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STANDING COMMITTEE ON FINANCE
(2015-16)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

"STATE OF RURAL / AGRICULTURAL BANKING AND CROP INSURANCE"

THIRTY FOURTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

August, 2016, Sravana, 1938 (Saka)

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MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

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Presented to Lok Sabha on 10 August, 2016

Laid in Rajya Sabha on 10 August, 2016

LOK SABHA SECRETARIAT
NEW DELHI

August, 2016, Sravana, 1938 (Saka)

State of Rural / Agricultural Banking and Crop Insurance

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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2015-16

Dr. M.Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Vacant **
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyoypadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Chandrakant B. Khaire
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Shri Shivkumar Udasi
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Vacant *
25. Shri Satish Chandra Misra***
26. Dr. Mahendra Prasad
27. Shri T.K. Rangarajan
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Tenzin Gyaltsen	-	Committee Officer

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* Vacancy caused due to retirement of Shri A. Navaneethakrishnan, MP from Rajya Sabha w.e.f. 29.06.2016

** Consequent upon his appointment to the Council of Ministers, Shri S.S. Ahluwalia, MP ceased to be the member of the Committee w.e.f. 05.07.2016

*** Shri Satish Chandra Misra, MP, Rajya Sabha Nominated w.e.f. 08.07.2016

Introduction

I, the Chairperson of the Standing Committee on Finance, having been authorised by the Committee, present this Thirty Fourth Report on the subject "State of Rural / Agriculture Banking and Crop Insurance".

2. The Committee heard the views of the representatives of Ministry of Finance (Department of Financial Services) on 22 September, 2015 and 23 February, 2016, Ministry of Agriculture and Farmers Welfare (Department of Agriculture, Cooperation & Farmers Welfare) on 01 October, 2016 and 23 February, 2016 and Ministry of Rural Development on 01 October, 2016.

3. The Committee heard the views of Reserve Bank of India (RBI) and National Bank For Agriculture and Rural Development (NABARD) on 23 February, 2016 and of Agriculture Insurance Company of India Ltd. (AICL) on 07 January, 2016 and 23 February, 2016.

4. The Committee also heard the views of experts *viz.* Dr. T.N. Prakash Kammardi, Chairman, Karnataka Agricultural Prices Commission, Dr. Anjani Kumar, International Food Policy Research Institute, Dr. Suresh Pal, Member, Commission for Agricultural Cost & Prices (CACP) and Dr. Amar KJR Nayak, NABARD Chair Professor, Xavier University on 07 January, 2016.

5. The Committee at their Sitting held on 04 August, 2016 considered and adopted the draft report and authorised the Chairperson to finalise the same and present it to Parliament.

6. The Committee wish to express their thanks to the officials of the Ministry of Finance (Department of Financial Services), Ministry of Agriculture and Farmers Welfare (Department of Agriculture, Cooperation & Farmers Welfare), Ministry of Rural Development, RBI, NABARD, AICL and various aforementioned experts for appearing before the Committee and furnishing the requisite material and information which were desired in connection with the examination of the subject.

8. For facility of reference, the observations / recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI	**DR. M. VEERAPPA MOILY,**
04 August, 2016	**Chairperson,**
13 Shravana, 1938 (Saka)	**Standing Committee on Finance**

REPORT

PART - I

Chapter - I

Institutional Framework

(i) National Bank for Agriculture and Rural Development (NABARD)

A comprehensive and viable agricultural finance mechanism and a financially inclusive framework to increase the coverage of crop loan, rural credit in general as also infusion of finance in all the unbanked / under banked areas, including tribal pockets, backward areas and remote hamlets in the country have been deliberated upon in the Report. It is of significance that agriculture and related options should be made viable while protecting and sustaining the incomes and economic well being of small / marginal farmers and farm workers. Our credit mechanism should acts as a catalyst and stimulate integrated development of Rural sector. The Crop insurance regime should be a critical input such as to cushion the entire farming community from the vagaries of nature. The interconnected and interdependent nature of agriculture besides being an important component of our economic growth makes it necessary for a holistic credit policy and delivery mechanism. Some of these important issues have been discussed in the succeeding paragraphs.

To promote sustainable and equitable agriculture and rural prosperity through effective credit support, related services, institution development and other innovative initiatives, at the instance of Government of India, Reserve Bank of India (RBI) constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B.Sivaraman, former member of erstwhile Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of National Bank for Agriculture and Rural Development(NABARD). The Parliament, through Act,61 of 1981, approved the setting up of NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). NABARD was set up with an initial capital of ₹ 100 crore. Consequent to the revision in the composition of share capital between Government of India and RBI, the paid up capital as on 31 March 2015, stood at ₹ 5000 crore with Government of India holding ₹ 4,980 crore (99.60%) and Reserve Bank of India 20.00 crore (0.40%).

NABARD Highlights 2015-16

1.2 During 2015–16, banks have disbursed Rs. 8,77,224 crore (provisional) credit to the agriculture sector, against a target of Rs. 8,50,000 crore. Commercial banks, Regional Rural Banks (RRBs) and Cooperative banks disbursed Rs. 6,04,668 crore (provisional), Rs. 1,19,261 crore and Rs. 1,53,295 crore, respectively.

Agency-wise Ground Level Credit Flow

(Amount in ₹ crore)

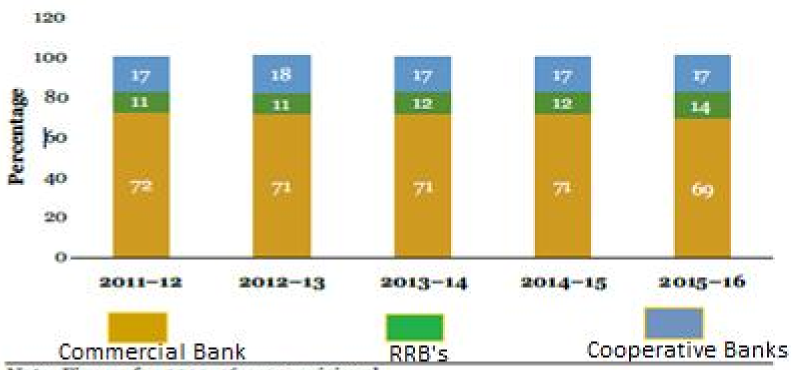
Agency	2011–12	2012–13	2013–14	2014–15	2015–16*
Commercial banks	3,68,616	4,32,491	5,27,506	6,04,376	6,04,668
Regional Rural Banks	54,450	63,681	82,653	1,02,483	1,19,261
Cooperative banks	87,963	1,11,203	1,19,964	1,38,469	1,53,295
Total	5,11,029	6,07,375	7,30,123	8,45,328	8,77,224

Note: *Provisional

Source: (1) NABARD (based on reporting by RRBs and cooperative banks)
(2) Indian Banks Association (IBA) (for commercial banks, as reported to NABARD)

1.3 The agency-wise share of credit flow to the agricultural sector during the last five years is furnished below. Agricultural credit disbursement continues to be dominated by commercial banks, followed by cooperative banks and RRBs. There has been an impressive growth in agricultural credit flow from 2.29 lakh crore to 8.77 lakh crore (provisional) during the ten-year period of 2006–07 to 2015–16.

Agency-wise share of credit flow to agriculture



Note: Figures for 2015–16 are provisional
Source: NABARD's calculations based on data reported by banks and Indian Banks' Association (IBA)

1.4 According to NABARD, sanctioned credit limits aggregating Rs. 71,497 crore to state cooperative banks (StCBs), RRBs and District Central Cooperative Banks (DCCBs) under the short-term refinance portfolio. NABARD's longterm refinance disbursement had touched Rs. 48,064 crore, an all-time high, marking a growth of 53 per cent over the previous year. With a view to giving a fillip to capital formation in agriculture Government has over the last two years established a Long Term Rural Credit Fund with a corpus of Rs. 14,997 crore. NABARD has utilised the fund fully by providing refinance to RRBs and cooperative banks. NABARD has been playing a critical role in promoting financial inclusion by facilitating financial literacy and supporting technological upgradation of cooperative banks and RRBs. Based on the Potential Linked Credit Plans for 660 districts of the country, State Focus Papers were prepared for 2016–17 by the regional offices of NABARD to present a comprehensive picture of the potential available in various sectors of the rural economy, critical infrastructure gaps to be filled and linkage support to be provided by various government departments.

1.5 While deposing before the Committee, Member (Official), Commission for Agricultural Costs and Prices (CACP), Department of Agriculture, Cooperation and Farmers Welfare, gave an overview of current trends in Agriculture Finance and Credit, and stated that :

> "There is a positive development in Indian agriculture. The growth rate has accelerated. In addition to that, there is a phenomenon which is known as regional convergence. The States where the productivity was less are

catching up. So, that is a positive development. Another positive development is, high value commodities, crops like livestock, horticulture, fisheries are the sectors in overall agriculture gross domestic product is increasing. This is good becaus demand for these products is increasing but at the same time these areas require more money, more capital and more credit. On the support system, if you look at both input and output markets, there is a lot of transformation which is taking place. Informal kind of arrangements are being converted into organized delivery systems where the scale of operation is also increasing. In other words, we can say the entry of corporate sector is increasing in agriculture on both input supply as well as the marketing side. An immediate implication of this is that if we consider the entry of private sector on the input side, the cost of production or cost of cultivation is going to increase, and therefore more money should be available with the farmers.

The future source of growth in agriculture will be based on use of modern inputs and modern technology. These will be more knowledge intensive and these will be more capital intensive. So, if we have to use the sources of growth, so naturally we have to make the access of farmers to institutional credit. Another important thing which we have to consider is that for a number of years the Indian agriculture will continue to be dominated by small farmers. And even if we increase the productivity of the small farmers, it may not provide the adequate income to farm households to make them viable or sustain the family of the farmer. Therefore, other sources of income which we generally call the rural non-farm sectors, become important for increasing the income in rural areas. At the same time, we are having more vulnerability. Earlier we were having climate risks which are still there but in addition to that we are having the market risks. Therefore, we need direct interventions to address these risks which are making our agriculture more vulnerable."

NABARD Highlights 2014-15

1.6 During 2014–15, banks have disbursed Rs. 8,40,643 crore (provisional) credit to the agriculture sector, against a target of Rs. 8,00,000 crore. Commercial banks, cooperative banks and RRBs disbursed Rs. 5,99,691 crore (provisional), Rs. 1,38,469 crore and Rs. 1,02,483 crore, respectively.

AGENCY-WISE GROUND-LEVEL CREDIT FLOW

(Amount in ₹ crore)

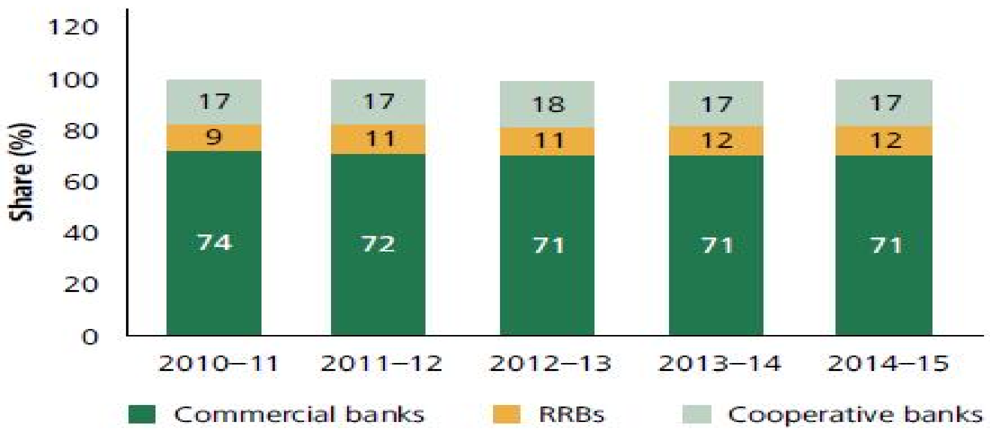
Agency	2010–11	% share	2011–12	% share	2012–13	% share	2013–14	% share	2014–15 (provisional)	% share
CBs	3,45,877	74	3,68,616	72	4,32,491	71	5,09,005	71	5,99,691	71
RRBs	44,293	9	54,450	11	63,681	11	82,652	12	1,02,483	12
Coops	78,121	17	87,963	17	1,11,203	18	1,19,964	17	1,38,469	17
Total	4,68,291	100	5,11,029	100	6,07,375	100	7,11,621	100	8,40,643	100

CBs: commercial banks; RRBs: regional rural banks; Coops: cooperative banks

Sources: (1) NABARD (based on reporting by RRBs and cooperative banks)
(2) Indian Banks Association (for commercial banks)

1.7 The agency-wise share of credit flow to the agricultural sector during the last five years is furnished below:

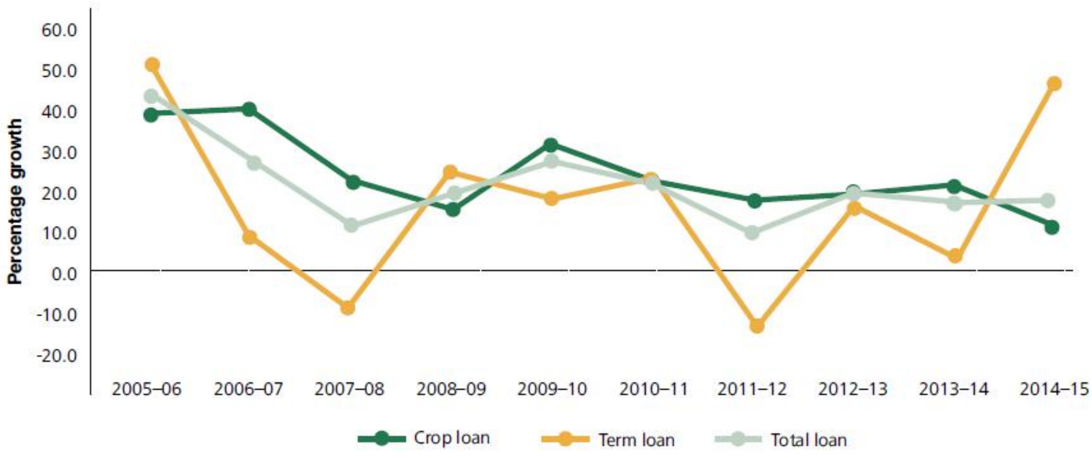
Agency-wise share of credit flow to agriculture



Source: NABARD's calculations based on data reported by banks and the Indian Banks' Association

1.8 Agricultural credit disbursement is dominated by commercial banks, followed by co-operative banks and RRBs. There has been an impressive growth in agricultural credit flow from Rs. 1.25 lakh crore to Rs. 8.41 lakh crore during the eleven-year period of 2004–05 to 2014–15. However, while crop loan disbursement increased more than eightfold during the same period, term loan (investment credit) increased fourfold. Further, it is a matter of concern that the share of term loan in the total agricultural credit disbursed declined steadily from 39.3 per cent in 2004–05 to 19.5 per cent in 2013– 14. However, bucking the trend, the year 2014–15 witnessed an increase in the share of term loan to 24.3 per cent from 19.5 per cent in 2013–14. Since investment credit is the major driver of private sector capital formation in agriculture, a persistent decline in its share and the fact that its growth trend is lower than that of crop loan raises concerns about sustainable growth in agricultural production and productivity.

Annual growth % of credit flow to agriculture



Source: NABARD's calculations based on data reported by banks and the Indian Banks' Association

1.9 The reversal of the trend in 2014–15, depicting a remarkable growth rate of 47.5 per cent in term loan, is encouraging. A continuous increase in the share of term loan would lead to the much-needed increase in capital formation in agriculture, and the consequent increase in agricultural productivity. Broad sector-wise credit flow to agriculture during the last five years is furnished below.

SECTOR-WISE GROUND-LEVEL CREDIT DISBURSEMENT TO AGRICULTURAL SECTOR

(Amount in ₹ crore)

Sl. No.	Sector	2010–11	2011–12	2012–13	2013–14	2014–15*
I	Crop loans	3,35,550	3,96,158	4,73,500	5,73,001	6,36,099
II	Term loans	1,32,741	1,14,871	1,33,875	1,38,620	2,04,544
III	Total agriculture credit (I+II)	4,68,291	5,11,029	6,07,375	7,11,621	8,40,643

*Provisional data

Source: Indian Banks' Association for commercial banks and reports submitted by cooperative banks and RRBs

1.10 In order to facilitate capital formation, which is critical for agricultural productivity and growth, NABARD extends refinance support to commercial banks, RRBs and cooperative banks for long-term lending. Further, a new medium-term refinance product for 18 months to 3 years was introduced during the year. All investment activities under medium-term relating to agriculture and allied activities are eligible under the scheme. Keeping in view the broad objectives set under the National Mission on Sustainable Agriculture, NABARD has introduced a scheme for providing refinance at concessional rates for specific activities under plantation and horticulture, and to other activities under area-based schemes under Banking Plan. To give a boost to long-term investment credit in agriculture, the Government has set up a 'Long-Term Rural Credit Fund' with NABARD to provide long-term refinance support exclusively to cooperative banks and RRBs for investment credit in agricultural activities. Considering the vast network of these rural financial institutions (RFIs) which traditionally provide short-term credit, refinance from NABARD out of this fund is expected to facilitate diversification of their loan portfolios into investment credit.

1.11 While deposing before the Committee, the Secretary, Department of Financial Services, Ministry of Finance, gave a brief on overall credit scenario, role played by crop insurance policy, Kisan Credit Cards (KCC), NABARD and RRBs. In this regard, the Secretary stated that :

"The Government has taken a number of steps and initiatives to provide needed credit to farmers. RBI and NABARD have also issued instructions in this regard. NABARD has taken various developmental and promotional initiatives to secure the livelihood of farmers. The Government of India has been fixing targets for flow of credit to agriculture by the banking sector every year with the concerted efforts of RBI, NABARD and government functionaries and the banks. The targets for flow of agricultural credit are being surpassed every year. Through the extension of credit to farmers through banking channels, we also aim at financial inclusion of farmers. To give you an idea of the size of this area, the target of agricultural credit for 2015-16 is fixed at Rs.8.5 lakh crore. In order to ensure that all eligible farmers are provided with timely credit for their agricultural operations, the government has introduced the Kisan Credit Card which enables farmers to purchase agricultural inputs such as seeds, fertilizers, pesticides, etc., and draw cash to satisfy their agricultural as well as consumption needs. The cost towards crop insurance is also included in the KCC limit. The Kisan Credit Cards have been simplified and converted into ATM enabled debit cards with inter alia facilities of one-time documentation, built-in cost escalation in the limit, and any number of drawals within the limit. In order to provide crop loans to farmers at an affordable rate, the Government provides interest subvention to make short-term crop loans up to Rs.3 lakh available to farmers at the interest rate of seven per cent per annum. And in case of prompt repayment, timely repayment, the interest rate gets reduced to four per cent. This interest subvention scheme is continued for the year 2015-16 as well. It is renewed on an annual basis.

RBI has issued standing guidelines for relief measures to be provided by respective lending institutions in areas affected by natural calamities, which inter alia include identification of beneficiaries, extending fresh loans and restructuring of existing loans, relaxed security and margin norms and moratorium. The moment a calamity is declared by the concerned District authorities, these guidelines have been so designed that they are automatically set in motion without any intervention and this saves precious time. As far as crop insurance is concerned, the present schemes are National Agricultural Insurance Scheme (NAIS), Modified National Agricultural Scheme (MNAIS), Weather-based Crop Insurance Scheme (WBCIS) and National Crop Insurance Program (NCIP). The State Governments concerned notify the crops and areas to be covered for the insurance schemes. The actual yield data for each insured crop for the notified areas are submitted by the State Governments for the NAIS and MNAIS to find out shortfall for guaranteed yield, whereas in the WBCIS the claims are paid to farmers against deemed crop losses due to adverse weather incidents. Presently NAIS is implemented in 18 States and two Union Territories, MNAIS in six States, and WBCIS in 11 States".

1.12 **NABARD (Challenges for 2016-17)**

- Encouraging capital formation through increased share of long term loan in agriculture credit.
- Operationalising Long Term Irrigation Fund, with an initial corpus of Rs. 20,000 crore with immediate focus on 23 identified irrigation projects in 9 states which together have a potential to irrigate 18.62 lakh hectares
- Climate resilient agriculture: NABARD is working with the Ministry of Environment, Forest and Climate Change (MoEF& CC), Government and other stakeholders to identify projects which help farmers adapt to the climate change and also mitigate the effects of climate change. NABARD aims to generate projects with a total outlay Rs. 3,000 crore for posing to Green Climate Fund (GCF). It is also in the process of identifying projects amounting

to about Rs. 250 crore to be sanctioned under the National Adaptation Fund for Climate Change (NAFCC).

- Focusing on its policies to enable doubling of farmers' income especially in the area of aggregation of producers, market linkages and credit expansion to uncovered farmers.
- Repositioning its flagship inclusive and participatory micro finance programme of SHG Bank Linkage in states with lower coverage.

(ii) Regional Rural Banks (RRBs)

1.13 Regional Rural Banks (RRBs) were established in 1975 under the provisions of Regional Rural Banks Act 1976 (the RRB Act,1976) with a view to develop the rural economy by providing credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small enterprises etc and to create a alternative channel to the 'co-operative credit structure' with a view to enlarge institutional credit for the rural and agricultural sector. The Government of India, the concerned State Government and the bank, which had sponsored the RRB contributed to the share capital of RRBs in the proportion of 50%, 15% and 35% respectively. The area of operation of RRBs is limited to notified few districts in a State. As per the provisions of the RRB Act, 1976 the authorized capital of each RRB is Rs 5 crore and the issued capital is maximum of Rs 1 crore. The number of RRBs has since then reduced from 196 to 62 on account of two phases of amalgamations. The first phase from 2005 to 2010 resulted in amalgamation between RRBs of the same sponsor bank and the current phase involves merger of RRBs across sponsor banks in a State. During this period 40 RRBs have been recapitalized to the extent of about 2000 crores. Consequently some of the RRBs today are larger than the smaller private sector banks. The RRB Act, 1976, was last amended in the year 2005. The RBI in 2001 constituted a Committee under the Chairmanship of Dr V S Vyas on "Flow of Credit to Agriculture and Related Activities from the Banking System" which examined relevance of RRBs in the rural credit system and the alternatives for making it viable. The consolidation process thus was initiated in the year 2005 as an off-shoot of Dr Vyas Committee Recommendations. First phase of amalgamation was initiated Sponsor Bank-wise within a State in 2005 and the second phase was across the Sponsor banks within a State in 2012. The process was initiated with a view to provide better customer service by having better infrastructure, computerization, experienced work force, common publicity and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs has been reduced from 196 to 64 as on 31 March 2013. The number of branches of RRBs increased to 17856 as on 31 March 2013 covering 635 districts throughout the country.

Performance of RRBs during the fiscal 2014-15

1.17 The number of RRBs was reduced to 56 as on 31 March 2015, with a network of 20,059 branches covering 644 notified districts in 26 states and the UT of Puducherry. As a resource, the deposits of RRBs increased to Rs. 2,71,329 crore by the end of 2014–15, registering 13.29 per cent growth over the previous year (Rs. 2,39,494 crore as on 31 March 2014). The aggregate loans and advances outstanding with RRBs improved to Rs. 1,84,843 crore as on 31 March 2015 (excluding the Inter-Bank Participation Certificate (IBPC), registering a growth of 15.9 per cent (Rs. 1,59,406 crore as on 31 March 2014). The investments of RRBs decreased from Rs. 1,39,631 crore as on 31 March 2013 to Rs. 1,06,780 crore on 31 March 2015. During 2014–15, out of 56 RRBs, for which data is available, 51 have earned aggregate profits to the tune of Rs. 2,958 crore, compared to 57 RRBs earning an aggregate profit of Rs. 2,694 crore in 2013–14. While no RRB incurred losses during 2013–14, as many as 5 reported losses amounting to Rs. 177 crore in 2014–15. Thus, the net profit of RRBs marginally increased to Rs. 2,781 crore by the end of March 2015. The proportion of RRBs that are sustainably viable, i.e., earning profits and carrying no accumulated losses, has decreased from 86 per cent (49 out of 57) as on 31 March 2014 to 84 per cent (47 out of 56) as on 31 March 2015. The recovery performance of RRBs declined marginally from 81.9 per cent as on 30 June 2013 to 79.47 per cent as on 30 June 2014. Twenty-one out of 56 RRBs had a recovery level above the all-India average, with 9 RRBs above 90 per cent. Thirty-three RRBs had recovery of less than 80 per cent, with two RRBs having a level of less than 60 per cent. The aggregate gross NPA of all RRBs declined from 6.09 per cent as on 31 March 2014 to 5.72 per cent as on 31 March 2015. The important performance indicators of RRB during 2014-15 (and 2013-14) are indicated below:

INDICATORS OF PERFORMANCE OF RRBs AS ON 31 MARCH

(Amount in ₹ crore)

Particulars	*2014*	*2015@*
RRBs (no.)*	57	56
Branch networks (no.)	19,082	20,059
Share capital	197	197
Share capital deposit	6,170	6,173
Reserves	15,805	18,462
Deposits	2,39,494	2,71,329
Borrowings	50,230	58,824
Investments	1,39,631	1,06,780
Loans & advances outstanding excluding IBPC	1,59,406	1,84,843
Loans & advances outstanding including IBPC	***	2,06,300
RRBs earning profit (no.)	57	51
Amount of profit (A)	2,694	2,958
RRBs incurring losses (no.)	0	5
Amount of losses (B)	0	177
Net profit of RRBs (A – B)	2,694	2,781
Accumulated losses	948	1,069
RRBs with accumulated losses (no.)	8	8
Recovery (%) as on 30 June	81.9	79.47
NPA to loans outstanding (%)	6.09	5.72
Net worth	21,224	23,763

@Data unaudited and in respect of 56 RRBs

* As on 31 March 2015, the number of RRBs fell to 56 after amalgamation.

*** Data on loans & advances outstanding, including IBPC, are not available for 2014.

Performance of RRBs during the fiscal 2015-16

1.14 The number of RRBs in the country as on 31 March 2016 stood at 56, with a network of 20,904 branches covering 644 notified districts in 27 states and the UT of Puducherry. At the aggregate level, deposits, advances and investments during 2015–16 registered a growth of 15.39, 14.54 and 29.58 per cent, respectively, while borrowings declined by 19.04 per cent over 2014–15. During 2014–15, 51 RRBs earned profits while five RRBs incurred losses. The aggregate profit earned which stood at Rs.2,921 crore in 2014–15 declined to Rs. 2,556 crore during 2015–16. The aggregate losses declined from Rs. 177 crore during 2014–15 to Rs. 122 crore during 2015–16. However, overall net profit of RRBs as an agency declined from Rs.

2,744 crore as on 31 March 2015 to Rs. 2,434 crore as on 31 March 2016. The number of sustainable RRBs, i.e., earning profits and carrying no accumulated losses decreased from 47 out of 56 as on 31 March 2015, to 46 out of 56 as on 31 March 2016. Two RRBs viz. Jharkhand GB and Rajasthan Marudhara Gramin Bank have reported losses, but have set off their losses against reserves.

Indicators of Performance of RRBs
(as on 31 March of the year indicated)

(Amount in ₹ crore)

Particulars	*2015*	*2016*
No. of RRBs	56	56
Branch network (no.)	20,024	20,904
Share capital (₹ crore)*	197	5196
Share capital deposit (₹ crore)*	6,175	1,192
Tier II bonds (₹ crore)	–	296
Reserves (₹ crore)	18,712	21,032
Deposits (₹ crore)	2,73,018	3,15,048
Borrowings (₹ crore)	59,422	48,110
Investments (₹ crore)	1,62,781	2,10,936
Gross loans and advances outstanding (₹ crore)	1,80,955	2,07,279
RRBs earning profit (no.)	51	51
Amount of profit (A) (₹ crore)	2,921	2,556
RRBs incurring losses (No.)	5	5
Amount of losses (B) (₹ crore)	176	122
Net profit of RRBs (A – B) (₹ crore)	2,745	2,435
Accumulated losses (₹ crore)	1,072	1,030
RRBs with accumulated losses (No.)	8	8
Recovery (%) (as on 30 June)	79.49	82.51
NPA to loans outstanding (%)	6.15	6.45
Net worth (₹ crore)	24,011	26,685

Notes:
*Post RRBs Act Amendment, 2015
Share capital deposit has been converted into share capital by most of the RRBs @ unaudited

1.15 The recovery performance of RRBs increased from 79.49 per cent as on 30 June 2014 to 82.50 per cent as on 30 June 2015. Twenty three out of 56 RRBs had recovery level above the all- India average with nine RRBs having recovery level above 90 per cent. Thirty three RRBs had recovery levels less than the all-India average, with three RRBs having recovery percentage of less than 60 per cent. The gross NPA of all RRB increased from 6.15 per cent, as on 31 March 2015 to 6.45 per cent as on 31 March 2016 (as per unaudited data). While 32 RRBs reported Gross

NPAs less than 5 per cent as on 31 March 2015, 27 RRBs have reported Gross NPA less than 5 per cent as on 31 March 2016.

Developments during 2015–16

1.16 The Capital to Risk Weighted Assets Ratio (CRAR) of 56 RRBs as on 31 March 2015 ranged from 20.29 per cent (Chhattisgarh Rajya Gramin Bank) to 4.82 per cent (Nagaland Rural Bank). Four RRBs viz. Nagaland Rural Bank, Odisha Gramya Bank, Manipur Rural Bank and Ellaquai Dehati Bank had CRAR less than 9 per cent. During 2015–16, Government share of recapitalisation assistance of Rs. 3.50 crore was released to Manipur Rural Bank. NABARD submitted a proposal to Government to recapitalise two RRBs, viz. Nagaland Rural Bank (Rs. 2.77 crore) and Ellaquai Dehati Bank (Rs. 25.42 crore). The same were approved by Government, involving their contribution of Rs. 1.385 crore, and Rs. 12.71 crore, respectively. Recapitalisation assistance of Rs. 1.385 crore and Rs. 10.115 crore was released to these RRBs by Government, on 31 March 2016. Remaining assistance of Rs. 2.595 crore in respect of Ellaquai Dehati Bank will be released during 2016–17. NABARD has also requested sponsor banks to evolve a comprehensive action plan to comply with CRAR norms on a continuous basis for RRBs sponsored by them. Performance-linked cash incentives for the chairpersons of RRBs were introduced by the Government in 2009. The modified performance evaluation matrix (PEM) for computation of incentives of the chairpersons of RRBs, similar to revised PEM developed for whole time directors of PSBs was approved by Government in consultation with NABARD. The revised PEM has come into effect from financial year 2015–16. Two half-yearly review meetings of RRBs were organised by NABARD to review the performance of RRBs. Issues faced by RRBs were discussed and suitable action points to be taken up by various stakeholders were identified and communicated. Steps have also been initiated to review RRBs having subpar performance on four parameters. Further they were advised to constitute Business Advisory Committees with members from the sponsor bank, NABARD and the concerned RRB.

RRB (Amendment) Act, 2015, was notified by Government on 12 May 2015. The amendment has enhanced the authorised capital of RRBs to Rs. 2,000 crore and has enabled RRBs to raise capital from sources other than existing stakeholders. The other sources may include accessing the capital market or private placement.

1.18 On a pointed query with respect to the inability of the cooperative banks and RRBs to meet their credit targets, steps initiated to strengthen RRBs to make them a significant instrument of augmenting rural credit, The Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture and Farmers Welfare in a written reply stated that:

"The action initiated in respect of Cooperative Banks and RRBs are as below:

Cooperative Banks

- The achievement of the Co-operative Banks in the country with respect to their total agricultural credit target have been 132% , 96% and 99% in 2012-13 , 2013-14 and 2014-15 respectively.
- The Co-operative Banks have therefore largely achieving the target set for agricultural credit and more so in crop loan segment.
- The Term Loan target and achievement is showing a declining trend mainly due to the failure of Long Term Co-operative Credit Structure in many states and lack of expertise in dealing with term loan by STCCS.

Action Initiated

NABARD is giving due emphasis for increasing term loan disbursement by Cooperative Credit Structure (CCS) in National and Regional Review Meets. NABARD has initiated a Medium term refinance product to increase flow to agriculture and also help in capital formation for and in agriculture in the country. Regional Offices of NABARD, are preparing area development schemes to promote term loan by banks.

RRBs

RRBs have achieved 89% of the agriculture credit targets in 2012-13, 83% in 2013-14. Achievement increased to 85 % as on 31 March 2015.

Reasons for shortfall in target

- GLC targets in short term disbursements have been achieved. Shortfall in GLC achievement is only due to less disbursement in Agricultural Term Loans by RRBs
- During the discussions in the Annual review meet of RRBs, it has been indicated that non-availability of interest subvention for term loans is a significant reason for non-achievement of Term loan targets.

Action initiated by NABARD and Government

Status of achievement of GLC targets is being reviewed in the National Review Meet of RRBs conducted annually in NABARD, wherein all the Chairmen of all RRBs and the Senior Officials of the RRB Cell in Sponsor Banks are present. RRBs have been advised to ensure achievement of GLC targets in the Review Meets. Achievement of targets is included in the Action Taken Report which is reviewed by the Sponsor Banks and NABARD. In order to boost capital formation in agriculture and increase the share of Cooperative Banks and RRBs in investment credit to agriculture and allied activities, Government has created a separate fund "Long Term Rural Credit Fund" with NABARD for augmenting the refinance support to Cooperative Banks and RRBs for investment activities under agriculture and allied sector. The fund has facilitated availment of higher refinance by banks and encouraged them to increase their ground level credit disbursement for agriculture. With a view to boost the long term loan disbursement by RRBs, NABARD has written to the CMDs of the Commercial Banks to advise their sponsored RRBs, to focus on term lending for agriculture. In order to augment capital of RRBs as per K C Chakravarty Committee recommendations, GOVERNMENT has infused capital to the extent of Rs 2000 cr in the RRBs for more credit inflow to the thrust areas.

Action initiated by RRBs

Many RRBs have reported launching of special schemes and campaigns to increase term lending."

CHAPTER - II

Coverage and Penetration of Agricultural / Rural Credit

2.1 The present system of Agriculture Credit has evolved over the years and constant endeavour is made by Government, RBI and NABARD to ensure its improvement to cater to the needs of the farmers and overall rural development. Some measures undertaken are indicated hereunder:

a) Priority Sector Lending

The philosophy of the priority sector guidelines is to ensure credit flow to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to small and marginal farmers for agriculture and allied activities, micro, small and medium enterprises, poor people for housing, students for education and other low income groups, social infrastructure, renewable energy and weaker sections.

In terms of RBI guidelines on Priority Sector Lending, the lending to agriculture sector has been defined to include (i) farm credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) agriculture infrastructure (iii) ancillary activities – to facilitate all round comprehensive development in rural areas.

b) Revised Kisan Credit Card Scheme

Kisan Credit Card Scheme which is aimed at providing adequate and timely credit support from the banking system under a single windowto the farmers for their cultivation & other needs had been in operation since August 1998. Based on the recommendations of working group (Chairman: Shri T.M. Bhasin), and as accepted by Government of India RBI has revised the guidelines for Kisan Credit Card vide circular RPCD.FSD.BC.No.77/05.05.09/2011-12 dated May 11, 2012, and RPCD.FSD.BC.No. 23 /05.05.09/2012-13 dated August 7, 2012. The Scheme provides for sanction of the limit for 5 years with simplified renewal every year. All the banks have been advised to implement the scheme. The issue of smart –cum debit card will enable the farmers to access multiple delivery channels.

c) **Interest Subvention Scheme**

With a view to ensuring availability of agriculture credit at a reasonable cost/at a reduced rate of 7% p.a. to farmers, the Government of India, through its budget announcement for the year 2006-07, had introduced an interest subvention scheme (2%) for short term crop loans up to Rs. 3.00 lakh. This scheme was implemented through Public Sector Banks (reimbursement through RBI), Regional Rural Banks and Cooperatives (Reimbursement through NABARD) and has continued ever since with minor variations. Currently, besides 2% interest subvention, 3% incentive is given for prompt repayment of loan reducing the cost to 4%. This Scheme has been extended to Private Sector Banks as well from the year 2013-14. The Scheme is continuing for the year 2015-16.

d) **Targets for Small and Marginal Farmers**

In terms of RBI's Circular (FIDD.CO.Plan.BC.08/04.09.01/.2015-16 dated July 16,2015) on Priority Sector Lending- Targets and Classification , the target for direct lending to small and marginal farmers under Priority Sector Norms has been increased to 7% to be achieved by 31st March, 2016 and 8% by 31st March, 2017.

e) **Relief Measures by Banks in Areas affected by Natural Calamities**

RBI has issued Standing Guidelines for Relief Measures to be provided by respective lending institutions in areas affected by natural calamities which, inter alia, include identification of beneficiaries, extending fresh loans and restructuring of existing loans, relaxed security and margin norms, moratorium, etc. The moment calamity is declared by the concerned District Authorities, these Guidelines have been so designed that they are automatically set in motion without any intervention and this saves precious time.

f) **Developmental/ Promotional Initiatives by NABARD**

NABARD has taken a number of initiatives to support small/ marginal farmers, landless cultivators, tribal community and other vulnerable/ weaker sections come out of the economic & social poverty, which include, inter alia, participatory watershed development programme, tribal development programme, development of

Lead crops, cluster development, Umbrella programme for Natural Resources Management and agri extension through farmers club, etc., so as to ensure socio-economic security to farmers as well as sustainable development of rural community. Some of the major developmental works of NABARD are as under:

Under watershed development, an area of around 17.88 lakh ha. has been benefitted through implementation of 1830 projects, thereby securing the livelihood of farmers in the watershed areas.

The Tribal Development Programme of NABARD has enabled tribal communities to make a living from wadis (small orchards). Credit support has been extended for marketing activities and value chain interventions for processing and marketing. The cumulative amount sanctioned under Tribal Development Programme as on 31st March 2015 was Rs. 1901.31 crore covering a total of 4.72 lakh families across 27 states.

In view of continued land fragmentation, rising input costs and poor access to markets & extension services, the farmers, particularly small producers, are unable to realize optimal value from their produce. To address this issue, NABARD has created Producer Organization Development Fund and demonstrated that the farmers are able to realize better income through membership of Farmer Producer Organizations (FPO) with external support in terms of credit, capacity building, hand holding and market linkages. Under this Fund, financial and non-financial support is provided to Producer organizations (POs) for meeting their credit as well as capacity building/ market linkage needs.

Recognizing the importance of FPOs as a means of linking farmers to agri value chain and increasing their net income, Govt. of India during 2014-15 has created “Producers Organization Development and Upliftment Corpus’’ (PRODUCE) of Rs.200 crore in NABARD to be utilized for the promotion of 2000 Farmer Producer Organizations (FPOs). Under this fund, so far around 1100 new FPOs have been promoted in different states. These FPOs are being nurtured by engaging the services of professional agencies and the credit needs of eligible FPOs are being addressed through NABKISAN, a subsidiary of NABARD and linkage with other banks/FIs.

(i) Present Scenario (Achievement and Shortfalls)

2.2 Member (Official), Commission for Agricultural Costs and Prices(CACP), Department of Agriculture, Cooperation and Farmers Welfare, while deposing before the Committee, stated as follows with regard to coverage, penetration and the status of indebtness in agriculture and rural credit :

"The latest survey has come from the NSSO. It is a nation-wide survey. It indicates that only 31 per cent of the rural households have taken loans and are indebted. The average loan is Rs.1 lakh. This is for the year 2013. The households which have taken loans from financial institutions are only 17 per cent. This is terribly low. Now we consider the cultivator households, the farmers. Their indebtedness is, 46 per cent of the farmers or the cultivators have taken loan and the average amount of loan is Rs.1,53,640. Even this loan if we consider, only 28 per cent of the loan is for farm business and rest of the loan is for non-farm business activities. Therefore, when we consider the access of farmers or the rural households, we have to consider their requirement for productive purposes, agriculture, farm business, as well as non-farm business. That is also equally important. We have seen here that the extent of exclusion is very high. In some regions it is as high as 70 to 80 per cent. Now if you look at who are actually borrowing from the financial institutions, go by their assets value, the top 40 per cent who have higher assets have taken loans from the financial institutions, and the bottom 30 per cent households, which also include the landless agricultural labour, have taken loans mostly from the non-financial institutions. If we look at the rate of interest they are paying, the situation is still worse. Those who have taken loans from the financial institutions are paying a rate of interest, 80 per cent of them, of six to 15 per cent. But if we see the non-financial institutions, the rate of interest for one/third of the loan is more than 30 per cent and for another one/third it is somewhere between 20 to 30 per cent. It means that the farmers or the rural households who are taking loans from the non-financial institutions are paying very high rate of interest. They have urgency of taking the loan and they are paying that rate. If we look at what are the major determinants of those who are having characteristics of the households which are having access to financial institutions, their major is asset, education and the distance between their village and the financial institution. Therefore, this distance we need to focus on so that we are able to improve the access of rural households to financial institutions.

The positive development which we have taken in the rural credit or the agricultural sector is the Kisan Credit Cards. They have increased the access of farmers to institutional finance. Now, 20 per cent of the loan is disbursed through KCCs. But another disturbing trend which is there in the institutional finance is that the share of medium and long term loan is declining over a period of time. Now it is 28 per cent. What does it mean? The share of loan which can be used for long-term productive assets is declining. Therefore, the capacity we are putting in agricultural sector to increase the productivity is not that much. So, therefore, when we are thinking to enhance the access to financial institutions, we need to focus on the term loan, both medium and long term.Therefore, we need to focus on the term loan, both for medium and long term. There are other kinds of development like self-help groups etc. These are four small kinds of loan but you can use this mechanism very difficultly to meet the requirements of farmers where the requirement of loan is a bit high. How can we improve the access of the farmers or the rural households?The first is to make this KCC into KCC plus. Financial institutions require some kind of identity of the borrower and some kind of assurance. So, we have three developments in that. First is, land records have to be systematic; secondly, now we have the initiative of bank account under Jan Dhan Yojana and the third is Aadhar. If you are developing these data base, link them and make them accessible to the financial institutions, it will be some kind of regular record with them and they will now to whom they are going to lend money. That is the first thing we need to provide to the financial institutions. This will be useful for farmers also because they don't have to provide identification and other details of their assets every time. Somehow, we can link KCC for the term loan, both for medium and long term. The distance was the major factor which determined the access of rural households to financial institutions. Financial institutions which are more close to farmers are cooperative societies and regional rural banks. But because of certain things, they are not as effective as they should be. Therefore, there is need to revive these institutions. There was Vaidyanathan Committee set up the Government. We can look at the recommendations of the Committee and try to revive these institutions. If necessary, we can look at the interest rate structure of these institutions for their viability".

(ii) Kisan Credit Card Scheme:

2.3 In order to ensure that all eligible farmers are provided with hassle free and timely credit for their agricultural operation, Kisan Credit Card (KCC) scheme was introduced in 1998-99. Marginal farmers, share croppers, oral lessee and tenant farmers are eligible to be covered under the Scheme. The main objectives of the Scheme are; to meet the short term credit requirements for cultivation of crops, post harvest expenses, produce marketing loan, consumption requirements of farmer household, working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc. Investment credit requirement for agriculture and allied activities like pump sets, sprayers, dairy animals etc. The State Governments have been advised to launch an intensive branch/village level campaign to provide Kisan Credit Card to all the eligible and willing farmers in a time bound manner. KCCs have now been converted into Smart Card cum Debit Cards to facilitate its operation through ATMs. The cumulative number of live KCCs as on 31 August 2013 was 10.11 crore. Some of the major features of revised KCC Scheme are:

- Assessment of crop loan component based on the scale of finance for the crop plus insurance premium x Extent of area cultivated + 10% of the limit towards post-harvest/ household/ consumption requirements + 20% of limit towards maintenance expenses of farm assets.
- Flexi KCC with simple assessment prescribed for marginal farmers.
- Validity of KCC for 5 years.
- For crop loans, no separate margin need to be insisted as the margin is in-built in scale of finance.
- No withdrawal in the account to remain outstanding for more than 12 months; no need to bring the debit balance in the account to zero at any point of time.

- Interest subvention /incentive for prompt repayment to be available as per the Government of India and / or State Government norms.
- No processing fee up to a limit of Rs.3.00 lakh.
- One time documentation at the time of first availment and thereafter simple declaration (about crops raised/ proposed) by farmer.
- KCC cum SB account instead of farmers having two separate accounts. The credit balance in KCC cum SB account to be allowed to fetch interest at saving bank rate.
- Disbursement through various delivery channels, including ICT driven channels like ATM/ PoS/ Mobile handsets.

Kisan Credit Card Scheme aimed at providing adequate and timely credit support from the banking system under a single window to the farmers for their cultivation & other needs had been in operation since August 1998. Based on the recommendations of working group (Chairman: Shri T.M. Bhasin), and as accepted by Government of India RBI has revised the guidelines for Kisan Credit Card vide circular RPCD.FSD.BC.No.77/05.05.09/2011-12 dated May 11, 2012, and RPCD. FSD.BC. No. 23 /05.05.09/2012-13 dated August 7, 2012. The Scheme provides for sanction of the limit for 5 years with simplified renewal every year. All the banks have been advised to implement the scheme. The issue of smart –cum debit card will enable the farmers to access multiple delivery channels.

The agency-wise status of operative Kisan Credit Cards, as on 30th June, 2015, as reported by Reserve Bank of India (RBI) and National bank for Agriculture & Rural Development (NABARD) is as under:

Agency	**Number of Operative KCCs**	**Outstanding under Operative KCC**	**New Smart / Debit Cards issued as per revised KCC Scheme**
Commercial Banks	2..25 Crore	Rs 3.30 lakh Crore	76.14 Lakh
Cooperative Banks	4.05 Crore	1.07 lakh Crore	1.26 lakh
RRBs	1.21 Crore	75631.33 Crore	19.07 Lakh

(iii) Interest Subvention Scheme

2.4 With a view to ensuring availability of agriculture credit at a reasonable cost at a reduced rate of 7% p.a. to farmers, the Government of India, through its budget announcement for the year 2006-07, had introduced an interest subvention scheme (2%) for short term crop loans up to Rs. 3.00 lakh. This scheme was implemented through public sector banks (reimbursement through RBI), Regional Rural Banks and Cooperatives (Reimbursement through NABARD) and has continued ever since with minor variations. In the Budget speech for the year 2013-14 the Interest subvention scheme was extended to Private sector commercial banks for short term crop loans upto Rs.3.00 lakh extended by their rural and semi-urban branches from the year 2013-14. Currently, besides 2% interest subvention given to banks so that they lend the short term crop loan upto Rs.3.00 lakh @ 7% p.a., additional 3% incentive is given to farmers for prompt repayment of short term crop loan upto Rs.3.00 lakh, reducing the effective rate of interest on such loans for prompt payee farmers to 4%.

In order to discourage distress sale of crops by farmers, the benefit of interest subvention has been made available to small and marginal farmers having Kisan Credit Card for a further period of up to six months (post- harvest) on the same rate as available to crop loan against negotiable warehouse receipts. Further, to provide relief to farmers on occurrence of natural calamities, the Government in 2014-15 has introduced a new provision in Interest Subvention Scheme. The standing guidelines of RBI provide for rescheduling of short term crop loans upon declaration of natural calamity. Such rescheduling of crop loans converts them into term loans and thereby the concessional rate of credit applicable to short term crop loans can no longer be made applicable for these restructured term loans. Keeping this in view, in the Interest Subvention Scheme for 2014-15, which was approved by the Union Cabinet on 10.12.2014, a new provision was introduced that in order to provide relief to the farmers on occurrence of natural calamities, the interest subvention of 2% may continue to be available to banks for the first year on the restructured amount and such restructured loans may attract normal rate of interest from the second year onwards as per the policy laid down by RBI.

The details of Budgetary Allocation and Actual Expenditure under Interest Subvention Scheme from 2007-08 to 2014-15 as also during 2015-16 (as on date) are as under :

(Rs. in crore)

Year	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
RE	1,700	2,600	2,011	4,000	4,000	5,400	6,000	6,000	13,000
Actual Expenditure	1,700	2,600	2,011	3,531.19	3,282.70	5,400	6,000	6,000	11,281.16*

* As on date

Interest subvention to farmers:

2.5 Government of India announced an interest subvention scheme in 2006-07 to enable banks to provide short term credit to agriculture (crop loan) upto Rs.3 lakh at 7% rate of interest to farmers. Further, to incentivize prompt repayment, Government of India announced in the Union Budget for 2009-10, an additional interest subvention of 1% to those farmers who repay their short term crop loans promptly and on or before the due date. This interest subvention was subsequently raised to 2% in 2010-11 and 3% in 2011-12. The interest subvention is being extended thereafter from year to year. The interest subvention scheme has been continued during 2015-16 also and the Ministry of Finance has kept provision of Rs.13000 crore for the purpose. Thus, farmers, who promptly repay their crop loans as per the repayment schedule fixed by the banks, are extended loans at an effective interest rate of 4% p.a. In 2013-14, Government has extended the scheme to crop loans borrowed from private sector scheduled commercial banks in respect of loans given within the service area of the branch concerned.

Interest Subvention of 2% p.a. to Banks on their own funds

2.6 Interest subvention of 2% per annum to Public Sector Banks, Private Sector Scheduled Commercial Banks (in respect of loans given by the rural and semi urban branches), Cooperative Banks and Regional Rural Banks on their own funds used for short term crop loans upto Rs.3.00 lakh per farmer provided the lending institutions make available short term credit at the ground level at 7% per annum to farmers. 2% interest subvention will be calculated von the crop loan amount from the date of its disbursement/ drawal up to the date of actual repayment of the crop loan by the farmer or up to the due date of the loan fixed by the banks, whichever is earlier, subject to a maximum period of one year.

Extension of interest subvention scheme to post harvest loans:

2.7 In order to discourage distress sale by farmers and to encourage them to store their produce in warehouses against warehouse receipts, the benefit of interest subvention scheme has been extended to small and marginal farmers having Kisan Credit Card for a further period of upto six months post harvest on the same rate as available to crop loan against negotiable warehouse receipt for keeping their produce in warehouses.

Interest subvention in the event of natural calamity & Collateral free loans:

2.8 The standing guidelines of Reserve Bank of India provide for restructuring of short term crop loans upon declaration of natural calamity. Such restructuring of crop loans converts them into term loans. Resultantly, a crop loan continues at concessional rate of interest viz 7% till completion of one year. Thereafter the interest at normal rate of interest is charged. The limit of collateral free farm loan has been increased from Rs.50000 to Rs.100000.

(iv) Priority Sector Norms

2.9 On a query with respect to the prevailing Priority Sector norms, actual component of credit to core agriculture operations and distinction between direct and indirect line of credit, the Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture and Farmers Welfare, in a written reply submitted to the Committee stated that:

> "As per Reserve Bank of India (RBI)'s guidelines, till 2015, the agriculture credit (under priority sector guidelines) was bifurcated into two categories i.e. direct and indirect credit. The Indirect Component was restricted to 4.5% and thus banks were required to lend 13.5% of their Adjusted Net Bank Credit (ANBC) to 'direct agriculture loans' failing which they had to contribute the amount of shortfall to the Rural Infrastructure Development Fund (RIDF) and other funds. The details of Direct & Indirect Agriculture Credit for the last five years in respect of Scheduled Commercial Banks are given below:

Details of Direct Agriculture Credit and Indirect Agriculture Credit

during the last 5 years – Scheduled Commercial Banks (Rs. in crore)

Year	Direct Agriculture Credit			Indirect Agriculture Credit		
	All Scheduled Commercial Banks	**Year-on-Year Growth**	**% to Adjusted Net Bank Credit (ANBC)**	**All Scheduled Commercial Banks**	**Year-on-Year Growth**	**% to Adjusted Net Bank Credit (ANBC)**
2011	360,127	14	11.9	146,998	4	4.9
2012	440,367	22	11.8	142,072	-(4)	3.8
2013	536,418	22	12.2	109,917	-(29)	2.5
2014*	625,841	17	12.1	279,966	203	5.4
2015	711,470	13.7	11.3	299,998	7.2	4.78

Source: RBI, The Report of Progress of Banking in India and as reported by banks.

**As regards Indirect Agriculture Credit, 2014 figures include RIDF and other deposits outstanding with NABARD, as per the revised instructions of RBI.*

Under the Revised Priority Sector Guidelines issued by RBI, for and from the year 2015-16, all Domestic Scheduled Commercial Banks and foreign banks with 20 and above branches have been mandated to earmark 18% of their Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposure (OBE), whichever is higher, as on the corresponding date of the previous year, for lending to Agriculture. Under these guidelines, lending to Agriculture credit has been redefined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A detailed list of eligible activities under the three sub-categories are as follows:

Categories under Priority Sector – Agriculture Credit

1. Farm credit

A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture. This will include:

(i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans to farmers up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 12 months.

(v) Loans to distressed farmers indebted to non-institutional lenders.

(vi) Loans to farmers under the Kisan Credit Card Scheme.

(vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.

B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of ₹2 crore per borrower. This will include:

(i) Crop loans to farmers which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.

(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)

(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.

(iv) Loans up to ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

2.Agriculture infrastructure

i) Loans for construction of storage facilities (warehouses, market yards, godowns and silos) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location.

ii) Soil conservation and watershed development.

iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting.

For the above loans, an aggregate sanctioned limit of ₹100 crore per borrower from the banking system, will apply.

3. Ancillary activities

i) Loans up to ₹5 crore to co-operative societies of farmers for disposing of the produce of members.

(ii) Loans for setting up of Agriclinics and Agribusiness Centres.

(iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of ₹100 crore per borrower from the banking system.

(iv) Loans to Custom Service Units managed by individuals, institutions or organizations who maintain a fleet of tractors, bulldozers, well-boring equipment, threshers, combines, etc., and undertake farm work for farmers on contract basis.

(v) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.

(vi) Loans sanctioned by banks to MFIs for on-lending to agriculture sector as per the conditions specified in paragraph IX of this circular

(vii) Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.

***Note**: Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner i.e., 7 per cent by March 2016 and 8 per cent by March 2017. Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI. The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017.*

Banks are required and expected to ensure the end-use of funds lent. RBI has been sensitizing the banks on this count time and again. More specifically, instructions were issued in November 2012 to all the banks on the subject. Further in March 2015, in consultation with Government of India (Government), instructions were issued by RBI to banks to carry out a comprehensive scrutiny of their agriculture loan portfolio (with specific reference to agriculture gold loan portfolio) and also strengthen their credit appraisal and post-disbursement systems to ensure that funds are lent for intended purposes and are reaching the intended beneficiaries. They were, inter alia, advised to remove any 'ineligible' accounts, from the 'priority sector' categorization as well as from the 'eligible' category of borrowers for interest subvention.

As regards the monitoring of achievement of their targets, to ensure continuous flow of credit to priority sector, the compliance of banks is being monitored by RBI on 'quarterly' basis under 'revised' guidelines. The data on priority sector advances has to be furnished by banks at quarterly and annual intervals.

Under the Revised Priority Sector Guidelines issued by RBI, there is no distinction between Direct and Indirect Agriculture loans at present (i.e. starting from the year 2015-16). In terms of revised guidelines, banks have been advised that although distinction between 'direct' and 'indirect credit' has been dispensed with, it should be ensured that their overall direct lending to non-corporate farmers does not fall below the system-wise average of the last three years achievement, failing which they will attract the usual penalties for shortfall. They should also make efforts to achieve the level of 13.5 percent direct lending to the beneficiaries who earlier constituted the direct agriculture sector.

A working group was formed by RBI for revisiting the priority sector lending guidelines. The issue of sub-target for agriculture was deliberated and examined thoroughly and considering the contribution of agriculture to GDP and other relevant factors, it was recommended by the Group to retain the target at 18% which was accepted by RBI. The recommendations of the Group were placed in public domain. Revised guidelines on priority sector lending were released after examination of the suggestions received from public and Stakeholders."

2.10 Further on a pointed query on the issue of agricultural credit, Expert, International Food Policy Research Institute, stated before the Committee that :

"If you look at the rural financial structure or institutional framework of the financial credit delivery system, it has evolved over time. There has been a structural change in the rural credit market. In 1951, institutional sources were accounting only 5 to 7 per cent of total credit. Now, institutional credit is able to provide 62 per cent of the total rural credit flow. Though there are disparities, there has been improvement in terms of financial inclusion indicators, whether we look at the size of shareholdings as compared to their proportionate shares in the operational holdings or look at the social groups like SC, ST, OBC etc. There are gaps but there has been improvement over time. In real terms also, the credit, if you compare the last two decades, has increased by more than five times, particularly after 2004 when doubling agricultural credit plan was asked. At macro level, the supply has increased like anything and now Rs Eight Hundred Thousand crores have been pumped into rural credit. But there are still concerns in spite of huge flow of rural credit during the last decade particularly since 2004. There are still regional disparities as well as inequity in the disbursement of credit across social groups or states and persistence of money lenders which has been highlighted by Dr. Prakash also. Still, around 38 per cent of the rural credit is given by the informal agencies whose rate is exploitative. At aggregate level, even non-institutional credit is charging around 24 per cent. On the other hand, the money lenders are charging 37per cent of the credit. Any business will fail if they take loan or credit at more than 37 per cent. Nobody can sustain it. Here we need to see why in spite of huge flow of rural institutional credit, why they are persisting? There are several reasons like lapses on the part of the borrowers, ignorance or on our part in implementation of the programme also. We need to look at it seriously. Regulation has not succeeded perfectly. We have to think how to enthuse more competition so that even the money lenders or the informal agencies are bound to reduce the interest rates because farmers or any need persons will go for credit if they need. We cannot eliminate them 100 per cent because there is less transaction cost, there is no procedure and at times they find it easier than the access to credit from the institutional sources.Still in spite of the reforms undertaken at the higher levels, at the grass-root level many banks are insisting on more collaterals. There have been procedural delays and complexities; and education, caste affiliation, gender and occupation influence the rural households' access to credit. We have to see seriously how to neutralise these things. In spite of some positive developments, again a disturbing trend is that there is a sharp increase in the share of large sized loans which are not being purposefully used for agricultural purposes.

There is a substantial increase in the share of agricultural credit in metropolitan areas. Though this credit is meant for rural areas, with some innovative mechanism this share of urban areas in rural credit is increasing.Another disturbing trend is the concentrated disbursement of agricultural credit during the last months of the financial year from January to March, maybe because of the pressure to achieve the priority sector lending targets. This is not the time for taking credit; this is the harvest season and so the time for farmers to prefer to repay loans instead of taking loans. I think, we can study this kind of things.Dr. Suresh Pal has also talked about faster erosion of capital formation in the agricultural sector. The share of investment credit has seen a decline and consequently it has serious implications. Therefore, many studies have shown that the impact of institutional credit is not so strong on the performance of agriculture in the GDP because of these things.I would like to make a few suggestions. One is that flexible products should be there. Still we lack different flexible products. We need more diverse products which can take care of consumption and other things and we should not be rigid that we should give only for agricultural purposes. We need to give very high emphasis on financial literacy. There should be a big stress on financial literacy and then simplification of lending procedures. At the grass-root level, it is not so simple. We can think of something like *aadhar*, a unique household identification number because we have studied in kisan credit cards as well as multiple sources of loans. We are seeing that the performance is good at the aggregate level but at the disaggregate level the picture is not so rosy.

Similarly, for loans whether it is kisan credit card or any other credit the duration or interest can be increased. Sometimes the financial institutions are guilty of lending because this will be a bad debt; otherwise, the farmers or any households will not be able to avail of these loans.Then, coming to value chain development credit has been very effective when it has been tied up with output and marketing services, etc. It is not only farming but maybe processing which goes into the value chain so that it can also eliminate some of the intermediaries from the chain and increase the farmers’ remuneration and the consumers can also benefit".

CHAPTER - III

Measures to improve flow of credit

(i) Role of Banking Sector

3.1 With a view to increasing banking penetration and ensuring Financial Inclusion, banks were advised by RBI to draw up Board approved Financial Inclusion Plans (FIPs) which included self-set targets in respect of basic banking products. This along with the relaxation of Know Your Customer (KYC) norms for small customers has helped banks in penetrating banking products and services to the excluded segment.

The progress under Financial Inclusion Plans (FIPs) for all scheduled banks including RRBs as on March 31, 2015 is placed below:

Particular	Year ended March 2010	Year ended March 2014	Year ended March 2015	Progress April 2014 – March 2015
1	2	3	4	5
Banking Outlets in Villages - Branches	33,378	46,126	49,571	3,445
Banking Outlets in Villages – Branchless mode	34,316	337,678	504,142	166,464
Banking Outlets in Villages - Total	67,694	383,804	553,713	169,909
Urban Locations covered through BCs	447	60,730	96,847	36,117
Basic Savings Bank Deposit A/c through branches (No. in million)	60.2	126.0	210.3	84.3
Basic Savings Bank Deposit A/c through branches (Amt. in Rs. Billion	44.3	273.3	365.0	91.7
Basic Savings Bank Deposit A/C through BCs (No. in million)	13.3	116.9	187.8	70.9
Basic Savings Bank Deposit A/c through (Amt. in Rs. Billion)	10.7	39.0	74.6	35.6
BSBDAs Total(No. in million)	73.5	243.0	398.1	155.1
BSBDAs Total (Amt. in Rs. Billion)	55	312.3	439.5	127.3
OD facility availed in BSBDAs (No. in million)	0.2	5.9	7.6	1.7
OD facility availed in BSBDAs (Amt. in Rs. Billion)	0.1	16.0	19.9	3.9
KCCs (No. in million)	24.3	39.9	42.5	2.6
KCCs(Amt. in Rs. Billion)	1,240.1	3,684.5	4,382.3	697.8
GCC (No. in million)	1.4	7.4	9.2	1.8
GCC (Amt. in Rs. Billion)	35.1	1,096.9	1,301.6	204.7
ICT A/Cs BC Transaction (No. in million)*	26.5	328.6	477.0	477.0
ICT A/Cs BC Transaction (Amt. in Rs. Billion)*	6.9	524.4	859.8	859.8

**During the financial year*

Roadmap for providing banking services in unbanked villages with population more than 2000:

3.2 In order to provide door step banking facilities in all the unbanked villages in the country, a phase wise approach has been adopted. During Phase-I (2010-13), all unbanked villages with population more than 2000 were identified and allotted to various banks (public sector banks, private sector banks and Regional Rural Banks) through SLBCs for coverage through various modes either through Branch or BC or other modes such as ATMs, mobile vans etc. During Phase-I, as reported by SLBCs, banking outlets have been opened in 74414 unbanked villages with population more than 2000 comprising 2493 branches, 69589 BC and 2332 other modes.

Roadmap for providing banking services in unbanked villages with less than 2000:

3.3 After the completion of the first phase of the roadmap, the second phase (2013-16) to provide banking services for unbanked villages with populations less than 2,000 was rolled out in June 2012. About 4,90,000 unbanked villages with population less than 2,000 have been identified and allotted to various banks (public sector banks, private sector banks and Regional Rural Banks) through SLBCs across the country for coverage in a time bound manner by August 14, 2015. As on June 30, 2015 as reported by SLBCs, 427258 villages have been provided banking services through 14853 branches, 391689 BCs and 20716 other modes viz. ATMs, mobile vans etc.

Guidelines for Relief Measures by Banks in Areas Affected by Natural Calamities

3.4 Reserve Bank of India has put in place a mechanism to address situations arising out of natural calamities. Revised guidelines in this regard taking into account, inter alia, the provisions of National Disaster Management Framework, National Crop Insurance Programme and different practices being followed by State Governments in declaration of natural calamities have been issued vide circular FIDD No.FSD.BC.52/05.10.001/2014-15 dated March 25,2015. The guidelines, inter alia, contain directions to banks to ensure that the meetings of District Level Consultative Committees (DLCCs) or State Level Bankers' Committees (SLBCs) are convened at the earliest to evolve a co-ordinated action plan for implementation of the relief programme in collaboration with the State/ District authorities. The relief measures undertaken by banks include restructuring of existing loans and granting fresh loans to affected borrowers as per the guidelines. Considering the relaxed norms brought in by Govt. of India (crop loss at 33% instead of 50% for providing relief) vide notification dated 8th April, 2015 and in terms of Circular FIDD No. FSD.BC.12/05.10.001/2015-16 dated t 21st August, 2015, it has been decided to allow State Level Bankers' Committees (SLBCs)/District Level Consultative Committees (DLCC)/banks to take a view on rescheduling of loans if the crop loss is 33% or more. Banks may allow a maximum period of repayment of up to 2 years (including the moratorium period of 1 year) if the loss is between 33% and 50%. If the crop loss is 50% or more, the restructured period for repayment may be extended to a maximum of 5 years (including the moratorium period of one year).

(ii) Strengthening of RRB's & Cooperatives

3.5 As on 31 March 2016, there are 56 RRBs sponsored by 22 commercial banks operating in 27 states. Of this, 14 RRBs were standalone while 42 were amalgamated. RRBs had a network of 20,904 branches (20,024 branches during previous year) covering 645 districts. 75% of the branches were in the rural areas (15,606).The rural branches of RRBs constituted 31% of the total commercial bank rural branch network in the country (position as on 31 March 2015).

3.6 Sources of Fund

- Share Capital

As on 31 March 2016, share capital of all RRBs stood at Rs. 6393 crore as against Rs. 197 crore as on 31 March 2015 due to conversion of share capital deposit into equity. As on 31 March 2016, Tier-II bonds of 12 RRBs were subscribed by their sponsor banks towards CBS to the tune of Rs. 125 crore.

- Reserves

Reserves of RRBs increased from Rs. 18,712 crore as on 31 March 2015 to Rs. 20,575 crore as on 31 March 2016 (10% growth). Of the total 56 RRBs, 6 RRBs accounted for 39% of aggregate reserves, of which 3 RRBs accounted for 21%of aggregate reserves.

Comparison of the Reserves of RRBs for 3 years

(₹crore)

Reserves as on 31 March	Amount	% Increase
2014	15,805	-
2015	18,712	18
2016	20,575	10

3.7 Recapitalization/Share Capital Deposits of RRBs

(i) As a part of comprehensive restructuring programme for RRBs, aggregate recapitalisation assistance of Rs. 6174 crore was provided upto 31 March 2016 as Share capital assistance. Recapitalization Assistance to the tune of Rs. 11.50 crore was released to two RRBs by Government on 31 March 2016. This assistance has now been merged with Capital after amendment to RRBs Act, 1976.

(ii) RRBs with CRAR between 9 to 10%

Six RRBs are having CRAR between 9% to 10% as on 31 March 2016 and are considered as vulnerable to slippage. They were advised to assess their recapitalization requirement for the year 2016-17, 2017-18 and 2018-19 to maintain CRAR at least at 10%.

(iii) RRB (Amendment) Act, 2015 – Raising of Resources from Market

RRB (Amendment) Act, 2015, has been notified by Government on 12 May 2015. The amendment has enhanced the authorized capital of RRBs from Rs. 5 crore to Rs. 2000 crore and has enabled RRBs to raise capital from sources other than existing stakeholders. The other sources may include accessing Capital Market or Private Placement.

(iv) Recapitalisation Issues

RBI has stipulated norms for CRAR of 10% for obtaining internet facility. Hence all RRBs need to have CRAR of 10% at least, over and above maintaining statutory 9% CRAR. It is observed that four are not complying with regulatory minimum CRAR requirement of 9% as on 31 March 2016. The RRBs here requested to assess their recapitalisation requirement for 2016-17, 2017-18 and 2018-19 to maintain CRAR at least at 9% and forward the same to NABARD.

Deposits

3.8 The deposits have increased from Rs. 2,73,018 crore as on 31 March 2015 to Rs. 3,13,787 crore as on 31 March 2016, registering 15% growth.

Comparison of the Total Deposits of RRBs for 3 years

(₹ crore)

Total Deposits as on 31 March	Amount	% Increase
2014	2,39,494	-
2015	2,73,018	14
2016	3,13,787	15

As on 31 March 2016, 9 RRBs had deposit levels higher than Rs. 10,000 crore and accounted for 34% of the aggregate deposits. 18 RRBs had deposits between Rs. 5,000 crore and Rs. 10,000 crore each. Thus, 27 RRBs had deposits of more than Rs.5,000 crore each, which accounted for 77% of aggregate deposit of all RRBs.

Growth rate

3.9 The growth rate of deposits varied from -0.50% to 30%. Of the 56 RRBs, 26 RRBs registered growth rates above the All India average of 15%. 21 RRBs registered growth rates of > 10% to 14% and 7 RRBs > 5% to 10%.

CASA Deposits

3.10 As on 31 March 2015, the share of low cost deposits (CASA) was 52% of the total deposits. As on 31 March 2016, the share had marginally declined to 51%. The percentage of CASA to total deposits varied between 25%.

Range of CASA deposits in %

Range of CASA deposits %	No. of RRBs	% Share of Banks' Deposits in Total Deposits
<40 %	15	26
40 % to 50 %	9	15
50 % to 60 %	17	27
60 % to 70 %	11	25
> 70 %	4	7
Total	**56**	**100**

As on 31 March 2016, 4 RRBs had CASA deposits higher than 70%. While 37 RRBs had CASA deposits in the range of > 40% to 69%, remaining 15 RRBs had CASA deposits less than 40 per cent (of which 11 RRBs operated in Southern Region of the country).

Borrowings

3.11 The aggregate borrowings of RRBs reduced from Rs. 59,422 crore as on 31 March 2015 to Rs. 49,437 crore as on 31 March 2016. Borrowings from NABARD constituted 81% of the aggregate borrowings. Three RRBs had outstanding borrowings under MUDRA (Rs.239 crore) which constituted a meagre 0.50% of the aggregate borrowings.

Investments

3.12 The total investments of RRBs which stood at Rs. 1,62,780 crore as on 31 March 2015 declined to Rs. 1,52,977 crore as on 31 March 2016. SLR investments stood at Rs.80,193 crore and accounted for 52% of total investments and 26 % of the aggregate deposits. As against Investment Deposit Ratio of 59% as on 31 March 2015, ID ratio stood at 49% as on 31 March 2016. As many as 32 RRBs had ID ratio of above 50%.

Outstanding Loans and Advances

3.13 As on 31 March 2016, advances outstanding increased to Rs. 2,06,766 crore, registering a growth of 14% over the 31 March 2015 position at Rs. 1,80,955 crore. 13 RRBs had registered growth of above 20% over 31 March 2015 position. Growth was higher than all India average of 14% in 27 RRBs. Of the 29 RRBs who had growth levels less than all India average of 14%, three RRBs had growth levels below 5%.

Priority Sector Lending

3.14 The share of Priority Sector advances which stood at 84% as on 31 March 2015, increased to 87% as on 31 March 2016.

- Agriculture Loans: The share of agricultural loans stood at 64% of the total loans o/s as on 31 March 2016, as against 61% as on 31 March 2015. At All

India level, loans to agriculture increased by 24%, with as many as 19 RRBs 7 registering growth higher than the All India average.

- Term Loans: As on 31 March 2016, term loans stood at Rs. 36,110 crore accounting for 17% of the total outstanding loans as against Rs. 28,027 crore as on 31 March 2015 which constituted 15% of the total loans o/s. As many as 15 RRBs had registered growth above 50%, while 15 RRBs registered negative growth as compared to the previous year..

Credit Deposit Ratio (CDR)

3.15 Credit Deposit Ratio in RRBs remained at 66% as on 31 March 2015 and as on 31 March 2016.

The number of RRBs in different range of CD ratio is as under:

Categorization of RRBs w.r.t. Range of CD ratio

S. No.	CD Ratio Range	No. of banks
1	<60 %	27
2	60 % to 80 %	16
3	80% to 100%	12
4	>=100 %	1

Loans Issued

3.16 Loans issued by RRBs during 2015-16 aggregated Rs. 1,63,072 crore as against Rs. 1,39,192 crore in the previous year, registering 18% growth as against the growth of 16% during the corresponding previous year.

Bank wise disbursement of loans ranged from Rs. 13 crore to Rs. 10,826 crore. The loans issued by 23 RRBs was above Rs. 3,000 crore each and accounted for 78 % of the aggregate disbursement at all India level. The loans issued by 18 RRBs was less than Rs. 1,000 crore each and 5 RRBs had issued loans less than Rs.500 crore each. Loans issued to priority sector was Rs. 1,46,231 crore, which was 89.70% of the aggregate loans issued at all India level.

Recovery Performance and Status of NPAs

3.17 The level of over dues of RRBs had increased from Rs.19,290 crore as on 30 June 2014 to Rs.23,578 crore as on 30 June 2015. In percentage terms, the recovery position had improved from 79.50% as on 30 June 2014 to 82.56% as on 30 June 2015. As compared to 30 June 2014, 37 RRBs improved the recovery performance and 17 RRBs had shown a decline in trend while 2 RRBs had recovery performance remaining constant as on 30 June 2015. The aggregate Gross NPAs of RRBs which stood at Rs.11,128 crore as on 31 March 2015 increased by 22% to Rs.13,602 crore as on 31 March 2016. In percentage terms, the Gross NPA levels increased from 6.15% as on 31 March 2015 to 6.58% as on 31 March 2016. The aggregate Net NPAs of RRBs which stood at Rs.6193 crore as on 31 March 2015 increased by 27% to Rs.7,836 crore as on 31 March 2016.In percentage terms, the Net NPA levels increased from 3.64% as on 31 March 2015 to 3.94% as on 31 March 2016. The Gross NPA level ranged between 0.05% (Saurashtra GB) and 24.58% (Odisha GB). 29 RRBs had Gross NPAs percentage above the tolerable level of 5% with as many as 13 RRBs above 10%. Higher NPA restricts business expansion and hence is a major concern. The Net NPA level ranged between 0% and 17.57%. NABARD is monitoring the position of NPAs on quarterly basis regularly and pursuing with the RRBs and with the respective sponsor banks for improving the position. RRBs are required to implement board approved time bound action plan to improve the position.

Working Results

(a) Cost and Margins

Financial return by way of interest earned on advances and investments, as a percentage to average working funds decreased from 9.09% in 2014-15 to 8.69% in 2015-16. Financial cost also declined from 5.70% in 2014-15 to 5.57% in 2015-16. Financial margin reduced from 3.39% in 2014-15 to 3.07% in 2015-16. RRBs earned a marginally lower net margin of 0.71% during 2015-16 as against the net margin of 0.84% during 2014-15. A comparative study of cost and margins for last three years given in the following table:

Costs and Margins

Particulars	2013-14	2014-15	2015-16
Financial Return	8.69	9.09	8.64
Financial Cost	5.32	5.70	5.57
Financial Margin	3.37	3.39	3.07
Staff Cost	1.64	1.69	1.77
Other Operating Cost	0.94	1.03	0.78
Misc. Income	0.52	0.54	0.58
Gross Margin	1.31	1.21	1.10
Risk Cost	0.39	0.37	0.39
Net Margin	0.92	0.84	0.71

(b) Profitability

During 2015-16, 51 RRBs earned profit of Rs.2,384 crore. However, incurred losses during the year aggregating to Rs.131 crore. Therefore RRBs as an agency earned profit of Rs.2,253 crore as against Rs.2,745 crore earned during the previous year. Profits posted by the RRBs had declined, mainly due to wage revision and increase in NPAs.

Viability

3.20 As on 31 March 2015, of the 51 profit earning RRBs, 50 RRBs had sustainable viability, while five RRBs were currently viable i.e., in profit but carried accumulated losses. Of the 5 RRBs that had reported losses during 2015-16, 3 RRBs carried accumulated losses. Thus, accumulated losses of 8 RRBs stood at Rs.1,036 crore as on 31 March 2016 as against the accumulated losses of Rs.1,073 crore reported by 8 RRBs as on 31 March 2015. During the current year (2015-16), the RRBs need to register higher growth in deposits & advances and record better performance in terms of lower NPA and achieve sustainable viability.

3.12 Questioned *inter-alia* about the evolution of investment in agricultural sector and steps taken to improve the access to financial sector, Member (Official), Commission for Agricultural Costs and Prices(CACP), Department of Agriculture, Cooperation and Farmers Welfare while deposing before the Committee stated that :

"Finally, the investment we are making in agriculture sector is not adequate to increase the productive capacity of agriculture. So, we need to enhance the investment in agriculture, both from the public sector and corporate as well as farm households that will be through improving access to financial institutions.

There is another positive thing which is happening. That is corporate social responsibility. It is money of the corporate sector which they have to use for agriculture. But we cannot claim that the Government institutions or other institutions can utilize this money in a better way. But somehow, mechanism
can be worked out. They can be helped in terms of using this money in a decentralized way for critical programmes which can basically empower the farmers in terms of information, digital connectivity or education, training and such other things so that this money is utilized for productivity purpose and
the farmers and agriculture sector have adequate resources which is required at
this juncture".

Financial Performance of Cooperatives - Review

3.21 The performance of the State Co-operative Banks (StCBs)has been analysed on the basis of unaudited data for the year 2015-16. During the year number of StCBshas gone up to 33. The State Co-operative Banks in the country operate in both three-tier and two-tier structure. Out of 33 StCBs functioning in the country, 20 StCBs function in the three-tier structure through 371 affiliated CCBs and 89356 PACS at the grass root level. The remaining 13 StCBs function as two- tier structure through 3686 affiliated PACS. The analysis of the performance of the banks under different parameters is presented in following paragraphs.

Share Capital

3.22 The total share capital of all the StCBs of the country has reached Rs.4714.27 crore in 2015-16 registering a growth of 5.5% over previous year's figure of Rs.4462.20 crore. As capital requirement has become critical for attaining the stipulated CRAR, most of the StCBs have augmented their capital and StCBs like Bihar, J&K, Karnataka, UP, West Bengal, Goa and Chandigarh have shown double digit growth. In order to mobilise additional capital, banks need to relook at their share linkage policy wherever feasible as external contribution to share capital from Government at present is capped at 25% of the total capital.

	2013-14	2014-15	2015-16
Share Capital	3704.20	4462.20	4714.27

Rs. in Crore

Deposits

3.23 Aggregate deposit of 33 StCBs has increased to Rs.111292.47 crore during 2015-16 from the previous year deposit mobilisation figure of Rs.102858.81 crore registering a positive growth of 8.19 %. However, there was a decline of 1.45% in the deposit growth observed in 2014-15 in comparison to the year 2013-14.Appreciable growth in deposit has been exhibited by Haryana, Bihar, Himachal Pradesh, Jharkhand, Tamil Nadu, West Bengal and Maharashtra in three- tier structure and also banks in two-tier structure Sikkim, Mizoram, Goa and Tripura have higher growth rate,but, Rajasthan, Punjab and Gujarat had a negative growth in deposit outstanding. However, during 2015-16, the impact of new SLR guideline for DCCB on the deposit portfolio of StCBs was not conspicuous and there is a realization among StCBsto generate deposits from other members and self-mobilisation and become less dependent on SLR deposits of DCCBs for resource mobilisation.However, to meet future challenges,StCBs in three-tier structure may openbranches in places having good business potential and mobilise deposits from other members. DCCBs are also to be encouraged to get deposits mobilised through PACS and through their members.

	2013-14	2014-15	2015-16
Deposit	104368.60	102858.81	111292.47

Rs. in Crore

Borrowing

3.24 The total borrowing of the StCB has shown a marginal decline of 1.23% as on 31.03.2016 with a total borrowing of Rs.67913.66 crore made by the banks whereas in on 31.03.2015, the StCBs had an outstanding borrowing ofRs.68721.12 crore, which was an increase of 12.66% over the corresponding borrowing level as on 31.03.2014. The StCBs like A& N, Assam, Mizoram, Nagaland, Tripura and Sikkim (mostly NE states) have increased their borrowings to support their loaning operation. In majority of the States, the borrowing portfolio has registered a decline.

	2013-14	2014-15	2015-16
Borrowing	60997.75	68721.12	67913.66

Rs. in Crore

Investment

3.25 The investment portfolio of StCB has experienced a growth of 13% as on 31.03.2016 over the previous year with total investment reaching Rs.53534.30 crore.Banks may regularly review their investment portfolio and keep non SLR investment within reasonable limit so that their resource for normal lending operation does not come under stress.

	2013-14	2014-15	2015-16
Investment	36743.84	47397.85	53534.30

Rs. in Crore

Loans and Advances

3.26 The loans and advances portfolio of the StCB has shown a modest growth of 7.27% with a year-end outstanding reaching Rs.121091.19 crore as on 31.03.2016. The growth achieved in 2015-16 is much less than the achievement of 5.71% in the previous year. The low growth in loans and advances portfolio of StCBs can be interpreted in two ways; either the StCB lacks resources to fund the operation of CCB or the loaning portfolio of DCCB itself has experienced low growth. The state wise data indicates that in spite of positive growth in most of the StCBs, the decline in advance portfolio of large StCBs like Gujarat,Kerala, Tamil Nadu, Punjab and Rajasthan has brought down the overall growth rate.

	2013-14	2014-15	2015-16
Loans and Advances	103114.86	114545.50	121091.19

Rs. in Crore

CD Ratio

3.27 The combined CD ratio of all StCBs in the country has declined to 108.80 % from 111.36% in the year 2014-15. In spite of the fact that the national average CD ratio is more than satisfactory, StCBs in Bihar, Assam, J&K, Jharkhand, Himachal Pradesh and Kerala need to improve their CD ratio. The high national average CD ratio also points to the fact that Co-operative Banks have higher dependence on borrowing which needs correction in the long term perspective, as scope of concessional refinance is getting limited.

Non-Performing Assets

3.28 In terms of percentage to total loans and in terms of quantum there has been a decline in aggregate NPA of StCBs. The total NPA in the year 2015-16 has reduced to Rs.5448.27 crore from Rs.5746.15 crore. The NPA as a percentage of the total advances has also reduced from 5.02% to 4.55%. 16 StCBs have NPA levels less than 5%, followed by 7 StCBs with NPAs ranging between 5-10% and in case of 10 StCBssuch as Andaman & Nicobar, Arunachal Pradesh, Assam, J&K, Jharkhand, Kerala, Manipur, Mizoram and Nagaland the level of NPA is still high i.e., above 10% and needs further reduction.

	2013-14	2014-15	2015-16
NPA	5698.92	5746.16	5448.27

Rs. in Crore

Profitability

3.29 Except 5 StCBs (Arunachal Pradesh, Delhi, Goa, Jharkhand and Manipur) all other 28 StCBs have earned profit during the year 2015-16. Puducherry has earned profit of Rs.394.12 lakh during 2015-16 as against the loss amounting to Rs.588.73 lakh suffered during theprevious year. However, 11 StCBs in profit during the year 2015-16, have experienced a decline in their profit in comparison to the previous year. As at the end of 2015-16, 7 StCB viz., Arunachal Pradesh, Goa, Jharkhand, Kerala, Manipur, Nagaland and Puducherry carry accumulated loss in their balance sheet which adds up toRs.689.63 crore in comparison to Rs.616.76 crore as at the end of 2014-15. However, the accumulated loss has been brought down in Kerala, Nagaland and Puducherry due to current year profit.

(iii) National Rural Livelihood Mission and Self Help Groups (Emerging role of SHG's)

3.30 NRLM is the flagship programme of Government of India for promoting poverty reduction through building strong institutions of the rural poor, particularly women, and enabling these institutions to access a range of financial services and livelihoods services. National Rural Livelihoods Mission (NRLM) came into effect from April 01, 2013, replacing SGSY. The objectives of NRLM include, inter alia, strengthening all existing Self Help Groups (SHGs) and federations of the poor, achieving universal financial inclusion, beyond basic banking services to all the poor households, SHGs and their federations, promoting financial literacy among the poor and providing catalytic capital to the SHGs and their federations, coordinating with the financial sector and encourage use of Information, Communication & Technology (ICT) based financial technologies, business correspondents and community facilitators like ‘Bank Mitras, universal coverage of rural poor against loss of life, health and assets, facilitating remittances, especially in areas where migration is endemic, providing subvention on interest rate for all eligible SHGs, who have availed loans from mainstream financial institutions, etc.

RBI has reported the progress of banking intervention under NRLM, as under:

(Amount in Rs. crore)

Year	Bank credit to SHGs (Rs. in crore)	No. of SHGs	% of increase(+) or decrease(-) in amount of credit (Year-on year basis)	% of increase(+) or decrease (-) in no. of SHGs to which credit was given (Year-on year basis)
2012-13	624.38	66320		
2013-14	2901.16	113626	+364	+71
2014-15	3730.55	170060	+29	+50

Table 2

Year	No. of accounts	Credit outstanding (Rs crore)
2012-13	-	6178.95
2013-14	966254	13119.12
2014-15	1268171	19701.36

About National Rural Livelihoods Mission (NRLM)

3.31 The Ministry of Rural Development, accepting the recommendations made by the Committee on Credit Related Issues under Swarnjayanti Gram Swarozgar Yojana (SGSY) chaired by Prof. Radhakrishnan, restructured SGSY and launched the National Rural Livelihoods Mission (NRLM) adopting a 'livelihood approach' with a greater focus on poverty elimination. The 'Framework for Implementation' for NRLM was approved by the Ministry on 9th December, 2010 and the Mission was formally launched on 3rd June, 2011. The central objective of the Mission is to "*establish efficient and effective institutional platforms of the rural poor that enable them to increase household incomes through livelihood enhancements and improved access to financial and public services".* The focus of the Mission is to build Community Institutions of the poor which would enable them to leverage financial resources for investment in livelihood enterprises, and access entitlements and public services to improve their quality of life. NRLM aims to reach out to and bring about a sustainable improvement in the livelihoods of about 70 million poor households across approximately 600 districts of the country.

3.32 **Salient features of NRLM**

(a) Universal Social Mobilization: NRLM would ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the Self Help Group (SHG) network in a time bound manner. Other institutions like i.e. farmers' organizations, milk producers' cooperatives, weavers' associations, artisan groups etc. for addressing livelihoods will also be promoted. An approach of universal inclusion will be adopted so that no poor, particularly from the vulnerable sections of the society are left out of them;

(b) Promotion of Institutions of the poor: Setting up of strong institutions of the poor in the form of SHGs, their federations at various levels (like Village Organisations, Cluster Level Federations, Block Level Federations etc.) and other institutions for livelihoods for reducing dependence on external agencies. These institutions will be further strengthened to promote social accountability and introduce practices for greater transparency.

(c) Emphasis on Training, Capacity building and skill building: NRLM would ensure that the poor are provided with the requisite skills for managing their institutions, managing their existing livelihoods, enhancing their credit absorption capacity and credit worthiness, linking up with markets etc. A multi-pronged approach has been adopted for continuous capacity building of the targeted families, their institutions and other key stakeholders.

(d) Revolving Fund (RF) and Community Investment support Fund (CIF): Revolving Fund would be provided to eligible SHGs as an incentive to inculcate the habit of thrift and accumulate their own funds towards meeting their immediate and long-term credit needs. The CIF would be provided to SHGs through their Federations which will be a capital in perpetuity with the institutions to be used by members for meeting their credit needs directly and also to catalyze repeat bank finance. Capital subsidy to individual members that existed under SGSY, has been abolished under NRLM.

(e) Universal Financial Inclusion: NRLM would strive towards achieving universal financial inclusion, strengthening both the demand and supply side. On the demand side, it would promote financial literacy among the poor to access and utilize diverse financial products (*savings, credit, insurance, remittance, pension*) and provide catalytic capital to the SHGs and their federations. On the supply side, it would coordinate with the financial sector and encourage use of technology for delivery of financial service, position business correspondents and community facilitators like '*Bank Sakhis*' to reduce last mile challenges.

(f) Provision of Interest Subvention: The rural poor need credit at low rate of interest and in multiple doses to make their ventures economically viable. In order to ensure affordable credit, NRLM has a provision for subvention on interest rate above 7% per annum for all eligible SHGs, who have accessed loans from mainstream financial institutions up to an amount of Rs. 3 lakh per SHG. In case of SHGs in 150 backward districts (which include the Integrated Action Plan Districts districts) provision has been made to provide additional subvention of 3% on prompt repayment making the effective rate of interest as 4%.

(g) Focus on livelihood: NRLM will take proactive steps towards creating and stabilizing livelihoods of the poor. This includes support for upgrading existing livelihood activities of the targeted households and taking up additional activities through livelihoods planning. Through Mahila Kisan Shashaktikaran Pariyojna (MKSP), NRLM is focusing on sustainable agriculture and augmenting the role of women in agriculture. Imparting skill training to youth to enable them to purposefully contribute in the economy either through job or self-employment is a core strategy under NRLM. Towards this, NRLM has established a separate architecture to rollout the skill enhancement programme under the Rural Self Employment Training Institutions (RSETIs) scheme and the Deen Dayal Upadhyay Grameen Kaushalya Yojana (DDU-GKY). RSETIs are offer quality short and long duration programmes to equip rural youth in their pursuits of self-employment and enterprises with the right skills and knowledge whereas DDUGKY aims at providing skill training to the rural poor youth ensuring wage employment for majority of them in the private sector. NRLM aims to foster entrepreneurship in rural areas through Start-up Village Entrepreneurship Programme (SVEP). NRLM also attempts to leverage benefits through convergence with other departments and schemes for efficient delivery and optimum results.

Strategy for Implementation

3.33 NRLM is a highly process oriented programme and requires intensive application of resources, both financial and human. It has therefore adopted a phased implementation strategy for the programme covering all the districts over 7-8 years. The programme also provides for improved targeting of the poor households identified through a process of Participatory Identification of Poor (PIP). For managing and supporting all the program activities, NRLM provides for creation of dedicated and sensitive implementation structures with professionally qualified and competent human resources at the national, state, district, and sub-district level. Autonomous societies functioning as State Rural Livelihood Missions have been established in each state to anchor the implementation of program activities. Implementation in each state is initiated in a few selected blocks to create 'Proof of concept' and is triggered by experienced community members termed as Community Resource Persons (CRPs) from best practice sites. Community Resource Persons (CRPs) are members of the community who have graduated out of poverty with the help of their SHGs.. This strategy essentially rests on the premise that the community learns from the community better. CRPs are employed by the Community Based Organisations (CBOs) at various levels and in various verticals. There are some CRPs who specialize in certain areas, such as gender, social action, etc. These CRPs visit different states in teams to inspire women from other communities to form and run SHGs.

Interventions on financial inclusion of poor

3.34 NRLM has taken the approach to strengthen both demand side and create a responsive supply side to ensure comprehensive financial inclusion of the poor targeted under the programme. There is an improvement in credit linkage in several states. A total of Rs 41,245 Crore was provided as credit to SHGs during FY 2013-14 and FY 2014-15. State-wise details of credit linkage of SHGs are as follows.

State wise details of Credit Linkage of SHGs

Amount in Rs Cr

S.No	States & UTs	Achievement (2014-15)		Achievement (2013-14)	
		Total SHGs	Total Loan Amount	Total SHGs	Total Loan Amount
1	ANDHRA PRADESH	178145	5684.19	244764	7162.34
2	TELANGANA	120993	3510.95	174480	4524.01
3	KARNATAKA	209190	3514.89	124176	2660.67
4	TAMIL NADU	148795	3840.23	82695	2047.32
5	KERALA	50765	1077.49	31371	714.48
6	WEST BENGAL	127259	1098.48	50388	511.03
7	MAHARASHTRA	41885	533.96	32493	413.88
8	ODISHA	43758	516.70	31843	372.66
9	BIHAR	30893	216.84	21008	137.55
10	MADHYA PRADESH	12626	117.29	17637	134.09
11	UTTAR PRADESH	5021	83.41	12163	119.65
12	RAJASTHAN	13219	131.68	10131	115.71
13	CHATTISGARH	7613	91.98	8353	99.59
14	GUJARAT	14356	136.18	8654	74.39
15	ASSAM	10833	91.12	5752	73.28
16	HARYANA	902	10.35	1341	28.15
17	HIMACHAL PRADESH	1329	23.77	1418	25.59
18	JHARKHAND	3053	31.32	1410	20.77
19	PUDUCHERRY	1311	33.68	554	15.62
20	UTTARAKHAND	354	3.19	1723	15.14
21	PUNJAB	300	4.65	622	7.78
22	GOA	303	10.92	316	6.53
23	NAGALAND	556	9.05	248	3.27
24	TRIPURA	816	4.22	382	1.97
25	JAMMU & KASHMIR	1600	9.34	207	1.71
26	MANIPUR	84	0.79	149	1.10
27	SIKKIM	58	0.27	109	1.10
28	ARUNACHAL PRADESH	14	0.30	243	0.91
29	MEGHALAYA	3	0.05	90	0.63
30	MIZORAM	4	0.09	7	0.19
	Total	**1049982**	**21308.75**	**883877**	**19935.43**

- **Key interventions for strengthening the demand side:**

(a) Positioning dedicated Human Resource

Apart from the dedicated human resource at various levels, active women are identified and trained as para professionals (community cadres) to perform various last mile functions without dependence on external entities.

(b) Capacity Building & Handholding support

NRLM focuses on systematic capacity building of the SHGs and their federations on Financial Inclusion. Inputs are provided to community institutions to ensure compliance to the principles of *Pancha Sutra* – 'Regular Meeting, Regular Savings, Internal Lending, Timely Repayment and Proper Book keeping'. Special emphasis is given on proper book keeping which gives confidence to banks for linkage of SHGs. Other key capacity building inputs are in the areas of fund management and utilization, financial literacy, micro-credit planning, loan appraisal process and bank linkage. Handholding support to institutions is extended till such time as the institutions are able to manage their affairs without any dependence on outsiders.

(c) Providing Revolving Fund and Community Investment Fund

Eligible SHGs are provided with RF (@Rs. 10,00-15,00 per SHG) and CIF (up to a maximum of Rs. 2.50 lakh per SHG). These funds act as catalytic capital to trigger bank linkage and at the same time meet the immediate and long-term credit need of members like household needs, social occasions, high cost debt swapping and investment in livelihood ventures. NRLM has provided Rs 377 Crore as Revolving Fund to 2.7 lakh SHGs; and Rs 734 Crore to 1.36 lakh SHGs as CIF. State-wise details of disbursement of RF & CIF are as follows.

State wise Details of RF and CIF disbursed to SHGs(Up to Aug2015)

Amount in Rs. Cr

Sl No	State	Total No. of SHG under NRLM	Revolving Fund		Community Investment Fund	
			SHG	Amount	SHG	Amount
1	Andhra Pradesh*	669188	--	--	--	--
2	Assam	54025	30982	46.20	7651	38.820
3	Bihar	390762	75079	112.46	73421	388.88
4	Chhattisgarh	14051	9788	14.55	4976	28.86
5	Gujarat	28946	12976	12.16	1746	8.64
6	Jharkhand	20224	14903	22.31	11052	60.47
7	Karnataka	22357	3657	5.43	1040	8.34
8	Kerala	229943	3029	3.02	950	1.42
9	Madhya Pradesh	91881	31563	42.39	18929	110.21
10	Maharashtra	31283	15158	21.31	3783	21.46
11	Odisha	116473	12027	15.57	2636	13.31
12	Rajasthan	29217	7344	10.81	1750	16.64
13	Tamil Nadu	142600	9811	13.73	0	0.00
14	Telangana*	423361	--	--	--	--
15	Uttar Pradesh	7331	3749	4.92	983	7.41
16	West Bengal	46631	25021	34.65	127	0.5
17	Haryana	3658	2275	3.36	821	4.09
18	Himachal Pradesh	1177	494	0.69	20	0.04
19	Jammu & Kashmir	7621	6634	9.59	5493	22.3
20	Punjab	1137	785	1.13	438	2.37
21	Uttarakhand	1023	238	0.23	0	0.00
22	Arunachal Pradesh**	--	--	--	--	--
23	Manipur**	--	--	--	--	--
24	Meghalaya	163	11	0.01	0	0.00
25	Mizoram	732	648	0.86	0	0.00
26	Nagaland	1699	1160	1.74	0	0.00
27	Sikkim**	--	--	--	--	--
28	Tripura	386	117	0.13	0	0.00
	Total:	**2335869**	**267449**	**377.37**	**135816**	**733.83**

Source: NRLM MIS

Note:

** Andhra Pradesh and Telangana do not utilize NRLM funds for Community Investment Support.*

***Arunachal Pradesh, Manipur and Sikk*im have recently started implementation and are yet to institute reporting mechanism.

(d) Providing Interest Subvention to women SHGs

NRLM has made provisions to provide interest subvention for women SHGs to make affordable credit available to women members. In 150 backward districts (including all IAP districts) all women SHGs are provided loans at upfront interest of 7% p.a up to loan of Rs. 3 lakh. On prompt repayment by SHGs, an additional 3% subvention is provided making effective interest rate on bank loans as 4%. In remaining districts, SHGs which have taken loan from banks and repaying promptly are provided subvention on interest to the extent of the difference between lending rate and 7%. Department of Financial Services (DFS) has provided necessary guidance in preparing the implementation guidelines for the schemes. State-wise details of interest subvention provided to women SHGs under NRLM are as follows.

State wise Details of Interest Subvention to women SHGs

Amount in Rs lakhs

		Category - I districts (FY 2014-15)		Category - II districts (FY 2013-14 & 14-15)	
Sl. No	State Name	No. of Accounts	Amount	No. of Accounts	Amount
1	ANDHRA PRADESH	126627	10141.68	592355	17803.00
2	TELANGANA	148008	12518.23	337421	10709.00
3	KARNATAKA	87520	2687.16	193689	2629.03
4	TAMIL NADU	26463	1629.18	84306	1987.62
5	KERALA	14597	468.27	48125	985.64
6	ODISHA	27453	743.15	54903	679.33
7	WEST BENGAL	16102	250.76	40309	284.74
8	MAHARASHTRA	6378	240.09		
9	BIHAR	9136	149.29	4077	22.30
10	JHARKHAND	2712	99.34	444	5.82
11	CHHATISGARH	2196	43.29	2900	28.00
12	RAJASTHAN	1351	42.76		
13	GOA	655	37.36		
14	GUJARAT	1905	29.14	583	5.52
15	HIMACHAL PRADESH	819	32.97	30	1.50
17	JAMMU AND KASHMIR	2132	31.98		
18	MADHYA PRADESH	2977	31.75	2076	7.70
19	ASSAM	942	9.48	1290	12.74
20	UTTAR PRADESH	809	22.20	178	2.63
21	HARYANA	268	5.60		
22	ARUNACHAL PRADESH	92	3.94		
23	TRIPURA	172	3.47		
24	PUNJAB	75	2.15		
25	UTTARAKHAND	122	2.12		
26	SIKKIM	66	1.23		
27	MIZORAM	7	0.48		
28	NAGALAND	19	0.48		
	Total	**479603**	**29227.52**	**1360610**	**35164.57**

Note:

- *12 states have not disbursed Interest Subvention in Category-II districts.*
- *In Maharashtra, Rajasthan and J&K the process for identification of NRLM compliant SHGs are under process. Disbursement of interest subvention will be done on completion of the process.*
- *In remaining states only SHGs under SGSY were Bank linked which are not eligible for interest subvention as they have received capital subsidy. In these states SHGs promoted under NRLM is in the process of bank linkage. Necessary systems will be put in place to disburse interest subvention to the eligible SHGs in these states.*

(e) Technical support for livelihood enterprises

NRLM is building forward and backward linkages to ensure sustainability of the enterprises. Support to SHG members in agriculture and livestock (under MKSP) and other non-farm enterprises on package of practices, improved management techniques, business development services and market linkages have improved the net return on investment thereby ensuring timely repayment of credit by members.

(f) Integration with mainstream Financial Inclusion programme

NRLM has taken proactive steps to integrate the SHG based financial inclusion approach with the mainstream Financial Inclusion programmes like Pradhan Mantri Jan DhanYojna (PMJDY). SRLMs have extended support to banks to ensure opening of individual bank account of SHG members. SHG members are also encouraged to enroll under the insurance products launched by Govt. of India – *Aam Admi Bima Yojna* (AABY), *Pradhan Mantri Surakha Bima Yojna* (PMSBY), *Pradhan Mantri Jeevan Jyoti Bima Yojna* (PMJJBY) and *Atal Pension Yojna* (APY). Details of enrollment of SHG members under different insurance products are as follows.

State wise Details of enrollment of SHG members under different Insurance schemes

State*	PMJJBY	PMSBY	AABY	APY
Bihar	-	-	506038	
Chhattisgarh	20413	57178		
Odisha	-	-	1008000	
Gujarat	143127	274918		1603
Jammu and Kashmir	14007	19498		-
Jharkhand	-	-		4705
Maharashtra	23624	49597		7332
Tamil Nadu	1826719	4787266		17684
Total	**2027890**	**5188457**	**1514038**	**31324**

(*) Enrollment of SHG members under the schemes have been carried out. SRLMs are in process of compiling the information from respective banks.

(g) Community Monitoring

Community managed monitoring system have been set up within the SHG federations at village, cluster and block level. In each village level federations (*Village Organisation*) a bank linkage and monitoring committee has been formed with representative from member SHGs. The role of this committee is to appraise loan applications from SHGs, conduct utilization check of loans taken by members, monitor repayment of loans by SHGs to federations and banks. This entire system works on collective wisdom and principles of peer pressure and has resulted in proper end-use of loans and excellent recovery rates. Institutionalization of such arrangements has given confidence to banks to lend to SHGs without any collateral.

Community Based Repayment Mechanism (CBRM) at bank branch level with a committee involving representatives of SHGs or their federations under the chairmanship of the branch manager is also being established. The committee meets once a month, reviews the performance of all SHGs and ensures repayment of bank loans by SHGs.

- **Key interventions for making a responsive supply side**

  (a) Policy interventions

NRLM has been engaging with policy makers and regulators like – Department of Financial Service (DFS), RBI, NABARD and authorities of various financial institutions to create a favorable ecosystem for financial inclusion of poor.

Some of the key interventions are as follows

(i) Master circular on NRLM: RBI and NABARD have issued a detailed master circular for NRLM creating a window for bank linkage of SHGs under NRLM. The path breaking master circular has first time prescribed minimum dose of Rs 50000 as first loan for SHGs and has also relaxed the margin and security requirement for loans to SHGs upto Rs 10 lakhs. The circular also clarified several operational challenges creating hurdles in SHG Bank Linkage.

(ii) Indian Bank's Association (IBA) sub-committee on NRLM: The IBA sub-committee having representatives from leading banks, advises NRLM on issues related to bank linkage. The sub-committee has played a crucial role in simplifying the linkage documents (including loan application forms) for SHGs. The committee has also been advising NRLM on implementation of the interest subvention scheme.

(iii) Establishment of Development Finance Institution (DFI) to catalyze alternative Channels of financing SHGs: NRLM proposed to create a DFI exclusively to catalyze alternate channels for financing of SHGs. On directions of the PMO, an expert committee was setup under the Chairmanship of Smt Usha Thorat to examine the feasibility of the DFI. The committee recommended integrating the role of the proposed DFI with that of NABARD due to the uncertainties relating to viability of the institution.

(iv) Dialogue with banks and financial institutions: NRLM regularly organizes workshops and meeting to engage in continuous dialogue with senior officials of various banks and other financial institutions. This has helped build a rapport among the stakeholders and resulted in promptly addressing issues.

(b) Target for Credit Linkage of SHGs

NRLM recommends annual credit linkage target for each state. The targets are placed with SLBC of respective states for further allocation to banks and their branches, consolidated as districts & block wise targets. Regular review is conducted to monitor achievement against the target by NRLM. Advisories are sent to states and SRLMs from time to time, on the steps to be taken for ensuring linkage of SHGs. SRLMs are also being encouraged to enter into MoU with leading banks to ensure credit linkage of SHGs.

Details of credit target for FY 2015-16 are as follows.

State wise Credit target for FY 2015-16

S.No	States & UTs	Target 2015-16	
		No. of SHGs	Loan Amount (Rs Cr)
1	ANDHRA PRADESH	280000	9770.00
2	TELANGANA	188000	6150.00
3	TAMIL NADU	150000	4420.00
4	KARNATAKA	176000	4310.00
5	KERALA	42500	1330.00
6	WEST BENGAL	95200	1230.00
7	MAHARASHTRA	38800	710.00
8	ODISHA	50000	580.00
9	MADHYA PRADESH	35000	300.00
10	BIHAR	35500	230.00
11	RAJASTHAN	15400	160.00
12	CHATTISGARH	10300	140.00
13	GUJARAT	17100	140.00
14	UTTAR PRADESH	8000	140.00
15	JHARKHAND	3600	40.00
16	HIMACHAL PRADESH	1800	30.00
17	PUDUCHERRY	1900	30.00
18	HARYANA	1100	20.00
19	UTTARAKHAND	1500	10.00
20	JAMMU & KASHMIR	1800	9.00
21	PUNJAB	500	6.00
22	GOA	320	1.00
	North Eastern States		
23	ASSAM	10200	100.00
24	NAGALAND	600	8.00
25	TRIPURA	600	3.50
26	MEGHALAYA	300	1.50
27	MIZORAM	300	1.50
28	SIKKIM	100	0.50
29	ARUNACHAL PRADESH	100	0.50
30	MANIPUR	100	0.50
	Total	**1166620**	**29872.00**

(c) Strengthening Block Level Banker's Committee (BLBC), District Coordination Committee (DCC) and State Level Banker's Committee (SLBC)

NRLM has taken pro-active efforts to strengthen the banking forums at all level. Each state has been advised to constitute a sub-committee on SHG Bank linkage under the SLBC for in-depth deliberation on all issues related to NRLM. In all states, Mission Director, SRLM is a member of the committee. Regular meetings of the sub-committee are being ensured by the SRLMs. NRLM has advised states to place the details of SHG bank linkage in each BLBC and DCC meeting in an effort to make these forums more effective. In the intensive districts under NRLM, the BLBC and DCC are monitoring the performance of banks in SHG bank linkage.

(d) Sensitization and Capacity Building of rural bank branch managers

NRLM is making adequate investment in sensitizing the rural bank branch managers through training programmes and exposing them to best practice sites within and outside the state. Beside this, regular workshop with bankers at state and zonal level is being conducted by respective SRLMs and MoRD. Few SRLMs have also entered into MoU with training institutes like Banker's Institute of Rural Development (BIRD)-Lucknow; Indian Institute of Banking and Finance (IIBF)-Mumbai etc. for training of bankers.

(e) Placement of '*Bank Sakhis*' at bank branches

Most rural branches are manned by one or two persons. With increasing pressure of regular customers, bankers are unable to find time to deal with SHGs. To address this, literate SHG members are being identified and trained as '*Bank Sakhis*' to be positioned in bank branches. They provide support to SHG members visiting bank branches in filling of application forms, filling of deposit and withdrawal slips and guiding SHGs during transaction with banks. '*Bank Sakhis*' are also supporting bank managers in follow-up on SHG linkage and ensuring repayment. Over 2800 such '*Bank Sakhis*' have already been placed with various bank branches. State-wise details of '*Bank Sakhis*' placed below.

State wise details of Bank Sakhi placed

Sl	State	No. of Bank Sakhis placed
1	Bihar	837
2	West Bengal	500
3	Gujarat	466
4	Odisha	363
5	Assam	313
6	Chhattisgarh	207
7	Jharkhand	96
8	Maharashtra	28
9	Haryana	20
10	Uttar Pradesh	20
	Total	**2850**

(f) Online Monitoring system

NRLM has created an online portal with data directly from CBS of banks for monitoring performance SHG bank linkage. Monitoring reports on disbursement of loans, outstanding and overdues are placed on the portal. Details of over 26 lakh credit linked SHGs are captured on the portal. This facilitates accurate monitoring of performance.

Issues & Challenges in SHG Bank Linkage

3.35 The issues and concerns in SHG Bank Linkage are as follows:

(a) SHG Bank linkage is skewed with five states accounting for over 83% of the total credit linkage in the country. 10 states (UP, Bihar, West Bengal, Orissa, MP, Jharkhand, Chhattisgarh, Maharashtra, Rajasthan, Assam) which account for 81% of the poor households account for less than 14% of the total credit to SHGs. Remaining 14 states account for only about 3% of total credit linkage.

(b) Less than30% of the SHGs are credit linked every year. There are an estimated 4 million functional SHGs of which about 8-10 lakh SHGs only receive banks loans.

(c) Denial of repeat linkage to SHGs by banks.

(d) Decline in the share of Public Sector Banks in lending to SHGs

(e) Increase in lending by microFinance Institutions (mFIs). During 2014-15, Rs 21,400 Crore was lent by banks directly to SHGs. Micro FIs have lent Rs 54,600 Crore during the same period to SHGs, at higher interest rates, out of which 78% has come through bulk lending to mFIs from banks.

(f) Banks denying credit to new SHGs on pretext of high NPA in branches under SGSY

(g) Staff crunch in rural bank branches is causing delay or hindering SHG bank linkage

(h) Involvement of multiple ministries/ departments and agencies as promoters without any single coordinating agency for the programme is creating confusions resulting in sub-optimal credit linkage.

3.36 New Initiatives under NRLM

(a) NRLM has created a special Fund of about USD 20 million for catalyzing innovative and alternate channels for Financial Inclusion under the World Bank Aided National Rural Livelihoods Project under NRLM.

(b) NRLM is planning to mainstream the SHG Bank Linkage process through Bank Sakhi performing as Bank Agents and providing doorstep services

(c) NRLM is exploring the potential of bulk bank linkage of SHG Federations particularly in areas where bank branch density is low.

CHAPTER - IV

Crop Insurance Schemes

(i) Scheme Evolution

4.1 Chronology of crop insurance in India:

(a) Pilot Crop Insurance Scheme (PCIS) - 1979

(b) Comprehensive Crop Insurance Scheme (CCIS) - 1985

(c) National Agricultural Insurance Scheme (NAIS) - 1999

(d) Weather Based Crop Insurance Schemes (WBCIS) introduced by public and private sector insurance companies on a pilot basis, as part of Government's crop insurance programme in 2007-08

(e) The Modified NAIS (MNAIS) - on a pilot basis in 50 districts from the *Rabi* season of 2010-11.

(f) The National Crop Insurance Programme (NCIP) comprising MNAIS, WBCIS and Coconut Palm Insurance Scheme (CPIS) -2013

4.2 Objectives of crop insurance scheme:

(a) To provide financial support to the farmers in the event of failure of any of the notified crops as a result of natural calamities, pests & diseases etc.

(b) To encourage the farmers to adopt progressive farming practices, high value in-puts and higher technology in agriculture

(c) To help stabilize farm incomes, particularly in disaster years.

4.3 Crop Insurance Schemes presently in operation:

(a) National Agricultural Insurance Scheme (NAIS)

(b) Modified National Agricultural Insurance Scheme (MNAIS)

(c) Weather Based Crop Insurance Scheme (WBCIS)

(d) Coconut Palm Insurance Scheme (CPIS)

4.4 Questioned on the evolution of Crop Insurance Scheme with respect to the agriculture sector of the country, CMD, Agriculture Insurance Company of India Limited (AICL), while deposing before the Committee submitted as follows :

"This organization was set up to implement the National Agriculture Insurance Scheme, which was envisaged as a multi-stakeholder insurance scheme as opposed to the normal insurance which is done in this country. Normally, individuals buy insurance or it is sold to them whereas given the nature of our agrarian economy, this particular area-based multi-stakeholder approach was introduced in the country and we were implementing it. I will come to that a little later. There were advantages for this multi-stakeholder approach as well as certain challenges which I will come to a little later. There were certain problems with the National Agriculture Insurance Scheme. Improvements were made and a modified National Agriculture Insurance Scheme was introduced in the year 2010-11 which was different from the NAIS in the sense that in the case of NAIS, the insurance premiums were administered and if the claims exceeded the premium, the entire liability was borne by the State and the Central Government in equal measure. In the case of modified NAIS, the premiums were actually priced and the claims were entirely borne by the insurance companies but the premiums were subsidised by the State and the Central Government. The third scheme which was introduced was the weather-based crop insurance scheme where claims were paid based on occurrence of certain weather events and these weather events were captured by setting up weather stations in reference unit areas. These are the major schemes that are in place today. We have two segments of insurers one is the loanee farmers, those farmers who take loans from the financial institutions for their seasonal agricultural operations and those farmers who do not take credit from these organizations. Both these type of farmers can be covered under the scheme and both are eligible for subsidies from the Government of India. Since it is a multi-stakeholder, the advantage is that the cost of delivery is much less. When it comes to insurance coverage, it can be done much faster than the insurer having to go to individual farmers and then selling insurance. In India, insurance is generally sold, not many people buy insurance. There is no pull, it has to be pushed. So, in order to ensure that large numbers of farmers get covered, the loanee farmers were compulsorily required to be insured under the schemes that were being implemented by the Government. Now the responsibility is that of the financial institutions to debit the premium from the account or extend a loan towards the premium when they extend the crop loan and then send the details to insurer who in turn will offer the coverage. There are certain gaps in this. What happens today is that not all the loanee farmers are getting captured under the system for various reasons, whether at the bank level or at the cooperative bank loan. Only 23 per cent of the farmers today get insured under the scheme that the Government is offering.

The other issue is that the Governments are also one of the stakeholders and the State Governments in particular because they need to notify the crops for insurance. If the State Government does not notify a crop, the farmer does not get the right to insure under the subsidised scheme. So, the State Governments need to notify all the crops. State Governments are also involved in the crop cutting experiments. What the insurer pays is the difference between the actual yield and the historical yield subject to certain conditions. How do we get the actual yield at the end of the season? It is done by carrying out crop cutting experiments by the State agencies. This is a very mammoth operation because a large number of CCs have to be done within a short time frame. All Governments face a big issue in timely transmission of data to the insurance company, with the result, there is a delay in payment of claims. In respect of weather stations, we have a challenge because we depend largely on private weather data providers. These stations have to be sited in safe and secured places. The private data providers are finding it difficult to find the safe and secured places to site the stations. They usually put it on roof tops so that nobody can tamper it. It has got its own challenges. Some State Governments have set up their own weather stations but then maintenance is a challenge. The IMD has got weather stations which are better maintained and the data count is better but the numbers are few. So, there are underlying problems with the schemes that are being implemented. From time to time, we have improved. But the underlying problems have not been taken care of. So, any scheme to really take off and really provide indemnity to the farmer, we need to address these challenges in terms of better coverage. What is happening today is that those farmers who have been getting claims come back to insure. It is natural. From an insurance perspective, it is an adverse selection because only those who are prone to losses are coming and it keeps the insurance cost high. But from the farmers' perspective, yes those who are suffering losses are getting claims. But it is not a good thing to happen in the long run because the scheme will not be sustainable unless the good and the bad come to the insurance network. So, there is a need to ensure that compulsory nature of insurance is enforced and the banks do include each of them. We need to use technology to improve the crop cutting experience. The Government is alive to the situation. The Central

Government has already initiated some measures to improve crop cutting experiments with sufficiency and the speed with which the data is relief to the insurance company. These issues have to be resolved to make insurance more successful in this country."

4.5 Agriculture Risk Fund and Integrated Credit-Crop-Livestock-Human Health Insurance Package.

The National Commission on Farmers (NCF) was constituted on November 18, 2004 under the chairmanship of Professor M.S. Swaminathan. The NCF submitted four reports in December 2004, August 2005, December 2005 and April 2006 respectively. The fifth and final report was submitted on October 4, 2006. The reports contain suggestions to achieve the goal of "faster and more inclusive growth" as envisaged in the Approach to erstwhile 11th Five Year Plan.

The NCF was mandated to make suggestions on issues as follows:

- A medium-term strategy for food and nutrition security in the country.
- Enhancing productivity, profitability, and sustainability of the major farming systems of the country;
- Comprehensive policy reforms to substantially increase flow of rural credit to all farmers;
- Special programmes for dryland farming for farmers in the arid and semi-arid regions, as well as for farmers in hilly and coastal areas;
- Enhancing the quality and cost competitiveness of farm commodities so as to make them globally competitive;
- Protecting farmers from imports when international prices fall sharply;
- Empowering elected local bodies to effectively conserve and improve the ecological foundations for sustainable agriculture;

4.6 The National Commission on Farmers (NCF) on the issue of timely and adequate supply of credit as a basic requirement of the small farm families suggested following on the aspect of Credit and Insurance :

- Expand the outreach of the formal credit system to the most eligible and needy.
- Decrease rate of interest for crop loans to 4 per cent simple, with government support.

- Moratorium on debt recovery, including loans from non-institutional sources, and waiver of interest on loans in distress hotspots and during calamities, till capability is restored.
- Establish an Agriculture Risk Fund to provide relief to farmers in the aftermath of successive natural calamities.
- Issue Kisan Credit Cards to women farmers, with joint *pattas* as collateral.
- Comprehensive development of an integrated credit-cum-crop-livestock-human health insurance package.
- Expand crop insurance cover to cover the entire country and all crops, with reduced premiums and create a Rural Insurance Development Fund to take up development work for spreading rural insurance.
- Promote sustainable livelihoods for the poor by improving

    a) Financial services

    b) Infrastructure

    c) Investments in human development, agriculture and business development services (including productivity enhancement, local value addition, and alternate market linkages)

    d) Institutional development services (forming and strengthening producers' organisations such as self-help groups and water user associations).

4.7 **Credit & Crop Insurance issues:**

(a) To provide financial support to the farmers in the event of failure of crops as a result of natural calamities, a Comprehensive Crop Insurance Scheme (CCIS) was introduced in the country with effect from Kharif, 1985. The participation in the scheme was voluntary and the States were free to opt for the scheme. All farmers who availed crop loans from Commercial Banks, Regional Rural Banks and Cooperative Banks for growing wheat, paddy, millets (including maize), oilseeds and pulses were eligible for coverage under the scheme. CCIS remained under implementation till Kharif 1999.

(b) The emergence of the Comprehensive Crop Insurance Scheme (CCIS) in 1985 was the natural outcome of a long and varied chain of events. The CCIS was based on the area approach, and was linked to the crop credit system. The rate of premium was 2% for cereals, and 1% for pulses and oilseeds. The scheme was uniform for the entire country. State governments could choose whether or not to participate. Though the scheme was operated by an autonomous public organization, the General Insurance Corporation of India (GIC), a number of other agencies were also involved.

(c) The CCIS was the largest crop insurance scheme – in absolute terms, though not in terms of percentage of farmers or area covered – in the developing world, and indeed one of the larger crop insurance schemes in the world. On an average about 5 million farmers and 8.5 million hectares of cropping area were covered by the scheme annually.

(d) With a loss ratio (ratio of indemnity to premium) of six during 1985-95, the CCIS was not financially viable. However, in terms of indemnity as percentage of coverage, the CCIS did not seem to have performed worse than other all-risk-type national schemes. The cost of administration was less than 1 per cent – much lower than in other countries – of the sum insured, owing to the area approach. The size of the government subsidy, though 84 per cent of the cost of the scheme, was only 1.2 per cent of Plan expenditure on agriculture and allied programmes. The design of the scheme however appeared far from satisfactory, as was evident from the operational problems during its implementation and the wide sequence of changes made from time to time.

(e) The most important perception was that the CCIS is, in general, was beneficial to farmers, but that it needed improvements to achieve financial sustainability, wider coverage, and better distributional and poverty-reduction impact. The farmers advocated smaller area units and timely payment of indemnity. Other suggestions were: raising the limit on the sum insured, and instituting a non-claims bonus, and coverage of non-borrower farmers by the CCIS. National Agricultural Insurance Scheme (NAIS), a central sector scheme, was launched in 1999, replacing CCIS. to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests, and diseases and to encourage the farmers to adopt progressive farming practices, high value inputs, and higher technology in agriculture to stabilize farm incomes, particularly in disaster years.

(f) This Scheme was available to all farmers – loanee and non-loanee both – irrespective of the size of their holdings, but compulsory for loanee farmers and optional for non-loanee farmers. Coverage was all food crops (cereals, millets, and pulses), oilseeds and annual commercial/ horticultural crops in respect of which past yield data was available for adequate number of years. Among the annual commercial/horticultural crops, seven crops namely, sugarcane, potato, chillies, ginger, onion, and turmeric were covered. Premium rates were typically 3.5% for bajra, and oilseeds and 2.5% for other Kharif crops, 1.5% for wheat, and 2% for other Rabi crops. In case of annual commercial/horticultural crops, actuarial rates were charged. A subsidy of 50% on premium for small and marginal farmers was provided which was to be phased out over a period of 5 years on sunset basis. At present a subsidy of 10% on premium is available to small and marginal farmers.

(g) To implement NAIS at lower unit of insurance, i.e. Gram Panchayat, it was decided to adopt new technique, i.e. Small Area Crop Estimation Approach devised by IASRI on an experimental basis. The government then established a separate Agriculture Insurance Company (AIC) with capital participation of GIC, the four public sector general insurance companies, and the NABARD to implement NAIS. AIC assumes liability to the extent of premiums collected for food crops and oilseed (FCOS) crops. If the claims exceed the premium collected the liability shared by the Central and State Government on 50:50 basis. Full liability is on AIC for annual commercial (ACH) crops, on which actuarial premium is charged under the scheme. The scheme is being implemented from Rabi 1999-2000.

(h) It has been observed that crop insurance schemes in India cover about 20% of sown area and have a high claims to premium ratio. The coverage pattern also indicates a problem of adverse selection. The programme also suffers from problems of moral hazard because of difficulties in monitoring and control. Claim payments by State Governments are delayed, in many cases because the government may not have budgeted for the amount of actual claims. GOVERNMENT started Pilot on Weather Based Crop Insurance Scheme (WBCIS) in kharif 2007 and Modified National Agricultural Insurance Scheme (MNAIS) in Rabi 2010 in selected districts across the country for increasing the accuracy, coverage, and timeliness of crop estimation methods. These two pilot schemes and another GOVERNMENT scheme i.e. Coconut Palm Insurance Scheme (CPIS) have been included under National Crop Insurance Programme (NCIP)/Rashtriya Fasal Bima Karyakram (RFBK) and was launched from Rabi 2013-14 season across the country. Although GOVERNMENT withdrew NAIS with the introduction of NCIP, scheme has been extended up to 2015-16 on request from several State Governments.

4.8 Main features of NCIP are as under:

(a) MNAIS & WBCIS is extended to all the districts from Rabi 2013-14 with provision of compulsory coverage of the loanee farmers.

(b) Two indemnity levels of 80% & 90% would be available instead of three i.e. 70%, 80% & 90% under MNAIS component.

(c) States which are initially unable to implement MNAIS at village/village Panchayat level may implement it at higher unit area level (up to a cluster of maximum 15 villages) for 3-5 years.

(d) States implementing MNAIS at village/village Panchayat level would be entitled for 50% reimbursement of incremental expenses of CCEs from GOVERNMENT subject to a cap.

(e) Provision for add-on/index plus products for horticultural crops for compensating losses due to perils of hailstorm, cloudburst, etc. under WBCIS component.

(f) 5000 AWS will be created through PPP mode with viability gap funding that is shared with the states on 50:50 basis.

4.9 Main Features of MNAIS Component:

(a) In case farmer of an area is prevented from sowing / planting due to deficit rainfall or adverse seasonal conditions, such insured farmer shall be eligible for indemnity. The indemnity payable would be a maximum of 25% of the sum-insured.

(b) In case of localized risks, viz. hailstorm and landslide, the claims will be assessed on individual basis. For other calamities the assessment will be on the basis of 'area approach'.

(c) In case of adverse seasonal conditions during crop season, claim amount up to 25 per cent of likely claims would be released in advance in case losses are likely to be more than 50%.

At the end of the season, claims shall be assessed on the basis of yield data submitted by the State Govt. based on requisite number of Crop Cutting Experiments (CCEs). Post-harvest coverage is available for those crops, which are allowed to dry in the field up to 14 days after harvesting due to cyclone in coastal areas, resulting in damage to harvested crop.

Crops covered: All food crops (cereals, millets, Pulses), oilseeds and annual commercial horticultural crops.

4.10 Main Features of WBCIS Component:

(a) Crops Covered: Cereals, Millets, Pulses, Oilseeds and annual commercial / horticultural crops. The crops to be covered would be notified by the SLCCCI, whereupon would be referred to as "Notified Crops". The crops listed above are only indicative & not exhaustive.

(b) Cultivators Eligible for Coverage: All the cultivators (including sharecroppers and tenant cultivators) growing any Notified Crop in any Reference Unit Area shall be eligible for coverage. The Scheme shall be compulsory for loanee cultivators i.e. those who have Sanctioned Credit Limit from a Financial Institution [FI] for a Notified Crop in a Reference Unit Area and voluntary for Non-Loanee cultivators i.e. those who do not have Sanctioned Credit Limit from any FI for a Notified Crop in a Reference Unit Area.

(c) Perils Covered: Deficit Rains, Un-seasonal / Excess Rains, Frost, Heat (Temperature), Relative humidity, etc. are the weather perils, which are deemed to cause "Adverse Weather Incidence", leading to crop loss, would be covered under the Scheme: The specific "Adverse Weather Incidence" with its timing / duration applicable to a particular Notified Crop shall be notified by the SLCCCI. The perils listed above are only indicative & not exhaustive.

(d) Risk Period (Insurance Period): Risk period would generally be from "Sowing" to "Maturity" of the crop. Risk period, depending on the duration of the crop and the weather parameters chosen, could vary with individual crop and Reference Unit Area, and would be notified by the SLCCCI before the commencement of risk period.

4.11 Main Features of Coconut Palm Insurance Scheme Component:

AIC has designed Coconut Palm insurance in consultation with the Coconut Development Board (CDB), covering death / loss of bearing coconut palms. The pilot supported by CDB and state Govts. has been implemented during the year 2010-11 in select districts of Andhra Pradesh, Goa, Karnataka, Kerala, Maharashtra, West Bengal and Tamil Nadu. Coconut plants of the age from **4th** year to **60th** year are covered. Farmers have to bear 25% of the premium as 50% subsidy in premium is provided by the Coconut Development Board (CDB) and 25% by the State Government. Total losses eventually leading to either death of the plant or the plant becoming useless (i.e. total loss) for the plantation are covered. The insurance coverage and claim assessment is on individual palm/plantation basis. The Claims are fully borne by AIC.

4.12 National Agricultural Insurance Scheme (NAIS):

To enlarge the coverage in terms of farmers (loanee and non-loanee both), more crops and more risks, 'National Agricultural Insurance Scheme (NAIS) – (Rashtriya Krishi Bima Yojana)' was introduced in Rabi 1999-2000 season in the country. The scheme is available to all the farmers – loanee and non-loanee both - irrespective of their size of holding. The NAIS has been implemented by 25 States and 2 Union Territories so far. Under NAIS, during the last thirty three crop seasons (i.e. from Rabi 1999-2000 to Kharif 2015) about 2608 lakh farmers have been covered over an area of 3795 lakh hectares insuring a sum amounting to Rs. 438619 crore. The claims to the tune of about Rs.38585 crore have been paid as against the premium of Rs. 13381 crore benefiting about 665 lakh farmers.

Year-wise Plan allocation and expenditure during the XII Plan under NAIS is as under:- (Rs. in crores)

Year	BE/Allocation	R.E.	Expenditure
XII Plan tentative outlay Rs. 3400.00			
2012-13	400.00	700.00	700.00
2013-14	1200.00	1600.00	1600.00
2014-15	1520.37	1637.23	1543.56
2015-16	*	*	1604.39
Total as on 16.02.2016			**5447.95**
* *BE and RE for 2015-16 have been allocated as Rs. 2823.00 crore and Rs. 3185.09 crore respectively for all the existing Crop Insurance Schemes (viz. NAIS, MNAIS, WBCIS & CPIS).*			

Scheme is demand driven and moreover, claims are based on the occurrence of natural calamities like drought, flood etc.

4.13 Pilot Modified National Agricultural Insurance Scheme (MNAIS):

To improve further and make the scheme easier & farmer friendly, a Joint Group was constituted by the Government to study the improvements required in the existing crop insurance schemes. Based on the recommendations of the Joint Group and views/comments of various stakeholders, Modified NAIS was approved for implementation on pilot basis in 50 districts during the remaining period of 11th Plan from Rabi 2010-11. The major improvements made in MNAIS are – actuarial premium with subsidy in premium ranging upto 75% to farmers; unit area of insurance reduced to village/village panchayat level; indemnity for prevented sowing/planting risk & for post harvest losses due to cyclone in coastal areas; on account payment up to 25% of likely claims as immediate relief; more proficient basis for calculation of threshold yield; minimum indemnity level of 80% and 90% etc. From Rabi 2013-14, it was launched as a full-fledged component scheme under the aegis of NCIP. Scheme is being implemented on actuarial basis but subsidy in premium upto 75% of Sum Insured are being provided to farmers. From its inception to Kharif 2015, 239 lakh farmers have been covered over an area of 271 lakh hectares insuring a sum amounting to Rs. 49628 crore. Claims to the tune of about Rs. 3773 crore have become payable (of which majority claims have been settled) against the premium of about Rs. 4430 crore benefiting about 58 lakh farmers. Year-wise expenditure under the scheme is as under:-

(Rs. in crores)

Year	BE/Allocation	R.E.	Expenditure
XII Plan Outlay Rs. 480.00			
2012-13	80.00	195.00	194.12
2013-14	250.00	251.02	251.02
2014-15	808.02	663.98	584.79
2015-16	*	*	246.8937
Total as on 16/02/2016			***1276.8237***
* BE and RE for 2015-16 have been allocated as Rs. 2823.00 crore and Rs. 3185.09 crore respectively for all the existing Crop Insurance Schemes (viz. NAIS, MNAIS, WBCIS & CPIS).			

4.14 Pilot Weather Based Crop Insurance Scheme (WBCIS):

With the objective to bring more farmers under the fold of Crop Insurance, a Pilot Weather Based Crop Insurance Scheme (WBCIS) was launched in 20 States since Kharif/Rabi 2007. WBCIS aims to provide insurance protection to the farmers against adverse weather incidence, such as deficit and excess rainfall, high or low temperature, humidity etc. which are deemed to impact adversely the crop production. It has the advantage to settle the claims within shortest possible time. The WBCIS is based on actuarial rates of premium. During pilot period, premium actually charged from farmers was restricted to at par with NAIS. The Scheme is being implemented on full-fledged basis as component scheme of NCIP w.e.f. Rabi 2013-14 on actuarial premium however upto 50% subsidy in premium (maximum premium for the farmers is restricted to 6%) are being provided to farmers. From its inception till Kharif 2015, about 688 lakh farmers have been covered over an area of 888 lakh hectares insuring a sum amounting to Rs. 1117946 crore. Claims to the tune of about Rs. 9346 crore have become payable against the premium of about Rs. 11537 crore benefiting about 480 lakh farmers. Financial progress of the scheme is given as under :-

(Rs. in crores)

Year	BE/Allocation	R.E.	Expenditure
XII Plan Outlay 3930.00			
2012-13	655.00	655.00	655.00
2013-14	700.00	700.00	700.00
2014-15	***493.61***	***483.72***	***470.00***
2015-16	*	*	***505.1272***
Total as on 16/02/2016			***2330.1272***
* BE and RE for 2015-16 have been allocated as Rs. 2823.00 crore and Rs. 3185.09 crore respectively for all the existing Crop Insurance Schemes (viz. NAIS, MNAIS, WBCIS & CPIS).			

4.15 Pilot Coconut Palm Insurance Scheme (CPIS):

Coconut Palm Insurance Scheme (CPIS) was implemented on pilot basis from the year 2009-10 in the coconut growing areas of Andhra Pradesh, Goa, Karnataka, Kerala, Maharashtra, Orissa, Tamil Nadu and West Bengal. 50% of premium is contributed by Coconut Development Board (a Central Govt. agency); 25% by the concerned State Govt. and the remaining 25% by the farmer. The Insurance Company i.e. Agriculture Insurance Company of India (AIC) is implementing the scheme and responsible for making payment of all claims. The CPIS is administered by the Coconut Development Board (CDB). The Scheme is now being implemented as component of NCIP w.e.f. Rabi 2013-14. Financial progress is given in following table:

(Rs. in crores)

Year	BE/Allocation	R.E.	Expenditure
XII Plan Outlay Rs. 6.00			
2012-13	1.00	0.50	0.50
2013-14	1.00	0.50	0.50
2014-15	1.00	Nil	Nil
2015-16	*	*	*Nil*
Total as on 16.02.2016			***1.00***
* BE and RE for 2015-16 have been allocated as Rs. 2823.00 crore and Rs. 3185.09 crore respectively for all the existing Crop Insurance Schemes (viz. NAIS, MNAIS, WBCIS & CPIS).			

4.16 While deposing before the Committee, Member (Official), Commission for Agricultural Costs and Prices(CACP), Department of Agriculture, Cooperation and Farmers Welfare, gave an overview of the importance, mechanism and progress of crop insurance sector in India. In this regard he stated :

"Crop insurance is extremely important and there have been number of initiatives and there has been some progress. But there are problems related with the information gap. Majority of the farmers are not aware of this mechanism as to how this sum assured is calculated and how do the farmers know what they are going to get when there is some kind of crop loss. So, settlement of claim is a major problem. So, we have been focusing more the productivity and output side. But here my personal view is that farmers are vey simple people. What they would like is that in the case of crop loss, they should not lose any money. So, can we think of just ensuring the inputs which they are using? This will encourage the use of inputs, reduce the premium and thirdly it will help them understand that if there is crop failure, how much they are going to get. This has not been tried; somewhere it has been tried, but on a small scale but we can look at it. If we ensure that, naturally there will be more use of improved seeds and similarly fertilizers and other inputs which are going to be expensive. So, we need to focus on this and then start with the commodities and crop where risk is high like livestock, pulses, oilseeds and fruits, because stakes are high. So, farmers will be interested to participate in that".

(ii) Pradhan Mantri Fasal Bima Yojana (PMFBY)

4.17 The erstwhile Planning Commission while conveying its approval for continuation of on-going crop insurance schemes during the year 2012-13, advised DAC to re-structure the same based on the evaluation of erstwhile schemes. Accordingly, this Department had engaged an Independent Agency i.e. Agriculture Finance Corporation (AFC) to undertake the evaluation and impact assessment of crop insurance schemes. Based on the recommendations of evaluation study, experience of implementation and views of stakeholders, farming community, States etc., a restructured scheme in the name of "National Crop Insurance Programme (NCIP)" has been formulated by merging the erstwhile pilot MNAIS, WBCIS & CPIS with some improvements and approved for its implementation with effect from Rabi

2013-14 season. Hence, all the three schemes that were being implemented on pilot basis till then were launched as a full-fledged component under the umbrella scheme -NCIP with some improvements. NAIS was decided to be discontinued simultaneously. However, based on the representations from some States, NAIS was allowed to such States for implementation during Rabi 2013-14. Again, all State Governments/UT Administrations have been given the option to implement either NAIS or MNAIS for the year 2014-15 and 2015-16.

4.18 New Crop Insurance schemes

Keeping in view the representations from States/UTs especially on account of increase in premium rates & farmers' share in premium, capping on premium rates and reduction in sum insured etc., NCIP/NAIS has recently been reviewed, and a new scheme namely, Pradhan Mantri Fasal Bima Yojana (PMFBY) has been approved in place of MNAIS/NAIS for implementation from Kharif 2016-17 season. Premium structure under WBCIS has also been rationalized and made at par with PMFBY. CPIS component will also be continued. In addition, a Unified Package Insurance Scheme (UPIS) covering other assets & life of farmers besides crop insurance like house, tractor, pump set, student safety etc. has also been approved for implementation on pilot basis in selected 45 districts.

4.19 The Pradhan Mantri Fasal Bima Yojana (PMFBY) is a path-breaking scheme which aims to provide insurance coverage and financial support to the farmers in the event of failure of any of the notified crop as a result of natural calamities, pests and diseases. It also aims at stabilising the income of farmers to ensure their continuance in farming. Further, it encourages farmers to adopt innovative and modern agricultural practices, to ensure flow of credit to the agriculture sector. The salient features of PMFBY, WBCIS & UPIS are presented below:

- There will be a uniform premium of only 2 per cent to be paid by farmers for all Kharif crops and 1.5 per cent for all Rabi crops.
- In case of annual commercial and horticultural crops, the premium to be paid by farmers will be 5 per cent. The premium rates to be paid by farmers are very low and balance premium will be paid by the government to provide full insured amount to the farmers against crop loss on account of natural calamities.

- There is no upper limit on government subsidy. Even if balance premium is 90 per cent it will be borne by the government.
- Earlier, there was a provision of capping the premium rate which resulted in low claims being paid to farmers, to limit government outgo on the premium subsidy. This capping has now been removed and farmers will get claim against full sum insured without any reduction.
- The use of technology will be encouraged to a great extent. Smart phones will be used to capture and upload data of crop cutting to reduce the delays in claim payment to farmers. Remote sensing will be used to reduce the number of crop cutting experiments.
- PMFBY will provide a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers and encourage them for adoption of innovative practices.
- The Scheme can cover all Food & Oilseeds crops and Annual Commercial/Horticultural Crops.
- The scheme is compulsory for loanee farmer obtaining Crop Loan /KCC account for notified crops. However, voluntary for Other/non loanee farmers who have insurable interest in the insured crop(s).
- The Maximum Premium payable by the farmers will be 2% for all Kharif Food & Oilseeds crops, 1.5% for Rabi Food & Oilseeds crops and 5% for Annual Commercial/Horticultural Crops.
- The difference between premium and the rate of Insurance charges payable by farmers shall be shared equally by the Centre and State.
- The scheme will be implemented by AIC and other empanelled private general insurance companies. Selection of Implementing Agency (IA) will be done by the concerned State Government through bidding on premium rates.
- The existing State Level Co-ordination Committee on Crop Insurance (SLCCCI), Sub-Committee to SLCCCI, District Level Monitoring Committee (DLMC) shall be responsible for proper management of the Scheme.
- The Scheme shall be implemented on an **'Area Approach basis'.** The unit of insurance shall be Village/Village Panchayat level for major crops and for other crops it may be a unit of size above the level of Village/Village Panchayat.

- In case of majority of insured crops of a notified area are prevented from sowing/planting the insured crops due to adverse weather conditions then insured farmers will be eligible for indemnity claims upto maximum of 25% of the sum-insured.
- Claims for wide spread calamities are being calculated on area approach. However losses due to localised perils (Hailstorm, landslide & inundation) and Post-Harvest losses due to specified perils, (Cyclone/Cyclonic rain & Unseasonal rains) shall be assessed at the affected insured field of the individual insured farmer.
- Three levels of Indemnity, viz., 70%, 80% and 90% corresponding to crop Risk in the areas shall be available for all crops.
- The Threshold Yield (TY) shall be the benchmark yield level at which Insurance protection shall be given to all the insured farmers in an Insurance Unit. Threshold Yield of the notified crop will be moving average of yield of last seven years excluding yield upto two notified calamity years multiplied by Indemnity level.
- In case of smaller States, the whole State shall be assigned to one Implementing agency (IA) (2-3 for comparatively big States). Selection of IA may be made for 3 years.
- The designated / empanelled companies participating in bidding have to bid the premium rates for all the crops notified / to be notified by the State Govt. and non-compliance will lead to rejection of company's bid.
- Crop Cutting Experiments (CCE) shall be undertaken per unit area /per crop, on a sliding scale, as prescribed under the scheme outline and operational guidelines. Improved Technology like Remote sensing. Drone etc will be utilised for estimation of yield losses.
- State governments should use Smart phone apps for video/image capturing CCEs process and transmission thereof with CCE data on a real time basis for timely, reliable and transparent estimation of yield data.
- There will be a provision of on account claims in case of adverse seasonal conditions during crop season viz. floods, prolonged dry spells, severe drought, and unseasonal rains.

- On account payment upto 25% of likely claims will be provided, if the expected yield during the season is likely to be less than 50% of normal yield.
- The claim amount will be credited electronically to the Bank Account of individual Insured farmers.
- Adequate publicity needs to be given in all the villages of the notified districts/ areas.
- The cost of using technology etc. for conduct of CCEs etc will be shared between Central Government and State/U.T. Governments on 50:50 basis.

Weather Based Crop Insurance Scheme (WBCIS)

- The structure of farmer's premium under WBCIS will be at par with the proposed PMFBY.
- The Criteria of selection of Implementing Agency and area allocation will be same as PMFBY.
- The other broad features will remain same.

Unified Package Insurance Scheme (UPIS)

- Unified Package Insurance Scheme will be implemented in selected 45 districts on pilot basis to provide financial protection & comprehensive risk coverage of crops, assets, life, and student safety to farmers.
- Pilot will include seven section Viz., crop Insurance (PMFBY/WBCIS) , Loss of Life (PMJJBY), Accidental Death & Disability (PMSBY), Student Safety, Household, Agriculture implements & Tractor.
- Crop Insurance will be compulsory. However, farmers can choose atleast two section from remaining.
- Farmers may be able to get all requisite insurance products for farmers through one simple proposal/ application Form.
- Two flagship schemes of the Government viz PMSBY & PMJJBY have been included apart from insurance of assets.
- Pilot scheme will be implemented through single window.
- Premium of PMSBY & PMJJBY is to be transferred to insurance companies which have tie up with the concerned banks.
- Processing of claims (other than Crop Insurance) on the basis of individual claim report.

OBSERVATIONS/RECOMMENDATIONS

1. The Committee note with concern that the extent of financial exclusion is very high among rural households in the country which is still heavily dependent upon agriculture for their livelihood. As per the latest survey of NSSO, about 31% of the rural households are indebted in India and only about 17% of the rural households availed credit from financial institutions i.e. formal sector while a very large percentage depended upon money lenders and other non-institutional sources, which made the credit inaccessible, very costly and onerous for them. Although there has been an increase in institutional credit, particularly lending by commercial banks in recent years, it still remains short of even the not-so-ambitious target set for agriculture (18%) under priority sector credit scheme. The Kisan Credit Cards (KCC) have been developed as a flexible credit product for farmers and provides freedom to the borrower to withdraw loan amount as per requirement and repay as per surplus available. Although, the delivery of credit through Kisan Credit Cards is no doubt rising (cumulative 7.15 crore operative KCC's as on 30 June 2015,), it is not able to meet the needs of term loan for farmers, which as a percentage of total institutional finance to the farm sector has been decreasing. The KCC is unable to meet these requirements, in its present form. Similarly, the recent developments in micro-finance involving particularly the Self Help Groups (SHGs) and schemes for financial inclusion are significant, but this mechanism can hardly meet the long-term investment needs of Indian agriculture. It is, therefore, imperative that needs of agriculture infrastructure development is urgently addressed and massive public investment made in this direction as an utmost social and economic priority. Therefore, the need

of the hour is augmenting institutional credit to agriculture and allied activities and reach the same to the poor and needy farmers/cultivators. This will go a long way in alleviating rural poverty and agrarian distress.

2. As regards term loans for farmers, the Committee are of the view that the instrument of KCCs can be modified and used for this purpose by providing enhanced credit, say five or six times the crop loan, after every five years or so. Farmers can then be permitted under the KCC scheme to inform the bank in advance, in case he is willing to avail enhanced credit. The coverage of KCC can thus be expanded and it can also be conveniently linked to land records, Jandhan Yojana bank account, Aadhaar etc. Such a widening of KCC ambit will not only enhance access of farmers to institutional credit but also boost the confidence of financial institutions with regard to the borrowers.

3. The Committee also find that the present structure of Regional Rural Banks(RRBs), with commercial banks as the sponsor banks, does not seem to be working well, as RRBs have become dispersed units without the requisite resources and focus. They, therefore, are of the view that a national-level apex body should be created for RRBs in association with NABARD. Such a body should structure itself and focus on expansion of credit facilities to the remotest corners of the country's rural economy including inaccessible areas, hilly regions, tribal hamlets etc. so that the regional imbalance and deficit in the network of PSBs can be bridged.

4. In this context, the Committee would also suggest that the existing Primary Agriculture Credit Co-operative Societies (PACCS) operating at the state level should also be strengthened as an effective tool at the grassroots

level for financial inclusion of all farmers. Strengthening of cooperatives should be carried out not only from the credit delivery side but also from skill enhancement and technology angle. To further this objective, Self Help Groups (SHGs) of farmers have to be established and strengthened with adequate revolving fund for immediate credit needs including consumption needs of farmers. There should also be a cap on interest rate for the SHGs so that they can sustain themselves.

5. The Committee desire that synergy and complementarities among the different agencies of institutional finance available for agriculture and the rural sector in general should be developed and sustained. For this purpose, the Committee would recommend that a thorough survey on credit needs of farmers for production/cultivation, investment and consumption purposes should be conducted under the auspices of NABARD. An authentic data-bank in this regard should be prepared. This should be followed-up by way of comprehensive Agriculture/Rural Credit Plan backed by corresponding institutional finance. The existing mechanism of DLCs with active participation of people's representatives should be galvanised for this purpose.

6. NABARD, as the apex body for agricultural/rural credit, also needs to be beefed up by sufficient long-term capital to ensure flow of adequate funds to cooperatives and boost capital formation in agriculture. The Committee desire that the existing dispensation in the form of NABARD which has served the country reasonably well over the years, and is best placed for synergising credit operations at ground level, should be further strengthened and utilised more extensively and effectively for a much wider reach and coverage. The Committee would expect NABARD to play a more pro-active role in this

direction in a more systematic and planned manner. The Committee also desire that NABARD should operate / lend more directly, eliminating intermediaries as far as possible, so that the beneficiary farmers can avail of the credit in time and adequate measure.

7. The Committee note that as per RBI priority sector guidelines, till 2015, agriculture credit was bifurcated into two categories, i.e. direct and indirect credit. The indirect component was restricted to 4.5% and banks were required to lend the remaining part of the stipulated quota, that is, 13.5% of their Adjusted Net Bank Credit (ANBC) to direct agriculture loans, failing which they had to contribute the amount of shortfall to primarily the Rural Infrastructure Development Fund (RIDF). However, the Committee find that under the Revised Priority Sector Guidelines issued by RBI, "all domestic scheduled commercial banks and foreign banks with 20 and above branches have been mandated to earmark 18% of their ANBC or credit equivalent amount of their off-balance sheet exposure, whichever is higher, for lending to agriculture". Under these guidelines, lending to agriculture has been redefined to include (i) farm credit (which will include short term crop loans and medium/long-term credit to farmers) (ii) agriculture infrastructure and, (iii) ancillary activities. Within the 18% target for agriculture, a target of 8% in prescribed for small and marginal farmers, to be achieved in a phased manner, that is, 7% by March 2016 and 8% by March 2017. Foreign banks with 20 branches and above have been stipulated a longer period of the maximum five years (April 1, 2013 to March 31, 2018) to achieve this target. The Committee thus note that under the revised priority sector guidelines issued by RBI, no distinction has been made between direct and indirect agriculture loan. Although, in terms of these

revised guidelines, banks have been advised to ensure that overall direct lending to non-corporate farmers does not fall below the system-wise average of last three years' achievement, the Committee have gathered during the course of their wide-ranging discussions held with bankers during the study visits that a significant portion of the credit under 'agriculture' relate to various non-agricultural activities like logistics, warehousing, cold storages etc. Priority Sector Loans advanced in urban areas have also been camouflaged as agri-credit. This, therefore, raises a well-founded apprehension that the actual credit needs of farmers for cultivation including pre and post-harvest operations, contingencies and other activities more directly and closely related to farming are not being adequately met. The supply of credit thus falls way below the cultivator's requirement. The obliteration of the distinction between direct and indirect lending to agriculture also runs the risk of marginalising the small and marginal peasants from the credit scenario, even though they constitute the bulk of the farming community in the country. Their genuine needs have thus not been adequately factored in and sustained. Further, it is the Public Sector Banks (PSBs) who have been shouldering much of the allocated responsibility under 'priority sector credit' to agriculture. The Committee would expect all the banks mandated by RBI in this regard to gear up their efforts to achieve the stipulated targets for agriculture credit, including the Private Sector Banks and other Financial Institutions. The Committee would also recommend that the RBI should re-visit the priority sector norms with enhanced targets for agriculture, while restoring the distinction between direct and indirect credit to agriculture. The credit sub-component for the small and marginal peasants should also be substantially

enhanced and made mandatory. The Committee desire that even as non-agricultural activities are encouraged and institutionally supported, direct credit needs of actual cultivators including term loans for purchase of livestock, implements, seeds etc., should not be lost sight of, as this is the crux of rural banking. When their credit needs are ignored, rural distress becomes an inevitable corollary.

8. In this context, the Committee would also like the RBI to review their lending guidelines so as to widen credit access to hitherto neglected groups such as the rural artisans, fishing folk and other traditional occupational groups for their livelihood sustenance and growth. The MUDRA scheme (small-ticket unsecured loans below Rs 10 lakh) can be more extensively and systematically deployed for this purpose in rural / semi-urban areas.

9. The Committee would like to point out in this regard that the lending norms of RBI should also scrupulously take into account the regional disparities, peculiarities and social inequities prevailing across the country. 'One-size fits all approach' may not yield the desired results in a geographically and socially diverse county like ours. The uneven spread of rural credit is also amply reflected by varying CD ratios of banks across regions, particularly the Eastern and North-Eastern regions. The Committee would therefore expect the 'priority sector lending' guidelines and norms to be more flexible and attuned to ground realities as also our social priorities. It is necessary that the special development needs of under - developed regions like the North-East are also duly factored in. It should also be ensured that representatives / experts from the agriculture sector are appointed on the Boards of PSBs as per guidelines of RBI.

10. The Committee are constrained to observe that even as agricultural and rural credit needs remain unfulfilled, the available credit also does not reach the borrowers in timely and hassle-free manner. The insistence on collateral security remains a major impediment in widening and deepening the credit access. This coupled with cumbersome processes and paperwork, entailing needless delay in actual disbursal, act as a dampener. Lack of financial literacy on the part of borrowers only compounds matters for them. The Committee would therefore recommend that RBI and NABARD should take the necessary initiative to ease the processes for quick and smooth disbursal of institutional credit to farmers and rural households. Once the access becomes simple and easy, the reliance on non-formal channels of credit can be expected to diminish. Interest subsidy for farm loans alone will not lessen the influence of informal lender, if the disbursal mechanism is not made accessible, simple and beneficiary friendly. Besides, the awareness campaign should be proactively taken up so as to make the farmers / beneficiaries know about the credit / subsidised credit facilities available to them.

11. While welcoming the recent initiatives of the Government with regard to crop insurance, including the Pradhan Mantri Fasal Bima Yojana (PMFBY), the Committee note that problems of information gap, assessment of indemnity in case of crop loss and timely settlement of claims of farmers still remain to be addressed. Farmers also require to be educated about the nature of crop insurance available to them, while linking their crop loss with parameters easily understood by them like incidence of rainfall. The Committee also urge the Government to create awareness about the type of cultivation / crops that should be taken up, keeping in view the soil quality / soil fertility, incidence of

rainfall and frequency of drought. Adequate knowledge in this regard should be imparted to the farmers / cultivators so as to reduce the need and tendency for seeking unproductive credit. Further, the per reference unit area for assessment of losses should be small and it should cater even to eventualities, where only a small area of the village is affected, for example, hail storm affecting only certain fields. In this connection, the Committee recommend that Crop Insurance cover should be expanded to cover all the crops and the entire country instead of restricting the coverage to selective crops and specific seasons like kharif and rabi etc. The present initiative by the Government to use information technology will no doubt help bring transparency in the process. However, the Committee are concerned about the fact that despite crop insurance being mandatory for loanee farmers, coverage is still very low due to lack of enforcement of the compulsory provision. The Committee would therefore expect the Governments, insurers, RBI and NABARD to make concerted efforts to enforce the compulsory provision of the scheme. In this regard, suitable mechanism should also be put in place to link the crop loan with the crops sown in Kharif and Rabi seasons, so that insurance protection is automatically available for the actual crop sown. The Committee desire that crop damage assessment should be done quickly within a specified time frame, say within two weeks or so of the calamity / event and, compensation to farmers be deposited directly to their accounts possibly within a week of such an assessment. The Committee would expect the Government to leverage the ongoing mobile/aadhar-based digitilisation and financial inclusion programme to achieve the desired results.

12. The Committee would also emphasise on the urgent need to make Crop Insurance Scheme popular among the farming commmunity, while instilling confidence among them about the efficacy of the scheme. For this purpose, wide publicity needs to be provided about the schemes through electronic media, mobile phones, Krishi Vikas Kendras (KVKs) etc. so that even those farmers who have not availed of institutional credit including tenant farmers and share croppers are brought under the ambit of crop insurance. Massive awareness camps should be conducted among farmers, especially in States / districts which are highly vulnerable.

13. There is also a need to increase the risk-bearing capacity of farmers by promoting integrated farming (comprising livestock, animal husbandry, fish-breeding in land-locked areas, pisciculture etc.) and associated crop insurance so that servicing debt becomes self- sustaining. The Committee would thus recommend an integrated and comprehensive credit-crop-livestock health insurance package for all farmers. Crop insurance coverage may also be enlarged and made universal by including all the crops in the entire country, insuring all major risks that may lead to crop failure.

14. In sum, the Committee desire that the agricultural / rural credit dispensation including crop insurance policies of the Government should be tailored in a manner that will lower the costs of farming, raise farm revenue and thereby increase farmers' income. The Committee would like to be apprised of the concrete steps taken / being taken towards this goal.

NEW DELHI	**DR. M. VEERAPPA MOILY,**
04 August, 2016	**Chairperson,**
13 Shravana, 1938 (Saka)	**Standing Committee on Finance**

Minutes of the Second sitting of the Committee on Finance

The Committee sat on Tuesday, the 22nd September, 2015 from 1500 hrs. to 1715 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

<u>LOK SABHA</u>

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Shyama Charan Gupta
7. Shri Chandrakant B. Khaire
8. Shri Rattan Lal Kataria
9 Shri Bhartruhari Mahtab
10. Prof. Saugata Roy
11. Shri Gajendra Singh Sekhawat
12. Shri Gopal Shetty
13. Shri Anil Shirole
14. Dr. Kiritbhai Solanki
15. Dr. Kirit Somaiya
16. Shri Shivkumar Udasi

<u>RAJYA SABHA</u>

17. Shri Naresh Agrawal
18. Shri Naresh Gujral
19. Shri Satish Chandra Misra
20. Dr. Manmohan Singh

<u>SECRETARIAT</u>

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Smt. Anjuly Chib Duggal, Secretary, DFS
2. Smt. Snehlata Shrivastava, Additional Secretary, DFS
3. Shri Alok Tandon, Joint Secretary, DFS

Ministry of Agriculture & Farmers Welfare

1. Dr. Ashish Bhutani, Joint Secretary, DACFW

Ministry of Rural Development

1. Shri Atal Dulloo, Joint Secretary

Reserve Bank of India (RBI)

1. Smt. Madhavi Sharma, Chief General Manager, FIDD

National Bank for Agriculture & Rural Development (NABARD)

1. Shri K H Bhanwala, Chairman

Agriculture Insurance Company Limited (AICL)

1. Shri P.J. Joseph, Chief Managing Director

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. After the customary welcome of the representatives, the Secretary, Department of Financial Services, briefed the Committee on the subject, "State of Rural / Agricultural Banking including Crop Insurance". Thereafter, two PowerPoint presentations were made on the topics *viz.* Rural and Agricultural Banking and Crop Insurance Schemes, respectively. The major issues discussed were Crop insurance as a risk mitigation tool in agriculture, considerable gap between loans disbursed and their respective insurance, flow of credit to agriculture sector, benefit of interest subvention scheme to farmers, actual component of credit towards core agricultural operations, distinction between direct and indirect agriculture credit, difference

between small and marginal farmers and landless labours with regard to credit requirements. The Committee also deliberated upon the steps initiated to strengthen Regional Rural Banks (RRB), percentage wise coverage of Kisan Credit Card (KCC) Scheme, issues related to appointment of Agricultural Extension officers, financial viability of 100% of the farmers being insured, frequency of meetings at the District Level Consultative Committee and State Level Bankers Committee and universalisation of Crop Insurance Scheme in the Country.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

Minutes of the Third sitting of the Committee on Finance

The Committee sat on Thursday, the 01 October, 2015 from 1100 hrs. to 1330 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
7. Shri Chandrakant B. Khaire
8. Shri Rattan Lal Kataria
9. Shri Prem Das Rai
10. Prof. Saugata Roy
11. Shri Jyotiraditya M. Scindia
12. Shri Gajendra Singh Sekhawat
13. Shri Gopal Shetty
14. Shri Anil Shirole
15. Dr. Kiritbhai Solanki
16. Dr. Kirit Somaiya
17. Shri Shivkumar Udasi

RAJYA SABHA

18. Shri K.N. Balagopal
19. Shri Naresh Gujral
20. Shri Ajay Sancheti
21. Shri Digvijay Singh

SECRETARIAT

1.	Shri P.C. Tripathy	-	Director
2.	Shri Ramkumar Suryanarayanan	-	Additional Director
3.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Ministry of Agriculture & Farmers Welfare (Department of Agriculture, Cooperation & Farmers Welfare)

1. Shri Siraj Hussain, Secretary, [Department of Agriculture, Cooperation & Farmers Welfare (DAC&FW)]

2. Shri Avinash Kumar Srivastava, Special Secretary, (DAC&FW)

3. Dr. Ashish Kumar Bhutani, Joint Secretary, (DAC&FW)

Ministry of Rural Development

1. Shri J.K. Mohapatra, Secretary, Deptt. of Rural Development

2. Shri Amarjeet Sinha, Additional Secretary, Deptt. of Rural Development

3 Shri Atal Dulloo, Joint Secretary (RL), Deptt. of Rural Development

Ministry of Finance (Department of Financial Services)

Shri Alok Tandon, Joint Secretary, DFS

National Bank for Agriculture & Rural Development (NABARD)

1. Shri Naresh Gupta, CGM, NABARD

Agriculture Insurance Company of India Limited (AICL)

1. Shri P.J. Joseph, CMD, Agriculture Insurance Company of India Ltd. (AIC)
2. Shri Rajeev Chaudhary, GM, AIC

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. After the customary welcome, the representatives made PowerPoint presentations of their respective Ministries. The major issues discussed were Low credit flow to agricultural sector to meet the emerging needs of farmers, need for a qualitative and quantitative jump in credit delivery, shifting of agricultural credit from Finance Ministry to Agricultural Ministry, micro analysis of farm indebtness and farmers suicide, various issues raised in the Swaminathan Committee Report, role of Rural Cooperative Banks in extending credit, measures needed to make rural credit structure coherent and purposeful, reasons for gap in conversion of Kisan Credit

Cards (KCC) into smart debit cards and quantum of fresh credit provided each year. The Committee also deliberated upon the need for a customized crop insurance scheme for multiple needs of farmers, feasibility of an automatic insurance facility to the drought prone crops, reduction of budget provided to the National Rural Livelihood Mission (NRLM) and total quantum of funds required for universal insurance.

3. The Committee also decided to undertake study visit in two parts; the first to Nagpur, Aurangabad and Mumbai in the first week of November to discuss subjects under their examination, in particular, "State of Rural / Agricultural Banking including Crop Insurance" and Benami Transactions (Prohibition) Amendment Bill, 2015 and; second part to southern parts of the country after the conclusion of Winter Session of Parliament.

A verbatim record of the proceedings has been kept.

The Committee then adjourned.

Minutes of the Eighth sitting of the Committee on Finance

The Committee sat on Thursday, the 07 January, 2016 from 1130 hrs. to 1400 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri P.C. Gaddigoudar
5. Shri Chandrakant B. Khaire
6. Shri Bhartruhari Mahtab
7. Shri Prem Das Rai
8. Prof. Saugata Roy
9. Shri Gajendra Singh Sekhawat
10. Shri Gopal Shetty
11. Shri Anil Shirole
12. Dr. Kirit Somaiya

RAJYA SABHA

13. Shri Naresh Gujral
14. Dr. Mahendra Prasad
15. Shri Ajay Sancheti
16. Shri Digvijay Singh
17. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Karnataka Agriculture Prices Commission (KAPC)

Dr. T.N Prakash Kammaradi, Chairman

International Food Policy Research Institute (IFPRI)

Dr. Anjani Kumar

Commission for Agricultural Cost & Prices (CACP)

Dr. Suresh Pal, Member (Official)

Xavier Institute of Management, Bhubaneshwar (XIM, B)

Dr. Amar KJR Nayak, NABARD Chair Professor

Agriculture Insurance Company Ltd. (AICL)

1. Shri P.J. Joseph, Chairman & Managing Director
2. Shri Rajeev Chaudhary, General Manager

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. After the customary welcome, the Committee expressed their condolences at the demise of Mufti Mohammad Sayeed, Chief Minister of Jammu & Kashmir and observed silence for a while as a mark of respect to the departed soul.

3. The major issues discussed with the experts who appeared as witnesses were dependency of farmers on credit, lack of diversity in agricultural sector, shortfall of agricultural targets under priority sector lending(PSL), coverage issues relating to crop loan and rural credit, a coherent mechanism to ensure proper coordination and cooperation among various stake holders, progress regarding digitisation of land records, glaring disparities between rising Kisan Credit Card (KCC) enrolments and decreasing institutional finance to agricultural sector. The Committee also deliberated upon an alternate institutional arrangement to widen and deepen credit access to agriculture, incorporation of natural disaster related aspects into crop insurance mechanism, reasons for farmer suicides, ways to aggregate small farm holdings, correlation between climate change and agriculture and decreasing per capita land holding etc. The Witnesses responded to some of the queries of the members. The Chairperson directed the representatives to furnish detailed written replies on the remaining points within 15 days.

A verbatim record of the proceedings has been kept

(The witnesses then withdrew)

3. The Committee then took up for consideration the draft Report on "Non-Performing Assets (NPAs) of Financial Institutions". After some deliberations the Committee decided to also hear the views of representatives of 'Investment Information and Credit Rating Agency of India Limited' (ICRA), 'Indian Banks Association' (IBA) and 'Credit Information Bureau (India) Limited (CIBIL)' and thereafter consider the draft Report for adoption on 28 January, 2016.

The Committee then adjourned.

Minutes of the Eleventh sitting of the Committee on Finance

The Committee sat on Friday, the 23 February, 2016 from 1500 hrs. to 1645 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Dr. Gopalakrishnan C.
4. Shri Nishikant Dubey
5. Shri Shyama Charan Gupta
6. Shri Chandrakant B. Khaire
7. Shri Rattan Lal Kataria
8. Shri Bhartruhari Mahtab
9. Prof. Saugata Roy
10. Shri Gopal Shetty
11. Dr. Kiritbhai Solanki
12. Dr. Kirit Somaiya
13. Shri Shivkumar Udasi

RAJYA SABHA

14. Dr. Mahendra Prasad
15. Shri Ajay Sancheti
16. Shri Digvijay Singh
17. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Smt. Anjuly Chib Duggal, Secretary
2. Smt. Snehlata Shrivastava, Special Secretary
3. Shri Alok Tandon, Joint Secretary

Ministry of Finance (Department of Economic Affairs)

1. Shri Rohit Kumar Parmar, Advisor

Ministry of Agriculture and Farmers Welfare (Department of Agriculture, Cooperation & Farmers Welfare)

1. Dr. Ashish Bhutani, Joint Secretary

Reserve Bank of India (RBI)

1. Shri R.K. Moolchandani, General Manager

National Bank for Agriculture and Rural Development

1. Dr. Harsh Kumar Bhanwala, Chairman

Agriculture Insurance Company of India Ltd. (AICL)

1. Shri P.J. Joseph, CMD

2. At the outset, the Chairperson welcomed the Members to the Sitting of the Committee. After the customary welcome, the Committee expressed their condolences at the demise of Shri Balram Jakhar (Former Speaker, Lok Sabha) and observed silence for a while as a mark of respect to the departed soul. The Chairperson also conveyed the Committee's displeasure over the absence of Secretary, Ministry of Agriculture & Farmers Welfare from the sitting, as the reasons cited for the same were not found convincing.

3. The major issues discussed with the witnesses were increase in farmer's suicide despite various measures, renewable energy and its evolving relationship

with priority sector lending (PSL), overall situation with respect to priority sector lending and change in its definition, collection of Fund under Rural Infrastructure Development Fund (RIDF) and its respective distribution to various State Governments, commitment to boost crop insurance under Pradhan Mantri Fasal Bima Yojana (PMFBY) and need for merging various crop insurance schemes under one head to avoid multiplicity and overlapping.

The Committee also deliberated upon various points related to interest subvention scheme, fragmentation of land holdings and its effect on the various schemes including crop insurance schemes, share of both institutional and non institutional sources with respect to financial inclusion, mechanism towards allocating insurance companies to different States, need for a dedicated policy on ease of doing agriculture on lines of ease of doing business by the Government, current limit of Kisan Credit Card Scheme (KCC) and Government's take on enhancing its limit and need for a comprehensive investment focused policy on insurance for the farmers in particular and agriculture sector in general . The Chairperson then directed the representatives to furnish written replies to the points raised by the Members during the discussion and insisted upon the representative of Ministry of Agriculture and Farmers Welfare to ensure the presence of Secretary during the next sitting of the Committee.

A verbatim record of the proceedings has been kept

The Committee then adjourned.

Minutes of the Twentieth sitting of the Standing Committee on Finance
The Committee sat on Thursday, the 04 August, 2016 from 1500 hrs. to 1700 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.
PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Dr. Gopalakrishnan C.
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Shyama Charan Gupta
7. Shri Rattan Lal Kataria
8. Shri Prem Das Rai
9. Shri Rayapati Sambasiva Rao
10. Prof. Saugata Roy
11. Shri Gajendra Singh Sekhawat
12. Shri Gopal Shetty
13. Shri Anil Shirole
14. Dr. Kiritbhai Solanki
15. Dr. Kirit Somaiya
16. Shri Shivkumar Udasi

RAJYA SABHA

17. Shri Naresh Gujral
18. Dr. Mahendra Prasad
19. Shri C.M. Ramesh
20. Shri Ajay Sancheti
21. Shri Digvijaya Singh
22. Dr. Manmohan Singh

SECRETARIAT

1.	Smt. Abha Singh Yaduvanshi	-	Joint Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director

WITNESSES

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(The witnesses then withdrew)

A verbatim record of the proceedings has been kept

3. Thereafter, the Committee took up the following draft reports for consideration and adoption:

(i) Draft Report on the subject "State of Rural / Agricultural Banking and Crop Insurance".

(ii) Draft Report on Action Taken by the Government on the Recommendations contained in the Twenty First Report (16th Lok Sabha) on "Efficacy of Regulation of Collective Investment Schemes (CIS), Chit Funds, etc."

(iii) Draft Report on Action Taken by Government on the Recommendations contained in the Thirty-Second Report on Demands For Grants (2016-17) of the Ministry of Corporate Affairs.

After some deliberations, the Committee adopted the above draft Reports with modification and authorised the Chairperson to finalise them and present these Reports to Parliament.

The Committee then adjourned.