REPORT

OF

THE HIGH-LEVEL COMMITTEE ON AGRICULTURAL CREDIT THROUGH COMMERCIAL BANKS

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Foreword

It was a privilege to be asked to head the RBI Committee on agricultural credit. I have approached the subject as a practical administrator, balancing the view point of the farmer for adequate and timely finance, and that of the banker for a viable loan portfolio. Travelling through various parts of the country and meeting farmers, bankers, extension workers, district officers and others in the field has been a learning experience and I have understood some of what is happening in the agricultural sector.

I have received full cooperation from Governments as well as banks and great care has been taken to plan the field visits in a purposeful manner. I have been helped very considerably by the sound counsel and advice of Shri Y.S.P. Thorat of the Reserve Bank of India, who took time off from his sabbatical to accompany me on some of the tours, and also helped me to formulate many of the views which form a part of the report. I would like to place on record Shri Thorat's outstanding contribution. I would also like to acknowledge the contribution of all others who have helped in making my task worthwhile.

April 21, 1998 *R.V. Gupta*

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CHAPTER 1 INTRODUCTION

BACKGROUND

1.01 There has been an increase in the flow of credit to the agricultural sector from Rs.11,202 crore by all agencies in 1991-92 to Rs.28,653 crore in 1996-97, and to an estimated Rs.34,274 crore in 1997-98. This has been possible on account of more refinance extended by NABARD to rural financial institutions, Reserve Bank's increased support by way of General Line of Credit to NABARD for short-term credit and the introduction of Special Agricultural Credit Plans by commercial banks for this sector. The Reserve Bank has played a central role in motivating commercial banks to place a special emphasis on agriculture. In spite of these initiatives, there is a perception that investments in agriculture have not kept pace with demand.

1.02 In the context of the priority accorded to agriculture, and also to give an impetus to the flow of credit, the Reserve Bank of India set up a one man High Level Committee of Shri R.V.Gupta in December 1997 to suggest measures for improving the delivery systems as well as simplification of procedures for agricultural credit. The Committee's mandate was to identify the constraints faced by commercial banks in increasing the flow of credit, introducing new products and services, and simplifying procedures and methods of working with a view to enabling rural borrowers to access adequate and timely credit from the commercial banking system.

1.03 The Committee was asked to visit select branches and regional offices of commercial banks, get a feedback from agriculturists, farmer - borrowers, agricultural scientists, extension workers as well as field level staff and make proposals for further initiatives that could be taken by commercial banks for streamlining the delivery of farm credit.

TERMS OF REFERENCE

1.04 The terms of reference of the Committee were as follows:

1. To study the working of the credit delivery system for agriculture through field level interaction with farmers, agriculturists, borrowers of commercial banks and bank staff and analyse the constraints in the flow of such credit to the farm sector.
2. To make suggestions for simplification and improvements in systems and procedures including reduction in paper work for delivery of farm credit.
3. To make proposals on other initiatives that may be taken by commercial banks to facilitate credit delivery to the farm sector.

TIME FRAME

1.05 The Committee was required to give its recommendations to the RBI by March 1998. In view, however, of the announcement of elections to the Lok Sabha, the Committee was required to reschedule its field visits to some States. As a result, the Committee was granted extension of time upto the end of April 1998 but submitted its report on April 21, 1998.

STRUCTURE OF THE REPORT

1.06 The report consists of seven chapters:

- The first chapter deals with the Committee's terms of reference and related matters.
- The approach formulated and the methodology adopted by the Committee are dealt with in the second chapter.
- The third chapter briefly reviews recommendations made by earlier Committees on the subject.
- The fourth chapter presents an overview of policy.
- The fifth chapter deals with the present arrangements for agricultural credit.

- Chapter six delineates the Committee's views on various operational and procedural issues including simplification of documentation, suggested financial products and supportive measures.
- The seventh chapter sets forth the Committee's recommendations on major policy related issues.
- In order to facilitate the reading of the report, a summary of the major recommendations has been added at the end of the report.

ACKNOWLEDGEMENTS

1.07

The Committee would like to acknowledge its gratitude to :

- Farmers from different States who met the Committee and gave it the benefit of their sound counsel and advice.
- Officials of the Governments of Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Uttar Pradesh, West Bengal and who interacted with the Committee and acquainted it with their views.
- Commercial banks - both public sector and private - who provided support in terms of logistics, information inputs and clarifications on various issues raised. But for their co-operation - given freely and without reserve - it would not have been possible for the Committee to complete its task in the time assigned.
- The support and input received from self-help groups and NGOs.

The Committee wishes to express its appreciation of the able assistance received from Shri J.P. Ratna Rao of Rural Planning & Credit Department, Reserve Bank of India, Central Office, Mumbai and Shri S. Ghosh, Shri D.P. Taneja and Smt. Savithri Sridhara of the New Delhi Office of the RBI and Smt. Vijaya Awati of Kolhapur in the preparation/presentation of the report.

CHAPTER 2 METHODOLOGY

FORMULATION OF APPROACH

2.01 In view of the task assigned and the short time at its disposal, the approach formulated was to obtain structured responses from commercial banks on some aspects of its terms of reference, and interaction with farmer-borrowers, bank and Government officials, agricultural scientists, extension workers and representatives of farmers' associations in different parts of the country.

2.02 The Committee sought the views of public sector banks and select private sector banks on the existing systems and procedures for processing and sanction of loan applications as well as their perception on factors impeding the flow of credit to the agricultural sector and suggestions for improving / streamlining the same (Annex - I). Responses were received from 22 banks (Annex - II). The constraints identified, and suggestions made, were subsequently discussed at various fora and many of them have been incorporated in the report .

2.03 In order to obtain feedback directly from bank branches, government officials, extension workers, etc., the Committee visited select States in different regions of the country. In each of the States visited, the Committee followed a uniform approach consisting of meetings / interaction with:

- Farmer - borrowers both individually and in groups including associations of farmers.
- Bank staff at the branch level.
- Concerned bank officials at the Zonal & Regional level.
- Other institutions (including NGOs) connected with rural credit representing farmers' interests
- Faculty and staff of Agricultural Colleges/Universities, representatives of Extension Agencies and Krishi Vigyan Kendras.
- CMDs and senior officials in charge of rural banking / priority sector agricultural banking divisions of banks having their corporate offices in the States visited.

* Government representatives at the State and district levels.

2.04 The selection of States was on a representative basis comprising three States from the Northern Region (Punjab, Haryana and Uttar Pradesh), two each from the Eastern and Southern Regions (Orissa & West Bengal and Andhra Pradesh & Karnataka), and one each from the Western and Central Regions (Maharashtra & Madhya Pradesh).

2.05 The Committee also received representations / petitions / submissions directly from interested individuals and institutions. At certain places, individuals came forward voluntarily to tender information and advice. The inputs so received have also been taken into account while formulating the Committee's recommendations.

CHAPTER 3 REVIEW OF LITERATURE

3.01 Before addressing itself to the work assigned, the Committee undertook a quick survey of the recommendations made by earlier Committees on the subject. It noted that the question of simplification of application forms, lending procedures and information systems has come up repeatedly for consideration.

3.02 In response to the recommendations of the Regional Consultative Committee (RCC) Central Region, the Reserve Bank of India had in 1972 constituted a Committee under the Chairmanship of Shri K K Ray for simplification of application forms and lending procedures. The simplified forms recommended by the Ray Committee were adopted by commercial banks.

3.03 Later with the setting up of RRBs, a Committee was constituted under the Chairmanship of Dr C.D. Datey for devising simplified application forms suitable to the needs of the RRB borrowers

3.04 In June 1978, the Government of India appointed a working group under the chairmanship of Shri Baldev Singh for suggesting further simplification of application forms and lending procedures and introducing, at least within each State, uniform application forms and procedures as between different commercial banks. During its interaction with banks, it was reported to the Committee that the forms for agricultural loans presently in use are based, in the main, on the recommendations of this working group.

3.05 The Committee further notes that ancillary matters have also been examined by earlier working groups / committees. Thus, the working group set up under **Shri P. N. Khanna** had looked into the operational and accounting procedures prevalent in RRBs while the **Puri** Committee had made recommendations regarding tiny and village industries.

3.06 The review of earlier literature has strengthened the Committee's conviction that any enquiry into the constraints in the flow of credit to the farm sector must be approached in a holistic manner and that refinement in forms, systems, procedures and reporting formats can not by themselves lead to increased flows, unless certain other preconditions are complied with by all the agencies concerned. This Committee has, therefore, focussed on the spirit of its mandate, and approached its task in a broader perspective, dovetailing recommendations on policy interventions with changes in systems and procedures.

CHAPTER 4 AN OVERVIEW OF DEVELOPMENTS IN RURAL CREDIT

4.01 Although rural credit has been an area of policy interventions for nearly five decades, the objectives of policy have remained constant: to institutionalise credit, to enlarge its coverage, to ensure provision of timely and adequate finance to as large a segment of the rural population as possible so as to achieve anticipated growth rates in agricultural production and employment.

4.02 The Indian rural credit system as it has emerged is a product of both evolution and intervention. Till the late sixties, policy interventions in the area of rural credit were mostly confined to the co-operatives which were considered as most suitable for this work . The All India Rural Credit Review Committee pointed out that, despite the support extended, co-operatives had begun to exhibit several weaknesses in the form of overdues and organisational ineffectiveness, and were not geared for meeting the growing needs of the agricultural sector on account of application of modern technology and innovations relating to production, processing and marketing. The Committee, therefore, recommended a significantly enlarged role for commercial banks both by way of current production and long-term development.

4.03 With the nationalisation of major commercial banks in 1969, branch banking in the rural areas acquired a new momentum , and the outreach of the commercial banking system was considerably enlarged within a relatively short period.

4.04 It is now well accepted that the strategies followed resulted in certain real gains: there was a broadening of the rural infrastructure for credit delivery, increase in outreach, reduction in the influence of informal agencies as evidenced by increase in the relative share of institutional sources in the cash debts of rural households and substantially stepped-up credit flows for agriculture & allied activities.

4.05 On the debit side, quality suffered, overdues increased , repayment ethics were diluted, the recycling of resources decelerated and the profitability and viability of the institutional structure was seriously eroded . On the eve of the 1991 economic reforms, the rural credit delivery system was in poor shape.

4.06 From 1991 onwards an overall scheme of structural reforms was initiated. Financial Sector Reforms were a part of this process and included, among others, the initiation of a number of measures in the field of rural credit such as: .

- Deregulation of interest rates of co-operatives.
- Deregulation of lending rates of RRBs.
- Deregulation of lending rates of commercial banks for all loans above Rs.2 lac.
- Financial and managerial restructuring, including recapitalisation, of select Regional Rural Banks (RRBs).
- Application of the DAP MOU discipline for co-operative banks & RRBs.
- Introduction of prudential accounting norms and provisioning requirements for all rural credit agencies.
- Relaxations in the Service Area Approach.
- Setting up of specialised branches for catering to the hi-tech requirements of the farm sector.
- Widening the scope of indirect lending to the priority sector through placement of deposits with investments in the debt instruments of institutions engaged in building rural infrastructure.

- Introduction of a system of special focus for lending to agriculture by commercial banks through Special Agricultural Credit Plans (SACP).
- Increasing RBI's refinance support and capital contribution to NABARD.
- Constituting the Rural Infrastructure Development Fund (RIDF) in NABARD for upgradation of the credit absorptive capacity of the rural sector through focussed attention on completion of on-going rural infrastructure projects

CHAPTER 5 PRESENT ARRANGEMENTS FOR AGRICULTURAL CREDIT

5.01 Under the present arrangement, agricultural credit for all purposes relating to agricultural production and activities allied to agriculture whether of short, medium or long duration is provided by an extensive network of commercial bank branches in the rural and semi-urban areas.

5.02 Credit requirements for raising crops and working capital expenses for agricultural and livestock operations are extended as short-term loans or cash credit facilities while those for investment credit given as term loans for three to nine years.

5.03 The credit mechanism is operated through the rural and semi-urban branches of commercial banks within designated service areas. However, applications received from borrowers outside the service area, but within the taluka are also considered subject to production of No Dues Certificates (NDC) from other banks, co-operative credit societies, etc. The Committee was informed that in order to mitigate the hardships faced by borrowers in obtaining NDCs from various agencies, certain banks have introduced the practice of obtaining a No Dues Affidavits instead.

5.04 At the branch level, the agricultural credit portfolio is looked after by branch managers with the assistance of field officers belonging, in some cases, to a specialised and technically qualified cadre. Responsibilities at the branch level include survey of villages, assessment of demand and potential for activities to be financed, identification and counselling of customers, sanction of loans and recovery of dues.

5.05 At the Regional Level, senior managers / managers function under the overall supervision of Regional Managers, sanction loans beyond the delegated power of branch managers, assist branches in the development of agricultural business, facilitate the preparation of schemes including those eligible for NABARD refinance, finalise the Service Area Credit Plans and represent the bank at district level fora for co-ordination with other agencies.

5.06 At the next i.e. Zonal level, the agriculture credit portfolio is usually handled by a chief manager / senior manager. The Zonal Office guides the regions in sorting out local problems, sanctions loans, usually of high value, canvasses support for major projects, assists co-ordination at the SLBC / SLCC fora, liaises with Government authorities and local offices of RBI & NABARD and maintains an overall watch on the status & progress of agricultural lending and recoveries thereunder.

5.07 The Head Office deals with issues of policy and provides guidance and direction within the system and monitors and reviews the macro level flows to the sector.

5.08 Applications for seasonal agricultural operations are generally obtained directly. However, for crops where forward linkages have been established or activities which are institutionally intermediated, proposals are received through the concerned institutions / agencies. Applications under subsidy linked credit programmes are sponsored by the respective Government Departments both for production and investment purposes.

5.09 The application form is required to be supported by documents validating the information furnished. These documents broadly fall into four categories:

- Loan documents such as demand promissory note, letter of undertaking hypothecation, legal opinion, papers pertaining to collateral security mortgage .
- Documents evidencing title to land ownership / cultivation status, cropping patterns, survey map, mutation certificate
- No Dues Certificate from the revenue authority indicating that the borrower has no dues to the Government; similar certificates from the LDB, PACS and other banks and for guarantors where required.
- Activity specific certificates: These certificates are specific to the activity in respect of which loan is sought. Thus, if the proposal is for milch animals, a certificate from the village dairy society to the effect that the borrower is a member and that the society undertakes to deduct the loan instalment and remit the same to the bank; if the proposal is for purchase of an electric motor, oil engine, pump set, pipe line, tractor or other equipment, quotations from authorised dealers; if the proposal is for

digging a well, a certificate from Ground Water Survey & Development Agency indicating the water availability; if the loan is for a lift irrigation scheme, plan and estimates from professional consulting engineers, etc.

5.10 If the proposal received is found prima-facie in order, a pre-sanction inspection is undertaken to verify details regarding ownership / possession of land, applicant's residence in the area, financial status, reputation, and the technical and economic feasibility of the proposal under reference.

5.11 If the pre-sanction inspection report is positive, the eligible loan / credit limit is worked out by the Credit Officer on the basis of scales of finance approved by the 'Technical Committee' in respect of production credit and unit costs indicated by NABARD for investment credit purposes.

5.12 The case is then recommended to the branch manager who sanctions the same, if within his delegated powers, after ensuring compliance with norms stipulated in regard to security, margin, interest rates and repayment schedule

5.13 At the ground level, sanctioning powers vary from Rs.0.10 lac to Rs.4.00 lac depending upon the bank, the category of branch and the purpose of the loan. No margin is stipulated for loans upto Rs.10,000/-. For loans above that amount, margin requirements vary between 15% and 25%. The security requirements for crop loans depend upon the amount availed; for small loans upto Rs.1,000/- a Demand Promissory Note is deemed sufficient while for large loans, for example above Rs.25,000/-, farmers are required to hypothecate their crops supported by mortgage of land or third party guarantee. In the case of investment credit, the security is contingent on the nature of the assets created. Security documents vary with the type of facility and the purpose of the advance. Rates of interest for loans below Rs.2.00 lac are as per the guidelines of the Reserve Bank of India and for loans above Rs.2.00 lac are deregulated and vary from bank to bank. The repayment schedule is fixed consistent with the projected income from the proposed activity. For the purpose of crop loans, repayment period is upto the crop harvest and subsequent marketing of produce and for term loans it is in the range of three to nine years depending upon the activity undertaken by the farmer. In respect of activities involving a gestation, a suitable moratorium is provided. Certain banks have introduced a system of fixing one day a week exclusively for disbursement of loans to farmers and other priority sector borrowers. However, renewal / disbursement of crop loans and production credit is done on all working days. Borrowers are provided with loan passbooks for information regarding the status and conduct of their accounts.

5.14 The sanctioned loans are disbursed after execution of the loan documents. Production credit is disbursed in two components-cash and kind-generally in a 40/60 ratio. The kind portion for procurement of seeds, fertilisers, etc., is disbursed either by way of banker's cheque to the input dealer or paid in cash on production of cash bills. The loan amount for investment credit, alongwith margin money, is disbursed in stages depending upon the progress of work, directly to the suppliers of inputs / machinery. Post sanction visits/inspections are undertaken at prescribed periods for verification of assets, their productive use and also for recovery of dues.

5.15 The sanctions/rejections made by the branch manager are entered in a 'Reporting Register' on a day to day basis and an extract is sent to the controlling office for review purposes. Rejection of applications received from SC / ST borrowers is done at one level higher level than the branch manager. Proposals beyond the discretionary powers of the branch manager are sent to higher authorities at the Regional / Head Office levels with appropriate recommendations.

CHAPTER 6 OPERATIONAL ISSUES – RECOMMENDATIONS

6.01 In this chapter the Committee has set forth its views on the simplification of documentation and suggested indicative guidelines on the basis of which banks could devise fresh loan products for the farm sector. In the concluding portion of the chapter, a series of recommendations are made in relation to measures which are supportive for reformulating the credit delivery process.

PROCEDURE

6.02 Applications for loans are made in pre-printed forms in the regional language and supplied free of cost. The forms conform to those suggested by the Working Group on Simplification of Forms and Lending Procedures for Loans to Agriculture and Allied Activities (Baldev Singh Committee) and are required to be submitted together with supporting documents generally to the branch to which the village is attached as service area.

6.03 The loan application form has three parts. The main form is common to all types of agricultural advances and records the personal details of the borrower including his present income and expenditure as also the additional income likely to accrue from the proposed investment. The main form is supported by a set of activity purpose - specific forms such as for sinking of a new well, construction of tube well, purchase of pump-set, livestock rearing, improvement to land and buildings, purchase of tractor, etc. Borrowers are required to complete only the form related to the activity in respect of which the loan is sought. A separate form is provided for renewal of short-term loan cash credit limit.

6.04 During its interface with borrowers, it was indicated to the Committee that the loan application forms were not complicated and could be filled up without much difficulty. A suggestion that came up in this regard was that educated, unemployed youth at the village level could be considered for appointment on a contract basis by banks to facilitate the filling up of loan application forms by borrowers. While some branch officials felt that the suggestion had possibilities, others were of the view that the arrangement may lead to such facilitators demanding regular employment on the one hand and indulging in undesirable practices on the other. In the circumstances, the Committee would leave this open for consideration by banks if deemed appropriate.

6.05 The Committee is of the view that while the main loan application form is relatively simple to complete, the accompanying forms particularly those relating to investment credit are cumbersome. These forms are based, in the main, on the project evaluation approach to lending and require the borrower to furnish a large amount of information particularly relating to cash flows and other technical parameters some of which are not of much relevance for farm credit. This issue is further examined in para 6.14 of the report.

Further, the agreements and other covenants/documents to be completed are numerous and unduly complicated. Thus a borrower is required to affix his signature/thumb impression at more than two dozen places on different documents in respect of a single loan. The Committee notes that some of the banks are attempting simplification of the documentation requirements. The State Bank of India has introduced a simplified agreement form which is taken in respect of all agricultural loans where a hypothecation charge is created over the borrower's crops, machinery, implements or other movable assets. The State Bank format is at Annex – III. It is recommended that all banks examine their systems and make modifications within two months and report compliance to the Reserve Bank of India.

6.06 The Committee believes that the basis of lending should be confidence in the borrower and that the focus of such appraisal needs to shift from purely project-based considerations to a holistic assessment of the income stream of the borrower. The Committee is aware that the approach suggested requires a psychological reorientation towards the farmers and involves intensive interaction at the local level. Such interaction has to be interwoven into the duty list of branch managers together with supportive measures including residence at the duty station, upgradation of expertise for providing basic counselling and information support to farmers, better computer vehicular support and extensive training intervention

6.07 In the Committee's view, the pre-sanction appraisal and visit is an intermediate stage in the total interaction with borrowers. The object of such appraisal is to reconfirm - not establish - the status of the borrower, his credibility as perceived at the village level, his capability for taking up the activities proposed, his integrity, track record and creditworthiness and the technical viability of the proposal. In effect, therefore, the objective of the pre-sanction visit and appraisal is to establish that the borrower is better than the collateral and that the proposal is creditworthy.

6.08 As regards the disposal of applications , the general view expressed was that branch managers were fairly quick in deciding cases and delays usually took place whenever applications were referred by branch managers to their controlling offices. On further enquiry, the Committee was informed that the powers of branch managers had been revised upwards, but this was not the uniform position across states as well as banks. As a rule of thumb, the Committee recommends that at least 90 per cent of the applications should be disposed of at the branch level. Irrespective of the scale of the branch manager, if the pattern of lending so warrants, the powers at the branch would need to be modified bank managements may therefore review the position branch-wise so as to adopt this approach

PROPOSED LENDING SYSTEM

PRESENT SYSTEM

6.09 A review of the loan products offered by banks shows a mix of the traditional and innovative approaches. While production requirements are met through crop loan, crop cash credit / crop overdraft facilities and variations of the agricultural credit card system, requirements for investment credit are taken care of under various 'scheme - specific' products. Some banks offer separate facilities for meeting consumption needs on a clean basis or against security of gold silver ornaments while others are channelling small volume micro credit through the SHG NGO mechanism or other group initiative ventures.

6.10 Production credit is disbursed either as a demand loan or through the crop cash-credit mechanism. Under the former, loans are granted on a crop to crop basis against execution of fresh documents each season. The

Committee notes that some banks have developed crop cash credit schemes with varying degrees of flexibility and demand sensitivity but appear to have extended the same selectively. Under this system, borrowers are sanctioned sub-limits on the basis of standard criteria (cropping pattern, scale of finance, land holding, etc.) under an aggregate limit. Drawals on the limit are permitted either in cash through debit slips or through banker's cheques for the 'kind component'. Consequent on a sub-limit having been fully drawn, only credits are permitted into the account but no drawals are allowed on the ground that the amount required for cultivation has already been used. On making further enquiries, the Committee was informed that since farmers undertake seasonal activities and generate surplus only after harvesting and marketing of produce, the drawals are bunched at the beginning, and repayments at the end of the cropping season. Resultantly, such borrowers have no need to operate the account during the interregnum. The Committee feels that this is an oversimplification and sees no reason why farmers should not be allowed to use the limit as a regular cash credit.

PROPOSED SYSTEM

6.11 Composite cash credit limit

Under the existing system, the assumption is that the farmer would sell his crop shortly after the harvest to repay the loan instalment by the due date. For each crop the farmer would be required to make a separate application and complete the basic formalities for obtaining the same. It was represented to the Committee by farmers and bankers that the short term credit requirements must be assessed under a different methodology whereby the total family income through crop production as well as other ancillary activities must be arrived at and, based on the estimated repaying capacity, an annual limit for the family should be fixed. This limit should cover all aspects relating directly and indirectly to production including the need for seasonal as well as post-harvest/household requirements of the farmer. The Committee agrees with this approach as it is the absence of such a loan product that is responsible for farmers approaching informal agencies for meeting a portion of their credit requirements during the pre-harvest period or at other times of need.

Under the recommended system bankers would need to make a comprehensive assessment of the cropping pattern, the production and other income, and before extending such a facility take into account the past repayment record. Such limits could be provided initially for a period of one year but over time become limits set for a longer period. This limit would require to be brought to 'credit' at least once in a year. On credit balances, banks would pay interest and charge interest on the outstandings. The proposed system would be very similar to what is termed as "relationship banking" in other sectors. The advantages for the farmer are its simplicity, and for the banker, the rigour with which 'need' is assessed for provision of the facility.

6.12 The Committee recommends that the aggregate limits made available to farmers as indicated above may be counted as advances to agriculture within the definition of Priority Sector.

6.13 Investment credit

At present, investment credit is disbursed on an activity specific basis to farmers in the form of a variety of products including farm mechanisation, land development, minor irrigation, horticulture and plantation, farm forestry, production and processing of seeds, construction of cold storage, setting up of bio-gas plants, etc. for periods ranging from three to nine years depending upon the financial and economic parameters of the projects financed. For integrated projects, credit is available for post-harvest operations as well as for exports. In the main, the loan products are purpose specific, based primarily on the economics of the activity and the asset/liability, income/expenditure pattern of the borrowers.

6.14 Some minor investments of a medium term nature can be taken into account in the production credit limit described above , investments of a major nature would need a separate term loan. While production loan requirements are recurring in nature, farmers ordinarily do not make investments in equipments such as tractors or in plantation of orchards or in the digging of wells on an annual basis, and hence the procedures faced in making such applications would be sporadic and not regular. In relation to the systems followed for term lending, the forms prescribed need a thorough review as the expectations of cash flow which are provided for in the application form, are somewhat irrelevant to many of the activities undertaken and seem to be borrowed from the systems followed in lending to the small scale sector. For example, a mango orchard is viable based on expected fruit bearing capacity of the trees and this depends on the genetic quality of the plant, appropriate husbanding methods, as well as the seasonal weather conditions. What the banker requires is not an abstract cash flow but an assessment whether in the area in which such activity is undertaken, the growing of mango is or is not a profitable enterprise? This is the major aspect to be looked at and filling in of other details quite often is neither realistic nor of any assistance in assessing viability. In this context, the Committee recommends that banks may review the existing forms prescribed by them for project based activities and carry out such simplifications as may be deemed necessary on the lines suggested above. The Reserve Bank of India may appoint an expert group to finalise the new forms.

6.15 The Committee notes that farmers, even those cultivating cash crops, do not save in conventional instruments and during cash rich periods have a propensity to invest in gold, land, implements, livestock or incur expenditure of a consumption nature. As a result, farmers are generally vulnerable during times of adverse price fluctuations or natural calamities. In order to address this issue, the Committee suggests that banks may design a fully liquid savings module with an appropriate return and inbuild the same in the loan product.

SCALES OF FINANCE

6.16 The system of adoption of scales of finance for financing short-term requirements and unit costs for investment credit was reviewed by the Committee. During its interaction at the field level, a number of arguments were advanced in favour of abolishing the scales of finance unit cost system. It was argued that the scales of finance are generally fixed as a fraction of the gross yield; that actual costs of cultivation are higher - in some cases much higher - than the scales fixed; that on account of the difference between the actual expenditure to be incurred and the limits fixed by banks, farmers have to either take recourse to outside borrowings or bring in unduly large resources by way of margin requirements; that unit costs have introduced an element of rigidity in the funding of agricultural projects; that in practice the system allows no leeway to take care of variations in the individual requirements of borrowers based on factors such as intensity of cropping pattern, quality of management and nature of assets .

The Committee notes that the system was introduced at a time when there was a need to provide benchmarks for use of commercial banks for financing agricultural operations. Over time, commercial banks have developed adequate skill and expertise in financing production and investment credit and there does not seem to be any reason now to bind them - even indicatively - to such norms. Appraisal of the borrower and his requirements is an essential element of the lender's tool kit, and the time is now opportune to leave the matter to the judgement of commercial banks and it is accordingly recommended.

CASH/KIND COMPONENT

6.17 Another issue raised by farmers was that credit is disbursed only partially in cash and the payment is directly made by the banker to the supplier of inputs or the equipment purchased by the farmer. It was represented that such a system has led to distortions as the farmer's choice of dealer is restricted. This system has also led to undesirable practices, including submission of false receipts where the borrowers wish to misuse such loans. Farmers and bankers indicated that there are very few incidents of willful misuse and those wishing to do so could find a way in any system. It was also pointed out by farmers that borrowers of other categories in rural and semi-urban areas were trusted to utilise their bank limits, and no restrictions of such a nature were imposed on their operations. The Committee concurs with this view and recommends that the practice of insistence on bills and receipts be dispensed with and all loans be disbursed in cash.

NO DUES CERTIFICATE

6.18 Under the present system, borrowers are required to submit No Dues Certificate while taking loans. The ground-level position is that in many cases banks are fully knowledgeable about the track record of some of the borrowers. The imposition of this requirement in their case is both unnecessary and time-consuming .The appropriate course of action would be for the bank to satisfy itself regarding the credit status of the borrower . A No Dues Certificate should, therefore, be dispensed with as a compulsory requirement; whether or not a borrower should be required to submit such a certificate, and from which agency should be left to the discretion of the lending banker.

RECOVERY OF DUES : LEGAL ISSUES, MONITORING

6.19 Recovery of bank dues is an ongoing activity and branch managers should have a system whereby they have a list of current dues so that action is initiated to make collections before the due date. It is generally the experience that when the borrowers are approached in time, collection is satisfactory. When defaults are of such a nature that legal recourse has to be taken, the options before the banks are to proceed with a civil suit, or approach the State administration for recovery under the Agricultural Credit Operations and Miscellaneous Provisions (Banks) Act. As compared to a civil suit, proceedings under the State Acts are quicker but the system is in need of improvement. It was pointed out by bankers that the revenue administration is busy with other matters which have a higher priority and recovery of bank dues are not attended to with urgency. A solution to this has been found in some States, where dedicated teams of revenue officers look after recovery of bank dues, and the cost of such teams is borne by the commercial banks. Furthermore, a small percentage of the collections are set apart for distribution as a bonus to the revenue staff. It is suggested that commercial banks request State Governments to set apart such dedicated teams where amounts due are large enough to justify expenditure on such teams.

6.20 Overdues are a phenomenon neutral to the type of credit agency. The Committee is of the view that the emphasis over time on directed lending and the achievement of quantitative targets particularly under subsidy driven credit programmes has defocused the attention of banks from the qualitative aspects of 'genuine' appraisal-based lending resulting in loan defaults and gradual erosion of repayment ethics. The end result has been a disturbing growth in overdues which has hampered recycling of the resources of banks and eroded their profitability and viability.

6.21 While interacting with the field level staff of banks in different States the Committee observed that although more than six years have passed since the closure of the Agricultural & Rural Debt Relief Scheme (ARDR), banks continue to cite it as one of the major impediments in the flow of credit and of poor recovery even in respect of current loans. It was pointed out that the argument is fallacious, and that in respect of direct lending to agriculture where borrower identification is not restricted by the compulsions of subsidy linked credit, there should be no difficulty in quality lending .

There is however a need for the overall recovery climate to improve . The Committee suggests that banks individually and / or collectively may mount a rurally oriented field level publicity campaign projecting the issue in a positive manner reiterating that funds are not a constraint: that banks are willing to lend to all viable borrowers, and for all feasible projects; that rural deposits are the source of bank loans, and unless returned can not be recycled, and that while subsidy is a one time affair, lasting financial relationships leading to development can only be forged through the credit mechanism. The impact of such a publicity campaign, creatively and sensitively structured, would go a long way in creating a healthy environment at the ground level

6.22 The Committee went into the related question of the Recovery Rate Indicator (RRI) being used by banks for reporting purposes. The reporting mechanism divides total collections (principal & interest) during a given period by total demand, a denominator consisting of amounts falling due during the period plus overdue amounts from prior earlier periods. The present Recovery Rate Indicator, because it aggregates the old portfolio together with the new portfolio in a single summation, sheds little light on the question whether the recent lending is performing better than the old one. The use of an aggregate recovery rate also works against a proper division of management attention between collecting old overdues and managing the health of the newer portfolio. The Recovery Rate Indicator is also not disaggregated by loan product. Such disaggregation is necessary for being able to compare portfolio quality and other indicators for different categories of loans, and is an important tool for making decisions about product mix and portfolio management.

The Committee, therefore, recommends that banks should immediately redesign the system used by them at present on the lines suggested and obtain on-going data on collection ratios separately under Government sponsored schemes and direct lending together with similar information disaggregated by loan products so as to enable continuous assessment of asset quality, product mix & portfolio management.

6.23 The present system under which a branch manager receives a report on "defaulter status" between three to six months after the loans have become overdue should be discontinued. The efficacy of the recovery process lies in it being initiated by the due date and not later. For this to happen, branch managers must have a statement indicating the defaulter list for the day on the basis of which they can initiate action and monitor the results. The Committee attaches considerable importance to this issue and suggests that action in respect thereof may be completed at the earliest and reported to the RBI.

6.24 It was pointed out by field level bankers and others that in the existing system adequate provision does not exist to provide tangible incentives to farmers who are prompt in repayment of their dues to the bank. It was argued that a healthy system of recovery can be built up not only by giving a signal that defaulters will be dealt with severely, but also by placing a premium on prompt repayment. This suggestion has merit and the Committee, therefore, recommends that banks should design appropriate incentive systems including interest benefit/rebate to borrowers who repay their dues promptly. Further, in view of the savings module suggested by the Committee for being in-built into the loan product, banks may also consider providing a finer rate to borrowers who save under the product.

STAMP DUTY & MORTGAGE

6.25 An issue which needs to be considered relates to the levy of stamp duty on agricultural mortgages specifically in regard to the procedural difficulties involved and the high cost of stamp duty connected with registering a mortgage in favour of a bank. Most States levy Stamp duty on charge created / agricultural land mortgaged to a bank for obtaining a loan above a certain limit. Many of the States have either abolished such levies or granted substantial reliefs whereas others continue with high rates of such duties. It is the view of the Committee that stamp duty on agricultural loans inhibits the flow of funds to the sector by adding costs and procedures to all such transactions. The overall collection on such account is also not of such a magnitude as to cause a significant revenue loss to the States concerned .The Committee, therefore, recommends that steps be taken to abolish stamp duty on agricultural loans in all the States.

6.26 The next question to consider is the security obtained by banks, and the procedure involved in the documentation of such security. The three main methods which are examined are a simple mortgage, an equitable mortgage and the creation of a charge through a declaration backed by a personal covenant.

6.27 A simple mortgage is the method preferred by bankers but is the most complicated and expensive. As private foreclosure is not possible, banks have to go through a long process for having the lands mortgaged to them put up for auction, only to discover at the terminal stage that they are unable to find buyers in such an auction as no one usually comes forward to make a bid. Though a simple (registered) mortgage gives an apparent security, in reality the collection is dependent on other factors, the most important being the income stream of the borrower.

6.28 The second method commonly in use is mortgage by deposit of title deeds as is admissible under Section 58 F of the Transfer of Property Act, 1882. Such mortgages are possible at centres notified by the State Governments. An equitable mortgage to become effective has the following sequence: intent on the part of the borrower to create security, the deposit of title deeds with the lending institution and the sanction & disbursement of loan, the security on which is the equitable mortgage . Such an operation is fairly simple as it does not involve registration and stamp duty.

However, during the course of discussions, bankers pointed out that, as most lands in the rural areas are inherited, there are no title deeds; whereas in urban areas such a title is created either through a sale or on allotment. An anomalous situation is thereby created since an urban resident from a village purchasing five acres of land near a city has a sale deed and hence a title, whereas a cultivator of the same village is deemed not to have an original title. The facility of an equitable mortgage is available to the farmer purchasing land, whereas others have to follow different methods.

In this context, it may be stated that land records in India were finalised in recent times through 'settlements': these settlements involved survey, mapping and recording the rights of cultivators. Statutory backing to such rights was given through the land revenue Acts in force in the various States. Such settlements ordinarily take place once in thirty years, but the "record of rights operations" is carried out every five years. The original copy of the record of rights is kept in the Tahsil Office while certified copies thereof are given to farmers for their record/use. An annual record is maintained with the village patwari. Many States have provided a 'passbook' to the farmers, which is essentially an authenticated copy of the record of rights. The current document evidencing land holding at the village level, commonly known as the 'khasra', records details such as the name/s of cultivators, land held, area, crops sown, charge / encumbrances and such other changes which may have taken place since the preceding year.

It is the view of the Committee that the original land records are similar to a share depository, and if a farmer has an authenticated record of his land holding, banks should accept this as a valid title. Banks would no doubt have to verify the authenticity as well as charge/s created on account of past liabilities, but subject to a clear satisfaction on this count they should accept this for the purpose of an equitable mortgage in relation to agricultural lands. The acceptance of this recommendation would remove a genuine feeling of discrimination which farmers have as compared to their urban counterparts.

The Government of Andhra Pradesh have declared most of the districts as eligible for mortgage by deposit of title deeds through an appropriate notification under the Transfer of Properties Act. It is recommended that other States also consider issuing notifications under this proviso.

6.29 In States where Agricultural Credit Operations and Miscellaneous Provisions (Banks) Acts have been passed, it is possible for the borrower, through a declaration, to create a charge on the land in favour of the bank, and particulars of such a charge are registered in the record of rights by the village officer as well as in the records maintained at the district office. According to information available, most of the States have passed such Acts. Where such acts have been passed, it should be possible for banks to accept such a charge in lieu either of a simple or an equitable mortgage. The Committee, therefore, recommends accordingly.

For such a system of declaration to work efficiently, it would be necessary for land records to be updated regularly. States which have not passed such Acts may consider introducing a system whereby declarations similar to those being accepted elsewhere are registered with the revenue authorities thereby giving the banker the benefit of such security. It should be possible for this to be done through appropriate administrative orders .

6.30 The Committee, therefore, recommends that:

- (i) Equitable mortgage may be taken at notified centres.
- (ii) In States where the Agricultural Credit Operations & Miscellaneous Provisions (Banks) Acts have been passed, bank loans should only be secured through the mechanism of declaration prescribed thereunder.
- (iii) States which have not passed the above legislation may do so.
- (iv) In the interregnum, such States may issue appropriate administrative orders, so that declarations made by borrowers on the Talwar Committee model for charging their lands to banks may be noted in the revenue records.
- (v) As a rule banks may take either an equitable mortgage or a declaration as per the Agricultural Credit Operations and Miscellaneous Provisions (Banks) Acts. A simple mortgage should be resorted to only when the above two alternatives are not available.

6.31 A related issue is that banks often ask for the entire holding of a borrower to be mortgaged, even though in terms of value only a part of the holding would give the required security. Banks often ask for guarantors apart from the land which is mortgaged. It is the view of the Committee that the security taken must be commensurate with the loan. Ordinarily, if the repayment record of the borrower is acceptable there should be no need to ask for a guarantor.

MARGIN / SECURITY REQUIREMENTS

6.32 It was represented to the Committee that margin and security requirements should not be prescribed but determined by banks depending on the facts of the case. The Committee notes that for agricultural loans upto Rs.10,000/- no margin is stipulated while for loans above that amount, margin requirements vary between 15% & 25% . Security norms are also prescribed for production credit and investment credit separately and include documents such as pro note, hypothecation / mortgage deed and guarantee.

The Committee has considered this issue in context of the need for expanding the discretionary authority of commercial banks in operational matters. It notes that originally relaxations in lending norms had been prescribed for loans below Rs.10,000/- in order to encourage the flow of credit to borrowers in this segment. It has, however, been found that in certain government schemes margin, security and/or collateral requirements are often determined by agencies other than banks. In our view this is a matter exclusively within the jurisdiction of the lending banker and recommends that in this regard there is no need for the RBI to make any prescription, except in relation to the smaller loans upto Rs.10,000/-.

INSURANCE

6.33 Under the present system, the borrowers are required to insure the assets purchased through bank loans. These assets fall under two broad categories: farm vehicles/equipments/implements and livestock. It was represented to the Committee that the compulsory requirement to insure assets purchased through bank loans was an undue imposition on the farmers and was causing them financial hardship. In regard to insurance of assets, therefore, the Committee is of the view that the choice should be left to borrowers as to the kind of insurance they want to take subject to statutory requirements, such as required under the Motor Vehicles Act.

6.34 It was submitted to the Committee by farmers that banks levy inspection charges/folio fees, etc., without their being aware of the amount and periodicity of the same. Complaints were also voiced that in many cases that interest was being compounded even where there were instructions to the contrary. The Committee is of the view that the banker-borrower relationship demands transparency in mutual dealing, and recommends that the farmer should be given a clear statement on the facilities availed of by him, separately indicating various fees levied. As regards compounding of interest, banks may reiterate to branches that the instructions issued by the

RBI in this regard may be strictly followed. The Committee believes that such a step would go a long way in establishing borrower confidence in the bank.

MANAGEMENT ISSUES

6.35 The Committee recommends that the internal supervision system of banks may provide for visits to a few service area villages covered by each branch so as to obtain feed back on the quality of interaction which branch officials have at the ground level. It suggests that during such visits inspecting officers should, invariably, convene open meetings of farmers to discuss their problems and difficulties. Opening of this direct forum of interaction between the bank and its clients will substantially reduce the number of complaints regarding banking services, apart from giving the managements a clear idea of the performance of their field level officers, and the quality of services provided by them.

6.36 CMDs of banks may during their tours to various States also pay surprise visits to their rural branches. Such visits will send the appropriate signals to the field level staff. It is recommended that Chairmen make at least one such visit every month.

REPORTING MECHANISM

6.37 During field visits, it was indicated that a substantial portion of the branch/manager's time is spent on filling returns of various descriptions for different agencies including its controlling and head office. Branch managers themselves expressed their dissatisfaction at this state of affairs and submitted that if these returns could be telescoped their work would be greatly simplified. This would also render them free to attend to more important items such as establishing and maintaining village level contacts and supervising recovery initiatives. There is general agreement amongst branch managers and supervising officers that this be done. Some banks have attempted modifications. The Bank of Baroda as part of the Management Information System for Monitoring Agriculture and Other Advances have devised a modified reporting system by which, as against twenty-four returns submitted earlier, the number now required is only nine of which some are quarterly or half yearly. A brief note indicating the system followed as well as a statement indicating comparative position of returns submitted earlier and now alongwith the man days saved is indicated at Annex IV. It is recommended that a detailed exercise be immediately undertaken by all banks, and their reporting proformae modified so as to reduce unnecessary paper work which is being done by most branch managers thereby giving them more time focus their attention on core banking business.

6.38 Devising ways and means of finding the right men and women, equipping them with appropriate skills, placing them in suitable positions and giving them the right incentives and motivational inputs has been a recurrent theme in the reports of earlier committees. Commenting on this issue, the All India Rural Credit Survey Committee wrote in its General Report that "... paradoxical as it may sound, the problem of rural credit in India is not primarily one of rural credit. Rather it may be said to be one of rural minded credit." The present Committee is of the view that though much water has flown since the Survey Committee presented its report, the statement made by it is still valid.

In addition to skill and expertise, successful rural lending relies on a strong sense of mission. Such a sense is best nourished in a corporate culture that integrates profitability and efficiency into its objective of serving the poor, puts a premium on rural service, projects the work done by rural branch mangers as meaningful and of importance to the institution, and rewards performance by real incentives.The Committee notes that while some efforts appear to have been made at the institutional level on the above lines, rural branch managers are, in the main, forgotten soldiers. While being reasonably well equipped professionally, they do not perceive themselves as doing 'real banking' but only sub-serving the compulsions of targeted lending under subsidy driven programmes. They chafe at the fact that while, on the one hand they have little choice in the selection of borrowers, they are responsible, on the other, for good lending and high recovery rates. As a result, some of them tend to slow down on fresh lending while others circumscribe the loans given with a variety of certificates, receipts and other documents for 'absolution' in case the loans go bad. Rural postings are viewed as lacking in 'profile' and either considered as an institutional requirement which has to be complied with so that the incumbent can move on to a better job, or worse, as a signal for having been marginalised. As a result, and notwithstanding notable exceptions to the contrary, the morale of the rural cadre is low, commitment uneven and the sense of mission weak. This has to be addressed if rural lending is to be stepped up.

6.39 The Committee observed that at many places branch managers preferred to stay at the nearest town / urban centre citing non-availability of residence facilities at the duty station as the reason. This argument is not convincing as even at places where such facilities are available, many branch managers do not stay there.

Residence at the duty station is essential as this facilitates interaction and improves performance. Bank managements should work out appropriate systems to ensure that the officers posted in the rural areas stay at the centres of their posting .

6.40 All bank officers are required to do a tenure in the rural branches as part of their career profile. While some banks endeavour to post relatively junior officers at the beginning of their career to the rural areas, others follow a seniority mix depending on the category of the branch and seniority of the officer. It was represented by bank managements that posting of staff to rural centres should be based on institutional needs and requirements and that left to themselves banks would be in a position to manage their cadres and ensure that appropriate postings are made at all rural branches. It was explained that the two year compulsion regarding rural posting has brought about aberrations in cadre management, and many officers just mark time in rural postings only to satisfy the two year criteria. The Committee feels that there is merit in the suggestion and recommends that the Government stipulation for a compulsory rural posting may be done away with and the issue of placement be decided by bank managements

6.41 The performance appraisal system in vogue in commercial banks does not substantially distinguish between branch performance at urban, semi-urban & rural centres and places a substantial weightage - formally and informally - on deposit mobilisation. The Committee is of the view that this is not reflective of the work involved , as on account of the near monopoly situation in rural areas, deposit growth is almost automatic and should be given minimal weightage in the appraisal system.

The appropriate indicators to assess their performance should be:

(i) increase in outreach measured by the number of new clients,
(ii) volume of lending assessed on the basis of incremental increase in the flow of credit, and
(iii) loan recovery as indicated by the total volume of cash recoveries.

The Committee is of the view that taken together these variables will reinforce behavioural change in the critical areas of mission: outreach, flow and recovery and also lend themselves easily for measurement.

6.42 In order to operationalise the above recommendation, it suggests that a status report detailing the above indicators be given to each branch manager on the day he assumes charge in the case of new postings or as at the end of March, 1998 in the case of serving incumbents. It further suggests that on the basis of systemic indicators in respect of the above variables each bank should project an anticipated annual increase and communicate the same to all branches clarifying that only performance above the stipulated levels will qualify branch managers for prima facie eligibility for the incentives.

6.43 The Committee is of the view that a package of incentives should be available for rural branch officials and recommends as under:

(i) the top ten branch officials of each bank be sent abroad for training attachment / field exposure with institutions and organisations in South East Asia and other parts of the world, or at foreign academic institutions which have strong rural development faculties.
(ii) The next ten branch officials be deputed to prestigious management or rural development institutions within the country for similar exposure.
(iii) Further, suitable notings be made in the service records of the concerned officers and given due weightage at the time of their being considered for promotion to the next higher grade.
(iv) Consequent on completion of their rural tenure, officials with distinguished records in rural service may be posted to a centre of their choice for a period not exceeding three years.

(v) Banks may make improvements in the type of accommodation provided at rural centres to branch officials.

(vi) The costs incurred on the education of children of branch officials having distinguished records in rural service may be subsidized upto a ceiling limit of 50% during an academic year.

(vii) Additionally, banks may set up/fund central schools at convenient places in the urban hinterland of their rural branches for providing education facilities to the children of branch officials.

(viii) Outstanding performance may also be recognised by non-monetary incentives including certificates of merit, letters of appreciation from the Chairman, etc.

The proposed incentives are only indicative and banks could enlarge or modify their scope depending on their assessment. What is important is that the eligibility for such incentives should be outstanding performance , objectively assessed.

6.44 The programmes conducted at training centres run by banks have contributed towards improving skills and knowledge which, in turn, have helped to strengthen the rural financial system. The Committee is of the view that the present project based training approach has mainly been concerned with teaching branch managers the techniques of project evaluation without sufficient attention being paid to assessing the borrower, and his overall needs against his aggregate house-hold income, expenditure patterns and related matters. The system must be strengthened by programmes which emphasise borrower appraisal .

6.45 The basic challenge of training 'new' staff is to organise an efficient and effective means of transferring knowledge from existing staff (who hold the knowledge) to new recruits. It believes that on-the-job training should be made a major training vehicle for new staff, supplemented by more formal training at the training centres. For new entrants, training should include a small amount of classroom work (from one to three weeks) and a longer stint as a trainee in a retail unit (from two to three months). In all cases, the training process should aim at mobilising a large part of the existing staff to participate in the transfer of knowledge, with field workers teaching new recruits their own jobs and working side-by-side with them for a few months. In this context, the experience of the Grameen Bank is relevant. Grameen has no formal training manual. Instead, its written training materials contain a list of questions about corporate objectives and operations that trainees are supposed to answer for themselves while they are in the field. Classroom time is devoted to discussing the answers which the trainees have found to these questions, and comparing field experiences. Much of what Grameen wants trainees to internalise involves its philosophy of rural lending and poverty alleviation. Trainees are required to undertake several specific field activities, which develop those attitudes and at the same time deepen their knowledge of the local economy. One particularly successful method involves a case study. Trainees are asked to find a poor woman, interview her and write her life history, considering her economic and social problems and coping strategies. They are also required to complete surveys of the economic and market activity of a particular village. Such devices contribute to the strong internalisation of institutional values even as they generate useful information for the trainee and for the Bank. Such an approach ,appropriately modified to suit our context would go a long way in improving the efficacy of the training interventions, and inculcating the right attitude and mindset in the cadre of rural branch staff and managers.

NON-FARM SECTOR

6.46 The press note issued by the Reserve Bank of India announcing the setting up of the Committee mentions that despite a significant expansion in the flow of credit to the agricultural sector since the inception of the economic reform process "there is a perception that investment in agriculture, particularly non-farm investment has not kept pace with demand."

6.47 Although the population dependent on agriculture continues to be around 62%, the share of agriculture in national income has fallen from 50% to around 30%. Compared to this, the growth of employment in the rural non-farm sector which covers 16% of the country's population has been 5.4% p.a. during 1978 to 1988 as against 0.92% p.a. in agriculture and 2% p.a. in the urban organised sector. If the overall goal for employment growth at 2.8% per annum for the decade 1991-2001 is to be achieved, it is estimated that employment in the rural non-farm sector will have to grow by an estimated 8.1% p.a. taking into account the anticipated employment growth in other sectors. The fact that the workforce in this sector has been growing at around a million a year is a good quantitative indicator of its credit absorptive capacity. The Committee believes that the greatest stimulant for the growth of the non-agricultural economy in rural areas is sustained agricultural growth. The linkages are clear but bear repetition. Firstly, a dynamic agricultural sector provides the inputs for processing both food and cash crops. Secondly, agricultural growth demands inputs and services from the local economy. Thirdly, it generates income surpluses, which translate into demand for various kinds of consumer goods and services. Apart from agriculture, the other primary sector activities which serve as an important basis for non-farm sector (NFS) livelihoods include livestock rearing, fisheries, forestry & mining.

6.48 Rural households generally pursue a number of activities, both agricultural and non-agricultural, for supplementing their cash flows. These activities, which include small scale trading, micro industries, transport, etc., have modest working capital requirements and lend themselves admirably to bank finance. The Committee is of the view that banks should design specific loan products for this sector, which typically could initially provide loans for a short period upto three months, with weekly or fortnightly repayments. At the end of the period, the borrowers' requirements should be re-assessed, and repeat loans of increasingly higher amounts for longer periods be offered, subject to the discipline of weekly/fortnightly repayment of interest/principal instalments. There should also be inbuilt incentives of interest rebates in case of prompt repayment. International experience shows that credit to borrowers engaged in such non-farm sector activities has a high turnover on account of rapid recycling of funds leading to increase in credit flows.

INFORMAL SECTOR

6.49 The problems faced by the poor in dealing with formal rural financial institutions are many. The factors which constrain the capacity of the poor to borrow from the organised credit institutions have been: lack of skills, ignorance of economic opportunities and their inability to comply with procedural requirements. It is in this context that forging of linkages between the Self-Help Groups (SHGs) of the poor and the commercial financial institutions with Non-Governmental Organisations (NGOs) performing a range of intermediary functions has been explored in many countries.

6.50 In 1992 a pilot project for linking of 500 SHGs with banks was launched by NABARD. The project has been fairly successful, particularly in the case of groups formed by women. Over 75 per cent of the SHGs supported so far are exclusively women's groups. Based on this experience, banks were advised by RBI in April 1996 to consider lending to the SHGs as part of their regular lending operations.

6.51 Under the present arrangements, banks can lend to SHGs which, in turn, make advances to their members. Alternatively, banks work through NGOs, which provide credit to SHGs to be passed on to their members. The route chosen by a bank depends upon the strength of the SHGs and the support they may need from NGOs. The main advantage to banks of their link with the SHGs and NGOs, is the externalisation of a part of the work items of the credit cycle such as assessment of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction costs coupled with recoveries of about 95 per cent .

6.52 The Committee recommends that banks give wide publicity to their preference for financing self-help groups, sensitise regional and branch managers to the potential for good lending through this route and provide training to the branch managers in assessing the potential of SHGs and simplification of documentation.

6.53 In relation to documentation, the Working Group on Non-Governmental Organisations and Self-Help Groups set up by the Reserve Bank in 1994 had recommended a model set of documents for agreements between members, loan agreement formats, loan application forms / related formats, etc. for adoption by the banks. Unfortunately, banks have not yet operationalised the suggested procedures. It is the view of the Committee that Reserve Bank may prescribe such formats for adoption by the banks uniformly.

OTHER RELATED ISSUES

6.54 There is a positive correlation between infrastructure and credit and upgradation of such facilities will expand financial flows to the sector. This is a part of an ongoing process of expansion, but the Committee would like to flag setting up of village market yards, improving the quality of rural roads and provision of stable power supply as deserving immediate attention. While one aspect is enhancing investment, the other relates to maintaining the investment made. The Committee is of the view that local management of resources needs to be encouraged, and the responsibility for maintaining public sector infrastructure should, where possible, be entrusted to private initiative. Such arrangements could be contemplated for maintenance of irrigation channels on the analogy of the water users' associations as well as rural electrification .

6.55 The efficacy of credit depends on the quality of integration between infrastructural facilities, technological innovations, research and extension support. Such linkages are generally weak because different agencies tend to operate in a compartmentalised fashion with field level interaction being minimal. The Committee feels that such linkages should be forged through a positive effort at the various fora available at the district level.

6.56 It was suggested that banks need to provide technical advice through recruitment of specialised personnel as was done by public sector banks when they first entered the field of rural credit. Over time, these specialised personnel have been absorbed in the mainstream. Another view expressed was that it is not possible for the banking system to have specialists in the various fields of activities it finances. What is important is a broad knowledge of such activities, and the dissemination thereof through appropriate modules prepared with the help of experts and extension agencies. At many places farmers appeared confused about the type and kind of input to be used for crops as the advice given by the agriculture department was sometimes at variance with the advice given by the input dealer; the bank which provided finance was not in a position to give any advice. Bankers, therefore, need to work out a system by which through word of mouth as well as printed booklets/pamphlets, package of practices for the cultivation of crops specific to their areas is disseminated on a regular basis.

6.57 The Committee recommends greater involvement of panchayats in the provision of training facilities to volunteers and creation of user groups of farmers for acting as nodes for technology transfer. The Committee also commends the initiative taken by NABARD in forming Farmers' Clubs and recommends that wherever possible rural branches should link up their activities with such clubs.

6.58 Banks have increased the number of hi-tech branches to cater to the emerging capital intensive needs of the agricultural sector for financing projects in areas such as floriculture, mushroom cultivation, aqua culture, tissue culture and seed production. The Committee was informed that detailed guidelines on project preparation and appraisal have been issued to branches and model projects brought out by NABARD 'circulated' as indicative references. It notes that certain banks have set up Agricultural Consultancy Service Cells, Research & Development Cells to assist entrepreneurs in the preparation of such projects and for conducting pre-feasibility studies for identifying new ventures. Notwithstanding the arrangements put in position, the flow of credit to the Hi-Tech sector is not significant. Corporate offices of banks may quickly undertake a critical review of the functioning of their hi-tech branches which are not working well because of inadequate expertise as well as lack of demand on account of the vulnerable viability of many projects. The Committee further believes that these branches should also be used for dissemination of information regarding agricultural operations and specifically for providing technological inputs for cash and other high value crops.

6.59 The rescheduling of a loan instalment specifically in regard to a term loan should be based on the bank's assessment and the fact that a borrower has defaulted in this regard due to factors beyond his control should not inhibit the bank from extending short-term production credit to him. Thus, if a borrower defaults on the instalment of a pump set on account of, say, failure of crops due to draught and if the banker's assessment is that in the next production cycle he will be able to generate the necessary surplus to repay the said instalment, the bank should continue the support for seasonal agricultural operations. In such cases, it should view the default in the totality of circumstances and not allow the emergence of a non-performing asset (NPA) to stand in the way of rescheduling the loan. In making this recommendation the Committee would like to point out that in industrial financing working capital limits are continued at the discretion of banks by suitable reschedulement of the term loan when in arrears.

6.60 The conversion of short-term loans to medium-term loans during a period of natural calamity poses problems of a different kind especially when in a production cycle of 5 to 7 years conversion is required to be resorted to on more than one occasion with the borrower's ability to repay diminishing progressively. This is particularly so in case of farmers cultivating high value cash crops. The Committee recommends that in case of production credit, specifically in cash crop areas, a savings component should be in-built in the loan product to provide for a repayment cushion during times of distress. As already stated earlier in the report, such a linkage could be encouraged by giving the saver-borrower a finer rate on the loan product.

CHAPTER 7 POLICY MATTERS – RECOMMENDATIONS

7.01 There are certain issues which over time have become a part of policy but on which there is clearly need for a fresh examination as to whether such systems and policies have led to overall efficiency of the system. The Committee believes that these issues need to be addressed and have therefore suggested certain policy changes which will facilitate the increased flow of agricultural credit.

INTEREST RATES

7.02 The overall structure of interest rates has been simplified and deregulated and presently the prescriptions on lending rates in respect of commercial banks apply to loans below Rs.2 lac. The rates of interest as applicable to co-operative banks and regional rural banks have already been deregulated. Co-operative banks and Regional Rural Banks have adjusted interest rates taking note of local factors and are generally pricing their loans below Rs.2 lac at a level higher than commercial banks. During our field visits, and in discussion with farmers at various levels, it was mentioned that what was more important was the timely sanction of a credit limit and rates of interest were of secondary importance. It was argued that even the revised rates charged by co-operatives and RRBs were much below those charged by the private money lenders whose role, even in agriculturally advanced states such as Punjab, is substantial , particularly for loans of short duration.

7.03 From the viewpoint of banks, the regulated rates of interest operate as a barrier to the sanction of small loans as managers tend to look for comparatively larger borrowers. This is one of the reasons why the share of commercial banks in crop production loans is substantially smaller than that of the co-operatives. The Committee is convinced that for crop loans there is a substantial unfulfilled demand which is being met either by the money lender or leading to the usage of lower inputs causing a loss of income to the farmer in both situations.

7.04 Viability of lending for agriculture depends on a number of factors such as appropriate volumes, acceptable levels of recovery and a margin to cover cost of funds as well as expenses in sanctioning, supervising and recovery of loans. Staff costs per unit for small loans are higher as compared to large loans and would need to be appropriately priced. Commercial banks are doing so presently through cross subsidisation of rates of interest, which implies that an extra loading of interest cost is being given to loans above Rs.2 lac. Typically, rates of interest in banks vary from 12% for the lowest segment to over 19% at the upper end. It is our view that such cross subsidisation is not an efficient form of fixing interest rates. Commercial banks should, therefore, be free to fix their rates for loans of all amounts as has already been done in the case of co-operative banks and RRBs.

SUBSIDY LINKED CREDIT

7.05 It is well accepted that over the years the Indian banking system has significantly achieved the goals of extending geographical reach and functional spread of banking services. However, as pointed out by the Committee on the Financial System, "this progress has exacted a heavy toll in the form of a decline in productivity and efficiency of the system and, in consequence, a serious erosion of its profitability - even to the point of raising doubts about the viability of some important constituents of the system"

7.06 During its field visits, it was repeatedly submitted by banks that they were increasingly uncomfortable with sanctioning loans under the subsidy linked programmes. It was pointed out that such programmes have constricted operational flexibility, depressed income potential, blurred the distinction between credit need and credit worthiness, given a go-by to recoveries and had a psychologically negative impact on the self-image of field level bankers.

7.07 It was pointed out that the agricultural credit portfolios of commercial banks comprise two sets of borrowers – one linked to Government Subsidy Schemes where cases are sponsored by Government agencies and sanctioned by banks and the other identified by banks directly. Recoveries in respect of the former are around 30%, while those in respect of the latter are 80% plus. The loans sanctioned under the subsidy linked schemes tend to contaminate the overall asset portfolio, restrict fresh lending and impede the flow of fresh credit in areas having large arrears. The Committee is of the view that the scope to further extend credit in sectors such as agriculture, small industry and the self-employed is substantial provided this is done on the basis of the commercial decision of banks.

7.08 District level Government officials expressed similar views regarding the implementation of credit-linked subsidy schemes. It was submitted that the emphasis of such schemes was on the achievement of physical targets and that, in implementing the disaggregated district-wise targets handed down to them, they were conforming to systemic requirements. They added that since the impact of such schemes in bringing families above the poverty line or providing gainful employment was weak, there was a need for an overall review of the whole system.

7.09 The issues raised by commercial banks in context of credit linked Government sponsored schemes raises the question as to whether the system of subsidy driven credit, which has been the principal instrument for reaching the poor, can be replaced by one where subsidies and credit exist side by side but flow through separate channels and target different segments of the rural poor and, if so, the conditions necessary for such an arrangement.

7.10 The Committee believes that such an arrangement is possible. In its view, rural borrowers who have experience in dealing with assets – financial or physical – can be targetted directly by commercial banks. Even those at the lowest rung of the poverty pyramid requiring assets and start-up support can be financed by banks through NGO/SHG intermediation coupled with expanded micro credit working capital facilities to the non-farm sector. The role of the government should be to utilise the subsidy accessed through the budgetary mechanism for improving infrastructural facilities, providing linkages, upgrading the quality of extension services and providing training to those identified for the purpose. The Committee is clear that the poor are bankable and that there is adequate experience in India as well as internationally to suggest that lending even to the poorest can be done profitably and on a large scale given certain preconditions such as customer sensitive loan products, appraisal of projects consistent with assessment of borrowers, full discretion in selection thereof, reinstatement of collateral requirements, improved methods of working, better follow-up and diligent tracking of overdue accounts. If this is done, there is no reason for banks not being able to 'lead development' and increase access of credit to the poor consistent with productivity.

TARGET FOR AGRICULTURAL LENDING

7.11 During its discussions with State Governments as well as others, the Committee frequently came across a criticism that despite initiatives taken to accelerate the flow of credit to the agricultural sector, commercial banks continue to fall short of meeting the target for agricultural lending fixed at 18% of net bank credit.

7.12 The Committee notes that net bank credit of public sector banks grew at an annual compound rate of 11.8% between March 1991 and March 1996. Agricultural credit grew at a compound rate of 10.7%, while credit to medium and large industry grew by 15.9% in the same period. In the real sector, GDP grew on an average by 4.8%, industrial production by 6.1% and agricultural production by 2.1%. The target of 18% lending to agriculture was fixed at a time when the reserve requirements were as high as 63%. These have progressively been reduced over the years and are now at 39%. Total lendable resources of banks have thus increased from 37% to 61% over the last five years. In absolute terms, lendable resources based on effective reserve requirements increased from Rs.113080 crore in 1992 to Rs.270536 crore in 1996 and net bank credit increased from Rs.117443 crore to Rs.228583 crore in the same period. In other words, since the base on which the target of 18% is calculated 'doubled' requiring banks to concomitantly double their lendings to agriculture to even maintain the same share, i.e. 16% in conditions where agricultural production itself was growing at 2.1% per annum . Although agricultural lending of public sector banks increased from Rs.15857 crore in 1991 to Rs.26351 Crore in 1996, the share of such advances to net bank credit actually declined from 15.0% in 1991 to 14.3% in 1996.

7.13 The targets for priority sector as well as for agricultural credit are fixed on the basis of "outstandings" and drawing conclusions on the flow of credit to agriculture on this basis can be somewhat misleading since outstandings decrease as a result of improved recoveries as was the case between 1990 and 1995 during which period recoveries improved from 48.8% to 59.5%. Outstanding credit also decreases when write-offs take place. Thus, under the ARDRS 1990-91, public sector banks provided Rs.2832 crore as debt relief of which around Rs.1900 crore was for agriculture. The combined effect of improved recovery and write-offs was to reduce the share of lending to agriculture without any deceleration in the pace of lending to the sector.

In view of the above, the Committee suggests that banks should have self set targets for lending to agriculture which should be based on the flow of credit. For this, banks need to prepare special agricultural credit plans, the objective of which would be to accelerate the flow as well as to substantially improve the quality of lending in terms of viability. The Reserve Bank of India would indicate annually the expected increase in the flow of credit over the previous years on the basis of which banks would prepare appropriate credit plans. Once such a system is in place, the 18% target currently based on outstandings would cease to have much relevance.

SERVICE AREA APPROACH

7.14 The Service Area Approach (SAA) was recommended at a Seminar on Rural Banking organised by the Reserve Bank in January 1988 to deliberate on the findings of field studies undertaken by public sector banks in the previous year. The studies indicated that while bank credit had increased in rural areas, both in terms of outreach and aggregate flows, its impact on agricultural production and rural income was becoming weak. The quality of bank lending was uneven, its coverage scattered and not based on a schematic or intensive area development approach. It was, therefore, felt that the time was opportune to move over to a system under which bank branches would concentrate their attention on specified areas.

7.15 The Committee discussed the efficacy of the SAA with banks, Government officials and borrowers and received a mixed response. A section of the respondents submitted that the SAA is an anachronism surviving by default rather than design and that in an environment increasingly characterised by the interplay of market forces, it is an impediment to borrowers and banks alike. Certain others were of the view that the basic assumption underlying the approach that branches of all banks are uniformly endowed in terms of resources, capabilities, infrastructure and staff, was empirically untenable. It was also submitted that the mechanical application of the parameters of village allocations had seriously impaired the infrastructure and human resource capabilities of banks such as the SBI, Bank of Baroda, etc. which had earlier adopted the intensive area development approach for rural development and set up special branches for the purpose manned by expert staff and supported by requisite infrastructure. On the other hand, those advocating the retention of the SAA pointed out the need for all villages to have access to at least one branch for its credit needs. The SAA, by demarcating areas and making branches accountable for providing credit to all categories of borrowers in the allotted villages has given the poor at least one bank branch to service their requirements together with a mechanism by which accountability can be determined.

7.16 After considering the various arguments, the Committee is broadly in favour of a substantial modification of the service area approach so as to provide the borrower a choice of banks as well as to the banker a larger area of operation. The following changes are recommended:

(a) The Committee proposes that borrowers should be free to approach any branch of a commercial bank for credit and it would be for the commercial bank to determine whether or not to do business with the borrower, based on its assessment of the latter's credit-worthiness.

(b) Banks should also be free to operate outside their service area. This would be of particular interest to some banks, such as State Bank of India, which have set up well-staffed agriculture development branches; some of which, on account of service area limitations, are not utilising their potential.

(c) The responsibility of a particular bank for the credit requirements of a particular village should continue to be made in such a manner that every village is linked to a bank branch for its credit needs. In respect of such villages, a particular designated service area branch will continue to assume responsibility for requirements of borrowers.

(d) Presently, any modification in service area requires the approval of the Reserve Bank of India. Subject to the limitation envisaged in para (c) above, it is suggested that any changes which may need to be made should be decided through mutual consultations amongst banks at a local level. Intimation of such changes should thereafter be sent to the Reserve Bank of India as well as others concerned.

REVAMPING OF CONSULTATIVE FORA

7.17 The "agenda" for discussions at the fora created under the Lead Bank Scheme /Service Area Approach, viz. Block Level Bankers' Committee, District Credit Committee and the State Level Bankers' Committee, should be radically changed. The focus at such fora presently is on the annual exercise for finalising service area plans and related matters and, barring this, most of the remaining time is spent on allocating targets under the government sponsored schemes and monitoring performance in respect thereof. The Committee suggests that the agenda of these committees should include much greater dialogue between banks and government agencies on matters concerning area development, implementation of new schemes, impact evaluation of technology absorption, identification of fresh proposals as well as viable schemes for credit in the area.

FINANCE TO TENANT FARMERS

7.18 It was represented to the Committee that tenant farmers were not being considered for sanction of credit as most such tenancies were oral and unregistered. The reasons for the prevalence of such practices are many, and include inability of land owners to cultivate either on account of infirmity or service outside the village, or on account of landlordism in some areas. However, the prevalence of such practices is wide spread throughout the country, and assessment is that about 20 per cent of the lands cultivated are by oral tenants. It was represented that the prevailing system is not conducive to efficiency as tenants tend to cultivate on a non-optimal basis, as their sources of finance are limited to their own resources and borrowings from moneylenders at higher rates of interest. It is the view of the Committee that if such tenants were brought within the purview of the banking system, there would be overall gains in terms of incomes for such tenants as well as agricultural productivity. Going further into the issue, it is clear that such tenancies continue to be oral as the land revenue acts of the various States ordinarily provide for tenants acquiring ownership status. The objective of such a stipulation was that land must be owned by the tiller. It was brought to the attention of the Committee that many of the leasing systems do not have an exploitative element and are business transactions in which the returns are shared on a fairly equitable basis. It was also represented by tenants as well as land owners that, whereas in urban areas property could be rented without the owner of the property being dispossessed, such an alternative was not available in rural areas on account of the land tenancy acts. It was argued that, in the interest of overall production and bringing into the mainstream the substantial portion of the lands under tenant cultivation, such renting be legally allowed. The Committee, therefore, suggests a review of the land tenancy acts so as to permit renting of land, without the owner losing property rights.

SUMMARY OF RECOMMENDATIONS

1. The agreements and other covenants/documents to be completed are complicated and simplification is recommended as has been done by some banks, such as the State Bank of India whose format is at Annex III of the report. All banks may examine their systems and make modifications within two months, and report compliance to the Reserve Bank of India. (Para 6.05)

2. The focus of credit appraisal should be an evaluation of the income stream of the borrower, and a comprehensive assessment of credit needs taking into account track record, credibility, capability, as well as technical viability of the proposal. Supportive measures are necessary as have been further indicated in paragraphs 6.37, 6.39, 6.44, 6.45, 6.54, 6.55 of the report. (Paras 6.06 & 6.07)

3. To ensure quick disposal, at least 90 per cent of loan applications should be decided at the branch level. Banks may, therefore, review the position and suitably modify the powers of sanction delegated to the branch manager. (Para 6.08)

4. Short term credit needs of the farmer should include all requirements directly and indirectly related to production, post harvest and household expenses. Repayment capacity should be assessed on the basis of aggregate household income from all sources including crop production and ancillary activities. The credit facility should be extended through a composite cash credit limit. The limit may initially be provided for one year but over time extended for a longer period and brought to credit atleast once a year. On credit balances banks would pay interest, and charge interest on the outstandings. Advances under such limits may be 'reckoned' as advances to agriculture within the definition of priority sector.(Para 6.11 & 6.12)

5. In line with the change in approach towards appraisal of loan proposals for lending recommended by the Committee, the forms accompanying the main application, especially, for investment credit

should be simplified and made more relevant for focussing on the income stream of the farmer. It is recommended that the Reserve Bank of India may appoint an expert group to finalise the new forms.(Paras 6.13 & 6.14)

6. While some minor investments of a medium term nature can be taken into account in the composite cash credit limit recommended at paragraph 5 above, investments of a major nature would still need a separate loan. In relation to the systems followed for term lending, the emphasis should be on whether in a given area an activity can be supported profitably, rather than obtaining abstract cash flows and other data based on projected technical parameters. (Para 6.14)

7. During cash rich periods, farmers have a propensity to invest in gold, land, implements, livestock or incur expenditure of a consumption nature. As a result they are vulnerable during times of adverse price fluctuations and natural calamities. To address the issue farmers should be offered a liquid savings product with an appropriate return which should be inbuilt in the loan product so as to provide them a cushion during lean periods.(Para 6.15)

8. The system of adoption of scales of finance for short term loans and unit cost of investment credit has led to distortions at the base level and introduced an element of rigidity in assessment of credit requirements. In view of the expertise developed by banks in financing agricultural operations, and in order to give them flexibility to take care of variations in the requirements of borrowers, the fixing of the scale of finance / unit cost may be decided by the concerned banks.(Para 6.16)

9. The system of disbursing agricultural loans, partly in cash and partly in kind has restricted borrower's choice and given rise to undesirable practices including submission of false bills and receipts. In order to foster an environment of trust, banks may disburse loans for agricultural activities on a cash basis only and discontinue the practice of obtaining bills / receipts of inputs / assets purchased.(Para 6.17)

10. Insistence on No Dues Certificate (NDC) as an invariable precondition for sanctioning a loan is unnecessary and time-consuming. Where banks are conversant with the track record of the borrowers, obtaining a NDC should be left to the discretion of the lending banker.(Para 6.18)

11. Without recovery at acceptable levels lending cannot be sustained. Recovery of dues has issues which are legal, administrative, as well as in which publicity is necessary. These issues are examined in paragraphs 6.19 to 6.23. Specific recommendations include requesting State Governments to set apart dedicated teams for recovery, improving the recovery climate through rurally oriented field publicity campaigns projecting the message that banks are willing to lend to viable borrowers, and unless funds are recycled lasting relationships cannot be forged through the credit mechanism.

    The accounting systems in banks need to focus on systems by which recovery is disaggregated by loan products, as well as by time so that it is possible for managers to determine which products are more viable and whether current recoveries are better than past dues. The branch managers also need to have a statement of defaulting borrowers more promptly than is possible under the existing procedure. (Paras 6.19 to 6.23)

12. Apart from steps for improving collection of dues, the Committee recommends that tangible incentives be provided to farmers who are prompt in repayment. Banks should, design appropriate incentive systems including interest benefit or rebate to borrowers who repay their dues promptly. Besides incentives for prompt repayment, farmers who opt for a savings module linked to the loan product, may be given a finer fate both on the loan as well as on the savings product. (Para 6.24)

13. Taking into account the procedural difficulties and the high cost of stamp duty connected with registering a mortgage in favour of a bank, State Governments may initiate steps to abolish stamp duty on mortgage of agricultural land for obtaining loans from banks (Para 6.25)

14. Unlike in urban areas, most land in rural areas is inherited and there are no title deeds. The original land records in the tehsil office are similar to a share depository and if a farmer has a pass book with an authenticated record of his land holding, the bank should accept the same as valid title for purposes of an equitable mortgage. (Para 6.28)

15. In States where the Agricultural Credit Operations and Miscellaneous Provisions (Banks) Acts have been passed, bank loans should be secured through the mechanism of the declarations prescribed thereunder. States which have not passed the above legislation may consider doing so. In the interim, such States may issue administrative orders that declarations made by borrowers on the Talwar Committee model for charging their lands to banks may be noted in the revenue records so that banks can lend against the same. (Para 6.29)

16. The value of security taken should be commensurate with the size of the loan and the tendency to ask for additional collateral by way of guarantors where the land has already been mortgaged should be discouraged. (Para 6.31)

17. In order to give operational flexibility to the lending banker, margin, security and collateral requirements should not be prescribed by RBI or any other agency and should be left to the discretion of the lending banker. For small loans upto Rs.10,000, however, the existing guidelines may continue. (Para 6.32)

18. The requirement to insure all assets purchased through bank loans is an imposition causing financial hardship to borrowers. The decision as to the kind of insurance to be taken should be left to the borrowers subject to statutory requirements. (Para 6.33)

19. In order to inform farmers transparently of the amount and periodicity of the various fees and charges levied by banks, they should be given a statement of the facilities availed, separately indicating the fees, charges, etc. levied. The instructions regarding compounding of

interest issued by RBI may be reiterated so as to ensure that these are invariably followed. (Para 6.34)

20. The internal supervision system of banks should provide for visits to a few service area villages and during such visits, inspecting officer should convene open meetings of farmers to assess their problems and difficulties. The CMDs of banks, during their tours to various States, should pay surprise visits to rural branches as this would provide top management with an idea of field level conditions.(Paras 6.35 & 6.36)

21. A large portion of the branch manager's time is spent on compiling returns of various descriptions for different agencies. There is an urgent need to rationalise the number of returns and a detailed exercise should immediately be undertaken by banks to reduce unnecessary paper work including elimination of ad hoc returns which very often require data already provided elsewhere. In this context the MIS for monitoring agriculture and other advances developed by the Bank of Baroda may be taken as an example. (Para 6.37)

22. Notwithstanding exceptions to the contrary, the morale of the rural cadre in commercial banks is low, commitment uneven and the sense of mission weak. This has to be addressed if rural lending is to be stepped up. (Para 6.38)

23. The Government of India stipulation for a compulsory rural posting may be done away with and posting of staff to rural centres should be based on institutional needs to be decided by the management of banks. (Para 6.40)

24. The performance appraisal system in vogue in commercial banks for rural branches should be revamped with a substantially reduced weightage for deposit mobilization. The appropriate indicators for performance measurement should be increase in outreach, measured by the number of new clients, volume of lending, assessed on the basis of incremental increase in the flow of credit and loan recovery as indicated by the volume of cash recoveries. The procedure outlined in paragraph 6.42 may be adopted to operationalise the recommendation. (Paras 6.41 & 6.42)

25. To bring about the desired behavioural change in rural lending and to strengthen the sense of mission of bank staff, a package of incentives encompassing foreign exposure, training in prestigious institutions within the country, weightage in promotion, posting to centre of choice, improvement in accommodation and educational facilities and corporate recognition of outstanding performance is recommended. These incentives are indicative and banks may evolve their own schemes for improving the morale of rural branch managers.(Para 6.43)

26. Bank Training institutions need to design fresh interventions shifting their focus from the present activity specific / project based training programmes to those emphasising borrower appraisal including techniques for assessing the needs of the rural household in a holistic way vis a vis the income stream repayment capacity. (Para 6.44)

27. 'On the job' exposure should be made a major training vehicle for new staff duly supplemented by formal training. The approach of Grameen Bank in making the trainees internalise the bank's philosophy of rural lending and poverty alleviation may be adopted with appropriate modifications to suit the Indian context. (Para 6.45)

28. The non farm sector has a large unutilised credit absorptive capacity. Rural households generally pursue a number of activities, both agricultural and non agricultural, for supplementing their cash flows. These activities have modest working capital requirements and banks should design specific loan products for such activities by providing loans for short period upto three months, initially with weekly or fortnightly repayments. At the end of the period repeat loans for higher amounts and for longer periods could be offered depending on the repayment behaviour with inbuilt incentives by way of interest rebate on prompt payment. (Paras 6.47 & 6.48)

29. Self Help Groups have proved effective intermediaries for the transmission of bank loans. Banks should give wide publicity to their preference for financing SHGs, sentisize regional heads and branch

managers to the potential for good lending through this route, and provide training to branch managers in assessing the potential of SHGs and simplification of documents. (Paras 6.49 to 6.52)

30. The Reserve Bank of India may direct banks to adopt the model set of documents prescribed by the Working Group on Non-Governmental Organisations and SHGs set up by RBI in 1994 pertaining to agreements between members, loan formats, application forms, etc. (Para 6.53)

31. Upgradation of infrastructural facilities especially village market yards, rural roads and stable power supply will go a long way in expanding credit flow to the rural sector. The responsibility for maintaining public sector infrastructure should, where possible, be entrusted to local initiative. (Para 6.54)

32. The efficacy of credit depends on the extent and quality of integration between infrastructural facilities, technological innovations, research and extension support. Linkages should be forged and strengthened between extension workers, faculty of agricultural colleges, branch managers and Government departments at the local level through the various district fora. (Para 6.55)

33. There is a need for branch managers to have a broad knowledge of agriculture and related activities. At many places, farmers are confused about the type of inputs to be used for crops and can be misled by input dealers / other suppliers. Banks should work out a system by which, information regarding the package of recommended practices for the cultivation of crops specific to their areas is disseminated on a regular basis. (Para 6.56)

34. There should be greater involvement of panchayats in agricultural extension including provision of training facilities to volunteers and creation of user groups of farmers for acting as nodes for technology transfer. Wherever possible rural branches should link up their activities with Farmer's Clubs initiated by NABARD (Para 6.57)

35. Corporate offices of banks may quickly undertake a review of the functioning of their Hi-tech branches, especially to identify those which are not working well due to inadequate expertise and / or lack of demand. The Hi-tech branches of banks should also be used to disseminate information relating to agricultural operations and specifically for providing technical information regarding cultivation of high value crops. (Para 6.58)

36. The rescheduling of a loan instalment during times of natural calamities specifically in regard to a term loan should be based on the bank's assessment and should not inhibit the bank from extending short-term production credit to the farmer. (Para 6.59)

37. In case of production credit, especially for farmers cultivating high value cash crops, a savings component should be built into the loan product to provide cushion during times of distress. The saving-loan linkage should be encouraged by offering a finer rate on the loan. (Para 6.60)

38. Timeliness and adequacy of credit are critical to increasing the credit flow to agriculture. Small loans involve higher transaction and administrative costs. As a result, managers tend to look for larger loans where interest rates are deregulated, while banks seek to equalise the price differential by cross subsidisation. In effect therefore, regulated rates of interest operate as a barrier to the sanction of small loans. As has already been done in the case of cooperatives and RRBs, commercial banks should be free to fix the rates of interest for loans of all amounts. (Para 7.04)

39. The issue of subsidy linked loan programmes was examined by the Committee and it was observed that the loan portfolios of banks linked to subsidy were usually sub-standard with recoveries below 30 per cent while in regard to loans sanctioned according to the business judgement of bankers recoveries were excellent. In the implementation of subsidy linked credit schemes, emphasis usually was on achievement of targets and the quality of lending as well as impact of such schemes was very poor.

A thorough review of existing systems is recommended as subsidy linked lending has proved unsuccessful and needs to be replaced by an alternative method. The Committee believes that the rural poor are viable and borrowers can be directly targetted by commercial banks through NGO/SHG intermediation coupled with extended micro credit working capital facilities to the non farm sector. There is adequate experience in India, as well as internationally that such lending can be done profitably on a large scale, given certain pre-conditions such as customer sensitive loan products, appraisal of projects consistent with assessment of borrowers, full discretion in selection therefor, improved methods of working and better follow-up after loan sanction. Bankers should be able to increase the access of credit to the poor consistent with productivity without dependence on subsidy. (Paras 7.06 to 7.10)

40. With the progressive decrease in reserve requirements from 63 per cent to 39 per cent over the last five years, the lendable resources of banks have increased from 37 per cent to 61 per cent. The base in relation to which the target of 18 per cent for agricultural lending is fixed has thus doubled apart from the normal increase in such base. In order, therefore, to achieve the 18 per cent target banks have had to more than double their lending to agriculture during a period when agricultural production itself was growing at 2.1 per cent per annum. Furthermore, the adherence to the target for agricultural lending is calculated with reference to outstandings which decrease as a result of improved recoveries and when write-offs take place. Drawing conclusions on the flow of credit to agriculture only on this basis is somewhat misleading and unrealistic. The target for agricultural lending should instead be based on the flow of credit through preparation of Special Agricultural Credit Plans (SACPs), the objective of which should be to accelerate the flow as well as to substantially improve the quality of lending. The RBI may indicate annually the expected increase in the flow of credit over the previous year on the basis of which SACPs would be prepared. Once the system is in place the 18 per cent target would cease to have much relevance. (Paras 7.12 & 7.13)

41. There should be a substantial modification of the Service Area Approach (SAA) so as to provide borrowers a choice of banks as well as bankers a larger area of operation. Specifically, borrowers should be free to approach any branch of a commercial bank for credit and it would be for the latter to determine whether or not to do business with the borrower. Banks should be free to operate outside their service area and the responsibility of a particular branch for the credit requirements for a specific village should continue to be made in such a manner that every village is linked to a bank branch for its credit needs. Subject to the limitation above, changes in service area where necessary should be decided through mutual consultations amongst banks at the local level and RBI approval dispensed with. (Para 7.16)

42. The agenda for discussions at the various fora created under the LBA/SAA viz. BLBC, DCC and the SLBC should be radically changed. There should be a shift from discussion on service area plans and allocation of targets to providing a forum for greater dialogue between banks and government agencies on matters concerning area development, implementation of new schemes, impact evaluation of technology absorption, identification of fresh schemes for credit dispensation. (Para 7.17)

43. About 20 per cent of lands cultivated at present are by oral tenants. If such tenants are brought within the purview of the banking system, there would be overall gains in income for the tenant farmers and agricultural productivity. A review of Land Tenancy Acts may be undertaken so as to permit renting of land without the owner losing property rights. (Para 7.18)

ANNEX I

Extracts of fax issued to banks eliciting response on extant systems and procedures followed and suggestions for improving flow of credit to agriculture

As you are aware, the Governor has constituted a One Man High-Level Committee to study the Working of the Credit Delivery System for Agriculture. The Committee is expected to furnish its report by March 31, 1998. The Committee is required to :

i) study the working of the Credit Delivery System for Agriculture through field level interaction with farmers, agriculturists, borrowers of commercial banks and bank staff and analyse the constraints in the flow of such credit to the farm sector ;

ii) make suggestions for simplification and improvements in systems and procedures including reduction in paper work for delivery of farm credit ; and

iii) make proposals on any other initiatives that may be taken by commercial banks to facilitate credit delivery to the farm sector.

2. In this context , the Chairman , High - Level Committee on Agricultural Credit has requested that your bank may furnish :

i) a note on the systems and procedures presently obtaining in your bank for processing and sanction of loan applications for agricultural credit ;

ii) a note on the factors (policy/systems/procedures) as perceived by your bank which are impeding the flow of credit to the farm sector ; and

iii) suggestions for improving/streamlining the systems and procedures for processing and sanction of loan application for agricultural credit.

♦♦♦♦♦

ANNEX II

List of banks from whom responses were received :

1) State Bank of India
2) Andhra Bank
3) Punjab National Bank
4) Bank of Baroda
5) Union Bank of India
6) Canara Bank
7) UCO Bank
8) Vijaya Bank
9) United Bank of India
10) Syndicate Bank
11) Bank of Maharashtra
12) Dena Bank
13) Bank of India
14) Corporation Bank
15) Central Bank of India
16) Oriental Bank of Commerce
17) Punjab & Sind Bank
18) Indian Overseas Bank
19) Allahabad Bank
20) Federal Bank Ltd.
21) Sangli Bank Ltd.
22) National Bank for Agriculture & Rural Development

ANNEX III

AGREEMENT FOR HYPOTHECATION
: STATE BANK OF INDIA MODEL :

AB - 1

(To be stamped as an Agreement. Not to be attested. If the security hypothecated are located in more than one State, then to be stamped with the highest of the stamp duty chargeable in different States).

This Agreement executed this day............of..,.....................19.....
in favour of the State Bank of India (hereinafter called "the Bank" which expression shall include its successors and assigns) in accordance with by
"..
....
son of/wife of/daughter of..................................
(address) of ....
....
son of/wife of/daughter of.......................................
(address) of..
....
son of/wife of/daughter of..
(address)of ....
....
son of/wife of/daughter of
(address) of..

Here enter the name(s) of the individual Borrower/co-owner Borrowers

OR

If the Borrower is other than individual/Co-owners, the borrowers is to be described here in accordnance with the constitution of the borrower as per the Administrative instruction No..............

(hereinafter referred to as "the Borrower(s)" which expression shall include his/her/their heirs, executors, administrators, successors and assigns jointly and severally).

WHEREAS the bank at the request of the Borrower(s) has granted/agreed to grant to the Borrower(s) from time to time.

(a) Cash Credits at any one time up to limit of Rs.
(Rupees..only)

(b) Overdrafts at any time to the extent of Rs.
(Rupees.. only)

(c) Demand Loans at any one time for Rs.
(Rupees.. only)

(d) Term loans at any one time of Rs.
(Rupees..only)

(hereinafter collectively and individually referred to as "the loans") for the purpose of facilitating finance to the borrower(s) for farming/rearing of cattle and/or lock/fishing/sericulture ....)

* Purposes other than the purpose mentioned herein where the intention is to take the security hereinafter mentioned therefor-enter such purposes here .

NOW IN CONSIDERATION of the Bank having granted/agreed to grant the loans the Borrower(s) hereby agree, undertake and declare:-

I. That each and all of the Borrower(s) , present and future

(1) Crop whatsoever and wherever raised or to be raised, including standing crops on the land described in the First Schedule hereto or cut or stocked or stored or in course of transit or delivery ;

(2) herd/fish/flock/silkworms and cocoons including those described in the Second Schedule hereto wherever they may be ;

(3) tools/equipments/fixtures/boats/machines and/or other movables connected with and relating to farming/rearing of cattle and/or flock/fishing/sericulture including those described in the Third Schedule hereto wherever they may be ;

(4) receivables and investment, movable assets and valuables (All or any of items detailed in (1) to (4) above hereinafter referred to as "the security")

SHALL BE AND STAND HYPOTHECATED to the bank by way of first charge as security for the loans and also for all indebtedness or liabilities of the Borrower(s) to the Bank together with all interest, commissions, costs, charges and expenses payable to or incurred by the Bank including those for the enforcement of any of the security.

II. That the Borrower(s) shall pay interest on the loans to be calculated on the daily balances in the loan account(s) with monthly/quarterly/half yearly/ yearly or other rests according to the practice of the Bank in the case of -

(a) cash credits at the rate of..................% above/below the State Bank Advance Rate rising and falling therewith with a minimum of ....% per annum.

(b) overdrafts at the rate of ....% above/below the State Bank Advance Rate rising and falling therewith with a minimum of..........% per annum.

(c) demand loans at the rate of..........% above/below the State Bank Advance Rate rising and falling therewith with a minimum of..........% per annum.

(d) term loans at the rate of ....% above/below the State Bank Advance Rate rising and falling therewith with a minimum of.....................% per annum.

Provided that the Bank shall at any time and from time to time be entitled to change the rate of interest and notify to the Borrower(s) such change (other than a change on account of the change in the State Bank Advance Rate) and such revised rate of interest shall always be construed as agreed to be paid by the Borrower(s) and hereby secured.

Further, without prejudice to the Bank's other rights and remedies, the bank shall be entitled to charge at its own discretion enhanced rates of interest on the outstandings in the loan account(s) or a portion there of for any default or irregularity on the part of the Borrower(s) or a portion thereof for any default or irregularity on the part of the Borrower(s) which in the opinion of the Bank warrants charging of such enhanced rates of interest for such period as the Bank may deem fit.

III. That in the case of cash credit, overdraft and demand loan, the Borrower(s) shall on demand forthwith pay to the bank the outstanding(s) owing to the Bank in respect of the loans inclusive of interest, commissions, costs, charges and expenses. However, in a case where for any reason cash credit or overdraft is permitted by the Bank at its absolute discretion to be repaid in instalments and on such terms as may be stipulated by Bank the security as held hitherto shall continue to subsisting and the conditions as to term loans herein shall apply to the said loan subject to such changes as may be stipulated by the Bank.The term loan will be repayable by instalments as stipulated in the Fourth Schedule hereunto attached and PROVIDED THAT in case of default in payment of any of the instalments or any part thereof or any other irregularity on the part of the Borrower(s), the entire balance then outstanding with interest, costs, commissions and charges shall,if the Bank so chooses, at once become due and payable.

IV. That the Borrower(s) will at all times maintain a sufficient quantity and market value of the security to provide the necessary margins of security required by the Bank wherever applicable.

V. That the Borrower(s) shall not except in the normal course of business but subject to the powers of the Bank herein contained, cut remove/dispose of the security from the place(s) wherever normally they may be kept/preserved, stored without the prior written permission of the Bank during the time any money herein mentioned shall remain outstanding. Such security, if so required by the Bank, shall be immediately delivered to the Bank on pledge.

VI. That the monies from time to time advanced by the Bank to or on behalf of the Borrower(s) shall be applied solely for the purpose of the loans.

VII. That the Bank without being bound to do so or being liable for any loss on account thereof and without prejudice to the rights and remedies of suit or otherwise shall be entitled to :

1. Without notice to the borrower(s) and at the borrower(s) risk and expense enter any place(s) where the security may be and inspect value insure superintend dispose and/or take possession thereof.

2. Without prejudice to the foregoing on default of the Borrower(s) in payment of any money hereby secured or on the non-performance of an obligation on the part of the borrower(s) or on the occurrence of any circumstances in the opinion of the Bank endangering the Security take possession or recover and / or sell by public auction or private contract or otherwise deal with the security and appropriate the proceeds to the outstanding loans.

3. Apply towards the outstanding loans and money in its hand belonging to the Borrower(s) and to recover the balance if any, of the loans notwithstanding that all or any of the security may not have been realised.

4. Settle compromise, submit to arbitration and deal in any manner with any rights debts claims, of Borrower(s) relating to the security.

VIII. That all the security are free and shall be kept free from any charge or encumbrance except those in favour of the Bank.

IX. **That the Borrower(s) shall at all times keep such items of security as are of insurable nature, insured against loss or damage by fire and other risks as may be required by the Bank and shall deliver to the bank all such policies. It shall be also lawful for but not obligatory upon the Bank to ensure by debit to the Borrower(s) account(s) the security as are of insurable nature. The proceeds of such insurance shall at the option of the Bank either be applied towards replacement of the security or towards the satisfaction of the Bank's due hereunder.

X. That the Borrower(s) shall pay all charges and taxes statutory or otherwise in respect of the security. The Bank may also without being bound to do so, pay all such charges and taxes at the cost of the Borrower(s) and if necessary by debit to the Borrower(s) account(s).

XI. That this agreement is intended to and shall operate as a continuing security for all loans indebtedness and liabilities of the borrower(s) to the Bank at all times during the subsistence of the Agreement not withstanding :-

a) the existence of a credit balance or "NIL" balance in the loan accounts at any time or any partial payment or fluctuation of accounts, or

b) any loans or any part thereof have been repaid either after demand has been made by the Bank or otherwise or has not been so repaid on demand.

XII. That if the Borrowers be more than one individual each one or any of them is/are authorised and empowered by the other(s) of them to admit and acknowledge his/their liability to the Bank by any payment into the account(s) or by way of express writing in any manner or otherwise and any such admission and acknowledgement of the liability by one or more of them shall be construed to have been made on behalf each of them.

XIII. That the Borrower(s) hereby gives his consent for the loans being recovered as a public demand/money in terms of any legislation relating to recoveries thereof, where such consent is necessary under such legislation.

THE FIRST SCHEDULE referred to above :

All the pieces or parcel of land as detailed hereunder (specify here for identification the details like survey number, village name, etc.)

THE SECOND SCHEDULE referred to above :

The herds/flock/fish catch/silk worms and cocoons, short particulars whereof are given hereunder.

THE THIRD SCHEDULE referred to above :

The tools/equipments/fixture/boats/machines and other movables connected with and relating/to farming rearing cattle and/or flock/fishing/sericulture.

THE FOURTH SCHEDULE referred to above :
(Repayment programme for Term Loan granted)

Due Date	Amount of instalment

The contents of the Agreement have been read over and translated into *... ... and explained to the borrower(s) and he/they having understood the contents thereof subscribe(s) to these presents.

IN WITNESS WHEREOF the Borrower(s) has/have set his/their hand(s) to these present on this the day and year first above written.

-

Borrower(s)

Date.................................

Place.................................

* Here enter the name of the language.

**** Clause IX will be eliminated in view of the Committee's recommendation on Insurance in the Main Report [Page 30]**

ANNEX IV

MANAGEMENT INFORMATION SYSTEM (MIS) FOR MONITORING AGRICULTURAL ADVANCES : BANK OF BARODA MODEL :

Bank of Baroda has evolved a model system for monitoring agricultural and other advances and it is being implemented on pilot basis in its Moradabad Region (Western UP Zone).

This MIS system has been computerized to generate pre-printed updation sheets containing basic information about the existing borrowal accounts and blank formats for recording new disbursals during the intervening period. Some of the branches are also sent data on magnetic media for its updation locally. The updation centres receive updated data on hard copy in 2-3 days' time. Decentralization of data updation is reported to have improved branch participation and quality of data significantly.

The data is processed on computers at regional level and the branches receive statutory reports/returns for their use along with other informative reports for improving the quality of credit administration. Such Single Point Periodic Updation reduces workload at branches and controlling office significantly. The time saved thus is directed for improving quality of loan assets, canvassing deposit accounts and improving customer service in the area.

Indicated below is a statement showing reports & returns which were required to be submitted earlier and the status after implementation of the revised system.

Sr. No.	Returns which branch is required to submit	Type	Frequency	Time taken by an Average Branch(in man-days)	Status after implemen-tation
1	Closing Returns, Master Summaries of Advances and Provision Worksheet	Credit (Statutory)	H.Y.	20	Not Required
2	Credit Control Return (5,6,7)	Credit (Statutory)	H.Y.	10	Not Required
3	DSB Return IV (Related to Advances)	Credit (Statutory)	Qtl.	10	Not Required
4	Monitoring of Sick SSI Units	Credit (Statutory)	H.Y.	7	Not Required
5	BSR 1	Credit (Statutory)	Annual	5	Not Required
6	BSR 2	Deposit (Statutory)	Annual	5	To continue

Sr. No.	Returns which branch is required to submit	Type	Frequency	Time taken by an Average Branch(in man-days)	Status after implementation
7	Demand Collection Balance Register (DCB)	Credit (Statutory)	H.Y.	40	Not Required
8	Priority Sector Breakup on Asset Classification	Credit	H.Y.	10	Not Required
9	Recovery Monitoring Stmt on NPAs and Potential NPAs	Credit	Month	24	Report Received on Printed Sheet
10	Distribution of Credit according to Lending Rate	Credit	H.Y.	20	Not Required
11	Priority Sector O/s Bal Statement/Disb.	Credit	H.Y.	20	Not Required
12	Review Status Report	Credit	H.Y.	15	Not Required
13	NPAs and Potential NPAs statement	Credit	H.Y.	10	Not Required
14	Statement of Advances Sanctioned	Credit	Frntly	30	To continue
15	Temp. Over Draft Stmt	Credit	Frntly	10	To continue
16	Stock Inspection Report	Credit	Bimthly	- -	To continue
17	Qtrly. Mon. Stmt for large advances	Credit	Qtly	- -	To continue
18	Application Sanctioned Stmt. Under Sponsored prog and AAP/SAP	Credit	Month	30	To continue
19	LBR - 1 (Credit Plan)	Credit	Annual	3	To continue
20	LBR - 2 (Disbursement)	Credit	Qtly	20	To continue
21	LBR - 3 (Recoveries)	Credit	H.Y.	30	To continue
22	Weekly Stmt on Bal Sheet	Deposit	Wkly	70	To continue
23	House Keeping Stmt	Misc.	Qtly	5	To continue
24	Distribution of deposit on Interest Rate	Deposit	Annual	5	To continue

By implementing the above, the branches will not be required to submit 12 out of 24 returns saving about 190 man days per year per branch of average size. At a later stage, after the system is stabilised and updation is done on quarterly basis, the branches may not need to send returns at Sr.Nos.14, 20 and 21 above also as the same can then be generated with the help of the updated data.

The data should be used by controlling offices to send information that may be required by Reserve Bank of India or any other agency in relation to specific activities as the computerised system will be able to generate such information.