

# **TWENTY NINTH REPORT ESTIMATES COMMITTEE (1985-86)**

**(EIGHTH LOK SABHA)**

**SOCIAL BANKING  
STATE BANK OF INDIA**

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



*Presented to Lok Sabha on 23 April, 1986*

**LOK SABHA SECRETARIAT  
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# CORREENDA

29th Report of Estimates Committee (Eighth  
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Social Banking .....

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# **ESTIMATES COMMITTEE**

**(1985-86)**

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**Shri Chintamani Panigrahi**

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1. Shri N. N. Mehra—*Joint Secretary*
2. Shri Ram Kishore—*Chief Financial Committee Officer*
3. Shri J. C. Malhotra—*Senior Financial Committee Officer*

## INTRODUCTION

1. The Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Twenty-ninth Report on the Ministry of Finance, Department of Economic Affairs (Banking Division)—State Bank of India—Social Banking.

2. The Committee took evidence of the representatives of the Ministry of Finance, Department of Economic Affairs (Banking Division), State Bank of India and Reserve Bank of India on 18, 19 and 20 December, 1985. The Committee wish to express their thanks to the Secretary, Ministry of Finance, Department of Economic Affairs (Banking Division); Chairman, State Bank of India; Deputy Governor, Reserve Bank of India and other officers for placing before them the material and information and giving evidence before the Committee.

3. The Committee also wish to express their thanks to the representatives of the National Institute of Bank Management, Pune for giving evidence and making valuable suggestions to the Committee.

4. The Committee also wish to express their thanks to institutions who furnished memoranda on the subject to the Committee.

5. The Report was considered and adopted by the Committee on 16 April, 1986.

6. For facility of reference the recommendations|observations of the Committee have been printed in thick type in the body of the Report, and have also been reproduced in a consolidated form in the Appendix to the Report.

NEW DELHI ;

April 17, 1986.

Chairman 27, 1908(S).

CHINTAMANI PANIGRAHI,

*Chairman,*

*Estimates Committee.*

## CHAPTER I

### CONCEPT AND OBJECTIVES OF SOCIAL BANKING

1.1 Social Banking could broadly be described as the extension of banking facilities to customer groups who would not be served by banks guided by commercial considerations alone. This objective and its pursuit manifests itself in diverse aspects of banks operations. There have been extension of banking facilities to rural areas even though the volume of business may not make such branches commercially profitable, extension of credit assistance to smaller borrowers in Priority Sectors, increasing the loans portfolio in sectors which have not had traditional support from commercial banking system, special treatment of weaker sections with reference to requirements of margins and security and interest so as to enable them to avail of bank's assistance and generally to pursue such measures as would enable banking services to encompass all sections of society. Several innovations are stated to have been introduced by the State Bank of India to bring banking within the reach of common man.

1.2 Expressing its view on the concept of Social Banking a non-official organisation has in its memorandum to the Committee, stated :—

"Since the Banking is meant for development 'Social Banking' should be viewed as the bankers' participation in the development process in such a way that the ultimate development objectives of the society are met without waiving or even diluting the professional standards of banking. The banking norms have to be reviewed and reset as and when necessary so as to keep them consistent with the overall development environment. The social banking does not indicate any charity or the distribution of any money without any relevance to even hard core of professional norms to be observed by the banker."

1.3 While agreeing with the above view, Secretary (Banking) stated during evidence :—

"I would like to dwell on the concept of social banking and how we make it in conformity with the professional standards. The idea is that banks are in charge of society's savings which are deposited with them. These savings have to be deployed according to certain priorities and according to certain set targets etc. Banks must deploy them in a manner that the depositors' interests are safeguarded. It is also necessary that the access to the savings should be available to people at large rather than to only a small group of people who are able to provide security and so on. I would differentiate social banking from purely commercial banking or banking based on commercial considerations depending on the economic status of person. Most of the Commercial banking is based on

whether a person has sufficient security, whether he has assets, what is his economic status and so on. We then give him a loan based on those considerations in the case of commercial banking. X X X X X. We tried to see that banking service is available to the people who were not using them earlier. The banks should conform to the society's needs and participate in programmes of economic development. That does not mean charitable kind of participation; but for development purposes."

1.4 Asked, whether the banks conformed to the concept of social banking and all the programmes chalked out for the social banking were commercial viable and if they were not so viable, the losses that occurred on account of social banking were made up by other commercial activities, the witness stated :—

"I am using the term social banking in the sense that those programmes which the banks are asked to chalk out for the weaker sections, for small entrepreneurs, for people who don't have adequate security and so on, should be in the interest of the development of the country. The loans that the banks give to these persons should be repayable at concessional rate of interest. Those activities which take place with the help of banks' finance are supposed to generate some income to the beneficiaries. But the concession is limited to the rate of interest. Banks are supposed to make profit on their overall transactions."

1.5 In a memorandum furnished to the Committee, the need for developing right awareness among all concerned about the concept of social banking was emphasised in the following words :

"The banking is to be perceived as an instrument in the total perspective of development of the society in such a way that banking also continues to develop along with the society. Thus there is symbiotic relationship between the banking and development of society. Unless clear cut understanding on these lines is developed among all concerned, it is most likely that certain unhealthy thinking will continue to emerge. On the one hand the bankers might feel that dealing with sophisticated, urban, literate class, is the only real banking. The remaining part of their activities might be looked upon as something out of their way, and they do it only as a social obligation."

1.6 Asked whether any guidelines were given to the banks impressing upon them the desirability of change in their attitude, service to the people etc. Secretary (Banking) stated :

"I would say that what we have been able to accomplish after 1969 after nationalisation, perhaps no other country has done in terms of expansion of branches, bringing more and more people within the ambit of banking finance.

X X X X X X

There are service problems and we are trying to solve them. While frustration of the people with the weaknesses in the banking



system is justified and it is our duty to introduce reforms and take corrective measures, we must not forget that the Parliament and the Government have laid great emphasis for the banking system to serve the larger national interest."

1.7 When asked about the steps taken to ensure that the conflict between the concept of commercial banking and social banking was completely eliminated from the banking system, Secretary (Banking) stated during evidence :

"The attitudinal change in the banking system has taken place and is going on. About the extent of it, we can say whether the targets which you have given us are being fulfilled and the programmes are being implemented.....If you look at the commercial standards, there is always a tension. If I say that I must give a loan which is fully secured, oversecured and has no risk, and is highly profitable, it is one type of an expectation. If I have to finance some activity which is not backed by security, does not have the same prospects as financing something else, there will be tension. I do not think we should get upset by it. But this is the job, which the country is asking banking people to do. There is no option; they have to do it."

The witness however, added :

"If social is different from commercial then commercial standards cannot be social standards.....If we are defining social banking as something different from commercial banking, then obviously the norms that you would have for social banking would be different from the commercial banking.....But the social banking scheme is also supposed to be viable in its own terms."

1.8 Asked whether he agreed with the view that the banking norms have to be reviewed and re-stated as and when necessary so as to keep them in conformity with the overall development environment, Secretary (Banking) stated :

"I agree with that."

1.9 Asked further about the specific steps taken to bring a change in the outlook and understanding of the bank functionaries so that they also considered the concept of social banking as an integral part of the total banking activity, Secretary (Banking) has stated during evidence that :—

"If I may say that there is no difference in the application of mind of a banker in regard to viability of schemes whether they are social banking or commercial banking they are within the parameters set out for that scheme, but I cannot say that there is no difference between the commercial and social banking."

1.10 The banking activity of all financial institutions, particularly of the nationalised banks, has to conform to the needs of the society to effectively participate in programmes of economic development of the country

Social banking constitutes bankers' participation in schemes and programmes that have content dominantly social in relevance i.e. future oriented in the context and welfare oriented in content. The benefit of such schemes directly accruing to the banks beneficiaries are incapable of being quantified. However, the Committee feel, effective implementation of such schemes and programmes leads to development of banking as they, besides generating goodwill and trust, impart stability to the socio-economic life of the target population.

1.11 Social banking also implies modification in the internal system of working of the banks so as to facilitate the extension of credit on intensive scale to the hitherto neglected sections of the society.

1.12 The Committee do not view such banking activity as a deviation from normal commercial banking as it lays the foundation for the commercial banking among the beneficiaries in the immediate future.

1.13 Keeping this perspective in view the Committee consider the concept of commercial banking and social banking as complementary and supplementary to each other. They are not to be viewed as mutually competing or conflicting concepts. This thinking has to pervade in the entire banking system if it has to serve as an effective instrument in the process of accelerated economic growth of the society with emphasis on the upliftment of the hitherto neglected and down-trodden sections of the society.

1.14 The Committee feel that for realising the objectives of social banking there is an imperative need for bringing about an attitudinal change in the minds of bank functionaries at all levels so as to make them understand in unambiguous terms that it is their bounden duty to carry on the banking activities with the overall social and economic perspective in view. The Committee, therefore desire the Department of Banking to devise, in consultation with the Reserve Bank of India, ways and means to instil in the minds of the operators of the banking system in the country the right thinking towards social banking. The Committee have no doubt that when the developmental process reaches a certain level, existing gap between the haves and have-nots is reduced, the schemes and programmes promoted under social banking will ultimately fit into commercial banking.

## CHAPTER II

### A. Social Banking Schemes

2.1 State Bank of India was constituted in 1955, by the nationalisation of the Imperial Bank of India, for the "extension of banking facilities on a large-scale more particularly in the rural and semi-urban areas." The tasks initially assigned by the Government of India to the State Bank were expansion of branch network and provision of rural credit through the co-operative system. The founding fathers of the institution, however, visualised a larger role for the premier commercial bank in national development.

2.2 In a note furnished to the Committee the Ministry of Finance (Banking Division) has stated that the SBI has launched the following major programmes/schemes since its inception :—

- (i) Pilot Scheme for Small Scale Industries (1956—58).
- (ii) Liberalised Scheme for Small Scale Industries (1961-62).
- (iii) Entrepreneur Scheme (1967).
- (iv) Agricultural Finance (1968).
- (v) Small Business Finance (1969).
- (vi) Agricultural Development Branches (1971).
- (vii) Innovative Banking (1973).
- (viii) The 20-Point Programme (1975).
- (ix) Entrepreneur Development Programmes (1976).
- (x) Equity Fund Scheme—Gramodaya Project (1978).
- (xi) Demonstration Plots Scheme—State Bank Institute of Rural Development (1981).

State Bank of India is also implementing the following schemes in the sphere of social banking :—

- (i) Differential Interest Rate Scheme.
- (ii) Integrated Rural Development Programme.
- (iii) Self-employment to educated unemployed youth.

2.3 During evidence when asked whether the Banking Division of the Ministry had undertaken any study/evaluation of schemes so as to ascertain whether each one of them had achieved the desired results, Secretary (Banking) stated : "The task of evaluating schemes is done by the Bank itself or by the Reserve Bank of India."

2.4 Asked further, whether it was not done on behalf of the Ministry, Secretary (Banking) stated : "Planning Commission has an Evaluation Organisation and they have done an evaluation study.....We do not do it because it will be duplicating the effort of the RBI and the banks."

2.5 Elaborating the position, the Chairman, State Bank of India, stated :

"These are eleven categories, but basically there are two types of scheme : one relating to small scale industries and the other relating to rural development and agriculture. In regard to small scale industries, the Schemes are really presented in the chronological order in which they were introduced in the State Bank of India. Before 1956, the State Bank of India hardly financed anything in the small scale industries. In 1956 we started with 25 pilot centres to find out whether we could really go into this area. This was evaluated in 1959 and it was decided that we could go in a big way for financing small scale industries. Upto 1963 we went on financing small scale industries in some sectors intensively and in some other sectors in a preliminary manner. In 1963, an evaluation was done by Shri R. K. Talwar who was later the Chairman of this Bank, and based on his recommendations, we completely revamped our financing of small scale industries. We simplified it to the extent possible; we brought about flexibility in the types of financing; also we made it more liberal than in large scale industries in the matter of interest. This went on upto 1973, and again in 1973 we reviewed the scheme by another Committee, what is called 'Chatelier Committee' which went into the organisation and methods which the State Bank should adopt to make small scale industries an integral part of the total banking activity. The short point which we are mentioning is that we first experimented, then evaluated and then proceeded further. This is regarding small scale industries.

The other type of schemes is relating to agricultural financing. There also we have proceeded in a very systematic manner. Initially in 1960 the State Bank did not go into agricultural financing. First the decision was taken that we would finance only marketing and processing societies. Then We enlarged it still further. In 1967 there was a Group which was headed by the then Governor of Reserve Bank and in pursuance of its recommendation, we enlarged it to cover certain other areas of cooperative sector. In 1969 the nationalisation of banks came, and as per the wishes of the Government and the instructions of the Reserve Bank, we went in a bigger way. These are the schemes for agricultural development set up in our branches in 1971. At a time when there was no specific direction as to how we should go about agricultural development all these innovations were made by the State Bank of India."

2.6 Asked, whether the studies being conducted by the Bank itself were really independent in view of the fact that the Bank was also finalising these programmes or whether the Ministry considered that separate agencies should make the evaluation studies, Secretary (Banking) stated :

“I have no doubt that the bank management, when it makes its study and evaluation, has its own programme to find out that so much assistance has been given and see that so much has reached and spent properly for the programmes. The Reserve Bank of India also looks into it and it does a very independent study.”

2.7 Asked, when the banks themselves were financing these programmes and they were themselves evaluating their performances, was it not necessary that a separate agency should evaluate its working, Secretary (Banking) stated :—

“If it is a Government of India scheme, whether it is the RBI or the Planning Commission, the organisation will evaluate it as it has been done in the case of IRDP . . . . . The schemes which have been started by the banks themselves are not Government schemes. They are the schemes started by the State Bank of India itself. So, they would do the evaluation of those schemes.”

2.8 Clarifying the position further, the representative of the Reserve Bank stated :—

“All these schemes were started by the RBI itself and these are not the schemes which are generally applicable to the banking system as a whole. Therefore, the primary responsibility for evaluation of these schemes rests with the bank itself. RBI has not done any evaluation of these specific schemes. It has done evaluation in regard to other Government sponsored schemes.”

2.9 When asked to state the position of evaluation of each scheme starting with Entrepreneur Development Programme, Chairman of RBI stated :

“No study as such has been done. But we have initiated a study and the result will come soon. However, it was evaluated by an internal Committee in 1975. Then, agricultural finance—we have not made any study as such, because the banks were nationalised in 1969 and it became a part of that.

Then, small business finance—no specific study.

Agricultural Development Branches—made a study two months back.

Innovative banking—No formal report.

**The 20-Point Programme :** No study as such. It is a amalgam of all the other schemes which the bank is undertaking. There are 12 items but we have not made a specific study as such."

2.10 Asked, whether there has been any qualitative improvement in the life of the population groups|segments of our society which were the beneficiaries of various schemes, the representative of the Reserve Bank of India during evidence, stated :

"The schemes which are of general applicability for the banking system as a whole, we do monitor the progress in regard to those schemes, we collect lot of statistics, we have done some evaluation of those schemes on our own and also we have requested outside agencies to undertake some evaluation studies. We have done, IRDP, differential rate of interest we have done. We have done self-employment schemes."

2.11 When the Committee observed that it appeared as if no agency had any control over the implementation of the schemes, the representative of the Reserve Bank of India stated :

"These are the schemes which are introduced by the State Bank of India from time to time to respond to the specific requirements in its own perception. The broad guidelines which we have given in regard to the interest rates, the margin money, the security and all those things will apply to these schemes also and we can take it that the State Bank of India has formulated these schemes within the overall guidelines which we have given. If they have to go beyond our guidelines, they have to come to us."

2.12 Asked, whether any of these schemes have been able to generate surplus in economic activity of the beneficiaries so as to enable them to pay back the loans, Chairman SBI stated : "To the extent there is a non-overdue portion, there is generation of surplus."

2.13 Subsequently the Ministry furnished the following statement indicating the extent of financial losses incurred by the State Bank of India on the implementation of various schemes (scheme-wise) :

Outstandings as at 31st December,  
1984 (Rs. in crores).

Sr. No.	Category	Total (a)	Protested Bills* (b)	% of (b) to (a)
(i)	Agriculture (All schemes)	1876**	59	3.1
(ii)	Small Scale Industries (All schemes)	1737	163	9.4
(iii)	Small Business (All schemes)	808	5	4.3

\* Debts considered bas or doubtful of recovery.

\*\* Direct Finance.

2.14 The Ministry added : "the evaluation studies have revealed that excepting agriculture, all other sectors showed reasonably satisfactory income generation under the Integrated Rural Development Programme. While the average incremental income per annum per beneficiary was Rs. 937 under agriculture, it was Rs. 1,267 under allied agricultural activities, Rs. 2,255 under village and cottage industries and Rs. 1,541 under tertiary sector.

2.15 All sectors taken together, the following activities were observed to be highly remunerative : tubewells and pumpsets in agriculture, all activities in the village and cottage industries sector with the exception of basket-making and pottery, dairy in the allied agricultural sector (provided adequate linkage support has been provided) and kirana shops, cycle-rickshaws, hotels, paan-shops, cycle shops, bakery, etc., in the tertiary sector "

2.16 The Committee note that the State Bank of India has launched a number of schemes since its constitution in 1955 by the nationalisation of the Imperial Bank of India for the "extension of banking facilities on a large scale more particularly in the rural and semi-urban areas." Similarly Government has also launched certain schemes for the economic upliftment of the weaker sections of the society. With regard to monitoring and evaluation of these schemes, it transpired during evidence that the monitoring and evaluation was done by the bank itself in so far as bank's own schemes were concerned and by the Planning Commission/Reserve Bank of India if the schemes were Government sponsored and that the Ministry of Finance (Banking Division) has nothing to do in the matter. It also transpired during evidence that over the years the State Bank of India and Planning Commission/Reserve Bank of India have done precious little in conducting any indepth evaluation of these schemes so as to find out whether the schemes were being implemented on proper lines and the funds were actually reaching the people for whom they were meant. The Committee consider such a situation as a case of shift responsibility on the part of the Ministry, the Reserve Bank of India and the State Bank of India. The Committee cannot expect the Ministry to wash of their hands by stating that the schemes launched by the State Bank of India were to be evaluated by the bank itself and the schemes launched by Government were to be evaluated by Reserve Bank of India or the Planning Commission. The Committee also do not appreciate the statement of the representative of the Reserve Bank of India that the banks were required to formulate and implement the schemes within the guide lines issued by them and they were not concerned with the monitoring or evaluation of the schemes launched by the SBI. The Committee need hardly point out that these schemes involve disbursement of thousands of crores of public money and the Ministry and the Reserve Bank of India have a vital central role to ensure that these schemes are implemented in letter and spirit. The Committee suggest that an indepth evaluation of all the schemes should be done at regular intervals by an outside expert body under the overall supervision of the Ministry, Reserve Bank of India/Planning Commission so as to ensure that the schemes are yielding the desired results. The Committee also suggest that all Social Banking Schemes formulated or sponsored either

by Government or the bank should have an in-built mechanism for evaluation and monitoring.

2.17 The Committee are unhappy to be informed that there are outstandings as at the end of 1984 to the tune of Rs. 1876 crores, Rs. 1737 crores and Rs. 808 crores in the Agriculture, Small Scale Industries and Small Business respectively. Outstandings which are considered bad or doubtful for recovery, are to the tune of Rs. 59 crores, Rs. 163 crores and Rs. 35 crores respectively in these sectors. Apart from huge proportion of outstandings in practically all the sectors, there are large sums which are virtually bad debts and are doubtful of recovery. If this is the position with regard to the SBI, the Committee can well imagine what would be the total picture if all the nationalised banks are taken together. The Committee would like the Ministry/Reserve Bank of India to immediately conduct an indepth study to find out the reasons for the dismal picture about the implementation of these schemes and initiate necessary corrective and result-oriented measures so as to avoid losses in future and to achieve the desired aims of those schemes.

### *B. Lead Bank Scheme*

2.18 In the material furnished to the Committee by the Central Office of the SBI it has been stated that :—

"SBI, as the premier public sector bank accepted, voluntarily, lead bank responsibility in the least developed districts of the country. Of the 81 districts for which the Bank has lead responsibility, 75 are industrially backward and are situated in the hilly and tribal regions of the country. 1266 or 17.61 per cent of our branches are located in our lead districts. The Bank has disbursed Rs. 263 crores, as against its allotted share of Rs. 198 crores, in its lead districts up to the end of 1984."

2.19 Asked how many of these districts were in tribal areas, Chairman RBI has stated during evidence that :

"We have districts in Orissa, Nagaland and Meghalaya. They are mostly in the tribal areas."

2.20 Asked whether there was any further target for covering more districts in 1985-86, the witness stated :—

"We have licences pending from the Reserve Bank of India. As on 30 September (1985) licences for 190 branches are pending. But I have to make one clarification here. The Reserve Bank has laid down a new branch licencing policy in which it has stated two major things. The first thing is that already some of the blocks are deficit. So, our aim is to have in those blocks more bank branches at an average of 17,000 population per branch. But there are certain surplus blocks where the population per branch ratio is much lower. So they have asked us to scrutinise these 190 applications



and surrender those applications which are on the surplus blocks. And we are carrying that out. Only the number is decided but the actual transfer is not done."

2.21 When asked whether any studies had been made to ascertain that these branches were functioning well and that the areas served by them had actually developed Chairman SBI stated :—

"The development of these districts can be judged by two criteria. The first is the credit-deposit ratio. If we go by it, we have over the years made substantial improvement. I will first give a broad macro picture, and then some points. In 1980, out of the 70 districts which we had, in 27 the ratio was below 20 per cent i.e. out of Rs. 100 crore deposits collected, we have deployed only 20 per cent. In this area particularly, the improvement has been noticeable in the north eastern region. In East Garo, West Garo, and Jaintia Hills, the credit-deposit ratio has gone up from 13 per cent—18 per cent to about 40—54 per cent. Between the credit-deposit ratio of 21 per cent and 40 per cent, in 1980 we had 15 such districts. In other words, there were 15 such districts where that ratio was below 40 per cent, but above 20 per cent. The number of districts has increased to 30 from 15 in 1980.

Similarly, between 41 per cent and 60 per cent we had ten districts in 1980. The number of such districts has gone up to 15 in 1984. Above that limit, there were 18 districts; and now there are 26. So, over the years we have some improvement, viz. in the districts of the north eastern region where the ratio was very less, it has improved."

2.22 In reply to a further question, it has been stated that :—

"We do not decide on taking up more districts, unless Reserve Bank asks us to do so. In each district, the State Bank may not be the lead bank; but in all the districts of the country, some banks are the lead banks."

2.23 Subsequently the Ministry has informed the Committee that apart from a number of concurrent evaluation studies, the Bank had also conducted impact studies in 10 selected lead districts in the country to assess the impact of the Integrated Rural Development Programme in raising the level of income of the beneficiaries, assisted by the Bank, above the poverty line. The major findings of the evaluation studies have been brought to the notice of the Bank's Circles to enable them to initiate remedial measures for a more effective implementation of the Programme during the Seventh Plan. The Circles have also been advised to place the major findings of the evaluation studies before the District Consultative Committees and other forums so that the lacunae revealed in these studies are made known to other functionaries involved in the implementation of the programme at various levels and suitable action is taken by them to remove the deficiencies in the implementation of the programme, so far as they are concerned.

2.24 The Committee note that the State Bank of India accepted voluntarily lead bank responsibility in 81 districts in the country of which 75 are industrially backward and are situated in hilly and tribal regions. The Committee also note that 1266 branches or 17.61 per cent of the total bank branches of SBI are located in lead districts and these branches disbursed Rs. 263 crores against their share of 198 crores upto the end of 1984. The Chairman of the State Bank of India has claimed during evidence that the credit-deposit ratio in the lead districts being served by the Bank has substantially improved over the years. The Committee are informed that along with a number of concurrent evaluation studies, impact studies in 10 selected lead districts were conducted by the SBI and the findings of these studies were brought to the notice of the District Consultative Committees as also the concerned functionaries of banks, so as to remove lacunae and deficiencies in the implementation of the Schemes. The Committee are further informed that as on 30 September, 1985 licences for opening of 190 more branches were pending with the Reserve Bank of India. As the problems may vary from district to district, the Committee desire that for meaningful implementation of the scheme, impact studies in all the districts under the scheme should be conducted on ongoing basis and effective follow-up action taken so that the deficiencies which come to the fore could be removed forthwith. They would also like the RBI to clear pending licences for opening more branches, expeditiously.

#### *C Differential Rate of Interest Scheme*

2.25 During evidence, the representative of the State Bank of India stated "Our overall differential rate of interest in the country is that as against Government's target of 1 per cent, we have 1.4 per cent. Government has also laid down that 40 per cent of this should go to Schedule Castes and Schedule Tribes. Our figure is 47 per cent. The Government has laid down a criterion that two-thirds of it should be given through rural and semi-urban branches. We have 75 per cent of our credit through rural and semi-urban branches."

2.26 In reply to a question, the witness stated that the selection of the beneficiaries was done by the bank itself.

2.27 When the witness was informed that it had come to the Committee's notice that out of those persons who deserved differential rate of interest, some had not got it and those who were not eligible to get it, had managed to get it the witness stated: "It is done by the Bank Manager because of the target. We have instructions that you must try to fulfil the target."

2.28 When asked who certified the annual income of the beneficiary, the witness stated "That is done by the Bank Manager."

2.29 When asked, had the Branch Manager any capability to assess that the beneficiary income was Rs. 2000, the witness stated :

Apart from DRI we have also IRDP, if we are looking for a very sophisticate method for income calculation, then it is not possible."

2.30 Asked, whether the Ministry would give some thought to some kind of mechanism by which not only the Branch Manager was involved, but Government was also involved, the representative of the Ministry stated :—

“The other model which is available for us is the IRDP model in which village-wise income survey was made and a list of beneficiaries has been prepared. The procedure also says that a list should be exhibited in every village. So, that, according to us, is a much better system for identifying the beneficiaries instead of giving the responsibility to the Branch Manager.”

2.31 The Committee are concerned to note that no study has been undertaken about the implementation of the Differential Rate of Interest Scheme and it has been left to the branch managers not only to identify the beneficiaries under the scheme but also to certify their income. The Committee need hardly point out that there is ample scope of malpractices in the present procedure being followed in the implementation of the scheme. The Committee would like the Government to review the working of the scheme in all its aspects and lay down proper guidelines for the proper implementation of the scheme. The Government may also consider taking assistance from the Village Panchayat Agencies in the identification of the beneficiaries and the District Revenue Authorities in getting the income of the beneficiaries certified.

#### *D. Regional Rural Banks*

2.32 The Committee were informed that :—

“The Regional Rural Banks are State-sponsored, low cost, regionally based and rural oriented commercial banks. These banks are expected to confine their lendings to small farmers, marginal farmers, landless labourers, rural artisans, etc. SBI's performance at the end of 1984 in this area are briefly summarised hereunder :—

No. of RRBs sponsored	26
No. of Branches of RRBs	1844
Deposits (Rs. in crores)	170.17
Advances (Rs. in crores)	214.25
—Of which under IRDP	50.77
Refinance extended by SBI (Rs. in crores)	52.48

2.33 Asked about the number of beneficiaries, categorywise, under this scheme, Chairman, S.B.I. stated during evidence :—

1984 was 15.91 lakhs with a total outstanding amount of

“The total number of beneficiaries under the Regional Rural Bank in which the State Bank of India had sponsored upto December

Rs. 214.25 crores. Out of these 15.91 lakhs, the small and marginal farmers and agricultural labourers 12.11 lakhs. The figure for rural artisans and others is 3.80 lakhs. We do not have separate figure for landless labourers. It comes under the small farmers and agricultural labourers. It is clubbed in that."

2.34 Asked, why separate figures for landless labourers were not being maintained, the Chairman, SBI stated during evidence :—

"We try to find out from the Regional banks. Others are identified under IRDP. In this case, the RRBs' main borrowers are also under IRDP. There is a clearcut selection procedure. RRBs are also allowed to lend money to these people with the maximum limit of Rs. 6,500. That is the limit. But they do not get the concessions as in IRDP like subsidy. So, that is not attractive."

2.35 Asked about the mode of payment cash or kind—and whether there was any chance of misuse, the representative of the Ministry stated :—

"A Committee has been appointed under the Chairmanship of NABARD to go into the specific question whether the mode of payment should be made in cash or kind and whether it should be direct payment to the suppliers, which will be better and, we hope, the report will be available soon."

2.36 When asked whether any survey had been conducted to ascertain whether the assets so purchased by the beneficiaries were not sold out and whether beneficiaries were genuine and eligible, Chairman, SBI stated :

"We had carried out a survey among one thousand beneficiaries in ten districts. We found that in some of the cases assets were not existing or already sold away. That showed several positive as well as negative features. Negative features were that of wrong identification of beneficiaries."

2.37 Asked since most of the beneficiaries were illiterates, who helped them in completing the formalities, such as filling up of forms etc., the witness stated :—

"I will make special enquiries to find out whether our staff helps them or there are middlemen."

The witness added :—

"In the case of IRDP, application forms are received by the banks from the DRDA agencies. In other cases the Branch Manager gives the form. I will make a point to find out from the branches whether middlemen are given the forms by the bank agencies."

2.38 Asked further whether any malpractices have come to the notice of Government regarding grant of loans etc. to the beneficiaries, the representatives of the Ministry (Banking Division) replied in the affirmative. He further explained that :—

“A loan was being sanctioned to a borrower and it was being paid in cash and it was left to him either to purchase a cow or a buffalo or anything. That pattern was being followed in the 70s. But that was misused. Complaints were received. Instructions were issued that the loan should be given in assets and not in cash. But, if a pump-set costs a particular amount, then payment should be made direct to the supplier so that the borrower can get the asset he wants. Unfortunately, there are also unscrupulous companies where the subsidy is played upon on the borrowers and some amount is taken away by the middlemen. Continuous vigilance is one solution to avoid this problem. The Finance Minister, as Secretary said yesterday, gave a lead by organising on 14 December a countrywide programme in which not only Ministers, Chairmen but also Regional Managers personally participated. Continuous inspection and an opportunity to the borrowers to make a complaint if they are cheated, is one method of curbing this malpractice. Instructions are issued that all the Branch Managers should earmark one or two days in a month when the disbursement takes place. That will ensure that the beneficiaries get the benefit and they can make complaints. This is a process which will have to be continuously monitored to see that no wrong things happen in this field.”

2.39 Asked whether beneficiaries were compelled to purchase agricultural inputs from the agencies of the choice of bank functionaries who were instrumental in sanctioning loans, the witness stated:

“There are lists of recognised agencies which are maintained. So they purchase it from them. In the case of IRDP, there is a purchase Committee and there is a list of approved agencies from where it is purchased. This is a guideline.”

2.40 Subsequently in a note furnished to the Committee, the Ministry has stated that in the light of suggestions made in several forums, the Reserve Bank of India had issued instructions that the bank officials should not be involved directly in the selection of equipment/products or suppliers. They should not insist on the borrowers purchasing inputs or assets from particular dealers, nor should there be any compulsion for purchase of particular brand of assets. No complaints have been received at the Central Office of the Bank to the effect that beneficiaries under IRDP were compelled to purchase agricultural inputs from the agencies of the choice of the bank functionaries who were instrumental in sanctioning the loans.

2.41 The Committee note that the Regional Rural Banks are State sponsored, low cost, regionally based and rural oriented commercial banks. These Banks are expected to confine their lendings to small and marginal farmers, landless labourers, rural artisans etc. Presently the total number

of beneficiaries sponsored by the State Bank of India under this scheme is 15.91 lakhs with a total outstanding amount of Rs. 214.25 crores. While giving the break-up of these beneficiaries, category-wise, the Chairman of the State Bank of India informed the Committee during evidence that only figures for small and marginal farmers, agricultural labourers and artisans were available as separate figures for landless labourers were not being maintained. The Committee need hardly stress that landless labourers constitute a very large chunk of the rural population and in the fitness of things separate figures should be maintained by the Regional Rural Banks.

2.42 The Committee also note the results of the survey conducted by the State Bank of India in 10 districts to find out whether the assets purchased by the beneficiaries out of the loans and subsidy given by the Regional Rural Banks were intact and whether the beneficiaries were genuine and eligible. It is disheartening that in many cases assets are not existing at all or have already been sold. Many of the beneficiaries have also been wrongly identified. The Committee would like the Government to initiate such measures as may be necessary to educate the beneficiaries that the assets purchased out of the loans and subsidy given by the Regional Rural Banks should be maintained with utmost care and constant efforts should be made to use such assets for economic generating activity.

2.43 Many instances have come to the notice of the Committee where the middlemen and banking officials have colluded in taking advantage of the beneficiaries who are mostly illiterate. The representative of the Banking Division admitted during evidence that complaints have come to the notice of the Ministry to the effect that some middlemen and banking officials have grabbed as much as half of the amount of the loan and subsidy sanctioned to the beneficiary. The Committee note that instructions already exist to the effect that the bank officials should neither insist on the borrowers for purchasing inputs or other assets from particular dealers, nor there be any compulsion for the purchase of a particular brand of asset. The Committee would like that these instructions of the Reserve Bank should be scrupulously followed by all the banking officials and regular inspections should be conducted by the higher officials to ensure that the banking officials in a Branch are not indulging in any malpractices and that the benefits actually reach the target groups.

2.44 The Committee also feel that the procedure being followed for sanctioning loans and subsidies to the beneficiaries and the various forms used for the purpose appear to be cumbersome and need simplification. The branch officials of the bank should guide and help the illiterate beneficiaries in getting the necessary formalities completed and the loans sanctioned expeditiously.

2.45 The Committee are informed that a Committee under the Deputy Governor, Reserve Bank has been appointed to go into the specific question whether the mode of payment should be in cash or kind or whether it should be direct payment to the suppliers. The Committee hope that

**the Report of the Committee appointed under the Deputy Governor of Reserve Bank would be made available soon\* and necessary corrective measures initiated in right earnest to improve the situation.**

### *E. Assistance to Small Scale Industries*

2.46 The State Bank of India informed the Committee that as early as 1956, SBI accepted the philosophy of social banking, and launched a 'liberalised scheme for assisting Small Scale Industries (SSI) at 9 'pilot centres' all over the country. The essence of the scheme was relaxation in the rigidity of standards as also administrative procedures in favour of SSI units. Agents were advised to adopt an attitude of positive help and guidance towards these Units. Margin requirements were relaxed and interest rates lowered. Clean advances too were granted in appropriate cases.

2.47 When asked during evidence about the location of these 9 "pilot centres" and whether there was any proposal to increase the number of such centres, Chairman SBI stated :—

"These pilot centres were started in 1956. We started with three centres each in three circles e.g. one in Bombay, Kolhapur, Surat and one in Madras (Coimbatore) and another in Vijaya-wada. On the experience of these centres we liberalised and went over to all the other branches."

2.48 Asked what was the number of these centres at present. the witness stated :—

"Originally it was nine. Later we extended them to all the branches of the State Bank of India. This is a 1956 Scheme. Before that, the State Bank of India was not giving loans for them. These pilot schemes were started in 1956 to find out whether we could do small scale industrial finance. Then the small scale industries used to come for aid only to these centres. . . . From these nine centres we used to give finances to small scale industries. Then in 1959 we decided to extend small scale industrial finance to all branches of the State Bank of India. That scheme was only to test our capability. Now that scheme is not there. But all the branches are doing it."

2.49 The Committee note that the S.B.I had launched a liberalised scheme for assisting small scale industries at nine 'pilot centres' all over the country in 1956. The essence of the scheme was relaxation in the rigidity of standards as also administrative procedures in favour of small scale industrial units. The margin requirements are also stated to have been relaxed, interest rates lowered and clean advances too were granted in

\* It is understood from the Department of Banking that the Committee appointed under the Chairmanship of the Deputy Governor, Reserve Bank has already submitted its Reports. That Committee recommended that to start with the mode of payment of subsidy should be in cash in selected blocks. Accordingly 22 blocks have been selected for the purpose and instructions have been issued for the Payment of subsidy in cash.

appropriate cases. Now the facilities for assisting small scale industries have been extended through all the branches of State Bank of India. The Committee would like to emphasise that since the development of small scale industries is crucial to the economy of the country, the banks have to play an important role in providing credit to them at liberal terms and conditions with least possible administrative and procedural hurdles.

#### *F. Entrepreneur Development Programme*

2.50 The State Bank of India has informed the Committee that it has been conducting since 1976, special promotional programmes titled EDP with a view to motivating first-generation entrepreneurs to set up risk bearing ventures, particularly in backward districts. These programmes highlight opportunities and also provide basic inputs in industrial management. Unto 1984, SBI had conducted 95 such programmes covering 2200 entrepreneurs, 20 per cent of trained candidates have set up units and 17 per cent are in the process of preparation of project reports.

2.51 During evidence when asked as to who conducted the programme and why only 22% of the trained candidates had set-up their units, Chairman, SBI stated :

“This is a training programme. This is the programme for entrepreneurial development which we have been conducting mostly in the undeveloped areas. . . . . The contents of training of about 30 days’ duration are laid down elaborately.”

2.52 Asked whether the programme was conducted in different States, the witness stated :

“We have conducted so far 95 programmes in different States. . . . . It is only by advertisements given by the bank. There is a selection procedure. The persons will be selected and for 30 days, they undergo training programme.”

2.53 The witness further added :

“It is (selection) done by the Chief General Manager of the Circle. . . . . The selection procedure is laid down in two stages. For application forms, there is some system of scoring. There is some Questionnaire which is given. After that, two things are done, psychological test and group exercise and interview by the Selection Board. Roughly about 25 people are taken. The Course is residential.”

2.54 Since 1976, only 2200 persons had been trained. Asked, whether the SBI considered the programme as successful, Chairman SBI stated :

“This is a development programme. This is a programme which we are now evaluating. We are thinking whether we should Continue it or not.

We evaluate it to find out whether the scheme needs any modification or we should continue in the same form.



The second function of the State Bank or any Bank for that matter is developmental. State Bank of India did certain work in small-scale industries. But, they did not undertake this programme. But let us have a look at the programme.

The success rate is less than 22% for Courses conducted by other institutions. There are other institutions which also conduct this Course. The Indian Institute of Management, Ahmedabad says that only 30 out of 329 candidates trained by SISI, Hyderabad had set up units."

The witness added :

"The IIT, Delhi, also had been conducting such courses, but none of those 90 candidates has set up business units. I am not giving the figures to show that ours is better than others. This is a developmental effort which we can do to a very limited extent, to the extent our funds permit. As I said, since small scale industry is a paramount need for our country, we are evaluating the scheme to see whether we can make improvements in the scheme or change the direction or whether we can discontinue because today many agencies all over the country undertake such schemes—in fact, that is their function, not very much our function."

2.55 Asked how many units had been set up by the trained candidates, Chairman SBI stated :

"Out of the candidates who were trained, 538 persons were sanctioned loans. Today, as the latest figures show 363 candidates who had undergone these courses have submitted schemes for setting up their business and they are now being examined at different places."

2.56 With regard to the follow-up action taken by the SBI. after Entrepreneur Development Programmes, the Ministry has furnished the following information :

"The candidates trained under Entrepreneurial Development Programmes are being followed up through follow-up meetings. The follow-up meetings are held at quarterly intervals and these are held for a period of 18 months after the conduct of the relative programmes. During the follow-up meetings, candidates trained are given counselling service by consultancy cell officials in regard to preparation of project reports, identification of products etc. Where needed, infrastructure authorities are approached by the Bank officials for provision of necessary infrastructural support to the trained candidates to enable them to set-up their ventures at an early date. Even after period of 18 months, when the follow-up meetings in respect of the programmes are not conducted by the Bank, the trained candidates are advised to call on consultancy cell officials to enable them to identify products and finalise their projects at an early date."

2.57 The Committee note that the State Bank of India since 1976 is conducting special Entrepreneur Development Programmes with a view to motivating first-generation entrepreneurs to set up risk bearing ventures, particularly in backward districts. Besides, Indian Institute of Management, Ahmedabad and Indian Institute of Technology, Delhi, etc. are also conducting such programmes. The Committee do not consider that the programme being conducted by State Bank of India has been very successful in view of the fact that only 22 per cent of the 2200 entrepreneurs trained so far have set up industrial units and 17 per cent are in the process of preparation of project reports. The Committee are informed that the programme is being evaluated by the State Bank of India to find out whether it needs any modification or should be discontinued in view of the low response from the trainees to set up industrial units after training. The Committee would like to be apprised of the results of the evaluation being done by the State Bank of India. The Committee would also like the State Bank of India to coordinate with the other organisations conducting such programmes to find out whether a unified and broad based programme could be conducted by either of the organisations instead of so many organisations conducting such programmes independently.

#### *G. Agricultural Development Branches*

2.58 As stated by the State Bank of India the concept of 'ADB's' was evolved by the Bank in 1971 in response to the need for an organisational set-up for handling agricultural advances exclusively. The centres for opening such branches are carefully identified keeping in view the potential as well as the concentration of small/marginal farmers and landless labourers, and also coverage by Government schemes such as SFDA/MFAL, etc.

2.59 During evidence when asked as to what was the criteria for selection of centres for opening such branches and whether it was ensured that the agricultural inputs were available at the centre so identified, Chairman, SBI stated :

"Agricultural Development Branches were started in 1971. This was again done by the State Bank on its own because there were very few branches which had come up for agricultural financing. We had laid down guidelines for selection of ADBs. Today we have 432 ADBs. There were five criteria which were laid down, (1) areas covered by the Small Farmers' Development Agencies and Command Area Development Authorities; (2) areas with potential for irrigation and other infrastructural facilities; (3) under-developed areas; (4) lead district areas; and (5) areas with concentration of tribal farmers, landless people, etc. On the basis of these five criteria, we went on setting up ADBs purely for agricultural financing."

2.60 Asked to state the number of beneficiaries and the net amount advanced from 1971 to 1984, Chairman, SBI has stated :—

"The number of farmers financed out of these 432 ADBs is 16,79,256 and the net outstanding amount is s. 641.29 crores. . .

.....The ADB branches give loans for both agriculture and also allied activities."

2.61 Clarifying the allied activities, the witness stated : "Allied purposes mean dairy, poultry, fishing, etc."

2.62 Asked since the scheme was started in 1971, were there any guidelines from the Reserve Bank, representative of the RBI stated :

"This scheme was started by State Bank of India but you were right in saying that the Reserve Bank was consulted. The State Bank could not have done without consulting us. The idea at that time was that the branch network of commercial banks in the rural areas was not of that magnitude which could enable the banks to extend credit to the farmers both for agricultural and non-agricultural activities. Therefore, we gave certain guidelines to the State Bank to have an area approach for intensified lending for agricultural activities. But during the same period the branch expansion, particularly, in the rural areas had taken place at a rapid speed. Now out of 51,000 branches of banks about 60 per cent are in the rural areas. As a part of our branch expansion policy, we took a deliberate decision to expand the network of commercial banks in the rural areas. We wanted the State Bank and others to go slow at ADB scheme. And today, we are not encouraging them to go in a big way and we have asked them to go to areas where there are no sponsored regional rural banks or the branch expansion is not adequate. A Committee had been appointed to review the arrangements for institutional credit for agricultural and rural development and the role played by ADBs. They have observed that while the scheme had done some good work, there are some deficiencies in the implementation of the programme."

2.63 The representative of the Reserve Bank of India further stated :

"The Agricultural Development Banks were set up to do intensive financing of agricultural and other allied activities. All the activities which are being financed today by the rural branches of the banks were to be financed by these ADBs. Since a lot of branch expansion has taken place, all the activities like IRDP, etc. will have to be done by the banks branches also. We did not give any target to ADBs. because the 40 per cent priority sector lending target came later on. The 'targeting' had started from 1975 onwards. These targets are applicable to all the branches of the commercial banks including the ADBs."

2.64 About the guidelines given by the State Bank of India, the Chairman, SBI stated :

"The State Bank's guidelines are to cover 70 to 100 villages within a radius of 40 KM. It was indicated that about 4000 to 5000 farmers should be covered over a period of three to five years and lending should reach the level of Rs. 1 to 5 crores. As

already mentioned, there were hardly any branches of other banks. Now, there are so many branches of other banks also functioning in the rural areas, and so no further licences for ADBs would be given. We have now set up special cells (known as Agricultural Banking Divisions) in about another 515 and odd branches for agricultural financing. They are in our ADBs Agricultural Development Branches, where the concentration of agricultural financing is continuous. This is how the matter stands now."

2.65 The Committee are informed that the State Bank of India evolved the concept of Agricultural Development Branches on its own in 1971 for handling agricultural advances exclusively. At present, the Bank has 432 such branches and upto the end of 1984 the number of farmers financed through these branches was 16,79,256 and the net outstanding amount Rs. 641.29 crores. These Branches provide credit for both agriculture as also allied activities like dairy, poultry, fisheries etc. The Committee, however, note that the Reserve Bank of India has taken a decision to expand the net work of commercial banks in the rural areas and has asked the State Bank of India and other banks to go slow on the opening of further Agricultural Development Branches. The Committee however, have no doubt that all those areas which have not yet been covered by the commercial banks will be provided banking facilities in a time bound programme. The Committee would also like the State Bank of India to make an indepth study in the working of the existing Agricultural Development Branches to find out their impact on the socio-economic advancement of the beneficiaries and also whether the recovery position is satisfactory.

#### *H. Non-availability of infrastructural facilities*

2.66 In the Preliminary Material furnished to the Committee, it has been stated that studies made with regard to development of backward areas revealed that :—

"Provision of adequate infrastructural facilities by the District Rural Development Agencies, which was to form the backbone of the Programme turned out to be its weakest link and was one of the important reasons for the limited impact of the Programme on the beneficiaries. It was observed that the assets supplied to the beneficiaries were either inadequate or of poor quality and the marketing facilities were inadequate, thereby rendering some of the activities non-viable. The district and block level forums were also not effective enough in monitoring the availability of adequate back-up support and making a proper review of the progress of the implementation of the Programme."

2.67 A representative of a non-official organisation has stated during his evidence that :

"There are four major components, which are required to you that the ultimate production takes place. You have got

credit, technology, input supply and services marketing. Banks give credit only. Remaining things are also important. There should be this technology inputs, marketing services etc. In some cases, banks have initiated action in order to see that these things are mobilised. They cannot create it themselves."

2.68 Asked whether, while formulating Projects|Schemes it was ensured that the non-credit inputs were available to the beneficiaries in the area of operation of a particular scheme, Chairman SBI stated :—

"I agree with the statement and the Banks cannot provide the non-credit inputs. But they can point it out, for each district, where there are credit plans and these credit plans are discussed in the district cooperative agencies and all the other concerned infrastructure agencies. It is a continuous interaction.....banks and the other services like technology and inputs, etc."

2.69 Asked whether besides credit, any inputs, project reports, evaluation reports, marketing facilities were also provided to the loanees, the Chairman, SBI stated, "We do not provide for the other services." He further added that only in respect of small scale industries, technical advice was being given.

Asked who supplied these inputs, the witness stated :

"The district agencies in some cases or individuals in some cases."

2.70 Asked about the reaction of the State Bank of India on the formulation of matching schemes for production of required inputs by the banks alongside schemes for providing credit, the Chairman, SBI stated :

"Banks do not have the infrastructure for that."

2.71 In reply to a further question, the witness informed the Committee that the coordination in the matter was done by a district coordination Committee which is presided over by the District Collector|Commissioner.

2.71-A In reply to a further question, the Chairman, SBI informed the Committee that :

"In 1970, RBI laid down instructions that each Bank would be allotted a district for which it would prepare a district plan which would show potentiality of credit in the district and different types of activities which are relevant for the economic development of the district. In pursuance of that we have a three-year credit plan in each of the districts. For 1984-85 we are working out an annual district Plan."

2.72 Asked whether, while formulating the Schemes for Social banking, it was ensured that the scheme envisaged provisions for creation of basic infrastructural facilities as without such facilities scheme could not be expected to be successful, the representative of the SBI stated :

"75 districts are backward areas and in these districts, it is our view that if we have proper infrastructure, we can do substantial amount of work. In Meghalaya in the North-East Region, the credit deposit ratio in 1977 was about 9 per cent. Today it is about 33 per cent. If infrastructure develops in these areas, certainly our ratio would have been much higher. We have improved now."

The witness added :

"The targets have been fulfilled quantitatively. But qualitatively, it is going down. I can only speak for the State Bank of India, after the results are known. For the last three months, we are conducting inspection of the branches/circles in rural development. That is bringing out some deficiencies. We are trying to rectify them."

2.73 The Committee are unhappy to be informed that the provision of adequate infrastructural facilities by the District Rural Development Agencies which was to form the back-bone of the economic development of rural areas turned out to be its weakest link resulting in limited impact of programme of credit deployment by the banks on the socio-economic conditions of the beneficiaries. The Committee need hardly stress that besides the availability of credit on easy terms, the provision of adequate infrastructural facilities and other inputs like project report, technical advice, marketing facilities etc. are also essential ingredients for the gainful utilisation of the loans/subsidies received by a beneficiary. While agreeing during evidence that the availability of the non-credit inputs was necessary for the economic development of a beneficiary, the representative of the State Bank of India stated that the bank did not provide these services as the bank did not have the requisite infrastructure for the purpose. The Committee would like to point out that the mere flow of credit from the banks cannot have any impact on the development of any beneficiary or any area under any scheme of social banking unless non-credit inputs are also identified and beneficiary made aware thereof and provided guidance for procuring them. The Committee, therefore, are firmly of the opinion that while formulating the schemes for the provision of credit facilities, matching schemes should also be formulated for the provision of necessary guidance about non-credit inputs simultaneously and very close coordination and liaison should be maintained with the District Rural Agencies in the matter.

#### *1. Capacity for absorbing Credit*

2.74 With regard to adequacy of development of credit by SBI for weaker sections of society and their capacity to absorb credit it has been stated in a memorandum :

"Whether the deployment of credit for these sections is sufficient or not cannot be judged in quantitative terms at a point of time.

The effective demand for credit is subject to the credit absorbing capacity of the borrower. The initial phase of credit deployment should be judged on the basis of whether the credit is helping the target groups in building up the further credit absorbing capacity. The involvement of credit agencies in the development programmes is not a one-shot affair."

2.75 Asked whether the SBI has evolved machinery to evaluate periodically credit absorbing capacity amongst the beneficiaries or the target groups involved in a particular scheme, the representative of RBI stated during evidence :

"It is presumed that when banks assess the viability of schemes, they look into the repaying capacity of the borrower. It is not so much the borrower, as the schemes which should generate enough income, and enable the former to repay the principal amount and interest ; and also enable him to retain a certain portion of the income to raise his living standards etc. whether it is a cluster of schemes or a single one, our guidelines are clear. Schemes which do not promise such incomes obviously become unbankable. Even if the beneficiaries are identified, if the schemes are no bankable, they may not be taken up. This is part of the machinery which we have asked the banks to set up, for appraising the applications, and after giving loans, to monitor the schemes on an ongoing basis. So, the repaying capacity is built into the very basis of appraisal of the schemes."

2.76 The witness added :

"We have been collecting figures about overdues from all the commercial banks on a regular basis, both for agricultural and other loans. Recovery is one area where both Government of India and the Reserve Bank are very much concerned, because the recovery performance is not very satisfactory. Its percentage has been around 50-51 during the last three years which, we think, is very poor. It is affecting the health of the banking system ; and also their capacity to recycle the funds for new beneficiaries. It is also affecting the general environment of lending where the emphasis is that lending, particularly for the priority sector categories, should be done not on the basis of security, but of viability of schemes. Security or inter-lending is being replaced by viability of the scheme approach. So, during the last one month, the Governor himself has organized meetings with the Chairman of each of the commercial banks. We have impressed upon them to look into their internal machinery, as to how best they can improve their recovery performance."

2.77 Asked whether any instances have come to the notice of the bank where loan given for a particular productive purpose has been used

for unproductive purpose, the representative of the Reserve Bank of India stated :

"It varies from scheme to scheme. Let us take agricultural credit, for instance. If there is a natural calamity like cyclone, drought, flood etc. the Reserve Bank had a Stabilisation Fund (which is with NABARD now) to which we also contribute every year from our profits out of this Fund, we enable banks to re-schedule loans and take the farmer off from the list of overdues and give him fresh loans. That is a fund which we have, for assisting agriculturists who have been affected by natural calamities. Recently, we have issued instructions to the banks that they should give a second dose of loan to the same beneficiaries, and IRDP. Out of the loans given in the previous year we found that the beneficiaries were not able to generate that level of income which was expected of them. So, this is another slip by which we are trying to help them to improve their earning capacity and paying capacity. But there are cases where, on the basis of our case studies in respect of IRDP and self-employment scheme, we have found that about 25 to 30 per cent of the loans have been misutilised. Assets have not been created or the beneficiaries have not been identified properly or assets after getting loans have been disposed of. These are the cases where we are trying to tell the banks DRDAs, task forces and District Industry Centres to be little careful in recommending the scheme and in selecting beneficiaries. Therefore, we are trying to tackle this problem according to the nature of the case which is coming to our notice. We are collecting regularly statistics in respect of the sick units, and we have for each State, a State level coordination committee where we are trying to see how best the viable units which have become sick can be helped to become viable ; and this is going on regular basis with the help of the Reserve Bank of India, commercial banks and the State Governments concerned. Therefore, we are tackling this issue on the basis of information in respect of non-performing assets or the capacity of the borrower to return the loan through a variety of measures."

2.78 Asked to state the extent of second dose of loan, the representative of the Reserve Bank stated :

"The Banks will give him second dose of loan to enable him to cross the poverty line. That is the guideline which we have given."

2.79 The Committee see the logic behind the view put forth before them that the initial phase of credit deployment should be on the basis whether the credit is helping the target groups in building up further credit absorbing capacity. According to the representative of the RBI who appeared before the Committee "it is presumed that when banks assess the viability of schemes, they look into the repayment capacity



of the borrower". In Committee's view, the capacity to absorb credit and the repayment capacity are two different things. What they would like to emphasise is that the cycle of credit deployment and re-deployment has to be on the basis of generation of credit absorbing capacity of the borrower. Banks must not consider only repayment capacity of the borrower at the initial stages. If the deployment in first instance is well planned, it will certainly generate surplus and lead to enhancing the repayment capacity of the borrower. The approach of the financial agency should be for an overall upliftment of the target groups and not like that of a disinterested agency concerned with giving loan and looking for its repayment only.

2.80 The Committee also feel that special efforts are called for on the part of RBI/SBI for revival of the sick small scale units and in making them economically viable, if need be, giving them second dose of loan and providing them with necessary expert guidance.

### *J. Role of Banks in formulation of Schemes*

2.81 Representatives of a non-official organisation suggested to the Committee during their evidence that :

"We have always put forth the view that bankers should be involved in rural development because we feel that the bankers have the expertise of micro management of finance. The involvement of bankers at the formulation of schemes is very important. I would say a very active involvement is very important. Banks should be totally involved in the total plan..... There has to be mechanism by which banks' planning mechanism and the national planning mechanism have an integrated process. Somewhere some matching has to be done. This can be done at the macro level as also at the ground level."

2.82 Asked about the reaction of the Ministry on the above suggestion, the representative of the Ministry stated during evidence :

"We react positively to this suggestion.....Banks have to conform to priorities as laid down in the Plan. Banks have to provide financing for plan schemes, for IRDP, NREP etc..... Whenever any schemes affect banks, the RBI is fully involved. it is regulatory and supervisory body for banking system."

2.83 Asked at what stage the banks were involved in this planning process and what was the *modus operandi*, Secretary (Banking) stated :

"So far as the Seventh Five Year Plan is concerned, for the credit and financing part of this Plan the Reserve Bank of India is fully associated.....If constructing rural roads or providing rural water supply requires any special scheme for bank financing, then the Reserve Bank would be consulted before that scheme is included in the Plan. If it does not, but the Govern-

ment attaches priority to that particular activity, we will consult the Reserve Bank of India to give priority to this particular programme."

2.84 The Committee agree with a view that the bankers should be involved in the planning for rural development because bankers have the expertise of micro management of finance. There has to be a mechanism by which banks' planning and the national planning mechanisms have to be integrated. This can be done at the macro level as also at the micro level. This suggestion also found favour with the Secretary (Banking) when he informed the Committee that for financing part in the Seventh Plan, the Reserve Bank was fully associated and wherever there was any scheme requiring bank financing, the RBI was consulted before the scheme was included in the Plan. In Committee's view association of RBI alone though necessary was not enough. The Committee feel that representation of commercial banks at least at micro level in the formulation of schemes for rural upliftment was equally important as the ultimate implementation of the scheme was their responsibility. The Committee would like the Government to examine as to what extent the banking industry could be involved in the process of formulation of schemes by the Government.

#### *K. Identification of Beneficiaries*

##### *(i) Role of District Rural Development Agencies*

2.85 In a memorandum furnished to the Committee, with regard to SBI's participation in the Integrated Rural Development Programme and the role of the District Rural Development Agencies particularly for the identification of beneficiaries, it has been stated that :

"Bank also participates in the national poverty alleviation programmes such as Integrated Rural Development Programme. It is here where the criteria and the choice of the schemes are by and large decided by the District Rural Development agencies. In this programme in certain cases the Banks operate under certain constraints. The bankers as well as participants feel that sometimes ineligible persons are identified as beneficiaries of the programmes. In some of the evaluation studies conducted by different agencies including the State Bank of India, it is reported that by and large about 30 per cent of the beneficiaries were not eligible on the basis of income criteria."

2.86 Asked to comment on the above view, Chairman, SBI stated during evidence :

"We go by the identification done by the DRDA and then we make a preliminary check to find out about the beneficiaries."

2.87 It has been stated in a note furnished to the Committee that :

“At the block level, *the block level functionaries* consisting of Block Development Officers, Extension Officers and Village Development Officers were required to conduct household surveys, *identify the beneficiaries* and sponsor the loan applications of identified beneficiaries to the concerned bank branches.”

2.88 On the questions as to how was it that for identification of beneficiaries under IRDP, bank functionaries had no role to play and was there any scope for involvement of bank officials in this regard, the Ministry has stated in a note as follows :

“Under the procedure in vogue in the Sixth Five Year Plan the Branch Manager was not directly associated in the process of beneficiary identification. Bank Officials could not participate in the household survey because the survey was a time-consuming process. They, however, associated themselves with ‘identification-cum-credit camps’, where identified beneficiaries from a village or a group of villages are assembled and Branch Managers interview them, so as to assess their suitability for assistance. The revenue officials and functionaries of Co-operative Societies also attend these camps to provide information about land holding or co-operative overdues of the identified persons. This process enables the banks to take a *prima-facie* view about the eligibility of identified beneficiaries. After the beneficiaries are so identified, the loan is sanctioned after a pre-sanction visit to his village. Participation of bank officers in the selection process through identification camps has succeeded in improving the quality of selection and is, in our view, quite useful in improving the process of identification. It has been further stated that identification of large number of ineligible persons took place not because of the non-association of bank officials with the process. This has been mainly due to the fact that proper checks and balances were not introduced in the process of identification.

2.89 Subsequently, in a note, the Ministry has informed the Committee that statistics regarding wrong identification under IRDP are not readily available at the Central Office of the Bank. However, evaluation studies conducted by the Bank have revealed that 20.6 per cent of the sample beneficiaries had been wrongly identified though the percentage varied from district to district. Common instances of wrong identification were family income being in excess of Rs. 3500 and land holding being in excess of the prescribed limit of 5 acres. One of the important reasons for wrong identification was that, generally speaking, the meetings of the Gram Sabhas for confirming the identification of beneficiaries has not been convened in the districts taken up for the study.

2.90 During the Seventh Plan, those beneficiaries who had been assisted earlier but were unable to cross the poverty line due to reasons beyond their control are to be given supplemental assistance. Identification of the eligible beneficiaries for the second dose is presently being under-

taken jointly by the State Government authorities and bank officials. This will ensure that only those persons who are eligible for supplemental assistance are given a second loan.

2.91 If income criterion is to continue in identification of the poor, then the present method is quite suitable, at the hands of properly trained persons. Otherwise, broad categories of landless labourers, artisans and marginal farmers will have to be selected, though actual identification would pose problems because the number of eligible persons would be larger than those who can be assisted in each year.

(ii) *Role of "Gram Sabha" in identification of Beneficiaries*

2.92 In a memorandum furnished to the Committee it has been stated .

"The Gram Sabha is an important platform prescribed for making a fair and careful identification of the beneficiaries. However, it appears that in most of the districts, this important platform is not being properly utilised. Besides this, the responses given by different agencies, the banks and beneficiaries, with regard to certain points related to the selection procedure adopted, are not consistent with each other."

2.93 Asked whether the platform of Gram Sabha was being utilised by the SBI branches and whether there could be other, alternatives to overcome the problem, representative of the RBI stated during evidence :

"There can be various alternatives. Let the selection be done in the open village where all the farmers and Mukhias are there and it is done with full knowledge and there will be a watch by every borrower on every other borrower. That way you can minimise the misuse, but one has to work out the details."

The witness added :

"At the moment identification is being done by the DRDA and other agencies. The responsibility for recovering the loans rests with the banks. Identification is one thing, but giving the money and recovering that is another thing. Since we have told the Banks that it is their responsibility to recover the loans, the banks naturally are cautious and they would like to recheck and be satisfied. Now, if the body which is identifying the beneficiaries can also share the responsibility of recovering this loan, probably a good part of the misuse can be taken care of."

(iii) *Role of voluntary Organisations*

2.94 With regard to role of voluntary organisations it has been stated in a memorandum furnished to the Committee that :

"In fact, there are many voluntary organisations operating in the country which have direct rapport with the members of the weaker sections particularly tribal, handicapped and women.

The Bank should make more intensive use of the spade work done by these agencies in three specific and inter-related ways viz. (i) getting an easy access to their type of clientele (ii) building up of mutual trust between the Bank and the clientele and (iii) building up of more realistic schemes as the initial work of these agencies must have generated a lot of information and data on the needs, capabilities and support required by the proposed clientele."

Further :

"One care that needs to be taken in this regard is that the Bank has to take the voluntary organisation as a resource and not as a substitute for Banks efforts and/or presence in the area. The organisation should not be used as an intermediary. It is one of the participants in the programme."

2.95 Asked during evidence whether the SBI has made any use of the voluntary organisations in the light of above view, Chairman SBI stated :

"We are not taking any help from them."

2.96 The Committee feel concerned to learn that according to the non-official estimates, about 30 per cent of the beneficiaries under IRDP were not eligible on the basis of income criteria. As per the study conducted by the State Bank of India in the 10 lead districts to assess the impact of IRDP, it has been found that 20.6 per cent of the beneficiaries were wrongly identified. One of the important reasons for improper identification has been stated to be that no meeting of the Gram Sabha for confirming the identification of the beneficiaries had been convened in the 10 districts taken up for study. The position may be no better if study is undertaken in all the districts where the State Bank of India is the lead bank. The Committee find it really surprising that while under the programme hundreds of crores of rupees are being spent by the Government, no foolproof institutionalised arrangements have been made for the proper identification of the beneficiaries.

2.97 As stated by the Chairman of the State Bank of India during evidence no assistance is being taken from the voluntary organisations for the identification of beneficiaries. The entire exercise is being done by the district rural development agencies. The Committee consider that voluntary organisations can also play a vital role in the proper identification of the beneficiaries and they should be effectively associated with the task of proper identification of beneficiaries. The State Bank of India on its part should carry out a sample check to find out whether the beneficiaries selected by the district rural development agencies satisfying fully the criteria laid down for their selection before the release of money.

2.98 The Committee note that during the Seventh Five Year Plan, those beneficiaries who had been assisted earlier but were unable to cross the poverty line due to reasons beyond their control are to be given supplemental assistance and the identification of the eligible beneficiaries for the second dose is presently being undertaken jointly by the State Gov-

ernment authorities and bank officials. The Committee hope that utmost care will be taken to ensure that only eligible beneficiaries get this second loan and there is no case of wrong identification of a beneficiary.

### *L. Subsidy*

2.99 In a memorandum furnished to the Committee with regard to utilisation of subsidy providd under schemes of social banking it has been stated that :

“.....the subsidy has two serious side effects :

- (a) It has attracted some ineligible persons towards the programme. In fact, subsidy as an element overshadows other good elements of the programme.
- (b) subsidy-linked credit programmes many times create an impression among the minds of the beneficiaries that the credit from the banks is also a grant and hence it need not be repaid. It is highly desirable that the programme authorities give due emphasis to the cultivation of repayment ethics as a part of total programme responsibility.”

2.100 Asked about the measures adopted by the SBI to make the beneficiaries aware of the element of subsidy and its purpose, Secretary (Banking) stated during evidence :—

“The points raised in these two paragraphs are very important and we in the Ministry have also been considering whether the effectiveness of the programmes will be increased if there was an interest-free loan and a longer repayment schedule. We also thought that this might eliminate some malpractices which are there in the disbursement of subsidy. This point was also put forward in the meeting of the State Ministers for Rural Development about fifteen days ago as to in what way we can make this programme efficient. But I am told by the Ministry of Rural Development that the consensus at present is in favour of retaining the capital subsidy and that they do not want to replace it by any other mechanism. They want that subsidy should stay because their calculations were that if the subsidy is eliminated, the benefit to the beneficiary may be reduced.”

2.101 In reply to a further question, the witness stated :

“There is a calculation made that if the loan is interest-free, then what would be the grant element in that loan and what would be the equivalent subsidy. If there was an interest-free loan to be repaid within three years, it is calculated that interest element amounts to 17 per cent in the form of subsidy on the face value of the loan.”

2.102 Asked whether in the Sixth Plan the loan was Rs. 3,000 crores for all the programmes including IRDP and what would be the interest on that, Secretary (Banking) stated :—

“If the entire loan was to be given interest free, then the total implicit subsidy will be 17 per cent of 3,000 which would be about Rs. 510 crores.”

The witness added :

“So far as the views of the Ministry of Finance on this subject are concerned, we are absolutely open and we will look forward to receiving guidance also.”

2.103 When asked what was the position of recovery, representative of the RBI stated :

“For recovery of IRDP we are not calculating separately. It is part of the agricultural loan.....the recovery has been on an average about 52 per cent during the last three years. It was 53 per cent in 1981-82. Since then it came down to 51.5 or something in 1984.”

2.104 During the evidence the representatives of a non-official organisation, stated :

“In those case studies what we find is that a person takes the subsidy and the rest of the loan is shown as issued to him. Supposing Rs. 5000 is loan, Rs. 2500 is subsidy. Out of Rs. 2500, Rs. 300 is taken out and Rs. 2200 is shown as deposit. Later on some arrangement is made and the loan is squared up as if he has withdrawn the money and has paid up.”

2.105 Asked about the reaction of the Ministry on this view, Secretary (Banking) stated :

“This point has also been made known to us and has been raised in Parliament. The evaluation studies that have been carried out by the Reserve Bank of India and the State Bank of India, the Institute of Financial Management and Research as well as one or two other bodies show that there is some misuse, but it is not that in every case this sort of thing is happening. Of course, misuse is there and we have to prevent it by changing the modalities of disbursement which you have raised. Now, certainly there is one point of view which says we should not give subsidy in this form.”

2.106 During evidence it was pointed out that some economists observed that the subsidy was shown as recovery of IRDP loans. In many cases, beneficiary never got the subsidy. They (Banks) adjusted towards the recovery. Whichever way one may consider, subsidy had become the main bone of contention for which some assets were moving about in the same area

2.107 Subsequently, the Ministry in a note, has informed the Committee that a study to examine the merit of substituting capital-subsidy with interest-subsidy under IRDP was conducted by the Bank. The major conclusion that emerges from this study is that from the point of view of the beneficiary, capital-subsidy is more beneficial than interest-subsidy. The benefit is all the more, in the case of the relatively worse off sections amongst the poor, such as marginal farmers, landless labourers, rural artisans and scheduled tribes, who enjoy comparatively large capital-subsidy. The relatively larger benefit from capital-subsidy is confirmed not only by computation of interest-subsidy and capital-subsidy in respect of a cross-section of activities studied, but even according to the perception of an overwhelming proportion of the beneficiaries, who were interviewed in the course of this study.

2.108 Referring to the problem of corruption and misutilisation the aforesaid study reveals as follows :—

- (a) Capital subsidy has created room for malpractices and misutilisation. Because substantial financial subsidisation, as a free grant, is available in lumpsum, the functionaries operating the scheme look for ways to extract a share out of it. The beneficiary also agrees to part with a portion of the free grant because he perhaps does not have an option and has learnt to live with such practices. It also provides scope for misuse of subsidy by resorting to.
- (b) disposal of asset and pocketing the difference; and
- (c) fixing a 'purchase' transaction without delivery of assets.
- (d) Availability of this initial net gain has also brought into the picture intermediaries or middlemen who exploit the ignorance of the beneficiaries.
- (e) Availability of lump-sum amount lures even incompetent persons to go in for a self-employment activity. Many of such beneficiaries do not possess even the basic skills and experience and nor are they willing to work. The chances of their success are, therefore, less than minimal. This category of beneficiaries would not have ventured into business/industry but for the temptation of the easy and partly free availability of assets.
- (f) Full utilisation of allotted subsidy and meeting the targets in terms of number of beneficiaries, rather than the success of the economic activities and alleviation of poverty, have become the goal of the exercise. Once the yearly targets are fulfilled and subsidy is spent the beneficiaries and their lot are forgotten. There is no follow-up worth the name, except intermittently by the bank and that too for recovery purpose.

While it is true that malpractices as referred to above have crept into the administration of the IRD Programme, it is worth examining how far capital-subsidy alone can be said to be responsible for this. It is often said that if there is no lumpsum



amount available for sharing, possibility of corruption will probably diminish. This appears to be a rather simplistic argument. Bribe is often a price for selection of a few from amongst the many, for a benefit received. Where many are eligible and a few are chosen, exercise of discretion is inevitable. In situations where the sponsor can exercise some discretion, he can always claim to have obliged a particular beneficiary by exercising the discretion in his favour.

If discrimination is to be avoided, the only way to do this would be to devise a process of selection under which the beneficiary can be unmistakably identified, leaving little scope for discrimination to the B.D.O./banker. This may be difficult, but not impossible. Besides the process of selection, there are also other areas where corrupt practices have vitiated the benefits emanating from the programme.

An attempt has been made to identify the various stages of IRDI implementation. These stages and the possible ways whereby the system effort has also been made to offer suggestions for stricter enforcement of the procedures and modifications therein, in order to plug the loopholes. It would be noticed that the substitution of interest-subsidy by capital-subsidy might not prove effective unless measures are taken to attack the problem on all fronts.

The conclusion of the study are reproduced as under :—

The results of the exercise for computing the comparative net benefits for 15 activities and the majority opinion emerging from the feedback generated on the basis of the responses of beneficiaries, bank officials and DRDA functionaries, discussed in detail in the preceding paragraphs, heavily weigh in favour of continuance of the capital subsidy system. The major factors which reinforce this view are :

- (i) Net benefit to the beneficiaries is higher, especially to the poorer among the poor, under capital subsidy system. It is also immediately available unlike under the interest subsidy system.
- (ii) Being tangible and available in a lumpsum, capital subsidy is received by the beneficiaries as 'assistance' and it motivates them to venture into self-employment activities.
- (iii) Additional credit deployment, in order to replace the capital subsidy, by banks at the concessional interest rate of 10 per cent, will further strain their resources position and profitability.
- (iv) Capital subsidy system has more or less stabilised and is easier to administer. Introduction of interest subsidy system will immensely increase the work load, both at bank-branches and DRDA, and create reconciliation problems.

The interest subsidy system too is stated to have a few advantages, particularly the spreading of the benefit over a number of years which might, to some extent, curb malpractices and misutilisation and also control the phenomenon of artificial increase in prices. However, these advantages are likely to be felt only in the initial period if the mode of subsidisation is changed and would disappear once it is known that the capital subsidy system has been totally withdrawn and that the only way to avail of the benefits of the assets and activity is to get a bank loan, aided by interest subsidy. Practically speaking, the IRDP target-group mainly consisting of illiterate people living in abject poverty, look to the benefits of the programme in a totality, without distinguishing much between a subsidy assistance and a repayable loan. A non-interest bearing loan is more likely to be misunderstood for a subsidy. Further, the malpractices associated with welfare programmes arise due to ignorance and helplessness of the poor and avarice of the officials administering the programme. A change in the mode of subsidy-payment is not likely to fundamentally alter this configuration and the malpractices may re-appear.

**2.109** The Committee are perturbed over the complex problem of disbursal of Subsidy to the IRDP beneficiaries. It has been conceded by the Ministry/SBI that capital subsidy has led to tremendous misuse and has attracted many an unscrupulous ineligible persons to grab it. As per Secretary (Banking), evaluation studies on the subject carried out by the RBI, the SBI and the Institute of Financial Management and Research have also unequivocally revealed the fact of misuse of the present form of disbursal of subsidy and have opined that the modalities of disbursal need to be reviewed and improved. There have been suggestions of replacing capital subsidy by interest free loans but these have not found favour with the State Ministers of Rural Development and consensus among them is in favour of retaining the capital subsidy.

**2.110** A recent study conducted by the State Bank to examine the merits of substituting capital subsidy with interest free loans, while conceding the fact of misutilisation and listing loopholes for corrupt practices, has favoured its retention on the ground that it is more attractive and advantageous to the beneficiaries.

**2.111** The Committee are constrained to observe that in the face of the fact that there is large scale misuse in the disbursal of subsidy and an attractive field is open for unscrupulous ineligible persons to grab it, there have been several studies made in regard thereto, none of them had been instituted to suggest changes in the modalities of disbursal so as to check the malpractices and misutilisation. Even the Reserve Bank of India which is responsible for formulating guidelines and keeping a watch over the implementation of the IRDP, while being aware of large scale misuse of the Government subsidy could not institute an enquiry and devise modalities for checking the menace. The Committee desire that an expert group should be appointed by the Reserve Bank to go into all the pros and cons of the issue and evolve procedures whereby implementation of this major programme against poverty is made foolproof leaving no scope for its misuse.

## **CHAPTER III**

### **A. Functional Problems**

#### **3.1 Small Scale Industries**

**"The problem areas in financing small scale industries have been stated to be :**

- (i) Inadequate expertise of borrowers in management of enterprises.**
- (ii) Difficulties in realisation of dues from big companies and Government departments.**
- (iii) Problems in marketing of goods."**

**3.2 Asked during evidence as to what had been done by the SBI in regard to overcoming these problems and whether appropriate authorities in the Government Companies had been contacted for early realisation of dues etc., Chairman, SBI stated :**

**"This is a question of overdues by small scale industrial units. The major problem is really due to the inability to get the dues from the large industries..... Similarly Public Sector units of the Government of India have also been advised to be very prompt to settle the dues..... It is a fact that many of the large scale industries don't regularly pay their dues to the small scale units and that creates problems. Reserve Bank has issued a circular to all the banks that when they peruse the credit proposals of the large industrial units they should make it a condition that they clear their dues to the small scale unit and only then they become eligible to get the loan. Secondly it is also a fact that many public sector undertakings don't clear their dues to the small scale industries regularly. Government of India have also advised the public sector units that they must clear all their dues to the small scale units promptly."**

**3.3 Asked what preventive action has been taken by the SBI in this regard, the witness stated :**

**"So far as credit dealings are concerned, whether large or small, we have a system of annual review of these credits and these are monitored for the purpose of loans given by the banks."**

### *Agricultural Finance*

3.4 In agricultural finance, the practical and financial problems experienced by the SBI have been stated to be :

- (i) Lack of infrastructural facilities like electricity, transport, marketing arrangements, storage facilities, etc.
- (ii) Non-availability of milch animals in adequate number.
- (iii) Delays in execution of guarantees and subscriptions to capital in the case of state-sponsored corporations."

3.5 Asked about the specific measures evolved for provision of infrastructural facilities like electricity, transport, marketing and to obviate delays in the execution of guarantees, etc. the Ministry has informed the Committee in a written reply that the primary responsibility for provision of infrastructural facilities of the type indicated herein rests with the concerned State Governments. However, through constant interaction/liaison with the concerned State Governments, the Bank has been impressing upon them the necessity for creation/institution of requisite infrastructural facilities as soon as possible. On Bank's part, it has been financing a number of projects for creation of irrigation facilities, energisation of pampsets, making available inputs like seeds, fertilisers etc. and establishment of marketing linkages etc.

3.6 The question of expediting execution of guarantees, augmenting capital base of State sponsored corporations etc. are also taken up with the State Governments at the appropriate levels from time to time for doing the needful.

3.7 The Committee are surprised to learn that besides the large scale industrial units, even the public sector undertakings have been behaving irresponsibly in so far as clearing their dues to the small scale industrial units are concerned. It is all the more strange as to how banks have been clearing loan proposals of public sector undertakings and large scale industrial units without ensuring that they have cleared their dues to the small scale units. Now that the Reserve Bank of India has issued instructions to all the banks that before sanctioning loans to public sector undertakings and large scale industrial units, it should be ensured that they had cleared all their dues to the small scale industrial units, the Committee expect the State Bank of India to scrupulously follow these instructions.

3.8 In so far as the practical problems in the agricultural sector are concerned, the Committee would like the State Bank of India to intensify their efforts in pursuing with the State Government authorities for providing the requisite infrastructural and other facilities in the areas of operation of the schemes of social banking so that these schemes could be implemented smoothly.

### B. Simplification of Procedures

3.9 With regard to procedures, particularly for the rural clientele of the banks, it has been stated by a non-official before the Committee that :—

“Irrespective of other things, the systems should be simplified. It can be done. If the bank officer wants to harass a person, he can. So, naturally there should be some kind of a check on this. The beneficiary should not be harassed. If somebody other than an eligible person is included in the list, then it should be taken note of by the local people. They should not allow this to happen. But, in the rural areas, lot of simplification of procedure is needed. Otherwise, the Forms cannot be filled in.”

3.10 Asked, whether there was any exercise in the recent past in regard to simplification of procedures and formats, Chairman SBI stated during evidence :—

“We have issued a very detailed guideline for all priority sector lendings. This gives information on how the form should be filled up, what items should be included etc., particularly for small loans upto Rs. 25,000/-.”

The form has been simplified and the details which the bank should send have been reduced to the minimum..... So far as the simplified loan application is concerned, we have stipulated that these loan applications should be printed in regional languages, by the banks themselves and the entire terms and conditions of the loan should be mentioned at the bank of the loan sanctioning letter.

The second aspect is that the loan applications have to be disposed of within a fortnight, when the loans are for amounts upto Rs. 25,000/-..... The third important aspect of this simplification is, that for IRDP borrowers we have stipulated that the banks should issue a loan pass-book in which the details of the loans, the terms and conditions, etc. should be mentioned clearly. It came to our notice that all banks do not issue these pass-books. Only last month the Governor himself has sent a circular letter to all the Bank Chairmen asking them to issue these pass-books without any delay immediately and inform us of the action taken. We are hopeful that by now all banks have issued them.

In regard to the applications which have to be rejected, we have stipulated that the authority higher than the Branch Manager should be kept informed about the reasons for the rejections of the applications. And in the case of Scheduled Castes and Scheduled Tribes the Branch Manager himself should not reject the applications it should be done by an authority which is higher than the bank manager.

The last aspect is that in many cases for the identification of the borrowers a photograph is needed. We have said that the banks themselves must make arrangements for taking of

photographs in the bank itself. And for certain categories of borrowers like the Scheduled Castes and Tribes IRDP borrowers, those who are under DRI category, the banks themselves must bear the cost of the photographs. They should not only make arrangements for taking the photographs, but the cost of the photographs should be borne by them. In order to ensure that all these guidelines are being enforced, we have at the moment initiated an evaluation through our own officers of the selected rural branches of the banks.

The Reserve Bank has appointed what we call the Lead Development Officers for three to four districts in the country. But these officers are at certain branches only."

**3.11** The Committee find that the SBI has issued detailed guidelines for simplification of procedures and formats for all priority sector lendings. These include information as to how forms should be filled up and what items should be included therein particularly for small loans upto Rs. 25,000/-. Loan application forms have been printed in all regional languages and terms and conditions stipulated for loan are printed on the back of the loan sanction letter. It has also been stipulated that the beneficiaries under IRDP and DRI loans should be issued pass books, having photographs of the beneficiaries affixed thereon. The cost of photographs is also borne by the banks in the case of certain categories of borrowers. Nevertheless, the Committee would like to point out that notwithstanding all these simplified procedures, many instances have come to the notice of the Committee where the borrowers have been reported to be harassed by the bank officials. The Committee would like the bank authorities to ensure better customer service at the counters of rural branches which deal with poor rural clientele and those officials found wanting in courtesy and good behaviour should be dealt with severely.

**3.12** The Committee are informed that in order to ensure that guidelines regarding simplified procedures are followed by the rural bank branches, SBI has initiated evaluation through its own officers. Reserve Bank of India is also stated to have appointed Lead Development Officers for three-four districts for the purpose. The Committee would like the RBI to appoint many Lead Development Officers so as to cover all the districts served by the schemes for priority sectors. These officers should conduct surveys and make on-the-spot studies to find deficiencies in the procedures and suggest measures for plugging the loopholes so as to prevent harassment of beneficiaries and malpractices indulged in by the middlemen bank officials and other functionaries.

### *C. Rejection of Loan Application*

**3.13** The Ministry has informed the Committee that :—

#### *"Agriculture*

Loans are sanctioned expeditiously after the process of identification of eligible beneficiaries is over. However, in the case of sponsored applications, it has been found that some times applications remain pending for want of requisite information.

Sometimes submission of loan applications by sponsoring agencies in a bunch also delays quick disposal of loan applications. In certain circumstances, sponsored applications may be rejected if deficiencies/defects contained therein could not be removed/rectified. Some of the reasons for rejection of applications may be :—

- (a) Incomplete applications.
- (b) Scheme not found technically feasible and economically viable.
- (c) Faulty identification of beneficiary etc.”

3.14 Asked what was the actual/average time-lag between identification of a beneficiary and grant of loan and whether any guidance was given to the beneficiaries to avoid deficiencies in the application or to rectify the deficiencies before resubmission etc. the Ministry in a written reply has stated as follows :—

- (a) In case of small loans, especially under IRDP, loan applications are required to be disposed of within two weeks from the date of receipt for grant of loans to beneficiaries. While we do not have the precise data in regard to actual/average time taken, by and large, the stipulated time frame is now being adhered to.
- (b) The field staff do explain the procedure and the Bank's requirements to the beneficiaries to avoid deficiencies and guide them in completion of loan applications. Wherever necessary loan applications are filled in by our own staff on the basis of information furnished by applicants. In regard to sponsored applications, deficiencies are pointed out to the sponsoring agencies (such as DRDA in case of IRDP applications) for rectification and re-submission.
- (c) Under IRDP, 9.5% of the total applications received by the Bank during the financial year 1984-85 were rejected by the Bank.

#### *Bunching of applications*

3.15 In the material furnished to the Committee, the Central office of SBI stated that :—

“In Government-sponsored schemes, the problems faced are bunching of applications and delays in release of subsidy in some cases.”

“The real problem that the Bank is facing today is the large number of small loans. The administration costs are high and yields and recoveries are low. Major structural changes are called for if commercial banks are to succeed in control of small loans. We are examining to what extent computerisation could help in maintenance of accounts and follow-up of loans. A second way out could be to strengthen the Regional

**Rural Banks and transfer much of the new business to them. Before this is done, it may be advisable to computerise the operations of these banks as well so that accounts are centrally maintained and branches are exclusively engaged in administration of loans."**

3.16 The Ministry was asked to state whether the problem of bunching of applications resulting in delays at the banks had been brought to the notice of the sponsoring Government authorities; and what has been the result of aforesaid examination with regard to computerisation etc. The Ministry in a written reply furnished to the Committee has stated as follows :—

**"The problem of bunching of applications is being brought to the notice of the forums at various levels viz. districts, State and Central Government, almost since the beginning of the programme. There is, no doubt, some improvement in this regard in many parts of the country, though the problem still persists in some areas—particularly in Bihar, Orissa, etc.**

**The matter of computerisation is still under examination. The Bank also examined the simplification of procedures and documentation in relation to small loans and recommendations of the Committee, which went into this problem, are being considered for implementation."**

**3.17 The Committee do not feel convinced of the reasons advanced by the SBI for undue delay in the disposal of the loan applications of beneficiaries under the various social banking schemes. So far as bunching of applications is concerned, instructions should be issued by the Ministry of Finance/Reserve Bank of India to all the concerned sponsoring agencies impressing upon them the imperative need for the avoidance of the bunching of applications so that these applications could be disposed of within the maximum period of two weeks.**

**3.18 So far as the problem of handling of very large number of small loan applications is concerned, the Committee feel that the desired results can be achieved by computerisation of the whole process. The Committee would urge upon the State Bank of India to take expeditious decision on the computerisation as recommended by the Committee appointed by the Bank. Recommendations of that Committee about procedural problems etc., also merit immediate consideration and implementation.**

#### *D. Deposit Mobilisation and Credit-Deposit Ratio*

3.19 With regard to schemes for deposit mobilisation it has been stated that besides the Current Accounts, Savings Bank and Time Deposit, the banks have the following schemes :

- (i) Term Deposits
- (ii) Reinvestment Plan Scheme
- (iii) Recurring Deposit Scheme



- (iv) Perennial Pension Plan
- (v) Cash Certificate Scheme
- (vi) Janata Deposit Scheme
- (vii) Annuity Deposit Scheme

3.20 Asked whether the bank has evolved some innovative schemes more suitable for rural population, since the above schemes appeared to be more suitable for urban and elite population the representative of RBI stated during evidence :

"So far as the rural sector is concerned, the first step which we have taken is in regard to the branch expansion. Out of about 51,000 branches as at present, nearly 60% of the branches are in the rural areas. So far as the spread of banking facilities is concerned, we have taken care for that in our branch licensing policy. The regional rural banks are allowed to pay a higher rate of interest on the deposits which they mobilise from the rural areas in comparison with what the commercial banks do in urban areas. So far as the deployment of credit is concerned, we have stipulated that at least 50% credit deposit ratio should be maintained for the rural areas. I am happy to report to you that for the banking sector as a whole, in December, 1984, the ratio was 65.4%. This is the credit deposit ratio. While this is the picture, taking the country as a whole, there are certain regions, particularly the North-Eastern region and the Eastern region where we have found that the credit deposit ratio is very low in the rural areas. We have conducted special studies on some aspects in West Bengal and Bihar where the credit deposit ratio is lower than 30% and for those aspects we have constituted task force. In that, we have the State Government officials, the banks and other concerned agencies. We are trying to identify the main reasons for the low credit deposit ratio. We have the credit plan for all the districts and every year an annual action plan is being formulated. We are impressing upon the State Governments that they must prepare viable schemes for rural and agricultural sector which can be included in the district and action plan so that the credit deposit-ratios in these districts where the ratio is low could be increased.

In UP we have made some progress where during the rabi season, the Government did come up with a very substantial programme for helping the farmers. We are ensuring that the programmes formulated by the State Governments are such where the inputs are ensured like fertilisers, pesticides, irrigation facilities and so on so that the loan is not wasted.

These are some of the steps which we have undertaken and in each State capital we have the State level bankers committee and these committees are chaired by one of the Chairmen of the public sector banks. In each of these meetings, apart from

other things, one of the items discussed always is how best to improve the credit-deposit ratio in the rural and semi-urban areas. I have also attended some of these meetings and we are pursuing this matter very vigorously."

**3.21** The Ministry has furnished the following figures with regard to Credit Deposit Ratio amongst different population groups in the country :

	1980	1981	1982	1983	1984
Rural . . . . .	68.17	65.96	63.38	62.67	61.37
Semi Urban . . . . .	54.39	61.42	61.22	58.67	56.76
Urban . . . . .	76.27	68.47	66.91	64.62	71.04
Metropolitan . . . . .	100.90	104.33	116.34	107.87	100.07
Total . . . . .	78.38	79.28	82.45	77.36	75.74

**3.22** Apparently, it looked that the Credit Deposit ratio had a definite dent in favour of urban and metropolitan population groups. The Ministry was asked to state whether it was not evident that the funds generated in rural areas were diverted for credit in the urban and metropolitan areas. The Ministry in their written reply have stated :

"High Credit-Deposit ratios in urban and metropolitan areas do not mean diversion of resources from rural areas to urban/metropolitan areas for the following reasons :—

- (i) There is concentration of large industries requiring large advances in urban/metropolitan areas. Rural areas have relatively low credit absorption capacity.
- (ii) There are large number of Agro-based industries in the urban/metropolitan areas whose growth and financing means simultaneous transfer of funds to rural areas.
- (iii) Food Credit of the Bank (Rs. 1447 crores as at October 1985-end) is shown in urban/metropolitan areas (as per disbursement) but is actually utilised in rural areas. To that extent mere credit/deposit ratio would not give a correct picture between rural and urban/metropolitan areas.
- (iv) Credit requirements of rural areas are in any case being independently assessed and met in full measure.

**3.23** The Committee note that the present schemes being implemented by the bank for deposit mobilisation are more suited to urban and elite population. No innovative schemes for deposit mobilisation suited exclusively to rural population have been initiated by the Reserve Bank of India/State Bank of India. All that the Reserve Bank of India has done is that under the branch expansion scheme, nearly 60 per cent of the branches have been opened in the rural areas. The Committee feel that sheer expansion of branch net work in rural areas is not enough as an incentive for the rural population for savings and deposits. For adequate deposit mobilisation there have to be savings oriented innovative schemes

for operation in the rural branches of the banks with adequate publicity and door to door canvassing. The Committee would like the Ministry/RBI/SBI to give a serious thought to this matter and devise suitable deposit schemes for attracting rural clientele.

3.24 The Committee note the progressively descending trend in the Credit-Deposit ratio among the rural population group in the country in so far as SBI is concerned. While in 1980 it was 68.17, it was 65.96 in 1981, 63.38 in 1982, 62.67 in 1983 and 61.37 in 1984. As against this, the situation is reverse in the case of metropolitan group where it was 100.90 in 1980, 104.33 in 1981, 116.34 in 1982, 107.87 in 1983 and 100.07 in 1984. The representative of the RBI, however, informed the Committee that 'we have stipulated that at least 60 per cent credit-deposit ratio should be maintained for the rural areas.... for the Banking sector as a whole, in December, 1984 the ratio was 65.4 per cent. However, in the rural areas of North-Eastern region and Eastern region the credit deposit ratio is even less than 30 per cent. According to the Ministry, high credit-deposit ratio in urban and metropolitan areas does not mean diversion of resources from rural areas to urban/metropolitan areas but it is because of more credit absorption capacity in urban/metropolitan areas due to various reasons such as concentration of large industries in urban/metropolitan areas; large number of agro-based industries in urban/metropolitan area; and Food credit of the bank is shown in urban/metropolitan areas but is actually utilised in rural areas. Notwithstanding all these factors, the Committee do not feel convinced of the reasons for a declining trend of credit-deposit ratio in rural areas. The Committee would like to stress that the overall planning of the Bank should be such that every beneficiary of the credit programme ultimately turns out to be a genuine depositor of the bank. Fulfilment of this condition should be one of the criteria for judging the effectiveness and correct implementation of the schemes. The Committee have already observed in the preceding sections of this report about provision of more infrastructural facilities and need for growth of industries particularly agro-based industries, in the rural areas so as to augment substantially the credit absorbing capacity in the rural areas. The Committee would like all possible measures to be evolved for increasing the credit-deposit ratio in the rural areas.

## B. RECOVERY POSITION

3.25 The figures furnished by the Ministry with regard to over-dues in the Agricultural Sector and DIR scheme have been stated to be :

	(in crores)		
	1982	1983	1984
Short Term Loans . . . . .	104.49	114.52	135.14
Term Loans . . . . .	131.03	152.99	202.60
DIR Scheme . . . . .	17.19	22.16	32.85

3.26 Asked to state the steps taken by the SBI to improve the recovery position the Ministry in a note furnished to the Committee have stated that a series of steps have been initiated to improve recovery of Agricultural loans, some of which are as under :

- (a) Emphasis on timely contact with the borrowers.
- (b) Organising recovery camps during marketing seasons.
- (c) Extending facilities of rephasing/rescheduling of loans to borrowers affected by natural calamities.
- (d) Initiating prompt legal action against wilful defaulters and recalcitrant borrowers.
- (e) Seeking support from government machinery.
- (f) Encouraging compromise proposals in deserving cases where major portion of our dues is likely to be recovered by allowing some concession in the accrued interest.
- (g) Improving the quality of lending and ensuring end-use of funds.
- (h) Ensuring better follow-up and supervision.
- (i) Proper appraisal of the loan proposal.
- (j) Extension support to borrowers for adopting modern methods of cultivation to increase production.
- (k) Improving storage and marketing facilities.
- (l) Regular and close monitoring of recovery at branches through Standing Committee on recovery constituted at LHO and module levels.

3.27 It has been further stated that the recovery figures of agricultural advances are calculated on the basis of demand raised upto 30th June each year and recoveries effected during the year against such demand. In other segments viz. SIB and C&I, no such procedure is followed. Therefore, strictly speaking, a meaningful comparison between the two is not possible. However, if we take into account the percentage of overdues to outstandings, the position as on 30th June 1984 is as under :

Overdues in small scale industries	14.6 per cent
Overdues in small business finance	18.2 per cent
Overdues in C & I segment	14.43 per cent
Overdues in AGL segment	19.8 per cent

3.28 The main factors which contribute to overdues in respect of DIR advances have been stated to be as under :

- (i) Scattered lending in the initial stages of the scheme and inadequate pre-sanction surveys/appraisal etc.

- (ii) Wrong impressions with the borrowers (majority of whom are illiterate) that the loans are grants and therefore not to be repaid.
- (iii) Wilful defaults and diversion of funds for consumption needs.
- (iv) Unrealistic repayment programmes fixed.

3.29 Some of the more important steps taken by the Bank to improve the recovery performance under the scheme are as under :

- (a) More emphasis is now being laid on presanction survey and appraisal to ensure that viable activities alone are financed.
- (b) Consumption and sustenance needs are now taken into account while fixing repayment programme.
- (c) Increased emphasis is now laid on personal contacts between the field staff and borrowers, so that close-post-sanction follow-up is possible.
- (d) Where overdues are on account of genuine problems (viz. illness and/or death in family, civil disturbances in the area and natural calamities etc.), the relative cases are re-examined and rephasing of repayment programme is done.
- (e) Assistance of promotional agencies is sought for recovery of the Bank's dues.
- (f) Scattered lendings are avoided a cluster/area approach is insisted upon.

3.30 Nevertheless, as indicated, overdues in DIR advances at 65.37 per cent is higher than in other sectors.

3.31 In regard to recovery position of loans granted under other schemes, it has been stated that the picture is a bit discouraging. The relevant data for 1984 is as under :

(i) Agriculture-Recovery Percentage		
Short-term loans	— 54.6%	} In relation to demand.
Term loans	— 51.9%	
(ii) DIR—Recovery	— 34.63%	
(iii) IRDP—Recovery	— 47%	} In relation to outstandings
(iv) Overdues in Small Scale Industries	— 14.6%	
(v) Overdues in Small Business Finance	— 18.2%	

3.32 Asked whether the above position was for the year 1984 or the progressive of the previous years at the end of 1984, the Ministry in their written reply has stated while the figures of 'Demand Raised' include both current as also unrealised overdues of previous year, the corresponding figure of recovery which is taken into account for calculating the percentage pertains to actual recovery effected during the period 1st July to 30th June, 1984 in case of agriculture, DIR and IRDP advances. In other

segments, the overdues figures represent the cumulative position whose percentages are indicated in relation to outstandings. The necessity for repayment of loans is impressed upon the borrowers both at the time of sanction of loan as also during the periodical follow-up visits by the field staff. Passbooks also are issued to farmers which indicate among others, the repayment dates for the loans.

3.33 Asked about the measures taken to improve the position and whether the repayment ethics was explained and impressed upon the beneficiaries, the Ministry has stated in a note that in respect of IRDP loans, the Controlling Officials have been instructed to ensure that there is proper monitoring of the problem of recovery of IRDP loans. Wherever necessary, additional field staff is being posted to the extent possible, to bring down the number of accounts handled per officer, so that they will be in a position to give greater attention to follow-up and recovery. Assistance of Block/District authorities is also being sought in the recovery efforts. Informal assistance from government officials through recovery camps has produced significant results in certain areas such as West Bengal and Orissa. Importance of repayment ethics is impressed upon the borrowers at the time of sanctioning of loans when all the terms and conditions of the loans and the recovery procedure are explained to the borrower. This is also done during the post-disbursement periodical field inspections.

3.34 The Committee note with regret the dismal position with regard to recovery position of the State Bank of India. The figures of outstandings in respect of SBI, as at the end of 1984 are : for Short Term loans—Rs. 135.14 crores, for Term loans—Rs. 202.60 crores and for DIR—Rs. 32.85 crores. The position in terms of percentages in various sectors as on 30 June, 1984 is stated to be overdues in small scale industries—14.6 per cent; small business finance—18.2 per cent; C&I segment—14.43 per cent and agricultural segment—19.8 per cent. The recovery position in terms of percentage in relation to demand in various sectors during 1984 is stated to be short term loans—34.6 per cent; Term loans—51.9 per cent; DIR recovery—34.63 per cent and IRDP—47 per cent. This position according to SBI's own admission is "a bit discouraging." Various reasons have been put forth for this adverse position and several steps are stated to have been taken to improve it. The Committee would like the State Bank of India to consider the setting up of separate recovery cells, with adequate field staff, to improve upon the position in all sectors/segments. The field staff should not prove to be terror to the beneficiaries, rather beneficiaries should look to them as their friend, philosopher and guide. All the same, while sanctioning loans particularly amongst weaker sections, repayment ethics should be explained and emphasised upon them. The beneficiaries should be briefed by the field staff about the advantages such as grant of further loan etc. after repayment of previous loans.

#### *F. State Bank Institute of Rural Development*

3.35 The Committee have been informed that the State Bank of India established in 1981 an Institute of Rural Development to meet the special training needs of rural credit. Officers from the general cadre are imparted training in rural economics and sociology; technical officers are trained in fundamentals of commercial banking. The core programmes include

investment Credit Programme for project finance conforming to BABARD specifications and programmes for upgradation of technical skills of our RDOs."

3.36 The Chairman SBI stated during evidence :

"Those officers whom we have decided to post in the branches for the next 4-5 years are selected and then they are put in training. We have also got other general training colleges. 10 to 15 per cent of those courses are conducted in the two colleges in Hyderabad and Gurgaon. It is a kind of orientation."

3.37 Asked whether SBI had made any review about the competence of the officers who are imparted such a training and whether they would practise that in the villages, the witness stated :

"This is our continuous effort. Still training has so many shortcomings. We are intensifying it. Without such a training possibly the situation would have been worse."

3.38 Asked whether the officers so trained were posted in the rural areas, the witness stated :

"We post them in the rural areas."

3.39 One of the non-official witnesses had started before the Committee that the training given to Bank Officers of various levels is "superficial" and of short duration and suggested that it should include practical work in the villages to familiarise them with developmental activity. Asked to comment upon this suggestion, Chairman SBI has stated during evidence :

"The Training Institute of Rural Management in Hyderabad carries out certain course which include Investment Credit Programme for the project finance. That is a part of the training and the entire emphasis is on rural development programmes.... We have given the basic orientation course after which they are posted in the villages. This training is a continuous process whereby the officers are imparted training in rural economics and sociology."

The witness added :

"We have a system whereby when we take an officer in the initial stages he has to work for two months in rural branches. When he is confirmed after the first five years, there is a minimum period fixed for work in the field, i.e. a branch in the rural area; then again for two years as Manager there."

3.40 Asked whether it will be helpful if the branch managers are asked to reside at the rural branch where they are posted, Secretary (Banking) stated :

"The suggestion that we should enable the branch managers to live in the area where they work, is a very good one. The Chairman of the State Bank should look into this. It takes half a day for the man to move about between places of work and residence."

3.41 The Committee note that State Bank of India established in 1981 an Institute of Rural Development at Hyderabad for meeting the special needs of rural credit. Now that special emphasis is being laid on opening more bank branches in the rural areas and a number of social banking schemes are being implemented, it is but natural that the officers/staff manning the rural branches should be exposed to the modern techniques of handling rural clientele. The Committee agree that training is a continuous effort and the Institute of Rural Development can play a vital role in this behalf. The Committee, however, feel that the courses being offered by the Institute should be kept under constant review so as to bring them in line with the over changing socio-economic phenomenon in the rural areas. The Committee also desire that the officers/staff who have been imparted training at the Institute, should be posted in the rural areas for a minimum period of 3 years and arrangements should also be made to look after their welfare and suitable residential accommodation, education of children at the place of posting and some extra allowance if their children are to receive education in a station different from their posting.

### *G. Publicity*

3.42 With regard to publicity of various schemes it has been stated in a memorandum furnished to the Committee that :

"The communication media should be used for creating right kind of awareness among the respective target groups. At present by and large people have come to know about the bankers' involvement in the development programmes. However, the message that the bankers' involvement is a sort of a process rather than one-shot affair, is not equally shared by various sections of the people.

.....The publicity media have to be properly used for giving right type of messages. At present, the publicity media are emphasising the availability of credit and the use and recycling parts of the credit are overlooked."

3.43 Further it has been suggested to the Committee that :

"In addition to the formal avenues of publicity like newspapers, pamphlets, etc. a real and effective publicity in relation to social banking activities can be by widespread personal contacts between the banker and the borrower. This can be achieved by intensive and purposeful field visits by the branch officials as well as the officials from the controlling Offices. Banks can arrange social and cultural gatherings attracting the people from the command area. Banks can arrange small borrower gatherings and disseminate information about banks' services and loan facilities available for productive enterprises aimed towards generation of increased incomes."



3.44 Giving his views on the above suggestion, the representative of the Reserve Bank has stated during evidence ;

"For your information the Reserve Bank publishes what we call 'Credit Information Review'. In that bulletin, we have started on our own initiative to print all these technical circulars in layman's language and we are sending it to nearly 50,000 people on our own free of charge to all the developmental agencies and bank branches, and this is one way in which we are trying to help the borrowers to the extent possible."

Secretary (Banking) added :

"A method is to be found to explain to the beneficiary as to what is being done."

3.45 The Committee do not feel satisfied with the steps taken so far by the Reserve Bank of India for publicising schemes of social banking under implementation in the rural areas. Mere publication of 'Credit Information Review' in layman's language and its free of cost circulation among about 50,000 people in a vast country like India is hardly going to serve any purpose. The Committee, agreeing with the views of a non-official organisation, would like to observe that besides formal avenues of publicity like newspapers, pamphlets etc. effective publicity of schemes of social banking could be through widespread personal contact between the bank officials (field staff) and the borrowers viz. the target groups under each scheme. Besides, services of the modern publicity media like Radio and Television should also be made use of for propagating schemes amongst the target groups. In Committee's view this would help a good deal in creating awareness amongst the rural clientele about the benefits that accrue to them under various schemes. This will also obviate their exploitation by the middle men as also unscrupulous officials through malpractices. There should also be a system of getting feedback from rural branches about the points made and difficulties experienced by the rural clientele and these should be analysed at a central place and TV/Radio programmes based on those points and solutions or correct information about that should be telecast/broadcast giving due publicity to them in advance.

## APPENDIX

### *Summary of Observations/Recommendations*

Sl.	Para No.	Recommendation/Observations
1	2	3
1.	1.10 to 1.14	<p>The banking activity of all financial institutions, particularly of the nationalised banks, has to conform to the needs of the society to effectively participate in programmes of economic development of the country. Social banking constitutes bankers' participation in schemes and programmes that have content dominantly social in relevance i.e. future oriented in the context and welfare oriented in content. The benefit of such schemes directly accruing to the banks beneficiaries are incapable of being quantified. However, the Committee feel, effective implementation of such schemes and programmes leads to development of banking as they, besides generating goodwill and trust, impart stability to the socio-economic life of the target population.</p>

Social banking also implies modification in the internal system of working of the banks so as to facilitate the extension of credit on intensive scale to the hitherto neglected sections of the society.

The Committee do not view such banking activity as a deviation from normal commercial banking as it lays the foundation for the commercial banking among the beneficiaries in the immediate future.

Keeping this perspective in view the Committee consider the concept of commercial banking and social banking as complementary and supplementary to each other. They are not to be viewed as mutually competing or conflicting concepts. This thinking has to pervade in the entire banking system if it has to serve as an effective instrument in the process of accelerated economic growth

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of the society with emphasis on the upliftment of the hitherto neglected and down-trodden sections of the society.

The Committee feel that for realising the objectives of social banking there is an imperative need for bringing about an attitudinal change in the minds of bank functionaries at all levels so as to make them understand in unambiguous terms that it is their bounden duty to carry on the banking activities with the over all social and economic perspective in view. The Committee therefore desire the Department of Banking to devise, in consultation with the Reserve Bank of India, ways and means to instil in the minds of the operators of the banking system in the country the right thinking towards social banking. The Committee have no doubt that when the developmental process reaches a certain level, existing gap between the haves and have-nots is reduced, the schemes and programmes promoted under social banking will ultimately fit into commercial banking.

2. 2-16

The Committee note that the State Bank of India has launched a number of schemes since its constitution in 1955 by the nationalisation of the Imperial Bank of India for the "extension of banking facilities on a large scale more particularly in the rural and semi-urban areas". Similarly Government has also launched certain schemes for the economic upliftment of the weaker sections of the society. With regard to monitoring and evaluation of these schemes, it transpired during evidence that the monitoring and evaluation was done by the bank itself in so far as bank's own schemes were concerned and by the Planning Commission/Reserve Bank of India if the schemes were Government sponsored and that the Ministry of Finance (Banking Division) has nothing to do in the matter. It also transpired during evidence that over the years the State Bank of India and Planning Commission/Reserve Bank of India have done precious little in conducting any indepth evaluation of these schemes so as to find out whether the schemes were being implemented on proper lines and the funds were actually reaching the people for whom they were meant. The Committee consider such a situation as a case

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of shift responsibility on the part of the Ministry, the Reserve Bank of India and the State Bank of India. The Committee cannot expect the Ministry to wash of their hands by stating that the schemes launched by the State Bank of India were to be evaluated by the Bank itself and the schemes launched by Government were to be revaluated by Reserve Bank of India or the Planning Commission. The Committee also do not appreciate the statement of the representative of the Reserve Bank of India that the banks were required to formulate and implement the schemes within the guide lines issued by them and they were not concerned with the monitoring or evaluation of the schemes launched by the SBI. The Committee need hardly point out that these schemes involve disbursal of thousand of crores of public money and the Ministry and the Reserve Bank of India have a vital and central role to ensure that these schemes are implemented in letter and spirit. The Committee suggest that an indepth evaluation of all the schemes should be done at regular intervals by an outside expert body under the overall supervision of the Ministry, Reserve Bank of India/Planning Commission so as to ensure that the schemes are yielding the desired results. The Committee also suggest that all Social Banking Schemes formulated or sponsored either by Government or the bank should have an in-built mechanism for evaluation and monitoring.

3. 2.17

The Committee are unhappy to be informed that there are outstandings as at the end of 1984 to the tune of Rs. 1876 crores, Rs. 1737 crores and Rs. 808 crores in the Agriculture, Small Scale Industries and Small Business respectively. Outstanding which are considered bad or doubtful for recovery, are to the tune of Rs. 59 crores, Rs. 163 crores and Rs. 35 crores respectively in these sectors. Apart from huge proportion of outstandings in practically all the sectors, there are large sums which are virtually bad debts and are doubtful of recovery. If this is the position with regard to the SBI, the Committee can well imagine what would be the total picture if all the nationalised banks are taken together. The Committee would like the Ministry/

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Reserve Bank of India to immediately conduct an indepth study to find out the reasons for the dismal picture about the implementation of these schemes and initiate necessary corrective and result-oriented measures so as to avoid losses in future and to achieve the desired aims of these schemes.

4. 2.24

The Committee note that the State Bank of India accepted voluntarily lead bank responsibility in 81 districts in the country of which 75 are industrially backward and are situated in hilly and tribal regions. The Committee also note that 1266 branches or 17.61 % of the total bank branches of SBI are located in lead districts and these branches disbursed Rs. 763 crores against their share of 198 crores upto the end of 1984. The Chairman of the State Bank of India has claimed during evidence that the credit-deposit ratio in the lead districts being served by the Bank has substantially improved over the years. The Committee are informed that along with a number of concurrent evaluation studies, impact studies in 10 selected lead districts were conducted by the SBI and the findings of these studies were brought to the notice of the District Consultative Committees as also the concerned functionaries of banks, so as to remove lacunae and deficiencies in the implementation of the Schemes. The Committee are further informed that as on 30 September, 1985 licences for opening of 190 more branches were pending with the Reserve Bank of India. As the problems may vary from district to district the Committee desire that for meaningful implementation of the scheme, impact studies in all the districts under the scheme should be conducted on ongoing basis and effective follow up action taken so that the deficiencies which come to the fore could be removed forthwith. They would also like the RBI to clear pending licences, for opening more branches, expeditiously.

5. 2.31

The Committee are concerned to note that no study has been undertaken about the implementation of the Differential Rate of Interest Scheme and it has been left to the branch managers not only to identify the beneficiaries

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under the scheme but also to certify their income. The Committee need hardly point out that there is ample scope of malpractices in the present procedure being followed in the implementation of the scheme. The Committee would like the Government to review the working of the scheme in all its aspects and lay down proper guidelines for the proper implementation of the scheme. The Government may also consider taking assistance from the Village Panchayat Agencies in the identification of the beneficiaries and the District Revenue Authorities in getting the income of the beneficiaries certified.

2.41

The Committee note that the Regional Rural Banks are State sponsored, low cost, regionally based and rural oriented commercial banks. These Banks are expected to confine their lendings to small and marginal farmers, landless labourers, rural artisans etc. Presently the total number of beneficiaries sponsored by the State Bank of India under this scheme is 15.9 lakhs with a total outstanding amount of Rs. 214.25 crores. While giving the break-up of these beneficiaries, category-wise, the Chairman of the State Bank of India informed the Committee during evidence that only figures for small and marginal farmers, agricultural labourers and artisans were available as separate figures for landless labourers were not being maintained. The Committee need hardly stress that landless labourers constitute a very large chunk of the rural population and in the fitness of things separate figures should be maintained by the Regional Rural Banks.

7 2.42

The Committee also note the results of the survey conducted by the State Bank of India in 10 districts to find out whether the assets purchased by the beneficiaries out of the loans and subsidy given by the Regional Rural Banks were intact and whether the beneficiaries were genuine and eligible. It is disheartening that in many cases assets are not existing at all or have already been sold. Many of the beneficiaries have also been wrongly identified. The Committee would like the Government to initiate such measures as may be necessary to educate the beneficiaries that the assets purchased out of the loans and subsidy given by the

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Regional Rural Banks should be maintained with utmost care and constant efforts should be made to use such assets for economic generating activity.

8. 2, 43

Many instances have come to the notice of the Committee where the middlemen and banking officials have colluded in taking advantage of the beneficiaries who are mostly illiterate. The representative of the Banking Division admitted during evidence that complaints have come to the notice of the Ministry of the effect that some middlemen and banking officials have grabbed as much as half of the amount of the loan and subsidy sanctioned to the beneficiary. The Committee note that instructions already exist to the effect that the bank officials should neither insist on the borrowers for purchasing inputs or other assets from particular dealers, nor there be any compulsion for the purchase of a particular brand of asset. The Committee would like that these instructions of the Reserve Bank should be scrupulously followed by all the banking officials and regular inspections should be conducted by the higher officials to ensure that the banking officials in a Branch are not indulging in any malpractices and that the benefits actually reach the target groups.

9. 2, 44 &  
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The Committee also feel that the procedure being followed for sanctioning loans and subsidies to the beneficiaries and the various forms used for the purpose appear to be cumbersome and need simplifications. The branch officials of the bank should guide and help the illiterate beneficiaries in getting the necessary formalities completed and the loans sanctioned expeditiously.

The Committee are informed that a Committee under the Deputy Governor, Reserve Bank has been appointed to go into the specific question whether the mode of payment should be in cash or kind or whether it should be direct payment to the suppliers. The Committee hope that the Report of the Committee appointed under the Deputy Governor of Reserve Bank would be made available soon and necessary corrective measures initiated in right earnest to improve the situation.

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10. 2.49

The Committee note that the S.B.I. had launched a liberalised scheme for assisting small scale industries at nine 'pilot centres' all over the country in 1956. The essence of the scheme was relaxation in the rigidity of standards as also administrative procedures in favour of small scale industrial units. The margin requirements are also stated to have been relaxed, interest rates lowered and clean advances too were granted in appropriate cases. Now the facilities for assisting small scale industries have been extended through to all branches of State Bank of India. The Committee would like to emphasise that since the development of small scale industries is crucial to the economy of the country, the banks have to play an important role in providing credit to them at liberal terms and conditions with least possible administrative and procedural hurdles.

11. 2.57

The Committee note that the State Bank of India since 1976 is conducting special Entrepreneur Development Programmes with a view to motivating first-generation entrepreneurs to set up risk bearing ventures, particularly in backward districts. Besides, Indian Institute of Management, Ahmedabad and Indian Institute of Technology, Delhi, etc. are also conducting such programmes. The Committee do not consider that the programme being conducted by State Bank of India has been very successful in view of the fact that only 22% of the 2200 entrepreneurs trained so far have set up industrial units and 17% are in the process of preparation of project reports. The Committee are informed that the programme is being evaluated by the State Bank of India to find out whether it needs any modification or should be discontinued in view of the low response from the trainees to set up industrial units after training. The Committee would like to be apprised of the results of the evaluation being done by the State Bank of India. The Committee would also like the State Bank of India to coordinate with the other organisations conducting such programmes to find out whether a unified and broad based programme could be conducted by either of the organisations instead of so many organisations conducting such programmes independently.



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12.	2.65	<p>The Committee are informed that the State Bank of India evolved the concept of Agricultural Development Branches on its own in 1971 for handling agricultural advances exclusively. At present, the Bank has 432 such branches and upto the end of 1984 the number of farmers financed through these branches was 16,79,256 and the net outstanding amount Rs. 641.29 crores. These Branches provide credit for both agriculture as also allied activities like dairy, poultry, fisheries etc. The Committee, however, note that the Reserve Bank of India has taken a decision to expand the net work of commercial banks in the rural areas and has asked the State Bank of India and other banks to go slow on the opening of further Agricultural Development Branches. The Committee however have no doubt that all those areas which have not yet been covered by the commercial banks will be provided banking facilities in a time bound programme. The Committee would also like the State Bank of India to make an indepth study in the working of the existing Agricultural Development Branches to find out their impact on the socio-economic advancement of the beneficiaries and also whether the recovery position is satisfactory.</p>
13.	2.73	<p>The Committee are unhappy to be informed that the provision of adequate infrastructural facilities by the District Rural Development Agencies which was to form the back bone of the economic development of rural areas turned out to be its weakest link resulting in limited impact of programme of credit deployment by the banks on the socio-economic conditions of the beneficiaries. The Committee need hardly stress that besides the availability of credit on easy terms, the provision of adequate infrastructural facilities and other inputs like project report, technical advice, marketing facilities etc. are also essential ingredients for the gainful utilisation of the loans/subsidies received by a beneficiary. While agreeing during evidence that the availability of the non-credit inputs was necessary for the economic development of a beneficiary, the representative of the State Bank of India stated that the bank did not provide these services as the bank did not have the requisite infrastructure for the purpose. The Committee</p>

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would like to point out that the mere flow of credit from the banks cannot have any impact on the development of any beneficiary or any area under any scheme of social banking unless non-credit inputs are also identified and beneficiary made aware thereof and provided guidance for procuring them. The Committee, therefore, are firmly of the opinion that while formulating the schemes for the provision of credit facilities, matching schemes should also be formulated for the provision of necessary guidance about non-credit inputs simultaneously and very close coordination and liaison should be maintained with the District Rural Agencies in the matter.

14. 2.79

The Committee see the logic behind the view put forth before them that the initial phase of credit deployment should be the basis whether the credit is helping the target groups in building up further credit absorbing capacity. According to the representative of the RBI who appeared before the Committee "it is presumed that when banks assess the viability of schemes, they look into the repayment capacity of the borrower". In Committee's view, the capacity to absorb credit and the repayment capacity are two different things. What they would like to emphasise is that the cycle of credit deployment and re-deployment has to be on the basis of generation of credit absorbing capacity of the borrower. Banks must not consider only repayment capacity of the borrower at the initial stages. If the deployment in first instance is well planned, it will certainly generate surplus and lead to enhancing the repayment capacity of the borrower. The approach of the financial agency should be for an overall upliftment of the target groups and not like that of a disinterested agency concerned with giving loan and looking for its repayment only.

15. 2.80

The Committee also feel that special efforts are called for on the part of RBI/SBI for revival of the sick small scale units and in making them economically viable, if need be, giving them second dose of loan and providing them with necessary expert guidance.

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| 16. | 2.84              | <p>The Committee agree with a view that the bankers should be involved in the planning for rural development because bankers have the expertise of micro management of finance. There has to be a mechanism by which banks' planning and the national planning mechanisms have to be integrated. This can be done at the micro level as also at the micro level. This suggestion also found favour with the Secretary (Banking) when he informed the Committee that for financing part in the Seventh Plan, the Reserve Bank was fully associated and wherever there was any scheme requiring bank financing, the RBI was consulted before the scheme was included in the Plan. In Committee's view association of RBI alone though necessary was not enough. The Committee feel that representation of commercial banks at least at micro level in the formulation of schemes for rural upliftment was equally important as the ultimate implementation of the scheme was their responsibility. The Committee would like the Government to examine as to what extent the banking industry could be involved in the process of formulation of schemes by the Government.</p> |
| 17. | 2.96<br>&<br>2.97 | <p>The Committee feel concerned to learn that according to the non-official estimates, about 30 per cent of the beneficiaries under IRDP were not eligible on the basis of income criteria. As per the study conducted by the State Bank of India in the 10 lead districts to assess the impact of IRDP, it has been found that 20.6 per cent of the beneficiaries were wrongly identified. One of the important reasons for improper identification has been stated to be that no meeting of the Gram Sabha for confirming the identification of the beneficiaries had been convened in the 10 districts taken up for study. The position may be no better if study is undertaken in all the districts where the State Bank of India is the lead bank. The Committee find it really surprising that while under the programme hundreds of crores of rupees are being spent by the Government, no foolproof institutionalised arrangements have been made for the proper identification of the beneficiaries.</p>  |

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As stated by the Chairman of the State Bank of India during evidence no assistance is being taken from the voluntary organisations for the identification of beneficiaries. The entire exercise is being done by the district rural development agencies. The Committee consider that voluntary organisations can also play a vital role in the proper identification of the beneficiaries and they should be effectively associated with the task of proper identification of beneficiaries. The State Bank of India on its part should carry out a sample check to find out whether the beneficiaries selected by the district rural development agencies satisfy fully the criteria laid down for their selection before the release of money.

18. 2.98

The Committee note that during the Seventh Five Year Plan, those beneficiaries who had been assisted earlier but were unable to cross the poverty line due to reasons beyond their control are to be given supplemental assistance and the identification of the eligible beneficiaries for the second dose is presently being undertaken jointly by the State Government authorities and bank officials. The Committee hope that utmost care will be taken to ensure that only eligible beneficiaries get this second loan and there is no case of wrong identification of a beneficiary.

19. 2.109  
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2.111

The Committee are perturbed over the complex problem of disbursal of subsidy to the IRDP beneficiaries. It has been conceded by the Ministry/SBI that capital subsidy has led to tremendous misuse and has attracted many an unscrupulous ineligible persons to grab it. As per Secretary (Banking), evaluation studies on the subject carried out by the RBI, the SBI and the Institute of Financial Management and Research have also unequivocally revealed the fact of misuse of the present form of disbursal of subsidy and have opined that the modalities of disbursal need to be reviewed and improved. There have been suggestions of replacing capital subsidy by interest free loans but these have not found favour with the State Ministers of Rural Development and consensus among them is in favour of retaining the capital subsidy.

A recent study conducted by the State Bank to examine the merits of substituting capital subsidy with interest free loans, while conceding the fact of misutilisation and listing loopholes for corrupt practices, has favoured its retention on the ground that it is more attractive and advantageous to the beneficiaries.

The Committee are constrained to observe that in the face of the fact that there is large scale misuse in the disbursement of subsidy and an attractive field is open for unscrupulous ineligible persons to grab it, there have been several studies made in regard thereto, none of them had been instituted to suggest changes in the modalities of disbursement so as to check the malpractices and misutilisation. Even the Reserve Bank of India which is responsible for formulating guidelines and keeping a watch over the implementation of the IRDP, while being aware of large scale misuse of the Government subsidy, could not institute an enquiry and devise modalities for checking the menace. The Committee desire that an expert group should be appointed by the Reserve Bank to go into all the pros and cons of the issue and evolve procedures whereby implementation of this major programme against poverty is made foolproof leaving no scope for its misuse.

20. 3.7

The Committee are surprised to learn that besides the large scale industrial units, even the public sector undertakings have been behaving irresponsibly in so far as clearing their dues to the small scale industrial units are concerned. It is all the more strange as to how banks have been clearing loan proposals of public sector undertakings and large scale industrial units without ensuring that they have cleared their dues to the small scale units. Now that the Reserve Bank of India has issued instructions to all the banks that before sanctioning loans to public sector undertakings and large scale industrial units, it should be ensured that they had cleared all their dues to the small scale industrial units, the Committee expect the State Bank of India to scrupulously follow these instructions.

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| 21. | 3.8  | In so far as the practical problems in the agricultural sector are concerned, the Committee would like the State Bank of India to intensify their efforts in pursuing with the State Government authorities for providing the requisite infrastructural and other facilities in the areas of operation of the schemes of social banking so that these schemes could be implemented smoothly.   |
| 22. | 3.11 | The Committee find that the SBI has issued detailed guidelines for simplification of procedures and formats for all priority sector lendings. These include information as to how forms should be filled up and what items should be included therein particularly for small loans upto Rs. 25,000/-. Loan application forms have been printed in all regional languages and terms and conditions stipulated for loan are printed on the back of the loan sanction letter. It has also been stipulated that the beneficiaries under IRDP and DRI loans should be issued pass books, having photographs of the beneficiaries affixed thereon. The cost of photographs is also borne by the banks in the case of certain categories of borrowers. Nevertheless, the Committee would like to point out that notwithstanding all these simplified procedures, many instances have come to the notice of the Committee where the borrowers have been reported to be harassed by the bank officials. The Committee would like the bank authorities to ensure better customer service at the counters of rural branches which deal with poor rural cliental and those officials found wanting in courtesy and good behaviour should be dealt with severely. |
| 23. | 3.12 | The Committee are informed that in order to ensure that guidelines regarding simplified procedures are followed by the rural bank branches, SBI has initiated evaluation through its own officers. Reserve Bank of India is also stated to have appointed Lead Development Officers for three-four districts for the purpose. The Committee would like the RBI to appoint many Lead Development Officers so as to cover all the districts served by the schemes for priority sectors. These officers should conduct surveys and make on-the-spot studies to find deficiencies in the   |

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procedures and suggest measures for plugging the loopholes so as to prevent harassment of beneficiaries and malpractices indulged in by the middlemen, bank officials and other functionaries.

24. 3.17 & 3.18      The Committee do not feel convinced of the reasons advanced by the SBI for undue delay in the disposal of the loan applications of beneficiaries under the various social banking schemes. So far as bunching of applications is concerned, instructions should be issued by the Ministry of Finance/Reserve Bank of India to all the concerned sponsoring agencies impressing upon them the imperative need for the avoidance of the bunching of applications so that these applications could be disposed of within the maximum period of two weeks.

So far as the problem of handling of very large number of small loan applications is concerned, the Committee feel that the desired results can be achieved by computerisation of the whole process. The Committee would urge upon the State Bank of India to take expeditious decision on the computerisation as recommended by the Committee appointed by the Bank. Recommendations of that Committee about procedural problems etc., also merit immediate consideration and implementation.

25. 3.23      The Committee note that the present schemes being implemented by the bank for deposit mobilisation are more suited to urban and elite population. No innovative schemes for deposit mobilisation suited exclusively to rural population have been initiated by the Reserve Bank of India/State Bank of India. All that the Reserve Bank of India has done is that under the branch expansion scheme, nearly 60% of the branches have been opened in the rural areas. The Committee feel that sheer expansion of branch network in rural areas is not enough as an incentive for the rural population for savings and deposits. For adequate deposit mobilisation there have to be savings oriented innovative schemes for operation in the rural branches of the banks with adequate publicity and door to door con-

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vassing. The Committee would like the Ministry/RBI/SBI to give a serious thought to this matter and devise suitable deposit schemes for attracting rural clientele.

26. 3.24

The Committee note the progressively descending trend in the Credit-Deposit ratio among the rural population group in the country in so far as SBI is concerned. While in 1980 it was 68.17, it was 65.96 in 1981, 63.38 in 1982, 62.67 in 1983 and 61.37 in 1984. As against this, the situation is reverse in the case of metropolitan group where it was 100.90 in 1980, 104.33 in 1981, 116.34 in 1982, 107.87 in 1983 and 100.07 in 1984. The representative of the RBI, however, informed the Committee that 'we have stipulated that at least 60% credit-deposit ratio should be maintained for the rural areas.....for the Banking sector as a whole, in December, 1984 the ratio was 65.4%.' However, in the rural areas of North-Eastern region and Eastern region the credit deposit ratio is even less than 30%. According to the Ministry, high credit-deposit ratio in urban and metropolitan areas does not mean diversion of resources from rural areas to urban/metropolitan areas but it is because of more credit absorption capacity in urban/metropolitan areas due to various reasons such as concentration of large industries in urban/metropolitan areas; large number of agro-based industries in urban/metropolitan area; and food credit of the bank is shown in urban/metropolitan areas but is actually utilised in rural areas. Notwithstanding all these factors, the Committee do not feel convinced of the reasons for a declining trend of credit-deposit ratio in rural areas. The Committee would like to stress that the overall planning of the Bank should be such that every beneficiary of the credit programme ultimately turns out to be a genuine depositor of the bank. Fulfilment of this condition should be one of the criteria for judging the effectiveness and correct implementation of the schemes. The Committee have already observed in the proceeding sections of this report about provision of more infrastructural facilities and need for growth of industries particularly agro-based industries, in the rural areas so as to augment substan-



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		<p>tially the credit absorbing capacity in the rural areas. The Committee would like all possible measures to be evolved for increasing the credit-deposit ratio in the rural areas.</p>
27. 3.34		<p>The Committee note with the regret the dismal position with regard to recovery position of the State Bank of India. The figures of outstandings in respect of SBI, as at the end of 1984 are : for short Term loans—Rs. 135.14 crores, for Term loans—Rs. 202.60 crores and for DIR—Rs. 32.85 crores. The position in terms of percentages in various sectors as on 30 June, 1984 is stated to be : overdues in small scale industries—14.6%; small business finance 18.2%; C&amp;I segment—14.43% and agricultural segment 19.8%. The recovery position in terms of percentage in relation to demand in various sectors during 1984 is stated to be : short term loans—54.6%; Term loans 51.9%; DIR recovery—34.63% and IRDP 47%. This position according to SBI's own admission is "a bit discouraging." Various reasons have been put forth for this adverse position and several steps are stated to have been taken to improve it. The Committee would like the State Bank of India to consider the setting up of separate recovery cells, with adequate field staff, to improve upon the position in all sectors/segments. The field staff should not prove to be terror to the beneficiaries, rather beneficiaries should look to them as their friend, philosopher and guide. All the same, while sanctioning loans particularly amongst weaker sections, repayment ethics should be explained and emphasised upon them. The beneficiaries should be briefed by the field staff about the advantages such as grant of further loan etc. after repayment of previous loans.</p>
28. 3.41		<p>The Committee note that State Bank of India established in 1981 an Institute of Rural Development at Hyderabad for meeting the special needs of rural credit. Now what special emphasis is being laid on opening more bank branches in the rural areas and a number of social banking schemes are being implemented, it is but natural that the officers/staff manning the rural branches should be exposed to the modern techniques of handling rural clientele. The Committee agree that training is a continuous effort and the</p>

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Institute of Rural Development can play a vital role in this behalf. The Committee, however, feel that the courses being offered by the Institute should be kept under constant review so as to bring them in line with the over changing socio-economic phenomenon in the rural areas. The Committee also desire that the officers/staff, who have been imparted training at the Institute, should be posted in the rural areas for a minimum period of 3 years and arrangements should also be made to look after their welfare and suitable residential accommodation, education of children at the place of posting and some extra allowance if their children are to receive education in a station different from their posting.

29. 3.45

The Committee do not feel satisfied with the steps taken so far by the Reserve Bank of India for publicising schemes of social banking under implementation in the rural areas. More publication of 'Credit Information Review' in layman's language and its free of cost circulation among about 50,000 people in a vast country like India is hardly going to serve any purpose. The Committee, agreeing with the views of a non-official organisations, would like to observe that besides formal avenues of publicity like newspapers, pamphlets etc. effective publicity of schemes of social banking could be through widespread personal contact between the bank officials (field staff) and the borrowers viz. the target groups under each scheme. Besides, services of the modern publicity media like Radio and Television should also be made use of for propagating schemes amongst the target groups. In Committee's view this would help a good deal in creating awareness amongst the rural clientele about the benefits that accrue to them under various schemes. This will also obviate their exploitation by the middle men as also unscrupulous officials through malpractices. There should also be a system of getting feedback from rural branches about the points made and difficulties experienced by the rural clientele and these should be analysed at a central place and T.V./Radio programmes based on those points and solutions or correct information about that should be telecast/broadcast giving due publicity to them in advance.