cases, opening of a Savings Bank Account may not be insisted. Like the Swarozgar Credit Card, interest could be paid on credit balances in the loan account at rate of interest applicable to Savings Bank accounts.

2.38 **SHG Linkage Programme**

- Banks may upscale credit linkage of SHGs for which they could draw a perspective plan for promotion of SHGs through a network of competent NGOs, volunteers, etc. They need to have a micro-finance Cell in their Controlling Offices. They could play a proactive role in upgrading the SHG operations to higher level of micro enterprises.
- Federations of Self Help Groups as umbrella organizations could be encouraged if they emerge from the felt need of SHGs. However, as far as credit linkage is concerned, "Banks to SHG" model should be prioritized in order to establish direct relationship with banks and to avoid high cost of borrowing through Federations.

2.39 Banks may upscale financing for contract farming. State Governments may put a mechanism in place for proper certification of quality of the produce standards to avoid the difficulty to farmers in selling the produce to the procurer.

2.40 Banks may introduce suitable local micro insurance product for farmers in association with Insurance Companies.

2.41 Banks could provide composite credit to farmers under "Homestead Farming" enabling them to undertake various activities.

2.42 Banks may upscale pledge loan against warehouse receipts and also issue loans against produce stored at farmer's house.

D. 4 Technology Related - Branch Computerisation / Networking

2.43 Cooperative Banks and RRBs could be given financial support from GoI and Sponsor Banks respectively for computerization and capacity building of banking personnel in computerization.

2.44 The banks may design some e-products viz. ATM facilities, information about credit through village knowledge centres (being set up by DIT, Government of India) for farmers etc.

2.45 Success Stories could be documented and publicised in house journals and other banking journals on regular basis. The success stories could be discussed in various fora of IBA SLBC/DLRC/DCC/BLBC.

TERMS OF REFERENCE NO. VIII & IX OF THE WORKING GROUP BASED ON THE REPORT OF SUB GROUP "D" - LOAN RECOVERIES

Term of Reference:

- **To study the legal framework for recovery, its relevance/ adequacy and suggest a better system for farm loan recovery which improves overall recovery climate without being harsh to the farmer (Corresponds to ToR No. VIII of the Working Group).**
- **To evolve an appropriate mechanism to cover the risk in financing disadvantaged sections and risk prone agricultural activities through creation of separate dedicated funds and other institutional arrangements other than insurance cover (Corresponds to ToR No. IX of the Working Group).**

Despite the repeated reschedulements & write offs undertaken by the banking industry during the last few years, the Non-Performing Assets (NPAs) in Agri segment continue to be substantially high due to poor recovery of farm loans. If corrective steps are not initiated, the basic viability of lending institutions in the country may get jeopardized and their capacity to lend to the farmers might get affected adversely.

The causative factors for poor recovery of farm loans and our suggestions to deal with the problems are as under:

1. Factors beyond the control of the farmer

a. Natural Calamities
b. Individual calamities / tragedies / social obligations

In the above two situations, it is incumbent on the part of bankers to extend all possible relief by way of conversion/rephasement as per extant guidelines. <u>However, the ground reality is that in a large number of cases these guidelines are not followed</u>. We, therefore, suggest that a mechanism be put in place by the Institutional lenders/RBI to ensure strict compliance of the extant guidelines with regard to relief measures to farmers.

c**. <u>Distress sale</u>**: Erosion in income on account of distress sale is one of the main factors contributing to low recovery. While there are various products & schemes devised by the banks to save the farmers from distress sale, the same have not been popularized/implemented to the desired extent.

With a view to ensuring such lending, RBI may prescribe minimum exposure levels for such advances out of the total exposure to agriculture.

d. **<u>Low Productivity / Low Income:</u>** Productivity of Indian agriculture is low, leaving little surplus in the hands of farmers for servicing bank dues. This is mainly on account of lack of growth in infrastructural facilities such as irrigation, power, storage, processing, markets, research, extension services, etc.

Therefore, a favorable climate needs to be created so as to attract private investments in agriculture by extending various concessions such as exemption from taxation, etc. Further, in chronically vulnerable areas, area/product specific strategies for agri - activities should be drawn up.

e. Another important reason for low productivity is the use of poor quality or spurious inputs by farmers. This warrants stringent punitive action against all those involved in supply of such poor quality & spurious inputs.

f. Adoption of the model APMC Act formulated by the GoI is expected to pave way for establishing private markets. Necessary legal framework is also required to be put in place to facilitate smooth operation of Contract Farming in the country. Further, reviving Marketing Cooperatives should also be given top priority so that many problems of farmers relating to marketing of farm produce can be effectively resolved.

We are sure, that if the farmer's yield & income were protected through development of necessary infrastructure & market, the position of farm loan recovery would immensely improve.

g**.** Inadequate/untimely delivery of credit, fixation of improper repayment schedules and poor supervision & follow up by the bankers : Inadequate & untimely delivery of credit by the institutional lenders, faulty repayment schedule, uncertainty regarding availability of finance for purchase of critical productive assets, hesitation to grant loans against the security of gold ornaments, etc., lead to several hardships to the farmer, ultimately affecting his repayment capacity.

Therefore, the institutional lenders should take appropriate measures to ensure that the farmers do not suffer on account of the above reasons. Further, due to the large number of loan accounts and wide geographical spread, timely supervision & follow up is a major challenge for the institutional lenders. Several research studies indicate poor supervision & follow up as the major reasons for poor recovery.

The above issues can be effectively addressed if adequate, trained manpower with rural orientation is deployed in Rural & Semi Urban branches. Of late, banks have started recruiting agricultural graduates to increase credit flow to agriculture and improve recovery. More & more of such manpower may be inducted, in addition to redeploying the surplus staff from urban areas to rural areas.

2.1**. Vitiated recovery climate**: Repeated loan waivers and poll promises regarding waiver of loans have created an impression in the minds of farmers that loans would be waived sooner or later and there is no need to repay them.

In order to change this trend & prevent indiscriminate waiver of loans for achieving short term objectives, it is strongly felt that the authority of loan waivers be vested only with a High Power Committee comprising representatives of Central/State Governments, RBI, NABARD & lending institutions. Financial viability of the banking system needs to be kept in the mind before resorting to loan waivers. Further, to preclude political parties from making promises regarding waiver, the Election Commission may issue suitable guidelines and ensure their strict compliance.

2.2. **Wilful default**: Some of the farmers turn into wilful defaulters due to the vitiated recovery climate and the deficiencies in the existing legal framework. Wilful default needs to be dealt with firmly by considering such default as a cognizable offence. It is suggested that legal provisions be made in all the States for arresting wilful defaulters. Further, wilful defaulters, should be rendered ineligible for contesting elections by amending the Peoples Representation Act appropriately.

3. **Deficiencies in legal framework** : Details of the existing legal framework, their deficiencies and the suggested course of action to improve the recovery position of farm loans are furnished in the following paragraphs:

3.1**. Recourse to Civil Courts**: It is the most common route resorted to by the financing institutions. However, it has proved to be a futile exercise in most of the cases due to the following deficiencies:

a. The process is highly complex & time consuming ;

b. Involves high cost;

c. It is virtually impossible to execute the decree & recover dues, as hardly any bidder comes forward to purchase the land of a fellow farmer.

3.2**. <u>Recourse under Model Bill – Revenue Recovery Proceedings:</u>**

Even after 36 years, not all the States have adopted the Bill. Even in those states where the Bill has been adopted, the results have not been encouraging since the implementation of the same suffers from serious deficiencies like non-appointment of the designated authority, etc. We, therefore, suggest that the Model Bill should be adopted by all the States, within a stipulated time-frame, in true spirit in order to have a uniform law across the country and to achieve the objectives stated therein.

3.3**. <u>Debt Recovery Tribunals (DRT</u>**<u>):</u> The DRTs were constituted with the objective of speeding up the recovery process with low cost. Since the cut-off limit for making a reference to DRT is Rs.10 lakh, it has got a limited utility in the case of the agriculture sector as most of the loans are below this amount. Therefore, we suggest that an exclusive and dedicated legal structure be set up on the lines of Debt Recovery Tribunals at Sub-Division level for the purpose of recovery of farm loans below Rs. 10 lakh. Lok Adalats may be increasingly used for effecting recovery.

3.4. **<u>Applicability of Securitization & Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act (2002)</u>** : In its present form, the Act is not applicable to loans against agricultural land. To provide an additional avenue for recovery of farm loans, the Act may also be extended to cover agricultural land, such as Orchard land, Tea Gardens, Poultry Farms, Dairy Farms, etc., in respect of wilful defaulters only.

However, the effectiveness of all the above suggested legal framework depends on the lender's ability to enforce the security. The experience so far indicates that it is virtually impossible to execute a decree and recover dues, as hardly any bidder comes forward to purchase the agriculture land of a fellow farmer. In such a situation, when the lenders have exhausted all avenues, we suggest that the Government may step in to protect the interest of the institutional lenders to ensure their continued viability by bidding or acquiring the immovable mortgaged property of wilful defaulters. Such land be resold/redistributed amongst landless or small and marginal farmers. The Institutional lenders may finance the beneficiary of the land allotment, i.e., buyer of the land for purchase of the same. The sales proceeds so received to be utilized by the Institutional lenders to recover dues of original owner/defaulting borrower.

We are of the considered opinion that the action suggested as above will have a strong demonstrative effect and will lead to substantial improvement in the overall recovery climate

3.5. **<u>Applicability of Limitation Act</u>** : In view of the large number of loan accounts, high manpower cost & difficulty in reviving the documents as required under the Limitation Act, the Farm Loans granted by Commercial Banks/RRBs may also be exempted from the purview of the said Act.

3.6**. <u>Creation of Mortgage & Availability of Land Records/Title Deeds</u>**<u>:</u> Non- availability of Title Deeds, difficulties faced by the farmers in creating mortgage & collecting other necessary land records from the Revenue Department are other issues which require immediate remedy. Many State Governments collect ad-valorem stamp duty from farmers for creation of mortgage, which substantially increases the cost of borrowing, thereby further putting pressure on farmer's disposable income/ surplus, which is already low.

Therefore, in this connection we suggest as under:

i. No Stamp Duty or Registration charges be levied on farm loans;

ii. All the State Governments to issue a single document which conveys title in favour of the person in possession of the property. By depositing such a document with institutional lenders, farmers should be in a position to create a mortgage/security in favour of the lender and avail loans;

iii. All the State Governments to accelerate the process of computerization of land records so that the whole process of issuance of the necessary land records to the farmers by the Revenue Department and noting of the charge favouring Institutional lenders becomes easy;

iv. Since many rural centres do not fall under the category of "Notified Centres", farmers and also the Institutional lenders face difficulty in creating Equitable Mortgages. To obviate this situation, we suggest that either we may do away with the concept of notifying the centres or notify all the branches of Institutional lenders, including rural centres as "Notified Centres".

Term of Reference IX : To evolve an appropriate mechanism to cover the risk in financing disadvantaged sections and risk prone agricultural activities through creation of separate dedicated funds and other institutional arrangements other than insurance cover.

Agriculture activities carry high production & market risks, often leading to partial or total loss of income of the farmers. The majority of the farmers do not possess the financial resilience to absorb such losses, particularly if losses occur in quick succession. Repeated Conversions/Rephasements only add to the debt burden of the farmers. Such farmer borrowers, therefore, fail to repay the loans borrowed from financial institutions. In the process, the risk gets transferred to the lender, who will ultimately be left with no option but to write off such loans. If the lenders are required to resort to write offs frequently, the very viability of the lending institutions in the country may get affected thereby eroding their capability to lend further to this vital sector.

To obviate such a situation and to protect the farmers & the lenders from this high risk, there is an urgent need to set up a separate and dedicated fund such as an " Agriculture Risk Fund" on the lines of Credit Guarantee Fund Trust (CGTSI) for Small Scale Industries. The risk fund may be set up with an initial contribution by the Central Government which can be supplemented subsequently by levying surcharge on Income/Corporate tax, etc.

The Risk Fund will be basically meant for the disadvantaged sections of the society who suffer on account of successive natural calamities for 2 or more years. The wilful defaulters and also the affluent class in the rural sector, who are already enjoying substantial benefits in the form of various subsidies (fertilizer subsidy, electricity subsidy, etc.), in addition to enjoying exemption from Income Tax, may be kept outside the purview of this Fund.

TERMS OF REFERENCE NO. X OF THE WORKING GROUP – BASED ON THE REPORT OF THE SUB GROUP "E" – INDEBTEDNESS OF FARMERS

Terms of Reference :

To review the magnitude of indebtedness of farmers (institutional and non-institutional) and its impact on the flow of agricultural credit and to suggest measures for covering all the farmers within institutional credit fold and meeting their entire credit requirements including consumption credit for reducing their dependence on informal sources.

1. Indebtedness in Rural India, having social and economic dimensions and ramifications has remained as a formidable malady for long. After independence, despite substantial improvement in agricultural output due to Green Revolution and distribution of credit through institutional sources, the severity of indebtedness among the farm households continues even today.
2. While credit absorption is a sign of progress, indebtedness is a sign of stagnation, economic decline and approaching bankruptcy. Though there is difference of opinion in defining the concept of indebtedness, still there is unanimity in perception that it refers to the debt burden at the individual level which offsets the process of credit recycling, impedes production and productivity and forces a person into an intractable vicious debt trap.
3. The average debt per rural household at constant prices (1993-94) decreased from Rs.3,438 in 1971 to Rs.2,056 in 1981, increased to Rs.2,955 in 1991. Between 1991 and 2003, the debt more than doubled. This increase in the average debt per household in 2003 was observed in almost all states but was more pronounced in states like Punjab, Kerala, Tamil Nadu, Haryana, Gujarat, Himachal Pradesh, Bihar, Karnataka, Madhya Pradesh, Maharashtra and Andhra Pradesh. In terms of the average amount of debt per household, Punjab reported the highest amount at Rs.22,448 in 2003 while Assam reported the lowest at Rs.439. During 2003, in terms of proportion of households borrowing, Andhra Pradesh heads the list at 82% followed by Tamil Nadu (74.5%), Punjab (65.4%), Kerala (64.4%), Karnataka a(61.6%) with Assam (18.1%) at the bottom.
4. The pattern of use of outstanding loans at the all India level as per NSSO (2005) reveals that the major items of expenditure of the farmers have been on the capital and current expenditure in farm business. Among the major States, Punjab, Haryana, Maharashtra, Chhattisgarh, Madhya Pradesh, Gujarat, Andhra Pradesh and Karnataka reported more than 60% outstanding incurred in agriculture.
5. At the all India level, nearly 57.7% loans have been availed from the formal sources and only 42.3% was obtained from the informal sources. Professional moneylenders/commission agents are the most dominant source in the informal sector both at all India level and in states like Punjab, Rajasthan, Bihar, Andhra Pradesh and Tamil Nadu. The loans from the informal sources have also given rise to the prevalence of inter linked transactions in rural areas where the farmers are selling the crops to the lenders and at the same time buying inputs from them. The dependence on informal sources has greater negative impact on the agricultural development and pushes the farmers further into debt trap, although the diversion of institutional loans obtained for productive purposes to non-productive purposes will have the same impact.
6. While tracing the reasons for persistence of indebtedness, the following observations are made. First, since the agricultural production largely depends upon the monsoon rainfall, the return from the crop cultivation is not assured most of the time, which ultimately affects the repaying capacity of the farmers. Second, though institutional credit has increased manifold, substantial number of farmers still depend on non-institutional sources where the rates of interest are quite high and the terms and conditions of loans are often exploitative. Third, the dominance of middlemen sometimes prevents the farmers from getting remunerative prices

for their produce. Fourth, majority of farmers take loans for consumption and a variety of social obligations which are unproductive and do not generate income.

7. The institutional credit flow to agriculture by Cooperative Banks, Regional Rural Banks and Commercial Banks shows an increasing trend over the years. The analysis of per hectare availability of institutional credit registered an impressive annual growth only in 2004-05. While reviewing the flow of direct institutional agricultural credit for production and investment purposes, it is observed that the growth rate in credit disbursements has been less satisfactory and in particular with regard to disbursement of medium and long term loans. This owes mainly to their poor financial health and lack of financial prudence in operation.
8. At the all India level, NSSO data indicates that farmer households having no or negligible land take only 15.4% of their required credit from banks and 5.3% from cooperative societies. However, they take 47.3% credit from the moneylenders. A positive relation was observed between size-class distribution of land and financial inclusion. In other words, the minimum size-class had the lowest inclusion. The small and marginal farmers constituted 83.8% of total number of farm households, out of which 46.28% were indebted. Around half of these indebted small and marginal farmers approach informal sources. Absence of adequate security often works as a major hurdle for these sections of rural mass in securing loans. As this class of farmers require credit for adoption of new technology and purchase of inputs to improve agriculture productivity besides their consumption requirements, ways have to be devised by the formal system to reduce their exclusion and thereby pull them out of the clutches of money lenders.
9. The cooperative banking system, which generally operates with a targeted clientele, has lost considerable ground mainly because of its poor financial health, lack of expertise and adequate response in relation to growth of commercial banking. Further, there exist region/state wise disparities in provision of institutional credit. During 2001-02, the southern states accounted for 43.8% of total credit flow, where as North-Eastern states accounted for a meagre 0.5%. Further, the average amount of outstanding debt by farmer households from both formal and informal sources is very high in Punjab (Rs.41,576), followed by Kerala, Haryana and Andhra Pradesh. It is very low in case of North Eastern States, Uttaranchal, West Bengal, Jharkhand, Bihar, Chhattisgarh, Jammu & Kashmir, Orissa and Uttar Pradesh. Another fact worth mentioning here is that the Cooperatives and Banks accounted for 82.6% of the total loans in Maharastra, 77.4% in Kerala, 55% in Madhya Pradesh and a meagre 30.4% in Andhra Pradesh. The analysis of financial exclusion according to geographical spread shows that in 7 states, i.e., Arunachal Pradesh, Assam, Jharkhand, Manipur, Meghalaya, Mizoram and Uttaranchal, more than 75% of farmer households were found to be financially excluded.
10. The progress regarding the outreach of institutional sources and its present status is far from satisfactory. The strengthening of this area requires development of human resources of the credit providers. Further, issues in the way of organisational innovations and restrictive legal provisions need to be addressed for expansion of outreach. The structural changes in the field of agriculture demand responsive product modules.
11. Farm income is deteriorating gradually because of increasing input prices without proportionate increase in output prices. Fragmentation of land holdings has adversely affected the incomes. In this context where farming alone does not generate sufficient income, it is necessary to encourage farmers to take up allied activities, establish rural industries and provide part-time employment to farmers.
12. Various steps taken in the past by the Government to improve the credit delivery system in the rural areas have certainly yielded results. However, many quarters feel that the high rate of interest has been a stumbling block in expansion of outreach of institutional credit. The use of IT internally may go a long way in minimising the transaction cost and hence making financing small borrowers at lower rates a workable proposition for the banks.
13. The unbankable group mainly consists of small farmers, marginal farmers, landless poor and weaker sections like Scheduled Tribes and Scheduled Castes whose financial exclusion is significant. In view of the presence of a sizeable population in the weaker sections, there is a need to have special focus on the development of this lot. Organizing them into Self Help

Groups, Joint Liability Groups and Tenant Farmers Groups for making them bankable is the need of the hour.

14. The risk perception is quite high in agriculture. This risk squeezes the outreach of credit, increases the cost of credit and ultimately results in rural indebtedness. Individual and systemic risks, as perceived by rural people need to be mitigated through insurance and hedging practices. Contract farming with buy back arrangements, effective forward trading of agricultural commodities and product innovations in the form of comprehensive and customised insurance products may go a long way in remedying this.
15. There is a need for more efficacious integration of non farm sector activities with agriculture. Further, the infrastructure in the form of health, education and rural connectivity requires to be widened.

Recommendations :

i. State-wise plans may be formulated and implemented in consonance with agricultural plans specifically aimed at decreasing indebtedness and increasing the flow of institutional credit. Emphasis in these plans must be for improving the reach of credit to small, marginal and tenant farmers. The sector-wise credit potential estimated in Potential linked Credit Plans (PLP) prepared by NABARD can be a useful guide for this purpose.

ii. Credit provided to the farmers should be aimed at increasing his income and generating additional repaying capacity. While providing credit to the farmers, financial institutions should assess his repaying capacity, cash flow and risk factors so that the institutions do not end up creating a portfolio of sticky advances. Monitoring the use of credit for the purpose it is given by banks is crucial for reducing the indebtedness arising out of misutilisation /diversion of the credit taken for productive purposes.

iii. Lowering the rate of interest alone is not sufficient for increasing the outreach of institutional credit. In the absence of proper evaluation and monitoring, it may push the unviable farms further deep down into the vortex of intractable indebtedness. Further, too low interest rates can be instrumental in diverting and misusing the credit due to easy liquidity and sometimes for further lending on higher interest rates. Money lending farm families can and do sometimes indulge in lending money to farmers and persons under their influence. Hence, the interest rates, must be market related.

iv. Mandated rates of interest for agricultural credit with support from GoI can give relief to farmers in the short run. However, long-term strategy should be to make the farmers credit worthy, farming profitable, minimize risks in agriculture and continuous knowledge purveyance on new technologies and market to farmers. Once farmers become credit worthy, the competition between banks to lend to farmers will automatically result in lower interest rates.

v. To provide relief to distressed indebted farmers***, One Time Settlement Scheme (OTS)*** with conditionalities may be devised. OTS may be extended only to non-wilful defaulters that also to the limit of waiving interest only and not the principal. A system of incentives for timely repayment (may be in the form of waiving certain percentage of interest outstanding) may be put in place to reward the good borrowers.

vi. Credit should be adequate and timely to meet all the needs of farmers including consumption needs (which includes expenditures towards marriage and ceremonies, meeting the social obligations, health and education requirements). Existing Kisan Credit card, General Credit Card and Swarozgar Credit Card should be integrated into one Card. A farmer family need based single credit card with fixed limits by taking into account working capital, investment credit and consumption needs vis-à-vis *cash flows* of the farm family to service the loan, may be introduced. A pilot scheme, *viz, "Grameen Tatkal Scheme"* started by NABARD will provide useful input for the above purpose.

vii. Simplification of loan sanctioning procedures with delegation of powers at the grass roots level is necessary for making credit delivery hassle free in order to improve financial inclusion. The banks can also create a common knowledge database about rural population through IT so that financial decisions can be taken promptly. Technological developments in IT like, bio-metric PIN enabled ATM and introducing smart cards containing socio-economic traits of the rural families and credit history may be incorporated to supply credit information to banks promptly, thereby resulting in minimal response time.

viii. "Credit plus" approach must be adopted by banks by providing financial as well as technical counseling. For this purpose, rural and semi-urban branches of the banks must have the support of technical (Agriculture / allied subjects) graduates. The appointment of technical staff may vary with the number of farmers' accounts handled by the branch. This will not only help in expediting the process of decision making with prompt appraisal of projects, but also in technical counseling and better monitoring of the end-use of credit.

ix. Innovative credit products need to be developed to take care of all credit needs of different categories of the rural families. Reduction of transaction cost by using IT and setting up of kiosks to increase outreach can be an effective strategy.

x. To improve the outreach and for achieving total financial inclusion, promoting SHGs / Joint liability groups / Tenant Farmers Groups and Banks linkage programme is the need of the hour. Elements of self-help must be incorporated in JLGs. NGOs can also be involved in an extensive way in this programme by providing assistance for promoting SHGs, their capacity building and linking of SHGs with banks. There is a need to set up Micro Finance Institutions and to regulate, train and use them for reaching the unreached. Infusion of venture capital into MFIs can also be helpful. The JLGs can gradually incorporate the elements of thrift as in the case of SHGs. In cases of SHGs, the members may be facilitated to open individual savings accounts with the banks, which in turn will increase their individual bankability as well. Involvement of village level functionaries, such as postman, chowkidars, numberdars and members of panchayats may be resorted to for increasing the outreach of banks, particularly to small and marginal farmers, landless labourers and non-farm families. They can be made resource persons on nominal commission basis.

xi. The financial health of rural credit cooperatives needs immediate attention. Cooperative banks must be made more democratic, autonomous, self reliant and professional in functioning without any political and bureaucratic interference. The cooperatives should become cost effective and competitive with other banks and should be able to compete out private money lenders. Further, acceptance of the recommendations of the "Task force on Revival of Rural Cooperative Institutions" headed by Prof.Vaidyanathan by State Governments is necessary for this purpose.

xii. The co-operative societies under the new Act (if it is passed) should have option regarding being a part of the three-tier structure. Individual societies can establish business contact with Commercial Banks, if they choose to. The co-operative societies should be free to determine the rates of interest on deposits with them and on the loans advanced by them. Different societies can have different rates.

xiii. The finance provided by NABARD should be at a rate, which is 4 or 5% per cent lower that the rate at which the society advances loans to its members. The finance from NABARD should be channeled through the higher tier which shall charge only one per cent higher rate than the rate at which NABARD provides finance to them.

xiv. The aim should be to ensure that the provision of funds by NABARD/CCBs during a year does not exceed fifty per cent of the total advances by the Primary co-operative societies during the year in case of crop loans and seventy per cent in case of term loans. This implies that the society should provide at least fifty per cent of the total advances during the year from its own deposits and in case of term loans thirty per cent. This will ensure strict supervision of the advances as well as its use and repayment, by the members.

xv. The society would specify the amount of loan for different inputs. The above conditions should apply to all types of societies, including those by small farmers, tenant farmers, artisans and landless labourers. There need be no bar to such societies advancing consumption loan to their members. Since the members shall examine the request for loans, they can advise their fellow members on limits of such loans and the need to be careful in expenditure on such matters. Many tribal self-help groups are succeeding in dissuading their members from incurring unnecessary and unrepayable expenditures on social functions like weddings and funerals. Such advocacy by fellow villagers, often belonging to the same social caste/class, may have a desirable effect.

xvi. Credit societies should distribute their surplus funds among the members in proportion to their average monthly deposits plus the loan amount properly repaid during the year plus the share capital contribution, after making provision for losses. This will sustain interest of the members in the functioning of the society. The society shall employ a full-time or part-time secretary, depending on the volume of work. The society can put its unutilised funds during the year in short-term deposits with a bank.

xvii. Frantic sale of produce by farmers during post harvest season due to lack of holding capacity results in lower margin to farmers. This needs to be reversed through efficiency in market clearance. For this marketing infrastructure, especially warehouses, mechanism to aggregate produce at the ground level and dissemination of knowledge through IT are required to be done. This will facilitate farmers to deposit produce in nearest recognized warehouse and obtain warehouse receipt based finance to meet his immediate needs. The farmer would also be able to take advantage of future prices. An NCDEX based commodity futures would be complimentary to the option of MSP. There is also need for setting up of rural business hubs, Haryali type organizations and private state-of- the art markets.

xviii. As one of the major reasons for indebtedness is sudden expenditure incurred by farmers on sickness, quality of the rural health facilities needs to be improved and medical insurance facilities to be provided to farmers at low premium. Government may subsidize this premium to an extent of 50 to 75%.

xix. Besides NAIS, weather insurance, natural calamity insurance and livestock insurance need to be promoted. New products like comprehensive insurance covering life, livelihood and credit can be thought of. The stand alone crop insurance is not a sustainable model. Further, the premium in case of comprehensive hybrid insurance (combining life and non-life risks) will more be affordable; and hence, can reach the majority of rural population.

xx. Uneconomic land holdings due to the prevailing inheritance law are another problem, which is making farming unviable. In some of the states like Kerala, this issue has been tackled by "Group Farming", under which farmers in the neighbourhood collectively farm their lands for achieving economies of scale.

xxi. As agriculture alone cannot provide full time occupation and demand conditions becoming adverse, a strategy has to be devised for removing excess people out of farming by creating employment opportunities in rural areas. For this, establishing of industries in rural areas by providing incentives through long-term (20 years or more) tax holidays and additional benefits for clean and green industries are some of the approaches that can be adopted. Small dairy enterprises and other allied activities that enhance employment, income and repaying capacity of farmers in rural areas must also be encouraged. Simultaneously quality of rural education has to be improved to build capacities of the rural youth for off-farm employment. Training of farmers on need based skills should be taken up on an extensive scale. The delivery of education in rural areas can be improved by ensuring full strength of teachers, creation of adequate infrastructure and through strict accountability. The accountability and responsibility of schools may be based on number of students getting admission to higher technical studies; vocational education and having skill based self employment rather than number of pupils passing out.

xxii. As farming alone does not give sufficient income, one way to improve the situation is to encourage farmers to take up value addition/risk diversification. To promote this, the prevailing laws, which are not conducive for this, need to be amended.

xxiii. As credit alone cannot make a difference in the indebtedness scenario, there is need for better coordination between extension agencies, marketing agencies, industry, farmers' interest groups and banks so that credit is utilized for productive purposes with appropriate technology and marketing support to generate higher incomes.

xxiv. Regulatory changes to recognize rights of sharecroppers and waiving of stamp duty for registration of agricultural loans in all states are required.

xxv. The States, which have not amended Agricultural Produce Markets Committee Act, may be advised to expedite the amendment. Agriculture markets and warehouses / storage godowns by farmers' groups may be encouraged with credit support. This will facilitate the farmers to participate in the supply chains organized by corporates. Contract farming arrangements need to be developed with adequate protection for the farmers in a manner that economic interests of all contracting parties are intermeshed.

xxvi. As extension services are vital to improve agriculture productivity and Government extension services are inadequate, private sector may be involved in agriculture extension through agriclinics, e-choupals, Village Knowledge Centres, etc. The successful experiments of ITC by promoting e-choupals, Nagarjuna fertilizers by promoting i-kisan outlets, Farmers Service centres promoted by Mahindra Shublab Services, Farmers Welfare Centres by Punjab National Bank are worth replicating through out the country. Farmers Clubs promoted by NABARD, JLGs, TFGs and SHGs can also be used for knowledge purveyance.

xxvii. Credit by itself cannot improve agricultural production and through that the income of the farmers. It is only a facilitator. The basic conditions of production must change to seek the help of the facilitating agency. There should be all-weather good roads connecting every village to the nearest highway. The supply of water from the flow irrigation systems to each field should be determined for each season on the basis of a crop pattern in the command area that will maximise the return per acre-inch of irrigation water. Electricity should be supplied to rural areas not only for households but also mainly for farms to irrigate their lands with the help of ground water. Free supply of electricity for such purpose not only limits the possibility of wide and adequate supply of electricity but also leads to wasteful use of both electricity and ground water. The farmers in the villages should have daily access to information about prevailing prices of the products they produce on their farms in various mandis. It is easy to see that these steps will improve the agricultural situation in a stable manner. The state should organise agencies that will buy different farm products at announced support prices when no trader is willing to do so – a facility that has been confined to only a few important regions of the country so far. Other rural infrastructure like, health, sanitation and education also need to be improved. This will not only ameliorate the conditions of rural people, but also save a major part of their incomes that they incur for these purposes.

xxviii. Lastly, to tackle the problem of rural indebtedness in the from of increasing debt asset ratio in agriculture on all India basis over time and to provide relief to the distressed farmers, it is suggested that necessary changes in the legal field with regard to delivery of institutional credit be made by passing of "Regulation of Moneylenders Act". The proposed Act should have the following provisions :

- No attachment of land and one house in case of default.
- Total dues from the borrower not to exceed double the amount lent.
- Cap the interest rate at the PLR of State Bank of India.
- Courts to be empowered with the jurisdiction of scrapping of the outstanding dues if

the repayments have been made equal to twice of the principal amount borrowed or more.

- The Act is to be made applicable in retrospective effect, subject to bring all cases with current outstanding under the ambit.

TERMS OF REFERENCE NO. XII, XIII & XIV OF THE WORKING GROUP BASED ON THE REPORT OF SUB GROUP "F" – EXTENSION AND INFRASTRUCTURE

Terms of Reference :

- **To critically evaluate the performance of Rural Infrastructure Development Fund (RIDF) and also suggest measures for its enhanced/better utilization for agriculture and allied activities. (Corresponds to ToR No. XII of the W.G.)**
- **To review the coverage of credit facilitation through extension network and suggest modalities for improvement. (Corresponds to ToR No. XIII of the W.G.)**
- **To critically review the performance of the on going schemes of Department of A&C, RBI, NABARD and Department of Banking and suggest any modifications/discontinuation of any new schemes to be taken up to meet the desired goal. (Corresponds to ToR No. XIV of the W.G.)**

The Sub Group on Extension and Infrastructure in its first meeting held on 28th August 2006 deliberated on the Terms of References assigned to it. With a view to get the first hand feedback from all the stake holders and have a feel of the ground level situation prevailing at the grass root level, the Sub Group decided to hold one day "Stake Holders Consultation Workshops" at Mahaboobnagar (Andhra Pradesh) and Hajipur (District : Vaishali - Bihar).

The Stake Holders Consultation Workshops were accordingly convened on 11th September 2006 and 20th September 2006 at Mahaboobnagar (Andhra Pradesh) and Hajipur (Bihar) respectively.

I. ToR No. XII of the Working Group - Rural Infrastructure :

Genesis of RIDF :

The Government of India announced a scheme in the Union Budget 1995-96 for setting up a Fund to be operationalized by NABARD. Thus, the RIDF was set up within NABARD in 1995-96 by way of deposits from SCBs operating in India to the extent of shortfall in their agricultural lending subject to a maximum 1.5% of NBC. The scheme is since being continued with substantial allocations in the successive Union Budgets and the NABARD has partnered with various State Governments in the creation of rural infrastructure.

Overview of RIDF assistance :

Till the close of RIDF XI in 2005-06, the cumulative number of projects sanctioned during the last 11 years (1995-96 - 2005-06) stood at 2,44,651 entailing RIDF loan of Rs.51,283 crore. 53% of the total assistance has been accessed by 6 States (Andhra Pradesh-14%, Gujarat and Uttar Pradesh-9% each, Tamil Nadu, West Bengal and Madhya Pradesh - 7% each). *The Balance was accessed by remaining 22 States.*

Recommendations :

- Infrastructure is key to the growth. The RIDF should be diverted specifically for creation of rural infrastructure, which would lead to development of agriculture. Resources for viable non-agriculture projects in health, education and other social welfare sectors can be raised from Banks/FIs/Private partners.
- Agriculture projects should be able to support marketing and value addition in agriculture and reduce post-harvest losses. (godowns, cold-storage plants, water conservation, solar energy,

power generation). Infrastructure projects which have direct relevance in marketing of agriculture produce, flower market, APMC market yards, fruits/flower markets, supporting cold chains should be considered, even if located in semi-urban/urban areas to support value addition and marketing.

- Projects on rural roads, micro irrigation, cold storages, plantation and horticulture need to be given priority in AEZs.
- Projects like flood protection, watershed development, soil conservation, animal husbandry, etc., be given priority in areas prone to natural calamities.
- With 53% of the sanctioned RIDF projects going for six States only, there is need to have a review on its allotment among all States to overcome geographical imbalances in development. While high performing States can be given priority, yet the low performing States also should be motivated to use the funds. Therefore, a sizeable share of RIDF to go/earmarked for backward States (specially North-East and Eastern States). Such states may be given interest concession to promote off – take of credit for building rural infrastructure.
- Projects should be sanctioned only upon completion of all legislative/legal formalities to avoid abortion /delay in execution of sanctioned projects. This also leads to blocking of funds for other viable projects.
- More emphasis needs to be given for completion of projects within time frame. Optimum utilization of funds and implementation of the scheduled projects on time should be the focus for visibility and utilization benefits. Hence, line departments need to be supported by the State Governments for completion of projects within prescribed time by streamlining the systems and procedures to avoid delays.
- Periodical monitoring (both external and internal) for initiation of remedial measures for on-time completion of project should be institutionalized.
- States should come out with district-wise, long range infrastructure developmental plans based on infrastructure plans projected in Potential Linked Plan drawn by NABARD, available infrastructure and future needs with proper prioritization. Special consideration may be given for the most backward districts/areas, particularly those prone to natural calamities.
- States should also mobilize resources to bridge the gap between requirement and availability of funds.
- <u>Maintenance of RIDF projects is equally important</u>. This aspect needs to be taken care of at the sanctioning stage itself. As far as possible, public-private partnership should be encouraged in the RIDF funded projects for sustainability.
- “Bharat Nirman” is a major programme of the Government of India where basic infrastructure of rural areas in 6 major activities is being carried out. RIDF projects may be dovetailed with GOI programs and synergy brought in.
- The identification of a project and its location needs to be done more on scientific basis keeping synergy with other concerned line departments.
- Awareness creation and human resources development can also be addressed through RIDF by providing some funds inbuilt into dynamics of projects.

II. <u>ToR No. XIII of the Working Group - Coverage of credit facilitation through extension network and suggest modalities for improvement</u>

BACKGROUND :

The success of the Green Revolution can be attributed to a great extent to the extension network and its efficiency. However, of late, the extension services, by and large, appear to be invisible though the Government has made interventions through mass media support for agricultural extension. While innovations are taking place in this sector, the gap between its spread to the vast farming community is increasing. To reach 110 million farmers spread over in 500 districts and over 6,000 blocks is an uphill task. The problem is further aggravated on account of diversity of agro-ecological situation. Farmers' needs are much more diversified. The grass-root level extension functionaries need to be equipped with knowledge and skills required to address them

Recommendations / Suggestions and Strategies:

- The issue of agriculture extension services is presently addressed by the Extension Department of Agriculture, State Agriculture Universities, KVKs and private extension service providers, (NGOs, Agripreneurs, Input dealers etc.) through various extension approaches in transfer of technology. Extension Services, both private and public are working parallel without convergence. This is causing duplication of efforts and resources. There has to be more synergy and convergence among all the stakeholders. Thus, harmonization, rationalization and integration of resources by spelling out roles and responsibilities are very much important to increase extension coverage and credit outreach. Some pilots could be initiated in this direction.
- There is virtually no linkage between Farmers' Clubs, SHGs and KVK/Agriculture Universities and other extension service providers. Promoting Farmers' Clubs through Banking Institutions would also help in extending outreach, but linking them with other extension service providers is equally important.
- The KVKs need to take up innovative programmes, which can be replicable and set some benchmarks for themselves and for evaluating their own performance in reaching out to their objectives. This needs to be monitored periodically.
- With diversified agro-ecological environment, area specific strategies/ programmes need to be evolved to address the farmers' problems/issues. To be more purposeful, KVKs need to undertake mapping of area specific issues and draw attention of the farming community in addressing them. Such issues could be area/crop/ activity specific based on the local needs.
- The outreach of the extension agencies is very limited. These agencies must have sufficient budget to launch/undertake/ disseminate technology and adequate manpower complements. The extension staff should be kept away from other non-developmental work, viz., election duty / law and order problem, other health / sanitation programmes launched / undertaken by the State Governments.
- The role of agricultural universities also need to be well defined in terms of their outreach in extension field. Presently, this seems to be very much inadequate.
- Extension services are concentrating on production but little attention is paid on value addition, marketing and ensuring timely availability of credit. Therefore, there is a dire need to broad base the focus of extension to address the concerns of farmers in an integrated manner.
- The human resources development at all levels is crucial for creating awareness among the farmers and other stakeholders as well as to change the mindset on various developmental programme in action, source of credit and other aspects. Therefore, more provision has to be made in the plan outlay for training and capacity building.
- The staff of Governmental Organisations and NGOs involved in agricultural extension also be provided with regular training to update their knowledge and skills towards latest

developments / innovations in technology, credit and marketing. Farmers' Field Schools should be encouraged for teaching, reaching and empowering farmers with latest technologies, skills and information on production, credit and marketing interventions.

- The "mass media support" to agriculture extension and call centres, an initiative of the Ministry of Agriculture, GoI, is a welcome scheme to reach out to farmers through television, telephone and radio. The purpose of these Call Centres is mainly to respond to issues raised by farmers instantly in the local language, on continuous basis. Farmers by and large are unaware of this. Farmers need to be encouraged to make use of these programmes by giving wide publicity for this scheme.
- Extension services should also ensure timely availability of quality seeds/fertilizers/pesticides at reasonable cost and also facilitate soil and water testing. Thus there is a need to further strengthen the Agri Clinics and Agri Business Centres programme in rural areas for transfer of technology. At present in some of the States, agricultural graduates are not coming forward to enroll in the schemes. It is advisable to extend the facility to diploma holders also. Besides, linking agripreneurs in the ongoing extension and credit outreach programmes will be important for the sustainability of the programme.
- There is need to promote "Rural Kiosks" in the rural areas in local languages and this media could be well utilized for interaction with subject matter specialists from Agriculture Universities/ Agriculture Research Centres, time to time. The kiosks besides the centres for knowledge connectivity, can also provide information on weather, credit and marketing.
- Kisan Credit Cards seems to be a viable alternative for extending sustainable credit facilities through institutional mechanisms. Extension can play a pivotal role in linking deserving farmers with the Banks for availing the benefits for productivity enhancement through the Farmers Clubs, SHGs, NGOs, etc.
- Diversification in agriculture is the need of the hour**.** Extension should expand its scope to take care of this aspect as well. Animal husbandry, horticulture, agro-forestry, fisheries etc., are much talked about for diversification particularly in drought prone areas. The Animal Husbandry Department and other line departments should also improve their extension for promoting their schemes.
- There is a need to create environment for promoting private extension through unemployed agricultural graduates, agriculture consultants/firms, agripreneurs, Farmers' Clubs, SHGs, para technicians, progressive farmers, Farmers' Organizations, NGOs, input dealers, newspapers / periodicals, private television channels, Seed Growers' Associations, and so on. The private extension service providers can be outsourced by the Government and private extension agencies. They should also be involved in credit planning at the district level. Furthermore, some of the potential private agencies including NGOs, SHGs, Farmers' Organizations, etc., could be encouraged to extend Micro Finance for Rural Poor.
- The Public-Private partnership model and the increased extension and awareness towards development among farmers will definitely lead to improved credit flow and credit facilitation by the Banks/FIs as well.

III. <u>ToR No. XIV of the Working Group - Performance of Ongoing Schemes of the Department of Agriculture and Cooperation and Department of Banking of the Government of India, RBI and NABARD</u>.

The following Schemes may be continued to be implemented during the XI Five Year Plan :-

Credit Related Schemes :

- The NABARD SHG Bank Linkage Programme continues to be a powerful tool to include the poor under institutional financial services. However, the programme needs strengthening in Central, Eastern and the North Eastern Regions and qualitative aspects need much greater attention. NABARD may continue to provide policy and promotional support.
- The pilot programme initiated by NABARD for formation of Joint Liability Groups(JLGs) has the potential to ensure credit coverage to the tenant farmers/oral lessees and needs to be up-scaled over larger geographical areas.
- The Kisan Credit Card (KCC) Scheme has established itself as an effective hassle-free instrument for provision of credit. With modifications, this could cover the needs of farmers more effectively. The modified product may be named “Grameen Credit Card”, and it may cover the farm family’s credit needs for production and investment purposes for both farm and non-farm activities as well as an element of consumption loan.
- Some of the recent initiatives of the Reserve Bank of India, such as the ”No Frills Accounts” and “General Credit Cards”, appear appropriate instruments to improve outreach.
- The Reserve Bank of India has advised Commercial Banks to formulate “Special Agricultural Credit Plans” which have played an important role in stimulating credit flow to agriculture by them. However, separate and higher targets need to be indicated for investment credit. Similarly, banks may be advised to fix self-set targets for financing to tenant farmers under SACP.
- The Capital Investment Subsidy Scheme implemented by the MoA, GoI, for construction/renovation/modernisation of cold storages and creation of onion godowns has received excellent response. The same may be continued during the XI Five Year Plan, with subsidy assistance of Rs. 180 crore.
- The Scheme for construction/renovation of Rural Godowns being implemented by the MoA, GoI, has received good response at the ground level. The Scheme may be implemented during the XI Five Year Plan with subsidy assistance of Rs. 290 crore. It is further recommended that this Scheme may be merged with the Scheme for Development/Strengthening of Agricultural Marketing Infrastructure, since both are being implemented by MoA, GoI.
- The Scheme for Development/Strengthening of Agricultural Marketing Infrastructure, being implemented by DMI, MoA, GoI is picking up in 6 major States and is expected to take off in other States, which have recently amended their APMC Acts. The Scheme needs continuation during the XI Five Year Plan with subsidy assistance of Rs. 190 crore.
- The Rain Water Harvesting Scheme for Scheduled Caste and Scheduled Tribe Farmers, being implemented by the MoF, GoI, may be extended to all small and marginal farmers during the XI Five Year Plan as it could prove an excellent scheme for dry land areas. A subsidy of Rs. 54.60 crore may be provided under the Scheme during the XI Five Year Plan.
- The Central Plan Scheme for Venture Capital Assistance for Dairy and Poultry sectors, which is being implemented by MoA, GoI has received good response and the same is recommended for continuance during the XI Five Year Plan. However, back-ended subsidy of Rs. 175 crore may be provided instead of interest free loan during the XI Five Year Plan.
- The Capital Investment Subsidy Scheme for Commercial Production Units of Organic Inputs” under the National Project on Organic Farming” which is being implemented by MoA, GoI has futuristic relevance and may be continued during the XI Five Year Plan. A subsidy of Rs. 33.55 crore may be provided under the Scheme.

- The Watershed Development Programmes implemented under the aegis of the Indo German Watershed Development Programme (IGWDP), Watershed Development Fund held by NABARD, as well as through RIDF/GoI/State assistance and crucial for dry land areas. These programmes may be upscaled and Rs.100 crore allocated for 31 distressed districts towards the Prime Minister's Relief Package for Watershed Programmes.
- The Cattle Development Programme in Eastern Uttar Pradesh and Bihar, implemented by the MoRD, GoI has received good response. It is suggested the same may be extended to other states during the XI Five Year Plan for providing additional income to farmers, particularly those in dryland areas and ensure supplementary income for farmers to avoid financial distress in case of crop failures. Rs.200 crore may be allocated for all States with dryland areas.

Extension Related Schemes :

- The Scheme for establishment of Agri-Clinics and Agri-Business Centres (ACABC), implemented by the MoA, GoI, was aimed at supporting private extension services with training and financial support. However, the Scheme has not received adequate response.

The Farmers' Clubs Programme of NABARD has proven its efficacy in ensuring better recovery and transfer of technology and may be up-scaled rapidly. The Farmers' Club could serve as a forum for credit initiatives and technology transfer and are expected to evolve into Financial Facilitators and Farmers' Associations to facilitate marketing efforts jointly. Another 1,00,000 Farmers Clubs may be established during the XI Five Year Plan at the rate of 20,000 crore Farmers' Clubs during each of the five years, the budget of which would amount to approximately Rs.110 crore. The Government of India may consider setting up of a Fund with the like amount with NABARD so that necessary initiatives may be undertaken for setting up of 1,00,000 Farmers' Clubs over the next five years.

TERMS OF REFERENCE OF THE WORKING GROUP COVERING COOPERATIVE REFORMS – BASED ON THE REPORT OF THE SUB GROUP "G" ON COOPERATIVE REFORMS

Terms of Reference :

- To review the status of Cooperatives and their role in the economic development of the country in general and in the agricultural economy of the country, in particular.
- To study the regional disparities in the development of cooperatives, identify the factors inhibiting the development of cooperatives in the States and suggest suitable programmes for encouraging cooperatives in the cooperatively under developed States.
- To suggest measures for Human Resource Development in the agricultural cooperatives.
- To review the magnitude of agricultural indebtedness and also status of overdues, financial health of PACs (Primary Agricultural Credit Societies) and Land Development Banks, identify the factors affecting financial health and efficiency of co-operative credit societies and suggest measures and institutional framework for making the cooperative credit societies more efficient.
- To study the progress of revamping/strengthening of rural co-operative credit institutions following the Report of the Task Force on Revival of Rural Cooperative Credit Institutions and to suggest measures for hastening the revamping process.
- To study the short term impact of economic reforms on the cooperative credit structure.
- To suggest suitable programmes, schemes and strategic reforms in the Cooperative sector for the XI Five Year Plan to address agricultural growth and distress.

2. The Sub-Group had invited, in writing, the views and suggestions and held four meetings on August 11, 2006, August 29, 2006, September 12, 2006 and September 25, 2006. Consultations/meetings were also held in the Planning Commission under the Chairmanship of Dr. Abhijit Sen, Member, Planning Commission and Shri Y.C.Nanda, Chairman, Working Group on "Outreach of Institutional Finance & Cooperative Reforms" on 28th September, 2006.

3. The Sub-Group found that the Indian cooperative movement, which completed its 100 years in 2004, has played a very important role in the Indian economy, specially in the development of the agriculture and rural sectors combining the strengths of both the public and the private sectors, specially in supporting the small and marginal farmers and weaker sections. It has played a dominant role in rural short-term credit, production of sugar, production of chemical fertilizers and other related areas both in its vertical and horizontal expansion. It is the largest cooperative movement in the world.

4. However, the cooperative system in the country has been suffering from weaknesses, both operational and systemic, which has, in turn, affected the overall growth of agriculture and rural economy. The rural credit system suffers from a number of disabilities. The present crisis leading to stagnation in the growth of Indian agriculture on which about 70 percent people depend for livelihood is a cause of great concern.

5. The anticipated growth of agriculture in the X Five Year Plan is 1.8% as against the projected rate of 3.9%. It is felt that without a strong and vibrant co-operatives, 3.9% rate of

growth in agriculture may not be achieved. It is in this context that the XI Five Year Plan has to pay special attention to the cooperative structures and institutional development.

6. While deliberating on the first terms of reference, the Sub-Group has concluded that even though the co-operative sector is facing multiple problems, it has a very important role in the economy as about 84% of the farmers are either landless or marginal and small. Cooperatives are the most-suited institutions to improve socio-economic conditions in rural areas by providing credit at affordable rates by availing the benefits of economies of scale. Cooperatives could be playing a critical role in diversified agriculture including crop production, livestock, dairy, fisheries and agro-forestry and could link credit with marketing and develop themselves into multi-purpose rural institutions.

7. There are regional disparities due to various reasons including differences in natural resources endowment, policies, poor management and financial problems. The Sub-Group is of the view that for balanced economic development and reduction/elimination of regional imbalances, special attention should be paid to cooperatives, particularly, in the hilly and tribal areas. The National Cooperative Development Cooperation [NCDC] has a few programmes for removal of regional imbalances. Those programmes are required to be strengthened.

8. Human Resource Development is the most important area for improving the functioning of the cooperatives. Cooperative education and training programmes need to be strengthened and special thrust is required to be placed on strengthening the cooperative leadership. The Sub-Group has made a number of recommendations in this respect.

9. Purveyance of rural and agriculture credit is a key function of the cooperatives. The major issue is how to extend the effective outreach of the rural institutions. The Primary Agriculture Credit Societies have presence in almost every village of the country and could be developed into the most effective institutions for credit delivery. PACS may be developed into mini banks. A facilitating environment may be created for the purpose by introducing some guarantee scheme for their deposits.

10. Farmers' indebtedness has emerged as an area of great concern, leading in some cases even to farmers’ suicides. In this background, constitution of a special fund is needed to meet the situation arising out of successive failures of crops.

11. For revamping and strengthening of rural cooperative credit institutions, the Government of India has approved a revival package which links financial support with reform.

12. Reforms in the banking sector, particularly the application of prudential norms to cooperatives, have impacted them in many ways. The cooperatives are not able to face competition adequately and effectively. This could adversely affect the capacity of the cooperatives and hence, better systems, manpower training, capital restructuring and professionalisation are needed.

13. During the XI Five Year Plan, initiatives may be implemented in the area of legal and policy reforms and structural reforms and programmes may be launched with larger budgetary support. After intensive deliberations, the Sub-Group has made the following main recommendations for the XI Five Year Plan. The Sub-Group also suggested that the recommendations made by various Committees in the recent past may also be implemented urgently.

14. Recommendations

The Sub-Group is of the view that the cooperative sector can play a prominent role in promoting and sustaining agriculture in the country. The structure, however, has become weak over time, and a multi-dimensional approach is needed to strengthen it. The recommendations of the Sub-Group are, therefore, categorized into: [1] Reforms, both legal and policy, and [2] Programmes

14.1 Recommendation

[01] Legal reforms

- Amendment of the Constitution so as to ensure timely and fair elections, timely audit and control of the members for promoting cooperatives as autonomous, democratic, professional and business-oriented organisations for the benefit of their members. Proposals are reportedly placed before the Parliament. This needs to be expedited.
- All State Governments may frame the State Cooperative laws on the model of the Model State Cooperative Societies Act, 2002.
- Provision of a constitutional/legal body for holding independent elections in the cooperatives.
- In line with the National Cooperative Policy and recommendations of various Committees, legal changes may be introduced to remove duality of control on cooperative banking institutions
- Provision may be incorporated in the Cooperative Laws to enable PACS to function as mini banks/primary credit societies raising deposits and undertaking lending operations.
- State laws may provide for conversion of PACS into Multipurpose Cooperative Societies.

[02] **Policy reforms**

- The National Cooperative Policy may provide the overall framework for supporting the cooperative movement.
- Fiscal incentives like Income Tax exemptions to the cooperatives may be considered.
- Exemptions to NABARD from payment of Income Tax may be considered to enable it to make increased investments towards agriculture, rural and cooperative development.
- The mutually aided cooperative societies may be treated at par with the societies registered under the existing cooperative laws for all promotional/developmental schemes.
- Education, training, capacity building may be treated as essential investment by the Government for supporting agriculture and rural sector.
- Cooperatives may be given a prominent role in the implementation of various programmes for agriculture and rural development.
- Regulation related issues may be brought entirely under the supervisory domain of RBI/ NABARD.
- Productivity enhancing and cost cutting measures may be introduced in cooperatives.
- The role of the Registrar of Cooperative Societies may be repositioned akin to that of the Registrar of Companies.
- The new "company co-operative" concept may be taken advantage of, to promote agro-processing and other cooperatives.

[03] **Structural reforms**

- Multi-Agency Agri-Loan System may be continued with roles clearly defined for different agencies.

- PACS may serve as Mini Banks to meet credit needs of members.
- Structural integration of long term and short term cooperatives or development of long term cooperative structure as banks.
- Business relationship with private entrepreneurs may be encouraged.
- Contract farming may be encouraged for ensuring higher income for farmers

Other recommendations

[04] To remove regional disparities, the programmes of the National Cooperative Development Corporation that relate to interest subsidy, grant for margin money and support to cooperatives for weaker sections may be run as Central Schemes in cooperatively under developed and least developed States.

State specific “Deposit Guarantee Schemes” may be provided to cover deposits mobilized by PACS.

[05] For Cooperative Members’ Education:

The following recommendations are made for strengthening the education of members of cooperatives and staff training programmes in the country:

[A] Cooperatives’ Members’ Education :

- Launching a national movement for creating awareness about cooperative philosophy, principles, values, methods and techniques.
- Launching a National Cooperative Advocacy Programme through national TV channels. Electronic/print media may be used.
- Launching a Distant Education Programme in association with member constituents.
- Advocating diversification in cooperative activities in agriculture and other sectors and social sectors.
- Developing models for different types of cooperatives (to be prepared by NCUI).
- Expanding the education projects of NCUI.
- Government may continue to provide grant for the present cooperative education projects of NCUI
- Resources for education programmes being meagre, especially due to poor collection of education funds on account of weak cooperative structure, a Centrally sponsored scheme may be launched for cooperative education programmes for developing PACS as business models and as profit-centres for enabling small/marginal farmers to access funds as part of Financial inclusion. Rs.50 crore may be allocated.

[B] Cooperative Training Sector

- Providing Rs. 100 crore for maintenance, upgrading, repairs and renovations of the infrastructure of cooperative training institutions in the country.
- Centrally Sponsored Scheme for supporting NCCT may be continued during the XI Five Year Plan with higher allocations to meet the rising costs.
- Promotion of hardware and software for introduction of IT in the training institutions.
- Developing VAMNICOM into a deemed university.

- Funding support for undertaking research on vital issues of cooperative development.
- Centrally Sponsored Scheme for assistance to junior cooperative training centres may be continued during the XI Five Year Plan.
- An Expert Committee on Human Resource Development in the cooperative sector could be constituted for a comprehensive review of cooperative training structure for effecting further improvements.
- Along with the Central Government, Development and Financing Institutions like NABARD, National Cooperative Development Corporation (NCDC) and National Dairy Development Board (NDDB) may participate on a larger scale in training and manpower development of co-operative sector.
- More efficient networking of training programmes of other institutions like NABARD, NCDC, State Cooperative Banks, Land Development Banks, IRMA and others.
- Support to be extended to VAMNICOM to set up an Agri-Business Development Centre that will also help in capacity building of co-operative entrepreneurs. A Central Sector Scheme to be launched for this purpose.
- For improving the management of PACS the software developed by the IFFCO Foundation and National Cooperative Union of India (NCUI) may be promoted by providing financial support of hardware and software amounting to Rs. 250 crore in the XI Five Year Plan.
- The Cooperatives Training Institutes (ACSTIs/JLTCs, etc.,) may be strengthened in terms of capacity and infrastructure to take care of the training needs of their staff.

[06] Strengthening PACS

- Promote PACS as Mini Banks and for this facilitate the promotion of a form of Deposit Guarantee.
- PACS may be developed as multi purpose cooperatives.
- The process of Business Development Plan may be started for business diversification of PACS.
- Self-Help Groups may be developed as a sub-system of the primary cooperative movement.
- Creating a National level Agriculture Risk Fund with a corpus of Rs.5,000 crore to provide relief in case of consecutive failure of crops.
- State governments may take action to amend the existing Cooperative Laws/Rules/Regulations to bring about reforms to restore democratic management and professionalisation as recommended by various committees referred to in the Report.
- PACS, by diversifying their business through a process of Business Development Planning, may provide additional services to their members;
- Enhancing the coverage of borrowing members by PACS with the object of covering all members as borrowing members;
- Conversion of dormant but potentially viable societies into viable societies;
- Allowing new societies to form in villages where PACS have become non-functional and also covering villages still not covered by PACS.
- Developing multi-product deliverables along with credit and deposit products and services.
- The chronic overdues of the cooperative credit sector may be brought under the purview of Debt Recovery Tribunals [DRTs].
- A compromise formula based on fixed criteria may be adopted to recover overdue loans

from the identified borrowers.

- Implementation of the provisions under Securitisation Act for recovery of cooperative loans may be looked into;
- Recovery Cells at the level of DCCBs and SCBs may be activated with the active involvement of the cooperative leadership, traditional institutions, local leadership, etc.
- PACS may be encouraged to increase the level of their non-credit business and improve their viability.
- PACS may be compensated for the losses incurred by them for undertaking businesses imposed on them.
- The training arrangements for the personnel working in the PACS may be strengthened and may be oriented towards their job functions;
- The Management Committees of PACS may be made accountable for the performance or otherwise of PACS.
- The PACS may be allowed to mobilise deposits within their area of operations and a separate Deposit Guarantee Scheme may be introduced in this regard.
- PACS may be encouraged to increase the level of their non-credit business and improve their viability.
- Each PACS should have a trained full time paid Secretary.

[07] The National Implementing and Monitoring Committee constituted by the Government of India under the Chairmanship of the Governor, RBI, may monitor the implementation of the recommendations of the Prof. A. Vaidyanathan Committee on Revamping/ Strengthening of Agriculture/ Rural Credit Cooperatives.

[08] The BASLE norms prescribed by the Reserve Bank of India / Government of India, may be introduced in the cooperatives gradually, after building the capacity of the cooperative banking sector for complying with these conditions.

The Cooperatives may be enabled to face competition in the reformed economy. The specific steps needed are:

[01] Strengthening the capital base of the rural financial institutions

[02] Promoting professionalism in the cooperative banking sector through training and education;

[03] Introducing legal reforms as mentioned in the other chapters to remove duality of control in case of cooperative banking sector and turning such institutions into democratic and member-driven organizations.

15.2. Schemes

The financial allocations for various schemes proposed during the XI Five Year Plan are as follows:

[A] National Cooperative Union of India [NCUI]

▪ Upgrading facilities, Faculty Development, Operation of training programmes	Rs.130 crore
▪ Computerisation	Rs.250 crore
▪ Distance Education	Rs.0.50 crore
▪ Networking for Cooperative HRD Institutions	Rs.5.00 crore
▪ VAMNICOM as Deemed University	Rs.1.00 crore
	Rs.386.50 crore

[B] National Cooperative Development Corporation [NCDC]

1	ICDP Training Programme. [to be covered from out of Central Subsidy]	Rs. 8.00 crore
2	Agro-Processing Training and Development	Rs. 2.10 crore
3	Entrepreneurship development for Agri-Business.	Rs. 0.30 crore
4	Cooperative Leadership Development.	Rs. 0.30 crore
5	Establishment of Computer training Centres in 6 ACSTIs	Rs. 0.34 crore
6	Fellowships. Merit Awards and Study Visits	Rs. 11.04 crore
	TOTAL	**Rs. 22.08 crore**

[C] Other Schemes

Agriculture Risk Fund … … … **Rs. 5,000 Crore**

CHAPTER V

SUMMARY OF RECOMMENDATIONS

I. Recommendations involving Financial Support : - Requiring immediate action

1.1 Credit flow to Agriculture :

Keeping in view the ongoing principle of financial inclusion, increasing agricultural diversification in the economy leading to greater demand for agriculture credit (particularly for investment credit), requirement of maintaining a minimum of 3.9% GDP growth rate of agriculture during the XI Five Year Plan, as also the initiatives already taken for strengthening of RFIs, particularly in the light of the implementation of the Vaidyanathan Committee recommendations and amalgamation of RRBs into financially stronger entities, it is felt that a compound annual growth rate of 23.77% of credit would be feasible. Accordingly, an amount of Rs. 19,59,524 crore is recommended for purveyance as credit flow to agriculture during the XI Five Year Plan. The target for 2007-08 would be around Rs. 2,45,182 crore.

(Action : GoI/All Banks)
(Time Frame : 2007-2012)

1.2. Risk Mitigation :

- The majority of the farmers do not possess the financial resilience to absorb recurrent losses arising out of repeated natural calamities. Repeated conversions/rephasements add to the debt burden of the farmers. To obviate such a situation and to protect the interest of farmers and the lenders from the high risk associated with uncertainties of agriculture because of vagaries of nature, there is need to set up a separate and dedicated fund such as an "**Agriculture Risk Fund",** with an initial contribution of Rs. 10,000 crore. This Fund may be used to ***<u>provide relief to farmers, especially small/marginal farmers</u>***, after two or more consecutive natural calamities, by writing off part or entire loan amount/interest, depending on the occurrence of such events and their nature. The Fund may be created by contributions from Banks, RBI, NABARD, State Governments and the Government of India. Further, a cess may be levied from all farmers- to augment the Fund. Resources for the proposed Risk Fund may be supplemented by levying a surcharge of 1- 2% on Tax Revenues, 0.5 - 1% on interest income of institutional lenders, etc. The extent of relief from the Risk Fund would depend on the number of successive natural calamities the farmer has suffered.
  The management of the Fund may be placed with NABARD.

  (Action : GoI/RBI/NABARD/ Banks)
  (Time Frame : 2007- 2008)

- The quality of rural health facilities needs to be improved and medical insurance facilities to be provided to farmers at low premium. Government may subsidize this premium to an extent of, say, 75%.

  (Action : GoI/State Governments)
  (Time Frame : 2007- 2008)

- Presently, the annual premium on NAIS is 50% for SF/MF. Government may subsidize the premium on NAIS to an extent of 75%.

  (Action : GoI/ State Governments)
  (Time Frame : 2007-2008)

- A funding arrangement may be worked out for farmers by the Government in order to enable them to meet the 2/3rd of the premium in Personal Accident Insurance Cover in KCC issued by the Cooperative Banks..

  (Action : GoI/All Banks)
  (Time Frame : 2007- 2008)

1.3. National Agriculture Credit (ST) Fund

The Cooperatives and RRBs depend on low cost refinance support from NABARD for extending production credit at affordable rates of interest at the ground level. For this purpose, NABARD was hitherto accessing low cost funds by way of GLC support from the Reserve Bank of India and was also allowed to borrow funds from the market by way of Priority Sector/Capital Gains Bonds. However, these avenues of funding are no longer made available to NABARD. Accordingly, NABARD has now to access market funds at much higher cost and this is affecting its ability to provide concessional refinance to Cooperative Banks and RRBs, which may ultimately affect their ability to provide ST(SAO) loans at 7% at the ground level. A National Agricultural Credit (Short Term) Fund of Rs. 18,000 crore may therefore be set up with NABARD during the XI Five Year Plan, with equal contributions by the GoI and the Reserve Bank of India, starting with an initial amount of Rs. 10,000 crore. (The cooperatives and RRBs are localized institutions, their cost of funds and risk profile are much higher. These institutions require low cost funds).

(Action : GoI/RBI)
(Time Frame : 2007-2008)

1.4. Technological Upgradation :

- As per rough estimates provided by IBM, the monthly expenses to be incurred for computerization of PACS would be to the tune of Rs. 8 to Rs. 12 per member over a five year period. Considering an average membership of 400 to 500 members per PACS, the annual expenses to be incurred by all PACS would be around Rs. 600 crore per year and the total expenditure over a five year period would be around Rs. 3,000 crore. Similarly, the expenditure for RRBs would be to the tune of Rs. 1,000 crore.

- A Rural Banking Technology Development Fund (RBTDF) may be set up by way of grants from the Government of India, NABARD, Banks and international donor agencies with an initial corpus of Rs.1,000 crore. The resources of the Fund may be utilised to enable banks, particularly RRBs and Cooperative Banks, to computerise their operations and build network capabilities. The technology infrastructure cost met by banks in rural areas and contribution made by banks to proposed RBTDF may be included for computation of bank's target for priority sector advances.

(Action : GoI/NABARD/ Banks)
(Time Frame : 2007-2008)

1.5 Cooperative Reforms :

- An amount of Rs. 75 crore may be provided during the XI Five Year Plan by way of subsidy on margin money to Cooperatives assisted under the Central Sector Scheme for Development / Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2008)

- An amount of Rs. 80 crore may be provided as subsidy to Cooperatives for Weaker Sections during the XI Five Year Plan.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2008)

- A new Scheme for providing financial assistance to garment production units for generating rural women employment may be introduced during the XI Five Year Plan with a subsidy of Rs. 20 crore.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2008)

1.6 Support to Cooperatives :

- An amount of Rs. 70 crore may be provided as interest subsidy to Cooperatives in cooperatively least/underdeveloped States/Union Territories under the Scheme of working capital - Requirement of Subsidy for XI Five Year Plan.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2010)

- One time grant from Central and concerned State governments may be given for capital restructuring on the basis of risk of assets and capital, so that the Basel II requirements may be met and Cooperatives may attain long term sustainability.

(Action : GoI/State Governments/Commercial Banks)
(Time Frame : 2007-2012)

- Providing Rs. 130 crore for maintenance, upgrading, repairs and renovations of the infrastructure of cooperative training institutions in the country.

(Action : GoI/State Governments/NCUI)
(Time Frame : 2007-2012)

- Centrally Sponsored Scheme for supporting National Council for Cooperative Training (NCCT)/ assistance to Junior Cooperative Training Centres may be continued during the XI Five Year Plan with higher allocations to meet the rising costs. Rs.30 crore may be allocated.

(Action : GoI/State Governments)

(Time Frame : 2007-2012)

- Resources for education programmes being meagre, especially due to poor collection of education funds on account of weak cooperative structure, a Centrally sponsored scheme may be launched for cooperative education programmes for developing PACS as business models and as profit-centres for enabling small/marginal farmers to access funds as part of Financial inclusion. Rs.50 crore may be allocated.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

The financial allocations recommended for implementation of various schemes for Cooperatives proposed during the XI Five Year Plan are as follows:

[A] National Cooperative Union of India [NCUI]

• Upgrading facilities, Faculty Development, Operation of training programmes	Rs.130 crore
• Computerisation	Rs.250 crore **
• Distance Education	Rs.0.50 crore
• Networking for Cooperative HRD Institutions	Rs.5.00 crore
• VAMNICOM as Deemed University	Rs.1.00 crore
	Rs.386.50 crore

**** In case of operationalisation of RBTDF, this may form a sub-component of the same.**

[B] National Cooperative Development Corporation [NCDC]

1	ICDP Training Programme [to be covered from out of Central Subsidy]	Rs. 8.00 crore
2	Agro-Processing Training and Development	Rs. 2.10 crore
3	Entrepreneurship development for Agri-Business.	Rs. 0.30 crore
4	Cooperative Leadership Development.	Rs. 0.30 crore
5	Establishment of Computer training Centres in 6 ACSTIs	Rs. 0.34 crore
6	Fellowships, Merit Awards and Study Visits	Rs. 11.04 crore
	TOTAL	Rs. 22.08 crore

1.7 Empowerment of Farmers :

- All Public Sector Commercial Banks may establish Farmers' Training Centres (FTCs). During the XI Five Year Plan period, efforts may be made by Public Sector Commercial Banks to establish at least 500 such Farmers' Training Centres, which will enable them to train 5 million farmers a year, to improve quality and productivity and upgrade farming operations. NABARD may also be involved in this endeavour. The total cost for establishing such Centres would be Rs. 150 crore during the XI Five Year Plan period, which may be contributed equally by GoI and banks. The Planning Commission may place an amount of Rs.75 crore with NABARD for the purpose.

(Action : GoI/NABARD/Public Sector Commercial Banks)
(Time Frame : 2007-2008)

- Banks may upscale their efforts in setting up of farmers' organizations like Farmers' Clubs. The Farmers' Club would serve as a forum for credit initiatives and technology transfer and are expected to evolve into Financial Facilitators and Farmers' Associations to facilitate marketing efforts jointly. The ultimate objective would be to cover all villages by a farmer's forum. To this end, at least 1,00,000 new Farmers' Clubs may be set up during the XI Plan period at the rate of 20,000 Farmers' Clubs during each of the five years, the budget of which would amount to approximately Rs.110 crore. The Government of India may consider setting up of a Fund with the like amount with NABARD so that necessary initiatives may be undertaken for setting up of 1,00,000 Farmers' Clubs over the next five years.

(Action : GoI/NABARD/ Banks)
(Time Frame : 2007-2012)

1.8. Credit Information :

- Simplification of loan sanctioning procedures with delegation of powers at the grass roots level is a must for making credit delivery hassle free in order to improve financial inclusion. The banks can also create a common knowledge database about rural population through Information Technology, so that financial decisions can be taken promptly. Technological developments in IT like, bio-metric PIN enabled ATM and introducing Smart Cards containing socio-economic traits of the rural families and credit history may be incorporated, to supply credit information to banks promptly, thereby resulting in minimal response time. Reduction of transaction cost by using IT and setting up of kiosks to increase outreach can be an effective strategy. Provision of Smart Card/biometric card/unique identification numbers to each of the borrowers/ prospective borrowers and setting up of a "**Rural Credit Information Bureau"** will facilitate information sharing, leading to quicker credit decisions and consequent smooth inclusion. The Smart Card identity may be linked to bank accounts, insurance, land records and may also be used as unique identification for adult suffrage, rural health monitoring, rural employment guarantee schemes, census details and internal security. This would entail an expenditure of Rs. 6,200 to Rs. 7,400 crore, for approximately 15.4 crore adult rural population, assuming the cost of issue/maintenance of such cards at around Rs. 100/- to Rs. 120/-, which may be shared by the Central Government and respective State Governments.

The delivery of subsidies may also be targeted by direct electronic credit to the accounts of cardholders.

(Action : GoI/State Governments/Commercial Banks)
(Time Frame : 2007-2012)

1.9. GoI's Credit Linked Capital Subsidy Schemes :

- The Capital Investment Subsidy Scheme implemented by the MoA, GoI, for construction/renovation/modernisation of cold storages and creation of onion godowns has received excellent response. The same may be continued during the XI Five Year Plan, with subsidy assistance of Rs. 180 crore.

(Action : MoA,GoI)
(Time Frame : 2007-2012)

- The Scheme for construction/renovation of Rural Godowns being implemented by the MoA, GoI, has received good response at the ground level. The Scheme may be implemented during the XI Five Year Plan with subsidy assistance of Rs. 290 crore. It is further recommended that this Scheme may be merged with the Scheme for Development/Strengthening of Agricultural Marketing Infrastructure, since both are being implemented by MoA, GoI.

(Action : MoA,GoI)
(Time Frame : 2007-2012)

- The Scheme for Development/Strengthening of Agricultural Marketing Infrastructure, being implemented by DMI, MoA, GoI, is picking up in 6 major States and is expected to take off in other States, which have recently amended their APMC Acts. The Scheme needs continuation during the XI Five Year Plan with subsidy assistance of Rs. 190 crore.

(Action : MoA,GoI)
(Time Frame : 2007-2012)

- The Rain Water Harvesting Scheme for Scheduled Caste and Scheduled Tribe Farmers, being implemented by the MoF, GoI, may be extended to all small and marginal farmers during the XI Five Year Plan as it could prove an excellent scheme for dry land areas. A subsidy of Rs. 54.60 crore may be provided under the Scheme during the XI Five Year Plan.

(Action : MoF,GoI)
(Time Frame : 2007-2012)

- The Central Plan Scheme for Venture Capital Assistance for Dairy and Poultry sectors, which is being implemented by MoA, GoI, has received good response and the same is recommended for continuance during the XI Five Year Plan. However, back-ended subsidy of Rs. 175 crore may be provided instead of interest free loan during the XI Five Year Plan.

(Action : MoA,GoI)
(Time Frame : 2007-2012)

- The Capital Investment Subsidy Scheme for Commercial Production Units of Organic Inputs" under the National Project on Organic Farming" which is being implemented by MoA, GoI, has futuristic relevance and may be continued during the XI Five Year Plan. A subsidy of Rs. 33.55 crore may be provided under the Scheme.

(Action : MoA,GoI)
(Time Frame : 2007-2012)

- The Watershed Development Programmes implemented under the aegis of the Indo German Watershed Development Programme (IGWDP), Watershed Development Fund held by NABARD, as well as through RIDF/GoI/State assistance and crucial for dry land areas. These programmes may be upscaled and Rs.100 crore allocated for 31 distressed districts, towards the Prime Minister's Relief Package for Watershed Programmes.

(Action : GoI/State Govts./NABARD)
(Time Frame : 2007-2012)

- The Cattle Development Programme in Eastern Uttar Pradesh and Bihar, implemented by the MoRD, GoI has received good response. It is suggested the same may be extended to other States during the XI Five Year Plan for providing additional income to farmers, particularly those in dryland areas, and ensure supplementary income for farmers to avoid financial distress in case of crop failures. Rs.200 crore may be allocated for all States with dryland areas.

(Action : MoRD,GoI)
(Time Frame : 2007-2012)

1.10. Income Tax Exemption :

- Presently, Cooperatives, i.e., SCBs/DCCBs/SCARDBs/Marketing federations are required to pay income Tax under Section 80(P) of the IT Act. However, this affects their financial health to a large extent. Therefore, Income Tax exemptions to the Cooperatives may be considered.

(Action : GoI/State Governments)
(Time Frame : 2007-2008)

- Exemption to NABARD from payment of Income Tax may be considered to enable it to make increased investments towards agriculture and rural and cooperative development. The amount thus saved may be contributed to the NRC (LTO), and NRC (ST Fund) so as to enable NABARD to provide greater refinance, especially to Cooperatives and RRBs, as well as for thrust areas.

(Action : GoI)
(Time Frame : 2007-2008)

II. Recommendations involving Policy Ramifications :

Recommendations requiring immediate action :

2.1. Agriculture Credit Policy :

- There is a need to adopt a long term "Agriculture Credit Policy" with clearly defined roles for RBI, NABARD, State Governments, Banks and other institutions engaged in the purveyance of agriculture credit. The policy may emphasise the "Multi Agency Approach" to institutional credit. There is a need to review the mandate of NABARD after nearly 25 years of its formation and take a relook at its business model.

(Action : RBI /GoI)
(Time Frame : 2007-2010)

2.2. Financial inclusion :

- Considering the significant achievements of banks in the expansion of outreach under doubling credit to agriculture sector, similar initiatives need to be continued during the XI Plan, more importantly, the initiative of covering 50 lakh new farmers every year, for 5 years.

(Action : GoI/Banks)
(Time Frame : 2007-2008)

- The Ministry of Finance, Government of India, may consider the need to have a sub-target of say, 10% of new farmers financed to tenant farmers/oral lessees, i.e., 5 lakh every year for the next 5 years.

(Action : MoF, GoI)
(Time Frame : 2007-2008)

2.3. Cost of Credit :

- Lowering the rate of interest alone is not sufficient for increasing the outreach of institutional credit. In the absence of proper evaluation and monitoring, it may push the unviable farms further deep down into the vortex of intractable indebtedness. Further, too low interest rates can be instrumental in diverting and misusing the credit due to easy liquidity and sometimes for further lending on higher interest rates. Banks should have the freedom to change a rate of interest, which must take care of its cost of funds, transaction cost and risk cost. No interest rate ceiling should be imposed on banks by the Government. Hence, the interest rates, though at reasonable rates, must be market related. Mandated rates of interest for agricultural credit with support from GoI can give relief to farmers in the short run. However, long term strategy should be to make the farmers credit worthy, farming profitable, minimize risks in agriculture and continuous knowledge purveyance on new technologies and market to farmers. Once farmers become credit worthy, the competition between banks to lend to farmers will automatically result in lower interest rates.

(Action : GoI/RBI)
(Time Frame : 2007-2008)

2.4 Refinement of Existing Credit Products :

- The crop limit may include a sub-limit for production needs, a second sub-limit (a pledge limit), for marketing of produce for a shorter period of 90-120 days and a limit for consumption loans, which will be particularly useful for small/marginal farmers.

(Action : Banks/RBI)
(Time Frame : 2007-2008)

- Fixing separate growth targets for production and investment purposes under SACP rather than uniform targets would further enhance investments in agriculture, by the Commercial Banks.

(Action : RBI)
(Time Frame : 2007-2008)

2.5 Credit flow to Disadvantaged Sections :

2.5.1. State Governments :

- Exemption of small and marginal farmers from payment of stamp duty for agricultural loans.

(Action : State Governments)
(Time Frame : 2007-2008)

2.5.2. Reserve Bank of India:

- Create enabling environment for greater interest rate flexibility for agricultural credit so as to cover cost and discriminate between low and high-risk borrowers.

(Action : RBI)
(Time Frame : 2007-2008)

2.6. Credit flow to the North Eastern Region :

- Banks in the NER should draw up plans for each branch to provide “no frills” accounts for at least 50 households per month, in the next 4 years;

(Action : Banks)
(Time Frame : 2007-2008)

- A massive awareness campaign and sensitisation of the bank staff and clientele along with adequate groundwork may be undertaken in the region for this purpose;

(Action : NER State Governments/Banks)
(Time Frame : 2007-2008)

2.7. Simplification of Procedures :

- The simple format of documentation for small loans up to Rs. 1 lakh, developed by the Core Group of Bankers/NABARD, may be adopted by all banks for all loans up to Rs.3

lakh.

(Action : IBA/All Banks/NABARD)
(Time Frame : 2007-2008)

- No margin/ collateral security may be insisted upon for agricultural loans up to Rs.1 lakh.

(Action : RBI/IBA/All Banks)
(Time Frame : 2007-2008)

2.8. Kisan Credit Card :

- A funding arrangement may be worked out for Cooperative Banks from Government/Planning Commission, in order to enable them to meet 2/3rd of the premium required in Personal Accident Insurance Cover in KCC.

(Action : GoI)
(Time Frame : 2007-2008)

- Presently, PACS have hardly any role in credit disbursal in KCC. In fact, KCC are sanctioned, issued and operated by the DCCBs. Modification of the extant product may be considered to suit the multi-tiered structure of the Cooperatives.

(Action : NABARD/Cooperative Banks)
(Time Frame : 2007-2008)

2.9. Cooperative Reforms :

2.9.1. Legal, Policy and Structural Reforms :

- All State Governments may frame the State Cooperative laws on the model of the Model State Cooperative Societies Act, 2002.

(Action : State Governments)
(Time Frame : 2007-2008)

- Productivity enhancing and cost cutting measures may be introduced in Cooperatives.

(Action : Cooperative Banks)
(Time Frame : 2007-2008)

2.10. Institutional Arrangements –Government :

- Smaller areas, i.e., village/cluster of villages/Gram Panchayat may be taken as the unit area instead of block in Rashtriya Krishi Bima Yojana (RKBY). RKBY may be adopted by all States. Price Insurance/Rainfall insurance may be offered as new insurance products for farmers.

(Action : AICI/State Governments)
(Time Frame : 2007-2008)

2.11. Institutional Arrangements –Banks :

- Every farmer owning a plot of land should be entitled to a Kisan Credit Card, as a matter of entitlement.

(Action : RBI/NABARD/ Banks)
(Time Frame : 2007 – 08)

2.12. Investment Credit :

- For increasing flow of investment credit, the strategy has to be location specific, in tune with weather conditions and resource endowments in different regions, instead of a single, uniform 'one size fits all' strategy. The region /location specific strategy should be supported by adoption of project approach, entailing identification and formulation of area based investment projects.

(Action : All Banks)
(Time Frame : 2007-2008)

- Strengthening, rather than closing down hi-tech agricultural branches, so that such branches possess the requisite skilled staff to take up the added business in future, may be considered by Commercial Banks and RRBs.

(Action : Commercial Banks/RRBs)
(Time Frame : 2007-2008)

2.13. Economic and Social infrastructure :

- With 53% of the sanctioned RIDF projects going for six States only, there is need to have a review of its allotment among all States to overcome geographical imbalances in development. While high performing States may be given priority, the low performing States may also be motivated to use funds. Therefore, a sizeable share of RIDF may be earmarked for backward States (specially North-Eastern and Eastern States). Such States may be given interest concessions to promote off – take of credit for building rural infrastructure.

(Action : GoI/State Governments/NABARD)
(Time Frame : 2007-2008)

- The recommendations of the Expert Group on CD Ratio regarding establishment of Special Sub Committees of the District Consultative Committee (DCC) for executing a time bound, specific action plan for financing rural infrastructural gaps through RIDF, may be expedited.

(Action : SLBC/DLCC)
(Time Frame : 2007-2008)

2.14. Marketing Arrangements :

- Adoption of the model APMC Act by all the States would accelerate technology transfer, capital inflow and assured markets. Those States which have not yet amended their APMC Acts may be prevailed upon to do so at an early date.

(Action : GoI/ State Governments)
(Time Frame : 2007-2008)

2.15. Extension :

- A substantial need exists for the opening up of Agriclinics and Agribusiness Centres (ACABCs) in India, particularly in the dry land, tribal, hilly and problematic areas where at present the transfer of technology is very poor. However, large scale incentives to agriculture graduates, for setting up units in backward areas could help in reducing disparities across regions. Besides, the continuance of the annual target for setting up 1,000 Agriclinics and Agribusiness Centres during the next two to three years, would ensure the establishment of at least one such unit in each district of the country. There is a need to support NGOs which would do hand holding for such units. A sum of Rs. 25000/- to Rs. 30000/- may be provided for successfully establishing each Agriclinc/Agri Business Centre.

(Action : GoI/NABARD/MANAGE/Banks)
(Time Frame : 2007-2008)

3. Recommendations requiring action over the medium term :

3.1 Financial Inclusion :

- Associating new entities like Post Offices in credit delivery/filling up borrower profile and appraisal scorecard/receipt of recovery could be attempted on pilot basis. Association of Indigenous Bankers as outlets for retailing credit could also be attempted on pilot basis. The legal framework/institutional arrangements could be worked out and put in place.

(Action : RBI/Banks)
(Time Frame : 2007-2010)

3.2. Refinement of Existing Credit Products :

- Conversion of KCC into Smart Card could serve the purpose of reducing transaction costs as well as ensuring better customer services.

(Action : RBI/NABARD/Banks)
(Time Frame : 2007-2010)

- There is a need to pay more attention to the qualitative aspects of SHGs. A very large number of NGOs/Banks/ Government Departments have been associated with formation of SHGs. Many of these lack competence / long term stake in the health of the SHGs. There is a need for focused attention and formation of structures to look at the SHGs and improve their working. To begin with, such structures may have to be created at State Level. NABARD may have to take a lead in the matter and try doing it in 2-3 States.

(Action : NABARD/Banks)
(Time Frame : 2007-2010)

3.3. Credit flow to Disadvantaged Sections :

3.3.1. State Governments :

- Law and order is a prerequisite for any economic activity. For any banking service to exist, the role of the State and its law and order agencies is absolutely essential. Appropriate legislative measures or administrative orders for recognition of tenancy rights may be instituted. In order to facilitate provision of small loans up to, say Rs.50,000, to agricultural borrowers, a system of Land Possession Certificate by the Village Panchayat or any other Local Body may be made available for providing documentary proof of the right to till the land.

- State Governments may computerise land records and arrange to issue Land Pass Books. The particulars of the land records could be put on the Website for reference/verification and make the data accessible to the financing institutions.

- State and Central Governments may review the element of subsidies being provided for crop insurance and decide if these could be directed more effectively to the disadvantaged sectors;

- Facilitating contract farming by expediting amendments to the APMC Act and addressing the issues related to arbitration in contract farming;

- Panchayati Raj Institutions may be involved as the front line mechanism in implementation, review and monitoring of development activity. State Governments may also initiate early action to identify the tenant farmers/oral lessees in their respective States and members of the Panchayati Raj Institutions (PRIs) may be involved in the identification of tenant farmers/oral lessees.

(Action : State Governments)
(Time Frame : 2007-2010)

3.3.2. Commercial Banks:

- Performance in the effective implementation of financial inclusion initiatives such as issue of General Credit Card and opening 'No Frills' accounts, One Time Settlement, financing of Joint Liability Groups and achievement 100% financial inclusion in the identified district(s), should be suitably rewarded and made a part of business targets for the bank branch as also for the bank as a whole;

(Action : Commercial Banks)
(Time Frame : 2007-2010)

3.3.3. Reserve Bank of India:

- Progress made towards financial inclusion may be one of the factors taken into consideration for branch expansion and regulatory approvals;

(Action : RBI)
(Time Frame : 2007-2010)

3.4. Credit flow to the North Eastern Region :

- Revising the existing *ad hoc* incentive package for the banks' staff with a fresh package comprising two components. While one component would cover usual facilities including suitable cash allowance along with prescription of minimum effective tenure in the region, the other component would involve performance based cash incentive based on parameters suggested by the Committee on Financial Sector Plan for the NER;

(Action : Banks)
(Time Frame : 2007-2010)

- Revamping of RRBs and Co-operative Banks, including strengthening of staff and open market recruitment of CEOs for RRBs would help rural credit flow.

(Action : GoI/State Governments/RBI/NABARD)
(Time Frame : 2007-2010)

- Specific measures for improving currency management and payments /settlement system in the region may be implemented.

(Action : RBI/Banks)
(Time Frame : 2007-2009)

- Location specific, activity-wise Action Plans for stepping up flow of credit to agriculture, allied activities and SME sector.

(Action : Banks)
(Time Frame : 2007-2009)

3.5. Innovative Credit Products :

- A new borrower friendly, financial product, which could take care of the integrated needs of the farmers, named as "Grameen Credit Card" or "Rural Family Credit Card" or "Grameen Tatkal Card" may be introduced to take care of the production credit and marketing credit as also credit for allied activities and non-farm activity as per the choice of the farmer. Besides, wage employment under National Rural Employment Programme to one member of the family, if required, could also be included in the limit. The Card may be based on cash inflows and outflows at the farm household level and be customized for small and marginal farmers, with incentives for timely repayments. In these cases, opening of a savings bank account may not be insisted upon. Like the Swarozgar Credit Card, interest could be paid on credit balances in the loan account at savings bank account rate of interest. Banks may also provide composite credit to farmers under "Homestead Farming" enabling them to undertake various activities. RBI/IBA/NABARD may undertake a coordinated initiative to ensure that the new product is tested on a pilot basis in a suitable district, identified for the purpose.

(Action : RBI/NABARD/Banks)
(Time Frame : 2007-2009)

3.6. Empowerment of Farmers

- Designated officers with necessary background may be placed in Lead District Managers' Offices for counselling/creating awareness about savings, investment and credit among borrowers. Credit Counseling may also be outsourced to retired bank officers by individual banks. Farmers' Club / SHGs / NGOs, may also be involved in counselling efforts.

(Action : Banks)
(Time Frame : 2007-2009)

3.7. Cooperative Reforms :

3.7.1. Legal, Policy and Structural Reforms :

Amendment of the Constitution so as to ensure timely and fair elections, timely audit and control of the members for promoting cooperatives as autonomous, democratic, professional and business-oriented organisations for the benefit of their members. Proposals are reportedly placed before the Parliament. This needs to be expedited.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- In line with the National Cooperative Policy and recommendations of various Committees, legal changes may be introduced to remove duality of control over cooperative banking institutions.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- Provisions may be incorporated in the Cooperative Laws to enable PACS to function as mini banks/primary credit societies raising deposits and undertaking lending operations.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- The Mutually Aided Cooperative Societies may be treated at par with the societies registered under the existing cooperative laws for all promotional/developmental schemes.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- Regulation related issues may be brought entirely under the supervisory domain of RBI/ NABARD.

(Action : GoI/RBI/State Governments)
(Time Frame : 2007-2009)

- The role of the Registrar of Cooperative Societies may be repositioned akin to that of the Registrar of Companies.

(Action : GoI/ State Governments)
(Time Frame : 2007-2009)

- The new "company co-operative" concept may be taken advantage of, to promote large agro-processing entities and other cooperatives.

(Action : GoI/ State Governments)
(Time Frame : 2007-2009)

- The Cooperative Societies under the new Act (if it is passed) should be freed from the necessity of being a part of the three-tier structure. Individual societies may establish business contacts with Commercial Banks, if they choose to. The Cooperative Societies should be free to determine the rates of interest on deposits with them and on the loans advanced by them. Different societies may have different rates of interest.

(**Action : GoI/ State Governments/Cooperative Banks/Commercial Banks**)
(Time Frame : 2007-2009)

- The financial base of the PACS may be strengthened by infusion of additional share capital through soft loans/grants from NABARD, NCDC, State Governments as well as the Central Government.

(Action : GoI/State Governments/Cooperative Banks/NABARD/NCDC)
(Time Frame : 2007-2009)

3.7.2. Removal of Regional Disparities :

- To remove regional disparities, the programmes of the National Cooperative Development Corporation that relate to interest subsidy, grant for margin money and support to Cooperatives for weaker sections may be operated as Central Schemes in cooperatively under developed and least developed States.

(Action : State Governments/Cooperative Banks)

(Time Frame : 2007-2009)

3.7.3. Implementation of Vaidyanathan Committee Recommendations :

- The National Implementing and Monitoring Committee constituted by the Government of India under the Chairmanship of the Governor, RBI, may monitor the implementation of the recommendations of the Prof. A. Vaidyanathan Committee on Revamping/Strengthening of Agriculture/Rural Credit Cooperatives.

(Action : GoI/State Governments/RBI)
(Time Frame : 2007-2009)

3.7.4. Other Recommendations :

- The BASLE norms prescribed by the Reserve Bank of India/Government of India, may be introduced in the Cooperatives gradually, after building the capacity of the cooperative banking sector for complying with these conditions.

(Action : GoI/RBI)
(Time Frame : 2007-2009)

- In addition to strengthening credit Cooperatives, other Cooperatives such as Producers Cooperatives, Marketing Cooperatives, etc., may also be strengthened so as to make them commercially viable and competitive.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

3.8 Marketing :

- The restrictive provisions of the Essential Services Maintenance Act (ESMA) regarding removal of physical boundaries with regard to marketing of produce may be removed, to enable farmers to obtain remunerative prices for their produce. Further, farmers may be allowed to undertake limited processing of their produce, which would also enable them to obtain better prices for the same.

(Action : State Government)

(Time Frame : 2007-2009)

- The State Governments may support setting up of farmers' markets for direct sale of agriculture produce to the consumers.

(Action : State Government)

(Time Frame : 2007-2009)

3.9. Institutional Arrangements –Government :

- All State Governments may put in place a legal framework for recovery of agriculture credit. They may also create appropriate legal environment in the country to tackle the recovery constraints. State Governments may review the legal procedures and simplify the same. For example: There could be a simple procedure (could be by mere declaration) for creation of charge on land. More locations for equitable mortgage may be considered by State Governments. Stamp duty on mortgage of land for loans up to Rs.5 lakh may be waived by all the States. The procedure for filing cases/execution of decrees may be simplified.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- State Governments may undertake steps to enact laws, on the lines of the Karnataka

Pass Book Act, 1985, for recording financial transactions of all borrowers, from both formal and informal sources.

(Action : State Governments)
(Time Frame : 2007-2009)

- While some State Governments have adopted a law which resembles the model law recommended by the Talwar Committee, other States have given effect of the model law by amending the Public Demand Recovery Act. There is a need for a uniform law across the country on the lines of the model law. State Governments should make suitable amendments in the Public Demand/Revenue Recovery Act and extend all possible help to banks in their recovery efforts. Loan Waivers and encouragement of financial indiscipline by vested interests must not be encouraged. No such announcement may be made by the Government unless it is recommended by the State Level Banker's Committee and approved by the Reserve Bank of India. On the contrary, State Government officials may help bank officials in the loan recovery process and the provisions of Public Debt Recovery Act may be extended to banks' dues in States where it has not yet been done.

(Action : State Governments)
(Time Frame : 2007-2009)

- Lack of clear title over land often acts as a limiting factor for the farmer in approaching the lending institutions for credit. Also, he is not able to avail any investment credit from banks as he is not able to offer adequate security. It is necessary that uninterrupted possession of land be recognized by issue of an appropriate certificate from the revenue authorities, so that it can be offered as a security for availing of credit from the banks.

(Action : State Governments)
(Time Frame : 2007-2009)

- State Governments may initiate efforts for computerisation of land records within a stipulated time frame and make arrangements for issuance of Land Pass Books. The particulars of the land records may be placed in the public domain for reference/ verification. A system of identifying tenants through village committees and other methods, legislation for fixed tenure lease of land and enabling mortgage of lease rights, which it is felt would reduce oral leases considerably, if not eliminate them altogether, may also be considered.

(Action : State Governments)
(Time Frame : 2007-2009)

3.10. Debt Relief :

- In order to provide relief to distressed indebted farmers, a ***One Time Settlement Scheme (OTS)*** with conditionalities may be devised. OTS may be extended only to non-wilful defaulters limiting the same to waiving interest only and not the principal. A system of incentives for timely repayment (may be in the form of waiving certain percentage of interest outstanding) may be put in place to reward on-time payment by borrowers.

(Action : GoI/RBI)
(Time Frame : 2007-2009)

- In case of non-willful default, there is an urgent need to ensure that the guidelines regarding conversion/rephasement/restructuring of loans are implemented without exception. Bankers may put in place an effective mechanism to ensure that the relief measures such as conversion/ reschedulement of loans are passed on to all the eligible farmers without any exception. Branch Managers may be required to certify that the default was not on account of natural/individual calamity before calling up an advance and initiating legal action.

(Action : Banks)
(Time Frame : 2007-2009)

3.11. Extension arrangements :

- State Governments should ensure backward and forward linkages required for successful implementation of credit programmes for which district wise infrastructure plans may be put in place.

(Action : StateGovernments)
(Time Frame : 2007-2009)

- An important reason for low productivity is the forced use of poor quality or spurious inputs by farmers. Input providers exploit the farmers by supplying poor quality or spurious inputs, as a result of which the farmers suffer total or partial loss. Stringent punitive action is warranted against all those involved in supply of such poor quality and spurious inputs, especially seeds.

(Action : StateGovernments)
(Time Frame : 2007-2009)

- The Ministry of Agriculture, Government of India, may set up an agency to handle subsidised private consultancy services in India. The agency may be publicly funded and its activities may be privately executed by certified technology firms and individuals. The agency may provide the services of technology firms/individuals to farmers on payment basis. Farmers who avail the services of the agency may sign an annual contract and contribute 20% of the total cost. This will gradually reduce the dependence of farmers on the public sector extension services.

(Action : MoA, GoI)
(Time Frame : 2007-2009)

- **Chambers of Agriculture** may be constituted in every district on the lines of Chambers of Industry and Commerce. Representatives of Farmers' Associations, Training Centres, activity specialists, members of District level Cooperatives, etc., may be inducted as members of the Chamber of Agriculture. Among other activities, these Chambers may decide and advise regarding the extension work to be undertaken by the Government Departments.

(Action : MoA, GoI/State Governments)
(Time Frame : 2007-2009)

- The public extension system may work under the management and control of Committees of Farmers. The work of extension agents may be decided and planned by progressive Farmers' Committees at the Taluka level. The Government may formulate rules/laws regarding the functioning of the system, ensure formation of Farmers' Management Committees, annually, and also work out a broad framework to work for the committee.

(Action : MoA, GoI/State Governments)
(Time Frame : 2007-2009)

3.12. Loan Recovery :

- Erosion in income on account of distress sale is also one of the main factors contributing to low recovery. While there are various products and schemes devised by the banks such as Produce Marketing Loans and finance against Warehouse Receipts to save the farmers from distress sale, the same have not been popularized/implemented to the desired extent. With a view to ensuring such lending, RBI may prescribe minimum exposure levels for such post harvest advances out of the total exposure to Agriculture segment.

(Action : RBI)
(Time Frame : 2007-2009)

3.13. Investment Credit :

- A favorable climate needs to be created so as to attract private investments in agriculture by extending various concessions such as exemption from taxation, etc. Further, in chronically vulnerable areas, area/product specific strategies for agricultural activities may be drawn up.

(Action : GoI/Banks)
(Time Frame : 2007-2009)

- The present system of financing agriculture is predominantly 'crop-based'. While the credit requirements for primary production should continue to be focused upon by credit institutions, they may increasingly cater to the credit demand for diversification in agriculture and for a series of other value chain activities. State Governments also have to be more pro-active for promoting agriculture related activities and providing appropriate infrastructure.

(Action : Banks/State Governments)
(Time Frame : 2007-2009)

- The broad thrust areas for increasing investment credit in agriculture are as under:
  - Continued emphasis needs to be laid on traditional investments such as land development, irrigation and farm mechanisation and integration of small and marginal farmers in the mainstream in the case of marketing and exports;
  - Focus of investment must be on value addition in the entire value chain of agricultural products;
  - In particular, reform of agricultural markets and investments in enabling competitive markets deserves priority;
  - Public investment in agricultural infrastructure may be accorded greater priority, especially in poorer States, viz., Eastern and North Eastern regions, for facilitating greater private investment**.**

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

3.14. Activities Allied to Agriculture :

- Crop diversification and intensification may have to be explored consistent with soil and water conservation, nutrient management, post harvest management, etc., so as to enhance productivity.

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

- In order to provide full time occupation in rural areas, rural industries may be encouraged, by providing incentives through long-term (20 years or more) tax holidays and additional benefits for clean and green industries. Besides small dairy enterprises and other allied activities that enhance employment, income and repaying capacity of farmers in rural areas may also be encouraged.

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

- A transparent leasing policy for leasing of wasteland to individuals/ groups/PRIs/corporates may go a long way in development of wastelands.

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

- Credit support may be extended to qualified technocrats and NGOs providing services to poultry units, feed processing units, activities related to creation of infrastructure for processing, packaging and preservation and marketing of poultry products, as areas for financing by RFIs.

(Action : Banks)
(Time Frame : 2007-2009)

3.15. Economic and Social Infrastructure

- "Bharat Nirman" is a major programme of the Government of India where basic infrastructure of rural areas in 6 major activities is being carried out. RIDF projects may be dovetailed with GoI programs and synergy brought in.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

- Linkages need to be built between creation of infrastructure in rural areas and flow of credit required to tap the advantages arising out of the creation of infrastructure.

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

- Agriculture projects should be able to support marketing and value addition in agriculture and reduce post-harvest losses. Infrastructure projects (godowns, cold-storage plants, water conservation, solar energy, power generation) which have direct relevance in marketing of agricultural produce, flower markets, APMC market yards, fruits/flower markets, supporting cold chains may be considered, even if located in semi-urban/urban areas to support value addition and marketing.

(Action : State Governments/Banks)
(Time Frame : 2007-2009)

- Projects like flood protection, watershed development, soil conservation, animal husbandry, etc., may be given priority in areas prone to natural calamities.

(Action : GoI/State Governments)
(Time Frame : 2007-2009)

3.16. Participatory Community Investments:

- Watershed Development projects implemented by NABARD under Indo-German Watershed Development programme (IGWDP) in water scarce districts of Maharashtra are worth replicating in other States having similar problems. Special banking plans may also be prepared for developed watersheds.

(Action : NABARD/State Governments)
(Time Frame : 2007-2010)

3.17. Policy for Hill States :

- A special policy may be adopted for the Hill States with predominant tribal population. There could be immense potential in hill areas for development of traditional industries in Non-Farm sector (such as handloom and handicraft), as most of the hilly regions offer scenic locales and natural parks which offer a good scope for tourism, related investments. The need is to develop different products suitable for these areas.

(Action : GoI/State Governments/NABARD/Banks)
(Time Frame : 2007-2009)

3.18. Special Package for development of Resource Poor/Economically Backward Regions :

An approach for development of Resource Poor Regions may include the following:

- Wider replication of Watershed models through grant-cum-loan products - Interest free loans may be provided through interest subvention. For targeting development of tribal families through adoption of “Wadi” model in areas with substantial tribal population, use of grant and interest free loans may be considered.
- Adoption of cluster model for technological intervention and poverty alleviation;
- Participatory approach for local involvement through involvement of civil society/peoples’ organisations;
- Integrated development approach - simultaneous focus for creation of infrastructure, provision of extension services, capacity building of farmers/ tribals, provision of adequate credit, etc.
- **Infrastructure creation**- Creation of essential socio economic infrastructure, particularly in terms of connectivity, irrigation, power and marketing infrastructure is imperative. Higher normative allocation under RIDF may be considered for the less developed districts, with differential rate of interest for backward districts. Emphasis may be placed on irrigation

projects, connectivity and markets.

- Efforts may be made to link credit to creation of infrastructure.
- Remotest and most underdeveloped villages may be adopted by Commercial Banks, RRBs, Cooperatives and NABARD for 100% financial inclusion.
- Financing through “Group Mode” may be adopted for ensuring greater coverage of SF/MF/TF.
- PRIs/NGOs may be mobilized to identify the rural poor still not having access to formal credit.
- Banks may consider sanctioning credit limit for the entire village to get the benefit of peer pressure for repayment of loans.
- The product " cyclical credit" may be reintroduced.
- **Synergy of efforts** of NABARD, GoI, State Governments, Corporate bodies, NGOs, etc., needs to be ensured for optimum utilization of resources.
- Village Knowledge Centres may be set up in each large/cluster of small villages through RIDF/direct financing to Corporates.
- Farmers Training Centres may be set up by banks for upgrading skills and knowledge of farmers.
- Strengthening Cooperatives in backward States/Regions should be accorded priority.
- NABARD may be involved in setting-up of RUDSETI - type institutions for both Farm and Non-farm activities. Training may be imparted on NRM – Organic Farming, Participatory Joint Forest Management (JFM). Training farmers on finance, risk management and market information may be attempted.
- State Governments may adopt “Remote Area Development Policy” on the lines of the Andhra Pradesh Government to pay focussed attention for development of remote areas.

(Action : GoI/State Governments/RBI/NABARD/Banks)
(Time Frame : 2007-2010)

4. <u>Recommendations requiring action over periods exceeding five years</u> :

4.1 Financial Inclusion :

- Replication of the Andhra Pradesh experiment of financing through Rythu Mitra Groups can serve as a conduit for technology transfer, facilitate access to market information and markets, assist in carrying out activities like soil testing, training, health camps, assessment of input requirements, etc., for the group members which is the need of the hour.

(Action : State Governments)
(Time Frame : 2007-2012)

4.2. Credit flow to Disadvantaged Sections :

4.2.1. State Governments :

- Improvement of the recovery climate by desisting from announcing across the board waivers, helping banking officials in recovery process and extending the provisions of Public Debt Recovery Act to banks’ dues in States where it has not yet been done.
- Encouraging farmers’ collectives and cooperatives for ensuring that value addition accrues to farmers.
- Providing rural infrastructure - including roads, transport, power and water alongside health and education services;
- Strengthening the supply chain for supply of quality inputs and effective marketing infrastructure for marketing of agricultural produce;
- Dissemination of information - through awareness generation among target group;

(Action : State Governments)

(Time Frame : 2007-2012)

4.2.2. Commercial Banks:

- Seting up institutions like Farmers Training Centres and Rural Development and Self Employment Institutes (RUDSETI) for enhancing knowledge and expertise in rural areas.

(Action : Commercial Banks)
(Time Frame : 2007-2012)

4.2.3. Reserve Bank of India:

- Incentivise efforts for providing financial education, especially to the poor and disadvantaged sections.

(Action : RBI)
(Time Frame : 2007-2012)

4.3. Institutional Arrangements - Banks

- A "Credit Plus" approach may be adopted by banks by providing financial as well as technical counseling. The appointment of technical staff may vary with the proportion of farmers' accounts handled by the branch. Adequate trained manpower, with rural orientation may be deployed in Rural and Semi Urban branches through redeployment of surplus staff from urban areas and also through fresh recruitment of personnel with agriculture background for manning the controlling offices/branches on regular basis. This would boost the flow of investment credit in rural areas.

(Action : Banks)
(Time Frame : 2007-2012)

- Motivational measures such as incentives like advantage of seniority of one year for two years of rural posting beyond the fixed tenure for promotion, training in prestigious institutions, foreign exposure, posting to the centre of choice, improvement in accommodation and education facilities, corporate recognition, etc., may be introduced. The tenure of rural posting should be reasonably long.

(Action : Commercial Banks)
(Time Frame : 2007-2012)

- All rural bank branches may adopt one or two villages and facilitate credit/non-credit interventions covering 100% of households. Success stories will act as demonstration models for replication.

(Action : Banks)
(Time Frame : 2007-2012)

4.4. Technology Related - Branch Computerisation / Networking

- The banks may design some e-products i.e., ATM facilities, information about credit through Village Knowledge Centres (being set up by DIT, Government of India) for farmers.

(Action : All Banks)
(Time Frame : 2007-2012)

- Success Stories could be documented and publicised in house journals and other banking journals on regular basis. The success stories could be discussed in various fora of IBA SLBC/DLRC/DCC/BLBC.

(Action : All Banks)
(Time Frame : 2007-2012)

4.5. Cooperative Reforms :

4.5.1. Legal and Policy Reforms :

- GoI/State governments may consider provision of a constitutional/legal body for holding independent elections in the Cooperatives.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

4.5.2. Structural Reforms :

- Structural integration of Long Term and Short Term Cooperatives may be implemented.

(Action : GoI/ State Governments)
(Time Frame : 2007-2012)

- Credit Cooperatives may be linked with the non-credit Cooperatives for providing full credit support, marketing and other infrastructural services on time.

(Action : GoI/ State Governments)
(Time Frame : 2007-2012)

4.5.3. Cooperative Training Sector

- An Expert Committee on Human Resource Development in the cooperative sector may be constituted for a comprehensive review of cooperative training structure for effecting further improvements.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2012)

- Along with the Central Government, Development and Financing Institutions like NABARD, National Cooperative Development Corporation (NCDC) and National Dairy Development Board (NDDB) may participate on a larger scale in training and manpower development of co-operative sector.

(Action : GoI/NABARD/NCDC/NDDB)
(Time Frame : 2007-2012)

- More efficient networking with other institutions like NABARD, NCDC, State Cooperative Banks, Land Development Banks, IRMA, etc., may be undertaken to improve training programmes for Cooperatives.

(Action : GoI/NABARD/NCDC/SCBs/SCARDBs/IRMA)
(Time Frame : 2007-2012)

- Support may be extended to VAMNICOM to set up an Agri-Business Development Centre that will also help in capacity building of cooperative entrepreneurs. A Central Sector Scheme may be launched for this purpose.

(Action : GoI/VAMNICOM)
(Time Frame : 2007-2012)

- The Cooperatives Training Institutes (ACSTIs/JLTCs, etc.,) may be strengthened in terms of capacity and infrastructure to take care of the training needs of their staff.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2012)

4.5.4. Strengthening PACS :

- PACS may be developed as multi purpose cooperatives. They may be converted as Village Development and Agri-business Bank/Society on the lines of Mini Banks. They may establish wider network with non-credit Cooperatives for processing, marketing and other other services and linkage with SHGs at the grass roots level after carefully considering their financial capacity for business expansion. PACS may be converted as business oriented sustainable profit making societies for credit dispensation and function as “profit centres” with rural business (Deposit and Loaning operations) for the benefit of members.
- The process of Business Development Plan may be started for business diversification of PACS.
- PACS may be allowed to mobilise deposits within their area of operations and State specific Deposit Guarantee Schemes may be introduced in this regard.
- PACS may be encouraged to increase the level of their non-credit business and improve their viability.

- Each PACS should have a trained full time paid Secretary.
- The training arrangement for the personnel working in the PACS should be strengthened and should be oriented towards their job functions.
- Self-Help Groups may be developed as a sub-system of the primary cooperative movement.
- PACS, by diversifying their business through a process of Business Development Planning, may provide additional services to their members;
- PACS may enhance their coverage of borrowing members with the object of covering all members as borrowing members;
- Conversion of dormant and non-viable societies into viable societies may be expedited;
- New societies may be allowed to form in villages where PACS have become non-functional and also covering villages still not covered by PACS.
- Multi-product deliverables may be developed along with credit and deposit products and services.
- PACS may be compensated for the losses incurred by them for undertaking businesses imposed on them.
- The Management Committees of PACS may be made accountable for the performance or otherwise of PACS.

(Action : Cooperative Banks)
(Time Frame : 2007-2012)

4.5.5. Overdues of Cooperatives :

- Recovery Cells at the level of DCCBs and SCBs may be activated with the active involvement of the cooperative leadership, traditional institutions, local leadership, etc.

(Action : GoI/State Governments/Cooperative Banks)
(Time Frame : 2007-2012)

4.6. Institutional Arrangements –Government :

- In order to tackle the problem of rural indebtedness in the from of increasing debt asset ratio in agriculture on all-India basis over time and to provide relief to the distressed farmers necessary changes in the legal field with regard to delivery of institutional credit may be effected by passing of the “Regulation of Moneylenders Act”. The proposed Act may have the following provisions :
  - No attachment of land and one house in case of default.
  - Total dues from the borrower not to exceed double the amount lent.
  - Cap the interest rate at the PLR of State Bank of India.
  - Courts to be empowered with the jurisdiction of scrapping of the outstanding dues if the repayments have been made equal to twice of the principal amount borrowed or more.
  - The Act is to be made applicable with retrospective effect, subject to covering all cases with current outstanding under the ambit.

(Action : State Governments)
(Time Frame : 2007-2012)

- All State Governments may enact a legislation regarding the procedure by which the land title is granted by the Revenue Department in favour of the person/s in possession of the property by issue of a certificate of title. A single document, which conveys title in favour of the person in possession of the property, may be issued. By depositing such a document with banks, farmers should be in a position to create a mortgage/ security in favour of the lender and avail loans.

(Action : State Governments)
(Time Frame : 2007-2012)

- There is a need for amendment of the Transfer of Property Act, for removing the concept of notified cities for creation of equitable mortgage by deposit of title deeds, which can presently be done only in notified towns. Two alternatives are suggested : (i) either to do away with the concept of notifying towns for the purpose of creating equitable mortgage or (ii) insert an enabling provision by which equitable mortgage can be created in all the branches of banks including Cooperative Banks.

(Action : State Governments)
(Time Frame : 2007-2012)

- In order to effectively implement the recovery provisions and control excessive political interference, Branch Managers may be empowered with loan recovery powers instead of State Government Officials.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

- The Government would need to create a favourable policy environment while minimising direct intervention in and control of the agricultural sector and credit. It should also take necessary action for deregulation of the financial sector in its true spirit and support a competitive environment.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

4.7. NABARD :

- The aim should be to ensure that the provision of funds by NABARD/CCBs during a year should not exceed fifty per cent of the total advances by the Primary Cooperative Societies during the year in case of crop loans and seventy per cent in case of term loans. This implies that the society should provide at least fifty per cent of the total advances during the year from its own deposits and in case of term loans, thirty per cent. This will ensure strict supervision of the advances as well as its use and repayment, by the members.

(Action : NABARD)
(Time Frame : 2007-2012)

4.8. Extension Arrangements :

- Human resources development at all levels is crucial for creating awareness among the farmers and other stakeholders as well as to change the mindset on various developmental programmes in action, source of credit and other aspects. Therefore, greater provision has to be made in the Plan outlay for training and capacity building.

(Action : State Governments)
(Time Frame : 2007-2012)

- The staff of Governmental and Non Governmental Organisations involved in Agricultural Extension may also be provided with regular training to update their knowledge and skills towards latest developments / innovations in technology, credit and marketing. Farmers' Field Schools may be encouraged for teaching, reaching and empowering farmers with latest technologies, skills and information on production, credit and marketing interventions.

(Action : State Governments/NGOs/Banks)
(Time Frame : 2007-2012)

- State Governments may involve banks in the operational arrangements of Agriculture Technology Management Agency (ATMA) Programmes to facilitate integration of credit with it. Credit Schemes and allied matters may form an integral part of training curriculum of Krishi Vigyan Kendras (KVKs).

(Action : State Governments/Banks/KVKs)

(Time Frame : 2007-2012)

4.9. Loan Recovery :

- Repeated loan waivers and poll promises regarding waiver of loans have created an impression in the minds of farmers that loans would be waived sooner or later and there is no need to repay them. In order to change this trend and prevent indiscriminate waiver of loans for achieving short term objectives, it is strongly felt that the authority of loan waivers be vested only with a High Power Committee comprising representatives of Central/State Governments, RBI, NABARD and lending institutions. Financial viability of the banking system needs to be kept in the mind before resorting to loan waivers. Further, to preclude political parties from making promises regarding waiver, the Election Commission may issue suitable guidelines and ensure their strict compliance.

(Action : GoI/State Governments/RBI/NABARD/FIs)
(Time Frame : 2007-2012)

- Wilful default needs to be dealt with firmly by considering such default as a cognizable offence. Further, wilful defaulters, should be rendered ineligible for contesting elections by amending the Peoples' Representation Act appropriately.

(Action : State Governments)
(Time Frame : 2007-2012)

- The Model Bill, as recommended by the Talwar Committee, may be compulsorily adopted by all the States, within a stipulated time-frame, in true spirit, in order to have a uniform law across the country and to achieve the objectives stated therein.

(Action : State Governments)
(Time Frame : 2007-2012)

- An exclusive and dedicated legal structure may be set up on the lines of Debt Recovery Tribunals at the Sub-Division level for the purpose of recovery of farm loans below Rs. 10 lakh. Lok Adalats may be increasingly used for effecting recovery.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

- In its present form, the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act (2002), is not applicable to loans against agricultural land. To provide an additional avenue for recovery of farm loans, the Act may also be extended to cover agricultural land, such as Orchard land, Tea Gardens, Poultry Farms, Dairy Farms, etc., in respect of wilful defaulters only.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

- However, the effectiveness of all the above would depend on the lender's ability to enforce the security. The experience so far indicates that it is virtually impossible to execute a decree and recover dues, as hardly any bidder comes forward to purchase the agriculture land of a fellow farmer. In such a situation, when the lenders have exhausted all avenues, it is suggested that the Government may step in to protect the interests of the institutional lenders to ensure their continued viability by bidding or acquiring the immovable mortgaged property of wilful defaulters. Such land may be resold/redistributed amongst landless or small and marginal farmers. The institutional lenders may finance the beneficiary of the land allotment, i.e., buyer of the land for purchase of the same. The sales proceeds so received are to be utilized by the Institutional lenders to recover dues of original owner/defaulting borrower.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

- In view of the large number of loan accounts, high manpower cost and difficulty in reviving the documents as required under the Limitation Act, all agricultural Loans granted by

Commercial Banks/RRBs may also be exempted from the purview of the said Act.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

4.10. Economic and Social Infrastructure

- Infrastructure gaps in rural areas need to be identified and projects prepared by district level Government officials. There is a need to prepare District Level Rural Infrastructure Plan for 10 years at least. States may come out with district-wise, long range infrastructure developmental plans based on infrastructure plans projected in Potential Linked Plans drawn by NABARD, available infrastructure and future needs with proper prioritization. Special consideration may be given for the most backward districts/areas, particularly those prone to natural calamities.

(Action : State Governments)
(Time Frame : 2007-2012)

- Credit by itself cannot improve agricultural production and through that the income of the farmers. It is only a facilitator. The basic conditions of production must change to seek the help of the facilitating agency. There should be all-weather good roads connecting every village to the nearest highway. The supply of water from the flow irrigation systems to each field should be determined for each season on the basis of a crop pattern in the command area that will maximise the return per acre-inch of irrigation water. Electricity should be supplied to rural areas not only for households but mainly for farms to irrigate their lands with the help of ground water. Free supply of electricity for such purpose not only limits the possibility of wide and adequate supply of electricity but also leads to wasteful use of both electricity and ground water. The farmers in the villages should have daily access to information about prevailing prices of the products they produce on their farms in various mandis. It is easy to see that these steps will improve the agricultural situation in a stable manner. The State should organise agencies that will buy different farm products at announced support prices when no trader is willing to do so – a facility that has been confined to only a few important regions of the country so far. Other rural infrastructure like, health, sanitation and education also needs to be improved. This will not only ameliorate the conditions of rural people, but also save a major part of their incomes that they incur for these purposes.

(Action : GoI/State Governments)
(Time Frame : 2007-2012)

- Essential rural infrastructure - including roads, transport, power and water alongside health and education services, may be provided through RIDF;

(Action : State Governments/NABARD)
(Time Frame : 2007-2012)

4.11. Marketing Arrangements :

- Greater emphasis may be placed on promotion of direct marketing on the lines of initiatives introduced in various States such as ‘Apni Mandis’ in Punjab and 'Rythu Bazaar' in Andhra Pradesh.

(Action : GoI/ State Governments)
(Time Frame : 2007-2012)

- Integration and shortening of the Agricultural Supply Chain (Farmer -Local aggregator -Transporter -wholesale market -Distributor -Retailer) may be ensured in order to ensure higher/remunerative returns for farmers.

(Action : GoI/ State Governments)
(Time Frame : 2007-2012)

- Professionally managed wholesale markets by farmers cooperatives, producer cooperatives and the private sector may be allowed to come up, whereby farmers may have a lead role in marketing their produce. The existing marketing system can be modernised by attracting private investment

(Action : GoI/ State Governments/Banks)
(Time Frame : 2007-2012)

- Frantic sale of produce by farmers during post harvest season due to lack of holding capacity results in lower margins to farmers. This needs to be reversed through efficiency in market clearance. For this marketing infrastructure, especially warehouses, mechanism to aggregate produce at the ground level and dissemination of knowledge through IT are required to be provided/upgraded. This will facilitate farmers in depositing produce in nearest recognized warehouses and obtain warehouse receipts based finance to meet their immediate needs. The farmer would also be able to take advantage of future prices. An NCDEX based commodity futures would be complimentary to the option of Minimum Support Price (MSP). There is also need for setting up of rural business hubs, Haryali type organizations and Private state-of- the art markets.

(Action : GoI/ State Governments)
(Time Frame : 2007-2012)

- Agriculture markets and warehouses/storage godowns by farmers groups may be encouraged with credit support. This will facilitate the farmers to participate in the supply chain organized by corporates and derive benefits of retail revolution.

(Action : State Governments/Banks)
(Time Frame : 2007-2012)

4.12. Financing value chain:

- Banks should increasingly adopt financing of the agri-products 'value chain'. In this connection, investment potential in emerging areas such as grading, standardising, certification, setting up of laboratories for research and handling facilities, needs to be explored.

(Action : Banks)
(Time Frame : 2007-2012)

4.13. Insurance Products :

- A long term approach to rural and farm insurance may be adopted, with customized, flexible and integrated risk products to incentivise the small and marginal farmers to undertake risks in commercial farming.

(Action : GoI/IRDA)
(Time Frame : 2007-2012)

- A new, integrated micro-insurance product to cover life, health and non-life assets of the small / marginal farmers at reasonable costs, may be developed and the group premia approach on a village-wise or panchayat-wise basis, may be introduced. Banks may associate with Insurance Companies in this regard.

(Action : IRDA/Banks/ Insurance Companies)
(Time Frame : 2007-2012)

- Besides NAIS, price Insurance weather insurance, natural calamity insurance and livestock insurance need to be promoted. <u>New products like comprehensive insurance covering life, livelihood and credit may be thought of, as the stand alone crop insurance is not a sustainable model.</u> Further, the premium in case of comprehensive hybrid insurance (combining life and non-life risks) will be affordable, and hence, can reach a majority of the rural population.

(Action : GoI/IRDA)
(Time Frame : 2007-2012)

4.14. Reduction of Inter and Intra Regional Disparities in Credit Flow to Agriculture :

4.14.1. Creation of Infrastructure :

- Area Development Schemes may be prepared for development of command area of irrigation projects implemented under RIDF.

(Action : GoI/State Governments/NABARD/Banks)
(Time Frame : 2007-2012)

4.14.2. Extension Services :

- The State Government extension machinery needs to be strengthened urgently. However, the public extension network needs to be complemented by private efforts.

(Action : GoI/State Governments/NABARD/Banks)
(Time Frame : 2007-2012)

- The Farmers' Club programme may be replicated on a mass scale, particularly in under-developed regions, for transferring technology, improving recovery climate and increasing the flow of credit in the less favoured areas and also to the un-reached sections of the farmers.

(Action : GoI/NABARD/Banks)
(Time Frame : 2007-2012)

4.14.3. Institutional Arrangements :

- Banks may prepare individual/Area Development Projects for implementation, adopt a "Credit Plus" approach for linking finance with technology and other linkages, adopt a cluster approach for financing for rural non farm sector activities and upscale the SHGs from mere savings groups to micro enterprises.

(Action : All Banks)
(Time Frame : 2007-2012)

- Associating new entities like Post Offices in credit delivery / filling up borrower profile and appraisal scorecard / receipt of recovery could be attempted on pilot basis. Association of Indigenous Bankers as outlets for retailing credit could also be attempted on pilot basis. The legal framework / institutional arrangement could be worked out and put in place.

(Action : Banks/GoI: Deptt of Postal Services)
(Time Frame : 2007-2012)

4.14.4. Promotion of Dryland Farming :-

- In order to create a situation of sustainability in dry land farming, a more co-ordinated approach involving different agencies along with a package approach (services + bank loan package) should be tried to ensure that the loose ends are firmly tied up. The Package may include weather insurance, loans for small animal husbandry/other income generating activities, credit for deep rooted horticultural fruit/timber plants per acre of land, etc. Selected bank branches may act as "**One stop shop"** to provide loans, extension support and financial advice to the farmers. Automatic restructuring of crop loan and rescheduling of term loan facilities in the event of failure of rains and grant of fresh crop loan should be a part of the package.

(Action : GoI/State Governments/NABARD/Banks)
(Time Frame : 2007-2012)

5. Recommendations involving Operational Issues :

<u>Recommendations requiring immediate action</u> :

5.1 Simplification of procedures :

- Simplification of loan sanctioning procedure with due delegation of powers is a must to make credit delivery hassle free to achieve 100% financial inclusion.

(Action : Banks)
(Time Frame : 2007-2008)

5.2. Refinement of existing Products :

- Issuing KCCs to women to provide them access to credit, especially in the areas having large migration of male members for employment purposes, where women manage the agricultural operations would be a step in right direction. Implementation of the suggestion on a pilot basis by RBI/NABARD, in a carefully identified district may be step in the right direction.

(Action : Banks)
(Time Frame : 2007-2008)

5.3. Empowerment of Farmers

- A comprehensive checklist of documents/information may be furnished for availing of loans and made available to the prospective borrower.

(Action : Banks)
(Time Frame : 2007-2008)

- All banks may display the credit policies/procedures/broad terms and conditions/ documentation required, on the notice board of each branch/controlling office as is being done for SSI sector. Pamphlets in vernacular containing relevant particulars could be made available to inquisitive farmers/entrepreneurs. The SLBC Convenor may publish features of various credit schemes/credit linked subsidy schemes / broad terms and conditions in vernacular language and circulate the same.

(Action : Banks)
(Time Frame : 2007-2008)

5.4. Institutional arrangements : Banks

- Credit provided to the farmers should be aimed at increasing their incomes and generating additional repaying capacity. While providing credit to the farmers, financial institutions should assess his repaying capacity, cash flow and risk factors so that the institutions do not end up creating a portfolio of sticky advances. Monitoring the use of credit for the purpose it is given by banks is crucial for reducing the indebtedness arising out of misutilisation /diversion of the credit taken for productive purposes.

(Action : Banks)
(Time Frame : 2007-2008)

- Bankers may put in place an effective mechanism to ensure that the repayment schedules are properly fixed and the farmers are not given inadequate gestation/ repayment period. The existing maximum period of repayment permissible for Term Loans granted for various activities, may be reviewed and reduced.

(Action : Banks)
(Time Frame : 2007-2008)

- Banks may liberally lend to farmers against the pledge of Gold/Silver ornaments to enable farmers to meet certain emergent/contingent requirements so that they are not driven to the clutches of private money lenders.

(Action : Banks)
(Time Frame : 2007-2008)

- Banks may review the practice of levying various charges such as processing fee, folio charges, inspection fees, Legal fees, search fee etc., on agricultural loans and rationalise the charges.

(Action : All Banks)
(Time Frame : 2007-2008)

- Banks may ensure that their branches follow RBI’s instructions on ‘No dues Certificate’ strictly.

(Action : All Banks)
(Time Frame : 2007-2008)

- Organizing and involving individual volunteers, farmers' clubs or NGOs / SHGs as 'direct selling agents' in every village may be attempted by banks for creation of awareness about bank's schemes, mobilisation of loan proposals / feed back about the prospective borrowers, facilitating preliminary appraisal / carrying out monitoring functions, etc.

(Action : All Banks)
(Time Frame : 2007-2008)

- Banks may upscale financing of oral lessees / share croppers through formation and financing of Joint Liability Groups (JLGs).

(Action : All Banks)
(Time Frame : 2007-2008)

- The Controlling Offices of the banks may rationalise the Management Information System so as to reduce the work load of the branches.

(Action : All Banks)
(Time Frame : 2007-2008)

- The instructions of the Reserve Bank of India for not compounding interest on current agriculture credit dues may be reiterated to all scheduled banks/ branches and Cooperative Banks.

(Action : RBI/Banks)
(Time Frame : 2007-2008)

6. <u>Recommendations requiring action over medium term</u> :

6.1. Credit flow to Disadvantaged Sections :

6.1.1. NABARD:

- Provide necessary inputs for exploring ways to help SHG members to take up micro enterprise and income generating activities; and

- To accelerate assistance from the Micro Finance Development and Equity Fund.

(Action : NABARD)
(Time Frame : 2007-2010)

6.1.2. Credit Flow to NER :

- Keeping in view the local conditions, extensive recourse to SHG-Bank Linkage Programme, business correspondent/business facilitator models may be resorted to;

(Action : Banks)
(Time Frame : 2007-2010)

- Recognising that community ownership and non-transferable rights on land lead to problems in offering land as collateral, simplified alternatives like Land possession certificate/certificate from the group/local tribal bodies/farmers clubs/village development boards (VDBs) regarding the borrowers' right to cultivate land may be considered;

(Action : Concerned State Governments/Banks)
(Time Frame : 2007-2010)

6.2. Empowerment of Farmers

- Capacity building of farmers is necessary to make them viable agri-entrepreneurs. A well informed farmer commands hassle free, timely and adequate credit. The State Governments and Banks may initiate appropriate measures to create / enhance awareness among the farmers regarding financial products available, subsidy linked schemes, availability of latest technological and other inputs, etc.

(Action : Banks/State Governments)

(Time Frame : 2007-2010)

6.3. Institutional arrangements : Banks :

- The banks may undertake measures to ensure necessary orientation, motivation and proficiency in different areas of banks' activities, among the staff working in rural areas. The training system of the banks could incorporate necessary inputs in the training modules, accordingly.

(Action : Banks)
(Time Frame : 2007-2010)

- The banks may review, at regular intervals, powers delegated for sanction of loans so as to ensure sanction of most of the credit proposals (at least 80%) by the branches. The next higher authority must approve any rejection with reasons. The issue of exercise of discretionary powers also needs to be reviewed.

(Action : Banks)
(Time Frame : 2007-2010)

6.4. SHG Linkage Programme

- Banks may upscale credit linkage of SHGs for which they may draw a perspective plan for promotion of SHGs through a network of NGOs, volunteers, opinion makers, etc. They may have Micro-Finance Cells in their Controlling Offices and play a proactive role in upgrading the SHG operations to higher level of micro enterprises.

(Action : Banks)
(Time Frame : 2007-2010)

6.5. Cooperative Banks :

- The society may specify the amount of loan for different inputs. This condition may apply to all types of societies, including those by small farmers, tenant farmers, artisans and landless labourers. There need be no bar to such societies advancing consumption loans to their members. As the members examine the requests for loans, they can advise their fellow members on limits of such loans and the need to be careful in expenditure on such matters. Many tribal self-help groups are succeeding in dissuading their members from incurring unnecessary and unrepayable expenditures on social functions like weddings and funerals. Such advocacy by fellow villagers, often belonging to the same social caste/class, may have a desirable effect.
- Credit societies should distribute their surplus funds among the members in proportion to their average monthly deposits plus the loan amount properly repaid during the year plus the share capital contribution, after making provision for losses. This will sustain interest of the members in the functioning of the society. The society can employ a full-time or part-time secretary, depending on the volume of work. The society can put its unutilised funds during the year in short-term deposits with a bank.

(Action : Cooperative Banks/PACS)
(Time Frame : 2007-2010)

6.6. Extension :

- State Governments may look into the issue of establishing functional co-ordination between credit institutions and extension agencies.

(Action : State Governments)
(Time Frame : 2007-2009)

6.7. Loan Recovery :

- A mechanism may be put in place by the institutional lenders/RBI to ensure strict compliance of the extant guidelines with regard to relief measures to farmers by way of conversion/rephasement in case of non-wilful default.

(Action : RBI/Banks)
(Time Frame : 2007-2009)

- While there are various products & schemes devised by the banks to save the farmers from distress sale, the same have not been implemented to the desired extent.

(Action : Banks)
(Time Frame : 2007-2009)

6.8. Rural Infrastructure Development Fund :

- Greater emphasis may be given for completion of projects within the stipulated time frame. Optimum utilization of funds and implementation of the scheduled projects on time may be the focus for visibility and utilization benefits. Hence, Line Departments need to be supported by other concerned Departments of the State Governments for planning and completion of projects within prescribed time (including financial support) by streamlining the systems and procedures to avoid delays.

(Action : State Governments)
(Time Frame : 2007-2009)

- Periodical monitoring (both external and internal) for initiation of remedial measures for on-time completion of projects may be institutionalized.

(Action : State Governments)
(Time Frame : 2007-2009)

- The identification of projects and their location may be done on a scientific basis, keeping synergy with other concerned Line Departments.

(Action : State Governments)
(Time Frame : 2007-2009)

6.9. Credit Planning :

- The Bank wise/branch wise plans prepared with Potential Linked Credit Plan (PLP) of NABARD as reference document may form the Performance Budget of Banks. State-wise plans may be formulated and implemented in consonance with specific agricultural plans to reduce indebtedness from informal sources and increase the flow of institutional credit. Emphasis in these plans must be for improving the reach of credit to small, marginal and tenant farmers. The sector-wise credit potential estimated in Potential linked Credit Plan (PLP) prepared by NABARD can be a useful guide for this purpose.

(Action : All Banks/NABARD)
(Time Frame : 2007-2009)

7. <u>Recommendations requiring action over a five year period</u> :

7.1. Financial inclusion :

- Credit dispensation through alternate channels, viz., mFIs, SHGs, NBFCs, Housing Finance Companies, franchisees through Post Offices would be effective in increasing access, reducing transaction costs as also improving recovery. Outsourcing banking operations through correspondents and internalizing/mainstreaming moneylenders would improve the outreach. To improve the outreach and for achieving total financial inclusion, promoting the SHGs/Joint Liability Groups/Tenant Farmers Groups is the need of the hour. Elements of self-help must be incorporated in JLGs. NGOs can also be involved in an extensive way in this programme by providing assistance for promoting SHGs, their capacity building and linking of SHGs with banks. There is a need to set up Micro Finance Institutions and to regulate, train and use them for reaching the unreached. Infusion of venture capital into MFIs can also be helpful. The JLGs can gradually incorporate the elements of thrift as in the case of SHGs. In cases of SHGs, the members may be facilitated to open individual savings accounts with the banks, which in turn will increase their individual bankability as well. Involvement of village level functionaries, such as postman, chowkidars and members of panchayats may be resorted to for increasing the outreach of banks, particularly to small and marginal farmers, landless labourers and non-farm families. They can be made resource persons on nominal commission basis.

(Action : GoI/RBI/NABARD/Banks/NGOs/MFIs)
(Time Frame : 2007-2012)

- Financial outreach may be increased by adoption of entire villages, particularly in less banked areas, for financial inclusion, provision of General Credit Cards to at least one member of each rural household (without insisting on security, purpose or end use of credit) and make available "No Frills" accounts with limited overdraft facilities, particularly aimed at low asset based households.

(Action : Banks)
(Time Frame : 2007-2012)

- As per the recommendations of the HR Khan Committee, banks may also extend financial outreach by utilising the services of civil society organisations, Farmers' Clubs, NGOs, Post Offices, etc., as "Business Facilitators" or as "Business Correspondents". Initially, associating new entities like Post Office in credit delivery/filling up borrower profile and appraisal score card/receipt of recovery may be attempted on a pilot basis. Association of Indigenous Bankers as outlets for retailing credit may also be attempted on a pilot basis. The legal framework/institutional arrangement may be worked out and put in place by IBA.

(Action : Banks/IBA)
(Time Frame : 2007-2012)

7.2 Credit flow to Disadvantaged Sections :

7.2.1. Commercial Banks :

- Banks may adopt low cost, efficient delivery strategies by optimizing use of technology, intermediaries and existing infrastructure.
- Banks may link credit counseling with agro-extension services;
- Banks may upscale introduction of borrower friendly products like KCC/GCC/ Swarozgar Credit Card.
- Contract farming may be encouraged for ensuring higher income for farmers

(Action : Commercial Banks)
(Time Frame : 2007-2012)

7.2.2. Regional Rural Banks:

- Formulate a clear strategy for enhancing overall business levels and diversify into non-fund activities so as to provide all services that Commercial Banks do;
- Adopt measures for financial inclusion - General Credit Card, 'no frills' account and use of financial intermediaries;
- Adopt technology for improving operations;
- Strengthen human resources and address motivational factors; and
- Leverage local presence and credibility to expand business in their area of operation.

(Action : RRBs)
(Time Frame : 2007-2012)

7.2.3. Credit Flow to NER :

- Banks may adopt IT based solutions, including smart cards based and mobile payment systems, for carrying out banking transactions from non-branch locations;

(Action : Banks)
(Time Frame : 2007-2012)

7.3.1. Institutional arrangements : Banks :

- State-wise plans may be formulated and implemented in consonance with agricultural plans specifically aimed at decreasing indebtedness and increasing the flow of institutional credit. Emphasis in these plans must be for improving the reach of credit to small, marginal and tenant farmers. The sector-wise credit potential estimated in Potential linked Credit Plans (PLP) prepared by NABARD may be used as reference document for this purpose.

(Action : Banks/NABARD)
(Time Frame : 2007-2012)

- In the context of declining ratio of Gross Capital Formation (GCF) to Gross Domestic Product (GDP), banks may make efforts to enhance the investment credit flow in agriculture.

(Action : Banks)
(Time Frame : 2007-2012)

- Banks may upscale pledge loan against warehouse receipts. Banks may increasingly adopt financing of the agri-products 'value chain'. In this connection, investment potential in emerging areas such as grading, standardising, certification, setting up of laboratories for research and handling facilities, needs to be explored.

(Action : Banks)
(Time Frame : 2007-2012)

7.4. SHG Linkage Programme

- Federations of Self Help Groups as umbrella organizations may be encouraged if they emerge from the felt need of SHGs. However, as far as credit linkage is concerned, Banks to SHG model should be prioritized in order to establish direct relationship with banks and to avoid high cost of borrowing through Federations.

(Action : Banks)
(Time Frame : 2007-2012)

- Setting up of micro finance institutions, scaling up of training facilities for NGOs and MFIs require to be strengthened. There is a need to boost infusion of venture capital into the field of micro finance and the ways and means need to be devised to reduce the transaction costs to ensure financial viability of the system. NABARD may provide greater equity/venture capital support to MFIs from the MFDEF.

(Action : NABARD/Banks)
(Time Frame : 2007-2012)

7.5. Extension :

- Agriculture extension services are presently addressed by the Extension Department of Agriculture, State Agriculture Universities, KVKs and private extension service providers, (NGOs, agripreneurs, input dealers, etc.) through various extension approaches in transfer of technology. Extension Services, both private and public are working parallel without convergence. This is causing duplication of efforts and resources. There has to be more synergy and convergence among all the stakeholders. Thus, harmonization, rationalization and integration of resources by spelling out roles and responsibilities is very much important to increase extension coverage and credit outreach. Some pilots could be initiated in this direction.

(Action : StateGovernments/SAUs/KVKs/Private Extension Providers)
(Time Frame : 2007-2012)

- The KVKs need to take up innovative programmes which can be replicable and set some benchmarks for themselves and for evaluating their own performance in reaching out to their objectives. This needs to be monitored periodically.

(Action : StateGovernments/KVKs)
(Time Frame : 2007-2012)

- With diversified agro-ecological environment, area specific strategies/ programmes need to be evolved to address the farmers' problems/issues. To be more purposeful, KVKs need to undertake mapping of area specific issues and draw attention of the farming community in addressing them. Such issues could be area/crop/ activity specific based on the local needs.

(Action : StateGovernments/KVKs)
(Time Frame : 2007-2012)

- The outreach of the extension agencies is very limited. These agencies must have sufficient budget to launch/undertake/disseminate technology and adequate manpower complements. The extension staff may be kept away from other non-developmental work, i.e., election duties/law and order problems, other health/sanitation programmes launched/undertaken by the State Governments.

(Action : StateGovernments)
(Time Frame : 2007-2012)

- The role of agricultural universities also need to be well defined in terms of their outreach in extension field. Presently, this seems to be very much inadequate.

(Action : GoI/StateGovernments)
(Time Frame : 2007-2012)

- Extension services are concentrating on production but little attention is paid on value addition, marketing and ensuring timely availability of credit. Therefore, there is a dire need to broad base the focus of extension to address the concerns of farmers in an integrated manner.

(Action : GoI/StateGovernments)
(Time Frame : 2007-2012)

- The "Mass Media Support" to Agriculture Extension and call centres, an initiative of the Ministry of Agriculture, GoI, is a very welcome scheme to reach out to farmers through television, telephone and radio. The purpose of these Call Centres is mainly to respond to issues raised by farmers instantly in the local language, on continuous basis. Farmers by and large are unaware of this novel gesture. Farmers need to be encouraged to make use of these programmes by giving wide publicity for this scheme.

(Action : GoI/StateGovernments)
(Time Frame : 2007-2012)

- Extension services should also ensure timely availability of quality seeds/fertilizers/pesticides at reasonable cost and also facilitate soil and water testing. Thus there is a need to further strengthen the Agri Clinics and Agri Business Centres programme in rural areas for transfer of technology. At present in some of the States, agricultural graduates are not coming forward to enroll in the schemes. It is advisable to extend the facility to diploma holders also. Besides, linking agripreneurs in the ongoing extension and credit outreach programmes will be important for the sustainability of the programme.

(Action : GoI/NABARD/Banks)
(Time Frame : 2007-2012)

- There is need to promote "Rural Kiosks" in the rural areas in local languages and this media could be well utilized for interaction with subject matter specialists from Agriculture Universities/ Agriculture Research Centres, time to time. The kiosks besides functioning as centres for knowledge connectivity, can also provide information on weather, credit and marketing.

(Action : GoI/StateGovernments/Agriculture Universities)
(Time Frame : 2007-2012)

- Diversification in agriculture is the need of the hour**.** Extension should expand its scope to take care of this aspect as well. Animal husbandry, horticulture, agro-forestry, fisheries etc., are much talked about for diversification particularly in drought prone areas. The

Animal Husbandry Department and other Line Departments should also improve their extension for promoting their schemes.

(Action : GoI/StateGovernments)
(Time Frame : 2007-2012)

- There is a need to create environment for promoting private extension through unemployed agricultural graduates, agriculture consultants/firms, agripreneurs, Farmers' Clubs, SHGs, para technicians, progressive farmers, Farmers' Organizations, NGOs, input dealers, newspapers / periodicals, private television channels, Seed Growers' Associations, and so on.

(Action : GoI/StateGovernments/Banks/NGOs)
(Time Frame : 2007-2012)

- As extension services are vital to improve agriculture productivity and Government extension services are inadequate, the private sector may be involved in agriculture extension through agriclinics, e-choupals, Village Knowledge Centres, etc. The successful experiments of ITC by promoting e-choupals, Nagarjuna fertilizers by promoting i-kisan outlets, Farmers Service centres promoted by Mahindra Shublabh Services, Farmers Welfare Centres by Punjab National Bank are worth replicating through out the country.

(Action : GoI/StateGovernments/Private extension agencies)
(Time Frame : 2007-2012)

- Information dissemination on demand and supply can dramatically alter cropping patterns. On-line farm extension services and use of IT to help farmers on establishing a reliable price discovery mechanism may be considered,

(Action : GoI/StateGovernments)
(Time Frame : 2007-2012)

- ICAR/State Agricultural Universities may be leveraged to provide proven location/region/crop specific technologies, which may be made part of the public information domain. The agricultural research system may also consider building synergy with farmers and the private sector, particularly, corporates like ITC, Hindustan Lever, etc.

(Action : GoI/StateGovernmentsICAR/SAUs)
(Time Frame : 2007-2012)

7.6. Loan Recovery :

- Inadequate and untimely delivery of credit by the institutional lenders, faulty repayment schedule, uncertainty regarding availability of finance for purchase of critical productive assets, hesitation to grant loans against the security of gold ornaments, etc., leads to several hardships to the farmer, ultimately affecting his repayment capacity. Necessary steps need to be put in place by institutional lenders to prevent the above. Several research studies indicate poor supervision and follow up as the major reasons for poor recovery**.** The above issues can be effectively addressed if adequate, trained manpower with rural orientation is deployed in Rural and Semi Urban branches.

(Action : Banks)
(Time Frame : 2007-2012)

7.7. Rural Infrastructure Development Fund :

- Maintenance of RIDF projects is equally important. This aspect needs to be taken care of at the sanctioning stage itself. As far as possible, public-private partnership should be encouraged in the RIDF funded projects for sustainability.

(Action : State Governments)
(Time Frame : 2007-2012)

A B B R E V I A T I O N S

ACABC	Agri Clinic and Agri Business Centres
ACRC	Agriculture Credit Review Committee
ACSTI	Agricultural Cooperative Staff Training Institutes
AEZs	Agri Export Zones
APMC	Agricultural Produce Marketing Committees
ATM	Automatic Teller Machine
ATMA	Agricultural Technology Management Agency
BLBC	Block Level Bankers' Committee
BRIC	Brazil, Russia, India and China
CAGR	Compound Annual Growth Rate
CCB	Central Cooperative Bank
CD Ratio	Credit Deposit Ratio
DCCB	District Central Cooperative Bank
DCC	District Consultative Committee
DIT	Department of Information Technology
DLRC	District Level Review Committee
DMI	Department of Marketing and Infrastructure
DRT	Debt Recovery Tribunal
ECRC	Expert Committee on Rural Credit
FRBM Act	Fiscal Responsibility and Budget Management Act
FTC	Farmers' Training Centres
GCC	General Credit Card
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GLC	General Line of Credit
GoI	Government of India
HRD	Human Resource Development
IBA	Indian Bankers' Association
ICDP	Integrated Cooperative Development Project
IGWDP	Indo German Watershed Development Programme
IT	Information Technology
JFM	Joint Forest Management
JLG	Joint Liability Group
KCC	Kisan Credit Card
KVK	Krishi Vigyan Kendras
LT	Long Term
MFI	Micro Finance Institutions
MIS	Management Information System
MoA	Ministry of Agriculture
MoF	Ministry of Finance
NABARD	National Bank for Agriculture and Rural Development
NAIS	National Agricultural Insurance Scheme
NBFC	Non Banking Financial Companies
NCDC	National Cooperative Development Corporation
NCCT	National Council for Cooperative Training
NCUI	National Cooperative Union of India
NCDEX	National Commodity and Derivatives Exchange
NDDB	National Dairy Development Board

NER	North Eastern Region
NFS	Non Farm Sector
NSDP	Net State Domestic Product
NSSO	National Sample Survey Organisation
NRC (LTO) Fund	National Rural Credit (Long Term Operations) Fund
NRM	Natural Resource Management
ODI	Organisation Development Initiatives
OTS Scheme	One Time Settlement Scheme
PACS	Primary Agricultural Cooperative Societies
PDS	Public Distribution System
PLP	Potential Linked Plan
PLR	Prime Lending Rate
PSU	Public Sector Undertaking
PRI	Panchayati Raj Institutions
RBI	Reserve Bank of India
RCS	Registrar of Cooperative Societies
RIDF	Rural Infrastructure Development Fund
RRB	Regional Rural Banks
RUDSETI	Rural Development and Self Employment Training Institute
RKBY	Rashtriya Krishi Bima Yojana
SACP	Special Agricultural Credit Plan
SARFAESI Act	Securitisation and Restructuring of Financial Assets and Enforcement of Security Interest Act
SF/MF/TF	Small Farmers / Marginal Farmers / Tenant Farmers
SHG	Self Help Group
SHPI	Self Help Promoting Institutions
SLBC	State Level Bankers' Committee
ST	Short Term
ST(SAO)	Short Term (Seasonal Agricultural Operations)
TFG	Tenant Farmers' Group
UT	Union Territory
VAMNICOM	Vaikunth Lal Mehta National Institute of Cooperative Management
VAT	Value Added Tax
VDB	Village Development Board

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Y C Nanda
Chairman, Working Group on
Outreach of Institutional Finance and Cooperative Reforms

Place : New Delhi
December, 2006

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Annexure I

COMPARATIVE CHART OF DIFFERENT PROJECTIONS FOR AGRICULTURAL CREDIT DURING THE XI FIVE YEAR PLAN

(Rs. Crore)

Sl. No.	**Methodology**	**2006-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**	**2007-2012**	**CAGR**
1	**Instt capacity to purvey credit**	200000	245182	301464	373756	463693	575429	**1959524**	23.77%
2	**Agencywise Trends Basis**	200000	232629	266871	301113	335354	369596	**1505563**	12.27%
2	**Statewise Trends Basis**	200000	232426	266560	300694	334827	368961	**1503468**	12.25%
2	**Share of Agri Credit to Agri-GDP**	200000	227214	270129	318735	373694	435737	**1625509**	17.68%
2	**Multi Variate Regression Analysis**	200000	253728	275956	300675	328215	358947	**1517521**	9.06%
6	**Term Structure-wise likely Credit Flow**	200000	268130	299355	334012	372464	415112	**1689073**	11.55%
7	**Capital Resource Based**	200000	234912	280663	330474	384342	442266	**1672657**	17.14%

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Annexure II

ASSESSMENT OF GLC FLOW TO AGRICULTURE DURING THE XI FIVE YEAR PLAN

METHODOLOGY I - INSTITUTIONAL CAPACITY TO HANDLE XI PLAN AGRI-CREDIT

(RS. Crore)

Particulars/Agency	2001-2002	2002-2003	2003-2004	2004-2005	2005-200(	2001-2006	CAGR
							2001-2006
Commercial Banks	33,587	39,774	52,441	81,481	116,447	323,730	36.45%
ST Coop. Banks	20,818	20,940	23,721	28,821	35,084	129,384	13.94%
LT Coop. Banks	2,707	2,696	3,154	2,410	2,168	13,135	-5.40%
Total Coops.	23,525	23,636	26,875	31,231	37,252	142,519	12.18%
RRBs	4,854	6,070	7,581	12,404	14,076	44,985	30.50%
Other Agencies	80	80	84	193	0	437	34.12%
Grand Total	62,046	69,560	86,981	125,309	167,775	511,671	

Annexure II

ASSESSMENT OF GLC FLOW TO AGRICULTURE DURING THE XI FIVE YEAR PLAN

METHODOLOGY I - INSTITUTIONAL CAPACITY TO HANDLE AGRI-CREDIT FLOW

(RS. Crore)

Particulars/Agency	**2006-2007**	**2002-2007**	**2007-2008**	**2008-2009**	**2009-2010**	**2010-2011**	**2011-2012**	**2007-2012**	**CAGR**
									(2007-2012)
Commercial Banks	141,000	431,143	176,250	220,313	275,391	344,238	430,298	1,446,489	25.00%
ST Coop. Banks	40,800	149,366	46,512	53,489	64,187	77,024	92,429	333,640	18.73%
LT Coop. Banks	2,200	12,628	2,420	2,662	2,928	3,367	3,873	15,250	12.47%
Total Coops.	43,000	161,994	48,932	56,151	67,115	80,391	96,301	348,890	18.44%
RRBs	16,000	56,131	20,000	25,000	31,250	39,063	48,828	164,141	25.00%
Other Agencies		357							
Grand Total	**200,000**	**649,625**	**245,182**	**301,463**	**373,755**	**463,692**	**575,427**	**1,959,520**	23.77%