

## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

### CHAPTER 1 : INTRODUCTION

The methods and approach adopted by the Committee and the scheme of the Report are indicated in this Chapter.

### CHAPTER 2 : REACHING THE RURAL POOR

1. The national policy objective of growth with social justice requires that integrated rural development must embrace all the poor households. The normal criterion of banking that a family of rural poor is not credit-worthy will have to give place to the concept that many of the poor can be brought into the mainstream of economic development through credit-worthy programmes. (2.1)\*

2. For successful implementation of the programmes for the rural poor, it is necessary to identify them as target groups. These are : small/marginal farmers, agricultural labourers, rural artisans, scheduled castes and scheduled tribes. The number of rural poor is increasing over the years. Bulk of their borrowing was from private money lenders for consumption purposes for which they have to pay relatively high rates of interest. (2.4 to 2.10)

3. The ARDC definition of small farmer based on income criterion is precise and workable, while the GOI definition based on acreage, aims to restrict subsidy, as a matter of policy, to a smaller number among them, on the principle of '*Antyodaya*'. The credit institutions must ensure that those coming under the GOI definition are given absolute priority. (2.12)

4. Agricultural labourers need help for acquisition of productive assets such as dairy animals and for self-employment in activities such as forestry, animal husbandry, fisheries and processing. (2.13)

5. Rural artisans require besides credit, (i) supply of raw materials, (ii) designs based on market preferences, (iii) introduction of improved tools, (iv) upgrading of their skills and (v) marketing arrangements. This is the responsibility of the government. (2.14)

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\* The numbers in brackets at the end of the conclusions and recommendations refer to the paragraphs in the Report.

6. We cannot wish away the present indebtedness of the class we are seeking to bring within the rural development process. The credit-worthiness of the programme by itself is not sufficient unless the growth of income generated by the programme, over time, takes care of the initial non-productive indebtedness and puts the family on its feet. Failure to realise this has led to frustration even with well organised lending programmes. The growth is absorbed by the ubiquitous money lender and the credit institution is faced with mounting overdues. (2.15)

7. The basic cause of exploitation of the rural poor is the heavy under-employment and unemployment and, therefore, labour is in a buyers' market and wages are very low. To ensure fair price for labour, pressure needs to be created on the labour market by the state administration through full exploitation of secondary and tertiary sectors. The role of the State Development Administration is paramount in this area. (2.17)

8. The Committee emphasises that unless the investment in the huge organisation of State Development Administration is made to yield results by more effective co-ordination, the attack on the problem of rural poverty will remain cosmetic. (2.18)

9. The household will remain the basic unit of poverty eradication programme oriented to target groups. From the point of view of credit institutions it will be useful to classify the poor households into three categories: (a) those who can become viable with loan assistance, (b) those who require some capital-subsidy, in addition to loan, to become viable and (c) those who are non-viable and require special assistance from the State more or less in the nature of social security. The third category is outside the purview of the credit institutions. (2.20)

10. Different methods of reaching the rural poor need to be evolved. Some sections may have to be approached as well-organised groups such as co-operative societies, some others will have to be dealt with as informal groups so as to facilitate group activity and group lending, yet others have to be approached individually. (2.21)

11. A number of factors contributed to the failure of earlier programmes for the rural poor. The Committee endorses the approach of the Sixth Plan (1980-85): A Frame-work, to make the programmes coalesce functionally and generate a mass flow of developmental activity. (2.24)

12. The Committee views the integration inherent in rural development in four dimensions. Combining credit and programmes for (a) comprehensive agriculture, (b) tiny, village and cottage industries, (c) rural services including marketing and (d) infrastructure for production and supporting services. We hope that the Sixth Plan will take care of these aspects. (2.25)

13. In the Committee's view, credit to the weaker sections could be facilitated by quicker and simpler method of identification of target groups, simplification of procedures and terms, updating of land records, project based lending and creation of the requisite infrastructure for ensuring supply of inputs and services. (2.26)

### CHAPTER 3 : DEVELOPMENTAL ROLE OF CREDIT INSTITUTIONS IN THE INDIAN RURAL CONTEXT

1. The lending operations of commercial and co-operative banks have tended, by and large, to be mere money-lending, institutional only in form, but without satisfactory organisational, procedural and operational arrangements for planned and systematic dovetailing with the overall national development policies and objectives. The Committee emphasises the need for imparting development orientation to banking in the rural sector. (3.2)

2. The basic concept of development banking is that credit is consciously used as a lever of development. It calls for initiative and energetic involvement on the part of the bank in developing the potential opportunities of the undeveloped or under-developed sections or sectors, through selective and strategic input of credit. (3.3)

3. The development agencies including the credit institutions have to plan and progress together and ensure that credit is tied up with development programmes and supported by appropriate backward and forward non-credit linkages. (3.6)

4. Though there is a forum where governmental agencies and credit institutions meet, co-ordination in programming and in implementing the programme is generally lacking. (3.7)

5. Cases that were observed during the field visits of the Committee underline the need for proper identification of beneficiaries, activity-wise and area wise and then proceeding to meet their credit needs. (3.11)

6. Under fragmented approach to lending (individual, ad-hoc or scattered) without dovetailing it into an overall area plan, the danger of credit becoming a burden, instead of an instrument for uplift, is greater in the case of loans to the vulnerable sections of the rural community. (3.12)

7. Banking in rural sector has to be in tune with the social and economic environment in which the rural people live, and credit institutions have to be innovative and devise their policies, procedures and overall approach accordingly. (3.13 and 3.14)

8. It is imperative that the bank staff dealing with rural sector are rural-oriented, preferably recruited locally so that they identify themselves with local needs and aspirations. (3.15)

9. One reason for the reluctance of bank staff to work in the rural centres is that these centres do not have satisfactory facilities in respect of housing, education and medical care. Here the role of the state governments in providing the minimum facilities becomes evident. (3.16)

10. The Committee's discussions at the state level, revealed that there was a broad agreement among the state governments and the credit institutions. It was accepted that the major role for initiating and ensuring the development process in the rural sector is that of the state administration and the role of credit institutions is to support viable programmes without too meticulous a concern for the security that the individuals participating in the programme can put up. (3.20)

11. The family-wise approach to identify needs is desirable though time-consuming. This could, however, be undertaken village by village, so that the basic work of rural development can be carried out in a phased manner. (3.22)

12. Depending on the stage of development of and administrative capacities available in the states, credit institutions have to modulate their role. Where the development machinery of the state, particularly at the field level, is not adequate, the credit institutions may have to play a wider role to shoulder the task of planning rural development. Following from this, they will have to arrange for staffing pattern and lending procedure differently for different areas. (3.25 and 3.26)

13. Once it is recognised that rural lending is a social obligation and a plan priority, a way has to be found to subsidise it wherever necessary. (3.27)

14. Criteria for assessing performance of bank staff have to be radically changed so that a bank official is judged on the basis of his efforts towards meeting development objectives. (3.28)

15. The Committee has noticed a willingness on the part of the state political leadership and the administration to discharge their overall responsibility for rural development and play an effective role to enable credit to be given to the poorer sections. (3.30)

#### CHAPTER 4 : EXISTING INSTITUTIONAL RURAL CREDIT STRUCTURE AND TRENDS IN RURAL CREDIT

##### *Overall Progress*

1. Under the multi-agency approach rural credit is provided by co-operatives, commercial banks and regional rural banks. Over the period 1969 - 1980, the outstanding institutional credit increased from Rs. 1,075 crores to Rs. 6,325 crores. Co-operatives accounted for 59.4 per cent, commercial banks 38.8 per cent and RRBs 1.8 per cent of the outstanding credit at end June 1980. (4.2 to 4.4)

2. The total advances of both the co-operative and the commercial banking (including RRBs) sectors during 1979-80 were of the order of Rs. 2,889 crores. Compared to the loans issued in 1974-75, they show an increase of Rs. 705 crores in the case of co-operatives and Rs. 771 crores in the case of commercial banks. (4.5 and 4.8)

3. Loans issued by all the credit institutions in the country increased from Rs. 112 per hectare of gross cropped area in 1974-75 to Rs. 134 per hectare in 1977-78. In the ranking of states according to loans issued in 1977-78, Kerala came first with Rs. 343 per hectare followed by Tamil Nadu, Punjab and Haryana. In Himachal Pradesh, Jammu and Kashmir, Maharashtra and Gujarat, loans issued per hectare in 1977-78 represented a decline compared to 1974-75, owing to increased overdues. (4.10 to 4.12)

4. The percentage shares of loans by co-operatives and commercial banks in different states were more or less the same. Thus, commercial banks' agricultural credit has been additive and has not substantially helped to fill the geographical gaps, in the availability of credit, not covered by co-operatives. (4.13 and 4.14)

*Co-operative Credit System — Primaries*

5. At end June 1979, the number of PACS stood at 94,503 (provisional) as against 90,000 estimated to remain ultimately in the field under the reorganisation programme. (4.19)

6. Over the period 1970-71 to 1978-79, total membership of the societies increased from 31 million to 47.9 million. But, the borrowing membership declined from 36 per cent in 1970-71 to 34.4 per cent in 1977-78. The indebted membership at 22.8 million (at the end of June 1978) formed 47.6 per cent of the total membership. (4.21 and 4.22)

7. Although the share capital of the societies increased, their performance in the matter of deposit mobilisation, barring that of Kerala and Punjab, was not encouraging. (4.24)

8. The borrowing membership was below the all-India percentage in several states. The aggregate loan business per society was Rs. 1.55 lakhs as on 30 June 1978. Short-term loans outstanding per society at Rs. 1.16 lakhs as on 30 June 1978 was below the viability norm of Rs. 2 lakhs. In some states, the number of borrowing members had decreased but the volume of lendings had increased showing thereby that the increased credit supply had not benefited a larger number. (4.22 and 4.26)

9. As a result of the steps taken to increase the flow of credit to the weaker sections as also the various concessions given to them, such as a lower rate of interest, a lower ratio of share holding, a longer repayment schedule and lower rate of down payment, the amount of short-term and medium-term loans issued to the weaker sections by the co-operatives increased from Rs. 213 crores in 1973-74 to about Rs. 490 crores in 1977-78. In regard to long-term credit, comparable data are not available. According to the fragmentary data, loans aggregating Rs. 67 crores or 37.4 per cent of the total loans advanced during 1977-78 had gone to 1.71 lakh cultivators with land holdings upto 2 hectares each, in 13 states and one Union Territory. (4.28 and 4.29)

10. There have been apparently no attempts so far to make an assessment of the irrecoverable debts due from small and marginal farmers and to write them off out of the Risk Funds constituted at the levels of PACS and CCBs. (4.31)

11. Over the period 1970-71 to 1978-79, the recovery performance of the PACS showed a deteriorating trend, the overdues rising from Rs. 322.40 crores in 1970-71 to Rs. 908 crores at end June 1979 and forming 45.2 per cent of the total loans outstanding. In terms of absolute quantum, the overdues were generally high in the eastern states and also in Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh. As on 30 June 1978, there were 12 million defaulting members, forming 53 per cent of the indebted members. (4.35 and 4.36)

12. Some of the major recommendations of the RBI's Study Team on Overdues, have not been given effect to, by most of the state governments. On the other hand, some of the state governments have issued, from time to time, blanket stay orders on, or banned coercive action for, recovery of co-operative dues. (4.37)

13. Draws from the National Agricultural Credit Stabilization Fund had increased to Rs. 103 crores in 1977-78 from Rs. 14 crores in 1970-71. The studies conducted by the Reserve Bank from time to time into the actual utilisation of conversion facilities have revealed several irregularities. The state governments have not taken action to introduce scientific methods for determination of *annewari* as recommended by the Study Team on Overdues. (4.39 to 4.41)

14. Quite a large number of PACS continue to remain as credit disbursing agencies only, without providing complementary services to members. (4.42)

15. The Study of working of Farmers Service Societies (FSS) undertaken by the Reserve Bank in January - March 1980, revealed that most of them have not been able to fulfil their main objectives of providing all types of credit and a full package of services and technical guidance to farmers, especially small farmers, owing mainly to lack of earnestness and enthusiasm on the part of the state governments and the sponsor banks in giving the scheme a fair trial. (4.45 and 4.46)

16. The Large-Sized Multi-purpose Co-operative Societies (LAMPS) organised in tribal areas, numbering 1424, have not been able to make satisfactory progress for reasons such as lack of aggressive investment lending, non-availability of trained and experienced personnel for manning executive positions, frequent increases in royalties payable on forest products, unhealthy competition from private traders, absence of effective marketing organization and market intelligence, lack of infrastructural arrangements for storage and transportation and inadequacy of agency commission paid to the societies for distribution activities. (4.48 to 4.50)

17. Besides the PACS, some of the non-credit societies such as marketing and processing societies and functional societies like dairy co-operatives, poultry farming societies, fisheries societies have also assumed credit purveying role. (4.51)

*Central Co-operative Banks (CCBs)*

18. As on 30 June 1978, 74 CCBs had loan business of less than Rs. 2 crores each. 77 banks held deposits of less than Rs. one crore each. Owned funds as a percentage of working capital dropped to 16.4 in 1977-78 from 18.4 in 1970-71. However, the growth of deposits was steady, rising from 40.6 per cent of working capital in 1970-71 to above 50 per cent in 1978-79. The rate of growth of deposits was 20.1 per cent during 1978-79 which compared favourably with that of commercial banks. As a result of increased accretions to deposits, the borrowings of the banks as a percentage of their working funds declined to 28.7 in 1978-79 from 36.4 in 1970-71. Their total lendings during 1978-79 amounted to Rs. 2,007 crores, of which agricultural purposes accounted for 73.4 per cent. Advances for working capital purposes of industrial co-operatives were negligible. In the industrial sector, bulk of the advances were to co-operative spinning mills and handloom co-operatives. (4.55 to 4.57 and 4.59 and 4.60)

19. Overdues at the level of CCBs rose to 38 per cent of the demand as on 30 June 1978 as against 34.5 per cent on 30 June 1971. As at end June 1979, Maharashtra, Tamil Nadu, U. P., and Gujarat together accounted for 51.1 per cent of the total overdues. 49 CCBs had overdues exceeding 60 per cent of demand and were thus, *prima facie*, ineligible for credit limits from the RBI. As many as 106 CCBs, identified as weak with reference to their financial position as on 30 June 1978, are under a programme of rehabilitation.

But, the progress in implementation of the rehabilitation programme has not been satisfactory in many cases. For want of investigation of overdues on a scientific basis, financial assistance available to the banks, for write off of irrecoverable debts has not been utilised or properly utilised in many cases. Certain essential measures complementary to the rehabilitation programme, such as, revitalisation and intensive development of PACS, strengthening the arrangements for supervision, mobilisation of resources, etc., have not been taken up with the desired degree of earnestness. (4.61 to 4.66)

*State Co-operative Banks (SCBs)*

20. Over the years, the overall financial position of SCBs has shown considerable improvement with an expanded resource base. At end June 1979, their owned funds stood at Rs. 239 crores and deposits at Rs. 1,206 crores, which together constituted 72.3 per cent of their working capital. Their borrowings at Rs. 454 crores as on 30 June 1979 accounted for 22.7 per cent of their working capital, indicating a decrease of over 20 per cent from the 1970-71 position. Between 1970-71 and 1978-79, there was nearly a three-fold increase in their lending operations, the quantum of loans issued having gone up to Rs. 2,237 crores in 1978-79, from Rs. 749 crores in 1970-71. In deployment of resources, agriculture received the lion's share. Non-agricultural advances have also increased from 20 per cent in 1970-71 to 33 per cent in 1977-78 of the total loans. (4.67 to 4.69)

21. Besides SCBs and CCBs, some industrial co-operative banks have been functioning in a few states like Gujarat, Tamil Nadu, Karnataka, Rajasthan and Maharashtra. (4.70 and 4.71)

*State Co-operative Land Development Banks (SLDBs)*

22. As at end June 1978, there were 19 SLDBs operating through 999 branches and 889 PLDBs with about 6 million farmers on their rolls, covering nearly 11 per cent of the estimated farm households in the country. Long-term credit dispensed through the LDB system during 1977-78 was of the order of Rs. 238 crores and the amount outstanding against the ultimate borrowers at end June 1978 was around Rs. 1,280 crores. However, the magnitude of lending is showing a declining trend even in some of the co-operatively well-developed states. Purpose-wise, minor irrigation programmes constituted about 60 per cent of the total lendings of LDBs in 1977-78, followed by farm mechanization programmes and land improvement.

The declining potential for traditional lending avenues points to the need for LDBs to explore non-traditional avenues of lending, both land-based and non-land based. (4.72 to 4.76)

23. Due to faulty loan proposals, lending without an integrated programme, lack of effective co-ordination between investment and production credit, laxity in post-credit follow-up and monitoring of end-use of credit and above all wilful default, the overdues have been increasing at the level of PLDBs/branches of SLDBs in several states. On the basis of information available as on 30 June 1979, 360 PLDBs/branches of SLDBs had overdues above 55 per cent of demand and were thus ineligible to undertake any fresh lending programme. (4.78 and 4.79)

24. Over the years, the co-operative movement has evolved different types of co-operative credit institutions which have the requisite potential to cater to the diverse credit needs of rural areas. If suitable changes and improvements are made, they will be able to meet the new challenges underlying the concept of integrated rural development approach. (4.81)

25. The more important problems facing the co-operative credit system therefore are: (1) inadequate progress in reorganization of PACS and lack of focus on qualitative improvement in their working, (2) problems of recovery of loans, (3) credit activity of functional societies, (4) rehabilitation of weak CCBs, (5) three tier-versus-two tier structure, (6) politicisation of co-operative movement, (7) officialisation of SCBs and CCBs, (8) leadership role of SCBs and CCBs, (9) organizational ineffectiveness and lack of technical skills in LDBs, (10) lack of co-ordination between production credit and investment credit, (11) overdues in LDBs and their impact on fresh investment lending, (12) diversification of the advances portfolio of LDBs and (13) monitoring and follow-up of investment credit. (4.93 to 4.95)

#### *Commercial Banking System*

26. The first effort to involve the commercial banks in rural credit began with the conversion of the Imperial Bank of India into the State Bank of India. However, it was only after the government's policy of social control over commercial banks in 1967 and the bank nationalisation in 1969, commercial banks began to enter the rural sector in a big way. They endeavoured to increase their direct involvement

in rural credit through rapid expansion of branches in the rural and semi-urban areas, operational innovations such as establishment of specialised branches, intensification of efforts in specific areas, linking up lending to schematic programmes with the assistance of the ARDC and the Lead Bank Scheme introduced in 1969. (4.96 and 4.103)

27. Between June 1969 and June 1980, the number of rural branches increased eight-fold from 1,832 to 15,101. At the end of June 1980, there was a rural/semi-urban branch for every 21,000 of rural population. The data on branch network point to the need for ensuring a more even spread of rural branches with a view to improving their accessibility to the rural community. (4.104 to 4.109)

28. The specialised branches set up by the banks such as the Agricultural Development Branches of the SBI Group, the *Gram Vikas Kendras* of the Bank of Baroda, the Rural Service Centres of the Dena Bank, the Farm Clinics of the Syndicate Bank and the Rural Credit and Development Divisions of the Indian Overseas Bank are intended to overcome the practical difficulties relating to manpower, high cost of operations and follow-up of financed farmers who are scattered over a wide area. (4.111 and 4.112)

29. Under the 'village adoption scheme', banks have adopted 70,270 villages or about 12 per cent of total number of villages in the country by December 1978. A brief review of this scheme lends credence to the criticism that the banks treat and publicise a village as 'adopted' even though only a few of its residents had been granted loans. (4.122 and 4.123)

30. The scheme of ceding PACS to commercial banks has shown only limited success as the problem of taking over of their overdues has remained unsolved. (4.127)

31. Commercial banks have not found it easy to channelise credit through FSS/LAMPS. (4.128)

32. Banks have not been able to reach a credit-deposit ratio of 60 per cent in respect of their rural and semi-urban offices, as at the end of June 1979. Undue emphasis should not be placed on credit-deposit ratio as it only shows the overall position with regard to credit deployment. (4.132.)

33. The direct loans of the commercial banks to agriculture formed 74 per cent of their total agricultural credit in 1979 and, in this, the share of marginal and small farmers (2 hectares and below) accounted for 69 per cent in terms of the number of accounts and 39 per cent in terms of direct advances to agriculture as at end-March 1979. In eight states, the share of marginal and small farmers was less than 39 per cent of the total direct loans. (4.133)

34. According to purposewise classification of direct term loans to agriculture, tractors/agricultural implement and machinery accounted for 40 per cent and pump sets and oil engines for 16 per cent of the total loans as at end March 1979. (4.137)

35. Among loans for activities allied to agriculture, dairying was the single most important constituent. (4.138)

36. The recovery performance of the banks in respect of their direct loans to agriculture has not shown any perceptible change over the past few years in that the recovery hovered at around half the demand. (4.146)

37. In regard to rural financing by commercial banks, the issues that require detailed examination are whether (1) any change in the approach to rural branch expansion is necessary, (2) any reorientation is needed to enable them reach the target groups, (3) the co-ordination between banks *inter se* and between banks and development administration at the district level could be further improved, (4) the existing arrangements for financing through PACS and other intermediate agencies need to be extended, (5) available technical support to credit could be widened and deepened and (6) the problem posed by overdues could be overcome through appropriate additional legal measures and/or administrative arrangements. (4.146)

#### *Regional Rural Banks (RRBs)*

38. The RRBs are meant to combine the local feel and low cost of the co-operatives, on the one hand, and the managerial competence of the commercial banks, on the other. They are state-sponsored, regionally-based and rural-oriented banks. (4.147)

39. The GOI has decided that RRBs should confine their lendings only to the weaker sections. (4.150)

40. As at the end of June 1980, 73 RRBs were functioning, covering 130 districts in 17 States. The average deposit per RRB amounted to Rs. 2.3 crores and per branch Rs. 5.6 lakhs as at the end of March 1980. As at the end of December 1979, agricultural loans of the RRBs to small/marginal farmers, etc., formed 62.5 per cent of their total advances, followed by advances to rural artisans, small traders and others, at 29.8 per cent of the total. (4.154 to 4.160)

41. The issues concerning the RRBs are: (1) whether the rural business of commercial banks should be transferred to RRBs, (2) viability aspects of RRBs, (3) whether RRB's services should continue to be confined to weaker sections, (4) cost profile of RRBs, (5) relationship between RRBs and sponsor banks, (6) local participation in RRBs, and (7) overseeing of RRBs. (4.164)

#### CHAPTER 5 : CO-OPERATIVES AT THE GROUND LEVEL

1. In a vast country like ours with diverse conditions, no single or uniform structural pattern applicable all over is feasible. (5.4)

2. In the Committee's view, the basic concept underlying FSS and LAMPS is sound and attuned to the problems of the clientele they have to serve. We would, therefore, urge the state governments to make vigorous efforts immediately to develop FSS and LAMPS on the lines conceived, so that they can fulfil their objectives within a specified time-span. (5.4)

3. The Committee sees no convincing justification for any further delay on the part of the state governments of Gujarat, Jammu and Kashmir and Maharashtra in reorganising primary societies. The Committee, therefore, suggests that the GOI/RBI/NABARD should prevail upon these state governments to complete the reorganisation within the next one year at the latest. This, in our view, is the first essential step. (5.9)

4. Enquiries by the Committee revealed that even where the reorganisation exercises have been completed, the quality of operations has not improved to the desired extent. Time has, therefore, come for undertaking a drive for improving the efficiency and content of services as well as for increasing the business and membership of the societies, particularly from among the weaker sections. This, in our view, is the second essential step. (5.10)

5. In planning the future of reorganised societies, the aim should be to transform them into a single contact point in the village for all types of credit. They should have the capacity to serve other rural producers such as artisans, craftsmen and agricultural labourers in respect of their economic activities. They have to diversify their functions and augment their resources and business. The plan must, therefore, provide for classifying PACS according to the progress achieved from time to time and for developing them to the next stage on their onward march to the ultimate goal of a truly multi-purpose service institution for all types of rural producers. This is the most essential objective to be achieved. (5.13)

6. The Committee urges that in the states where the reorganisation programme has been completed, there should be a time-bound programme, supported by technical assistance from the state governments, and where necessary, by financial aid from SCBs/CCBs and the state governments, to vitalise and develop the reorganised societies so that they could evolve themselves into the pattern of FSS in regard to services and operations, over a period of three years. (5.14)

7. The Committee suggests that there should be two categories of membership of societies—one exclusively reserved for the weaker sections distinguished by the lower rate of share capital prescribed for them and the other earmarked for those contributing share capital at the usual rate. Every one of these two categories of members should be supplied with a pass book in two different colours containing all relevant details. This is to facilitate statistical reporting and analysis, and not to dilute the rights of the members belonging to the weaker sections. The entries in the pass book should conform to the entries in the land register and other books of account of the society and the validity of entries should be ensured by prompt authentication by the concerned official of the society. (5.15)

8. The Committee noticed during the course of its field visits that restrictive practices in lending on account of caste, faction, etc., continued. In several places, it could sense the prevalence of a tendency on the part of bigger farmers to block the flow of co-operative credit to the poorer sections. (5.16)

9. Apart from the above, the Committee observed during its field visits that there are other factors which come in the way of weaker sections borrowing from a society such as lending procedure not being in conformity with the need, risk involved in borrowing, lack of programmes for these groups and structural inability of the society to lend. (5.17)

10. The Committee is aware that mere exhortations in the matter of restrictive practices will not produce the desired result unless these are accompanied by suitable administrative action. One line of action that suggests itself is the preparation of programmes by each society for covering the weaker sections under the overall guidance of the district development administration and within the framework of the District Credit Plan. (5.18)

11. The state governments should introduce a system of check of all instances of loan refusal to the weaker sections by Assistant/Deputy Registrar of Co-operative Societies, at regular intervals. Should there be any deliberate blocking of credit to the weaker sections, the state government should not hesitate to organise separate societies for the benefit of such weaker sections, even if it means subsidisation by the state government. The financing bank should also consider denial of credit facilities to the offending societies. (5.18)

✓ 12. The Committee considers that in the context of fast-changing rural scene with increased economic prosperity, it is high time that PACS correct the aberration in their working as mere lending institutions and take steps to spread banking habit and mobilise deposits in rural areas. (5.19)

✓ 13. The impressive growth of deposits of PACS in Kerala is due to several factors : high rate of literacy, traditional banking habit, high rate of monetisation of the economy, inward remittances from abroad and above all, the fact that the management of societies was free from political interference. The experience of Kerala should be a guiding example to be emulated by other states. (5.20 and 5.21)

✓ 14. The Committee feels that PACS should immediately take steps for deposit build-up. They will have to adopt an approach and a system that will bring confidence to the rural saver and the potential depositor, be he a member of the society or not. The Committee suggests that, to begin with, viable societies with full-time paid secretaries, good management and infrastructural facilities like building may be selected in each state for the purpose of deposit mobilisation. The SCB and CCBs in each state should be fully involved in this programme. (5.22)

✓ 15. We recommend that as in Kerala the state governments may extend financial assistance to the societies selected for deposit mobilisation. (5.22)

16. The CCBs and SCBs are expected to provide a positive leadership in developing the strength and soundness of the system. They should create and build up a "Primary Co-operatives Development Fund." (5.24)

17. The cash credit system may be introduced only gradually, in areas having viable and well established primaries with full-time staff at their disposal and where cultivation of cash/plantation crops like coconut, coffee, sugarcane, banana or betelvine is predominant. (5.28)

18. The Committee considers that the problem of oral tenants and share-croppers, is one of land reforms and that PACS can assist these groups purposefully with adequate credit support only when they are registered as actual tillers of the land cultivated by them. Action towards this end has to come from the state governments. (5.29)

19. The Committee strongly urges that in the matter of dispensing long-term credit, PACS should act as agents of LDBs. (5.30)

20. The Committee reiterates that the implementation of the recommendations of the Study Team on Overdues should be taken up on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery of loans advanced by the societies. (5.34)

21. The Committee is gravely concerned at the tendency of some state governments to exempt whole classes of defaulters and to pay the amounts from the exchequer, in view of its dangerous import and wider implications for the entire institutional credit system. The Committee would, therefore, strongly urge that no state government should resort to such measures in future. It would also suggest that the GOI should prevail upon the state governments not to resort to such measures. (5.36)

22. Besides the recommendations of the Study Team on Overdues, the Committee has seven specific steps for arresting the growth of overdues. For improving recovery performance, the Committee also suggests that the rate of interest should be initially fixed at a somewhat higher level and a rebate of 2 or 3 per cent allowed to the borrowers on repayment of dues on schedule without default.

(5.37 and 5.38)

23. The recent Tamil Nadu measure empowering the co-operative financing banks to publicise the list of defaulters, particularly the names of big landlords, who deliberately refrain from paying their dues to co-operatives is salutary, which could be considered for adoption by other states. (5.39)

24. The Committee is of the firm view that wilful default in repayment of co-operative loans is not merely a civil misdemeanour but a criminal offence. It should no longer go unpenalised and must attract deterrent punishment under the criminal law of the country. (5.40)

25. The Committee would strongly urge the GOI to consider amending the Indian Penal Code and other relevant statutes, to provide for deterrent punishment to wilful defaulters. It is also necessary to make a provision in the law to place the onus on the borrowers to rebut the presumption that the default is wilful. (5.40)

26. It has to be ensured that, hereafter, non-credit services and organisations rendering such services are given equal emphasis and attention along with credit. The state governments may draw up programmes for this purpose. (5.41 to 5.44)

27. We would urge that the managing committees of societies should be so broadbased as to include at least two depositors to be elected by the general body of members from amongst depositors holding a specified amount of term deposit in the society. (5.47)

28. We suggest that the cadre scheme should be adopted by all the states and adequate contribution made to the cadre fund by the state government and participating institutions. (5.49)

29. The need for expansion of training facilities with suitable reorientation to meet the changed situation, particularly, the requirements of integrated rural development is obvious. This is a problem that should be tackled on an urgent footing. The RBI/ARDC/NABARD in collaboration with the NCUI should chalk out a programme for opening more training centres. (5.51)

30. We emphasise that the NCUI and the State Co-operative Unions should draw up and implement time-bound member education programmes and training programmes for office bearers of all the PACS

with active financial and administrative support from the GOI and the state governments. Attempts should be made to familiarise the members with the functional aspects of their societies, their duties as members, and how they can help in developing the societies.

(5.54 and 5.55)

31. The Committee suggests that the state governments should urgently review the existing machinery for the audit of societies and not only strengthen it but also maintain it as an autonomous entity.

(5.57)

32. A group engaged in a single activity with several linkages as in the case of animal husbandry has a common economic identity and social coherence and as such can be more effectively catered to by an organisation exclusively of that group. This is the *raison d'être* of functional societies providing credit to their members along with other services. In view of the need to cover the vulnerable groups who are to take up non-land-based activities, the Committee does not consider it advisable to prevent functional societies from financing their members whenever necessary. (5.59)

#### CHAPTER 6: COMMERCIAL BANKS AT THE GROUND LEVEL

1. Commercial banks can play a significant role in providing systematic support to ensure forward and backward linkages in the programmes of rural development and help not only in the formulation of DCP but also in its fulfilment. (6.2)

2. We recommend that while it is desirable to enable a lead bank to establish adequate presence in its lead district, it should be ensured that the lead bank does in fact build up planning capacities appropriate for its role. (6.4)

3. In districts where the scope for opening new branches is limited, a non-lead bank operating therein with a few branches and desirous of moving out of the district, for its own reasons, may be allowed to do so by swapping its branches with those of the lead bank which may have similar problems elsewhere where the former bank has the lead role. (6.5)

4. We are aware that the application of this principle is beset with serious problems and practical difficulties. It can, therefore, be applied only by mutual agreement. Where such agreement is forthcoming, such swapping may be facilitated by the RBI. (6.5)

5. In regard to the centre identified as eligible for a bank branch, an additional step to be undertaken is to examine which among the three types of credit institutions is best suited for the centre concerned. (6.6)

6. In the case of backward and tribal districts, special steps will have to be taken to ensure adequate presence of commercial banks therein to act as catalysts of development. (6.6)

7. Now that the state governments are consulted by the RBI in the matter of branch expansion, we have no doubt that better spread of branches in rural and semi-urban areas even in districts that are well banked will receive the necessary attention and suitable measures devised to correct the imbalances. (6.7)

8. Infrastructural facilities by way of all-weather roads, police presence, etc., are a state responsibility and banks can hardly be expected to move in ahead of these facilities. (6.8)

9. In view of the fact that the lead bank scheme has completed a decade of working, the Committee suggests that a review of its working may be undertaken by the RBI. (6.9)

10. Though commercial banks have, within a decade of their entry in agricultural credit, reached a large number of borrowers in agriculture and also deployed a sizeable part of their credit to this sector, there is great scope for improving the coverage of the target groups and the links between development programmes and credit programmes in the context of the integrated approach to rural development. (6.10)

11. There is need for identifying programmes suited to local circumstances which could be done only by greater interaction between bank officials and government officials. Such interaction will also facilitate appreciation by banks and government officials of their respective points of view. (6.12)

12. Identification of target groups can be done by the departmental authorities on the basis of proper and up-to-date records. Additionally the identification could be done jointly by officials of banks and government. Further, government should also encourage identification being done by the banks. Whichever agency does the identification, the beneficiaries should be eligible for the stipulated subsidy and, therefore, the planning mechanism should provide for this. (6.13)

13. In regard to non-land-based activities, state governments will have to play a more direct and active role in devising suitable policies for inputs, services and marketing and in building suitable supporting organisations for all the three items. In these cases, identification of beneficiaries may better be done by government's own agencies.

(6.14)

✓ 14. Identification of borrowers has to be followed by the more difficult task of persuading the identified persons to borrow for the purpose of development through one or more of the given schemes. ~~For the purpose, bank staff have to familiarise themselves with the local land record system and the supporting activities and organisations of the state administration while government staff must become fully conversant with the details of the credit schemes, cost norms, viability norms, etc.~~ (6.15)

15. Bank and government officials should appreciate that their job is not confined to release of loans and subsidies but one of assistance in accelerating the implementation of the integrated approach to rural development. Government staff should adhere to guidelines and avoid burdening banks with bunches of applications at the fag end of the year. Continuous efforts not unduly oriented to fixed and dated targets are necessary. Also officials should recognize that everyone identified cannot *ipso-facto* be financed by banks without scrutiny.

(6.16)

16. The suggestion that the target group can be better reached and more efficiently assisted if credit assistance to them is routed through a separate corporation, is acceptable only if the corporation provides infrastructural support essential for making the credit productive and helping the beneficiary households reach higher levels of productivity and income. (6.17)

17. Field experience indicates that village adoption scheme has not meant comprehensive programming in the adopted villages. We do not, therefore, recommend the continuance of village adoption scheme in its present form. In our view, nothing should be done to give a monopoly to a bank in an area or a village contrary to the spirit of the multi-agency system. (6.19)

18. The rural branch should become viable within a reasonable period. The viability norms may vary from state to state. Banks should fix the norms and endeavour to fulfil them by expanding the coverage of economic activities. (6.25)

19. The branches should be as near as possible to the rural clientele besides being able to provide an amalgam of credit and technical services. (6.25)

20. We believe that the Agricultural Development Branch of SBI, suitably strengthened on the technical side and empowered to cater to all activities but with a limited jurisdiction, may prove more useful. Alternatively, the ADB can emerge as a programming and technical super structure at a central location with a mandate to support a group of rural branches undertaking multi-term and multi-purpose credit operation for rural development. (6.26)

21. The task of meeting the need for technical support which arises at every branch appears formidable because, it is not only costly but it is also not possible to get qualified hands in requisite number. From this angle, it appears that the arrangement by which a pool of technical personnel serves a group of branches, such as in the case of Rural Service Centre of the Dena Bank, deserves to be studied and improved. We emphasise that technical support and supervision are essential for the success of credit operations and that it should be available in time from a nearby centre. (6.28)

22. There is really no alternative for the banks but to build up their own technical cadres. (6.29)

23. The overall experience of the scheme of ceding of PACS does not give us the confidence to recommend the extension of the scheme. However, there is no need to disturb the arrangement where it works well. We have some sympathy for the view that PACS being the very base of the federal structure of the co-operative credit system, the delinking of such institutions on a large scale is bound to have deleterious effects on the federal structure itself. The matter has therefore to be approached with caution and circumspection. (6.30)

24. On the other hand, we consider it highly desirable to encourage commercial banks to bring together people with common interests and common purposes into homogenous groups for the purpose of development programmes and give them the required credit along with other necessary services. The groups may be formal or informal. If the form of a co-operative society is favoured or preferred, it should be made possible for such a functional co-operative society to be registered and supervised by the Registrar of Co-operative Societies. The idea prevalent in some quarters that all co-operative societies should be

affiliated to and be financed by co-operative credit institutions only and by none other, should be discarded as outmoded and injurious to the interests of the target groups. (6.31)

✓ 25. We are convinced that systematic and concerted efforts have to be made over a long period by all concerned to foster attitudinal changes and to develop the right kind of 'rural bankers'. These efforts have to be in various fields such as recruitment, training, rewards, penalties, etc. We trust the GOI, RBI and NABARD, when established, will devote attention to these important aspects. (6.32)

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26. Since rural lending needs proper field work, we feel that three days in a week should be earmarked for field work (relating to deposit mobilisation, liaison with concerned government staff, supervision over end-use of loans, recovery of loans, etc.). All the staff working in the rural branch should be expected and oriented to undertake such work. In this sense, the functions of a rural branch and its staff should be redefined in order to be in tune with the needs of rural development lending. (6.33)

27. The hours of work of rural branches should be flexible to suit the sowing and harvesting seasons. (6.34)

28. A prerequisite for rural banking is contact with people. Therefore, on days on which banking business is not to be transacted across the counter, all the staff should do field work and account for the time. Thus, the peripatetic bankers will make the bank's presence felt among all the clientele, actual and potential in the command area of the branch. (6.35)

29. It is also necessary to stipulate that not only is it adequate to serve a rural branch for a specified period but also serve it successfully, success being defined in terms of increase in the business of the branch particularly in regard to lending to the weaker sections. Exemplary performance must be rewarded. There should be disincentives by way of continuance of the non-performing staff in the rural areas even beyond the normally accepted term in the rural areas. (6.36).

30. Banks and the RBI should review the implementation of the recommendations of the Working Group on Simplification of Application Forms and Lending Procedures in Banks periodically in order to bring about further improvements wherever necessary. (6.37)

31. We have reasons to think that the main cause for delays in sanctions at the branch level is the absence of proper motivation among managers. One remedial step could be to impress on managers that their performance will be assessed not merely on the growth of deposits but mainly on the progress of credit to weaker sections in all its aspects including recovery. (6.38)

✓ 32. We agree with the statement of the bank chairmen that unwillingness to lend and delays arise largely out of unfamiliarity with the clientele and their activities. Most of the employees of banks having moorings in the urban areas are reluctant to work in the rural areas for long enough periods. Training, administrative devices of carrot and stick, and above all, time, are necessary for bringing about improvements. (6.39)

✓ 33. Despite the spirit of the RBI's circular dated August 14, 1979, branch managers continued to demand collateral security in many cases. Since discretion and ambiguity in an important matter like this have the consequence of tempting managers to confine lending to those who can offer collateral, the bank managements must issue unambiguous instructions not to seek collateral from the exempted categories of borrowers. Further, the higher levels of bank management should make it a point to scrutinise and enquire about rejected loan applications carefully and independently and sanction them, so that over time, the branch managers build up confidence and learn to handle such applications direct. Additionally, bank managements should publicise among their staff case studies of loans that were not repaid despite their being backed by collateral as well as those which in spite of not being backed by collateral, were repaid because the activity undertaken with the loan succeeded. We are firmly of the view that unless determined action is taken to ensure faithful compliance with the RBI's instructions in this matter of collateral, the weaker sections will become playthings of richer intermediaries and the efforts to uplift them will be vitiated. (6.40)

✓ 34. In our view, if banks orient their lending increasingly under programmes that are area-specific with appropriate forward and backward linkages and presanction appraisal followed by intensive supervision by their own staff, the cause for much of the overdues should disappear. The state administration on its part should assist banks in proper identification of beneficiaries and co-operate with banks in evoking response to the programmes through extension. More importantly, extension staff of government should not only

~~encourage bank borrowers to repay loan on time but also stifle attempts at borrowers developing an anti-recovery stance. The state governments have to maintain a congenial climate for recovery. (6.50)~~

#### CHAPTER 7 : REGIONAL RURAL BANKS

1. As between commercial bank branches and RRBs, experience as well as evidence before the Committee shows that RRBs are more suitable for the tasks in hand. Apart from the fact that RRBs devote special attention to the weaker sections, they have the advantage of lower cost of operation as compared to the commercial banks. Being district level organisations, they can be trusted to take banking closer to the rural households and ensure more effective supervision over the end-use of credit. For these reasons, preference should be given to RRBs in regard to licensing of branches in the rural areas. (7.5)

2. On careful consideration of the various aspects of rural banking, the balance of advantage lies in encouraging commercial banks to transfer the eligible business of their rural branches to RRBs wherever possible. Rural branches with predominance of loans to weaker sections may be given priority for such transfer. Similarly, rural branches which have not been able to develop adequate business even after a reasonable period, so as to cover their own costs of establishment deserve to be considered for this purpose. On the other hand, where the bigger category of borrowers are substantial in number in any rural branch and account for bulk of the business, it may be retained by the commercial bank. The transfer envisaged is of eligible business and not of the staff. The sponsor banks themselves may take the initiative to draw up a programme of transfer of business on a mutually agreed basis. The Reserve Bank may take such steps as are necessary to facilitate the transfer operations when such agreed programmes are presented. (7.7 and 7.8)

3. It needs to be recognised that RRBs will incur losses in the initial years. It is, therefore, recommended that the losses incurred by a RRB should be made good annually by the shareholders, *viz.*, the GOI, concerned State Government and the sponsor bank in the same proportion as their share holding. In addition, the equity capital which presently stands at Rs. 25 lakhs may be raised appropriately. This question may be studied further by the RBI/NABARD and action initiated soon. (7.12)

4. Institutional credit has to go a long way in the effective coverage of the credit needs of the weaker sections and RRBs have a large part to play in attaining this goal. The present stage is not considered conducive for any general relaxation that may have the effect of diverting the attention of RRBs from their goal. They should continue to confine their operations to the weaker sections. The departures, if any, from this rule should be exceptional, as for example, in backward, hill/tribal areas. The image of the RRB as a small man's bank, in our view, should be kept up. (7.14)

5. As pointed out by the Narasimham Group, "the appraisal of the banks' working should be based both on the fulfilment of objectives and control of cost — in short, in achieving a favourable cost-benefit ratio." However, demands are being made for higher scales of pay and other allowances and facilities available in the commercial banks or in the Government of India. Such demands are inconsistent with the basic concept of the RRB as a low cost institution. The need for maintaining the local ethos makes it imperative that the emoluments and other service conditions of the RRB staff, who are recruited locally and posted/transferred within the area, should be in line with those obtaining for the state government staff in comparable cadres who constitute the bulk of the salaried people in the area. Therefore, the emoluments of the staff should be continued to be determined with due regard to the state government scales as now being done by the GOI. There is also no valid reason why the terms and conditions of service should be uniform for all RRBs in the country. However, the terms and service conditions of the staff of RRBs operating within a state have to be uniform. (7.15 and 7.16)

6. In terms of Section 3(3) of the RRBs Act, it is obligatory on the part of the sponsor bank to provide facilities for recruitment and training of personnel for a period of 5 years. Even thereafter, there is no bar on continuing the financial and managerial assistance by mutual agreement. In so far as the banking aspects of the linkage are concerned, these have to be continued since the sponsor banks are financing banks as well. In regard to managerial and other aspects, RRBs face many problems in the initial years of their working in finding suitable staff and in giving them adequate training. The key personnel should continue to be provided by sponsor banks till RRBs are in a position to develop their own personnel through suitable training and otherwise to take over the relevant responsibilities. Similarly, it should be the responsibility of the sponsor banks to

provide technical assistance in project formulation by RRBs. Facilities for recruitment and training and technical assistance should continue to be provided by the sponsor banks, on the same terms, for a period of 10 years for each RRB. Thereafter, any arrangement of assistance of this type can be decided upon by mutual agreement between the sponsor bank and the RRB. (7.18 & 7.19)

7. We recommend that nomination on the Boards of RRBs of at least two non-officials who are either progressive small farmers, social workers or persons connected with rural welfare, agricultural development, village industry, etc., may be made — one non-official by the GOI and another by the sponsor bank. It is not advisable to consider persons who are active politicians or office-bearers of political parties for such nominations. Some of the state governments have also expressed their preference for keeping RRB managements free from politics. (7.20)

8. We strongly endorse the recommendation of the Dantwala Committee for the transfer of entire control, regulation as well as the promotional/developmental responsibility relating to RRBs from the GOI to the RBI, with the modification that NABARD will take the place of the RBI in the new set-up. Necessary amendments to the RRBs Act may be made at the earliest so that there will be a single over-seeing authority to look after RRBs. (7.21)

9. Being institutions devoting exclusive attention to the weaker sections, RRBs have to be treated on a special and different footing in facilitating their operations. Certain facilities now available to RRBs such as concessional refinance from the RBI, lower standards of liquidity, slightly higher rate of interest on deposits, etc., should be continued. (7.22)

#### CHAPTER 8 : FIELD LEVEL ARRANGEMENTS FOR DISTRICT CREDIT PLANNING AND CO-ORDINATION UNDER MULTI-AGENCY SYSTEM

1. Achievement of the objectives of integrated rural development calls for effective co-operation and co-ordination not only between credit institutions but also between the credit institutions on the one hand and the concerned government and other development agencies, on the other. Therefore the question of making the field level arrangements for planning and implementing credit-based development effective and adequate assumes great importance. (8.1)

2. The major gain of the first round of the preparation of district credit plans is the awareness of the problems of credit planning that it brought about amongst all concerned, the banks as well as the government departments. (8.3)
3. Non-availability or difficulty in getting required factual data on district development plans continues to be a serious constraint on credit planning. We are convinced that there is no real alternative to a well-knit district development plan as a foundation for lending for rural development. (8.8 and 8.9)
4. The District Credit Plan is a broad framework. It becomes operational only to the extent that it is translated into technically feasible and economically viable schemes with reference to location-specific realities or in the popular phrase 'bankable schemes'. A scheme becomes bankable when its forward and backward linkages are ensured. We suggest that the experience of the ARDC in the preparation of banking plans may be analysed closely for drawing suitable lessons for the future. (8.10)
5. The District Consultative Committee (DCC) came into existence more or less voluntarily because of the felt need for consultation in the matter of district development schemes. (8.16)
6. It is desirable to make the District Rural Development Agency/Society, now being set up in each district, an agency for comprehensive planning and implementation of all the programmes under integrated rural development. (8.22)
7. For the effective functioning of the DCC, its Chairman, *i.e.*, the administrative head of the district, should have sufficient time to attend to the development needs and programmes of his district. To this end, some states have appointed senior officers of the rank of Collector in each district to relieve the head of the district of his routine work. We would urge that the experience of such arrangements in practice may be carefully examined and adopted with suitable modifications. (8.23)
8. We recommend that the personnel involved in district planning should be given appropriate training. (8.24)
9. We appreciate constitution of a Standing Committee of the DCC at the instance of the RBI. Further, we recommend the setting up

of sub-groups of experts for selected subjects according to potential and the programmes of the district. These sub-groups will be suitable forums for detailed discussions on technical matters for reaching agreements on crucial aspects such as input supplies and extension.

(8.26)

10. We have carefully considered the suggestion to clothe the DCC with statutory authority and we feel that, on balance, it is advantageous not to make it statutory and vest it with special powers. The basic problem of DCC is how to induce certain changes in the attitudes of its participants. (8.28)

11. DCC was born out of necessity, which fact alone infused the basic willingness among its participants to co-operate. Emphasis on such willingness can lead to setting up healthy conventions among the participants to heed the decisions by consensus and honour the commitments voluntarily made at the DCC meetings. The Collector, as Chairman, should hold the scales even and attempt to create awareness on each side. If some problems cannot be solved at the district level, they can be referred to the state level or taken up by higher echelons in the banks and the administration. The higher echelons by their action should encourage, support and guide evolution of a culture under which every institution finds itself accountable for its actions. (8.28)

12. We visualise the DCC to shoulder the responsibilities of identifying the potential for assistance in formulation of new credit schemes, preparation and monitoring the implementation of the credit plans, allocation of responsibilities among various agencies and securing their acceptance, examining the factors impeding the flow and recovery of credit, etc. (8.29)

13. We recommend that the Secretariat of the DCC should continue with the lead bank, as its convenor. The convenor should work closely with the district administration in the matter of preparing the agenda and highlighting the issues for consideration. The District Collector should designate one official to work in close liaison with the lead bank. When the Committee's recommendation to make the 'District Rural Development Agency', an agency for comprehensive planning and implementation, is acted upon, the officer in-charge of this agency would be the obvious choice. (8.30)

14. The DCC should deliberate on broad planning and operational aspects and individual cases should not be dealt with in this forum.

(8.30)

15. We do not find it feasible to recommend at this stage, formation of block-level committees as a general rule. (8.31)

16. In addition to what the state governments must deploy by way of infrastructural support for extension, transfer of technology, etc., the credit institutions need to have at their command technical personnel for scrutiny of applications, follow-up and evaluation of schemes. (8.32)

17. We consider it feasible for the lead bank to arrange for adequate technical expertise of its own in its lead districts. Norms laid down by the lead bank could be accepted by other institutions more or less in the same manner as those of the ARDC are accepted by all participating banks ; and it is possible to envisage an arrangement by which a financing agency utilises the services of technical personnel of lead bank on payment basis for specific items of work. Such an arrangement could be temporary till the agency builds up its own staff. (8.35)

18. The aim should be to change the role of Lead Bank gradually from one of competition with other lending agencies in the district to that of servicing in the form of preparing area specific credit schemes in collaboration with district administration and other banks and prepare banking plan for each scheme providing for participation of concerned banks/local credit institutions in its implementation. (8.35)

19. The availability of facilities from the state governments should be reviewed from time to time in DCC meetings for their improvement. (8.36)

20. We recommend that the functions currently performed by the RBI in regard to DCP and DCC should continue with the RBI itself. NABARD, on its part, may appoint officers who should, besides their other responsibilities, be members of DCC and provide feed back to NABARD on implementation of rural development programmes. (8.37)

#### CHAPTER 9 : SUPPORTING SERVICES AND RELATED ACTION FOR SUCCESSFUL RURAL LENDING

1. There should be a close tie-up between technological extension and the disbursement of credit and it is the responsibility of the government to ensure such a tie-up by suitably deploying the exten-

sion personnel and adopting a 'compact area' or 'compact group' approach. (9.4)

2. Merely having the extension staff in position is not sufficient. They have to be trained from time to time so that their knowledge is kept up-to-date since technology is moving faster than the accumulation of knowledge by the extension staff at the village, block and district levels. (9.5)

3. Problems relating to input supplies which are beyond the scope of credit institutions should be taken up and solved by the state administration at the district or higher levels. (9.8)

4. While drawing up a programme for development and regulation of markets, priority should be accorded to primary rural markets which are more accessible and hence important to the smaller producers. Development of primary rural markets should be made an essential element of integrated rural development. (9.9)

5. As linking of credit with institutional marketing, as now obtains, suffers from several loopholes, organisational and otherwise, there is urgent need to plug the loopholes through legislation and governmental action. (9.11)

6. A great deal remains to be done to ensure that market intelligence is supplied promptly to the rural producers operating in smaller markets. (9.14)

7. Rural electrification schemes should be drawn up more realistically. They should take into account availability of water, cropping pattern, application of modern inputs and other factors so that credit extended is better utilized. (9.15)

8. Considering that unrecorded tenancy is widely prevalent in some areas, the state governments have to take corrective action without further delay if they are serious about the uplift of these target groups. (9.17)

9. Making land records up-to-date is the first task if agricultural pass books are to be of use, and this is squarely the responsibility of the state governments. Secondly, it has to be ensured that the entries in the pass book are updated on a regular basis on the occurrence of every relevant event. (9.19)

10. The pass books now being issued by some commercial banks to their borrowers belonging to target groups, indicating particulars of loans taken and repayment of instalments due, should be further improved to include all relevant data so as to serve as safeguards against malpractices. (9.21)

11. Apart from bringing the land records up-to-date, the following are some other areas in which administrative support of the state governments is essential for successful deployment of credit: registration of documents, arrangements for retrieval of information, scientific assessment of damages resulting from natural calamities, administration of the appropriate Act for quick recovery of loans, and above all, the creation and maintenance of congenial climate for recovery and recycling of funds. (9.22)

#### CHAPTER 10 : AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION

This Chapter reviews the working of the ARDC since its inception in July 1963. The recommendations of the Committee regarding the ARDC are given in Chapter 12.

#### CHAPTER 11 : RESERVE BANK AND RURAL CREDIT

This Chapter surveys the role of the RBI in the field of rural credit. The Committee's recommendations on the national level arrangements in this regard are made in Chapter 12.

#### CHAPTER 12: RECOMMENDATIONS ON NATIONAL LEVEL INSTITUTIONS

1. The Committee considered the desirability and feasibility of establishing a national bank for rural development in the light of integrated rural development. It studied the views expressed by the All India Rural Credit Review Committee (RCRC), the Administrative Reforms Commission, the Banking Commission and the National Commission on Agriculture. (12.6)

2. The reasons against having a separate national level bank for agriculture and rural development had been spelt out lucidly by the RCRC. On an examination of these reasons, the Committee felt that there is a need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development. (12.12)

3. We are convinced that the balance of advantage, in the present context, lies in the setting up of a national level bank with close links with the RBI. We envisage the new bank as an exercise in decentralisation, while the essential controls are retained where they belong, viz., the RBI. (12.12)

4. Further, we envisage the role of the RBI as one of spawning, fostering and nurturing the new bank, somewhat in the same manner as the ARDC. We would cast a special responsibility on the RBI to develop the new institution, which in our view is a logical step in the organisational evolution of the RBI itself. (12.12)

5. The new national level institution we are recommending for integrated rural development may take over from the RBI the existing refinance facilities for rural artisans and village industries and expand them as suitable. Such an arrangement would, no doubt, lead to certain amount of overlapping, if and when the Development Bank for Decentralised Industries comes to be established. The matter can be reviewed at that stage, primarily as a problem of co-ordination and sorted out through mutual understanding and adjustment. (12.13)

6. The new institution be named as the National Bank for Agriculture and Rural Development (NABARD). (12.14)

7. The functions of NABARD would be as listed in para 12.15. (12.15)

8. NABARD will be the refinancing agency for the entire rural credit system. Monitoring the use of funds given to this system is better done by NABARD itself. Being an institution within the RBI complex, the statutory inspection of co-operative banks and RRBs may also be taken up by NABARD on an agency basis. The RBI can take occasional test inspections of these banks with a view to satisfying itself that their operations are being carried out in conformity with the provisions of the Banking Laws. (12.17)

9. The related items of work such as collection of annual statistics relating to the Co-operative Movement in India and also 'Review of Co-operative Movement' done by the RBI may be taken over by NABARD. (12.18)

10. If NABARD finds that the institutional credit arrangements in a particular area or for a particular purpose are not coming up as fast as they should, it should then certainly undertake direct lending to the public development corporations such as forest development corporation for productive and commercially viable activities. (12.19)

11. The question of widening the scope of activities of NABARD may be reviewed after NABARD completes five years of its operations. (12.20)

12. The functions listed in para 12.15 imply that several items of work at present attended to in the ARDC and the different departments of the RBI such as Agricultural Credit Department, Department of Banking Operations and Development, Rural Planning and Credit Cell will have to be transferred to NABARD. (12.21)

13. The more important of the close links of NABARD with the RBI envisaged by us are:

(a) The RBI may own 50 per cent of share capital of NABARD and the remaining 50 per cent may be owned by Government of India only.

(b) The Board of NABARD may be a nominated Board of not exceeding 15 members and 3 directors excluding the Chairman may be from among the directors of the Central Board of the RBI.

(c) A Deputy Governor of the RBI should be appointed as Chairman of the Board.

(d) The Managing Director should be appointed by the Board after consultation with the RBI. (12.24)

14. The authorised and paid-up capital of NABARD may be Rs. 500 crores and Rs. 100 crores, respectively, owned equally by the RBI and Government of India. In view of this share holding arrangement, there is no need for payment of a minimum dividend. There should also be no difficulty in exempting NABARD from the payment of income-tax as there would be no private shareholders. (12.25)

15. While NABARD should be free to recruit its own staff, and would be administratively independent of the RBI, to begin with the per-

sonnel connected with the items of work transferred to NABARD will provide the nucleus. The legitimate interests of such staff will have to be safeguarded. (12.26)

16. As regards resources for term lending operations by NABARD, the existing arrangements obtaining in the ARDC should continue. (12.27)

17. There should be an enabling provision for NABARD to receive deposits from the SCBs, LDBs as also other deposits such as those accruing incidentally in the business of NABARD. (12.28)

18. Regarding funds required for providing short-term/working capital loans for agriculture and rural development, NABARD has to depend on borrowings from the RBI which should fix aggregate credit limits in favour of the new bank for various purposes in place of the present practice of fixing a separate credit limit for each one of the SCBs/CCBs, RRBs and commercial banks. The RBI may stipulate specific conditions as are felt desirable from the point of view of effective enforcement of its overall monetary and credit policy, separately for each of the three components of the rural credit system, *viz.*, co-operative banks, RRBs and commercial banks. The operational details including the fixation of limits for individual banks in these three categories should be left to be decided by NABARD. (12.29)

19. There is no need to stipulate any borrowing limit for NABARD. (12.30)

20. The proposal for establishment of a National Co-operative Development Bank (NCDB) mooted by the co-operative movement has been considered by us. With the adoption of multi-agency approach, the commercial banks together with the RRBs have also started financing agriculture and rural development on a massive scale. Besides the RBI's National Agricultural Credit Funds are not meant exclusively for the use of co-operative credit institutions. NCDB, in our opinion, would only add one more tier and add to the cost of retailing agricultural and rural credit. Further a national bank in the co-operative sector has to be controlled by a national law and since Co-operation is a state subject, it is yet to be discussed how far this is feasible. All these issues have to be considered separately as the problems of the co-operative movement and not merely as problems of credit dispensation for agriculture and rural development. Whether

the hierarchical system envisaged would be able to maintain the needed discipline over the loan business is also doubtful. Moreover NABARD will be largely for the co-operatives as most of the lending activities in rural sector will continue to be routed through the co-operatives. (12.33)

#### CHAPTER 13: ROLE OF AGRICULTURAL FINANCE CORPORATION

1. The AFC which started as a financing corporation in 1967 refrained from making direct finance in 1970 and has since concentrated on consultancy work. (13.8)
2. The National Commission on Agriculture (Interim Report, 1971) and the Banking Commission (1972) were not in favour of continuing the AFC as a separate entity and suggested its merger with the Agriculture Development Bank of India/ARDC. This created uncertainty about its future. (13.15)
3. During the period between 1968 and 1979, the AFC prepared 951 projects. However, information is not available as to how many of these have been able to attract finance and have been implemented. (13.20 and 13.26)
4. Of late, the AFC has been doing, in a limited way, consultancy work abroad also. (13.36)
5. The majority of owners of the AFC, whom we consulted, were in favour of it continuing as a separate consultancy organisation and specialise in certain fields. We agree with this. (13.40 and 13.41)
6. Area development scheme preparation falls in the domain of the state governments who would like to use the AFC direct and transact with it as an independent organisation. The advantage to the banking system is that the involvement of the AFC in the preparation of such area development schemes will facilitate induction of much needed banker's angle in the bankable components. Thus, the AFC, remaining independent will be able to bring to bear its influence for favourable reaction from governments and banks towards each other. (13.43)
7. As for the ARDC/NABARD, it should commission the AFC for development of projects of a particular type or for a particular area

or for both. The ARDC/NABARD can also assign to the AFC, jobs in areas covered by RRBs who on their own cannot afford to employ the AFC. Besides, ARDC/NABARD can utilise the AFC for developing innovative projects with a view to expanding its field of lending. (13.44)

8. Consultancy experience in foreign countries helps preventing the institution from becoming insular in its approach and therefore should be welcomed. An independent AFC with close links with the ARDC/NABARD will be able to compete better for foreign consultancy assignments. (13.45)

9. There is need to redefine the specific role which the AFC has to play in respect of certain areas and for certain purposes, and particularly in pockets of poverty. Also the AFC has to cater to the consultancy needs of rural artisans and cottage industries. (13.46)

10. The AFC cannot remain a captive organisation of commercial banks but has to assist the co-operative sector also. (13.46)

11. The ARDC/NABARD should lend support to the AFC and for this purpose, there must be a method to ensure that the work undertaken by the AFC is, by and large, acceptable to the former. (13.47)

12. We suggest that the ARDC/NABARD as financier should lay down (i) the basic criteria for programmes that have been developed widely so far and (ii) in new areas fix in advance, after discussion with the AFC, the criteria that will satisfy them. When the AFC has observed these criteria in the formulation of projects, it is hoped that the detailed scrutiny of projects by the ARDC/NABARD will not be required. (13.47)

13. We notice that the Corporation's major earnings came by way of interest on deposits and that only 20 per cent of its earnings came from the consultancy services rendered by it. In view of the need for the AFC to increase consultancy business, continue to be innovative in its efforts and provide its consultancy services to co-operatives and RRBs, we feel that the present capital structure of the Corporation should remain unaltered. (13.48)

14. Lastly, in line with its redefined role, we suggest that the Corporation be renamed as Agricultural Finance Consultants Ltd. (AFC). (13.49)

#### CHAPTER 14: STRUCTURAL PROBLEMS RELATING TO CO-OPERATIVE CREDIT SYSTEM

1. In our view, the need for an organisation like the SCB at the state level arises for the following reasons: (a) a leader at the state level is necessary for the co-operative movement to look after the development of credit as well as non-credit co-operative institutions, (b) a state level bank is required for strengthening CCBs and PACS to face the new challenges, (c) deposits at the state level, from sources not easily accessible to CCBs, are to be attracted, (d) non-agricultural credit needs of co-operative institutions can be best met through a state level bank and (e) as a link between the lower tiers of the structure and the higher financing agencies like the RBI/NABARD a state level bank is necessary. (14.4 to 14.6)
2. The CCB is meant to be the leader of the co-operative movement in the district of its jurisdiction and in this sense its role is somewhat analogous to the promotional and developmental role of the SCB at the state level. (14.8)
3. The local needs and aspirations find expression through the non-official management of CCBs which can ensure that the functioning of the banks is attuned to satisfy these needs. One of the important functions of a co-operative bank is the mopping up of rural savings for involvement in lending operations and elected directors of a central co-operative bank are required to wield their influence for resource mobilisation. (14.9)
4. Co-operatives cater mainly to the requirements of rural credit, which being of a diverse nature, can entail a certain amount of risk unless closely tied to local capacities to utilise the credit productively. Hence there is need for a close and continuous supervision of credit and this can best be undertaken by those who have an intimate knowledge of, and close contact with, the borrowers. The elected directors of CCBs should be able to make an assessment of needs, evolve appropriate loaning policies and procedures and supervise the end-use of credit and ensure prompt recovery of dues (14.9)
5. Even if the co-operative credit structure at the middle level were to be abolished, the SCBs will necessarily have to establish a branch network for serving PACS. Branch Advisory Committee may have to be set up by the apex bank. Hence savings in costs if any may only be marginal but as the RBI Study Team on Kerala pointed out,

such a nominal reduction in the interest rate charged to the ultimate borrowers should not be the deciding factor as other considerations justified the continued existence of CCBs. (14.9 and 14.10)

6. The unfortunate fact that some CCBs have not in the past performed some or all of these functions as well as they might, does not take away the value of these functions. It only pinpoints the need for analysing the causes for the deficiencies of CCBs concerned and for devising suitable measures. (14.9)

7. It is necessary to have a unit at the district level for efficient and effective management of operations in the field of co-operative credit, in view of their growing magnitude and complexity. Effective co-ordination with other institutional agencies under the DCP also points to the need for a district level unit. The experience of RRBs also shows the functional relevance of decentralised banking at the district level. (14.12 and 14.13)

8. We are of the view that the three tiers are three functional components of a single structure of co-operative credit and a part cannot be removed without impairing the structure as a whole. Hence, in our opinion, while a two-tier structure (*i.e.* SCB and PACS) may be continued in smaller states and Union Territories, the three-tier structure could remain as the general pattern for bigger states. (14.15)

9. Where any component of the structure has developed serious organisational or operational weaknesses and has proved to be a hindrance to the smooth flow of credit, changes will have to be made in the set-up. Our specific recommendations regarding the arrangements to be made in areas where credit flow is choked are as under:

- (i) Where the non-functioning of any particular tier is due to external factors, these factors should be removed.
- (ii) A quick analysis of weak CCBs may be made with reference to the flow of credit, recovery performance etc., to identify areas where credit flow is choked by their existence. In such cases, we would recommend that the SCB may open its branches in the concerned district and undertake direct financing of PACS.
- (iii) Where the working of CCB can be improved, if concerted efforts are made, the bypassing of the institution may be resorted to

as a transitional measure, and vigorous steps taken to place it on an even keel.

(iv) A more detailed examination of the financial position of CCBs may then be undertaken. Where the functioning of a particular CCB has been jeopardised to such an extent that the possibilities of its rehabilitation within a reasonable period of time, say five years, are remote, the liquidation or merger of the CCB with the SCB may be resorted to.

(v) Where the CCB is to be liquidated, the SCB may consider the sponsoring of a RRB as an alternative to the extension of its own branch network and serve the PACS through it. (14.16)

10. There can be, and there is, no difference of opinion that a synchronous flow of production credit and investment credit for all activities covered by the integrated rural development approach has to be ensured. (14.17)

11. The Hazari Committee recommended the integration of the ST and LT co-operative credit structures. So far, no consensus could be reached on this matter in the co-operative movement. However, the suggestion of that Committee to use PACS for channelling LT loans has been generally accepted. (14.21 to 14.25)

12. The views of SLDBs and SCBs and their national level organisations are not in favour of changing the present structural pattern of co-operative credit. In our view, a dogmatic approach and imposition of a decision from above would defeat the purpose for which integration is proposed *viz.*, integration of two types of credit. Forced integration of institutions would not only go against the democratic character of the movement but might also result in the overall shrinkage of credit due to the choking of channels and the inadequate expertise for handling diverse problems. (14.30)

13. The primary co-operative credit structure is not yet attuned to serve as a multi-purpose credit agency. Whereas the primary level will have to learn about the management of multi-purpose credit system and develop the expertise for this purpose, this level will not be involved in the broader terms of organisation and innovations in the lending system. This will have to be taken up at the higher level. (14.31)

14. At the higher level, CCBs have not yet developed the criterion for multi-purpose lending for production. This tie-up of a production programme with some capital investment of medium-term nature is itself an expert job for which CCBs have yet to train and equip themselves. It is desirable that this role is given to CCBs squarely and they are asked to build up expertise within a stipulated time before asking them to handle still longer term investments. (14.32)

15. Long-term lending has also to be diversified and innovative particularly for increasing the capital resources of the poorer sections. Building up this expertise and developing these programmes through pilot studies and pilot experiments before LDBs establish the norms for long-term lending in these directions, will itself be a long-term effort. (14.32)

16. In all our planning of organisations, an attempt to bring under one organisation multifarious responsibilities, which in their nature are difficult for a single organisation to grasp, has to be avoided. It would often be preferable to have more than one organisation for different purposes and arrange for co-ordination of those organisations so that all of them work together towards given management objectives. We feel that this concept will be more suitable than integration of structures in the present state of development of co-operative institutions and the consensus of co-operative opinion. (14.33)

✓ 17. We agree that a beginning may be made at the primary level for integration of credit by making the PACS, the organisation for retailing of all types of credit. We do appreciate that taking into account the present stage of the development of PACS, it may not be feasible to straightaway introduce such a scheme all over the country. The scheme may be initially started on a pilot basis in selected areas which are served by societies having a whole time trained secretary, competent management and a satisfactory balance sheet. Broadly, the functions in respect of long-term credit to be undertaken by the societies will cover collection of applications, their preliminary scrutiny, disbursement of loans and the supervision and recovery thereof for which commission may be allowed by LDBs to cover the cost of such services. Moreover, the PLDBs/branches of state LDBs should also send to the concerned PACS the list of their loanees so that the latter could be enrolled as their members, if they were not members already, so as to meet their requirements of production credit. (14.34)

✓ 18. We suggest that the RBI/NABARD may issue guidelines for the selection of PACS, the fixation of commission, the training of secre-

taries and other details and monitor the scheme closely in consultation with state governments and the higher level institutions concerned. (14.34)

19. A point which merits serious consideration is whether any rigid distinction needs to be maintained between the credit disbursed by the short-term and long-term structures in the present situation. In fact, it would be more logical to classify credit into two categories, production credit/working capital credit and investment credit. (14.35)

20. The RBI cannot, under its statute, provide funds for periods longer than 5 years. The funds required for the LDB structure have had to be raised from the market or more recently from IDA through GOI. Institutional specialisation based on such temporary and tenuous grounds need not be continued after the establishment of NABARD which will be competent to handle both types of refinance. Thus, we feel that there should be facility for PACS and their higher level bodies to advance loans upto seven years. Similarly, the long-term structure may be permitted to provide loans for periods of 3 years and above. We recommend that suitable provisions be made by the state government in their Co-operative Societies Acts, for the purpose. (14.35)

21. We note that the ARDC has started providing ST credit with LT loans in some cases. Following this, wherever necessary, LDBs should be allowed to handle short-term credit as part of project lending, that is, as a composite loan. In our view, this arrangement may be the best arrangement under the circumstances. The nature and magnitude of the present credit needs are such that each structure can continue to play its useful role provided it keeps an eye on the functional co-ordination. Each structure has to build up its expertise in such a way that they are complementary to one another. One can even conceive of an informal body of the two institutions at the state level to ensure attention to common problems and co-ordination of different activities such as supervision and recovery of loans. Such a body may help to achieve the main objectives of integration of investment lending with production lending without necessarily bringing the two structures under one management. (14.36)

#### CHAPTER 15: EFFORTS TOWARDS OTHER IMPROVEMENTS IN SHORT-TERM CO-OPERATIVE CREDIT STRUCTURE

1. The rehabilitation programme launched by the Reserve Bank of India, in 1971 to rehabilitate weak CCBs has not been implemented

in all its facets by all concerned. Consequently a number of them are still considered as weak banks. In the changed context, CCBs have to be not only an effective channel for flow of funds for a much wider range of purposes than hitherto, but have also to improve their own capacity as well as that of the PACS to cover the target groups not only in respect of agriculture and allied activities but also cottage and village industries and other avenues of self-employment. In our view, therefore, the focus has now to shift from one of rehabilitation of 'weak' CCBs to one of developing CCBs into capable district level institutions to undertake a wide range of functions. (15.7)

2. Since rural development programmes are being undertaken in all the development blocks in the country and financing of all the beneficiaries under the programmes would involve some risks to the financing institutions, the adequacy of existing arrangements to cover the risks to be taken by CCBs and PACS should be examined and adequate arrangements made to cover the risks by additional contribution to their risk funds, or, if possible, by bringing them within the scope of the Deposit Insurance and Credit Guarantee Corporation. (15.8)

3. In the light of the new tasks and responsibilities devolving on them under the district credit plan and the integrated rural development approach, CCBs will have to strengthen their technical staff for different types of activities. Each CCB will have to review the technical staff needed. Keeping in view the above aspects, we recommend that the state governments and SCBs should prepare action plans for strengthening CCBs. (15.9)

4. The economic viability of the investments can be improved only when raw material supplies and marketing arrangements are taken care of. In so far as co-operative credit is concerned, CCBs will have to use their influence as financiers for bringing together co-operative agencies in charge of supply of raw materials and marketing of products on the one hand and producers' co-operatives, on the other. For this purpose, we recommend that the development wings of CCBs should be appropriately equipped/strengthened. (15.10)

5. In recent years, there has been an increasing trend towards officialisation of the co-operative management by deputing government officials to hold top level positions of chief executives and key personnel in the banks. Large scale deputation of government staff to the banks on a continuing basis can hardly be conducive to the

efficient functioning of these institutions. While the state governments should provide necessary financial and administrative assistance for development of co-operatives, it is felt that their role should not ordinarily extend to manning most of the key posts by government personnel. (15.11)

6. The progress of deposit mobilisation and loan business of CCBs discussed in Chapter 4 has shown that many CCBs have graduated to a level where they should have their own well-trained professional management, supervisory staff and technical personnel. Although in some states there is an awareness of this need for professionalisation of management in CCBs, much remains to be done in all the states. (15.12 and 15.13)

7. While a large number of banks have availed themselves of the training facilities provided by the training colleges and institutions in the country for their staff, what seems to be lacking in respect of professional management in the CCBs is a well thought-out and systematic recruitment policy for staff of various categories and the building up of a cadre of co-operative banks' staff consisting of key personnel and other officers. In the absence of such a policy and a proper mechanism to give effect to it, the best available talent is not always attracted to CCBs. (15.14)

8. Despite the fact that the idea of a cadre for the co-operative banks was mooted by the Rural Credit Survey Committee as far back as in 1954 and despite persistent efforts, the idea of creation of a cadre has not caught on. In the circumstances, we would reiterate the importance of the creation of a proper cadre of professional personnel and urge the state governments to take necessary steps to bring into being such cadres and ensure professional training for the encadred personnel. If in the meantime, government officials are required to be deputed to the banks on a temporary basis, it should be ensured that the officials are properly oriented and trained for the tasks entrusted to them. (15.15 and 15.16)

9. In the light of the recommendations regarding the tasks to be performed by the ground level delivery system and the tasks to be performed by CCBs, there is need for organisational restructuring as well as strengthening of the existing staffing arrangements in many of CCBs. We recommend that CCBs may undertake the restructuring on the lines of the organisational profile given below under which

there must be six divisions under the overall charge of the Managing Director. These are:

- (1) Planning and Development Division under a Development Officer;
- (2) Operations Division under an Executive Officer;
- (3) Accounts Division under a Chief Accountant;
- (4) Monitoring Division under a Monitoring Officer;
- (5) Technical Division under an Executive Officer (Technical);
- (6) Administrative Division under a Manager. (15.17 and 15.18)

10. Reference has been made in Chapter 4 to some of the damaging results of politicisation of the management of co-operatives. If co-operative credit institutions are to function as autonomous bodies and implement effectively national policies in the sphere of rural credit, there is an urgent need for a national consensus amongst political parties to cry halt to politicisation of the co-operatives. As an immediate measure, a vigorous educational programme should be launched to see that office-bearers and members of co-operatives are adequately educated regarding their obligations and responsibilities towards their organisations. Taken up on a sufficiently large scale, a programme of this kind should help develop genuine co-operative leadership. The National Co-operative Union of India may be the appropriate agency for taking initiative in this matter. (15.19)

11. Supersessions of boards of SCBs and CCBs have been ordered often to serve the political ends of the powers that be. The Banking Regulation Act, 1949 (As applicable to Co-operative Societies) places certain duties and responsibilities on the RBI. Obviously, RBI cannot discharge these responsibilities satisfactorily if under colour of law and by application of a State Act, the managements of co-operative banks are changed arbitrarily. The question of law apart, the RBI has a large stake as lender. With a view to preventing politically motivated summary dissolutions of the boards of co-operative banks, as witnessed in recent years, we recommend that a provision be incorporated in the Banking Regulation Act, 1949 (As applicable to Co-operative Societies) making it obligatory on the part of the state government to seek prior consultation with the Reserve Bank of India when it proposes to supersede the boards of managements of co-operative banking institutions. In the case of LDBs which are not covered by the B.R. Act, 1949 (As applicable to Co-operative Societies), the RBI/NABARD should make it a condition for providing financial assistance that supersession of the board of manage-

ment of the concerned LDB should be only with the prior consultation of RBI/NABARD. It would indeed be appropriate if at the same time, the Co-operative Societies Act in each state is also suitably amended making it incumbent on the state government to have prior consultation with the Reserve Bank before resorting to supersession of the boards of management. (15.20)

12. The relatively high cost deposits mobilised by SCBs, on the one hand, and the liberal concessional refinance linked to providing loans on easy terms, on the other, have given rise to problems of management of resources. Representations have been made to us by some of the SCBs that they have been facing a problem of surplus funds which they are unable to utilise for loaning within the co-operative fold. One solution for the high cost deposits remaining surplus with some of the co-operative banks lies in their developing other co-operative business (*e.g.*, agro-processing such as co-operative sugar factories, co-operative fertilisers factories, etc.) to off-set losses arising from utilising a sizeable part of their deposits for agricultural financing. We also recommend that co-operative banks may take the initiative to enter into consortium arrangements with commercial banks for financing agro-industries, including processing units. (15.22 to 15.25)

13. Keeping in view the average interest cost on deposits, the co-operative banks should be allowed to charge higher interest on agricultural loans to large farmers compared to small farmers. For this purpose, no ceiling need be fixed on such interest rates. (15.23)

#### CHAPTER 16: EFFORTS TOWARDS OTHER IMPROVEMENTS IN LONG-TERM CO-OPERATIVE CREDIT STRUCTURE

1. We agree that the existing long-term co-operative credit structure (federal in some states and unitary in others) need not be disturbed merely for bringing about uniformity. (16.2)

2. The Committee emphasises that if LDBs are to serve as useful and effective channels of investment credit, it is squarely the responsibility of the state governments who are the guarantors of their debentures, to carry out a case-by-case investigation of loans advanced by each of those PLDBs/SLDB branches having no eligibility for fresh lending with a view to identifying wilful defaults, non-utilisation/mis-application of loans and non-completion of investments. On

the basis of such studies rehabilitation programme (as indicated in para 16.3) should be drawn up and implemented within one or two years. (16.3)

3. The Committee is of the view that an effective way of assisting the LDBs to get over the difficulty in realising the overdues is for the state governments themselves to purchase the mortgaged lands in settlement of LDB's claim and arrange to dispose them by sale or by long-term lease to identified target groups like small/marginal farmers. (16.4)

4. In the case of PLDBs/SLDB branches having restricted lending eligibility also, the state governments may conduct case-by-case study for ensuring productive use of credit. (16.5)

5. If rehabilitation programme fails to achieve desired results, the state governments should not hesitate to take action for winding up the units concerned and allowing other institutions under the multi-agency system to take care of the investment credit needs of the area. (16.6)

6. In the case of SLDB branches, Branch Advisory Committees of local people may be constituted. (16.7)

7. The state governments should ensure that a major portion of interest margin between borrowing and lending rates percolates to primary level units of the LDB system. (16.8)

8. The experience of the last 8 years or so, has shown that more time is necessary for the borrowers to adjust themselves to the shorter tenure of loans and the consequent increase in the amount of instalments of repayment. It takes time for the rural borrowers to appreciate and follow the excellent purposes and concepts implicit in the lending discipline. We, therefore, recommend that the existing norms and guidelines in respect of lending disciplines of LDBs be reviewed immediately by the ARDC/RBI in consultation with the GOI in the light of past experience and realities in the field. (16.16)

9. We reiterate that the health of an investment lending system depends largely on the care and attention devoted to appraisal of investment proposals, systematic follow-up after sanction and prompt recovery of dues. The state governments should ensure that LDBs are equipped for these purposes. (16.17)

10. The diversification of lending by LDBs has to be two-pronged—one in the direction of financing such land based activities as plantations, sericulture, horticulture, pisciculture, farm forestry and the other in respect of non-land based purposes like dairying, poultry, farming, piggery, sheep breeding, gobar gas plants and rural warehouses/godowns, cottage industries, rural artisans, development of market yards, etc. (16.19)

11. Technical expertise is sought by LDBs generally from the state government. If the staff concerned are to be loyal and devoted, they have to be direct employees of the lending institution. (16.21)

12. As LDBs have to play a vital role in programme lending to weaker sections, the need for improving the manpower skills at their operating levels can hardly be overemphasised. The ARDC/NABARD should quickly study this problem in depth and provide necessary support to develop the skills of the field-level functionaries of the LDB. (16.23 and 16.24)

13. In the multi-agency set-up of rural finance, rigid classification by the period of term loans is no longer expedient. Hence, the statute should be suitably amended to enable LDBs to provide all kinds of term loans including composite loans. (16.25)

14. With the increasing accent on financing non-land-based activities, the concept of security has to shift from 'land' to assets created/acquired out of the loan. (16.26)

15. For eliminating undue delays arising from time-consuming procedures, the ARDC/NABARD should examine improvements made in some states (Orissa and Rajasthan), for evolving appropriate guidelines in this regard. (16.27)

16. There is a need for devising in the LDBs a procedural system that will allow for variations and adjustments in loan quantum depending upon investment specifications and actual outlay involved including cost escalations on account of price rise during the period of execution of the investment programme. (16.28)

17. The appropriate procedure for disbursement of subsidy would be that the amount of the loan should be exclusive of the quantum of subsidy and the subsidy made available to the borrowers should

be released by development agencies to the lending institutions sufficiently in advance of the disbursement of the loan, so that the latter could disburse it to the borrower along with final instalment of loan for purpose of completing the investment. We urge upon the state governments to ensure compliance with this procedure. A review of the quantum and other aspects of subsidy is necessary. (16.29)

18. In regard to loan repayments, the duration of grace period should be sufficiently long to facilitate repayment out of incremental income generated. This calls for study on a continuous basis by the ARDC/NABARD of the existing terms and procedures to improve them further. (16.30)

19. The SLDB should have an "Evaluation and Monitoring Cell" with adequate staff so as to ensure that resources routed to primary level units are utilised productively and mid-course corrections are effected if required. (16.33)

20. Programme lending, to be productive requires co-ordinated arrangements for supply of necessary physical inputs like cement, electric power, transmission lines, diesel oil, etc., in the case of minor irrigation, quality breed for dairy and poultry, etc. It is the responsibility of the state governments to ensure this. The District Consultative Committee should be used by LDBs to co-ordinate their work with the concerned departments of the state governments in this regard as described in Chapter 8. (16.34)

21. LDBs should invariably provide production finance along with term loans for activities such as plantation, sericulture and poultry. In cases where such composite loans are not to be given, LDBs should ensure that the concerned borrowers become members of PACS and are provided with production credit. If, as recommended earlier, PACS begin to act as agents of LDBs, this process will be greatly facilitated. (16.37)

22. The LDBs Federation may start a dialogue with the representatives of the short-term co-operative credit structure and the state governments to decide the details of co-ordination arrangements as indicated by us in Chapter 14. (16.38)

23. The high level of overdues, if unchecked, may eventually destabilise the entire long-term credit structure. This calls for sustained,

earnest and serious efforts in planning and executing the recovery drive in a concerted manner. Apart from strengthening the machinery for effective post-credit follow-up, the SLDBs should set up a "Recovery Cell" manned by adequate staff to programme and monitor recovery operations. Other steps we visualise include : purchase of mortgaged lands by government, policy of positive assistance by government and active involvement of non-official office-bearers of LDBs in recovery work. (16.39)

#### OTHER RECOMMENDATIONS

1. In the Interim Report, we had stated that the NAC (LTO) Fund and the NAC (Stabilisation) Fund should remain with the RBI as at present. However, on re-examination of the issue at the time of drafting of the NABARD Bill, we felt that keeping these Funds with the RBI and asking NABARD to present its drawal proposals every time may lead to avoidable delays, inconvenience and confusion of roles. Hence, these two Funds should be transferred to NABARD and form part of the National Rural Credit (LTO) Fund and the National Rural Credit (Stabilisation) Fund, respectively, to be constituted and maintained by NABARD. We have also recommended that the RBI may make annual contributions to the two Funds to be constituted by NABARD. Besides, NABARD would also make such annual contributions to these two Funds as it may be in a position to do. (1.12)
2. As regards urban co-operative banks, the Committee thought it more appropriate to exclude them from the jurisdiction of NABARD as these banks do not play a significant role in rural credit. (1.13)