# सीएबी कॉलिंग
# CAB Calling

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# सीएबी कॉलिंग
# CAB Calling

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# Contents

# मुख्य संपादक की कलम से

# From the Desk of Editor-in-Chief

प्रिय पाठकगण ,

फरवरी 2021 में मैंने कृषि बैंकिंग महाविद्यालय के प्रधानाचार्य का पदभार संभाला। लगभग एक दशक के उपरांत कृषि बैंकिंग महाविद्यालय, पुणे में लौटने के बाद मुझे घर वापसी जैसी अनुभूति हो रही है। इसके साथ ही मैं "सीएबी कालिंग" के प्रधान संपादक की भूमिका भी निभा रहा हूँ। कोविड महामारी ने हम सभी को जीवन के हर क्षेत्र में प्रभावित किया है और कार्य करने के सामान्य तरीके को बाधित किया है। इस महामारी ने "सीएबी कालिंग" के प्रकाशन की आवृत्ति को भी प्रभावित किया है, जिससे हमें दो अर्ध-वार्षिक अंकों को मिलाकर एक अंक प्रकाशित के लिए मजबूर होना पड़ा है। फिर भी, हमारे संकाय सदस्यों ने इस चुनौतीपूर्ण समय के दौरान अकादमिक उत्कृष्टता की खोज जारी रखी और विविध क्षेत्रों में कुछ रोचक तथा विचारोत्तेजक अध्ययन किए हैं | इस अंक में अन्य विशेषताओं को समाहित करने के साथ ही कुछ रोचक तथा विचारोत्तेजक अध्ययनों का सारांश आलेख के रूप में प्रस्तुत किया गया हैं।

इस अंक के प्रथम लेख में जर्मन सहकारी संस्थागत संरक्षण योजना से प्रेरणा लेकर भारत में प्राथमिक (शहरी) सहकारी बैंकों के लचीलेपन को मजबूत करने पर जानकारी दी गई है। इस आलेख में एक अम्ब्रेला संगठन के माध्यम से अपनी अनूठी और सफल संस्थागत सुरक्षा योजना के साथ जर्मनी में

Dear Readers,

It is homecoming for me as I return to the College of Agricultural Banking, Pune almost after a decade, to assume the charge of the Principal and also taking over the role of Editor-in-Chief of "CAB Calling" in February 2021. The Covid pandemic has impacted all of us in every walk of life and disrupted the normal way of working. This has also affected the frequency of the CAB publication, compelling us to club two half-yearly issues into one. Nevertheless, our members of the faculty continued their pursuit of academic excellence during these challenging times and came up with some interesting and thought-provoking studies in diverse areas. This Issue comes up with articles which present a summary of some such studies, besides covering other features.

The first article of this Issue provides a discussion on strengthening the resilience of primary (urban) cooperative banks in India by taking a cue from the German co-operative institutional protection scheme. It offers key learning

सहकारी बैंकिंग से सीखने योग्य महत्वपूर्ण जानकारी दी गई है ।

इस अंक का दूसरा लेख भारत में प्राथमिकता-प्राप्त क्षेत्र को ऋण प्रमाणपत्र (पीएसएलसी) बाजार के अध्ययन पर आधारित है। इसमें पीएसएलसी की कार्यप्रणाली का अन्वेषण किया गया है तथा इसे और अधिक प्रभावी बनाने के लिए कुछ सिफारिशों के अलावा पीएसएलसी लिखतों के रुझानों और उसके उपयोग का विश्लेषण प्रस्तुत किया गया है।

तीसरा लेख कृषि में विस्तार सेवाओं को पूरक और मजबूत करने के लिए कृषि-क्लीनिकों तथा कृषि-व्यवसाय केंद्रों का विश्लेषण प्रस्तुत किया गया है और इसी के साथ, बेरोजगार कृषि-स्नातकों की क्षमता के समुचित उपयोग के महत्व को रेखांकित किया गया है।

चौथे लेख में शिक्षा, हेल्थकेयर और स्वच्छता जैसे सामाजिक क्षेत्रों में सुधार के लिए सरकारी उपायों को चिह्नांकित किया गया है जो लोगों के जीवन की गुणवत्ता पर गहरा प्रभाव डालते हैं। इस आलेख में प्रत्यक्ष लाभ हस्तांतरण (डीबीटी) तथा अन्य सुधारों ने रिसाव बंद करने और वास्तविक लाभार्थियों तक लाभ पहुंचने की सक्षमता को रेखांकित किया गया है।

अंतिम लेख में भारत में किसान-उत्पादक संगठनों (एफपीओ) की मुख्य विशेषताओं और भारत में छोटे जोत वाली कृषि की सफलता सुनिश्चित करने में उनके महत्व पर चर्चा की गई है। इसमें एफपीओ के विकास और बैंकों द्वारा उनके वित्तपोषण में चुनौतियों और संभावनाओं का भी अन्वेषण किया गया है।

इसी के साथ, इस अंक में जनवरी-दिसंबर 2020 के दौरान आरबीआई द्वारा जारी किए गए महत्वपूर्ण विनियामक परिपत्रों और उक्त अवधि के दौरान महाविद्यालय द्वारा आयोजित किए गए

points from co-operative banking in Germany with its unique and successful institutional protection scheme through an Umbrella Organization.

The second article of this Issue is based on a study of the Priority Sector Lending Certificate (PSLC) market in India. It examines the functioning of PSLCs and presents an analysis of the trends and usage of PSLC instruments, besides certain recommendations to make it more effective.

The third article offers an analysis of agri-clinics and agri-business centres to supplement and strengthen the extension services in agriculture and at the same time, tap the potential of the unemployed agri-graduates.

The fourth article highlights the government measures intended for improvements in the social sectors like education, health care, and sanitation that leave a profound impact on the quality of life of the people. It underlines that the direct benefit transfers (DBT) and other reforms have been able to plug the slippages and reach out to the real beneficiaries.

The final article discusses the salient features of farmer-producer organizations (FPOs) in India and their importance in ensuring the success of small-holder agriculture in India. It also examines the challenges and prospects in the growth of FPOs and their financing by banks.

In addition, the Issue presents regular features such as the gist of important campus capsule related to training programmes conducted by the College

प्रशिक्षण कार्यक्रमों से संबंधित कैंपस कैप्सूल जैसी नियमित विशेषताओं को भी समाहित किया गया है। इसमें भारत के बाह्य वाणिज्यिक उधार पर पुस्तक की समीक्षा भी शामिल की गई है।

मुझे उम्मीद है कि इस पत्रिका का यह अंक आपको चिन्तन-मनन करने के लिए प्रेरित करेगा।

हमेशा की तरह आपकी समालोचना और प्रतिक्रियाओं का स्वागत है।

\- **वी जी सेकर**

regulatory circulars issued by the RBI during January-December 2020 and the during this period. A review of a book on India’s External Commercial Borrowings is also included.

I hope this Issue of the journal would offer you enough food for thought.

Your comments and feedback are welcome, as always.

\- **V G Sekar**

# Strengthening Resilience of Urban Co-operative Banks in India: Lessons from German Co-operative Institutional Protection Scheme

- ***Dr Ashish Srivastava*** [1]

Given the in-built risks relating to leverage, liquidity, and fiduciary liability in banking, apart from tightly regulating the banks, many the jurisdictions have also put in place deposit guarantee schemes for bank customers. However, a deposit guarantee scheme provides a restricted coverage, and does little to protect a bank from delinquency and bankruptcy. This is far more critical for urban co-operative banks in India which face greater challenges due to their comparatively smaller size, governance issues, regional functioning, and limited access to the funding market. Though deposit insurance coverage for deposits up to ₹ 5 lakh is applicable for banks in India, there is neither any central organization nor any defined institutional scheme for resolution, restoration, or protection for the co-operative banks, especially the Urban Co-operative Banks (UCBs). This paper provides an overview of Co-operative Banking in Germany with its unique and successful institutional protection scheme through an umbrella organization.

## I. INTRODUCTION

The banking sector plays a crucial role in the process of economic development. Relative to other business entities, the failure of a bank can have a severe impact on the welfare of people who could lose their life's savings and end up facing difficulties to meet their daily requirements. Besides, the interconnectedness of the financial system has the potential for systemic and cascading impacts on markets and other business entities in case of failures of banks. Further, several factors such as high leverage, and fiduciary nature, in addition to credit, market, operational, and liquidity risks set banks apart from other business firms and subject to tighter regulations as also higher expectations in terms of corporate governance, and risk management practices. This necessitates a system of protection to the depositors and accordingly, most of the jurisdictions have deposit guarantee schemes in place for bank customers. However, a deposit guarantee scheme does not ameliorate risks at an institutional level, provides a restricted

[1] Author is DGM & Member of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune. The views expressed in this article are personal and do not necessarily represent the official views of Reserve Bank of India. The usual disclaimers apply.

coverage, and does little to protect a bank from delinquency and bankruptcy. Notwithstanding the quality and effectiveness of a deposit guarantee scheme, bank customers do face inconvenience, difficulty, and losses in case a bank's financial position deteriorates. This is far more important for cooperative banks which face greater challenges due to their comparatively smaller size, governance issues, regional functioning, and limited access to the funding market. Despite their comparatively small size in proportion to commercial banks, the cooperative banks in India play an important role in providing banking services and meeting the credit needs of the retail, small and medium scale borrowers through their local reach and community-centric approach.

## II. STRUCTURE OF CO-OPERATIVE BANKING IN INDIA AND FAILURE OF URBAN CO-OPERATIVE BANKS

The primary co-operative banks, popularly known as Urban Co-operative Banks (UCBs) in India are registered as co-operative societies under the provisions of, either the respective State Co-operative Societies Act(s) of the state concerned or the Multi-State Co-operative Societies Act (2002) of the union of India. These are essentially cooperative societies, licensed by the Reserve Bank of India, for conducting banking business. UCBs have a heterogeneous geographic and size-wise distribution in India. As on March 31, 2020, out of the total number of UCBs in India, three states had the most number of UCBs, namely, Maharashtra (32%), Karnataka (17%), and Gujarat (14%). In terms of business, as on March 31, 2020, there were 1539 UCBs (Figure 1) with an aggregate deposit and advances of ₹ 501178 crore, and ₹ 305368 crore, which were about 3.59%, and 2.96% of the aggregate deposits and advances of the scheduled commercial banks respectively, as per the report on Trend and Progress of Banking in India (2020). Despite not boasting of very significant size, the UCBs have a reasonable socio-economic significance due to their interface with a good number of clients coming from lower-medium socio-economic strata in India. However, there have been concerns about the financial soundness and quality of corporate governance in UCBs. While the financial system in India has been by and large robust, several UCBs have indeed failed and have been liquidated after the cancellation of their banking licenses.

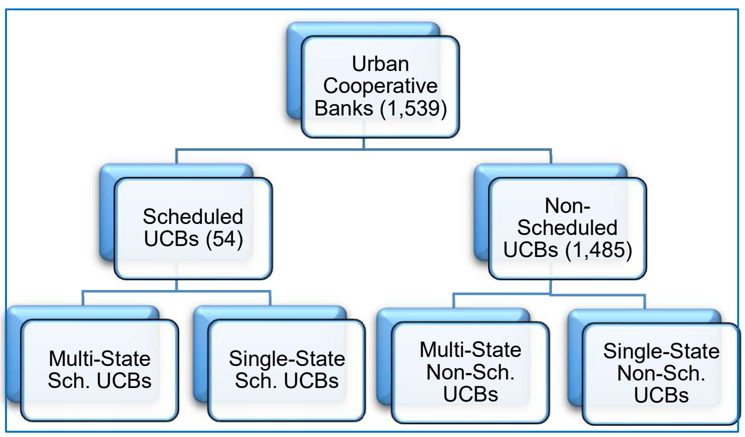


**Figure 1: Structure of Urban Co-operative Banks in India (2020)**
**Source – Database on Indian Economy, Reserve Bank of India]**

As per the information available in the annual report (2019-20) of Deposit Insurance & Credit Guarantee Corporation (DICGC), a subsidiary of Reserve Bank of India, 357[i] UCBs have so far gone into liquidation starting from the year 1977. This involved the settlement of depositors' claims amounting to about ₹ 4903 crore. Considering the limited coverage of ₹ 1 lakh per depositor by DICGC, until February 04, 2020[2], many depositors might have lost their money in these UCBs. Therefore, the question as to when and why the urban cooperative banks fail in India is a critical issue to examine and evaluate.

In the case of India, though a deposit insurance coverage for deposits up to ₹ 5 lakh is available for all bank depositors, there is neither any effective umbrella organization, or central institution, nor any institutional set up for resolution, restoration, or protection scheme for cooperative banks, especially the Urban Cooperative Banks (UCBs). The German Cooperative banking model with its unique institutional protection scheme through an umbrella organization could be worth examination and replication in India.

## III. BANKING STRUCTURE IN GERMANY

Germany's banking system comprises three key segments, called pillars — private commercial banks, public-sector banks, and cooperative banks (Figure 2).

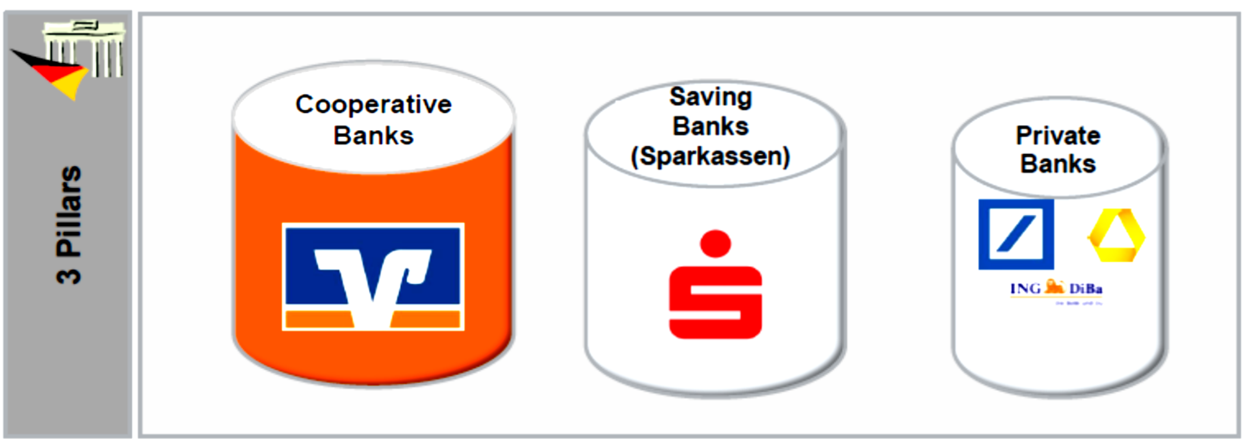


**Figure 2: German Banking Structure - Three Pillars**
**[Source - DZ Bank AG Corporate Presentation, https://www.dzbank.com]**

[2] RBI Press Release, Press Release: 2019-2020/1878 dated February 04, 2020

German banks have an asset size of about 8 trillion Euros[3]. The private commercial banks account for about 40% of total assets in the German banking system. The public banking sector comprises savings banks (*Sparkassen*), *Landesbanken*, and *DekaBank*, which acts as the central asset manager of the Savings Banks Finance Group, and it represents about 26% of total banks' assets. These banks have local governments, such as municipal corporations, and local bodies as their owners and operators in the area under their respective local governments. Due to this regional centricity, about 380 savings banks do not compete with one another. The cooperative banking sector consists of 814 local cooperative banks and one central cooperative bank, namely DZ Bank AG. These accounts for 50% of institutions by number and 18% of total bank assets. Cooperative banks are owned by their members, and they have the mandate to support their members while also providing banking services to the general public. Like the savings banks, cooperative banks operate within a mutually agreed regional jurisdiction. There has been consolidation in the German banking system, in general, to achieve economies of scale. The overall number of banks has come down by about 50% since 1995. However, consolidation in the savings bank and cooperative sectors has mostly been the result of regulatory requirements and financial stress, which stems from the prolonged low/negative interest rate environment and increased regulatory cost under the single supervisory mechanism of the European Union.

## IV. COOPERATIVE FINANCIAL NETWORK IN GERMANY

Germany's local cooperative banks are quite formidable and have an extensive banking service network in Europe, with 814 cooperative banking institutions, comprising Volks Banks and Raiffeisen Banks[4]. It boasts of more than 30 million customers, including about 18 million cooperative members. The local cooperative banks own the capital of the central institution, DZ Bank AG, which is structured as a company and provides liquidity support and specialized services, such as securitization, collateral management, merchant banking, etc. to cooperative banks. As on December 31, 2020, the cooperative banks (Figure 3) had an asset size of Euro 1029 billion[5]. The cooperative financial network also boasts of a healthy common equity tier I capital ratio of 13.6%[ii]. Besides owning a central institution/bank, the cooperative financial network in Germany also has an umbrella organization, called BVR. The National Association of German

[3] Perspectives on German Banking, 2019-20, McKinsey & Company (Accessed April 09, 2021).

[4] Voks Bank and Raiffeisen Banks refer to co-operative banks in Europe, which were initially established to work in urban and rural areas, respectively. This distinction has diminished over a period of time.

[5] https://www.bvr.de/Press/Facts_and_figures (Accessed April 09, 2021)

Cooperative Banks (BVR)[iii] acts as an umbrella organization for the German co-operative financial network. As an umbrella organization, BVR represents the interests of the cooperative banking group at both national and international fora. The BVR also operates a dual system of bank protection in the form of deposit insurance and institutional protection. The deposit insurance scheme of BVR operates under national deposit insurance legislation (under section 43 EinSiG[iv]) in compliance with EU Deposit Guarantee Schemes Directive, 2015 (DGSD), while the BVR institutional protection scheme (IPS) is an additional, voluntary system for the protection of cooperative banks at the institutional level and ensures that the banks remain strong and interests on all the bank clients are safeguarded.

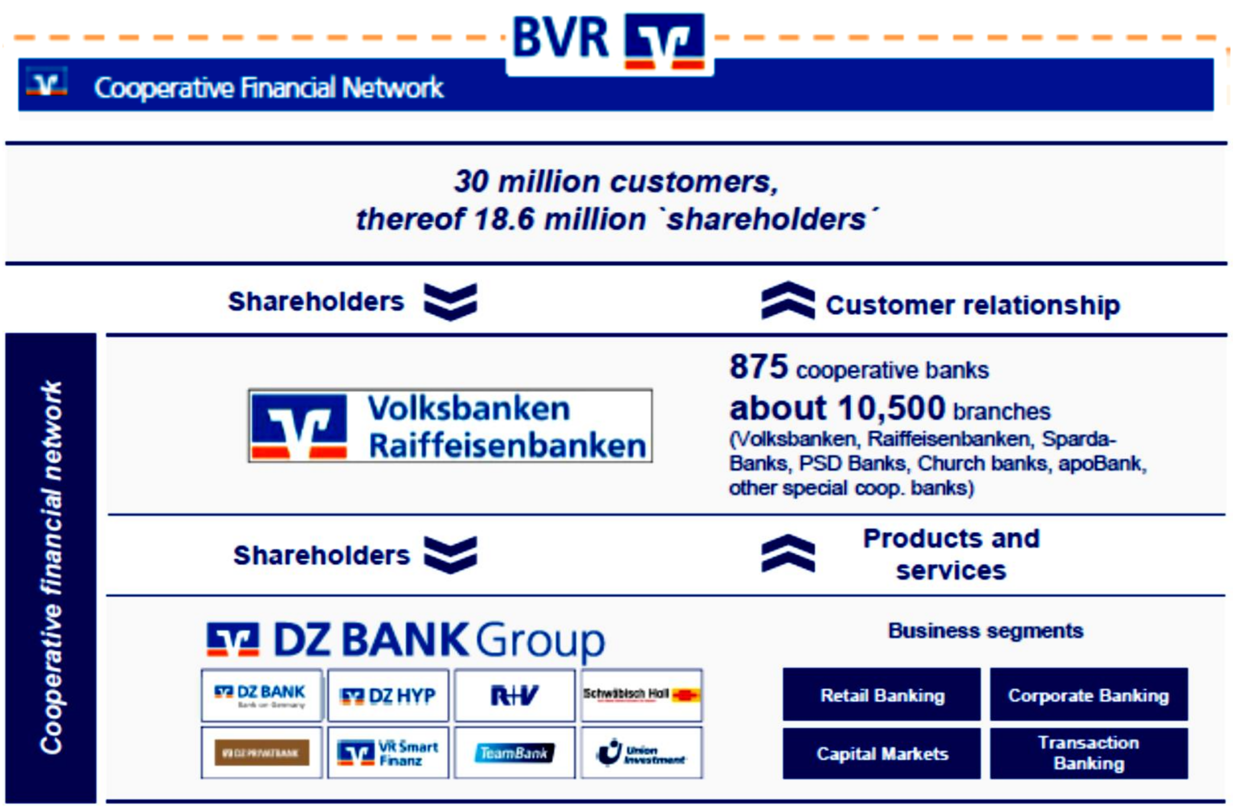


**Figure 3: German Cooperative Financial Network**
**[Source - DZ Bank AG Corporate Presentation, https://www.dzbank.com]**

## V. INSTITUTIONAL AND DEPOSIT PROTECTION SCHEME FOR GERMAN COOPERATIVE BANKS THROUGH UMBRELLA ORGANISATION

The BVR's protection scheme is a kind of self-help organization of the Cooperative Financial Network that was formed voluntarily and operates based on its statutes under the Articles of Association of the BVR. The protection scheme run by the BVR helps in ensuring the stability of public confidence in the cooperative financial network. The scheme is in operation since 1934, but no cooperative bank so far has ever turned insolvent. As such, a compensation event has never occurred and no compensation has ever been required to be paid to the bank depositors under the IPS. The BVR protection scheme is run without any government support and is designated as BVR-ISG for deposit insurance, and BVR-SE for institutional protection. The BVR-ISG has been officially recognized as a deposit insurance system and fulfils the statutory requirement of ensuring that depositors affected by a bank's insolvency are compensated under national deposit insurance legislation. The BVR protection scheme (BVR-SE), the bank protection scheme, operates alongside the BVR-ISG (Figure 4). Member institutions contribute towards both the schemes for seeking protection. Besides, the BVR is legally authorized to take measures to avert any threats posed to a bank's continued existence as a going concern. To perform its responsibility under the protection scheme, the BVR implements preventive measures aimed at obviating adverse trends and developments at the affiliated institutions and, when necessary, advises measures for a financial or operational restructuring.

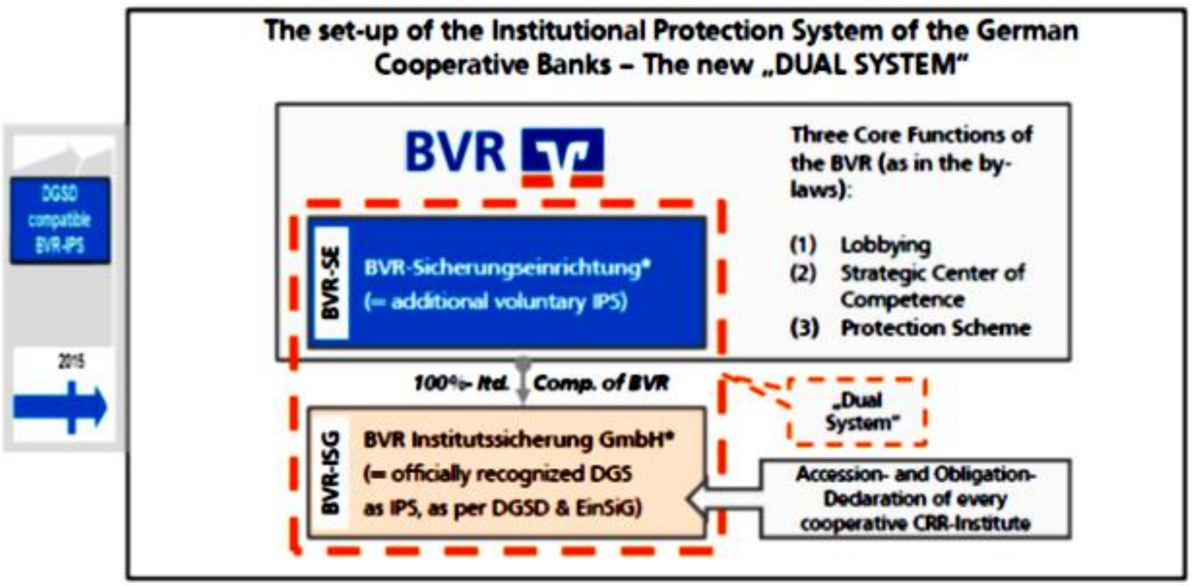


**Figure 4: Dual Protection Scheme under BVR [Source – BVR, https://www.bvr.de/en]**

In most cases, no requirement arises for extending funding support to a cooperative bank from the BVR. However, in case of necessity, cover funds are assured by the BVR to obtain an unqualified opinion from the auditors of the respective cooperative bank. This is followed by a financial restructuring of the bank as per the advice of the BVR, which aims at protecting the bank from becoming insolvent and avoiding a situation in which depositors are to be compensated. The protection scheme run by the BVR aims to protect all individuals and non-bank clients of the affiliated institutions. The BVR protection scheme is regulated and monitored by the BaFin[v], the German Federal Financial Supervisory Authority. BaFin has the right to obtain information from, and audit the protection scheme. The BVR prepares its annual financial statements and an annual report on the activities and financial position of the protection scheme. These statements and reports are audited by independent auditors from outside the Cooperative Financial Network. Audit reports are shared with the BaFin, Deutsche Bundesbank, the cooperative auditors' associations, and the administrative board of the BVR. Given the nature of responsibility entrusted to the BVR, it needs to put in place an effective risk management scheme for the cooperative financial network.

## VI. RISK MANAGEMENT UNDER INSTITUTIONAL PROTECTION SCHEME

The Cooperative Financial Network is a decentralized structure in which the individual banks operate independently with a central bank and an umbrella organization. In this system, risk management primarily involves finding the risk-carrier institutions, which could be the weakest link in the network. The BVR puts in place a system whereby the individual cooperative bank's financial position along with the risk position is ascertained to ensure that the entire cooperative financial network as a unit can be considered financially sound. BVR's risk management process for the institutional protection scheme includes the following three steps (Figure 5).

- Institutional Classification Process – Automated Procedure
- Prevention Management – Standard Procedure
- Support Mechanism – Individualized Standard Procedure

A brief description of these processes is presented in the following paragraphs.

- **Institutional Classification Process**

The institutional risk classification process involves annual classification and rating of all the banks under the cooperative financial network based upon their respective financial position. The BVR protection scheme has well-designed systems for identifying, classifying, and monitoring the risks of all its member institution as also risks to the institutional protection scheme as a whole. Risks are assessed by way of assigning rating based on the BVR protection scheme's classification system. The rating process, based on the respective member institution's annual financial statements, assesses the financial position, financial performance, and risk position to assign one of the nine credit rating categories, which range from A++ to D. Rating a member bank following the classification system forms the basis of the risk-adjusted guarantee fund contributions for the protection scheme and also helps in the preventive management. For the institutions that are also members of BVR-ISG, the 2017 rate for contributions to the guarantee fund of the protection scheme was set at 0.036% of the assessment basis (2016: 0.04%), along with individual discounts or surcharges depending upon the classification. For the other member institutions, the contribution rate was fixed at 0.083% of the assessment basis[vi]. In November 2018, the BVR Association Council decided to enhance the contribution rate for 2019. The rate for contribution to BVR-SE was set at 0.05% of the assessment basis for the institutions that are also members of the BVR-ISG protection scheme (2017: 0.036%). For the other member institutions, the contribution rate was raised from 0.0828% to 0.0924% of the assessment basis[6].

The results of the rating classification are supplemented by further analysis using a data pool that the BVR compiles from the information collected from its member institutions and is essentially based on information from the institutions' financial reporting systems. The data from the annual comparative analysis forms the basis for analyses that use key risk indicators to identify and examine particular abnormalities in the member institutions. To further assess the protection scheme's risk-bearing capacity, probabilities of default are determined based on various stress scenarios and Monte Carlo simulations are used to calculate the possible restructuring amounts.

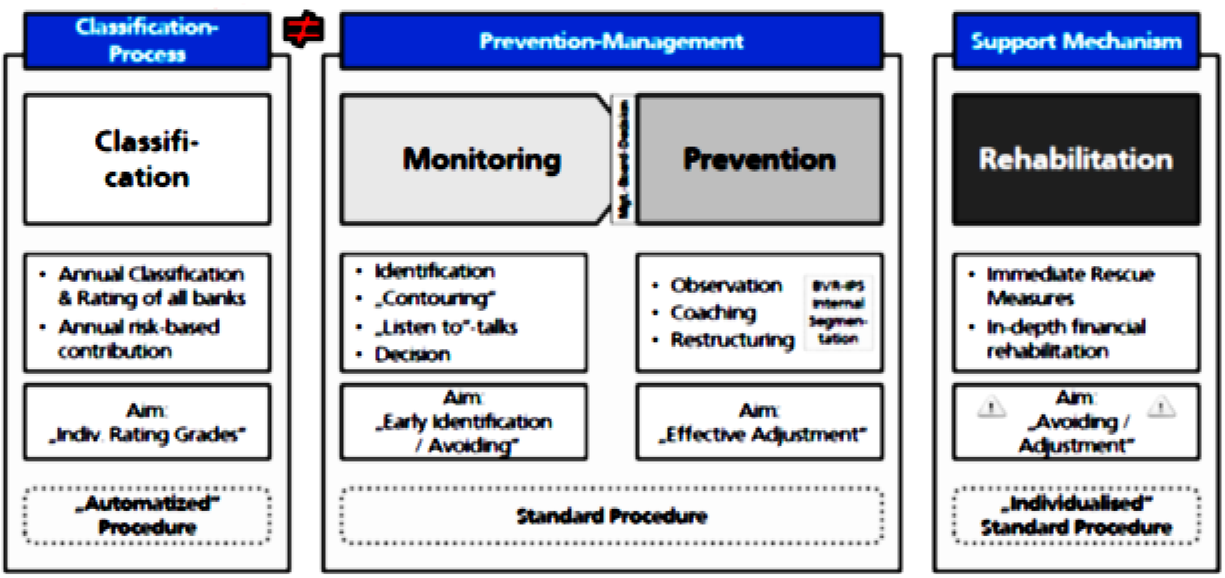


**Figure 5: IPS-Risk Management Process [Source - BVR]**

- **Preventive Management**

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6 https://www.bvr.de/jahresberichte/2018_consolidated_financial_statements_2.html#risk-management-in-a-decentralized-organization-4 (Accessed April 09, 2021)

The aim of preventive management is the early identification and rectification of adverse economic indicators to prevent the need for financial support from the scheme. Besides data analysis, additional discussions with the banks under stress are arranged by the BVR to decide about suitable measures for stabilizing and improving their business performance. Based on the risk ratings, the preventive management process is triggered whenever a bank is classified as B- or lower[7]. In addition to financial-based risk ratings, the impact of environmental factors such as interest rate is also taken into account for the BVR protection scheme. Besides, the protection system also involves monitoring of large institutions though not showing any particular indications of risk but could potentially represent a major risk simply because of the size of their balance sheet.

- **Support Mechanism**

The objective of restructuring assistance/management under the BVR protection scheme is to ensure that the member institutions' annual financial statements can receive an unqualified auditors' opinion. It ensures that the respective bank regains its economic viability while accommodating the interests of all members of the Cooperative Financial Network[vii]. The principles followed aim at regaining a competitive position through recovery and restoring their fundamental profitability. Banks are obliged to complete the restructuring/ rehabilitation phase within five years.

## VII. INDIAN CONTEXT AND THE INTERNATIONAL EXPERIENCE

The co-operative banking in India, though quite old and spread out in the country, has not been able to come up with a cohesive network like the cooperative financial network in Germany. It remains divided between the rural and urban banking streams much like the Raiffeisen and Volks Bank in the German structure. Unlike the German model, where these banks have gradually combined, in India, they continue to remain in separate streams with a certain overlap in their functions. In the case of the rural co-operative banking structure in India, the state co-operative banks act as apex bank for the banks operating in the respective states. However, presently there is no central institution for providing liquidity and other support services to the urban co-operative banks like the DZ Bank in Germany. Secondly, for the entire cooperative banking structure in India, there is no umbrella organization like the BVR in Germany and therefore, while the deposit insurance scheme of DICGC[viii] applies to all the banks in India, there is no institutional protection

[7] Rating range from A++ to D

scheme for the co-operative banks. In this context, it is worth mentioning that the idea of setting up an umbrella organization (UO) for the UCB sector was first mooted in the year 2006 by the Working Group (Chairman: Shri N S Vishwanathan) set up by the Reserve Bank on Augmentation of Capital of UCBs. It was examined in greater detail by the Working Group on Umbrella Organization and Constitution of Revival Fund for Urban Cooperative Banks (Chairman: Shri V S Das) in 2009 and the Expert Committee on Licensing of New Urban Co-operative Banks (Chairman: Shri Y H Malegam) in the year 2011. The need for UO was also stressed by the High Powered Committee on UCBs (Chairman: Shri R Gandhi) in the year 2015. Reserve Bank of India through its statement on Development and Regulatory policies dated February 07, 2019, had announced that a decision on the specifics of an umbrella organization for UCBs in India shall be taken. After the permission by RBI, an umbrella organisation has been put in place and further work is going on to make it operational.

Based on the international experience, establishing a cooperative financial network and an in-built institutional protection scheme in India can be deliberated upon. International experience shows that it could be established using various models, namely, (1) Basic Model, (2) Network Model (3) Integrated Model, (4) Consolidated Cooperative Group Model. A brief description of these models is presented in the following lines[ix].

### a) Basic Model

In a basic model of the cooperative network, the cooperation among the member institutions remains limited, mostly without a common identity and cross-guarantee scheme. However, cooperative banks jointly own a central institution, to ensure liquidity support, clearing facilities, access to the national central institution/bank, and access to financial markets for the network. Such a model is in existence for the co-operative banks in Poland or Hungary.

### b) Network Model

This model is followed by cooperative banks in Germany. While banks remain operationally independent, they are characterized by common brand, advertising, and products. To put in place an institutional protection scheme, the banks within the network enter into a contractual or statutory arrangement that protects the local co-operative banks, ensures support for their liquidity and solvency to avoid bankruptcy whenever necessary. Regulations provide zero risk weight for intra-network exposures, subject to the Institutional Protection Scheme (IPS) fulfilling the following requirements.

- IPS must be able to grant support to the member banks from readily available funds.
- IPS should have a system for monitoring and classification of risks, risk reviews, and provide an overview of the risk situations of all member banks.
- IPS prepares annual consolidated financial statements for the network, and subject itself to the consolidated supervision.

### c) Integrated Model

In this model, applied mostly by the French banks, namely Credit Agricole, Credit Mutuel, and BPCE[8], the local/regional co-operative banks and the central body are linked by a parent-subsidiary relationship, resulting in a higher level of control of the central institution over the group. While the local banks remain the owners of the central institution, the central institution enjoys powers for oversight and control. Regulations allow for a zero risk weight for intra-group exposures, subject to the following requirements.

- Banks in the group are monitored as a whole based on consolidated accounts.
- The central body is subjected to the same risk evaluation, measurement and control as the local co-operative banks by the regulatory authorities.
- There should be no practical or legal hurdles in the prompt transfer of own funds or repayment of liabilities from the central body to the group banks.

### d) Consolidated Cooperative Group

This model mostly in use in Austria, Netherlands, and Luxembourg, aims at a very high degree of integration amongst the member institutions. A high degree of economic integration allows treating the central institution and the local/regional cooperative banks as if they were one bank. This allows supervisors to waive the fulfilment of certain prudential requirements on the solo level to focus only on the consolidated level. This structure involves the fulfilment of the following requirements.

[8] Groupe BPCE operates in the retail banking and insurance fields in France via its two large networks, Banque Populaire and Caisse d'Epargne, along with Banque Palatine.

- Local co-operative banks are permanently affiliated to a central body that also supervises them.
- The central institution is empowered to issue instructions to the local/regional co-operative banks.
- There is a cross-guarantee system, implying that the central body and affiliated institutions are jointly and severally liable towards their obligations.
- The solvency and liquidity of the central body and local co-operative banks are monitored as a whole based on consolidated accounts.

All of the above models present several alternatives for the organization and structuring of a cooperative financial network, with a central institution, and/or umbrella organization. This could be with an explicit institutional protection scheme or in the form of a cross-guarantee scheme for protecting the individual banks as also the depositors.

## VIII. CONCLUSION

Co-operative banks play an important role in social cohesion, financial inclusion, and economic development in the geographical and demographic areas they operate. Moreover, banks, in general, shoulder enormous responsibilities towards the depositors and other financial system participants and hence, banks should remain well-managed, well-capitalized, liquid, and resilient. In the case of the co-operative banks, especially UCBs, due to their comparatively smaller asset sizes and regional operations, the establishment of a network of cooperative banks with a central institution/bank, and umbrella organization[9] adds to their financial and operational strength. An institutional protection scheme not only binds the cooperative banks in a common network but also strengthens the member institutions through its preventive and supportive measures. The success of co-operative banks, central institutions, co-operative financial network, and institutional protection scheme in Europe, especially Germany is worth deliberations for possible implementation in India.

[9] In German context, the central Institution (DZ Bank AG) and Umbrella organisation (BVR) are two different organisations.

## REFERENCES

[i] DICGC Annual Report, 2019-20, Annex VIII

[ii] Data Source – DZ Bank AG, https://www.dzbank.com/

[iii] Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR)

[iv] EinSiG - German Deposit Insurance Act of 2015 – Euro 100,000 compensation payment for each deposit.

[v] Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – German Federal Financial Supervisory Authority.

[vi] BVR Consolidated Financial Statements 2017, https://www.bvr.de/Press/Consolidated_Financial_Statements (Retrieved on July 14, 2019)

[vii] BVR's 'manual for future-proof bank management guidelines (2017)' for restructuring arrangement.

[viii] DICGC - Deposit Insurance and Credit Guarantee Corporation – A subsidiary of Reserve Bank of India.

[ix] Source – European Association of Cooperative Banks (EACB)

[9] Statement on Developmental and Regulatory Policies (Para 3), dated February 07, 2019, Reserve Bank of India, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46237

# A study of the Priority Sector Lending Certificates (PSLCs) market in India


- ***Pankaj Setiya***
- ***B Dayamrutha***[1]



The Priority Sector Lending Certificates (PSLC) are issued by banks that have overachieved/are likely to overachieve their priority sector lending targets. The PSLCs are bought by those banks which have a shortfall or are unlikely to achieve their priority sector lending obligations. The PSLC enables banks to achieve the priority sector lending target and sub-targets by the purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under the priority sector. It incentivizes the more efficient lenders to leverage their comparative advantage to provide credit access to the deserving but deprived sectors while finding a way for other banks to fulfill their Priority Sector norms at a relatively reduced cost.

This article discusses the salient features of the PSLC guidelines, reviews the functioning of PSLCs and presents an analysis of the trends and usage of PSLC instrument and also makes recommendations to make it more effective. The article is based on secondary data available in the public domain, including but not limited to RBI publications.


## Background and Introduction

### 1.1 Background

The concept of Priority Sector Lending Certificates (PSLCs) was first espoused by the Raghuram Rajan led Committee on Financial Sector Reforms (CFSR) in 2009, in its report called “A hundred small steps”. The Committee proposed the PSLC scheme to allow a more efficient implementation of the priority sector lending mandate with ease of compliance. It believed that the focus should be on increasing access to services for the poor regardless of the channel or institution that does this—large banks may or may not be the best way to reach the poor, and while the mandate may initially force them to pay.

The Committee proposed that any registered lender (including microfinance institutions, cooperative banks, banking correspondents, etc.) who has made loans to eligible categories would get PSLCs for the amount of these loans. A market would then be opened up for these certificates, where deficient banks can buy certificates to compensate for their shortfall in lending.

[1] Shri Pankaj Setiya, GM, RBI & Member of Faculty, CAB, Pune, and Smt. B. Dayamrutha, DGM, NABARD & Member of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune conducted a study on PSLC market in May 2020, based on which this article has been written. The views expressed in this article are personal and do not necessarily represent the official views of Reserve Bank of India. The usual disclaimers apply.

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would only be buying a right to undershoot its priority sector-lending requirement by the amount of the certificate. If the loans default, for example, no loss would be borne by the certificate buyer. The merit of this scheme was that it would allow the most efficient lender to provide access to the poor while finding a way for banks to fulfil their norms at a lower cost. Essentially the PSLC was thought of as a market-driven interest subsidy to those who make priority sector loans.

The MV Nair Committee on Priority Sector Lending in its report of February 2012, also recommended allowing non-tradable priority sector lending certificates (PSLCs) on a pilot basis with domestic scheduled commercial banks, foreign banks and regional rural banks as market players. RBI's Internal Working Group (Chair: Ms. Lily Vadera) to revisit the existing priority sector lending guidelines in its report of March 2015, also recommended the introduction of PSLCs to enable banks to meet their PSL requirements and allow leveraging of their comparative advantage and help banks specialize in certain sectors of the priority sector such as small farmers or micro-enterprises. The market-driven pricing of these certificates would make credit available at optimal cost through the originating bank and at the same time remove any unnecessary price arbitrage and inefficiency that bilateral transactions in Inter-bank participation certificates (IBPCs) entailed.

### 1.2 Introduction to PSLCs

The PSLCs were envisaged to separate the objective of transferring priority sector obligations from the credit risk transfer and refinancing aspects, which are co-mingled in the IBPC. If Banks find priority sector lending is unprofitable, there will be a high price for the certificates in the market and it is expected that more lenders will be attracted towards priority sector lending. If the price is low or zero after the market is given time to stabilize, it would mean that priority sector requirements, as set, are not onerous.

The PSLCs are different from the Inter-bank participation certificates (IBPCs). The IBPCs are a form of securitization of loans through which a bank buys the assets of another bank for a stipulated period that can vary between 90 and 180 days. Investments by banks in IBPCs on a risk-sharing basis are eligible for classification under respective categories of priority sector, subject to certain conditions In IBPCs, the buyer has to take on the credit risk of the loans, which is high in the case of the underserved priority sector. Further, the loans have to be standardized, well documented, and serviced, all of which may be difficult in the case of loans to the truly needy.

As a route to achieving priority sector lending targets, IBPCs have remained confined primarily to issue of IBPCs by Regional Rural Banks (RRBs) to their sponsor banks helping RRBs in freeing up capital for fresh lending. Some of the reasons for the IBPC scheme not taking off are understood to be the opacity of the market and the credit risk. As IBPCs are issued in the OTC market, there is no transparency and no structure in place to assess the volume available for issue, appropriate pricing, or the potential counterparties; and because the IBPCs have to be bought on risk-sharing basis for being eligible to be categorized as priority sector the incentive for the buying banks is reduced.

On the other hand, the PSLCs separate the objective of transferring priority obligations from the credit risk transfer and refinancing aspects. This helps to improve the cost efficiency, ensure enhanced credit flow to the desired sectors, and would form a very important success element particularly in the area of financial inclusion.

The detailed operational guidelines on PSLCs were finally issued by RBI on April 7, 2016, vide the circular FIDD.CO.Plan.BC.23/04.09.01/2015-16, after the Government of India specified "Dealing in Priority Sector Lending Certificates (PSLCs)" as a form of business under Section 6 (1)(o) of the Banking Regulation Act, 1949.

## 2. Objectives, Methodology and Limitations

The objective of the study is to analyse the trends and usage of PSLC instrument and recommendations to make it more effective. The methodology for the report is primarily based on secondary data available in the public domain, including but not limited to RBI publications. Since the documentation is done relying entirely on limited secondary data, caution may be exercised before considering the findings and observations for policy intervention or business decision making.

## 3. Salient features of the PSLC guidelines

3.1 **PSLCs:** PSLCs are certificates issued by banks that have overachieved/are likely to overachieve their priority sector lending targets. Buyers of PSLCs are usually those banks which have a shortfall or are unlikely to achieve their priority sector lending obligations.

**3.2 Purpose:** The purpose is to enable banks to achieve the priority sector lending target and sub-targets by the purchase of these instruments in the event of shortfall and at the same time incentivize the surplus banks; thereby enhancing lending to the categories under priority sector. PSLCs incentivise the more efficient lenders to leverage their comparative advantage to provide credit access to the deserving but deprived sectors while finding a way for other banks to fulfil their Priority Sector norms at a relatively reduced cost.

**3.3 Nature of the Instruments:** The seller sells fulfillment of priority sector obligation and the buyer buys the same. There is no transfer of loan assets.

**3.4 Credit Risk:** There is no transfer of credit risk on the underlying as there is no transfer of tangible assets or cash flow.

**3.5 Modalities:** The PSLCs are traded through the CBS portal (e-Kuber) of RBI.

**3.6 Lot Size:** The PSLCs have a standard lot size of Rs. 25 lakh and multiples thereof.

**3.7 Expiry date:** All PSLCs are valid till March 31st and expire on April 1st and will not be valid beyond the reporting date (March 31st), irrespective of the date it was first sold.

**3.8 Sellers / Buyers:** Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), Local Area Banks (LABs), Small Finance Banks, and Urban Co-operative Banks who have originated PSL eligible category loans.

**3.9 Value and Fee:** The nominal value of PSLC represents the equivalent of the PSL that would get deducted from the PSL portfolio of the seller and added to the PSL portfolio of the buyer. The buyer pays a fee to the seller which is market-determined.

**3.10 Accounting:** The fee paid for purchase of the PSLC is treated as an 'Expense' and the fee received for the sale of PSLCs is treated as 'Miscellaneous Income'.

**3.11 Settlement:** The order matching is done on an anonymous basis through the e-Kuber portal and the buyer/ seller cannot select the counterparty. Partial matching happens depending on the matching of premium and availability of category-wise PSLC lots for sale and purchase. There is a real-time settlement of the matched premium and respective current accounts of the participating banks with RBI are debited/ credited to the extent of matched premium accordingly.

**3.12 Types of PSLCs:** There are four types of PSLCs as mentioned below.

| | |
|---|---|
| I. | **PSLC Agriculture** |
| II. | **PSLC SF / MF** |
| III. | **PSLC Micro Enterprises** |
| IV. | **PSLC General** |

**3.13 PSL Achievement:** The above four types of certificates represent specific loans and count for specific sub-targets / targets under PSL as indicated below.

| S. No. | Type of PSLCs | Representing | Counting for |
|---|---|---|---|
| 1 | PSLC- - Agriculture | All eligible Agriculture loans except loans to SF / MF for which separate certificates are available | Achievement of agriculture target and overall PSL target |
| 2 | PSLC – SF / MF | All eligible loans to small / marginal farmers | Achievement of SF / MF sub-target, agriculture target and overall PSL target |
| 3 | PSLC – Micro Enterprises | All PSL Loans to Micro Enterprises | Achievement of micro-enterprise sub-target and overall PSL target |
| 4 | PSLC – General | The residual priority sector loans i.e. other than loans to agriculture and micro enterprises for which separate certificates are available | Achievement of overall PSL target |

**3.14 Computation of PSL achievement**: A bank's PSL achievement is computed as the sum of outstanding priority sector loans, and the net nominal value of the PSLCs issued and purchased. A bank having a shortfall in achievement of any sub-target (e.g. SF / MF, Micro), will have to buy the specific PSLC to achieve the target. However, if a bank is having a shortfall in achievement of the overall target only, it may buy any of the available PSLCs.

**3.15 Disclosures:** Both seller and buyer shall report the amount of PSLCs (category-wise) sold and purchased during the year in the 'Disclosures to the Balance Sheet'.

**3.16 Tax / Transaction fees:** PSLCs may be construed in the nature of 'goods', dealing in which has been notified as a permissible activity and are liable to tax under GST. The tax implications on account of trading in PSLCs may be determined by the banks in accordance with the applicable tax laws. Further, as per the extant guidelines, no transaction charge/ fees are applicable to the participating banks payable to RBI for the usage of the PSLC module on e-Kuber portal.

## 4. Trend analysis of the PSLC market

Though PSLCs are relatively new instruments, introduced only in 2016, there has been steady progress in breadth and depth of the PSLC market as reflected in the value of trades, market players, and premiums over the years.

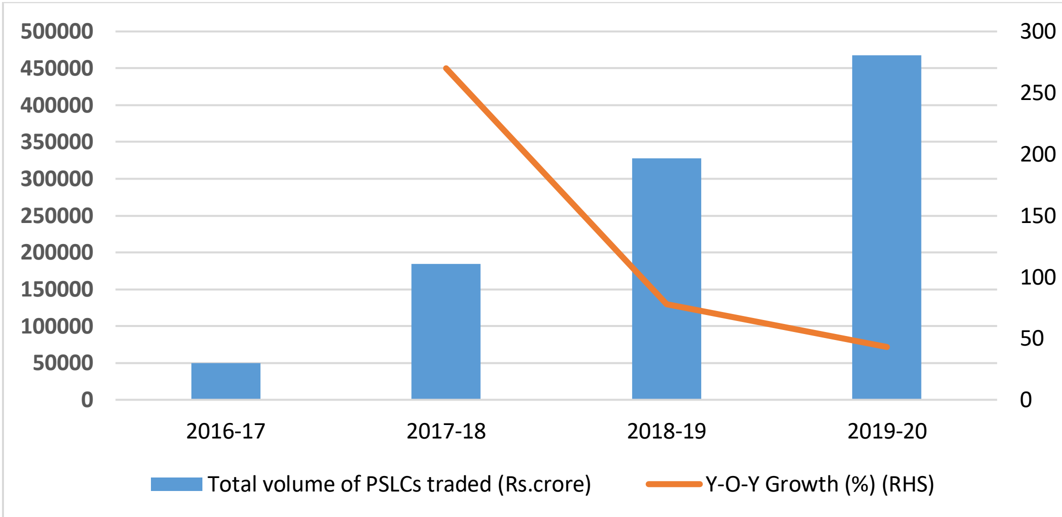
### 4.1 Value of PSLCs traded

The value of PSLCs traded leap-frogged from nearly Rs. 0.50 lakh crore in 2016-17 to Rs. 1.84 lakh crore in 2017-18, registering a growth of 3.7 times over the previous year. The value of PSLCs during 2018-19 was Rs. 3.28 lakh crore which further increased to Rs. 4.68 lakh crore during 2019-20, registering a growth of 78 per cent and 43 per cent during 2008-19 and 2019-20 respectively. The details of PSLCs traded over the years and year-on-year growth is given in Table 1 and Figure 1.

**Table 1: Growth in PSLC Trading**

| S No | Year | Total Value of PSLCs traded (Rs. crore) | Y-O-Y Growth (%) |
|---|---|---:|---:|
| 1 | 2016-17 | 49797.00 | |
| 2 | 2017-18 | 184330.00 | 270% |
| 3 | 2018-19 | 327429.50 | 78% |
| 4 | 2019-20 | 467788.50 | 43% |
| | **Total** | **1029345.00** | |

**Fig 1. Growth in PSLC Trading**




The healthy secular growth in PSLCs over the last 4 years, as shown in the chart above, is reflective of the demand, utility and popularity of the product in the PSL market.

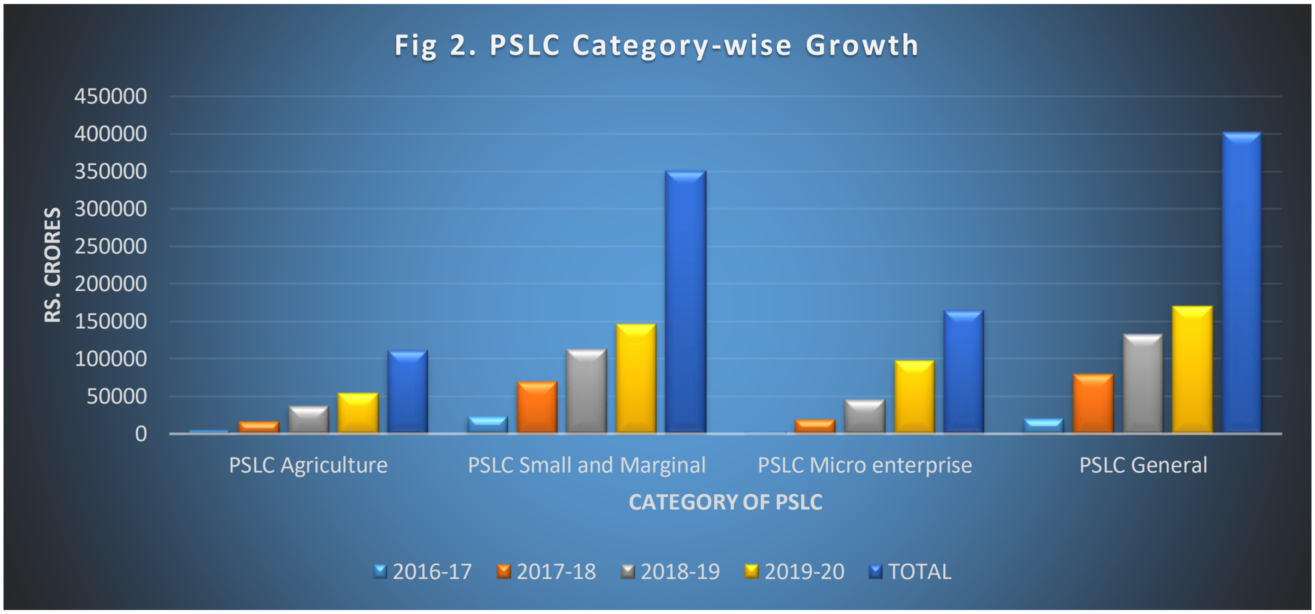
### 4.2 PSLC: Category-wise Growth

All the four types of PSLCs, viz., PSLC-General, Agriculture, Small and Marginal farmers, and Micro-enterprise registered good growth from 2016-17 to 2019-20. The highest cumulative trading volume was observed in respect of PSLC-General with a trading volume of Rs. 4,02,438 crore followed by PSLC-Small and Marginal farmers at Rs.3,50,913 crore. The sector-wise volumes purchase and growth trend are given in Table 2 and Figure 2.

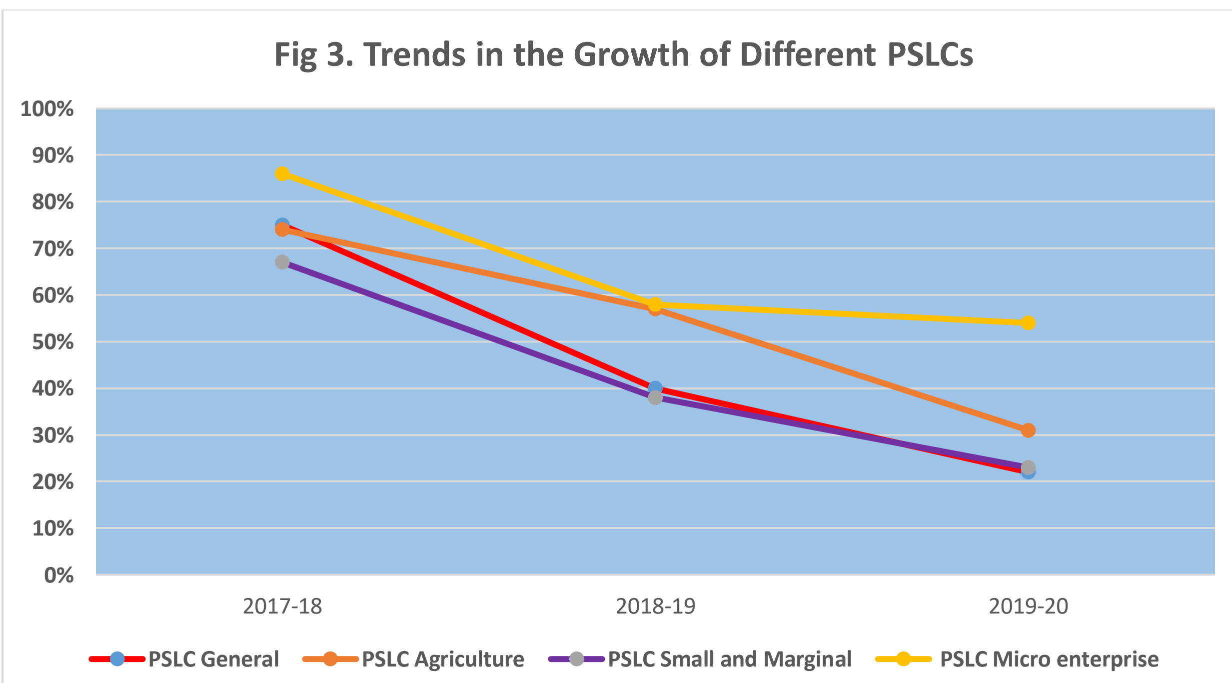
**Table: 2 Category-wise PSLCs traded**

(Rupees in crore)

| Sl. no | Year | PSLC General | Growth (%) | PSLC Agriculture | Growth (%) | PSLC Small and Marginal | Growth (%) | PSLC Micro enterprise | Growth (%) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 2016-17 | 20017.25 | | 4101.00 | | 22985.75 | | 2693.00 | |
| 2 | 2017-18 | 79672.00 | 75% | 15935.75 | 74% | 69622.00 | 67% | 19100.25 | 86% |
| 3 | 2018-19 | 132485.75 | 40% | 37066.50 | 57% | 112504.75 | 38% | 45372.50 | 58% |
| 4 | 2019-20 | 170263.25 | 22% | 54101.50 | 31% | 145800.50 | 23% | 97623.25 | 54% |
| | **TOTAL** | **402438.25** | | **111204.75** | | **350913.00** | | **164789.00** | |

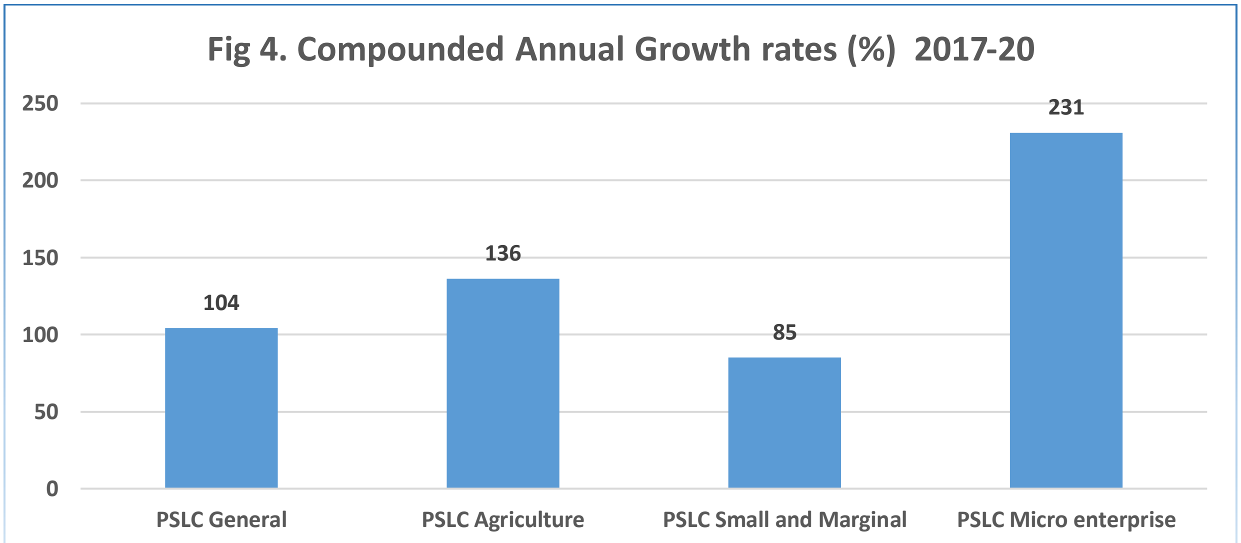



While all the categories have exhibited growth, PSLC - Small and Marginal farmers and PSLC - General have grown at the fastest pace. However, the growth rates in all the four categories have been declining over the past three years, with PSLC – Micro-enterprises recording the highest growth rate during 2019-20 (Fig.3). Even after declining, the average growth rate is 50 per cent, and is reflective of stabilizing markets, after the exponential growth from the low base in the introductory year, i.e., 2016.




Analysis of the compounded annual growth rates (Fig. 4) revealed that PSLC - Micro enterprises had been growing at a compounded annual growth of 231 per cent followed by PSLC –

Agriculture, PSLC- General and PSLC – Small and Marginal farmers at 136 per cent, 104 per cent and 85 per cent respectively.




### 4.3 Category-wise share of PSLCs

The share of PSLC-General and PSLC-Small and Marginal farmers was highest among all the categories over the years. The details are given in Table 3.

**Table 3: Category wise share of PSLCs**

| S.No. | Category | Value traded in 2016-17 (Rs. crore) | Share | Value traded in 2017-18 (Rs. crore) | Share | Value traded in 2018-19 (Rs. crore) | Share | Value traded in 2019-20 (Rs. crore) | Share |
|---|---|---|---|---|---|---|---|---|---|
| 1 | **PSLC General** | **20017** | **41%** | **79672** | **43%** | **132486** | **41%** | **170263** | **36%** |
| 2 | **PSLC Agriculture** | **4101** | **8%** | **15936** | **9%** | **37067** | **11%** | **54102** | **12%** |
| 3 | **PSLC Small and Marginal** | **22986** | **46%** | **69622** | **38%** | **112505** | **34%** | **145801** | **31%** |
| 4 | **PSLC Micro enterprise** | **2693** | **5%** | **19100** | **10%** | **45373** | **14%** | **97623** | **21%** |
| | **Total** | **49797** | **100%** | **184330** | **100%** | **327430** | **100%** | **467789** | **100%** |

The trends in shares of different PSLCs are presented in Figure 5. The consistent growth in the trading of PSLC – Micro-enterprises is reflected in its share in the total trading. Steady decline in the share of PSLC – General and PSLC – Small and Marginal farmers can also be observed in the figure. PSLC – Agriculture continues to increase its share in total trading. However, the shares of these categories in the PSLC trading in the year 2020 indicated mixed patterns. The share of PSLC- Agriculture at 11.57 per cent was lower than the share of PSLC-Micro-enterprises at 20.87 per cent and PSLC-Small and Marginal farmers at 31.17 per cent. This suggests that while most banks have developed the internal capacity in lending to agriculture, several banks still lack the internal capacity in lending to micro-enterprises and small and marginal farmers, resulting in high demand for PSLCs of these two categories.

**Fig 5. Trends in Share of Total PSLC Trading**

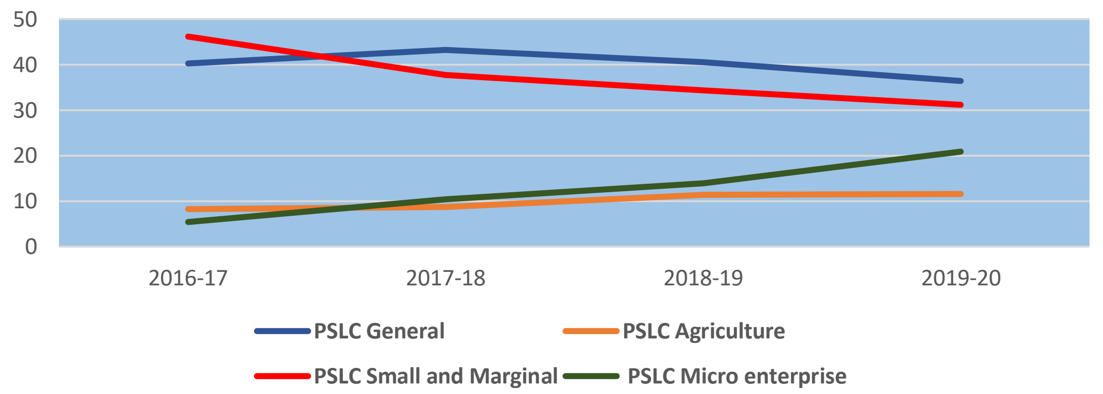



Fig 6. PSLC General

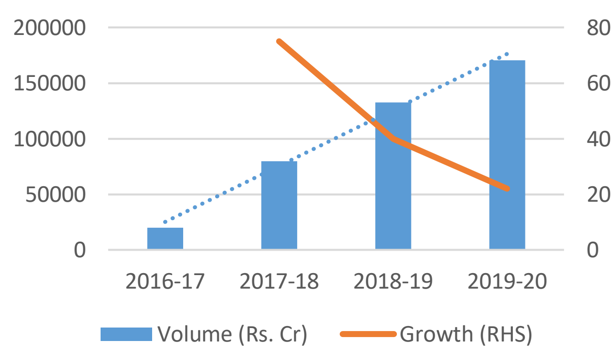
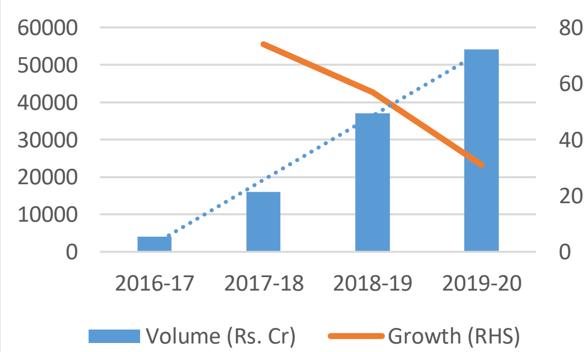
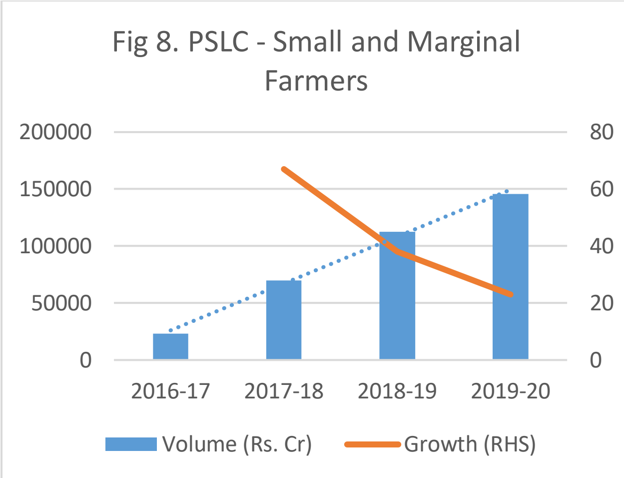
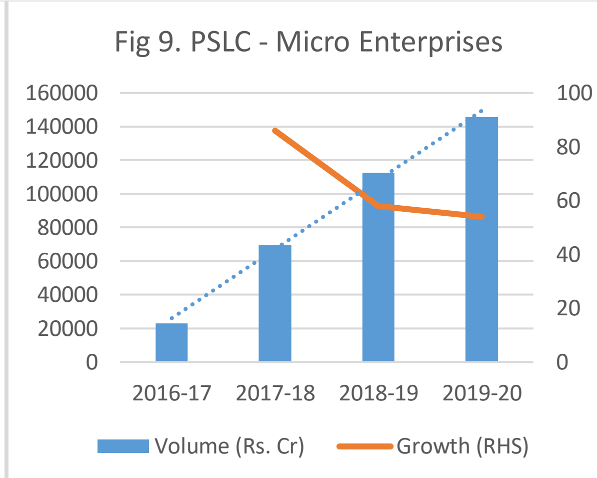



Fig 7. PSLC Agriculture





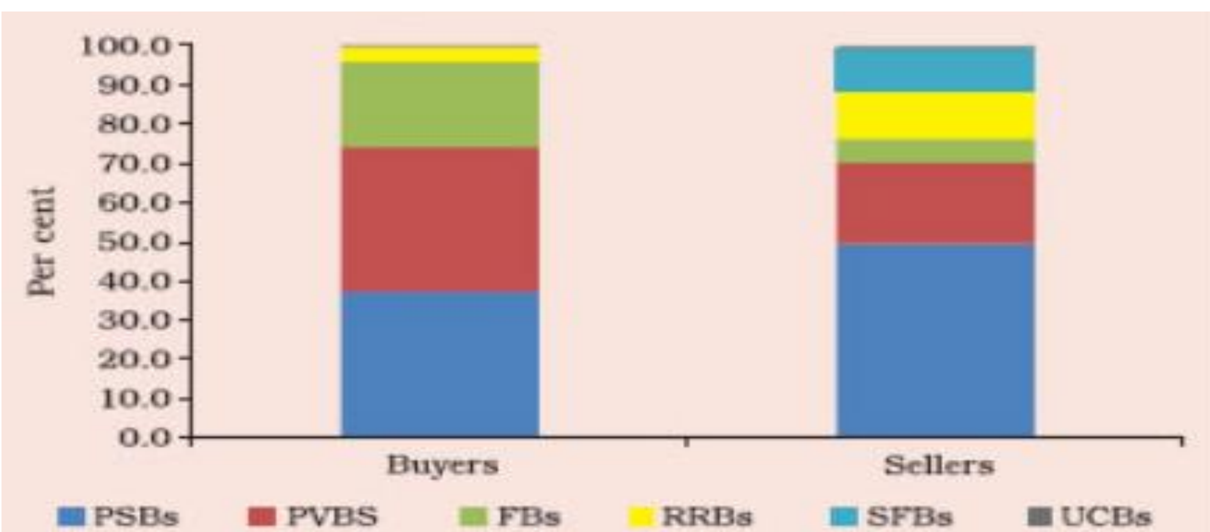




The trends of volumes and growth rates of all the four categories of PSLCs are presented in Fig 6, 7, 8 and 9. The figures confirm that there has been a steady increase in the volume of trades in each of these categories, there is a decline in the growth rates of all the four categories, PSLC-Micro-enterprises is growing the fastest among all the four categories and PSLC-Small and Marginal farmers are growing the least of the four categories.

### 4.4 Major Players in PSLC Trading

Analysis of the PSLC trading data for 2017-18 suggest that PSBs and Private banks are both major buyers and sellers of PSLCs as bank groups; however, if buying and selling is netted, Private banks and Foreign banks emerged as major buyers; and PSBs, RRBs, and SFBs as major sellers (Fig.10).

**Fig 10. Major Buyers and Sellers in PSLCs Trading**




Source: Report on Trend and Progress of Banking in India- December 2018

The following observations can be made from the above table.

a. **PSLC General:** While this segment had players from all categories, major buyers were Public Sector banks, Private banks, and Foreign banks (both less than 20 branches and more than 20 branches). The sellers comprise Public Sector banks, Private banks, and Small Finance Banks.
b. **PSLC Agriculture:** The buyers in this sector are Public Sector banks, Private banks, Foreign banks and sellers are Small Finance banks, Public Sector Banks, and Private banks.
c. **PSLC Micro-enterprise:** The major buyers in this sector were Public Sector banks and major sellers were Small Finance banks and Private banks. This sector has seen the lowest volumes of trading.
d. **PSLC Small and Marginal Farmers:** The major buyers were Public Sector banks, Foreign banks (both less than 20 branches and more than 20 branches), and Private banks. The sellers comprise Public Sector banks, RRBs, and Small Finance Banks.
e. Regional Rural Banks (RRBs) can emerge as major players in the PSLC market. The amount purchased and sold increased by 9 times and 3 times respectively during 2017-18 as compared to the previous year (Table 4), reflecting that RRBs have started realizing the advantages of participating in the PSLC market. As expected, the RRBs are mostly participating in the market as a seller.

Table 4: Participation of RRBs in PSLC market

(Amt. Rs. crore)

| | **PSLCs purchased** | | **PSLCs sold** | |
|---|---|---|---|---|
| Year | No. of Participants | Amt. | No. of Participants | Amt. |
| 2016-17 | 5 | 896 | 11 | 8395.25 |
| 2017-18 | 8 | 8455 | 25 | 25803 |

Source: Compiled data from Ensure Portal, NABARD, Rural Pulse.

### 4.5 Trends in premium across years and PSLC-categories

Analysis of the premiums over the years reveals the following.

i. Price of PSLC (premium/fee) is determined by market forces and therefore depends on demand and supply.
ii. PSLCs bought during the first quarter and held till March 31 of the same financial year can be used to fulfil the priority sector norms throughout the year, while a PSLC bought during the last quarter of the year can fulfil the criterion only for a single quarter. Therefore, PSLCs commanded the highest premium during the first quarter, which declined in every subsequent quarter by approximately 0.25 percentage points.
iii. PSLC-Small and Marginal Farmer category commanded the highest premium or weighted average fee among the four categories during 2017- 18, 2018-19, and 2019-20 as it

counts for all priority sector targets and sub-targets, excluding for micro-enterprises. The second highest premium is commanded by PSLC- Agriculture.

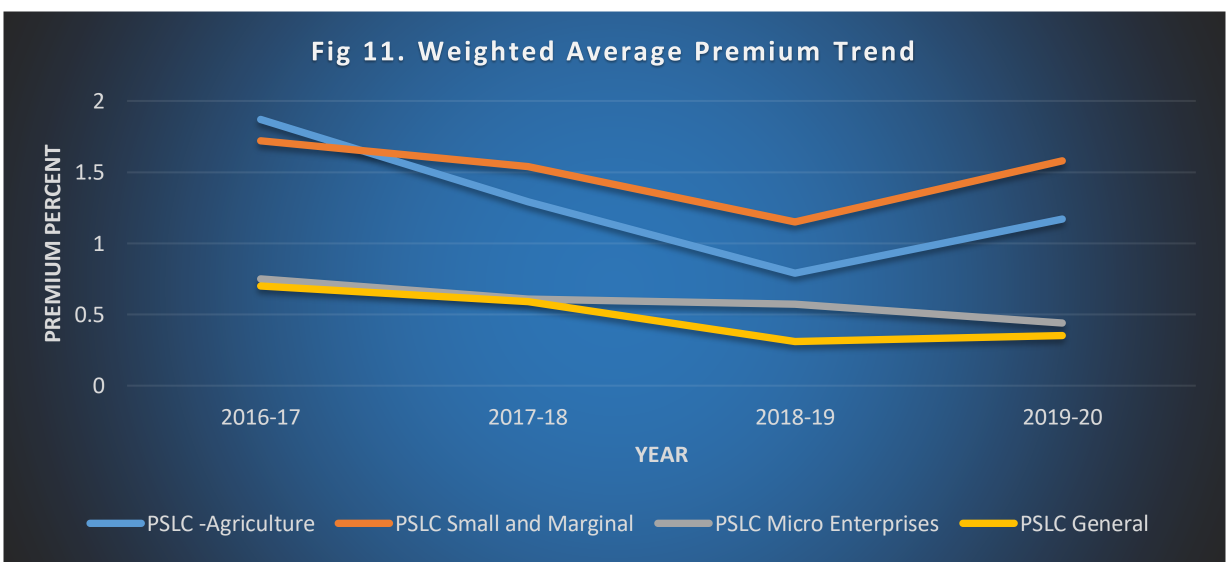
iv. In view of the introduction of quarterly monitoring of priority sector targets, the timing of the transactions in the earlier or later part of the year also had an impact on the premium. Accordingly, PSLCs traded during the first quarter of 2016-17 witnessed higher premiums in the range of 3-5 per cent, declining thereafter.

v. After declining year on year across all categories in 2017-18 and 2018-19, finally, the premiums rose in 2019-20, across all categories, except PSLC – Micro-enterprises, where they continued to decline. While the premiums declined, it indicated, somewhat surprisingly though, the existence of a Buyer’s market. During 2019-20, the rising premiums, indicate that trades are ultimately getting settled closer to the average sell offers than average buy offers

The details of the weighted average fee are presented in Table 5 and the trends are presented in Figure 11.

Table 5: Weighted Average Fee on Various Categories of PSLC (as per cent)

| Category | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|---|---|---|---|
| PSLC –Agriculture | 1.87 | 1.29 | 0.79 | 1.17 |
| PSLC Small and Marginal | 1.72 | 1.54 | 1.15 | 1.58 |
| PSLC Micro Enterprises | 0.75 | 0.61 | 0.57 | 0.44 |
| PSLC General | 0.7 | 0.59 | 0.31 | 0.35 |
| Source: Report on Trend and Progress of Banking in India 2019-20 | | | | |



The behavior of premium did not show any correlation with the amount of traded volume or annual growth rates in the respective category of the PSLC.

### 4.5.1 Premium income contributed by different PSLC categories for sellers:

The total premium realised by banks increased to Rs.1860 crore during 2017-18 against Rs. 630 crore in the previous year. The data on share of premium across PSLC categories is given in Table 6. It can be seen that the bulk of the premium is from the Small and Marginal farmers category.

**Table 6. percentage share in total premium**

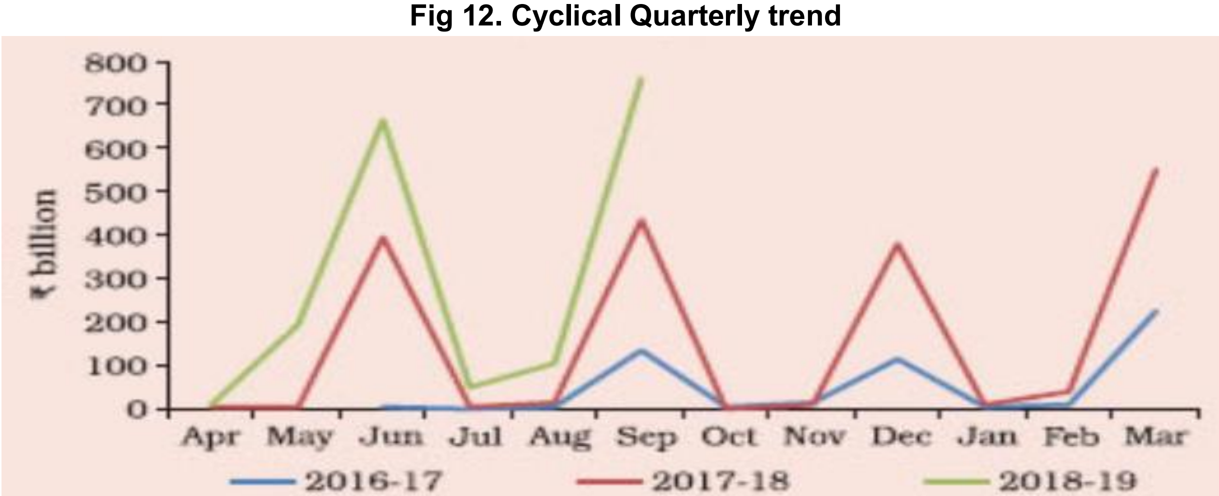
| Category | 2016-17 | 2017-18 |
|---|---|---|
| PSLC- General | **22** | **25** |
| PSLC-Agriculture | **12** | **11** |
| PSLC-Micro Enterprise | **3** | **6** |
| PSLC-SF/MF | **63** | **58** |

The various factors affecting price discovery of PSLCs premiums are observed to be (a) reporting date of PSLCs for reckoning for priority sector targets, (b) market demand and supply in the specific category of PSLC, (c) premium expectations of sellers of PSLCs, (d) Goods and Services Tax (GST), (e) mandated contribution to RIDF and other funds, (f) trading interest and (g) expiry date of PSLCs.

### 4.6 Cyclical Trend

A cyclical trend is observed in the trading volumes, which peaked mostly in the last month of every quarter of the year. This is on expected lines, as the achievement under PSL is calculated on a quarterly basis, since the revised PSL guidelines of 2015.

**Fig 12. Cyclical Quarterly trend**




Source: Report on Trend and Progress of Banking in India, December 2018

Although, PSLCs bought during the first quarter and held till March 31 of the same financial year can be used to fulfil the priority sector norms throughout the year, this has not resulted in any definitive pattern of highest trading in the first quarter, as seen from the aforesaid figure. It appears that banks wait till the last quarter to buy the PSLCs to enable them to achieve maximum PSL targets through organic lending, as implied from the spurt seen in the last quarter. This also flows from the fact that the RIDF allocations are based on the simple average of achievement of all quarters for computation of overall shortfall / excess at the end of the year.

**4.7 Orders matched**

It is observed that only half of the PSLCs on offer for sale ultimately got settled during the year 2018, reflecting the size of the unmet potential of the PSLC market. The percentage of orders matched varies across the PSLC categories.

**4.8 Priority Sector Lending-Achievement**

The overarching principle of priority sector lending (PSL) is to enhance credit flow to those vulnerable sections of the society which, despite being credit worthy, may not get timely and adequate credit in the absence of a special dispensation. Priority sector loans include small value loans to farmers for agriculture and allied activities, MSMEs, housing, education, and other low-income groups and weaker sections. Social infrastructure and renewable energy have also been brought under the ambit of PSL.

As on 31 March 2019, all bank groups managed to achieve the overall priority sector lending (PSL) target. However, shortfalls were found in certain sub-targets, viz., PSBs in lending to micro enterprises; and both Private banks and Foreign banks in lending to small and marginal farmers.

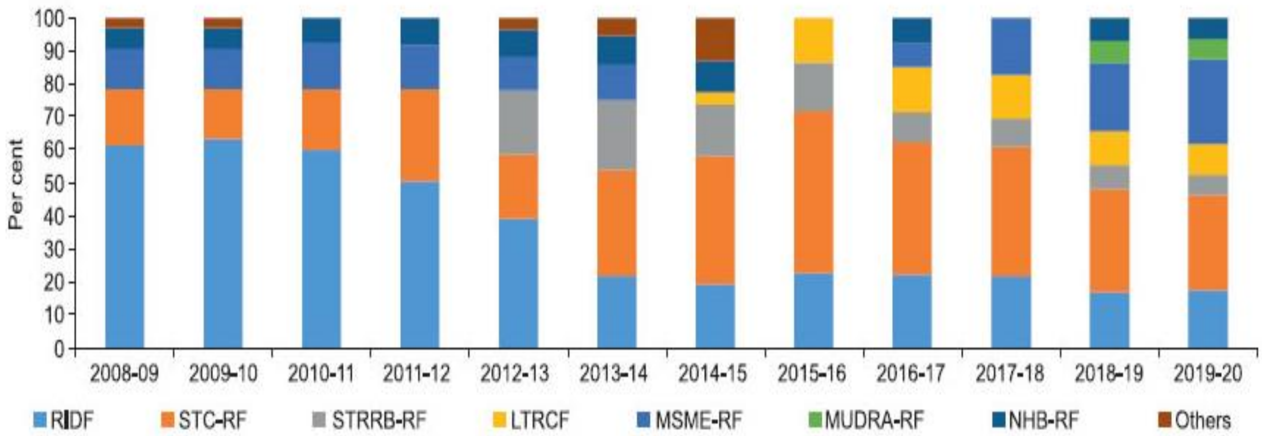
**4.8.1 Short Fall in Priority sector targets-Allocation to various funds**

The shortfall in PSL of scheduled commercial banks is allocated to various funds like RIDF, STC-RF, STRRB-RF, LTRCF maintained by NABARD; MSME-RF maintained by SIDBI, MUDRA-RF maintained by MUDRA and NHB-RF maintained by NHB.

It may be seen from Figure 13 that the allocation to RIDF has been declining over a period of time in percentage terms from 61 per cent in 2008-09 to 18 per cent in 2019-20. However, the allocation made under the RIDF has remained constant at Rs. 25,000 crore from 2014-15 to 2018-19, and in fact, increased to Rs. 28,000 crore during 2019-20[2].

[2] Source: Financial Inclusion and Development Department, Central Office, Reserve Bank of India.

**Fig 13. Allocation of Priority Sector Shortfall to Various Funds (Percentage Share)**




**Source:** RBI.

**Note:** STC-RF (Short-Term Co-operative Refinance Fund); STRRB-RF (Short-Term Regional Rural Banks Refinance Fund); LTRCF (Long-Term Rural Credit Fund); MSME-RF (MSME Refinance Fund); MUDRA-RF (MUDRA Refinance Fund); NHB-RF (Housing Refinance Fund); Others include Warehouse Infrastructure Fund, MSME India Opportunities Venture Fund, MSME Risk Capital Fund, MSME Venture Capital Fund and Food Processing Industries Fund.

Source: Report of the Internal Working Group to Review Agricultural Credit, Reserve Bank of India, 2019

**RIDF Deposits**: Banks with a shortfall in Priority sector lending park their fund to the extent of short fall as a deposit under RIDF (and other such Funds). The interest rates on deposits placed by the banks and loans under RIDF are decided by the RBI from time to time. With effect from 01 April 2012, the interest rates payable to banks on deposits placed with NABARD and loans disbursed by NABARD from RIDF have been linked to the Bank Rate prevailing at the time of placement / disbursement, as the case may be (Table 7) .

**Table 7: RIDF Interest Rates**

| Sl. No | Shortfall in achievement of overall Priority Sector Lending Targets | Rate of Interest |
|---|---|---|
| 1 | Less than 5 percentage points | Bank Rate minus 2 percentage points |
| 2 | 5 and above but less than 10 percentage points | Bank Rate minus 3 percentage points |
| 3 | 10 percentage points and above | Bank Rate minus 4 percentage points |

A bank with a likely shortfall in PSL target achievement has the option of investing either in PSLC or in RIDF, based on RIDF allocations to different banks. It is generally beneficial for banks to use the PSLC route vis-à-vis RIDF route as per the illustration shown below.

| |
|---|
| **Assumptions: Say** |
| 1) Deficit (Surplus) against PSL target: Rs. 100 lakh |
| 2) Buyer (Seller) Bank pays (earns) fee at a rate 1% for buying (selling) PSLC for 1 year. |
| 3) Rate of interest for agricultural loan and non-agricultural loan are 9% and 10%, respectively. |
| 4) Bank Rate at 6.75%. |
| **Option 1:** Bank participates in PSLC market - Buys PSLC |
| **Benefit (B1):** Bank deploys fund in non-agri sector: |
| Rs.100 lakh *10%=Rs. 10 lakh |
| **Cost (C1):** Bank pays PSLC fee + GST for 1 year: Rs.100 lakh *1% + Rs.1 lakh *12%=Rs. 1.12 lakh |
| **Net Benefit from option 1 (NB1 = B1-C1):** Rs. 8.88 lakh |
| **Option 2:** PSL shortfall funds (say RIDF deposit) |
| **Beneftt (NB2):** Bank could have earned rate of interest against RIDF deposit: |
| Rs. 100 lakh * 4.75%=Rs. 4.75 lakh |
| **When the bank chooses option 1, the Net Incremental Beneftt works out to (NB1-NB2): Rs. 4.13 lakh** |
| Net benefit for buyer negatively related to fee for buying PSLC and positively related to percentage shortfall in PSLC target. Even with fee @3% the Net benefit reduces to Rs.2.13 lakh but it is still beneficial for bank to buy PSLC vis-à-vis the alternative. |
| Note: Exact calculations of cost of funds , actual RoI etc are not considered. The objective is only to compare between purchase of PSLC vis a vis investment in RIDF |
| Source: Rural Pulse, NABARD |

## 5. Conclusions and Recommendations

### 5.1 Conclusions

- **i.** The overall popularity of the PSLCs continues to grow, with annual changes in preferences for each of the categories of PSLCs. The healthy secular growth in PSLCs over the last 4 years is reflective of the demand, utility, and popularity of the product in the PSL market.
- **ii.** The PSLC market evident from the fact that the value of PSLCs traded has vaulted from Rs.0.48 lakh crore in 2016-17 to Rs. 4.68 lakh crore during 2019-20.
- **iii.** All the four sectors, viz., PSLC-General, Agriculture, Small and Marginal farmers, and Micro Enterprise registered good growth from 2016-17 to 2019-20. Among the four PSLC categories, the highest trading was observed in the case of PSLC – Small and Marginal farmers, and PSLC – General categories in all the four years.
- **iv.** However, the growth rates in all the four categories have been declining over the past three years, with PSLC-Micro-enterprises recording the highest growth rate during 2019-20. Even after declining, the average growth rate is 50 per cent, and is reflective of stabilizing markets after the exponential growth from the low base in the introductory year, four years ago.
- **v.** The PSLC platform is witnessing active participation from all the eligible entities including Urban Cooperative Banks (UCBs) and Small Finance Banks (SFBs).
- vi. Analysis of the PSLC trading data for 2017-18 suggest that PSBs and Private banks are both major buyers and sellers of PSLCs as bank groups; however, if buying and

selling is netted, Private banks and Foreign bankers emerge as major buyers and PSBs, RRBs, and SFBs as major sellers.

vii. A cyclical trend was observed in the trading volume, which peaked mostly in the last month of every quarter. This is natural considering that the achievement under PSL is calculated on quarterly basis.

viii. The total volume of PSLCs on offer appears to be generally higher than the amount finally settled, which points to the unmet potential of PSLC market.

ix. PSLCs commanded the highest premium during the first quarter, which declined in every subsequent quarter.

x. PSLC-Small and Marginal farmer category commanded the highest premium or weighted average fee among the four categories during 2017- 18, 2018-19 and 2019-20 as it counts for all priority sector targets and sub-targets, excluding for micro-enterprises. The second highest premium is commanded by PSLC- Agriculture.

xi. Falling premiums in the PSLC market indicate the existence of a buyers' market. This trend got marginally reversed during 2020. It is important to study the micro-market structure to ascertain the detailed factors for such a lack of say for the sellers in the market. This is very critical considering the future of PSLCs and lending to the various segments of PSL.

xii. The various factors affecting price discovery of PSLCs premiums are observed to be Reporting Date of PSLCs for reckoning for priority sector targets, market demand and supply in the specific category of PSLC, premium expectations of sellers of PSLCs, Goods, and Services Tax (GST), mandated contribution to RIDF and other funds, trading interest and expiry date of PSLCs.

xiii. The allocation to RIDF has been declining over a period of time from 61 per cent in 2008-09 to 18 per cent in 2019-20.

xiv. A bank with a shortfall in PSL target achievement has the option of investing either in PSLC or in RIDF, based on RIDF allocations to different banks. It is generally beneficial for banks to use the PSLC route vis-à-vis RIDF route

## 5.2. Recommendations

While the PSLC market has grown many fold over the course of the last four years, there is scope to make this instrument more effective in meeting the objectives of PSL policy.

i. The Internal Working Group (IWG) to revisit the existing Priority Sector Lending guidelines, 2015 recommended that the Reserve Bank may intervene in the market for PSLCs to encourage further lending to a particular sector. The analysis presented in this report suggested that (a) total volume of PSLCs on offer appears to be generally higher than the amount finally settled, which points to the unmet potential of PSLC market, (b) existence of a buyers' market which may discourage banks with higher PSL achievement, since the fee earned by them from the sale of PSLCs is not as per their expectations, and (c) there are significant regional variations in agri-lending. RBI participation, selectively in the PSLC market, may strengthen the market micro-structure and price discovery.

ii. More banks need to be allowed to participate in the PSLC market as direct members and not as sub-members, to allow them to earn a maximum premium in anonymous trading mode and there is no premium-pinching by the member bank.

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# Extension Services in Agriculture: The Role of Agri - Clinic and Agri-Business Centres

- ***N. Madhumurthy***[1]

The government of India launched a scheme to promote Agri-Clinics and Agri-Business Centers (ACABC) on 9th April 2002. The primary objective of the scheme was to supplement and strengthen the extension services in agriculture and at the same time, tap the potential of the unemployed agri-graduates. This paper, based on secondary data, attempts to understand the role played by the Agri-Clinics and Agri-Business Centers promoted under the scheme. It shows that several Agri-Clinics and Agri-Business units established under the ACABC scheme are quite popular and provide services to the farmers. The successful Agri-Clinics provide a platform to farmers in accessing and adopting modern methods of agriculture and delivering quality inputs (seeds, bio-fertilizers, etc.) at their doorsteps. Similarly, the successful Agri-Business units create good replicable Agri-Business models. However, the progress of the establishment of Agri-Clinics and Agri-Business units is uneven in India with only a few states contributing to the total number of units established in the country and only about 40% of the candidates trained under the ACABC scheme have established their ventures. This position needs to be addressed by promoting the scheme in all the states and proper hand-holding the agripreneurs until they set up their agri-ventures. More projects need to be set up in innovative areas like agro-tourism, hydroponics, vertical farming, urban farming, ICT applications in agriculture etc.

## 1 Introduction

The government of India launched the scheme of Agri-Clinics and Agri-Business Centers (ACABC) on 9th April 2002[2] with the basic objective of supplementing and strengthening the extension services in agriculture and at the same time, tap the potential of the unemployed agri-graduates and provide them with employment opportunities by making them entrepreneurs. The scheme provides financial support to the agripreneurs for training and handholding, provision of loan and credit-linked back-ended composite subsidy for setting up of own Agri-Clinics and agri-business centres.

This is a unique programme launched by GOI, to introduce better methods of farming to the farmers across the country by tapping the expertise available with the large pool of agriculture graduates. The scheme supplements efforts of public extension by the private individuals providing extension and other services to the farmers on a payment basis or free of cost as per

[1] Shri N Madhumurthy, GM, NABARD & Member of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune conducted a study on Agri -Clinic and Agri-Business Centres in May 2020, based on which this article has been written. The views expressed in this article are personal and do not necessarily represent the official views of Reserve Bank of India. The usual disclaimers apply.

[2] http://www.agriclinics.net/

the business model of the agripreneur, local needs, and affordability of the target group of farmers. The scheme has been in implementation in 32 states / UTs across the country and agri-ventures have been established in 35 categories related to agriculture and allied sector as on March 20, 2020[3]. This paper attempts to understand the role played by Agri-Clinics and Agri-Business Centers (ACABCs) in the dissemination of agricultural science and technology to the farmers as also to identify the best practices being followed by the ACABCs in the country.

## 2. Agri-Clinics and Agri-Business Centers (ACABC)

**The objective of the Scheme:** [3]

(a) To supplement the efforts of the Government extension system.
(b) To make available supplementary sources of input supply and services to needy farmers.
(c) To provide gainful employment to agriculture graduates in the newly emerging areas in the agricultural sector.

**Functions:** [4]

**Agri-Clinics:** Agri-Clinics are envisaged to provide expert advice and services to farmers on various technologies including soil health, cropping practices, plant protection, crop insurance, post-harvest technology, and clinical services for animals, feed and fodder management, prices of various crops in the market, etc. to enhance the productivity of crops/animals and ensure increased income to farmers.

**Agri-Business Centres:** Agri-Business Centres are commercial agricultural ventures, established by trained agriculture professionals, such as custom hiring of farm equipment, input sales, and other services including post-harvest management, market linkages, etc.

**Role of implementing agencies[1]:**

**MANAGE:** National Institute of Agricultural Extension Management (MANAGE) is responsible for the implementation of the scheme. The agency provides training for two months to eligible candidates, through Nodal Training Institutes (NTIs), and motivates them for setting up of Agri-Clinics and Agri-Business Centres.

**Nodal Training Institutes (NTI):** The NTIs are the extended arms of MANAGE. The guidelines for selecting an NTI, including application forms, are available on a dedicated website (www.Agri-Clinics.net). The NTIs provide training for two months as per standards[5] developed by MANAGE.

**NABARD:** Assistance under the scheme (i.e., subsidy from GOI) is purely credit-linked and subject to the sanction of the project by banks based on technical feasibility, financial viability, and commercial considerations. National Bank for Agricultural and Rural Development (NABARD)

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3 http://www.agriclinics.net/
4 http://www.agriclinics.net/
5 http://www.agriclinics.net/scheme-training.htm

is responsible for channelizing the subsidy from GOI and implementation the scheme through the banks. NABARD also organizes sensitization training/workshops to motivate the bankers across the country to provide credit to agripreneurs for establishing ventures.

**3. Salient features of ACABC scheme**

The salient features of the guidelines for implementation of ACABCs are as summarized in this section[6].

**Eligibility:** The scheme is open to certain categories of candidates of the age group of 18 to 60 years, namely, graduates in agriculture and allied subjects like Horticulture, Sericulture, Dairy, Animal Husbandry, Fisheries, Home/ Community Sciences, Biotechnology, Agricultural Engineering, Forestry, Food Technology, Food Nutrition, and Dietetics, etc, from SAUs/ Central Agricultural Universities/ Universities as also graduates in Environmental Science, Botany, Zoology and Chemistry recognized by ICAR/ UGC. Several other related qualifications are included in the scheme for eligibility.

**Process of Selection of Candidates:** Advertisements in local newspapers are issued under intimation to local employment exchanges by the NTI. Advertisements are uploaded on the website of NTIs as well as MANAGE. Applications for training are also accepted only through the online portal, http://acabc.gov.in.

**Training at Nodal Training Institutes (NTIs):** Selected candidates are provided training. The two months training programme at NTI aims at transforming persons qualified in the field of agriculture and allied sectors into agri-entrepreneurs. The training programme is divided into two categories of activities viz., (a) exposing the trainees to potential agri-ventures in their area, and (b) providing additional subject matter training to refresh their knowledge and skills. The certificates are issued by MANAGE to the successful participants through NTIs.

**Refresher Training:** About 500 selected agripreneurs undergo refresher training every year. This training of about 3-5 days duration is conducted in specialized Institutions like State Agricultural Universities/ ICAR Institutes /IIMs/IITs/CSIR Institutes / reputed Private/ Non- governmental Institutions.

**Credit support:** The eligible financial institutions under the scheme are: i) Commercial Banks ii) Regional Rural Banks iii) State Cooperative Banks iv) State Cooperative Agriculture and Rural Development Banks v) Such other institutions eligible for refinancing from NABARD.

**Project Cost:** Ceiling of project cost for subsidy is Rs. 20 lakh for an individual project (25 lakh in case of extremely successful individual projects) and up to Rs. 100 lakh for a group project (established by a group comprising at least 5 trained persons under the scheme).

6 Source : http://www.agriclinics.net/AboutScheme.aspx

**Term Loan:** The term loan is extended by banks to cover the fixed capital cost and working capital for one operating cycle. The repayment period depends on the nature of the activity and varies between 5 to 10 years. The repayment period may include a maximum grace period of 2 years (to be decided by the financing bank as per the needs of individual projects).

**Other terms and conditions:** The other terms and conditions for availing the loan such as rate of interest, margin money and security are as per the prevailing bank norms and scheme guidelines issued by the Government of India[7] .

**The time limit for completion of the project**: Time limit for completion of the project is as envisaged under the project, subject to a maximum of 6 months period from the date of disbursement of the first instalment of loan by a financial institution, which may be extended by a further period of 6 months if reasons for such delay are considered justifiable by the financial institution concerned. If the project is not completed within the stipulated period, the benefit of subsidy has to be refunded to NABARD.

**Subsidy:**

All candidates trained under the scheme are eligible for subsidy (without cut-off date[8]) with respect to investments made after July 9, 2006 (Applicable for loan accounts sanctioned on or after this date). The eligible subsidy is 44% of project cost for women, SC/ST & all categories of candidates from North East and Hill states and 36% of project cost for others. The interest subsidy scheme[9] is replaced with an enhanced quantum of back-ended subsidy.

**Fresh Loans:**

Entrepreneurs whose loan accounts have been closed can avail of a fresh loan to expand the project activity or start a new venture under the scheme.

**Monitoring:** ACABC Monitoring Cell at the Directorate of Extension (DOE) is responsible for proper Monitoring and Administration of the Scheme. The linkages of agripreneurs with State Governments, Banks, Agro-industries under GOI, and other stakeholders are reviewed by MANAGE and the Department of Agriculture, Cooperation and Farmers Welfare (DAC&FW) at least twice a year.

**4. Implementation of ACABC Scheme**

The scheme has been implemented in 32 states/union territories across the country and 72063 candidates have been trained and 28,755 Agri ventures (ACABCs) have been established in 35

[7] Compendium of instructions and guidelines for implementation of Agri Clinics and Agri Business Centres (ACABCs) scheme[7] (2018) issued by the Department of Agriculture, Cooperation and Farmers Welfare, GOI may be accessed at ACABC website ( http://www.agriclinics.net /GuidelinesCirculars.aspx).

8. As per the previous guidelines, subsidy was admissible in respect of agriculture graduates trained under ACABC scheme on or after April 1, 2004. This cutoff date was removed in the latest guidelines.

[9] As per the previous scheme, interest subsidy was provided, which is now replaced with back ended subsidy

categories related to the agriculture and allied sector as on 20.03.2020[10]. The state-wise details are furnished in Table 1.

**Table 1**

**State-wise details of candidates trained and Agri ventures established under ACABC[8]**

| SN | Name of the State | No of the candidates trained | No of Agri-ventures established. | No of Agri ventures established as a proportion to no of candidates trained (col 4 / col3) (%) | No of Agri ventures established as a proportion to the total (%) |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Maharashtra | 17983 | 8155 | 45.35 | 28.36 |
| 2 | Uttar Pradesh | 15922 | 7152 | 44.92 | 24.87 |
| 3 | Tamil Nadu | 7764 | 3689 | 47.51 | 12.83 |
| 4 | Karnataka | 4146 | 1619 | 39.05 | 5.63 |
| 5 | Madhya Pradesh | 3975 | 1475 | 37.11 | 5.13 |
| 6 | Bihar | 4075 | 1392 | 34.16 | 4.84 |
| 7 | Rajasthan | 3833 | 1387 | 36.19 | 4.82 |
| 8 | Gujarat | 2031 | 767 | 37.76 | 2.67 |
| 9 | Telangana | 1793 | 422 | 23.54 | 1.47 |
| 10 | Chattisgarh | 873 | 335 | 38.37 | 1.17 |
| 11 | Andhra Pradesh | 1373 | 321 | 23.38 | 1.12 |
| 12 | West Bengal | 1190 | 296 | 24.87 | 1.03 |
| 13 | Haryana | 720 | 234 | 32.50 | 0.81 |
| 14 | Assam | 754 | 227 | 30.11 | 0.79 |
| 15 | Punjab | 666 | 218 | 32.73 | 0.76 |
| 16 | J&K | 1491 | 191 | 12.81 | 0.66 |
| 17 | Jharkand | 771 | 186 | 24.12 | 0.65 |
| 18 | Uttaranchal | 486 | 161 | 33.13 | 0.56 |
| 19 | Manipur | 439 | 128 | 29.16 | 0.45 |
| 20 | Orissa | 624 | 114 | 18.27 | 0.40 |
| 21 | Himachal Pradesh | 422 | 108 | 25.59 | 0.38 |
| 22 | Pondicherry | 139 | 84 | 60.43 | 0.29 |
| 23 | Kerala | 239 | 51 | 21.34 | 01.8 |
| 24 | Nagaland | 184 | 21 | 11.41 | 0.07 |
| 25 | Goa | 13 | 7 | 53.85 | 0.02 |
| 26 | Delhi | 34 | 6 | 17.65 | 0.02 |
| 27 | Arunachal Pradesh | 35 | 3 | 8.57 | 0.01 |
| 28 | Meghalaya | 35 | 3 | 8.57 | 0.01 |
| 29 | Chandigarh | 4 | 1 | 25.0 | 0 |
| 30 | Sikkim | 9 | 1 | 11.11 | 0 |
| 31 | Tripura | 5 | 1 | 20.00 | 0 |
| 32 | Mizoram | 35 | 0 | 0 | 0 |
| | **Total** | **72063** | **28755** | **39.97** | **100** |

It can be observed from Table 1 that the implementation of the ACABC scheme differs across the states significantly. Maharashtra, Uttar Pradesh, and Tamil Nadu are the leading states in terms of agri-ventures established. These three states together account for 66% of the total number of

10. Source : http://www.agriclinics.net/

Agri-Clinics and Agri-Business units established in the country under the ACABC scheme. Further, in terms of the number of Agri ventures established as a percentage of the number of candidates trained under the scheme, which reflects the conversion/success ratio of the training programme, it may be seen that about 40% of the candidates trained have established Agri ventures at the All – India level. This success ratio also differs across the states, with only five states / UTs viz., Pondicherry, Goa, Tamil Nadu, Maharashtra, and Uttar Pradesh recording success ratio more than the All-India average. This highlights the need for further popularizing the scheme in all the states and particularly in those states which are lagging in implementation.

The activity-wise review[11] of ACABCs during 2002-20 suggests that 28,755 agri-ventures have been established during the period. Dairy /Poultry /Piggery /Goatary activity has the lion's share with 9500 ventures. The number of different agri-ventures established is as under.

**Table 2**
**Activity wise details of agri ventures established under ACABC**

| | |
|---|---|
| Apiary | 104 |
| Mushroom Cultivation | 134 |
| Sericulture | 63 |
| Agriculture Journalism | 18 |
| Production & Marketing of Bio-Control Agents | 30 |
| Rural Godown | 58 |
| Dairy /Poultry /Piggery /Goatary | 9500 |
| Crop Production | 319 |
| Veterinary Clinics | 940 |
| Vermicomposting / Organic manure | 541 |
| Vegetable Production and Marketing | 423 |
| Tissue Culture Unit | 28 |
| Soil Testing Laboratory | 110 |
| Seed Processing and Marketing | 380 |
| Fishery clinic | 17 |
| Value Addition (processing) | 451 |
| Pesticides Production and Marketing | 59 |
| Organic Production/ Food Chain | 117 |
| Nursery | 591 |
| Landscaping + Nursery | 114 |
| Horticulture Clinic | 179 |
| Floriculture | 111 |
| Fisheries Development | 398 |

11 http://www.agriclinics.net/OtherDocuments/activity-wise.pdf

| | |
|---|---|
| Farm Machinery Unit | 815 |
| Direct Mkt. | 171 |
| Cultivation of Medicinal Plants | 114 |
| Contract Farming | 111 |
| Bio-fertilizer production and Marketing | 166 |
| Animal Feed Unit | 59 |
| Agro-Eco Tourism | 17 |
| Agri-Clinics and Agri-Business Centres | 7979 |
| Agri-Clinics | 4638 |

**Source:** http://www.Agri-Clinics.net/

The above data suggest that agri-clinics as standalone ventures and in combination with Agri-Businesses have become quite popular. However, the uneven distribution of ventures across the activities suggests the scope for further improving the penetration of ACBCS.

**Impact of ACABC scheme**[12] **:**

The scheme has been successfully implemented in 32 states/union territories across the country and has acted as a backbone of the state extension services.

The scheme has created a dual impact in terms of providing extension services to the farmers as well as generating employment in the country. However, a study[13] indicated that out of 75000 agri-graduates (15000 per year approximately) qualified from various State Agricultural Universities and Colleges during the period of 2002-2003 to 2006-2007, the scheme has been able to employ 4152 graduates, thus accounting for 6% (2006-07)[14] of the total unemployed agri-graduates. This indicates that the scheme requires to be popularized more aggressively to bring more graduates to take the benefit of the scheme. In addition to the direct employment to agricultural students, the setting up of agricultural enterprises under the scheme provided a few thousand jobs to others also.

The extension services undertaken by the agripreneurs has been able to serve 30 villages per clinic and 19 farmers per village on average. The farmers found that the most important benefit they derived was an increase in productivity and income.

The impacts of agricultural extension programs are usually measured in terms of increase in yield and income of the farmers, and enhancement of knowledge, skills, and change in the attitude of both extension workers and farmers. However, resultant social benefits, which impact the living

12 ACABC Evaluation study conducted by the Global AgriSystem Private Limited in 2008. Accessed at http://www.agriclinics.net/evaluation/midtermevaluationreport.pdf

13 ACABC Evaluation study conducted by the Global AgriSystem Private Limited in 2008 accessed at http://www.agriclinics.net/evaluation/midtermevaluationreport.pdf

14 Latest available data at ACABC official website http://www.agriclinics.net /evaluation/midtermevaluationreport.pdf

standards of the farmer's family, are not part of the impact studies though such social benefits are very important. Informal feedback from the field indicates that ACABCs have yielded social benefits such as reduction in rural-urban migration, attracting qualified professionals to rural areas, gender empowerment, health, and education awareness, and perceiving agriculture as a respectable profession[15].

## 5. Good and innovative practices/success stories

Around 28755 Agri-Clinics and agribusiness centres have been established by agripreneurs trained under this Scheme. Many success stories of agripreneurs have been reported from different states signifying their growing importance in agricultural extension. These success stories have been circulated among stakeholders through monthly e-Bulletin, 'Agripreneur' of National Institute of Agriculture Extension Management (MANAGE), Hyderabad [16]. Innovative practices/success stories of ACABCs shows that several agri-clinics and Agri-Business units have become quite popular in providing services to the farmers. A gist of such innovative practices is furnished in the following sections.

### Agri-Clinics

Many success stories in Agri-Clinics relate to finding innovative ways to effectively play their role of supplementing public agricultural extension system that include (a) providing a platform to farmers in accessing, understanding, and adopting modern methods of agriculture and to deliver quality inputs (seeds, bio-fertilizers, etc.) at their doorsteps,

(b) establishing ambulance for animals taking the diagnostic services to the doorstep of dairy farmers and

(c) starting Agro-Service Centre for providing clinical services like soil, water testing, and other disease diagnostic services. Agri-Clinics in the above cases proved that they can strengthen and supplement the agriculture extension services, by taking research findings (from the LAB) to the farmers' fields (LAND). Some Agri-Clinics were involved in developing and transferring technologies

### Agri-business units:

The innovative practices adopted by the Agri-Business units show that these units have become quite popular providing doorstep services to the farmers like setting up agri-business units for the promotion of farm mechanization and providing livestock breeding services to dairy farmers villages in Gujarat.

Some Agri-Business units created good replicable Agri-Business models. One such practice pertains to the adoption of the latest scientific techniques of fish culture and achieving high productivity and profitability which was instrumental in promoting the same among many fish

15 https://www.manage.gov.in/conres/research-acabc.asp

16 Agri -Clinics and Agri- Business Centres, Success stories of Agripreneurs, National institute of Agriculture Extension Management (MANAGE), Hyderabad.

farmers in Manipur. In Mysore, by entering into contract farming, Agri-Business units encouraged many farmers of A.P, Karnataka, and Tamil Nadu to switch over to the gherkin crop and earn an attractive income. The Agri-Business units in the above cases proved that by adopting scientific techniques agriculture can provide good earning opportunities.

Some agripreneurs, taking the support from the ACABC scheme, have established innovative agricultural enterprises and are striving to enhance/supplement the outreach of agricultural technologies to the farmers' fields. Some of them have been financed by the banks.

### 6. Challenges and prospects

In most states, the ACABCs have been able to add value and strengthen the State Governments extension efforts. The ACABCs equipped with new/ advanced knowledge have better troubleshooting abilities, as well as some enterprises involved with input supplies have improved the access of farmers to better inputs. Based on the analysis of various successful ACABC ventures and also various study reports on the ACABC scheme, the following major issues and challenges are observed:

**(a) Uneven progress:** It was observed that the implementation of the ACABC scheme differs across the states significantly (Table 1). Only three states viz., Maharashtra, Uttar Pradesh, and Tamil Nadu together account for 66% of the total number of Agri-Clinics and Agri-Business units established in the country. This highlights the need for further popularizing the scheme in all the states and particularly in those states which are lagging in implementation.

**(b) Employment generation:** One of the important objectives of the scheme is providing self-employment to the agri-graduates through the setting up of agricultural enterprises. However, a study[17] indicated that the scheme has been able to employ only 6% (2006-07)[18] of the total unemployed agri-graduates. This indicates that the scheme requires to be popularized more aggressively to bring more graduates to take benefit of the scheme.

**(c) Innovative agri-projects:** It was observed that a few activities are more popular as compared to others. Activities like dairy, piggery, goatery and vermicomposting are amongst the most popular projects (Table 2). The popularity of these projects could perhaps be because of comparatively lower investment and lower risk. However, innovative projects like ICT applications in agriculture, agro-tourism, hydroponics, vertical farming, etc., are not so popularly established under the scheme**.** This could be because of lack of awareness amongst the trainees about the new opportunities available and reluctance on the part of bankers to fund innovative projects their numbers have been negligible.

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17 ACABC Evaluation study conducted by the Global AgrISystem Private Limited in 2008 accessed at http://www.agriclinics.net/evaluation/midtermevaluationreport.pdf , The study indicated that, out of 75000 agri-graduates (15000 per year approximately) qualified from various State Agricultural Universities and Colleges during the period of 2002-2003 to 2006-2007, the scheme has been able to provide employment to 4152 graduates (6%)

18 Latest available data at ACABC official website http://www.agriclinics.net /evaluation/midtermevaluationreport.pdf

**(d) Marketing of agri-products:** Most of the agri-enterprises are providing single window solutions to the farmers such as providing quality inputs, reliable information on production techniques, and maintaining good relations with the farmers. However, the key factor for the success of agri-enterprise i.e., marketing is not given equal importance along with other agro services.

**(e) Access to bank loan:** A study[19] indicated that the enterprises started under the scheme comprised 70% self-finance and 30% loan from the banks. This means that banks have not been adequately sensitized towards this scheme. There is an urgent need to sensitize bankers for facilitating loans for projects under the scheme. There is also a need for Nodal Training Institutes (NTIs) to guide the entrepreneur in preparing their project proposal as per the requirement of the banks.

**(f) Cost and Profit sharing model:** The ACABCs should work with farmers associations / FPOs so that the agri-enterprises set up by them would become a revenue-generating model for themselves and at the same time the expenses per farmer would be less. This could encourage farmers also to pay for the advisory services to the agripreneurs.

**(g) Training of the agripreneur:** Out of 72063 candidates trained under the scheme, 28,755 candidates have established Agri ventures showing a success ratio of about 40% only (Table 1) and this also differs across the states, with only five states / UTs recording success ratio of more than the All-India average. This shows that providing training is not enough. The nodal training institutes under the guidance of MANAGE should handhold the agripreneurs till they set up their Agri-Clinics and Agri-Business centres with loan assistance from banks.

**7. Conclusion**

The scheme of Agri-Clinics and Agri-Business Centers (ACABC) has made substantial progress, with 72063 candidates trained and 28,755 Agri ventures (ACABCs) established in 32 states/union territories across the country. However, the progress is uneven with only a few states contributing to the total number of Agri-Clinics and Agri-Business units established in the country. Further, only about 40% of the candidates trained have established their ventures. This position needs to be addressed by promoting the scheme in all the states and proper hand holding the agripreneurs till they set up their Agri ventures. More projects need to be set up in innovative areas like agro-tourism, hydroponics, vertical farming, urban farming, ICT applications in agriculture, etc. There is also a need to sensitize banks towards this scheme.

In the context of Indian agriculture, where a majority of the farmers are small and marginal farmers, there is a need for ACABCs to combine their efforts with farmers associations / FPOs

19 ACABC Evaluation study conducted by the Global AgriSystem Private Limited in 2008 accessed at http://www.agriclinics.net/evaluation/midtermevaluationreport.pdf

and forge convergence with the state and public extension agencies to foster a faster reach of agricultural technology to the farming community.

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# An Evaluation of Select Government Schemes and the Role of Direct Benefit Transfers

**_Rajender Kumar[1]_**
**_Dr Ashish Srivastava[1]_**

Government schemes aim at public welfare in general and targeted delivery of benefits for certain identified groups. Government measures intended for improvements in the social sectors like education, health care, and sanitation leave a profound impact on the quality of life of the people. Direct benefit transfers (DBT) and other reforms have been able to plug the slippages and reach out to the real beneficiaries. This paper presents a brief review of select government schemes and the role of DBT and the banking sector in the targeted delivery of benefits. It focuses on five select government schemes to discuss their present status of achievements and socioeconomic impact, besides presenting an impact evaluation and offering suggestions for further improvements in the design and delivery of schemes. It also discusses the role of banks in the effective delivery of government schemes including the DBT. Based on secondary data, this paper presents a comprehensive review of the select government schemes.

## I. Introduction

Government schemes refer to programmes and welfare initiatives run by the Union and state governments to help improve the quality of life of people, in general, and to reach out for the welfare of poor and marginalized sections of society, in particular. This paper studies the socio-economic impact of the Government schemes and examines the contribution made by the Banking Sector in the implementation of the schemes. The study covers five major government schemes touching social, agriculture and industrial sectors and involving the Banking Sector for their implementation, namely,

[1] Shri Rajender Kumar and Dr. Ashish Shrivastava, DGMs & Members of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune, conducted a study on Evaluation of Select Government Schemes and the Role of Direct Benefit Transfers in May 2020, based on which this article has been written. The views expressed in this article are personal and do not necessarily represent the official views of Reserve Bank of India. The usual disclaimers apply.

**a)** Pradhan Mantri Jan Dhan Yojna (PMJDY)

**b)** Pradhan Mantri Awas Yojana (Urban) (PMAY-U) scheme,

**c)** Pradhan Mantri MUDRA Yojana (PMMY),

**d)** Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PM-JAY)

**e)** Pradhan Mantri Fasal Bima Yojana (PMFBY).

## II. Governance and Public Welfare in India

The concept of the welfare state as a philosophy of governance is deeply engrained in the democratic ethos and functioning of a republic. This is a system wherein the state, or a network of socio-economic institutions performs a key role in the protection and promotion of the economic and social well-being of citizens. Following the spirit, in India, Union and state Governments undertake several measures in the form of government schemes for the welfare of people. Welfare measures, either targeted or general, are part of a good governance framework based on the principles of equality of opportunity, equitable distribution of wealth, and public responsibility towards those unable to avail themselves of the minimal provisions for a reasonable standard of life.

Government schemes, in India, owe their genesis to the mixed economy model with five-year planning adopted in India after independence. The Government, at all levels, announces welfare schemes for a cross-section of the society from time to time. These schemes could be either Central, State specific or a collaboration. Over a period, the scope and coverage of schemes have widened and the delivery has improved with the increasing use of technology. A summary of all current Government schemes is available at the national portal of India[2].

## III. A Brief of Select Government Schemes

The following paragraphs present a brief about select Government Schemes.

### A. Pradhan Mantri Jan-Dhan Yojana

Pradhan Mantri Jan-Dhan Yojana (PMJDY)[3] under the National Mission for Financial Inclusion was launched initially for four years (in two phases) on August 28, 2014. It envisaged universal access to banking facilities with at least one basic savings banking account for every household, financial literacy, access to credit, insurance and pension. PMJDY has provided a platform for

[2] National Portal of India, https://www.india.gov.in/my-government/schemes (accessed on April 16, 2020)

[3] https://pmjdy.gov.in/

other security schemes, namely, Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Atal Pension Yojana (APY) and Pradhan Mantri Mudra Yojana (PMMY), and also for the Direct Benefit Transfers (DBT). The Government has decided to extend the comprehensive PMJDY with the change in focus on opening accounts from every household to every adult. PMJDY has been a phenomenal success with the active support of banks as indicated in table 1.

**Table 1: PMJDY Beneficiaries as on April 01, 2020[4] - (Amount/ Numbers in Crore)**

| Bank Name / Type | Number of Beneficiaries at rural/semi-urban centre bank branches | Number of Beneficiaries at urban metro centre bank branches | No of Rural-Urban Female Beneficiaries | Number of Total Beneficiaries | Deposits in Accounts (₹ Crore) | Number of Rupay Debit Cards issued |
|---|---|---|---|---|---|---|
| Public Sector Banks | 16.33 | 13.99 | 16.26 | 30.32 | 94838.71 | 24.42 |
| Regional Rural Banks | 5.49 | 1.01 | 3.66 | 6.50 | 21554.14 | 3.45 |
| Private Sector Banks | 0.71 | 0.56 | 0.68 | 1.27 | 3314.12 | 1.16 |
| **Grand Total** | **22.53** | **15.56** | **20.60** | **38.08** | **119706.97** | **29.02** |

With more than 38 crore beneficiaries and with an amount of ₹ 1.20 lakh crore in their Jan-Dhan deposit accounts (average account balance – ₹ 3150 per account), PMJDY has been a huge success. Besides, it has also worked as a launch-pad for the successful implementation of the financial literacy campaign and several social security schemes of the Government, including the DBT scheme.

Direct Benefit Transfer (DBT)[5] Scheme launched on January 01, 2013, aims at a simpler and faster flow of funds and ensures accurate targeting of the beneficiaries, de-duplication and reduction of fraud in various Government schemes. The first phase of DBT was initiated in 43 districts and later on, 78 more districts were added in 27 schemes relating to scholarships, women, child and labour welfare. DBT was further expanded across the country on December

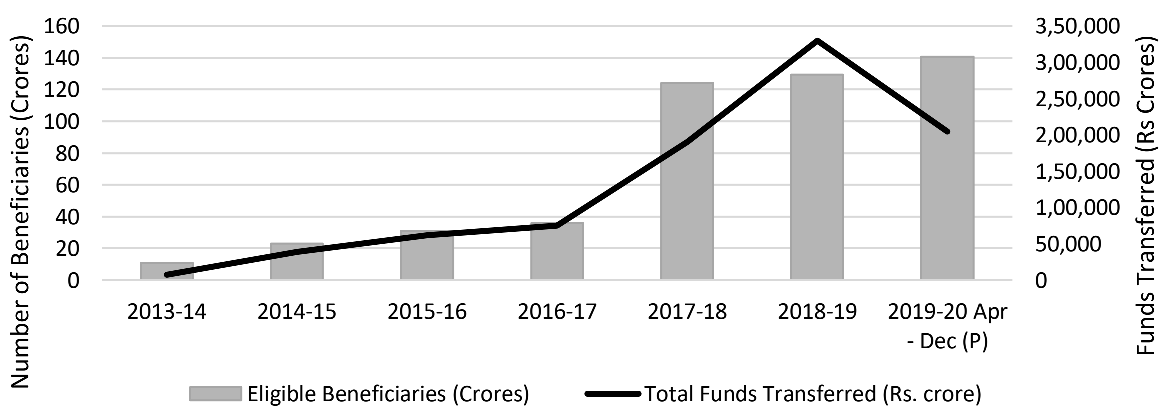
[4] https://pmjdy.gov.in/account (Extracted on April 17, 2020)
[5] https://dbtbharat.gov.in

12, 2014. While Aadhaar is not mandatory in DBT schemes, it is useful in targeting the intended beneficiaries. While the Jan-Dhan account and the Aadhaar verification established the due diligence part of the beneficiary, the transactions and confirmation of transactions were done through mobile phones. Thus the JAM trinity, namely, Jan-Dhan, Aadhaar and Mobile are great enablers of the DBT scheme. DBT brings efficiency, effectiveness, transparency and accountability in the Government system and infuses the confidence of citizen in the governance. The progress of DBT is presented in table 2 and figure 1.

**Table 2: Overall Progress of Direct Benefit Transfer (DBT)[6]**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 Apr – Dec (P) |
|---|---|---|---|---|---|---|---|
| **No of DBT Schemes** | 28 | 34 | 59 | 142 | 437 | 440 | 433 |
| **Total Funds Transferred (₹ Crore)** | 7,368 | 38,926 | 61,943 | 74,689 | 190,871 | 329,796 | 204,394 |
| **Cash schemes** | 7,368 | 38,926 | 61,943 | 74,689 | 170,292 | 214,092 | 108,190 |
| **Eligible Beneficiaries (Crore)** | 10.8 | 22.8 | 31.2 | 35.7 | 124 | 129.2 | 140.7 |
| With over 22 Crore annual transactions, DBT has resulted in an estimated cumulative savings of ₹ 1.42 lakh crores[7] for the Government up to March 2019 and ₹ 1.70 lakh crores up to December 2019. Details are provided in Section 3 of this report. | | | | | | | |

**Figure1: Progress of DBT**




[6] https://dbtbharat.gov.in/page/frontcontentview/?id=NjU= (Extracted on April 17, 2020)

[7] Improving the delivery of direct benefit transfers (June 2019), International Initiative for Impact Evaluation, https://www.3ieimpact.org/events/seminars/improving-delivery-direct-benefit-transfers-india

As seen in the above chart, the scope and coverage of DBT have expanded very fast especially during the last three years by covering more than 400 Government schemes and reaching out to more than 140 crore beneficiaries of various schemes. The number of beneficiaries under DBT has registered a fast growth during the initial years and gradually the numbers have stabilized. This is a phenomenal success and banks have played a key role in providing the last mile connectivity for the beneficiaries.

### B. Pradhan Mantri Awas Yojana (Urban)

Pradhan Mantri Awas Yojana (Urban)[8] [PMAY (U)] Mission launched on June 25, 2015, intends to provide housing for all in urban areas by the year 2022. The mission provides central assistance to the implementing agencies through States/Union Territories (UTs) and Central Nodal Agencies (CNAs) for providing houses to all eligible families/ beneficiaries against the validated demand for houses for about 1.12 crore beneficiaries. As per PMAY (U) guidelines, the size of a house for the Economically Weaker Section (EWS) could be up to 30 sq. mt. carpet area, however, States/UTs have the flexibility to enhance the size of houses in consultation and approval of the Ministry. Further, in continuation to the Government's efforts towards the empowerment of women from Economically Weaker Section (EWS) and Low Income Group (LIG), PMAY (U) has made a mandatory provision for the female head of the family to be the owner or co-owner of the house under this mission. As of December 2019, more than one crore houses were sanctioned under the scheme.

A beneficiary is defined as a family comprising of husband, wife and unmarried children, not owning a pucca house either in his/her name or in the name of any member of his/ her family in any part of India. A basket of options is adopted to ensure the inclusion of a greater number of people depending on their income, finance and availability of land through the following four options namely, **(1)** "In-situ" Slum Redevelopment (**ISSR**), **(2)** Credit Linked Subsidy Scheme (**CLSS**), **(3)** Affordable Housing in Partnership (**AHP**), and **(4)** Beneficiary-led individual house construction/enhancements (**BLC**).

These schemes are briefly described below:

[8] https://pmaymis.gov.in/# (Extracted on April 17, 2020)

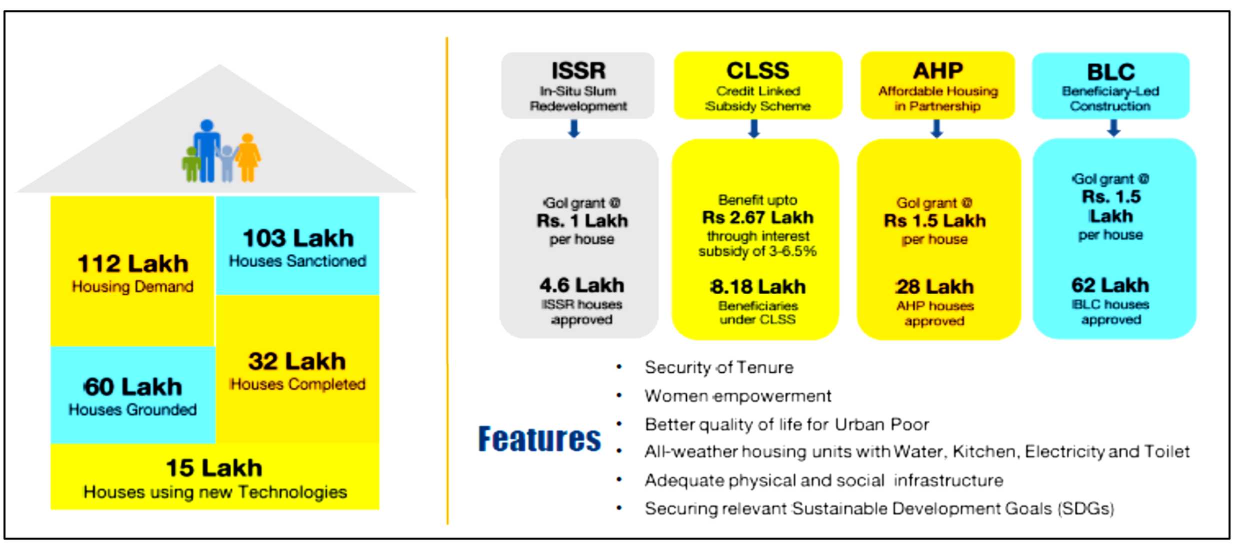
**ISSR**- Central assistance of ₹ 1 lakh per house is admissible for all houses built for eligible slum dwellers under the component of In-situ Slum Redevelopment (ISSR) using land as a resource with the participation of private developers.

**CLSS**- Under Credit-Linked Subsidy Scheme (CLSS), interest subsidy up to ₹ 2.67 lakh per house is admissible for beneficiaries of EWS/LIG, Middle Income Group (MIG)-I and Middle Income Group (MIG)-II seeking housing loans from banks, housing finance companies and other such institutions for acquiring/constructing houses. The interest subsidies of 6.5%, 4% and 3% on loan amount up to ₹ 6 lakh, ₹ 9 lakh and ₹ 12 lakh are admissible for a house with a carpet area of up to 60, 160 and 200 sq. mt. for EWS/LIG, MIG I and MIG II respectively.

**AHP** – Under Affordable Housing, Central Assistance of ₹ 1.5 Lakh per EWS house is provided by the Government of India in projects where at least 35% of the houses in the projects are for the EWS category and a single project has at least 250 houses.

**BLC** – Under Beneficiary led Construction, central assistance of ₹ .1.5 lakh is available to individual eligible families belonging to EWS categories to either construct new houses or enhance existing houses on their own to cover the beneficiaries who are not able to take advantage of any other component of the mission.

**Figure 2: Progress of the PM Awas Yojana (U)**



The progress of the PM Awas Yojana (U) is depicted in figure 2[9]. As of December 2019, 103 lakh houses were sanctioned, and 32 lakh houses were completed. Further, 15 lakh houses were constructed using new technologies. Beneficiary led construction schemes registered the highest number of beneficiaries at 68 lakh as on December 2019.

### C. Pradhan Mantri Mudra Yojana

Pradhan Mantri Mudra Yojana (PMMY) was launched along with the launching of MUDRA on 08 April 2015. Micro Units Development & Refinance Agency Ltd (MUDRA)[10] was set up by the Government of India as a wholly-owned subsidiary of Small Industries Development Bank of India (SIDBI) with 100% capital being contributed by it. Presently, the authorized capital of MUDRA is ₹ 1000 crore and paid-up capital is ₹ 750 crore, fully subscribed by SIDBI. MUDRA was formed with the primary objective of developing the micro-enterprise sector in the country by extending various support including financial support in the form of refinancing. Its role has expanded and at present, MUDRA provides refinance, monitors the PMMY data by managing its web portal, and facilitates offering guarantees for loans granted under PMMY. Target groups for PMMY are Non–Corporate Small Business Segment (NCSB) comprising proprietorship /partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits and vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas. The Agency-wise performance of the scheme is presented in table 3 (MUDRA AR, 2018-19).

[9] Ministry of Housing and Urban Affairs Report dated December 27, 2019

[10] https://mudra.org.in/AboutUs/Genesis (Accessed on April 15, 2020)

**Table 3: Agency Wise Performance**

**Agencywise performance**

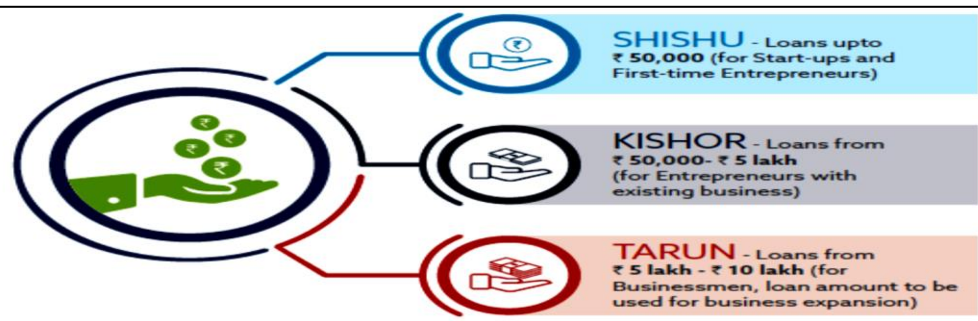
(₹ in crore)

| Agency | Target (2018-19) | Sanction Amt. (2018-19) | Sanction Amt. (2017-18) | Growth (%) |
|---|---|---|---|---|
| Public Sector Banks (including SBI) | 1,08,690 | 99,234.96 (91%) | 92,492.68 | 7% |
| Regional Rural Banks | 20,560 | 18,046.89 (88%) | 15,454.51 | 17% |
| Private Sector Banks (including Foreign Banks) | 57,850 | 64,037.25 (111%) | 49,545.11 | 29% |
| Small Finance Banks | 25,000 | 29,794.37 (119%) | 19,022.89 | 57% |
| NBFC & Non NBFC-MFIs | 55,850 | 63,470.97 (114%) | 50,143.75 | 27% |
| Non-Banking Finance Companies | 32,050 | 47,136.75 (147%) | 27,018.16 | 74% |
| **Total** | **3,00,000** | **3,21,722.79 (107%)** | **2,53,677.1** | **27%** |

Note: The figures in the parenthesis indicate the percentage achievement over targets.

Further, the category-wise performance of loans granted under the PMMY is presented in table 4 (Source – MUDRA Annual Report, 2018-19).

**Table 4: Category Wise Performance**




**Categorywise analysis of PMMY scheme**

(₹ in crore)

| Category | No. of loan accounts (FY 2018-19) | Sanction Amt. (FY 2018-19) | Sanction Amt. (FY 2017-18) | % change |
|---|---|---|---|---|
| Shishu | 5,15,07,438 (86%) | 1,42,345.25 (44%) | 1,06,001.6 (41.78%) | 34% |
| Kishor | 66,06,009 (11%) | 1,04,386.68 (32%) | 86,732.15 (34.19%) | 20% |
| Tarun | 17,56,871 (3%) | 74,990.86 (23%) | 60,943.36 (23.20%) | 23% |
| **TOTAL** | **5,98,70,318** | **3,21,722.79** | **2,53,677.10** | **27%** |

Note: Figures in parenthesis indicate the share in percentage.

As evident from the above tables, the benefit of PMMY has reached about 6 crore small businesses during 2018-19 and thereby has provided them with the necessary funding to carry out their businesses with ease and efficiency. Under the scheme, banks have been mandated not to insist on collateral security in the case of loans up to ₹ 10 lakh extended to the units in the micro and small enterprises sector. Among the three categories of the scheme, Shishu loan had the highest share of 86% in terms of the number of accounts, which indicates wide coverage of beneficiaries. MUDRA Card, a Rupay debit card, is issued against working capital limits issued under PMMY. PMMY continues to be a major initiative of the Government of India providing credit to millions of unfunded micro-units in the country. The programme has so far benefited 18.25 crore loan accounts with a sanction of ₹ 8.93 lakh crore in the first four years of existence of the scheme.

### D. Pradhan Mantri Jan Arogya Yojna

Pradhan Mantri Jan Arogya Yojna (PM-JAY)[11] is the second component of Ayushman Bharat, besides Health and Wellness Centres. PM-JAY was launched on September 23, 2018. PM-JAY is the largest health assurance scheme in the world which aims at providing a health cover of ₹ 5 lakh per family per year for secondary and tertiary care hospitalization to over 10.74 crore poor and vulnerable families (approximately 50 crore beneficiaries) that form the bottom 40% of the Indian population, without any cost to them. The beneficiary households are included based on the deprivation and occupational criteria of Socio-Economic Caste Census 2011 for rural and urban areas respectively. PM-JAY is the world's largest health insurance/ assurance scheme fully financed by the government. It provides cashless access to health care services for the beneficiary at the hospitals. Up to 3 days of pre-hospitalization and 15 days post-hospitalization expenses such as diagnostics and medicines are covered under the scheme. The benefit of ₹ 5 lakh can be used by one or all members of the family and there is no cap on family size or age of members. A dedicated PM-JAY family identification number is allotted to eligible families. The beneficiaries only need to present their ration card or any other government recognized photo identity document. It is a path-breaking scheme aimed at the public health and welfare of deprived sections of society. As on September 22, 2019, the position of empanelment of hospitals and hospital admissions under the scheme is presented in table 5[12].

[11] https://pmjay.gov.in/about/pmjay (Extracted on April 17, 2020)
[12] Ibid

**Table 5: Empanelment of Hospitals**

| Metric | Public | Private | Total |
|---|---|---|---|
| Hospitals | 8,571 | 9,665 | 18,236 |
| Hospital admissions | 21.8 lakh | 24.7 lakh | 46.5 lakh |
| Amount for Hospital Admissions | 2,846 crore | 4,644 crore | 7,490 crore |

The above shows that up to September 2019, more than 46 lakh cases of hospitalization were handled under the scheme. The National Health Authority (NHA) responsible for the conduct of the scheme is taking active steps for further expansion and capacity building for ensuring quality medical care under the scheme.

### E. Pradhan Mantri Fasal Bima Yojana

Pradhan Mantri Fasal Bima Yojana (PMFBY)[13] aims at supporting sustainable production in the agriculture sector by -

**a)** Providing financial support to farmers suffering from crop loss/damage.

**b)** Stabilizing income of farmers against crop losses.

**c)** Encouraging farmers to adopt innovative and modern agricultural practices.

**d)** Ensuring the flow of credit to the agriculture sector.

**e)** Enhancing the growth and competitiveness of the agriculture sector.

The Scheme covers all food and oilseeds crops and annual commercial/horticultural crops for which past yield data is available and are a part of the General Crop Estimation Survey (GCES). This scheme is compulsory for loanee farmers and is voluntary for non-loanee farmers who have an insurable interest in the insured crop(s). The maximum premium payable by the farmers is 2% for all Kharif food & oilseeds crops, 1.5% for Rabi food & oilseeds crops and 5% for annual commercial/horticultural crops. Any difference between premium and the rate of insurance charges payable by farmers is shared equally by the Central and State Governments. Its key features are as under.

***a)*** **Coverage of Farmers:** The scheme covers loanee farmers (those who have taken a loan), non-loanee farmers (voluntarily), tenant farmers, and sharecroppers.

***b)*** **Coverage of Crops:** Every state has notified crops (major crops) for the Rabi and Kharif seasons. The premium rates differ across seasons.

[13] https://pmfby.gov.in/ (Accessed on April 16, 2020)

c) **Premium Rates:** The PMFBY fixes a uniform premium of two per cent of the sum insured, to be paid by farmers for all Kharif crops, 1.5 per cent of the sum insured for all Rabi crops, and five per cent of the sum insured for annual commercial and horticultural crops or actuarial rate, whichever is less, with no limit on government premium subsidy.

d) **Area-Based Insurance Unit:** The PMFBY operates on an area approach. Thus, all farmers in a particular area must pay the same premium and have the same claim payments. The area approach reduces the risk of moral hazard and adverse selection.

e) **Coverage of Risks:** It aims to prevent sowing/planting risks, loss to standing crop, post-harvest losses and localised calamities. The sum insured is equal to the cost of cultivation per hectare, multiplied by the area of the notified crop proposed by the farmer for insurance.

f) **Innovative Technology Use:** It recommends the use of technology in agriculture. For example, using drones to reduce the use of crop cutting experiments (CCEs), which are traditionally used to estimate crop loss; and using mobile phones to reduce delays in claim settlements by uploading crop-cutting data on apps/online.

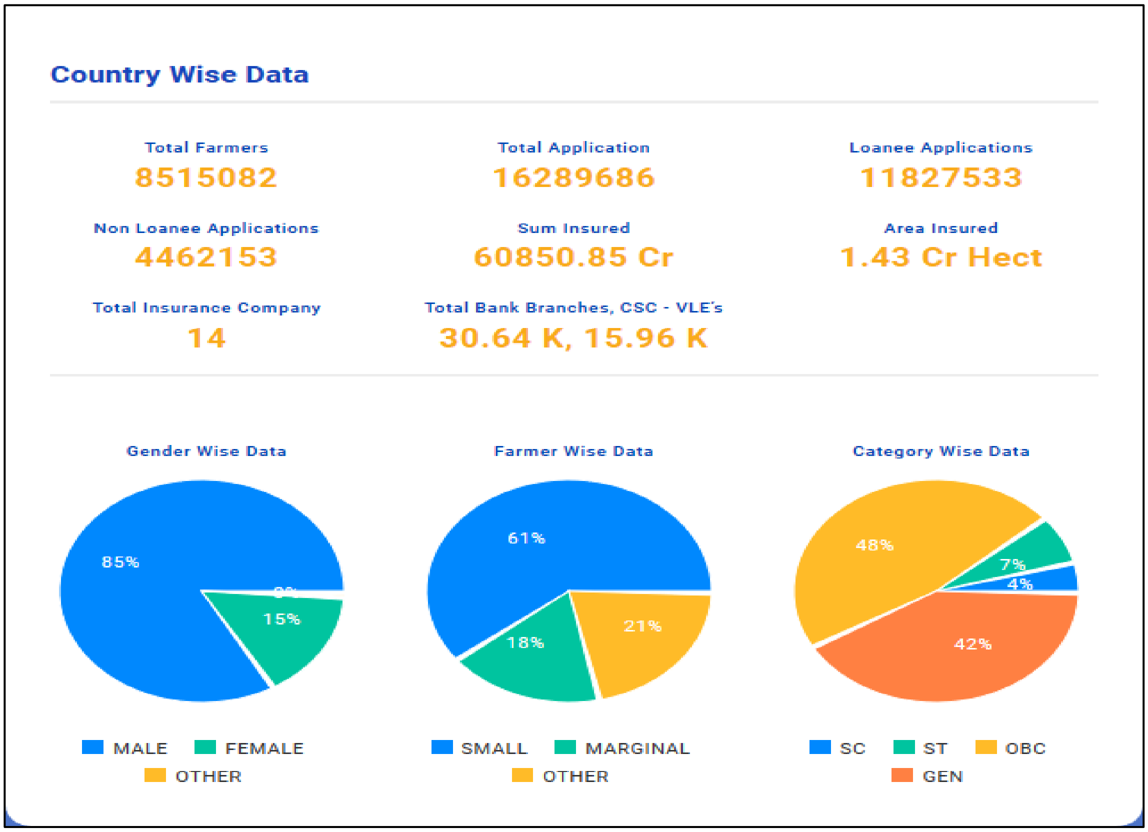
g) **Cluster Approach for Insurance Companies**: It encourages L-1 bidding amongst insurance companies before being allocated to a district to ensure fair competition. A functional insurance office will be established at the local level for grievance redressal, in addition to a crop insurance portal for all online administration processes.

The PMFBY was implemented to ensure transparency, availability of real-time data and an accurate assessment of yield loss. The state-run Agriculture Insurance Company of India (AIC), which has been allocated the largest number of districts under the scheme, handles insurances in other districts and states. The others are the United India Insurance, New India Assurance and Oriental Insurance, and private general insurers such as HDFC ERGO, ICICI Lombard, Reliance GI and Iffco-Tokio. Figure 3 presents its coverage. Up to March 2020, the scheme has received 1.63 crore applications for insurance coverage amounting to ₹ 60,850.85 crores.

### IV. Social and Economic Impact of Government Measures

Government schemes undertaken through several schemes aim at public welfare in general and targeted delivery of benefits for certain identified groups. Government measures intended for improvements in the social sectors like education, health care, and sanitation leaves a profound impact on the quality of life of the people through the delivery of goods and services as well as to the productivity of the economy through enhanced government expenditure. Interventions made to reach out to all sections of the society includes expanding the reach through people's participation, awareness generation, technology use, and direct benefit transfer.

**Figure 3: PMFBY Coverage**




Several Government measures have made a positive impact. Jan-Dhan Yojana has a multiplier positive effect on the smooth implementation of several other schemes and the direct benefit transfers. DBT has been able to plug the slippages and reach out to the real beneficiaries. DBT and consequent administrative reforms have led to the removal of fake beneficiaries and plugging of leakages, as a result of which the government has been able to target the genuine and beneficiaries. Estimated savings/ benefits from some of the Schemes are as under[14] (Table 6):

[14] https://dbtbharat.gov.in/estimatedgain (Extracted on April 22, 2020)

| Table 6: Benefits/ Savings to Government due to DBT | | | |
|---|---|---|---|
| Sr. | Ministry/ Department | Estimated Savings / Benefits (in ₹ crore) | Remarks |
| | | Cumulative up to December 2019 | |
| 1 | Department of Fertilizers | 10,000.00 | Reduction of 120.88 lakh metric tonnes of fertilizer sale to retailers. |
| 2 | Department of Rural Development | 24,162.09 | Based on field studies, Ministry has estimated 10% savings on wages on account of deletion of duplicate, fake/ non-existent, ineligible beneficiaries. |
| 3 | Department of Rural Development | 518.04 | Deletion of 5.55 lakh duplicate, fake/ non-existent, ineligible beneficiaries (including some due to migration, death etc.). |
| 4 | Ministry of Women and Child Development | 1,523.75 | Reduction of 98.8 lakh duplicate, fake/non-existent beneficiaries. |
| 5 | Others | 1,120.69 | General measure (not ministry specific) |
| 6 | Ministry of Petroleum and Natural Gas | 65,661.00 | 4.54 Crore duplicate, fake/ non-existent, inactive LPG connections eliminated. Besides there are 1.66 crores non-subsidized LPG consumers, including 1.03 crore 'Give It Up' consumers. |
| 7 | Department of Food and Public Distribution | 66,896.87 | Deletion of 2.98 crore duplicate and fake/ non-existent ration cards (including some due to migration, death etc.) |
| 8 | Ministry of Minority Affairs | 159.15 | Deletion of 5.26 lakh duplicate, fake/ non-existent beneficiaries. |
| 9 | Department of Social Justice and Empowerment | 335.52 | Deletion of 1.91 lakh duplicate, fake/non-existent beneficiaries. |
| **Total Savings (₹ crore)** | | **1,70,377.11** | |

Access to health services has improved and about 76.7% of the households in the rural, and about 96% in the urban areas had houses of pucca structure, as per the NSSO Survey (2018). It has also improved upon women empowerment by giving them ownership of the house. Further, grassroots entrepreneurship driven by schemes like MUDRA, Start-up and Skill development show that a 10% increase in registration of new firms in a district yields a 1.8% increase in the gross domestic product of the district (GDDP). Thus, entrepreneurship at the bottom of the administrative pyramid has a significant impact on wealth creation at the grass-root level. For the agrarian economy, several schemes including crop insurance have provided a safety net for the farmers. Notwithstanding the extensive coverage and efforts to improve the efficiency of the delivery of Government measures, demographic distribution and population pressure-demand concerted effort to improve the quantum of social expenditure in India.

As per the Organization for Economic Cooperation and Development (OECD), Social expenditure[15] comprises cash benefits, direct in-kind provision of goods and services, and tax breaks with social purposes. Benefits may be targeted at low-income households, the elderly, disabled, sick, unemployed, or young persons. To be considered "social", programmes have to involve either redistribution of resources across households or compulsory participation. Social benefits are classified as public when the general government (that is central, state, and local governments, including social security funds) controls the relevant financial flows. However, the net total social expenditure includes both public and private expenditure. This indicator is measured as a percentage of GDP.

Expenditure on social services in India as a proportion of GDP has increased by 1.5% during the period 2014-15 (6.2%) to 2019-20 (7.7%)[16]. However, it is still way below the OECD average of 20.1% of GDP. Most of the European countries spend much more as social expenditure than the OECD average. The position is shown in figure 4.

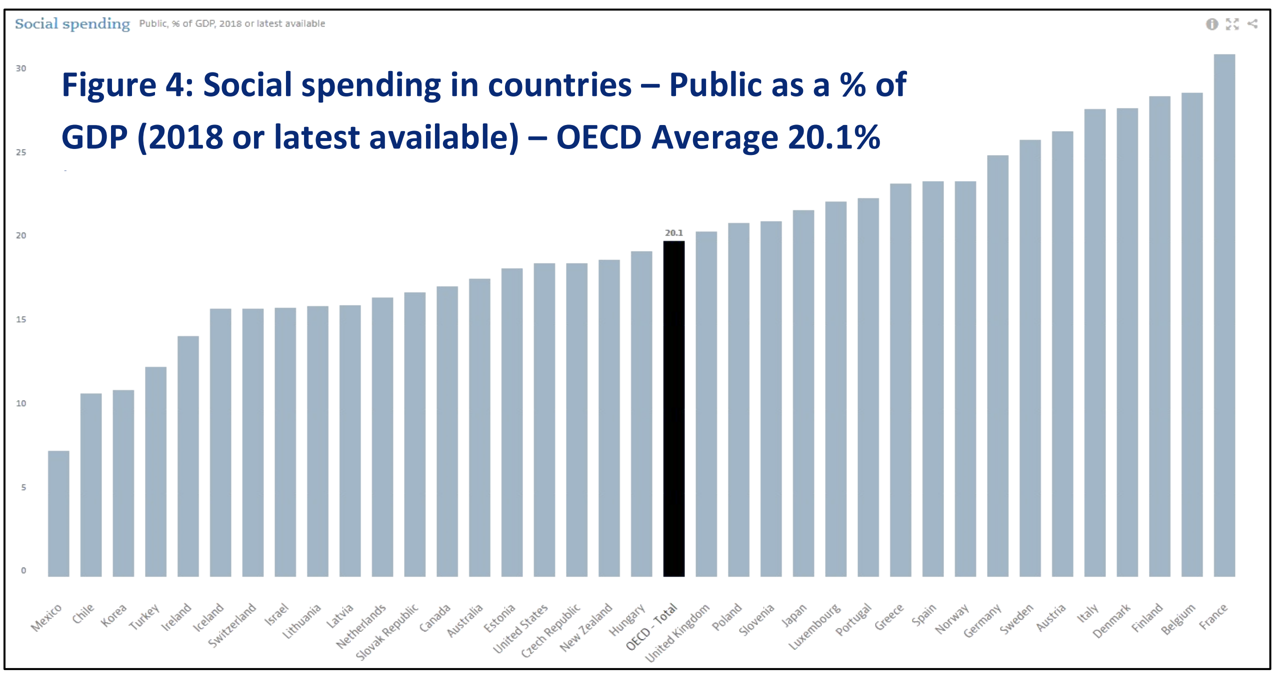



**Figure 4: Social spending in countries – Public as a % of GDP (2018 or latest available) – OECD Average 20.1%**

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[15] OECD, https://data.oecd.org/socialexp/social-spending.htm (Cited on April 18, 2020)

[16] Economic Survey 2019-20, Government of India, https://www.indiabudget.gov.in/economicsurvey/doc/vol2chapter/echap10_vol2.pdf (Accessed on April 18, 2020)

There is a need for expanding social expenditure in India as well, subject to fiscal constraints. One way of augmenting such spending is by way of encouraging private expenditure in the social infrastructure. It is evident from the foregoing discussion that Government measures have a significant socio-economic impact on the lives and livelihood of people. Besides government agencies, banks also play a crucial role in the delivery and last-mile reach of such measures. Several impact evaluations undertaken by various agencies have come out with an assessment of the efficacy of schemes and have also identified areas of improvements.

## V. Impact Evaluation of Government Schemes

The following paragraphs present a summary of evaluations done by external agencies on the impact and effectiveness of Government Schemes.

**1. Assessment of Pradhan Mantri Jan-Dhan Yojana (PMJDY)**

While PMJDY has been a phenomenal success, the usage levels of bank accounts continue to be low. The World Bank Findex Report (2017) noted that 48% of these accounts remained active, almost twice the world average of 25%. However, only 7% of adults in India reported using their accounts for savings. Effectively, most of these accounts are typically pass-through[17]. The government transfers the subsidy into these accounts, which are subsequently withdrawn by the recipients. There is generally no regular engagement with the system due to the low-income levels of the people. Further, there are also challenges in ensuring last-mile connectivity. Problems relating to insufficient income for banking correspondents (BCs), and deficiency in training, supervision and infrastructure for these last-mile delivery agents had impeded the reach of the government's flagship scheme. Increasing the volume of transactions is key to the active utilization of accounts, which can also make it remunerative for BCs. Ensuring that the poor have bank accounts was only a part of the government's strategy to deepen financial inclusion. To ensure greater engagement with the system, schemes like DBT and convergence of several schemes is necessary.

**2. Assessment of PM Awas Yojana (Urban) (PMAY-U)**

The mission of Pradhan Mantri Awas Yojana (Urban) is to provide 'housing for all' in urban areas by the year 2022 through four schemes having a component of central assistance/ subsidy. The scheme has resulted in both direct and indirect benefits.

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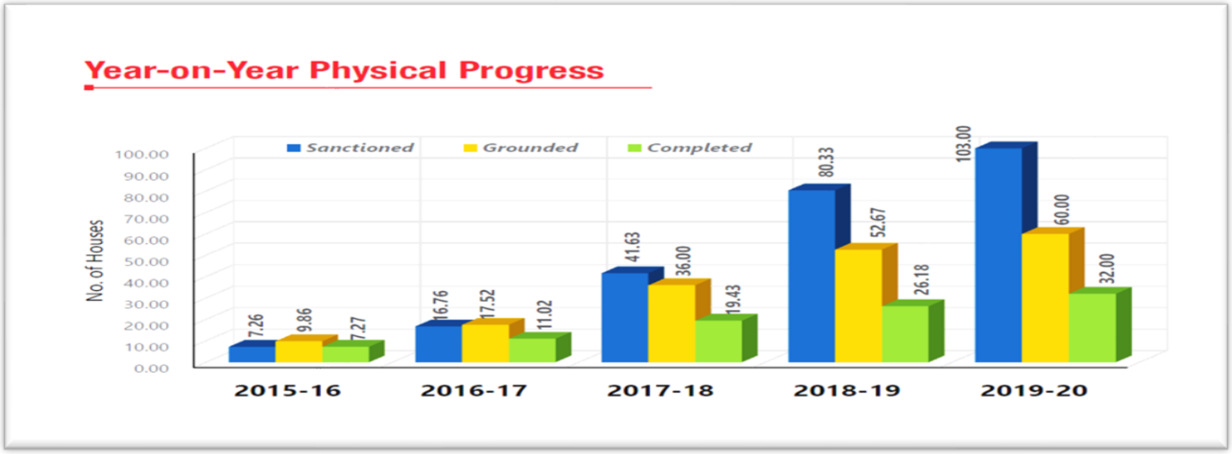
[17] https://www.ibef.org/news/four-years-of-modi-govt-jan-dhan-yojana-brings-down-inequality-leakage (accessed on April 22, 2020)

**(a) Direct Impact**: In the case of the PMAY (U) scheme, the direct impact can be assessed by the number of houses sanctioned and built under the scheme vis-à-vis the target set by the government. The year-wise progress of the schemes is presented in figure 5.

**(b) Indirect Impact**: A few indirect benefits of the PMAY (U) have been identified as employment generation and boost to allied sectors such as banking, housing finance, real estate & related sectors (mainly cement and steel) and the transport sector. As per the Ministry of Housing and Urban Affairs report, there has been an employment generation of 1.20 crore through backward and forward linkages. There has been an increase in demand for steel, cement, transport, electrical/ plumbing/ furnishing goods, which helps in further fueling the economic growth of the country. The scheme has also helped the banking and housing finance sectors. The growth of the real estate sector also impacts the economy positively.

**Figure 5: Year on Year Progress of PMAY (U)**




**3. Assessment of Pradhan Mantri Mudra Yojana (PMMY)**

The following paragraphs present a summary of the impact assessment[18] of PMMY in the National Capital Territory (June 2018) by the Public Policy Research Centre.

(a) **Impact on job generation** - Improving access to finance to micro-entrepreneurs has been found to have a positive correlation with employment generation. A multiplier effect through

18 http://pprc.in/upload/Impact%20Study%20of%20Mudra%20Yojana.pdf (accessed on April 22, 2020)

indirect job generated by MUDRA beneficiaries was significant and helped provide livelihood avenues for semi-skilled and unskilled people.

(b) **MUDRA's Multiplier Effect -** The MUDRA scheme has been a key instrument for creating livelihoods and jobs for the lowest socio-economic segments. The employment multiplier for all MUDRA loan segments is more than one which is the minimum employment created per MUDRA loan. 37% of all beneficiaries in the sample set for impact assessment created new jobs.

(c) **MUDRA fueled the growth of micro-enterprises and informal sector** – Addressing the financial requirements for working capital and expansion such as new machinery, product/service diversification, manpower, client outreach etc. About 78% of the beneficiaries used the loan for expanding their current businesses. The funds were mostly used for buying new equipment, diversifying product range and increasing the consumer base.

(d) **Alternative to private money lenders** - MUDRA yojana is an alternative solution to those turning to local money lenders lending at usurious rates. Moderate interest rates and collateral-free finance have enabled many to access financial help through these means. The scheme also places the beneficiaries in direct contact with banks/registered financial institutions thereby effectively eliminating middlemen.

(e) **The impetus to entrepreneurship** – About 22% of the beneficiaries used the loan for setting up new businesses. About 6% of the respondents were unemployed and started a new business with the loan and another 9% quit their existing jobs and became self-employed.

(f) **Many first-time loan takers** - The MUDRA Yojana has also been successful in attracting many first-time loan takers because of factors such as – ease of access, low interest rates, collateral-free and an element of security. In the sample set surveyed, 80% of the beneficiaries were the ones who took loan for their business for the first time.

(g) **Awareness** - Banks emerged as the major source of awareness creation among the masses with 49% of them stating banks as their first source of information. Many branches took proactive initiatives such as holding loan camps, sending representatives to nearby locales to spread awareness. However, there was a need to further create awareness about the scheme.

**(h) Mentorship** - Handholding with the new entrepreneurs such as financial advice, business/ trading advice, managing accounts etc. was needed for further success of the scheme.

**(i) Skill Development –** Skill training to the people availing the loans would help to maximize the impact of the scheme along with making it more viable at the end of the beneficiary. Combining the efforts of Skill-India with this scheme could be a game-changer.
With over 56% of borrowers under PMMY belonging to SC, ST and OBC, the scheme led to the empowerment of marginalized and economically disadvantaged sections of our society.

**4. Assessment of Pradhan Mantri Jan Arogya Yojana (PM-JAY)**

PM-JAY aimed at providing health assurance cover for more than half a billion people of the country. It is the biggest government-funded healthcare system in the world. As the scheme was launched only one and half year back, in September 2018, the desired impact of the scheme is yet to be felt at the grassroots level. A study conducted by three professors of IIT, Madras[19], in three states namely, Bihar, Haryana and Tamilnadu, has revealed the following:

**(a)** Low level of awareness about the scheme is observed in general. In Bihar and Haryana, only 9.84% and 12.41% of households were found to be aware of the scheme.

**(b)** Of the households which were aware of the scheme, not many understood the process of identification. Further, there was a lack of knowledge of empanelled hospitals.

However, the major benefit of the scheme is that it has challenged the status quo in the healthcare delivery system in the country. Over time, as the awareness level about the scheme will improve in the masses, the potential benefits of the scheme will be realized.

Further, the impact has been more in the relatively developed states, namely, Gujarat, Tamil Nadu, Karnataka, Chhatisgarh, Maharashtra and Andhra Pradesh than in the other states, namely, Bihar, Haryana, West Bengal, Uttar Pradesh and Uttarakhand. Since health is a state subject, gradual adoption and amalgamation of state government schemes with PM-JAY, the coverage and impact are expected to improve further.

**5. Assessment of Pradhan Mantri Fasal Bima Yojana (PMFBY)**

The following paragraphs present a summary of the impact assessment[20] made by the Observer Research Foundation, New Delhi.

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19 https://www.orfonline.org/research/ayushman-bharat-pmjay-at-one-a-step-closer-to-universal-health-coverage-55807/https:/www.google.co.in/?gws_rd=ssl (accessed April 22, 2020)

20 https://www.orfonline.org/research/pradhan-mantri-fasal-bima-yojana-an-assessment-of-indias-crop-insurance-scheme-51370/ (accessed on April 22, 2020)

(a) The assessment points out that in certain states, land lease laws must be changed to achieve larger participation in the welfare programme. The land policy must be dynamic to prevent transformations from stalling, an important concern that needs cooperative federalism to achieve higher productivity in this sector.

(b) Many male farmers move to urban areas for better opportunities, leaving the tenant farmers to take care of the farms. It is crucial to include tenant farmers and sharecroppers for the coverage.

(c) Instances of claims not being honoured and insurance companies making high profits without the benefits trickling down to the farmers can cause a trust deficit and erode the credibility of the scheme. This problem is sometimes caused by the state government's inability to pay the subsidy premiums on time. This leads to insurance companies delaying or not making claim payments.

(d) Payment of claims gets delayed due to reasons such as the delayed transmission of yield data, late release of their share in premium subsidy by some states, yield-related disputes between insurance companies and states, non-receipt of account details of some farmers for transfer of claims, etc. These need to be addressed suitably.

(e) Finally, by riding on an insurance model backed by private and public partnership along with technological advancements, the PMFBY scheme can include and protect the vulnerable farming population, by not only acting as an insurance scheme but also leading to the financialization and formalization of the economy.

### VI. Role of banks, challenges and the measures undertaken

It is a fact that access to finance and banking is a critical factor in enabling people to transform their lives and livelihood. While the fundamental activity of the banking, delivery of credit is essential to boost any economic activity, bringing last-mile delivery of benefits of various Government measures to beneficiaries also hinges to a great extent on the efficiency of the banking system. The JAM Trinity – Jan Dhan Bank Accounts: Aadhar: Mobile Connectivity has enabled quicker and efficient delivery of the benefits of Government schemes. While banks are directly responsible for the executions of various Government Sponsored Schemes, they are also part of the public welfare ecosystem in various capacities. However, banks do face certain challenges in the discharge of their responsibilities. Some of these challenges are listed as under-

- Execution of Government schemes puts a lot of pressure on the human and physical resources of banks mainly because of the enormity of the transactions and the huge number of beneficiaries.
- Many banks branches face staff constraints especially in rural areas where the pressure of delivering the benefits of schemes remains manifold.
- Beneficiaries of the Government schemes generally lack basic financial literacy and therefore, banks face a lot of difficulty in handling transactions.
- Several Government schemes such as, crop insurance, housing for all, etc. have different modules and on-boarding process for banks, which makes it difficult for the bank staff to handle the transactions.
- In the case of targeted credit deliveries, bankers struggle against the time which may potentially lead to delinquencies.
- Besides handling and processing transactions, banks also need to provide the data and reports relating to disbursements, progress, etc. This also puts strain on the bank's resources.
- Funds management also poses a challenge in cases where a time lag exists between disbursement and recovery from the respective Government Authorities.
- Bankers also need to carry out a lot of coordination between various Government agencies, insurance companies, other organizations and agencies, which consumes time and manpower.
- There are also issues in the compatibility of technology used by various banks, which strains the quality of service.

Banks on their part and in collaboration with the Government have undertaken several steps to handle the challenges better and improve efficiency. Financial literacy campaigns run by several agencies and the use of BCs have eased the pressure of bank staff to some extent. Increasing use of technology for data flows and automation of reports have also made the job a little easier. Various Government implementation agencies have run campaigns for creating awareness and have also instituted helpline and grievance redressal mechanism so that the beneficiaries can directly reach out to them. With improved coordination and better understanding between the implementation agencies and banks, Government schemes have rapidly expanded and improved their last-mile delivery.

## VII. Suggestions and Way Ahead

Government measures for improving the social infrastructure, entrepreneurship, social security, housing, sanitation, credit delivery, etc. through various schemes have a huge gamut of operations. Banks play a very crucial role in the entire value chain of last-mile delivery of benefits under the schemes. With the increasing use of technology, direct benefit transfers have proved to be a game-changer in plugging the leakages and improving the delivery of benefits. Based on the study, the following suggestions are made to further improve the effectiveness and reach of the Government measures.

**(i)** It is imperative to ensure the targeted delivery of benefits to rightful beneficiaries in an efficient manner. DBT is a game-changer in this direction. Going forward, efforts should be made to increasingly subsume all government subsidy schemes under direct benefit transfers (DBT). While this will improve last-mile delivery, at the same time, market-distorting malfunctions of subsidies will also be minimized.

**(ii)** It is also necessary to expand the expenditure for the social sector within possible fiscal space, as the budget allocation of India at 7.7% of GDP (FY 2019-20), despite registering an increase over previous years, was still much below the OECD average of 20.1%.

**(iii)** Increasing the scope and coverage of private investments in the creation, maintenance, and management of social infrastructure will also be helpful.

**(iv)** There is a need to enhance the awareness about Government schemes such as PM Awas Yojana, PM Jan Arogya Yojana, etc., so that the maximum number of eligible citizen can obtain benefits out of the schemes. Lack of awareness about the process flow, documentation, service-points, nodal agencies/ nodal officer, etc. of the schemes did not allow the schemes to achieve their full potential.

**(v)** There is a need to build synergy amongst the schemes to achieve wider and effective coverage. Several Government initiatives such as Swachh Bharat, Ayushman Bharat, Ujjwala, Awas Yojana, etc. are closely linked with each other to provide a better quality of life to people. Adoption of a holistic approach to the execution of schemes helps in improved planning, delivery, and cost-effectiveness.

**(vi)** Banks play an important role in the successful execution and last-mile delivery of Government schemes. They should also be made a stakeholder in the value chain and their feedback should be obtained for improving the execution and delivery of schemes. Due to their close interface with customers, banks can also play a huge role in increasing awareness about the schemes.

**(vii)** Close Centre-State coordination holds the key to the effective execution of schemes, such as PM-JAY, and PMFBY. Elimination of duplication of efforts and resources is highly important.

**(viii)** There is a need to iron out administrative bottlenecks in the execution of schemes like PMFBY which leads to delays and hassles in the settlement of farmers' claims.

**(ix)** For schemes like MUDRA to be successful, there is a need to assist the borrowers with necessary managerial and skill development programmes. There is also a need for close coordination among PMMY, Skill-India, and Start-up India programmes.

**(x)** Jan-Dhan Scheme should now expand to place greater focus upon the use of bank accounts, encouraging digital financial inclusion, and developing financial literacy.

## VIII. Limitations and Future Scope of Work

This study is based on the published sources of information and the official data available on the respective government websites. All the data, facts and analysis used in the study have been suitably acknowledged through footnotes. It is possible to undertake field studies to see the schemes at work and to further understand their impact on socio-economic development.

## References/ Data Sources


(a) https://pmaymis.gov.in
(b) https://pmay-urban.gov.in
(c) https://www.pmjay.gov.in
(d) https://pmfby.gov.in
(e) https://www.mudra.org.in
(f) https://dbtbharat.gov.in
(g) Specific data sources indicated as footnotes.

# Good Practices for Farmer Producer Organisations

\- ***Pankaj Setiya***[1]

A "Farmers Producer Organisation" (FPO) is a type of PO where the members are farmers. It is formed by a group of farmer producers for either farm or non-farm activities. The main aim of an FPO is to ensure better income for the farmers through an organization of their own. Small farmers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work in a non-transparent manner leading to a situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the farmers can avail the benefit of economies of scale and better bargaining power while buying inputs and selling produce.

The article discusses the salient features of FPOs in India, the importance of FPOs in ensuring the success of smallholder agriculture in India. It also discusses the challenges and prospects in the growth of FPOs and their financing by banks. It presents key elements of good practices for FPOs.

**Background and Objective**

1.1 **Background**

India has over 146 million farm holdings and of this, the small and marginal farm holdings (SMF) together account for 126 million or a massive 86.2 percent of the total farm holdings, as per the 10th Agriculture Census 2015-16 released in October 2018. For all the Indian farmers put together, the size of average land holding has declined to 1.08 hectares in 2015-16 from 1.15 hectares 2010-11. The 126 million SMF together own about 74.4 million hectares of land implying an average SMF holding of just 0.6 hectares each. This clearly is not enough to produce enough surpluses to financially sustain their families, explaining in part the rising distress in the farm sector.

The growing number of small farms and a declining average size of operational holdings leads to challenges in access to critical production resources. The crux of the problems faced by small and marginal farmers can be traced to their limited bargaining power and inability to benefit from the economies of scale as compared to large farmers. Of the several strategies developed and various approaches tried across the world, the group approach has proved to be more effective

[1] Shri Pankaj Setiya who is a GM, RBI & Member of Faculty, College of Agricultural Banking, Reserve Bank of India, Pune conducted a study on Good Practices adopted by FPOs in May 2020, based on which this article has been written. The views expressed in this article are personal and do not necessarily represent the official views of Reserve Bank of India. The usual disclaimers apply.

in boosting their bargaining power and scaling up the production process when compared to any individual approach.

Collectivizing farmers into **Producer Organizations (POs)** is considered as one of the better ways to overcome these challenges faced by the small and marginal farmers. The approach is considered to be helpful in integrating the farmers directly into the market, through their institutions **(producer companies/ cooperatives)** for both inputs and output and collective processing and marketing whereas production is largely left to the individual small farmers. But integrating small farmer producers is often challenging due to several factors like (i) small farmers are not a homogenous group and majority of them lack entrepreneurial abilities (ii) dispersed locations posing problems in logistics like packaging, storing, and aggregation and also in organizing them into collectives, (iii) production in small quantity and absence of primary processing and value addition leading to poor bargaining power.

Farmers' cooperatives in India have been in existence for quite some time but the model of cooperatives, for some reason, has worked well only in the case of milk and sugarcane. During the last few years, several initiatives have been taken by various entrepreneurs, governments, and other stakeholders to harness the power of 'collectives' in a manner different from the typical cooperatives. A High Powered Committee for Formation and Conversion of Cooperative Business into Companies, popularly called Alagh Committee, set up in 2000, had observed that post-independence, cooperatives have often become vehicles for Government programmes, operating with substantial government funds and personnel leading to bureaucratization and political interference. The Committee suggested a new economic enterprise called Producer Company, which has a unique blend of many features of a limited company with the principles and practices of mutual assistance and cooperation to operate under a regulatory framework similar to that of private limited companies, as an alternative for those producer cooperatives.

A growing interest has been witnessed in promoting, nurturing, and creating an enabling environment for the small and marginal farmers collectivizing them into different forms of Farmers Producer Organizations (FPOs) like Farmers Producer Companies (FPCs), Farmers Producer Cooperatives, and Farmers Producer Societies, etc. As a result, around 5000 FPOs[1] (including FPCs) have been currently established in different parts of the country, under various initiatives of the Government of India by Small Farmers' Agribusiness Consortium (SFAC), NABARD, and other organizations. Of these, around 3200 FPOs are registered as Producer Companies, and the remaining as Cooperatives and Societies[2].

Majority of these FPCs are in the nascent stage of their operations with shareholder membership ranging between 100 and 1000 farmers and require not only technical handholding support for sustainable business but also adequate capital and infrastructure facilities including market linkages. A large number of these FPCs are concentrated in a few states such as Madhya

2 Source: NABARD, National Paper on FPOs status and issues (PLP 2019-20)-(https://www.nabard.org/auth/writereaddata/CareerNotices/2309195308National%20Paper%20on%20FPOs%20-%20Status%20&%20Issues.pdf)

Pradesh, Rajasthan, Maharashtra and Bihar and are engaged in the sale of agricultural inputs such as seeds and pesticides to farmers while a few are involved in commercial seed production and even fewer in marketing or processing of output. Out of these, only a handful of FPCs have been able to become financially viable.

To put things in perspective, of the 1,696 registered FPCs in Maharashtra, 1,048 (62%) have either reported no business or were found to be non-functional in a survey released by the Department of Agriculture, Government of Maharashtra during April 2019. Of the remaining FPCs, 135 had reported turnover between Rs 7 lakhs and Rs 10 lakhs, while 204 had reported turnover between Rs 10 lakhs and Rs 50 lakhs per year. Only 104 FPCs have reported a turnover above Rs 50 lakhs[3].

It is in the context of this diversity among the existing FPOs in India that an attempt is being made in this document to discuss the good and innovative practices of FPOs that can help them to be more successful, and thereby more useful to the farmer community. This article aims at discussing good and innovative practices for Farmer Producer Organizations

## 2. Introduction to Farmers Producer Organization

### 2.1 What is a PO?

A Producer Organization (PO) is a legal entity formed by primary producers, such as farmers, milk producers, fishermen, weavers, rural artisans, craftsmen etc. A PO can be a producer company, a cooperative society, or any other legal form which provides for sharing of profits/benefits among the members. In some forms of PO, even a producer company itself can further become a member of another producer company, in a type of federated structure.

### 2.2. What is a POPI?

POPI refers to the Producer Organization Promoting Institutions. Any individual or institution including an NGO can promote a PO. Individual persons or institutions may promote PO using their own resources out of goodwill or with the noble objective of socio-economic development of producers. NABARD, Small Farmers' Agribusiness Consortium (SFAC), Government Departments, Corporates and domestic &international aid agencies also provide financial and/or technical support to the POPI for promotion and hand-holding of POs.

### 2.3 What is an FPO?

A "Farmers Producer Organisation" (FPO) is a type of PO where the members are farmers.

### 2.4 What is a Farmer Producer Company?

A Farmer Producer Company (FPC) is a specific type of FPO and is a hybrid between a Private Limited Company and a Cooperative Society, thus enjoying the benefits of professional management of a Private Limited Company as well as mutual benefits derived from a Cooperative

3 Source: https://indianexpress.com/article/cities/pune/over-1000-fpcs-in-maharashtra-non-functional-or-report-zero-business-5753624/

Society. The minimum paid-up Capital for an FPC is Rs. 1 lakh and the minimum authorized capital is Rs.5 lakhs, which being relatively small sums are easier to mobilize. Ten or more farmers can incorporate a Farmer Producer Company under Section 581(C) of the Indian Companies Act 1956 as amended in 2013 and there is no restriction on the maximum number of membership, which can be increased as per need and feasibility. (Source: NABARD FPO FAQs, 2015)

### 2.5 Essential features of an FPO

a. It is formed by a group of farmer producers for either farm or non-farm activities.
b. It is a registered body and a legal entity.
c. Farmers are shareholders in the organization.
d. It deals with business activities related to the primary producers.
e. It works for the benefit of the member farmers.
f. A part of the profit is shared amongst the farmers.
g. Rest of the surplus is added to its owned funds for business expansion.

### 2.6 Need for FPO

The main aim of an FPO is to ensure better income for the farmers through an organization of their own. Small farmers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work in a non-transparent manner leading to a situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the farmers can avail the benefit of economies of scale and better bargaining power while buying inputs and selling produce.

### 2.7 Ownership and Management of the FPO

The ownership of the FPO is with its members. It is an organization of the producers, by the producers, and for the producers. One or more institutions and/or individuals may promote the FPO by way of assisting in mobilization, registration, business planning, and operations. However, the ownership control is always with members, and management is done through the representatives of the members. Each FPO will have an elected Board of Management / Board of Directors as per the bye-laws. The Board can engage professionals to manage its affairs and pay them market-based remuneration out of the income of the FPO.

### 2.8 Membership procedure

All farmers residing in the relevant geography, and producing the same or similar produce, for which the FPO has been formed, can become a member of the PO. Membership is voluntary and the procedure for obtaining FPO membership depends on the bye-laws of the FPO. The founder-members are those who were there at the time of formation of the FPO, and other members join the FPO later. However, all members enjoy equal rights. A farmer can usually become a member of an FPO by submitting an application and a nominal membership fee. Some FPOs also charge an annual membership renewal fee.

## 2.9 Activities of an FPO

An FPO can undertake some or all of the following activities:

a. Procurement of inputs
b. Dissemination of market information
c. Dissemination of technology and facilitating innovations
d. Facilitating finance for inputs
e. Aggregation and storage of produce
f. Primary processing like drying, cleaning and grading
g. Brand building, Packaging, Labeling and Standardization
h. Quality control
i. Marketing to institutional buyers
j. Participation in commodity exchanges
k. Exports
l. Transportation
m. Networking

## 2.10 Challenges for FPOs

FPOs in India face shared challenges such as the organizing and collectivizing farmers, lack of leadership, recruiting skilled and motivated staff, capacity building of staff, management, and the board, non-availability of collateral-free credit at an economical rate of interest, lack of a business plan, providing appropriate agriculture extension services to members and developing appropriate backward and forward linkages in the value chains for effective interventions.

i. **Collectivization of farmers into an FPO:** Mobilization of individual farmers into a formally structured organization is not an easy task. It requires special skills and substantial efforts to convince individual producers/growers to form organizations. Every member seeks to know the potential benefits arising from joining the group. Having and sharing a vision regarding the benefits of an organized farmers' institution is what becomes significant at this stage.

ii. **Wrong motivation to form FPCs -** Some FPCs are formed only with the intention to avail subsidy support offered by the Government and NABARD. Many FPCs whose creation was driven by the desire to avail government subsidies have either become defunct or work with minimal operations.

iii. **Dearth of quality leadership -** Effective leadership and the mindset at the top level often become the main factor between success and failure. Once the hand-holding support from the promoting institution ends, FPCs are at a loss about their next step. Lack of management skills and direction affects their growth as they are often not clear about their business plan. After incorporation of the company, raising share capital and develop a business plan are important challenges for the management.

iv. **Ability to attract and retain talent**—Given the rural landscape and limited payment capacity, it is often a challenge for FPOs to attract and retain skilled and professional manpower, and the crunch is felt especially during the expansion phase of an FPO.

v. **Transparency in operations** is necessary which leads to building of trust and increasing number of farmers joining the FPC, but is missing at times.

vi. **Limited focus on a part of the value chain—**Many FPOs lack the capacity to manage the supply-chain operations and store the unsold produce, besides faltering in procurement, logistics and price negotiations. Most of the FPOs begin with and continue to focus only on providing low-cost and quality inputs (fertilizers, pesticides, seeds, sprayers, pump sets, accessories, and pipelines) to member farmers. Some graduate to the next level of collective marketing of members' produce. But only a few dream bigger and arrange for capacity building of farmers and providing value-added services like grading, standardizing, packaging, branding, market information, weather information, agronomy support for good agricultural practices, providing financial support, technology adoption and community welfare support.

vii. **Inadequate access to credit from banks-** Probably the biggest challenge for any FPO is getting access to bank credit. Lack of awareness about the FPC model among bankers, non-availability of 3 years' balance sheet, unavailability of collateral, and the lack of a proper business plan for the next 3 to 5 years with the FPC are some of the reasons withholding the credit flow. Banks can be more considerate once they understand the model and the potential and treat FPC like any other startup, which takes 3 to 4 years to stabilize and extend credit while fixing realistic repayment schedules.

viii. Also, the credit guarantee cover provided by SFAC for collateral-free lending is available only to Producer Companies and not to other forms of FPOs, and that too only to FPCs having a minimum of 500 shareholder membership. Due to this large number of FPOs are not able to access the benefits of the credit guarantee scheme.

ix. **Life cycle stage and financing needs** - An FPO requires finance according to life cycle stages which are broadly categorized into three phases. In each stage, the need is found to be different.

   a. Incubation and Early Stage: At this stage, the financial need of the FPOs revolves around the cost of mobilizing farmers, registration cost, cost of operations and management, training, exposure visits, etc.
   b. Emerging and Growing Stage: Once FPOs are incubated with grant support from promoting institutions, there are three ways to raise funds to meet their working capital and investment need. They include - Equity Financing, Credit Capital and Debt Financing.
   c. Matured Stage (Business Expansion) As the FPOs move towards expanding their businesses, they need finance for quality improvement in products/services. Here, finance is required for quality improvement along the value chain of the produce.

   (Source: Policy Paper: Financing for Farmer Producer Organizations (FPOs), ACCESS Development Services)

x. **Lack of proper monitoring and evaluation -** The lack of proper monitoring and evaluation is a big barrier to the growth of FPOs as a robust institution. Many FPOs do not maintain proper records of their members, and at times even farmers also do not know whether they are members of any such organization. The focus sometimes seems to be on increasing their membership, without any selection mechanism.

xi. **Scaling up the business model -** It is difficult to scale up beyond a particular size due to lack of capital for growth. The current legal framework does not allow outside investment or issuing of shares to common public at all which limits funding and hence the growth. Farmers to whom the shares are issued are often small and marginal with limited surplus. Since FDI or even domestic investment other than by members is prohibited for FPCs and banks do not lend for branding/ marketing even to established FPCs, it is difficult for them to compete on level terms with other non-FPC companies in food processing and exporting space.

**3. Good Practices for FPOs**

It is observed that, while farmers have the expertise in producing the crops, they generally lack skills in marketing their produce. The FPO attempts to bridge this gap by taking over the responsibility of any one or more activities in the value chain of the produce right from procurement of raw material to delivery of the final product at the ultimate consumers' doorstep.

A congenial ecosystem is a must for the development of producer organizations because they have to deal with the most vulnerable part of agri-value chain, which starts from the farm and goes on till processing and the far-away markets. A graphical presentation of the ecosystem requirements is given in Figure 1.

Figure 1: Ecosystem for FPOs


Source: NABARD, National Paper on FPOs status and issues (PLP 2019-20)

Studies have shown that a PO / PC generally requires about 700 to 1000 active producers as members for sustainable operations to achieve breakeven level. (Source: NABARD FPO FAQs, 2015).

This paper tries to document the good practices for FPOs from the point of view of challenges faced by them at various stages. The good practices presented are based on the study on the business model of Sahyadri Farmers Producer Company[4], Nashik, and doing a narrow literature survey.

**Good practices for FPOs**

i. **Visionary leadership -** A far-sighted leader along with management team focuses on developing a business plan for the organization over short term, medium term and long term. FPC management can **change the mindset** of member farmers, encouraging them to think big, beyond subsistence, beyond taluka, beyond state and if possible, beyond even the country for the potential markets for their produce.

ii. **Good governance and management** is a critical success factor in implementing FPC's strategy to achieve goals, to sustain quality and deliver first-rate services.

iii. **Focus on hiring skilled manpower with the right attitude** - The staff should be provided a professional office atmosphere, have a sense of ownership, reasonably well paid, and driven by social thinking. The CEO and other functionaries can deliver on their responsibilities with clarity and commitment only when they share management's vision and are remunerated suitably.

iv. **Participatory approach** is the key, because once the member farmers are fully involved in all major decision making through AGMs, and other meetings, the level of transparency and trust between the members and management strengthens.

v. **Focus on sharing the benefits with farmers -** The objective of any FPO is to serve its members most effectively by providing a variety of services and sharing the benefits, inter alia, arising out of economies of scale in buying inputs and selling outputs. Farming communities will support FPC if provided with tangible solutions to their problems.

vi. **Integrated model with focus on entire value chain**, including both forward and backward linkages while **keeping the farmer at the centre of all decisions** is the real game changer. The FPCs besides crucial backward linkages by aggregating input demand and doing bulk purchase, undertake large-scale aggregation under standard

4 Sahyadri Farmers Producer Company, Nashik, is one of the India's biggest (9000 members) and probably the one of the most successful FPCs with annual sales of Rs.300 Crores and a net profit of Rs. 10 Crores as at March 31, 2018.

procurement procedures and fair business practices including fair weighing, quality based pricing and on-time electronic payments. With lesser intermediaries compared to traditional market systems, small farmers are able to benefit from better prices for their produce. Some of these FPCs, such as Aranyak Agri Producer Company Ltd., (AAPCL), in Purnea, Bihar are undertaking short-term storage of produce in accredited warehouses to gain lean season price advantage and are using technological solutions including trading on online commodity platforms like National Commodity Exchange (NCDEX) to reach out to multiple markets simultaneously. (Source:22546_India_BRLP_Booklet_7 JEEViKA Learning Note Series, No. 7 )

vii. **Proper Business Mix** - As Agriculture is a seasonal business, diversification into various crops for round the year operations becomes important. Sahyadri FPC has not only organized farmers into FPC collective, but also **organized the consumers by organized retailing** through its retail stores, resulting in benefits for all stakeholders**.**

viii. **Focus on capacity building and knowledge dissemination** among farmers plays a vital role. Training members on good agricultural practices based farming and low-cost and environmental friendly inputs, business skills, and other value added services like farmers meetings, agronomy support, exposure visits, **leveraging of technology solutions** such as Cropin, Kisan hub, weather information, **facilitating access to finance, brand building, quality consciousness and a compliance culture create a strong belief and bonding** among the farmers and the company, as evident from the success of Sahyadri FPC.

ix. **Access to market -** A Farmer Producer organization gives a robust framework for the small producers for organizing themselves for effective linkage with markets. Marketing of produce at remunerative prices is an important requirement for the success of FPOs. The bulk purchase of inputs does lead to cheaper input prices for farmers but the scope for cheaper prices is limited only to economies of scale as prices of inputs like seeds, fertilizers, pesticides, machinery etc., are controlled by corporate producers. There are more market opportunities if FPOs can establish linkage with Industry/ other market players, large retailers, local and international markets for sale of its produce and aids in long term sustainability of FPOs. It gives bargaining power to the small farmers, enable cost-effective delivery of extension services, and empower the members to influence the policies that affect their livelihoods.

x. A few FPOs like Sahyadri Farmers Producer Company Limited, Savitribai Phule Goat Farming Producer Company and Vasundhara Agri-horti Producer Company have made notable achievements in crop production and allied farm activities; improving quality of production through best farm practices; tapping the unexplored markets; cutting down the intermediaries in the agri value chain; and enhancing farmers income.

xi. **Bank Credit to FPC-** A newly formed PO does not have enough share capital, reserves and credentials for doing successful business, therefore mobilizing funds from banks is difficult in the initial phase. To overcome the problem, NABARD suggests the following business model in the initial years before they generate reserves and establish credentials among the members and other stakeholders.

a. **Choose those activities** in the initial years which require very less capital or no capital and which are risk free.
b. **Take Dealership of seeds and fertilizers** from the companies and work as commission agents. POs can earn good margin and a business relationship with those companies which resulted in getting credit limit in the subsequent years.

xii. **Dealership from various companies for various agriculture implements** like water pump sets, mechanized plough, etc., which they can sell to their members at a reasonable price and earn commission.

xiii. **Procurement of agriculture produce -** The POs can identify the prospective buyers and arrange buy back guarantee from them. Sale can be organized at the farm gate level, thereby saving on transportation and storage cost at the PO level. PO can ensure a transparent transaction between the buyers and sellers (members and nonmembers both) and by doing so they earn some margin from the buyers.

FPOs across the country, including Sahyadri FPC, Nashik, Koutla-B Mutually Aided Cooperative Society ( Koutla - B MACS), Adilabad, Andhra Pradesh, 17 PCs promoted by MP District Poverty Initiative Project (DPIP), and many others began their journey this way.

xiv. **Access to credit for member farmers -** FPCs realize that members can ensure quality production only when they have adequate financing to access inputs for production and other lifestyle needs. Typically, well run FPCs help the members in getting access to credit from banks. For instance, Sahyadri FPC has entered into tie ups with some banks like ICICI Bank, IDBI Bank and DCB which provides door step, hassle free agricultural and other retail loans like car loans etc. to its members (atleast 3 year old member) at a cheaper rate. Additionally, based on the Corporate Guarantee of Sahyadri FPC,banks provide credit to farmers for purchasing inputs from Sahyadri Farms Inputs store, which is directly credited to Sahyadri account for the amount of purchases and is repaid by the farmers. This guarantee also helps the farmer access interim working capital, over and above the CC limit.

xv. Focus on Quality of production, and **increasing land productivity** using technology and good agricultural practices can deliver significantly to meet the international standards and increase the income of farmers and thereby the FPCs. This has been successfully demonstrated by Sahyadri FPC which has succeeded in doubling the income and in some cases even tripling the income of its member farmers on account of three factors viz.
   a. savings in input costs,
   b. increase in farm productivity due to sharing of better agronomy practices and
   c. payment of higher selling price for the grapes purchased.

xvi. Strong **focus on Corporate Social Responsibility**, as it aims to provide sustainable solutions to the rural community in the cluster of villages in its area of operations, may be in terms of sanitation, cleanliness, street lighting, building pucca roads, canal digging, employment generation etc. helps an FPC in cementing the bond of mutually benefit relationship. This is also enshrined in one of the principles of FPOs which prescribes that FPOs work for the sustainable development of their communities through policies approved by their members. (Source: Policy & Process Guidelines for Farmer Producer Organizations, Govt. of India, Ministry of Agriculture, Dept. of Agriculture and Cooperation.) Sahyadri FPC, Nashik, is a successful example of this.

xvii. **Other good practices**- Some of the other good practices followed by the FPOs include maintaining crop maturity indices, documenting plant protection chemicals used, geo-tagging the land under cultivation, providing mobile phone based extension guidance to help reduce cost of cultivation and access information about market prices of commodities, help to obtain various grants from government for rural welfare, and maintaining the traceability of the crop output from farm until it reaches the final market for sale. Some FPOs by tying up with financial institutions directly provide loans for crops, purchase of tractors, pump sets, construction of wells, lying of pipelines etc and also Insurance services like Life Insurance, Crop Insurance, Electric Motors Insurance etc.

**4. Recommendations**

Success of farmer Producer organizations is critical for ensuring the success of smallholder agriculture in India. It is definitely possible to create more successful FPCs like Sahyadri and others across the country, provided adequate awareness is created and concerted efforts are undertaken among the farmers, bankers, agri-entrepreneurs, government officials and other stakeholders about the model and potential benefits of FPO. The aforesaid best practices followed by FPCs can be promoted to overcome the challenges by a coordinated approach of SFAC, NABARD, RBI, Ministry of Agriculture, Ministry of Food Processing and Ministry of Finance to provide support in terms of Policy, Infrastructure, Domestic markets and Exports. Some possible steps to promote sustainable FPCs can be made in the following areas.

i. The best practices followed by relatively successful FPOs should be shared and promoted among the FPC community through SFAC and NABARD .

ii. Showcase the success stories of FPCs across India at various fora involving different stakeholders.

iii. Strengthening the Credit Guarantee Fund Scheme (CGFS) for Farmer Producer Companies (FPCs) as it has failed to deliver the desired results. A better scheme will help in FPCs accessing bank finance without collateral.

iv. More equity grants and funding from the Central and State Governments can be considered during the initial lifecycle stage of FPOs.

v. FPCs can be promoted taluka-wise based on the suitability of a particular crop to that taluka in terms of soil, climate, water and market demand.

vi. Government may consider constituting separate administrative structure, staffed with crop wise experts, on the lines of National Dairy Development board (NDDB), for all major crops with domestic need/ export potential, to ensure focused attention, as currently only two departments, department of agriculture, and department of horticulture look after all the crops.

vii. Development of customized special loan –products for FPCs could be explored by banks as well as NBFCs active in agri-finance space. Incentives to institutional lenders to lend to FPOs could also be considered by the governments/ regulators.

viii. Year 2014 was celebrated as the year of FPOs in India. But six years down the line, the lack of awareness among bankers and consequent dearth of FPO-Bank credit linkages is palpable. It is felt that a policy push by the regulator by way of guidelines on FPO- bank linkage , on the lines of SHG-Bank linkage can prove to be catalyst in accelerated growth of this model.

ix. As banks are still new to the concept of FPOs, a rating tool of FPOs will help in credit-assessment and establish credibility with bankers. Although some credit rating tools for FPOs have been developed by NABARD and others, they are yet to be used on a large scale by formal financial institutions. Development and popularization of more robust credit rating tools will aid in access to credit for FPCs.

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# Book Review

# India’s External Commercial Borrowing: Features, Trends, Policy and Issues

**Book Review by Dr Ashish Srivastava**

This book offers a quick and easy read into the complex topic of External Commercial Borrowing (ECB) in the Indian context. The scholarly prowess of the author is reflected in a lucid and concise presentation of the key concepts, features, and the policy framework of ECB as a cost-effective source of external funding for the Indian corporates.

The book comprises five chapters, namely, The Conceptual Framework, The Journey of ECB in India, Evolution of India’s ECB Policy, Empirical Studies, and India’s External Debt Management: Issues and Policy Prescriptions. It concludes with an epilogue and references. Appropriately placed charts and tables supplement the narrative and help explain the issues in a logical and easy-to-understand manner. With interest rates in the developed markets being lower than the Indian domestic market, ECBs can help the corporates to economize their financing cost provided they can effectively manage the hedge and transaction costs. The author, however, cautions against the temptation to borrow excessively under ECB due to the exchange rate risk involved in servicing and repayment of the borrowings.

The author suggests that in the aftermath of the Covid19 pandemic, the ECB framework may be further revised by liberalizations of norms relating to all-in-cost ceiling, tenor, and end-use of funds to boost the ability of Indian corporates to access off-shore debt finance. This book can be immensely useful for entrepreneurs, academicians and students to gather crisp information and analysis on this important subject.


**Title: India’s External Commercial Borrowing: Features, Trends, Policy and Issues.**

**Author: Dr Ashutosh Raravikar, Director (Gr. E), Department of Economic & Policy Research, Reserve Bank of India, Mumbai.**

**Publisher: Ultimate Associates, Nashik, ISBN 978-81-948184-0-3**

**Price: ₹100**


Campus Capsule

## Trainings and Conferences

**Training of Trainers (ToT) programme on Agri-finance**

A Training of Trainers Programme on Agri Finance was conducted during January 6-8, 2020. The objectives of the programme were to impart knowledge regarding developments in agricultural sector and agrifinancing and to enhance skills of the participants and build aptitude for capacity building. There were 20 participants from training establishments of different banks. The programme covered regulatory aspects of agri lending, including guidelines on priority sector lending, project approach to agri-lending and techno-financial appraisal of various agri projects such as dairy, poultry, rural godown, poly house, post-harvest infrastructure and business opportunities in financing agriculture value chains, JLGs and FPOs.

**High Level Seminar on Innovations in Agrilending**

A High-Level Seminar on Innovations in Agrilending was conducted during February 10-11, 2020. The main objectives of the seminar were i) to facilitate discussions on the changing role of agriculture and agricultural finance in the digital age and ii) deliberations on financial innovations in the area of agricultural credit. The delegates included officers from Scheduled Commercial Banks including Regional Rural Banks and Small Finance Banks, State Cooperative Bank, NABARD, BIRD, NGOs, Syngenta Foundation India, Centre for Excellence for Sustainable Agriculture & Farm Excellence, etc. The inaugural address was delivered by Shri Ashok Dalwai, IAS, CEO, National Rainfed Area Authority, Ministry of Agriculture, Cooperation and Farmers' Welfare, Government of India on *'Changing Role of Agriculture in Indian Economy'*. The other speakers included Shri R Amalorpavanathan, Former DMD, NABARD, Shri Siraj Hussain, Senior Visiting Fellow, Indian Council for Research on International Economic Relations Research and former Secretary, Ministry of Agriculture and Farmers Welfare, GoI, Shri Vijayasekar Kalavakonda, Senior Financial Sector Specialist, International Finance Corporation World Bank Group, Washington DC. Presentations were made by representatives of a few commercial banks, Bankers Institute for Rural Development, Centre for Excellence for Sustainable Agriculture & Farm Excellence and Syngenta Foundation.

**Programme on Governance, Credit & Investment Management for Directors of Urban Cooperative Banks**

A Programme on Governance, Credit & Investment Management for Directors of Urban Cooperative Banks was conducted during January 6-8, 2020. The objectives of the programme were to impart knowledge on corporate governance, credit and investment management and to sensitize directors about their role and responsibilities. Nineteen directors from different UCBs attended the programme.

**Programme on Investment Management for Directors of Urban Co-operative Banks**

A two-day programme on Investment Management was conducted during January 20-21, 2020 for directors of Urban Co-operative Banks (UCBs). The objectives of the programme were to impart knowledge about RBI Guidelines on Investment Management for UCBs and to build basic skills required at the Board level for overseeing the Investment Management Functions. Twenty-five directors of different banks attended the programme.

**Workshop on Regulatory, Operational and Management issues for CEOs of Urban Co-operative Banks**

A workshop on 'Regulatory, Operational and Management issues' for CEOs of Urban Co-operative Banks was conducted during January 22-24, 2020. The objectives of the workshop were i) to sensitize CEOs about the recent regulatory developments and help them to refresh their knowledge and ii) understanding about governance, operational and management issues pertaining to UCBs. The workshop also provided a platform for exchange of views among the participants. Twenty-nine CEOs of different banks attended the workshop.

**Programme on Cyber Security for Officers of Urban Co-operative Banks**

A programme on Cyber Security for Officers of Urban Co-operative Banks was organized during January 29-31, 2020. The objectives of the programme were to familiarize the participants with the emerging trends of cyber risks in India, and to impart knowledge about latest RBI guidelines on Comprehensive Cyber Security Framework for UCBs. Additionally, a two-day outstation programme on cyber security was also conducted at Jaipur Regional Office for the UCBs under their jurisdiction of the Regional Office during January 09-10, 2020.A total of eighty-four officers attended the programme.

**Programme on Asset Liability Management and Investment -for Urban Co-operative Banks**

DCBS Central Office vide their letter No.DCBS.CO.BSD.III.No.11955/ 12.25.000/2018-19 dated February 28, 2019 had advised CAB to conduct off-site training programmes in the areas like ALM and Investment in Andhra Pradesh, Telangana, Maharashtra, Karnataka, Gujarat and Assam, as directed by the sub-committee of the Board for Financial Supervision. During the period under review, programmes were conducted for the States of Telangana and Andhra Pradesh at Hyderabad during February 06-07, 2020 and for the State of Gujarat at Ahmedabad during February 17-18, 2020. The objectives of the programme were to i) impart knowledge on latest guidelines of RBI on ALM and Investment Management at banks ii) to build skills required for handling ALM and Investment functions. A total of seventy-two officers of selected UCBs attended these programmes.

**Seminar on Regulatory and Supervisory Aspects" for the Women Directors of Urban Cooperative Banks**

For the first time, on the eve of International Women's day, the College organized a one-day seminar on "Regulatory and Supervisory Aspects" for the Women Directors of Urban Co-operative Banks on March 06, 2020. The key objectives of the seminar were to (a) enhance understanding about Regulation and Supervision of UCBs by RBI and (b) provide a platform for experience sharing on the role of women directors on boards of UCBs. Thirty-five women directors of various UCBs attended the seminar. Smt. Chetana Gala Sinha, Founder /Chairperson of Mann Deshi Mahila Sahakari Bank, addressed the participants on the topic "Lending to Priority Sector – A Successful Business Preposition".

**Programme for Lead District Officers (LDOs) of RBI**

The programme for Lead District Officers (LDOs) of RBI was conducted during June 08-12, 2020 for 10 hours (two hours each day) from 10.00 to 12.00 Hours. The objective of the programme was to impart knowledge and equip participants about the Lead Bank Scheme (LBS) and the role and responsibilities of an LDO. There were 71 participants from various Regional Offices of RBI.

**Programme for Nominee Directors on Boards of RRBs**

A "Programme for Nominee Directors of RBI on the Boards of RRBs" was conducted from June 29 to July 3, 2020. The objectives of the programme were to enhance the knowledge and skills of Nominee Directors in areas relating to their role as part of the RRB Board such as corporate governance, regulatory guidelines, financial statement analysis and business development etc., to prepare them to discharge their responsibilities effectively. A total of 35 Nominee Directors from various offices of Reserve Bank of India participated in the Programme.

**78th Inspection Oriented Programme for the inspecting officers of DOS (UCBs)**

The College conducted 'Inspection Oriented Programme for the inspecting officers of DOS (UCBs)' programme from June 15 to 26, 2020. The objective of the programme were: (a) to enhance the knowledge of the inspecting officers regarding the statutory and regulatory guidelines relating to UCBs and understanding of critical areas pertaining to the statutory inspections and (b) To develop the skills required for conducting of statutory inspections of UCBs with special focus on the understanding and analysis of financial statements, format of inspection report, computation of CRAR/ Net Worth, and preparation on Annexures (I – VII) and writing of inspection report. The programme was attended by 50 inspecting officers from 22 Regional Offices of DOS (UCBs).

**Programme on Financial Inclusion and Financial Literacy**

A programme on 'Financial Inclusion and Financial Literacy was conducted from June 22 to 24, 2020. The objectives of the programme were to impart knowledge about evolution of financial inclusion in India and the role of various stakeholders in financial inclusion, RBI/GOI guidelines on financial inclusion/ financial literacy and priority sector lending, the role of information technology in financial inclusion and global practices on financial inclusion. Sixty one participants attended the programme.

**Programme on Priority Sector Lending and Lead Bank Scheme**

A programme on Priority Sector Lending and Lead Bank Scheme was conducted during July 06-10, 2020. The objectives of the programme were to impart knowledge on regulatory guidelines of priority sector and lead bank scheme and sensitize the participants regarding the benefits of lending to priority sector. The programme was attended by 58 participants from RBI and banks.

**Customised Training Programme on Agrifinancing for officers of Chhattisgarh Rajya Gramin Bank**

A customized training programme on Agrifinancing for officers of Chhattisgarh Rajya Gramin bank was conducted during July 13 - 17, 2020. The programme contents were finalized in consultation with the bank. The programme covered, *inter-alia,* regulatory guidelines on Priority Sector Lending, Kisan Credit Card, Appraisal of agricultural projects such as poultry, dairy, etc., value chain finance, FPOs, etc. Sixty-three participants attended the programme.

**Programme on financing Collectives (FPO, JLG and SHG)**

A programme on Financing Collectives (SHGs / JLGs and FPOs) was conducted during August 10-14, 2020. The objectives of the programme were to impart knowledge on different models, concept, formation and working of SHGs, JLGs and FPOs in India, recent policy initiatives and role played by different agencies. The programme was attended by 48 participants from ccommercial banks, RRBs and SFBs.

**Programme on Agri-financing and Business Development for Rural Branch Managers**

A programme on Agri-financing and Business Development for Rural Branch Managers was conducted during September 14 -18, 2020. The objectives of the programme were to enhance the knowledge and skills for agrifinancing, including credit appraisal of agricultural projects and risk management in agri-finance, and to sensitize about business development opportunities and behavioural skills required for effective business growth. The programme was attended by 20 participants from various commercial banks.

**Programme on Financing Hi-Tech Agriculture and Allied Sectors**

A programme on Financing Hi-Tech Agriculture and Allied Sectors was conducted during September 21 -25, 2020. The objectives of the programme were to enhance the knowledge on hi-tech agriculture and allied activities including credit appraisal of those projects and to discuss about the emerging delivery models. The programme was attended by 38 participants from various commercial banks.

**Integrated Training Programme for the Officers of UCBs**

The College conducted the Integrated Training programme for the officers of UCBs during July 6 - 10, 2020. The objectives of the programme were: (a) To impart knowledge on various aspects of the functions and working of UCBs; and (b) To build aptitude and create awareness about important regulatory guidelines to enable the participants to ensure compliance with them. The programme was attended by 72 participants.

**Train the Trainer Programme for officers for DOS (UCB)**

The College conducted Train the Trainer (TOT) programme from July 13 to 16, 2020 for officers of DOS (UCB) from regional offices of RBI. Objective of this programme was to build capacity of officers of DOS, Regional Offices for conducting training programmes for UCBs and statutory auditors of UCBs. Forty-seven officers attended the programme.

**Customized Programme for Mann Deshi Mahila Sahkari Bank Limited**

A customized programme was conducted for CEO, CFO, Branch Managers and other officers of Mann Deshi Mahila Sahkari Bank Limited, Pune from July 20 to 24, 2020. The programme covered topics like Financial Statement Analysis, Exposure norms, Credit appraisal, ALM and Investment Management, Internal Audit and Customer Service.

**Programme on Asset Liability Management and Investment for Urban Co-operative Banks**

A programme on Asset Liability Management and Investment for the officers of UCBs was conducted during August 03 - 06 2020. The objectives of the programme were to impart knowledge about RBI Guidelines on ALM and Investment Management and to build basic skills required for handling ALM and Investment Management Functions. 25 participants attended the programme.

**Inspection Oriented Programmes for the inspecting officers of DOS (UCBs)**

College of Supervisors (CoS), Department of Supervision, approached CAB for conducting two inspection-oriented training programmes for approximately 100 officers. CoS, DoS also advised that the training programmes for supervisory cadre of UCBs must be more practice oriented, with real life cases, methodology, approach and tools. Accordingly, CAB devised two training programmes each of 40 hours (over 10 days) online training. The programme included *inter-alia* three panel discussions (i.e. one each on credit risk, market & liquidity risk, and operational risk). The first iteration of the programme was conducted from August 10 to 21, 2020. Fifty officers in different grades (B to E) attended the online programme. The second iteration of this programme was conducted from September 7 to 18, 2020. The programme was attended by 41 participants.

**Programme on credit management for the officers UCBs**

A programme on credit management for the officers of Urban Co-operative Banks was conducted from August 24 to 28, 2020. The objectives of the programme were (a) to impart knowledge of latest RBI guidelines on loans & advances, exposure norms, priority sector lending, etc., to the participants, and (b) to build their skills relating to effective credit appraisal and credit monitoring to ensure a healthy credit portfolio. The participants were CEOs and officers of UCBs. 54 officers from 25 UCBs attended the programme.

**Programme on Internal Inspection, Audit, RBI Inspection and Compliance for Officers of UCBs**

The programme on Internal Inspection, Audit, RBI Inspection and Compliance for Officers of UCBs was conducted from September 28 to October 01, 2020. The objectives of the programme were (a) to impart knowledge about the significance and coverage of the various types of inspections & audits to the participants, and (b) to make the participants aware of common irregularities observed during RBI inspection and enable them to provide proper compliance. 65 officers from 36 UCBs attended the programme.

**NAMCABS workshop- Training of Trainers Programme**

Training of Trainers Programme on NAMCABS was conducted from July 13 to 16, 2020 for the benefit of officers from FIDD, Regional Offices, RBI. The objectives of the programme were to equip the officers with the required knowledge, skills, tools and techniques for handling functional and behavioral sessions in the NAMCABS workshops. Forty-six participants attended the programme.

**Capacity Building Programme on Financial Literacy**

A programme on Capacity Building Programme on Financial Literacy was conducted for the benefit of Lead Literacy Officers of FIDD, Regional Offices, RBI from July 20 to 22, 2020. The objectives of the programme were to impart knowledge about financial inclusion and financial literacy initiatives and guidelines, techniques, tools, and methods that can be used for effective financial literacy training, enhancing skills for increasing the effectiveness of financial literacy-related activities and develop mindset and attitude for effective financial literacy. The programme was attended by 28 participants.

**Customized Programme for Airtel Payments Bank**

The College conducted customized programme for Airtel Payments Bank from July 27 to 31, 2020. The course contents were designed in consultation with the bank. The objectives of the programme were to impart knowledge regarding compliance requirements under various RBI guidelines and banking laws, create awareness in the areas of supervisory framework, risk management practices to be followed by banks, regulatory compliance, and role of payment and settlement system in financial inclusion. The participants were mid and senior-level officials working in the area of payments and banking operations. 25 participants attended the programme.

**NAMCABS workshop - Training of Trainers (TOT) Programme (for Training establishments of banks)**

The College had submitted an impact assessment of NAMCABs workshop to Central Office. The report also contained one section on the impact of Zonal TOT conducted during July to September 2017 at five centres (New Delhi, Kolkata, Chennai, Ahmedabad, and Bhopal). Based on the feedback of our top management, the College has planned to conduct six ToT programmes for Trainers of Training Establishments of select banks during the year 2020-21. The first ToT programme for the Members of Faculty (MoF) of Bank of Baroda was conducted during August 4 - 7, 2020. Fifty MoFs of BOB Academy attended the programme.

**Programme on Financing MSMEs**

A programme on Financing MSMEs was conducted for the officers of FIDD, Regional Offices, RBI and officers from Commercial Banks handling MSME portfolios from August 10 to 14, 2020. The objectives of the programme were to impart knowledge on various RBI guidelines, recent developments in MSMEs finance, assessment of credit needs, monitoring of loans and advances, revival and rehabilitation of MSME Units under stress, to create awareness about technology-driven approaches to MSME financing to create awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs. The programme was attended by 54 participants.

**NAMCABS Workshops in collaboration with Regional Offices (ROs)**

Two NAMCABS Workshops were conducted during the period under review. One such workshop was conducted in collaboration with Raipur RO during September 09 - 11, 2020. Another workshop was conducted in collaboration with New Delhi RO during September 23 - 25, 2020. The objectives of the workshops were to build capacities and aptitude for lending to MSMEs and create awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs, To create awareness about recent developments in the MSME sector with special focus on credit-related issues, cash flow-based financing, use of technology platforms, credit scoring models, use of big data in analyzing creditworthiness of MSMEs, CGTMSE, etc. and to enhance understanding about RBI guidelines on Management of Stress in MSME Accounts. The workshops were attended by 73 officers and 64 officers respectively.

**Programme on Role of Big Data and FinTech in inclusive finance**

A programme on Role of Big Data and FinTech in inclusive finance was conducted from September 28 to 30, 2020. The objectives of the programme were to impart knowledge about Fintech and the Regulatory Architecture, application of Big Data, Artificial Intelligence, Blockchain and Data Analytics in banking and inclusive finance, to understand the scale of digital financial services in the banking sector and to enhance skills and aptitude in appreciating the risks in tech-enabled banking. The programme was attended by 29 RBI officers.

**Leadership Development Programme (LDP) for RBI Officers**

The College conducted Leadership Development Programme for Grade C officers of RBI from July 06 to 10, 2020. The objectives of the programme were to enable the participants to: i) Gain knowledge and insights about their own personality and that of others which they can leverage to build efficient teams; ii) Develop the capacities and skills required to build constructive and effective relationships; and iii) Develop the attitude/orientation to leverage awareness of self and others to lead influence and trust. Forty-three Grade ‘C’ Officers from different ROs and CODs attended the programme.

**Programme on ‘Emotional Intelligence and Interpersonal Effectiveness’ (EI & IE)**

A programme on Emotional Intelligence and Interpersonal Effectiveness’ (EI & IE) was conducted during July 20-22, 2020 for Gr. ‘B’ and Gr ‘C’ Officers of the Bank. The objectives of the programme were to help participants become familiar with the concept of Emotional Intelligence and to help them appreciate the use of Emotional Intelligence in self-development and in the enhancement of their communication and leadership skills.

A total of 39 participants attended the programme.

**Leadership Development Programme (LDP) for CEOs of Urban Co-op Banks (UCBs)**

A programme on Leadership Development Programme for CEOs of UCBs was conducted during August 10-12, 2020. The objectives of the programme were to impart knowledge on i) Leadership and Management concepts and techniques for enhanced personal effectiveness and teamwork for better results; ii) Management and Leadership Challenges and coping strategies for the CEOs of UCBs and iii) enable participants to appreciate and implement various aspects of Change Management. Twenty-nine CEOs of different UCBs attended this programme.

**Management Development Programme (MDP) for Branch Managers (BMs)**

A Management Development Programme for Branch Managers of UCBs and Scheduled Commercial Banks was conducted during August 17-21, 2020. The objectives of the programme were to i) help participants gain knowledge and insight about their own personality; ii) help participants understand how personality orientation manifests in one's own behaviour in relation to others; and iii) develop appropriate soft-skills like inter-personal communication, influencing ability, capacity for conflict resolution, team work, etc., required for delivering superior performance. Sixty-three Officers attended this programme.

**Programme on Stress Management**

A Programme on 'Stress Management' was conducted during August 26-28, 2020. The programme was meant for the Grade 'B' and Grade 'C' officers of the Bank. The objectives of the programme were to help the participants to i) Understand stress and appreciate its consequences better and ii) familiarize with the strategies of managing stress. 32 Officers from different ROs and CODs attended this programme.

**Basic Programme on Appraisal of Agricultural Projects**

A Basic Programme on Appraisal of Agricultural Projects was conducted during October 06-09, 2020. The objective of the programme was to impart knowledge on basic concepts, tools, techniques involved in appraisal of agricultural projects. Sessions on appraisal of a few important agricultural projects were included in the programme to enhance skills of the participants in project lending. The programme was attended by 25 participants from various commercial banks.

**Training of Trainers Programme on Agri-Financing**

A Training of Trainers Programme on Agri-Financing was conducted during October 19 - 22, 2020. The objective of the programme was to build capacity of trainers and potential trainers to design and conduct training programmes on agri-lending. The programme was attended by 22 trainers from various Commercial Banks and a State Cooperative Bank.

**Programme on Priority Sector Lending (PSL) and Lead Bank Scheme (LBS)**

A Programme on Priority Sector Lending (PSL) and Lead Bank Scheme (LBS) was conducted during November 02-06, 2020. The objectives of the programme were to enhance the knowledge about revised guidelines on Priority Sector Lending, Lead Bank Scheme and MSME lending, and to sensitize participants about the opportunities in profitable lending to priority sector. The programme was attended by 35 participants from various commercial banks and regional offices of RBI.

**Workshop on Capacity Building in Agrifinance - AGRICAB (New programme)**

A workshop on Capacity Building in Agrifinance – AGRICAB is introduced as a new programme by CAB during the year 2020-21. The main objective of the workshop is to sensitize the bank officers on the contemporary issues like Aatma Nirbhar Bharat Abhiyaan of GoI and Revised PSL and up skill their capabilities for effective agrilending. The programme is designed as a short duration on-location workshop to be conducted in collaboration with Regional Offices of RBI on a zonal basis However, in view of the existing circumstances due to the COVID pandemic, the AGRICAB is offered 'online' during the current year.

The first iteration of the AGRICAB was rolled out during December 17 -18, 2020. The workshop has been designed with three modules viz., (1) Overview of Agrifinance , (2) Project Approach to agri lending and (3) Risk management in agrifinance. Sessions were mostly case based discussions and interactions with experts in the field of agricultural finance, SHGs and farmers collectives. Sessions also included salient aspects of credit appraisal of a few important agricultural projects, inputs on the emerging delivery models such as Farmers Producers Organisations and Contract Farming and sharing of experiences, best practices and success stories of participants. Forty-two participants from Commercial Banks, RRBs and Rural Cooperative Banks dealing with agri-finance have participated in the programme.

**Programme on Agri-financing and Business Development for Rural Branch Managers**

A programme on Agri-financing and Business Development for Rural Branch Managers was conducted during December 08 -10, 2020. The objectives of the programme were to enhance the knowledge and skills for agrifinancing, including credit appraisal of agricultural projects and risk management in agri finance, and to sensitize about business development opportunities and behavioural skills required for effective business growth. Forty-two participants from various commercial banks participated in the programme.

**Workshop on Financing of FPOs**

A workshop on Financing of FPOs was conducted during December 23 -24, 2020. The objectives of the programme were to provide inputs on various policy initiatives on farmer collectives and to equip the participants in appraisal of loans to FPOs. Twenty-eight participants from various commercial banks participated in the programme.

**Programme on Credit Management for officers of UCBs**

A programme on Credit Management for the officers of UCBs was conducted during October 05-09, 2020. The objectives of the programme were to impart knowledge of the latest RBI guidelines on loans & advances, exposure norms, priority sector lending, etc., and to build their skills relating to effective credit appraisal and credit monitoring to ensure a healthy credit portfolio. The programme was attended by 64 participants.

**Programme on Asset Liability Management and Investment for Urban Co-operative Banks**

A programme on Asset Liability Management and Investment for the officers of UCBs was conducted during October 19-22, 2020. The objectives of the programme were to impart knowledge about RBI Guidelines on ALM and Investment Management, and to build basic skills required for handling ALM and Investment Management functions. The programme was attended by 37 participants.

**Integrated Training Programme for the Officers of UCBs**

An Integrated Training programme for the officers of UCBs was conducted during November 09-13, 2020. The objectives of the programme were to impart knowledge on various aspects of the functions and working of UCBs, and to build aptitude and create awareness about important regulatory guidelines to enable the participants to ensure compliance. The programme was attended by 22 officers.

**Programme on Cyber Security for officers of UCBs**

The first iteration of the programme on Cyber Security for officers of UCBs was conducted during November 25-27, 2020 and second iteration was conducted during December 07-09, 2020. The objectives of the programmes were (a) to familiarize the participants with the emerging trends of cyber risks in India, (b) to impart knowledge of latest RBI guidelines on Cyber Security Framework for UCBs, and (c) to build skills regarding detection and prevention of various types of cyber frauds. The programme was attended by 36 and 42 participants respectively.

**Customized Programme for the Adarniya P D Patilsaheb Sahakari Bank, Karad**

The College conducted the Customized Programme for the Adarniya P D Patilsaheb Sahakari Bank, Karad during December 01-04, 2020. The objectives of the programme were a) to impart knowledge on various aspects of the functions and working of UCBs and b) to build aptitude and create awareness about important regulatory guidelines to enable the participants to ensure compliance with them. The programme was attended by 26 participants.

**Programme on Effective Customer Service for Officers of UCBs**

A Programme on Effective Customer Service for the Officers of UCBs was conducted during December 16 - 18, 2020. The objectives of the programme were a) to impart knowledge about relevant regulatory guidelines effecting the customer service of UCB, and b) to build aptitude for communication skills and stress management for improving customer service. The programme was attended by 18 participants.

**Programme on Investment Management for the Directors of UCBs**

A programme on investment management was conducted for the directors of UCBs during December 21 - 22, 2020. The objectives of the programme were (a) to impart knowledge about RBI guidelines on investment management for UCBs, (b) to build basic skills required for overseeing the investment functions from the Board's perspective, and (c) to develop an aptitude towards risk awareness and effective compliance. The programme was attended by 26 directors from UCBs located across the country.

**Workshop on Regulatory, Operational and Management Issues for CEOs of Urban Co-operative Banks (UCBs)**

A Workshop for CEOs of Primary Urban Co-operative Banks was conducted during December 28-30, 2020. The workshop focused on Regulatory, Operational, and Management issues and provided updates on recent developments in the regulatory landscape. In addition, sessions were held on the areas relating to operational efficiency and governance of UCBs, including IT governance. CEO's also expressed their views during two discussion sessions. Queries and suggestions of the participants were addressed and responded by a senior officer from the Department of Supervision, RBI, CO in the concluding session of the workshop. The workshop was attended by CEOs of 27 UCBs spread across the country.

**NAMCABs workshops in collaboration with Regional Offices (ROs)**

Twelve NAMCABs workshops were conducted during the period. The objectives of these workshops were to build capacities and aptitude for lending to MSMEs and create awareness about softer aspects of

MSME lending such as entrepreneurial sensitivity and appropriate communication with entrepreneurs, to create awareness about recent developments in the MSME sector with special focus on credit-related issues, cash flow-based financing, use of technology platforms, credit scoring models, use of big data in analysing creditworthiness of MSMEs, CGTMSE, etc. and to enhance understanding about RBI guidelines on management of stress in MSME accounts.

**Training of Trainers (TOT) Programme on NAMCABs workshops (for Training establishments of banks)**

The captioned four-day online programme was conducted for the benefit of members of faculty of Bank of India (19 MoFs) and Union Bank of India (26 MoFs) during October 26-29, 2020. The objectives of the programme were to equip the members of faculty of Training Establishments with the required knowledge, skills, tools, and techniques for handling functional and behavioral sessions in the programmes similar to NAMCABs workshops, to be conducted at their establishments. The programme was attended by 45 members of faculty.

**NAMCABs ToT for RBI Officials**

A Training of Trainers programme on NAMCABS was conducted for the benefit of officers of FIDD Regional Offices, RBI during November 02-05, 2020. The objectives of the programme were to equip the officers with the required knowledge, skills, tools and techniques for handling functional and behavioral sessions in the NAMCABs workshops. The programme was attended by 26 participants.

**Fourth Programme on Digitalization and Financial Inclusion (in collaboration with CICTAB)**

The fourth programme on Digitalization and Financial Inclusion was conducted in collaboration with CICTAB during November 09-11, 2020. The programme was aimed at imparting knowledge about various initiatives on digital financial inclusion and use of technology in promoting financial inclusion in India, international cooperation and initiatives in the area of digital financial inclusion, enhancing skills in increasing financial inclusion through digital financial services, imparting financial literacy and building aptitude to cater to the requirements of unserved and underserved sections of the society. The programme was attended by 68 participants (15 from India, 49 from Nepal, and 4 from Bangladesh).

**Programme on Financial Inclusion and Financial Literacy for RBI officers**

The programme on Financial Inclusion and Financial Literacy for RBI officers was conducted from December 07 to 09, 2020. The programme aimed at imparting knowledge about evolution of financial inclusion in India and the role of various stakeholders in financial inclusion, create awareness about RBI/GOI guidelines on financial inclusion / financial literacy and priority sector lending and Imparting knowledge about the role of information technology in financial inclusion. The programme was attended by 17 RBI officers from FIDD.

**Programme on Financing MSMEs**

A programme on," Programme on Financing MSMEs" was conducted for the benefit of officers from Commercial Banks including RRBs during December 14 - 17, 2020. The objectives of the programme were to impart knowledge on various RBI guidelines, recent developments in MSMEs finance, enhance skills with regard to assessing the credit requirements, monitoring of loans and advances, revival and rehabilitation of MSME units under stress, to create awareness about technology driven approaches to MSME financing, and awareness about softer aspects of MSME lending such as entrepreneurial sensitivity, empathy and appropriate communication with entrepreneurs. The programme was attended by 33 participants.

**Training of Trainers (TOT) Programme on NAMCABs workshop (For MoFs of Canara Bank and Punjab National Bank)**

The captioned four-day online programme was conducted for the benefit of Members of Faculty (MoF) of Canara Bank (28 MoFs) and Punjab National Bank (18 MoFs) during December 28 - 31, 2020. The objectives of the programme were to equip the MoFs of Training Establishments with the required knowledge, skills, tools, and techniques for handling functional and behavioral sessions in the programmes similar to NAMCABs workshops, to be conducted at their establishments. The programme was attended by 46 members of faculty.

**Leadership Development Programme for Professional Directors of UCBs**

A leadership development programme was conducted for professional directors of UCBs during November 23-25, 2020. The objectives of programme were to impart knowledge on leadership and management concepts and techniques for enhanced personal effectiveness and teamwork for better results, to impart knowledge on various management and leadership challenges, and to enable participants to appreciate and implement various aspects of change management. The programme was attended by 19 professional directors from UCBs.

**Management Development Programme for Branch Managers of UCBs**

A Management Development Programme was conducted for Branch Managers of UCBs during December 21-23, 2020. The objectives of programme were (a) to help participants gain knowledge and insight about their own personality, (b) to help participants understand how personality orientation manifests in one's own behaviour in relation to others, and (c) to develop appropriate soft-skills like inter-personal communication, influencing ability, capacity for conflict resolution, teamwork, etc, required for delivering superior performance. The programme was attended by 67 Branch Managers from UCBs.

# Gist

*Important Circulars*

**Supervisory Action Framework for UCBs**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11779&Mode=0)

The Reserve Bank of India on January 06, 2020 further rationalised its Supervisory Action Framework (SAF) for Primary Urban Cooperative Banks (UCBs) facing financial stress. The revised SAF envisages initiation of corrective action by UCBs and/or supervisory action by the Reserve Bank on breach of the specified thresholds (triggers) in respect of the following specified financial parameters/indicators:

As per the revised SAF, a UCB may be placed under SAF when:

i. its net Non-Performing Assets (NPAs) exceed 6 per cent of its net advances;

ii. it incurs losses for two consecutive financial years or has accumulated losses on its balance sheet; and

iii. when its Capital to Risk-weighted Assets ratio falls below 9 per cent.

The supervisory action will normally be initiated on the basis of the financial position of UCBs as assessed during the statutory inspection. The revised SAF will be implemented with immediate effect.

**Reporting of Large Exposures to CRILC**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11790&Mode=0)

The Reserve Bank on January 16, 2020 issued operational guidelines for reporting large exposures by Primary UCBs having total assets of ₹500 crore and above as on 31st March of the previous financial year to the Central Repository of Information on Large Credits (CRILC).

The operational guidelines for reporting the CRILC-UCBs return pertain to the reporting frequency of the CRILC-UCBs return and the CRILC-UCBs return comprising of three sections: i) Exposure to Large Borrowers, ii) Reporting of Technically/Prudentially Written-off Accounts and iii) Reporting of balance in Current Account. The Reserve Bank advised primary UCBs to submit the data in CRILC-UCBs return with effect from the quarter ended December 31, 2019.

**Master Direction on KYC amended**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11783&Mode=0)

The Reserve Bank on January 09, 2020, decided to permit Video based Customer Identification Process (V-CIP) as a consent based alternate method of establishing the customer’s identity, for customer onboarding for KYC. This has been done with a view to leveraging the digital channels for Customer Identification Process (CIP) by Regulated Entities (REs). The consequent changes have been carried out in the Master Direction on KYC dated February 25, 2016 and amendments to the Prevention of Money Laundering Rules and V-CIPs have been introduced and placed on the RBI website.

**Lending against Gold Jewellery**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11795&Mode=0)

The Reserve Bank on January 21, 2020 allowed non-banking financial companies (NBFCs) to pool gold jewellery from different branches in a district and auction it at any location within the district, subject to meeting the following conditions:

i. The first auction has failed.

ii. The NBFC shall ensure that all other requirements of the extant directions regarding auction (prior notice, reserve price, arms-length relationship, disclosures, and others) are met.

The Reserve Bank also stated that non-adherence to the conditions would attract strict enforcement action.

**Framework for Imposing Penalty on Payment System Operators/Banks**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11785&Mode=0)

To ensure that the payment systems are safe and secure and the various stakeholders confirm to regulatory requirements, the Reserve Bank on January 10, 2020 revised the process of levy of penalty on payment system operators. The revised framework continues to centre around objectivity and transparency decision-making process. As per the revised framework:-

i. The Reserve Bank has powers to impose monetary penalty in respect of certain contraventions as well as compound certain contraventions.

ii. Separate procedures have been proposed, consid- ering that the powers of the RBI to impose monetary penalty and compound contraventions are different and the nature of identification of contraventions is also different.

iii. Separation of powers to impose monetary penalty on account of RBI identified contraventions and compounding contraventions.

iv. The decision to issue Show Cause Notice (SCN) will be based on certain parameters.

**Processing of e-mandate in UPI**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11784&Mode=0)

The Reserve Bank on January 10, 2020 extended the facility of processing of e-mandate for recurring transactions to cover Unified Payment Interface (UPI) transactions. As per the previous guidelines outlined in the Reserve Bank's circular on Processing of e- mandate on cards for recurring transactions dated August 21, 2019, processing of e-mandate on cards /Prepaid Payment Instruments (PPIs) was permitted for recurring transactions (merchant payments), with Additional Factor of Authentication (AFA) during e- mandate registration, modification and revocation.

**Security of Card Transactions**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11788&Mode=0)

The Reserve Bank, on January 15, 2020, with a view to improving user convenience and enhancing security of card transactions decided that:

i. all cards (physical and virtual) shall be enabled for use only at contact-based points of usage within India at the time of issue/reissue.

ii. issuers shall provide cardholders a facility for enabling 'card not present' (domestic and international) transactions, 'card present' (international) transactions and 'contactless transactions'.

iii. card issuers may decide whether to disable the 'card not present' (domestic and international) transactions, 'card present' (international) transactions and contactless transaction rights in case of existing cards based on their risk perception. Existing cards which have never been used for online (card not present)/international/contactless transactions shall be mandatorily disabled for this purpose.

The Reserve Bank has also advised card issuers to provide the following additional facilities to all card holders:

i. facility to switch on / off and set / modify transaction limits (within the overall card limit, if any, set by the issuer) for all types of transactions– domestic and international, at PoS/ATMs/online transactions / contactless transactions, etc;
ii. the above facility on a 24x7 basis through multiple channels - mobile application / internet banking / ATMs / Interactive Voice Response (IVR); this may also be offered at branches / offices; and
iii. alerts / information / status, etc., through SMS / e- mail, as and when there is any change in status of the card.

**Merchant Acquiring Business Guidelines**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11804&Mode=0)

The Reserve Bank, on February 06, 2020 allowed Regional Rural Banks (RRBs) to act as Merchant Acquiring Banks (MABs) using Aadhaar Pay – BHIM app and POS terminals. All RRBs intending to act as MABs (Aadhaar and BHIM app), shall be permitted to deploy their own devices subject to fulfilling the conditions as enlisted below:

i. The RRB should have the permission for mobile banking from the Reserve Bank;

ii. Additionally, the RRB shall be required to fulfil the following conditions:

a) The bank's IT systems and CBS should have been subjected to an IS Audit not earlier than six months from the date of application to confirm that the system is adequately secure.

b) The bank must ensure necessary infrastructure for application development, safety and security of the transactions and handling of customer grievance.

c) A customer grievance redressal mechanism duly approved by the bank's board should be in place;

d) The bank should have a board approved policy on merchant acquisition for card transactions;

e) There should not be any restrictions imposed on the bank for accepting deposits/ withdrawals by RBI.

No penalty should have been imposed in last two financial years. RRBs shall inform the respective regional offices of the Reserve Bank, within a period of 15 days from the date of operationalising the MAB.

**IRAC and Provisioning Norms**

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49363)

The Reserve Bank on February 07, 2020 revised the guidelines for Deferment of Date of Commencement of Commercial Operations (DCCO) for projects in non-infrastructure and Commercial Real Estate (CRE) sectors. As per the revised guidelines:

i) Revisions of the date of DCCO and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of one year from the original DCCO stipulated at the time of financial closure for CRE projects; and

(b) All other terms and conditions of the loan remain unchanged.

ii) In case of CRE projects delayed for reasons beyond the control of promoter(s), banks may restructure them by way of revision of DCCO up to another one year (beyond the one-year period quoted at paragraph i (a) above) and retain the 'standard' asset classification if the account continues to be serviced as per the revised terms and conditions under the restructuring.

iii) Banks while restructuring such CRE project loans will have to ensure that the revised repayment schedule is extended only by a period equal to or shorter than the extension in DCCO.

iv) A loan for a project may be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue). It is further re-iterated that the dispensation at (ii) above is subject to the condition that the application for restructuring should be received before the expiry of period mentioned at paragraph (i) (a) above and when the account is still standard as per record of recovery.

v) Banks may fund cost overruns that arise on account of extension of DCCO (within the limits at (i) and (ii) above), subject to instructions issued by the Reserve Bank.

vi) At the time of extending DCCO, boards of banks should satisfy themselves about the viability of the project and the restructuring plan.

vii) All other aspects related to restructuring, income recognition, asset classification, provisioning as applicable for projects under implementation shall continue to apply.

viii) Banks shall ensure that all provisions of the Real Estate (Regulation and Development) Act, 2016 are complied with.

**Restructuring of Advances to MSMEs**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11808&Mode=0)

The Reserve Bank on February 11, 2020, allowed banks to carry out a one-time restructuring of existing loans classified as 'standard' to micro, small and medium enterprises (MSMEs) without a downgrade in the asset classification. The one-time restructuring would be subject to the following conditions:

i. The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on January 1, 2020;

ii. The borrower's account was in default but was a 'standard asset' as on January 1, 2020 and continues to be classified as a 'standard asset' till the date of implementation of the restructuring;

iii. The restructuring of the borrower account is implemented on or before December 31, 2020;

iv. The borrowing entity is GST-registered on the date of implementation of the restructuring. However this condition will not apply to MSMEs that are exempt from GST-registration. This shall be deter- mined on the basis of exemption limit obtaining as on January 1, 2020. Accounts which have already been restructured in terms of the Reserve Bank's circular dated January 01, 2019 shall not be eligible for restructuring under this scheme.

**Exemption from CRR Maintenance**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11807&Mode=0)

The Reserve Bank on February 10, 2020, with the objective to ensure easier transmission of monetary policy, advised banks to avail exemption to maintain the mandatory cash reserve ratio (CRR) on home, auto and MSME loans for a period of five years. The Reserve Bank advised banks that they can claim the first such deduction from their net demand and time liabilities (NDTL) of February 14, 2020 for the amount equivalent to the incremental credit extended to the sectors over the outstanding level of credit as at the end of the fortnight ended January 31, 2020. Banks are required to report the exemption availed at the end of a fortnight under ''exemptions/others'' in the Section-42 return of the Master Circular of Cash Reserve Ratio and Statutory Liquidity Ratio dated July 01, 2015. The Reserve Bank issued on February 25, 2020 clarifications in the form of Frequently Asked Questions (FAQs) on queries received from banks with regard to issues like computation of incremental credit and segments eligible for exemption, among others. To read more, please click here.

**Cash Withdrawal using PoS Terminals**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11802&Mode=0)

The Reserve Bank on January 31, 2020 permitted banks to offer the facility of cash withdrawal at Point of Sale (PoS) terminals with the approval of the concerned banks' boards. The requirement of obtaining the Reserve Bank's permission for providing cash withdrawal facility has been dispensed with. All other provisions, including those pertaining to the submission of data / reports to RBI, remain unchanged.

**Interest Subvention Scheme for MSMEs**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11803&Mode=0)

The Reserve Bank on February 05, 2020 conveyed to heads of all Scheduled Commercial Banks (SCBs) about the modifications made by the Government of India in the operational guidelines of the Interest Subvention Scheme.

**Eligibility of short-term Crop Loans for ISS and PRI through KCC**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11814&Mode=0)

The Reserve Bank on February 26, 2020 advised Heads of all Scheduled Commercial Banks (SCBs) to ensure that benefit of Interest Subvention Scheme (ISS) and Prompt Repayment Incentive (PCI) are extended to eligible Short Term Crop Loans only through the Kisan Credit Card with effect from April 01, 2020.

**COVID – 19: Regulatory Package**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11835&Mode=0)

The Reserve Bank put in place certain regulatory measures to mitigate the burden of debt servicing brought about by disruptions on account of COVID-19 pandemic:

i. Rescheduling of Payments In respect of all term loans, all commercial banks, co-operative banks, All-India Financial Institutions, and Non-Banking Financial Companies are permitted to grant a moratorium of three months on payment of all instalments falling due between March 01, 2020 and May 31, 2020.
ii. ii) Easing of Working Capital Financing In respect of working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may recalculate the 'drawing power' by reducing the margins and/or by reassessing the working capital cycle.
iii. Other measures pertain to classification as Special Mention Account and Non-Performing Asset, asset classification of term loans, rescheduling of term loans including interest and board approved policies for providing the relief measures.

**Licensing of Small Finance Banks**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11845&Mode=0)

The Reserve Bank, with the objective to harmonise the instructions for existing Small Finance Banks (SFBs) with SFBs to be licensed under 'Guidelines for 'on-tap' Licensing' decided to:

i. Grant general permission to all existing SFBs to open banking outlets subject to adherence to 'Unbanked Rural Centre' norms of the RBI;
ii. Exempt all existing SFBs from seeking prior approval of the Reserve Bank for undertaking such non-risk sharing simple financial service activities, which do not require any commitment of own fund, after three years of commencement of business of SFB. The Reserve Bank also issued clarifications for existing SFBs.

**Exposure to Single and Group Borrowers/Parties and Large Exposures**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11819&Mode=0)

The Reserve Bank on March 13, 2020 finalised the guidelines on limits on exposure to single and group borrowers/parties and large exposures and revised the target for priority sector lending for Urban Cooperative Banks. The guidelines were finalised after taking into consideration comments from the stakeholders.

**Implementation of IndAS**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11818&Mode=0)

The Reserve Bank, with the objective to promote high quality consistent implementation and facilitate comparison and better supervision, placed on its website, the draft regulatory guidance on Indian Accounting Standards (IndAS) on March 13, 2020. The regulatory guidance will be applicable on IndAS implementing Non-Banking Financial Companies and Asset Reconstruction Companies (ARCs) for preparation of their financial statements from Financial Year 2019-20 onwards.

**Operational and Business Continuity Measures**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11820&Mode=0)

The Reserve Bank on March 16, 2020 advised banks/financial institutions to take the following steps to ensure operational and business continuity amidst the COVID-19 pandemic:

i. Devise a strategy and monitoring mechanism concerning the spread of the disease within the organisation and ensure timely intervention for preventing further spread, in case of detection of infected employees. This includes travel plans and quarantine requirements as well as avoiding spread of panic among staff and members of the public.
ii. Take stock of critical processes and revisiting Business Continuity Plan (BCP) in the emerging situations/scenarios with the aim of continuity in critical interfaces and preventing any disruption of services, due to absenteeism either driven by the individual cases of infections or preventive measures.
iii. Take steps to share important instructions/strategy with the staff members at all levels for soliciting better response and participation and sensitise them about preventive measures/steps to be taken in suspected cases, based on instructions received from health authorities, from time-to-time.
iv. Encourage customers to use digital banking facilities as far as possible.
v. Besides taking these steps for ensuring business process resilience, supervised entities of the Reserve Bank have been advised to assess the impact of COVID-19 pandemic on their balance sheet, asset quality and liquidity arising out of potential scenarios such as further spread of the pandemic in India and its effect on the economy. They have also been asked to study the contagion effect on wider disruption in the global economy and the global financial system.

**Basel III Capital Regulations**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11837&Mode=0)

The Reserve Bank on March 27, 2020 deferred the implementation of the last tranche of 0.625 per cent of the Capital Conservation Buffer (CCB) from March 31, 2020 to September 30, 2020. Accordingly, minimum capital conservation ratios as mentioned in the Master Circular on Basel III Capital Regulations, as applicable from March 31, 2018 will also apply for a further period of six months from March 31, 2020 till the CCB attains the level of 2.5 per cent on September 30, 2020. Further, the pre-specified trigger for loss absorption through conversion/write-down of Additional Tier 1 instruments shall remain at 5.5 per cent of Risk Weighted Assets (RWAs) and will rise to 6.125 per cent of RWAs on September 30, 2020. New Capital Adequacy Framework (NCAF)' may, however, be referred to during the Basel III transition period for regulatory adjustments/ deductions up to March 31, 2017.

**Payment Aggregators and Gateways**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11822&Mode=0)

The Reserve Bank on March 17, 2020 decided to regulate in entirety the activities of Payment Aggregators and provide baseline technology-related recommendations as per the detailed guidelines under Section 18 of the Payment and Settlement Systems Act, 2007. The guidelines shall come into effect from April 01, 2020.

**COVID-19 Regulatory Package**

A. Review of Resolution Timelines

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11872&Mode=0)

The Reserve Bank on April 17, 2020 decided that:

i) Lenders are required to implement a resolution plan in respect of entities in default within 180 days from the end of review period of 30 days. In respect of accounts which were within the review period as on March 01, 2020, the period from March 01, 2020 to May 31, 2020 shall be excluded from the calculation of the 30-day timeline for the review period and the residual review period shall resume from June 01, 2020. Upon expiry of this, lenders shall have the usual 180 days for resolution.

ii) The timeline for resolution shall get extended by 90 days from the date on which the 180-day period was originally set to expire in case of accounts where the review period was over, but the 180-day resolution period had not expired as on March 01, 2020. iii) The requirement of making additional provisions specified as per the prudential framework shall be triggered as and when the extended resolution period expires.

iv) The lending institutions shall make relevant disclosures in respect of accounts where the resolution period was extended in the 'Notes to Accounts' while preparing their financial statements for the half year ending September 30, 2020 as well as the financial years FY 2020 and FY 2021.

v) In respect of all other accounts, the provisions of the prudential framework shall be in force without any modifications.

B. Asset Classification and Provisioning

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11872&Mode=0)

i) The Reserve Bank on April 17, 2020 permitted lending institutions to grant a moratorium of three months on payment of all term loan instalments falling due between March 01, 2020 and May 31, 2020.

ii) In respect of working capital facilities sanctioned in the form of cash credit/overdraft the regulatory package permitted the recovery of interest applied during the period from March 01, 2020 upto May 31, 2020 to be deferred.

iii) NBFCs which are required to comply with Indian Accounting Standards (IndAS) shall, as hitherto, continue to be guided by the guidelines duly approved by their Boards and as per Institute of Chartered Accountants of India advisories for recognition of the impairments.

iv) In respect of accounts in default but standard where provisions and asset classification benefit is extended, lending institutions shall make general provisions of not less than 10 per cent of the total outstanding of such accounts, to be phased over two quarters.

**LCR under Basel III Framework**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11870&Mode=0)

The Reserve Bank on April 17, 2020 advised banks to maintain LCR of 100 per cent with effect from January 01, 2019, with a view to accommodate the burden on banks' cash flows due to the Covid19 pandemic as under:

| | |
|---|---|
| **From date of circular to September 30** | **80 per cent** |
| **Oct 01, 2020 to March 31, 2021** | **90 per cent** |
| **April 01, 2021 onwards** | **100 per cent** |

**Electronic Cards for Overdraft Accounts**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11878&Mode=0)

The Reserve Bank on April 23, 2020 permitted banks to issue electronic cards to natural persons having overdraft accounts that are only in the nature of personal loan without any specific end-use restrictions. The card shall be issued for a period not exceeding the validity of the facility and shall also be subject to the usual rights of the banks as lenders. The electronic card for overdraft accounts in the nature of personal loans shall be allowed to be used for domestic transactions only.

**Resolution Timelines under the Prudential Framework**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11902&Mode=0)

The Reserve Bank on May 23, 2020 granted extension for resolution of stressed assets under the Prudential Framework on Resolution of Stressed Assets. The resolution timelines can be extended as under:

i. In respect of accounts which were within the review period as on March 01, 2020, the period from March 01, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the review period. The residual review period shall have the usual 180 days for resolution.

ii. In respect of accounts where the review period was over, but the 180-day resolution period had not expired as on March 01, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

iii. The requirement of making additional provisions specified in the Prudential Framework shall be triggered as and when the extended resolution period expires.

**Large Exposures Framework**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11904&Mode=0)

The Reserve Bank on May 23, 2020 with the objective to facilitate greater flow of resources to corporates as a one-time measure allowed banks to increase their exposure to a group of connected counterparties from 25 per cent to 30 per cent of the eligible capital base of the bank. This is in view of difficulties faced by corporates to raise funds from the capital market due to heightened uncertainty in the backdrop of the COVID-19 pandemic.

**Interest Equalisation Scheme**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11887&Mode=0)

In accordance with the approval of the Government of India, the Reserve Bank of India on May 13, 2020 notified the extension of the Interest Equalisation Scheme (IES) for pre and post shipment rupee export credit for one more year up to March 31, 2021. The extant operational instructions issued by the Reserve Bank under the IES shall continue to remain in force up to March 31, 2021.

**Extending of MD on KYC to HFCs**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11892&Mode=0)

The Reserve Bank on May 19, 2020 extended the Master Direction (MD) on Know Your Customer (KYC) to all Housing Finance Companies (HFCs). The MD on KYC is a consolidation of directions on KYC, Anti- Money Laundering and Combating the Financing of Terrorism and is applicable to all regulated entities of the Reserve Bank.

**Pre-shipment and Post-shipment Credit**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11904&Mode=0)

The Reserve Bank on May 23, 2020 decided to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from one year to 15 months, for disbursements made up to July 31, 2020. This is in view of genuine difficulties being faced by exporters such as delay/postponement of orders, delay in realisation of bills, among others due to the disruptions caused due to the COVID-19 pandemic.

**Time Limits for Import Payment Settlement**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11900&Mode=0)

The Reserve Bank on May 22, 2020 extended the time period for completion of remittances against such normal imports (except in cases where amounts are withheld towards guarantee of performance) from six months to 12 months from the date of shipment for imports made on or before July 31, 2020. In terms of Master Direction on Import of Goods and Services updated as on January 01, 2016, remittances against normal imports (i.e. excluding import of gold/diamonds and precious stones/jewellery) should be completed not later than six months from the date of shipment, except in cases where amounts are withheld towards guarantee of performance. Authorised Dealer banks have been advised to bring this to the notice of constituents concerned.

**Risk Weights on Credit Facilities under ECLGS**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11916&Mode=0)

The Reserve Bank on June 21, 2020 advised member lending institutions to ensure that they assign zero per cent risk weight on credit facilities extended under the Emergency Credit Line Guarantee Scheme (ECLGS) to the extent of guarantee coverage. Credit facilities extended under the scheme guaranteed by National Credit Guarantee Trustee Company (NCGTC) are backed by an unconditional and irrevocable guarantee provided by Government of India. The NCGTC had on May 23, 2020 issued a circular pertaining to the ECLGS announced by the Government of India to extend guaranteed emergency credit line to MSME borrowers.

**Loans sourced over Digital Lending Platforms**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11920&Mode=0)

The Reserve Bank on June 24, 2020 reiterated that banks and NBFCs, irrespective of whether they lend through their own digital lending platform or through an outsourced lending platform, must adhere to the Fair Practices Code guidelines in letter and spirit. They must also meticulously follow regulatory instructions on outsourcing of financial services and information technology services.

The Reserve Bank also asked banks and NBFCs to note that any activity by banks/NBFCs does not diminish their obligations, as the onus of compliance with regulatory instructions rests solely with them. Wherever banks and NBFCs engage digital lending platforms as their agents to source borrowers and/ or to recover dues, they must follow the following instructions:

i. Names of digital lending platforms engaged as agents shall be disclosed on the website of banks/ NBFCs.
ii. Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the bank/NBFC on whose behalf they are interacting with him.
iii. Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the bank/ NBFC concerned.
iv. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.
v. Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the banks/ NBFCs.
vi. Adequate efforts to be made to create awareness about the grievance redressal mechanism.

**Maintenance of CRR**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11922&Mode=0)

The Reserve Bank on June 26, 2020, keeping in view the continuing hardships faced by banks in terms of social distancing of staff and consequent strains on reporting requirements, decided to extend the relaxation of the minimum daily maintenance of the Cash Reserve Ratio (CRR) of 80 per cent for a further period of three months, i.e., up to September 25, 2020. As announced in the Statement of Developmental and Regulatory Policies of March 27, 2020, the minimum daily maintenance of the CRR was reduced from 90 per cent of the prescribed CRR to 80 per cent effective the fortnight beginning March 28, 2020 till June 26, 2020.

**Maintenance of SLR and MSF**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11921&Mode=0)

The Reserve Bank on June 26, 2020, on a review decided to extend the borrowing limit of scheduled banks under the MSF scheme, by dipping into the prescribed statutory liquidity ratio (SLR) till September 30, 2020. As announced in the Statement of Developmental and Regulatory Policies dated March 27, 2020, the borrowing limit of scheduled banks under the scheme, by dipping into the prescribed SLR, was increased from two per cent to three per cent of their Net Demand and Time Liabilities (NDTL) outstanding at the end of the second preceding fortnight with immediate effect up to June 30, 2020.

**IS and PRI for Short Term Loans**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11909&Mode=0)

The Reserve Bank on June 04, 2020 notified that the Government of India has decided to continue the availability of two per cent Interest Subvention (IS) and three per cent Prompt Repayment Incentive (PRI) to farmers for the extended period of repayment up to August 31, 2020 or date of repayment, whichever is earlier. This benefit will be applicable to all short term loans for agriculture and animal husbandry, dairy and fisheries (AHDF) up to ₹3 lakh per farmer (up to ₹2 lakh for AHDF farmers). Earlier, in view of the extension of lockdown and continuing disruption due to the spread of COVID-19 pandemic, the Reserve Bank had on May 23, 2020 permitted all lending institutions to extend moratorium on loans by another three months up to August 31, 2020.

**Timelines for Compliance with Payment System Requirements extended**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11910&Mode=0)

The Reserve Bank on June 04, 2020 extended the timeline for compliance in respect of instructions detailed in Reserve Bank of India – Master Direction on issuance and operation of Prepaid Payment Instruments (PPI-MD), Master Direction on Enhancing Security of Card Transactions, Harmonisation of Turn Around Time, Customer Compensation for Failed Transactions using Authorised Payment Systems and Guidelines on Regulation of Payment Aggregators and Payment Gateways.

**Increasing Instances of Payment Frauds**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11917&Mode=0)

The Reserve Bank on June 22, 2020 advised all authorised payment systems operators and participants to undertake targeted multi-lingual campaigns by way of SMSs, advertisements in print and visual media, among others, to educate their users on safe and secure use of digital payments. The Reserve Bank stated that it has been taking measures to improve awareness through its e-BAAT programmes and organising campaigns on safe use of digital payment modes, to avoid sharing critical personal information like PIN and OTP passwords. In spite of these initiatives, incidences of frauds continue to bedevil digital users, often using the same modus operandi users were cautioned about, such as, luring them to disclose vital payment information, swapping SIM cards, opening links received in messages and mails. There are also cases of users being tricked into downloading spurious apps that access critical information stored on devices. It is therefore essential that all payment systems operators and participants–banks and non-banks–continue to reinforce efforts to spread awareness about digital safety.

**Credit Flow to MSME Sector**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11934&Mode=0)

The Reserve Bank on July 02, 2020 conveyed to all commercial banks, primary urban co-operative banks/state co-operative banks/district central cooperative banks, financial institutions and NBFCs the new criteria for classifying enterprises as Micro, Small and Medium Enterprises (MSMEs). The criteria laid down by the Government of India for such classification is as follows:

i. Classification of Enterprises

A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees; small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees shall be classified as a MSME.

ii. Composite criteria of investment and turnover for classification

A composite criterion of investment and turnover shall apply for classification of an enterprise as micro, small or medium. If an enterprise crosses the ceiling limits specified for its present category in either of the two criteria of investment or turnover, it will cease to exist in that category and be placed in the next higher category, but no enterprise shall be placed in the lower category unless it goes below the ceiling limits specified for its present category in both the criteria of investment as well as turnover.

iii. Calculation of investment in plant and machinery or equipment

The Government of India has also laid out detailed criteria for calculation of investment in plant and machinery or equipment which will be linked to the Income Tax Return (ITR) of the previous years filed under the Income Tax Act, 1961.

iv. Calculation of Turnover

Exports of goods or services or both, shall be excluded while calculating the turnover of any enterprise whether micro, small or medium, for the purposes of classification. Information as regards turnover and exports turnover for an enterprise shall be linked to the Income Tax Act or the Central Goods and Services Act (CGST Act) and the GSTIN. The Government of India, on June 26, 2020, notified new criteria for classifying the enterprises as MSMEs with effect from July 01, 2020.

**Resolution Framework for COVID-19**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11941&Mode=0)

The Reserve Bank on August 06, 2020 decided to provide a window under the 'Prudential Framework for Resolution of Stressed Assets' to lenders with the objective to facilitate the revival of real sector activities. The window enables lenders to implement a resolution plan for eligible corporate exposures without change in ownership and personal loans, while classifying such exposures as standard. The lending institutions shall ensure that the resolution under this facility is extended only to borrowers having stress on account of COVID-19.

**Restructuring of Advances to MSMEs**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11942&Mode=0)

The Reserve Bank on August 6, 2020 extended the scheme of permitting the restructuring of advances granted without an asset classification downgrade to MSMEs classified as 'standard' as on March 1, 2020 subject to the following conditions: i) The aggregate exposure, including non-fund based facilities, of banks and NBFCs to the borrower does not exceed ₹25 crore as on March 1, 2020; ii) The borrower's account was a 'standard asset' as on March 1, 2020; iii) The restructuring of the borrower account is implemented by March 31, 2021; iv) The borrowing entity is GST-registered as on the date of implementation of the restructuring. v) The accounts which may have slipped into NPA category between March 2, 2020 and date of implementation may be upgraded as 'standard asset', as on the date of implementation of the restructuring plan; vi) For accounts restructured under these guidelines, banks shall maintain additional provision of 5 per cent over and above the provision already held by them.

**System Based Asset Classification**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11948&Mode=0)

The Reserve Bank on August 12, 2020 implemented a system-based asset classification in urban co-operative banks (UCBs) in order to improve their efficiency, transparency and integrity of the asset classification process. The relevant instructions in this regard are as under:

i) UCBs having total assets of ₹2000 crore or above as on March 31, 2020 shall implement system-based asset classification with effect from June 30, 2021;

ii) UCBs having total assets of ₹1000 crore or above but less than ₹2000 crore as on March 31, 2020 and having self-assessed themselves as being under Level III or Level IV on Comprehensive Cyber Security Framework for UCBs, shall implement system-based asset classification with effect from September 30, 2021;

iii) UCBs which meet the criteria as at the end of the current or subsequent financial years shall implement system-based asset classification within a period of six months from the end of the financial year concerned;

iv) For smooth implementation of the system, all concerned UCBs may conduct pilot/parallel run and evaluate the results for accuracy/integrity;

v) UCBs not meeting the criteria are also encouraged to voluntarily implement the system-based asset classification in their own interest.

**Offline Retail Payments**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11947&Mode=0)

The Reserve Bank on August 06, 2020 permitted a pilot scheme to be conducted for a limited period wherein authorised Payment System Operators (PSOs) – banks and non-banks – will be able to provide offline payment solutions using cards, wallets or mobile devices for remote or proximity payments. Other entities having innovative solutions using cards, wallets or mobile devices for remote or proximity payments shall tie-up with the authorised PSOs. The pilot scheme shall be undertaken till March 31, 2021. The Reserve Bank shall decide on formalising such a system on the basis of experience gained under the pilot.

**Online Dispute Resolution System**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11946&Mode=0)

The Reserve Bank on August 06, 2020 advised authorised PSOs – banks and non-banks and their participants to put in place system/s for Online Dispute Resolution (ODR) for resolving disputes and grievances of customers. Authorised PSOs shall be required to implement an ODR system for disputes and grievances related to failed transactions in their respective payment systems by January 1, 2021. The PSOs shall allow Payment System Participants to access such a system. Any entity setting up a payment system in India thereafter or participating therein, shall make available the ODR system at the commencement of its operations.

**Umbrella Entity for Retail Payments**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11954&Mode=0)

The Reserve Bank on August 18, 2020 placed on its website, the 'Framework for Authorisation of Pan-India Umbrella Entity for Retail Payments'. The framework has been released after due deliberations on the comments/feedback received by the Reserve Bank. The Reserve Bank also invites applications for the umbrella entity which may be submitted in the prescribed form till close of business on February 26, 2021.

**Resolution Framework for COVID-19 related Stress**

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50324)

The Reserve Bank on September 07, 2020 advised all lending institutions to mandatorily consider the following key ratios while finalising the resolution plans in respect of eligible borrowers under the Resolution Framework:

| Sr.no. | Key Ratio | Definition |
|---|---|---|
| 1 | Total Outside Liabilities/ Adjusted Tangible Net Worth (TOL/ATNW) | Addition of long-term debt, short term debt, current liabilities and provisions along with deferred tax liability divided by tangible net worth net of the investments and loans in the group and outside entities. |
| 2 | Total Debt/EBITDA | Addition of short term and long-term debt divided by addition of profit before tax, interest and finance charges along with depreciation and amortisation. |
| 3 | Current Ratio | Current assets divided by current liabilities |
| 4 | Debt Service Coverage Ratio (DSCR) | For the relevant year addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |
| 5 | Average Debt Service Coverage Ratio (ADSCR) | Over the period of the loan addition of net cash accruals along with interest and finance charges divided by addition of current portion of long term debt with interest and finance charges. |

The Resolution Framework envisaged constitution of an Expert Committee by the Reserve Bank to make recommendations on the required financial parameters with sector specific benchmark ranges for such parameters. The Expert Committee has since submitted its recommendations to the Reserve Bank on September 4, 2020, which have been broadly accepted by the Reserve Bank. The Reserve Bank on September 07, 2020 issued a follow up circular to the Resolution Framework guidelines announced on August 6, 2020 by specifying five specific financial ratios and the sector-specific thresholds for each ratio in respect of 26 sectors to be taken into account while finalising the resolution plans.

**Compliance Functions in Banks**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11962&Mode=0)

The Reserve Bank on September 11, 2020 advised the following guidelines meant to bring uniformity in the approach followed by banks, as also to align the supervisory expectations on Chief Compliance Officer (CCOs) with best practices:

i) Policy

A bank shall lay down a board-approved compliance policy clearly spelling out its compliance philosophy, expectations on compliance culture covering tone from the top, accountability, incentive structure and effective communication and challenges thereof, structure and role of the compliance function, role of CCO, processes for identifying, assessing, monitoring, managing and reporting on compliance risk throughout the bank.

ii) Tenor for appointment of CCO

The CCO shall be appointed for a minimum fixed tenure of not less than 3 years.

iii) Transfer/Removal of CCO

The CCO may be transferred / removed before completion of the tenure only in exceptional circumstances.

iv) Eligibility Criteria for appointment as CCO

The CCO shall be a senior executive of the bank, not more than 55 years, shall have an overall experience of at least 15 years in the banking or financial services, good understanding of industry and risk management, knowledge of regulations, legal framework and sensitivity to supervisors" expectations.

v) Selection Process

Selection of the candidate for the post of the CCO shall be done on the basis of a well-defined selection process and recommendations made by the senior executive level selection committee constituted by the Board for the purpose.

vi) Reporting Requirements

A prior intimation to the Department of Supervision, Reserve Bank of India, Central Office, Mumbai, shall be provided before appointment, premature transfer/removal of the CCO.

vii) Reporting Line

The CCO shall have direct reporting lines to the MD & CEO and/or Board/Board Committee (ACB) of the bank.

viii) Authority

The CCO and compliance function shall have the authority to communicate with any staff member and have access to all records or files that are necessary to enable him/her to carry out entrusted responsibilities in respect of compliance issues.

ix) The duties and responsibilities of the compliance function

To apprise the Board and senior management on regulations, rules and standards and any further developments, to provide clarification on any compliance related issues, to conduct assessment of the compliance risk (at least once a year) and to develop a risk-oriented activity plan for compliance assessment. The activity plan should be submitted to the ACB for approval and be made available to the internal audit.

x) Internal Audit

The compliance function shall be subject to internal audit.

Other guidelines pertaining to dual halting, membership to committees and core elements of the mandate of CCO were also covered in the guidelines.

**MD on Priority Sector Lending**

(https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=50310)

The Reserve Bank on September 04, 2020 reviewed the Priority Sector Lending (PSL) guidelines based on recommendations made by the „Expert Committee on Micro, Small and Medium Enterprises‟ under the chairmanship of Shri U.K. Sinha and the „Internal Working Group to Review Agriculture Credit‟ chaired by Shri M.K. Jain. The objective was to align the guidelines with emerging national priorities and bring sharper focus on inclusive development, after having wide ranging discussions with all stakeholders.

Some of the salient features of revised PSL guidelines are:

i) Addresses regional disparities in the flow of priority sector credit;

ii) The targets prescribed for small and marginal farmers and weaker sections are being increased in a phased manner;

iii) Higher credit limit has been specified for Farmers/ Producers/Organisations/Companies;

iv) Loan limits for renewable energy have been increased;

v) For improvement of health infrastructure, credit limit for health infrastructure (including those under "Ayushman Bharat") has been doubled.

**Positive Pay System for CTS**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11969&Mode=0)

The Reserve Bank on September 25, 2020 advised banks to create adequate awareness among their customers on features of Positive Pay System through SMS alerts, display in branches, ATMs as well as through their web-site and internet banking. National Payments Corporation of India shall develop the facility of Positive Pay in Cheque Truncation System (CTS) and make it available to participant banks. Banks, in turn, shall enable it for all account holders issuing cheques for amounts of ₹50,000 and above. Positive Pay System shall be implemented from January 01, 2021.

**Revised Limit for Risk Weight**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11981&Mode=0)

The Reserve Bank on October 22, 2020 increased the above threshold limit of ₹5 crore for aggregated retail exposure to a counterparty to ₹ 7.5 crore. The risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of ₹ 7.5 crore. The other exposures shall continue to attract the normal risk weights as per the extant guidelines.

**Review of HFCs Regulatory Framework**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11988&Mode=0)

The Reserve Bank on October 22, 2020 decided to exempt Housing Finance Companies (HFCs) from section 45-IB (Maintenance of percentage of assets) and section 45-IC (Reserve fund) of the Reserve Bank of India Act. The corresponding provisions of section 29B and 29C of the National Housing Bank Act, 1987 will, however, be applicable to HFCs. Further harmonisation between the regulations of HFCs and NBFCs will be taken up in a phased manner in the next two years so as to ensure that the transition is achieved with least disruption.

**Grant of Ex-gratia Payment**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11989&Mode=0)

The Reserve Bank on October 26, 2020 advised all lending institutions to be guided by the provisions of the Scheme announced by the Government of India for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts (March 01, 2020 to August 31, 2020) (the 'Scheme') on October 23, 2020, which mandates ex-gratia payment to certain categories of borrowers by way of crediting the difference between simple interest and compound interest for the period between March 1, 2020 to August 31, 2020 by respective lending institutions.

**Streamlining QR Code Infrastructure**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11987&Mode=0)

After examining the recommendations and the feedback received on the report of the Committee to review the current system of Quick Response (QR) Codes in India and suggest measures for moving towards interoperable QR Codes. The Reserve Bank on October 22, 2020 decided the following:

i. The two interoperable QR codes in existence – UPI QR and Bharat QR – shall continue as at present.

ii. Payment System Operators (PSOs) that use proprietary QR codes shall shift to one or more interoperable QR codes.

iii. No new proprietary QR codes shall henceforth be launched by any PSO for any payment transaction.

iv. RBI shall continue a consultative process to standardise and improve interoperable QR codes, to enable beneficial features identified by the Phatak Committee.

v. PSOs may take initiative to increase awareness about interoperable QR codes.

**SRO for Payment System Operators**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11986&Mode=0)

The Reserve Bank on October 22, 2020 finalised the Framework for Grant of Recognition as a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs), based on the comments and suggestions received on the draft framework. Reserve Bank of India's Payment and Settlement Systems Vision 2019-21, envisaged the setting up of a Self-Regulatory Organisation (SRO) for Payment System Operators (PSOs). The Statement on Developmental and Regulatory Policies of the Reserve Bank of India (RBI), as part of its Sixth Bi-monthly Monetary Policy Statement – 2019-20, announced putting in place a Framework for Establishing a SRO for PSOs.

**Current Account**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11990&Mode=0)

The Reserve Bank on November 02, 2020 advised banks to ensure compliance with the instructions contained in the circular DOR.No.BP.BC/7/21.04.048/2020-21 dated August 6, 2020 ibid by December 15, 2020. Banks were advised to ensure compliance with the above instructions within a period of three months from the date of issue of the circular i.e., by November 5, 2020. The Reserve Bank received several references from banks seeking clarifications on operational issues regarding maintenance of current accounts already opened by the banks. These references are being examined by the Reserve Bank and will be clarified separately by means of a FAQ.

**Maintenance of Escrow Account**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11996&Mode=0)

The Reserve Bank on November 17, 2020 allowed authorised Prepaid Payment Instruments (PPIs) Issuer or a Payment Aggregator (PA) to maintain one additional escrow account in a different scheduled commercial bank, with a view to diversify risk and address business continuity concerns. An authorised PPI Issuer or a PA is required to maintain an escrow account with a scheduled commercial bank on an ongoing basis. The directions are issued under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007.

**Co-Lending to Priority Sector**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11991&Mode=0)

The Reserve Bank on November 05, 2020 provided greater operational flexibility to the lending institutions, while requiring them to conform to the regulatory guidelines on outsourcing and KYC.

The primary focus of the revised scheme, rechristened as “Co-Lending Model” (CLM), is to improve the flow of credit to the unserved and underserved sector of the economy and make available funds to the ultimate beneficiary at an affordable cost, considering the lower cost of funds from banks and greater reach of the NBFCs. In terms of the CLM, banks are permitted to co-lend with all registered NBFCs (including HFCs) based on a prior agreement. The co-lending banks will take their share of the individual loans on a back-to- back basis in their books. The CLM shall not be applicable to foreign banks (including WOS) with less than 20 branches.

**Access to Call/Notice/Term Money Market**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12006&Mode=0)

The Reserve Bank on December 04, 2020 permitted Regional Rural Banks (RRBs) to participate in the call/notice and term money markets both as borrowers and lenders. The prudential limits and other guidelines on call/notice/term money markets for the RRBs shall be the same as those applicable to scheduled commercial banks in terms of the Reserve Bank Master Direction No.2/2016- 17, dated July 7, 2016 on Money Market Instruments: Call/Notice Money Market, Commercial Paper, Certificates of Deposit and Non-Convertible Debentures (original maturity up to one year), as amended from time to time. These Directions have been issued by RBI in exercise of the powers conferred under section 45W of the Reserve Bank of India Act, 1934 and of all the powers enabling it in this behalf.

**Opening of Current Accounts by Banks**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12007&Mode=0)

The Reserve Bank on December 14, 2020 permitted banks to open specific accounts which are stipulated under various statutes and instructions of other regulators/ regulatory departments, without any restrictions in terms of the circular dated August 6, 2020. An indicative list of such accounts is as given below:

i. Accounts for real estate projects mandated under Section 4 (2) I (D) of the Real Estate (Regulation and Development) Act, 2016 for the purpose of maintaining 70% of advance payments collected from the home buyers.

ii. Nodal or escrow accounts of payment aggregators/pre- paid payment instrument issuers for specific activities as permitted by Department of Payments and Settlement Systems (DPSS), Reserve Bank of India under Payment and Settlement Systems Act, 2007.

iii. Accounts for settlement of dues related to debit card/ATM card/credit card issuers/acquirers.

iv. Accounts permitted under FEMA, 1999.

v. Accounts for the purpose of IPO/NFO/FPO share buyback /dividend payment/issuance of commercial papers/allotment of debentures/gratuity, etc. which are mandated by respective statutes or regulators and are meant for specific/limited transactions only.

vi. Accounts for payment of taxes, duties, statutory dues, etc. opened with banks authorized to collect the same, for borrowers of such banks which are not authorized to collect such taxes, duties, statutory dues, etc.

vii. Accounts of white label ATM Operators and their agents for sourcing of currency.

Banks shall monitor all current accounts and cash credit/overdrafts regularly, at least on a half-yearly basis, specifically with respect to the exposure of the banking system to the borrower, to ensure compliance with instructions contained in circular dated August 6, 2020 ibid. To read more, please click here.

**Amendment to MD on KYC**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12008&Mode=0)

The Reserve Bank on December 18, 2020 decided to extend the CKYCR (Centralised KYC Registry) to Legal Entities (LEs). Accordingly, Regulated Entities (REs) shall upload the KYC data pertaining to accounts of LEs opened on or after April 1, 2021, on to CKYCR in terms of Rule 9 (1A) of the PML Rules.

**24x7 Availability of RTGS System**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11998&Mode=0)

The Reserve Bank made RTGS available round the clock on all days of the year with effect from 00:30 hours on December 14, 2020. The member banks participating in RTGS were advised as under:

- RTGS shall be available for customer and inter-bank transactions round the clock, except for the interval between 'end-of-day' and 'start-of-day' processes, whose timings would be duly broadcasted through the RTGS system.
- RTGS shall continue to be governed by the RTGS System Regulations, 2013, as amended from time to time.
- Intra-Day Liquidity (IDL) facility shall be made available to facilitate smooth operations.

Members were also advised to put in place necessary infrastructure to provide RTGS round the clock to their customers. This directive was issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

**Card Transactions**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11999&Mode=0)

The Reserve Bank decided to increase the contactless card per transactions limit to ₹5,000/- on December 04, 2020. The present COVID-19 pandemic has underlined the benefits of contactless transactions. Keeping this in view and based on stakeholder feedback, it was announced in the Statement on Developmental and Regulatory Policies dated December 4, 2020 that per transaction limit for Additional Factor of Authentication (AFA) relaxation for contactless card transactions will be increased. This directive is issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

**Perpetual Validity for CoA**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12000&Mode=0)

The Reserve Bank on December 04, 2020 decided to grant authorisation for all Payment System Operators (PSOs) both new and existing, on a perpetual basis, subject to the usual conditions. For existing authorised PSOs, grant of perpetual validity shall be examined as and when the Certificate of Authorisation (CoA) becomes due for renewal subject to their adherence to the following:

i. Full compliance with the terms and conditions subject to which authorisation was granted;

ii. Fulfilment of entry norms such as capital, net worth requirements, etc.;

iii. No major regulatory or supervisory concerns related to operations of the PSO, as observed during onsite and / or offsite monitoring;

iv. Efficacy of customer grievance redressal mechanism;

v. No adverse reports from other departments of RBI / regulators / statutory bodies, etc.

Existing PSOs who do not satisfy all conditions will be given one-year renewals to enable them to comply; if any entity fails to do so in a reasonable time, its authorisation may be withdrawn.

**Introduction of Cooling Period**

(https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12001&Mode=0)

The Reserve Bank on December 04, 2020 decided to introduce the concept of Cooling Period (CP) in the following situations:

i. Authorised Payment System Operators (PSOs) whose Certificate of Authorisation (CoA) is revoked or not- renewed for any reason; or

ii. CoA is voluntarily surrendered for any reason; or

iii. Application for authorisation of a payment system has been rejected by the Reserve Bank.

iv. New entities that are set-up by promoters involved in any of the above categories; definition of promoters for the purpose, shall be as defined in the Companies Act, 2013.

The CP shall be for one year from the date of revocation/non-renewal/acceptance of voluntary surrender / rejection of application, as the case may be. In respect of entities whose application for authorisation is returned for any reason by the Reserve Bank, condition of CP shall be invoked after giving the entity an additional opportunity to submit the application.

i. Ubona Technologies Pvt. Ltd. Bengaluru - The voice- based UPI payment solution facilitates offline Person-to Person (P2P) and P2M transactions using mobile phones including feature phones. The product also offers convenience of preferred Indian language to the customer through IVR, making adoption of digital transactions user friendly.

ii. Eroute Technologies Pvt. Ltd. Noida - The product is UPI based offline payment solution using SIM overlay smartcard placed on the SIM to drive SIM Tool Kit (STK) menu-based user interface to facilitate P2P/P2M transactions. This product offers payment solution to non-internet connected feature phone users.


### वित्तीय क्षेत्र में क्षमता निर्माण एवं विकास

कृषि बैंकिंग महाविद्यालय (सीएबी) की स्थापना भारतीय रिज़र्व बैंक द्वारा 1969 में ग्रामीण एवं सहकारिता बैंकिंग में प्रशिक्षण प्रदान करने के लिए की गयी थी। तत्पश्चात, भारतीय वित्तीय क्षेत्र की बदलती आवश्यकताओं को पहचानकर, महाविद्यालय ने सूचना प्रौद्योगिकी, मानव संसाधन प्रबंधन, साधारण बैंकिंग और गैर-बैंकिंग वित्तीय सेवाओं जैसे क्षेत्रों में प्रशिक्षण प्रदान करने के लिए अपना दायरा बढ़ाया। महाविद्यालय कई अंतर्राष्ट्रीय संस्थाओं जैसे एफएओ, अपराका, सिकटैब, यूएनडीपी एवं कॉमनवेल्थ सेक्रेटेरिएट के सहयोग से भी प्रशिक्षण कार्यक्रम आयोजित करता आ रहा है। महाविद्यालय ने विकास बैंकिंग में उत्कृष्टता के अंतर्राष्ट्रीय केंद्र के रूप में ख्याति प्राप्त की है। भारतीय वित्तीय क्षेत्र की वर्तमान चुनौतियों के मद्देनज़र महाविद्यालय ने ग्रामीण विकास एवं सहकारी बैंकिंग के अलावा महाविद्यालय, विभिन्न संस्थोओं (राष्ट्रीय व अंतर्राष्ट्रीय) के लिए उनकी विशिष्ट आवश्यकता के अनुसार भी प्रशिक्षण कार्यक्रम आयोजित करता है।

महाविद्यालय, समय की मांग के अनुसार वित्ती य क्षेत्र में क्षमता निर्माण एवं विकास के लिए प्रतिबद्ध है।

### Building & Enhancing Capabilities in the Financial Sector

College of Agricultural Banking (CAB) was established by the Reserve Bank of India in 1969 to provide training inputs in Rural and Cooperative Banking. Subsequently, recognising the changing needs of the Indian financial sector, the College has expanded its scope to provide training in other areas like Information Technology, Human Resource Management, General Banking and Non-Banking Financial Services. The College also conducts programmes in collaboration with international agencies like FAO, APRACA, CICTAB, UNDP and the Commonwealth Secretariat. It has earned acknowledgment as an international centre of excellence for development banking. The College also conducts customized training programmes for institutions, both national and international, as per their specific requirements.

The College is committed to enhancing and building capabilities in the financial sector in tune with the changing times.