REPORT OF THE INTERNAL WORKING GROUP TO EXAMINE THE RECOMMENDATIONS OF THE RADHAKRISHNA EXPERT GROUP ON AGRICULTURAL INDEBTEDNESS

April 2008

Reserve Bank of India
Central Office
Mumbai

Report of the Internal Working Group to examine the Recommendations of the Radhakrishna Expert Group on Agricultural Indebtedness

Contents

Chapter – I

Introduction
1. Background
2. RBI Initiative
3. Methodology adopted
4. Overview of this Report
5. Union Budget 2008-09: Proposal for waiver and OTS for farmers

Chapter – II

Observations and Recommendations
Credit Measures
1. PM's Debt Relief Package
2. Relief in case of natural calamities
3. Credit for rain-fed areas
4. Cyclical credit
5. Moneylenders' Debt Redemption
6. Financial Inclusion
7. Project based lending
8. Agency and mobile banking
9. Bharat Kisan Card
10. Lead Bank Scheme
11. Credit counselling for farmers
12. Simplifying procedure for mortgages
13. Reducing transaction cost
14. Computerisation of land records
15. Integration of MFIs with main-stream banking
16. Qualified personnel
17. Role of NABARD
18. Ensuring priority sector lending by banks
Institutional Architecture
19. Federation of Farmers SHGs
Risk Mitigation Measures
20. Crop Insurance and Weather Insurance
21. Price risk insurance and variable tariff
22. Other risk mitigation measures

Internal Working Group to Examine the Recommendations of the Radhakrishna Expert Group on Agricultural indebtedness

We, the undersigned, Chairman and the Members of the above Internal Working Group, have adopted the Report and submit the same.

(V.S.Das)

Chairman

(Janak Raj) Member	(K.Rajkumar) Member
(V.P.Arya) Member	(Shripal) Member
(S.S.Barik) Member	(A. K. Pandey) Member–Secretary

Chapter - I

Introduction

1. Background

Agricultural Indebtedness and the Radhakrishna Expert Group:

1.1 Government of India, Ministry of Finance, vide its order dated August 10, 2006, decided to constitute an Expert Group under the chairmanship of Prof. R. Radhakrishna, Director, Indira Gandhi Institute of Development Research, Mumbai, to look into the problems of agricultural indebtedness in its totality and suggest measures to provide relief to farmers across the country.

1.2 The Expert Group submitted its report to Government of India in July 2007. The Group, in its report, made wide-ranging recommendations to address the issue of agricultural indebtedness. The recommendations include immediate credit–related measures, reforms in financial and institutional architecture, risk mitigation measures, etc.

2. RBI Initiative:

2.1 In the Mid-term Review of the Annual Policy 2007-08, it was proposed to constitute an Internal Working Group to examine the recommendations of the Radhakrishna Committee that are relevant to the banking system in general and the Reserve Bank, in particular.

2.2 Accordingly, an Internal Working Group was set up under the chairmanship of Shri V.S.Das, Executive Director and comprising the following members:

- Shri Janak Raj, Advisor, Department of Economic Analysis and Policy
- Shri K.Rajkumar, Director, Department of Statistical Analysis and Computer Services
- Shri V.P.Arya, General Manger, Deposit Insurance and Credit Guarantee Corporation
- Shri Shripal, General Manager, Department of Banking Operations and Development
- Shri S.S.Barik, General Manager, Urban Banks Department
- Shri A. K. Pandey, General Manager, Rural Planning and Credit Department - Member – Secretary

3. Methodology adopted:

3.1 The scope for the Internal Working Group was limited to examination of the recommendations of the Radhakrishna Expert Group, as relevant to the banking system in general and the Reserve Bank, in particular.

3.2 As part of a wider consultative approach, comments on the Report were invited from the various Regional Offices of Reserve Bank, with an advice to involve various stake holders like State Governments, NABARD, banks, NGOs, Joint Liability Groups (JLGs) and farmers' organisations in the process.

3.3 The Internal Working Group also consulted a few senior bankers regarding the recommendations pertaining to the cyclical credit and its possible fall-out on the operational aspect of the banks and their branches. Practicability aspect of the suggestion was also examined in consultation with them.

3.4 As a precursor to the deliberations of the Internal Working Group, Shri Vikram S. Bajwa, Deputy General Manager and Shri Kausik Chakrabarti, Assistant General Manager – both attached to the Rural Planning and Credit Department, had undertaken a ground level study of the functioning of the extant Kisan Credit Card Scheme, which is one of the most popular modes of credit delivery to the agricultural sector. The study was carried out under heterogeneous conditions at a cross section of banks (commercial banks, RRBs and co-operative societies) - in places where awareness level of average borrower was high and the state of agriculture comparatively more developed (Gujarat) and areas plagued with lower levels of awareness and characterized by distress situations in agriculture (Vidarbha). The study, thus, provided an insight into the credit regime faced by the farmers vis-à-vis their credit needs.

3.5 Based on the feedback from the above sources and also extensive deliberations among the members, the Internal Working Group arrived at the observations and recommendations with regard to various recommendations of Radhakrishna Expert Group, as summarized in their report.

4. Overview of this Report

4.1 The Radhakrishna Expert Group had made 47 recommendations. The position taken by the Internal Working Group in respect of these recommendations is summarized in the table below:

Total No. of recommendations/ paragraphs in the summary	47
No. of general paragraphs	12
No. of recommendations with which the group is in agreement	31
No. of recommendations agreed to with a caveat	4

The observations and recommendations of the Internal Working Group are given in detail in the next Chapter.

5. Union Budget 2008-09: Proposal for waiver and OTS for farmers

5.1 During the course of finalization of this Report, the Hon'ble Union Finance Minister presented the Budget proposals for 2008-09. In his Budget speech, the Hon'ble Minister has taken note of the recommendations of the Radhakrishna Expert Group and announced a Scheme of debt waiver and debt relief for farmers as follows:

> (i) "All agricultural loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 will be covered under the scheme.
>
> (ii) For marginal farmers (i.e., holding upto 1 hectare) and small farmers (1-2 hectare), there will be a complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. In respect of other farmers, there will be a one time settlement (OTS) scheme for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008. Under the OTS, a rebate of 25 per cent will be given against payment of the balance of 75 per cent.
>
> (iii) Agricultural loans were restructured and rescheduled by banks in 2004 and 2006 through special packages. These rescheduled loans, and other loans rescheduled in the normal course as per RBI guidelines, will also be eligible either for a waiver or an OTS on the same pattern.
>
> (iv) The implementation of the debt waiver and debt relief scheme will be completed by June 30, 2008. Upon being granted debt waiver or signing an agreement for debt relief under the OTS, the farmer would be entitled to fresh agricultural loans from the banks in accordance with normal rules."

The budget proposals address some of the recommendations of the Radhakrishna Group and the Internal Working Group has made reference to the same, where specifically relevant.

Chapter - II

Observations and Recommendations

While the general observations contained in the summary are integral to the understanding of the Radhakrishna Report, the responses of the Internal Working Group are restricted to banking related recommendations contained in the remaining paragraphs of the summary.

Credit Measures

1. PM's Debt Relief Package. (para 11)

1.1 Para 11 of the Radhakrishna Report deals with the implementation and monitoring of relief measures for distressed farmers envisaged in the Prime Minister's Relief Package. It has stated that *the implementation and monitoring of relief measures under the above package needs to be addressed carefully. Needs of individual households should be taken into account with necessary flexibility and follow-up steps should be taken to relieve the families from distress. Non-credit component of the package should be continued for two more years.*

1.2 As such, the implementation and monitoring of the Prime Minister's Relief Package is already being done by SLBC Convenor banks. It was found that there was general consensus among the stake-holders on the need for implementing the package with flexibility and to take follow-up steps for relieving the farmers from distress, besides continuing the 'non credit component' for two more years. However, **the Internal Working Group is of the view that while 'household approach' could be adopted, loans should be sanctioned after taking into account the repayment capacity.**

1.3 As regards, the 'non-credit' component of the package, banks were generally involved in the credit related aspects of the package. The 'non-credit' component of the package had been primarily the responsibility of the Central and State Governments. **As such, credit component of any relief package cannot be successful unless the non-credit component of the package is implemented in totality due to the complementary nature of these aspects. Therefore, necessary complementary steps in this regard may be initiated by the Central and State Governments in this regard.**

1.4 Further, It has also been felt that uniform guidelines and standard criteria may be adopted in choosing the debt stressed districts. Since agricultural indebtedness may arise from time to time due to various factors like crop failure, natural calamity, etc. and there could be need for specific relief packages in such circumstances, **the Internal Working Group notes some merit in Government of India laying down transparent but flexible guidelines for choosing debt stressed districts, in future.**

1.5 The waiver and OTS scheme announced in the Union Budget 2008-09 would also cover agricultural loans restructured / rescheduled under the PM's relief package.

2. Relief in case of natural calamities (para 12)

2.1 In para 12 of the summary, the Radhakrishna Expert Group has suggested certain relief measures for farmers in the event of natural calamities as under:

a. *the loans of all the affected families should be rescheduled,*
b. *the families whose loans are rescheduled should be eligible for fresh loans, and*
c. *the interest liability of the borrowers for the extended period of up to two years (both short-term and long-term loans) should be waived and the financial burden equally shared between the Central and State Governments.*

2.2 In terms of the announcements contained in the Budget Speech of 2008-09, agricultural loans of farmers rescheduled under the standing guidelines issued by RBI in respect of relief to be provided by banks in case of natural calamities, are covered under the waiver and OTS scheme for farmers.

2.3 While, the current standing instructions from RBI provide for rescheduling of loans of affected families and provision of fresh loans to such families as has been suggested in the Radhakrishna Report, it is felt that there should be provision for credit guarantee where there are two consecutive calamities. The suggestion for a special Credit Guarantee Scheme to be operated by DICGC with sharing of burden between banks and Government of India has been recommended by Reserve Bank to the Government.

2.4 **The Internal Working Group reiterates that a Steering Committee may be formed under the aegis of the State Level Bankers' Committee (SLBC) for monitoring and periodical review of the relief measures in the event of natural calamities.**

3. Credit for rain-fed areas (para 13)

3.1 Para 13 of the summary has stated that *in the event of crop failure for one year in rainfed areas, the loans should be rescheduled and fresh loans to be made available. Should the crop fail for the second consecutive year, as per the assessment of Revenue authorities, in addition to rescheduling of the crop loan, interest for the extended one year period should be waived and financial burden equally shared between the Central and State Governments.*

3.2 In this regard, Reserve Bank has made an alternative proposal to Government of India, Ministry of Finance. Based on Johl Committee recommendations, Reserve Bank had proposed to offer a credit guarantee scheme through the Deposit Insurance and Credit Guarantee Corporation (DICGC). The scheme envisages that in the event of crop failure in the second consecutive year, banks will write off the rescheduled loan of the previous year up to Rs. 1 lakh, burden being shared by the banks and Government of India. The RBI scheme proposed was applicable for all regions including rain-fed regions in order to spread the risk.

3.3 The Internal Working Group has also received suggestion from certain banks that that it is preferable to write off principal of first year along with waiver of interest, in case crop failure continued in the third consecutive year. It has been felt that at any given point of time, there should be only one rescheduled loan and one fresh loan outstanding in the account of a farmer. Some banks, on the other hand, had favoured a 25% write off of the loan amount and waiver of interest from the first year for farmers in rain-fed areas. To a significant extent, the RBI Scheme referred to in para 3.2 takes care of this suggestion.

3.4 Certain State Governments are of the view that in case of crop failure only waiver of interest should be considered and not write off of principal loan as it would constitute a huge burden on the State Government. They are also of the view that sharing of burden between the Central and State Governments should be in the ratio of 75:25. **The Internal Working Group suggests that such issues may be considered by the Central and State Governments through consultations.**

4. Cyclical credit (para14)

4.1 One of the major recommendations of the Radhakrishna Expert Group pertaining to introduction of a cyclical credit system for farmers is contained in para 14 of the summary. It has been stated therein that *liquidity constraints of rainfed areas should be mitigated through cyclical credit system of treating crop loan as a weather cycle long intervention rather than an annual feature. It could be initiated on a pilot basis in a few rain-fed districts.*

4.2 In this regard, it may be pertinent to take a look at the experience of NABARD in this respect in the past. The group has been given to understand that NABARD had introduced a scheme of cyclical credit to break the vicious circle of low productivity, low income, low surplus and low repayment capacity in drought prone areas characterized by rain-fed farming on a pilot basis in three watershed projects during 1988-89. The pilot project, which endeavoured matching of the 'credit cycle' with the weather cycle', met with limited success reportedly due to operational problems like shortage of staff in the bank branches to finance large number of farmers, farmers' expectations of loan waivers, non-adoption of the entire package, reluctance of farmers to obtain further loans fearing accumulation of debts beyond perceived capacity to repay, etc. Another major factor was the absence of an institutional mechanism to absorb accumulated debt at the end of the weather cycle.

4.3 Moreover, a critical requirement for sustenance of bank credit support for farmers in arid areas was linking credit with crop insurance. Improvement in the National Agricultural Insurance Scheme (NAIS) and implementation of weather based crop insurance are also considered necessary for absorbing loan losses and preventing farmers from turning defaulters.

4.4 The issue of introduction of cyclical credit system for rain-fed areas was discussed with some senior bankers, as well. They were generally of the view that, apart from addressing the issue of liquidity constraints through an appropriate cyclical credit mechanism, non-credit measures also deserved serious attention.

4.5 In order to reduce dependence on rains in the rain-fed regions, steps should be initiated to put up one deep borewell in every village, where ground water is available, under public-private partnership (on custom hiring model). These borewells should be operated on pure commercial lines so that operator makes sufficient surplus for expansion of operations in contiguous areas. In areas marked by scarcity of ground water, effective measures for conservation and harvesting of water and managing local agro-climatic conditions within given constraints are critical requirements. The Internal Working Group feels that the respective State Governments have a major role to play in this respect.

4.6 While keeping in view the above experience and insights provided by senior bankers, it is felt that there is indeed a case for a re-look at schemes for purveying crop loans in rain fed areas on a cyclical basis. The Internal Working Group, therefore, had deliberated on various alternatives and has come up with the following suggestion.

4.7 **The Internal Working Group recommends that 80 per cent of the crop loan requirement of individual borrowers may be released through a short term production loan in conformity with present norms / practices while the remaining 20 per cent representing the 'core component' (the core component computed at 20 per cent of the amount of the crop loan limit would represent expenses for land preparation, pre-sowing operations besides self labour / consumption.) may be sanctioned as a cash credit limit. This arrangement should ensure year round liquidity as long as the farmer is in a position to service the interest in the cash credit account. No change in prevailing NPA norms is envisaged under this system.**

4.8 However, any reschedulement of the loans in terms of extant guidelines on relief measures to be provided in the event of natural calamities in these areas will warrant that balances outstanding in the cash credit account are clubbed with the outstandings in the loan account for reschedulement and a fresh cash credit limit as indicated above is again made available to the farmer.

4.9 The Internal Working Group recommends that above recommendation be taken up for implementation on a pilot basis in select rain fed districts. Further fine tuning or modification in the scheme could be attempted based on the results of the pilot.

5. Moneylenders' Debt Redemption Fund (para 15)

5.1 In para 15, the Radhakrishna Expert Group has suggested that *there is a need for a one-time measure for providing long-term loans by banks to farmers to enable them to repay their debts to the moneylenders by setting up of a "Money Lenders Debt Redemption Fund". Initially, Rs. 100crore should be earmarked for this purpose. Local Civil Society Organisations, NGOs or Panchayati Raj Institutions could be involved in arriving at negotiated settlements with the moneylenders.*

5.2 In this regard, it may be pertinent to note that many banks already have loan products for take-over of liabilities of farmers to moneylenders. As recently advised by Reserve Bank, credit counselling centres are being set up in each district by the lead bank – initially one district in each State is being selected. These counselling centres can engage local respected persons/NGOs for arriving at debt restructuring packages for farm households covering institutional and non-institutional loans and could include provision of fresh loans to repay the moneylenders dues as a one time measure. A concept paper for setting up of financial literacy and credit counselling centres has been placed in public domain by Reserve Bank as announced in its Mid-term Review. **The Internal Working Group is of the view that credit counselling centres that may be set up should evolve debt restructuring plans in consultation with banks and borrowers. Borrowings from moneylenders could be covered where banks are willing to offer debt swapping schemes.**

5.3 It has also been felt that needs of the farmers being manifold and exigencies being very uncertain it may be very difficult for them to hook up to only formal channel in the present scenario. Since experience has shown that the role of the money lenders cannot be wished away, it may be desirable to consider stricter enforcement of regulation of money lenders in a transparent manner. In this context, it is pertinent to mention that a Group set up by Reserve Bank of India consisting of Secretaries from a few State Governments and RBI representatives, had made recommendations for model legislation which have been sent to all State Governments for their consideration.

6. Financial Inclusion (para 16)

6.1 As regards financial inclusion, the Radhakrishna Expert Group has observed in para 16 of the summary that *institutional credit should be extended to those excluded farmer households who do not have access to any source of credit. This should involve all institutions – scheduled commercial banks, RRBs and co-operatives and through them, agencies like business facilitators and business correspondents.*

6.2 The suggestion is implicit in the current guidelines for Financial Inclusion which focuses in the first phase on universal establishment of "no frills" bank accounts. In many cases this is accompanied by a small overdraft / low value general purpose credit card for small amount for first time entrants in banking system. Insurance policies are also part of the program in some districts. Routing of all payments to such households through the bank accounts especially National Rural Employment Guarantee scheme (NREG), pension payments and other relief and social security payments will go further in capturing all cash flows in such bank accounts and encourage larger extension of credit to poor rural households. **The present Group, therefore, agrees with the suggestion. It is felt that, apart from opening 'no-frills accounts' as a part of financial inclusion as done hitherto, more thrust should be given towards providing for the various credit needs of small borrower households.**

7. Project based lending (para17)

7.1 The Radhakrishna Expert Group has pointed out in para 17 of the summary that *despite RBI instructions to banks for assessing the value of collateral on basis of assets created and land, the same is not being followed and has urged that compliance may be ensured*.

7.2 The importance of ensuring adherence to RBI instructions at the grass root level cannot be overstressed. SLBC Convenor banks have already been requested by Reserve Bank to take up a study on compliance of instructions issued by RBI in this regard by banks at the branch level.

7.3 In this connection, a ground-level study conducted in a few places of Gujarat and Maharashtra (Vidarbha) found that compliance with RBI guidelines in respect of relaxed norms on collateral/security/guarantee and also “No-Dues” certificate was not entirely satisfactory at branch level. **The banks may, therefore, be advised to take necessary steps to ensure that the policy initiatives trickle down to the grass-roots.**

8. Agency and mobile banking (para 19 and 20)

8.1 Paras 19 and 20 of the summary of the Radhkrishna Report deal with the need for implementing agency and mobile banking in a big way. A need has been felt *to extend the spread of rural branch network by Scheduled Commercial Banks, Regional Rural banks and co-operatives.* It has also been suggested that *the system of agency banking involving business facilitators and business correspondents should be effectively implemented.* In this regard, it has been suggested that *farmers' organisations should be considered as agents*. The Radhakrishna Expert Group has also urged that *urgent steps be taken to set-up mobile branches of banks in rural areas to ensure that the farmers are served at the doorsteps, simultaneously reducing the transaction costs on either side*.

8.2 **The Internal Working Group agrees with the above suggestions in general.** The branch licensing policy of Reserve Bank gives thrust to extension of bank branches in un-banked and under-served areas. As per the branch licensing policy, banks may open Mobile Offices (attached to a branch of the bank), where it is not economical to open full-fledged branches or Satellite Offices at rural centres. The scheme of Mobile Offices envisages the extension of banking facilities through a well protected van with arrangements for two or three officials of the bank sitting in it with books, safe containing cash, etc. The mobile unit is required to visit the places proposed to be served by it on certain specified days / hours.

8.3 The Internal Working Group notes that following initiatives are being taken by banks for increasing their penetration and coverage in rural and remote areas:

- Expansion of branches in rural and semi-urban areas: In 2006-07 (April-March), 976 licenses were issued for opening branches in rural and semi-urban centres by scheduled commercial banks and approximately 1160 branches were opened by these banks in rural and semi-urban areas during the year 2007 (January – December).
- Banks are increasingly appointing Business Correspondents (BCs) for the purposes of rendering banking services closer to the customers.
- IT solutions are being adopted for increasing outreach, both by branch staff and by BCs. Nearly 1.5 million Smart Cards with biometric identification have been issued so far by scheduled commercial banks.
- The Hon'ble Finance Minister has announced in the Union Budget 2008-09 that individuals such as retired bank officers, ex-servicemen etc., may be used as Business Correspondents. Necessary instructions in this regard are under consideration of Reserve Bank of India.

8.4 While the Internal Working Group notes that several steps are being taken to increase outreach, considering the gaps in institutional credit in rural areas, there is a need to accelerate the process and provide access to formal and affordable financial services in unbanked areas, within the shortest possible time. The measures for achieving 100% financial inclusion may be intensified and deepened by ensuring that the 'no-frills' accounts do not remain dormant and banking services are available closer to location of the customers using multiple channels provided under the regulatory framework.

_9._ Bharat Kisan Card (para 21)

9.1 In order to make the extant Kisan Credit Card (KCC) scheme more robust, the Radhakrishna Expert Group has suggested in para 21 of the summary that *KCC should become an electronic document akin to biometric smart cards incorporating details of land and other assets and liabilities (credit facilities enjoyed) of farmer. It should cover consumption component, as well.*

9.2 The Internal Working Group reiterates that the smart card for 'no-frills' account can act as a multipurpose card. It has been felt that as the smart cards become popular, they can capture all details required for KCC and also converge with all other purposes for which such cards could be used. The Internal Working Group is of the view that implementation of this suggestion can be left to the banks.

10. Lead Bank Scheme (para 22)

10.1 In the context of emergence of new institutions such as farmers' federations and SHGs and the growing need for credit counselling, it has been felt by the Radhakrishna Expert Group that *RBI should revitalize the Lead Bank Scheme (LBS).*

10.2 **The Working Group agrees with the suggestion.** In view of the significant changes in rural credit scenario, the need for revitalizing Lead Bank Scheme (LBS) has been felt for some time. Reserve Bank has already set up a High Powered Group for revitalising the Lead Bank Scheme, as announced in the recent Mid- term Review. The report of this group is expected shortly.

11. Credit counselling for farmers (para 23)

11.1 It has been suggested in para 23 of the Radhakrishna report that *NABARD should be actively involved in providing training to banks SHG federations, agri-i clinics and other similar institutions for providing credit counselling services to farmers and set up at least one counselling centre in each block.*

11.2 Recognising that role of financial/credit counseling towards enhancing the quantity and quality of agricultural credit, RBI is taking a number of measures for increasing financial literacy and credit counseling. Financial literacy programs are being launched in each State with the active involvement of the State government and the SLBC. Each SLBC convenor has been asked to set up a credit-counselling centre in one district as a pilot and extend it to all other districts in due course.

11.3 RBI has placed a concept paper on Financial Literacy and Credit Counselling Centres on its website. The adoption of the scheme, forming a part of the concept paper, would depend on the response. However, it has been proposed therein that, in order to provide low cost support to banks in setting up Financial Literacy and credit Counselling Centres (FLCCs) in rural and in urban areas, where there is concentration of low income borrowers, cost-sharing through the Financial Inclusion Fund set up in NABARD could be considered. Once the system stabilizes, it has been further hoped that the counselling centres could become self-sustaining by levying nominal charges on the banks whose borrowers have commenced repayments due to the credit counselling and debt management plan drawn up by these counselling centres. In order to go ahead in a planned manner, a Standing Committee on Financial Literacy and Counselling has been proposed to be set up with members from the Reserve Bank, NABARD, IBA, BCSBI, CIBIL, NGOs working in the area and consumer organizations; for greater collaboration in areas relating to consumer education and protection of consumers' interest.

12. Simplifying procedure for mortgages (para 24)

12.1 In order to ameliorate the problems faced by the farmers in the form of complex land mortgage procedures, it has been suggested in para 24 of the Radhakrishna Report that *an appropriate legislation should be enacted to facilitate creation of mortgages. A declaration supported by revenue land records should be sufficient to create mortgage.*

12.2 **The Internal Working Group agrees with the suggestion and suggests that State Governments may consider appropriate action, where such legislation has not already been enacted.**

13. Reducing transaction cost (para 25)

13.1 Para 25 of the summary of the Radhakrishna Report states that *banks should be directed to simplify procedures and help in providing small and marginal farmers with timely access to credit.*

13.2 Reserve Bank of India has already taken certain steps to simplify the procedures for the farmers. In the light of the recommendations of the Working Group (Chairman: Shri C.P.Swarnkar), constituted by the Reserve Bank for simplification of the procedures and processes for obtaining agricultural loans, especially by small and marginal farmers, the banks have been advised to banks to immediately dispense with the requirement of "no due" certificate for small loans up to Rs.50,000 to small and marginal farmers, share-croppers and the like and, instead, obtain self-declaration from the borrower.

13.3 Further, as recommended by the Swarnkar Committee and in order to overcome the problem faced by the banks in lending to landless labourers, share-croppers and oral lessees due to the absence of documents verifying their identity and status, it has been advised that banks may accept certificates provided by local administration/*panchayati raj* institutions regarding the cultivation of crops in case of loans to landless labourers, share-croppers and oral lessees.

13.4 **As regards the landless labourers, share croppers, tenant farmers and oral lessees, the Internal Working Group of the view that such farmers may be *alternatively* allowed to submit an affidavit explaining their identity and status for loans up to a certain amount (say, Rs. 50,000/-). However, banks may go through their procedures of appraisal and usual pre-sanction checks before extending finance. The step would help in further simplifying the procedures for the disadvantaged section of the farmers.**

14. Computerisation of land records (para 26 and 27)

14.1 In paras 26 and 27 of the summary, *early updating and computerisation of lands records is recommended*. It has been felt that this would facilitate noting the charge on land and improve availability of credit. Further, it has been suggested that *crop loans should be extended to tenant farmers on the basis of tenancy records*. Thus, *it is necessary to legalise tenancy*. Further, it has been suggested that *due protection should be given to tenant farmers in the form of registration of land records before freeing the lease markets*.

14.2 **The Internal Working Group is in agreement with this suggestion.** State Governments in certain States, viz., Andhra Pradesh, Tamilnadu have already taken steps towards computerization of land records and its updating. **The Internal Working Group is of the view that State Governments may intensify their efforts for updating and computerisation of land records. Further, steps could be taken to legalise tenancy through appropriate legislations.**

14.3 **In order to facilitate lending to tenants and oral sharecroppers, RBI has already advised banks to accept certificates provided by local administration/ Panchayati Raj Institutions to testify their status and identity. The Internal Working Group suggests that banks may consider taking, as an alternative, an affidavit explaining their identity and status for loans up to a certain amount (say, Rs. 50,000/-), where field visits and local enquiries do indicate that the tenant/sharecropper has a right to the usufruct of the land. It further recommends that banks may encourage such farmers to form Self-Help Groups (SHGs) to create social capital that could instead be used as collateral for purposes of giving crop loan.**

15. Integration of MFIs with main-stream banking (para 28)

15.1 The Radhakrishna Expert Group has felt that *banks should finance Micro Finance Institutions (MFIs) subject to condition that these institutions moderate interest rates and follow ethical practices.*

15.2 **The Internal Working Group concurs that consumer protection against excessive interest and harsh recovery practices is important, irrespective of the channel providing credit. Hence the Working Group is of the view that bank finance to MFIs needs to be sensitive to practices followed by such entities. Banks may conduct periodic survey and obtain feedback from their clientele in this regard.**

16. Qualified personnel (para 29)

16.1 The Radhakrishna Report has also recommended that *banks should make efforts to induct qualified personnel in agriculture and allied sciences for undertaking modern agricultural lending.*

16.2 **The Internal Working Group notes that some banks are already doing this and all banks need to intensify their efforts to induct qualified personnel.**

17. Role of NABARD (para 30 to 32)

17.1 A significant portion of the Radhakrishna report (paras 30 to 32 of the summary) is devoted to the role of NABARD. It has been felt that *NABARD, as an apex level institution for agricultural and rural development, should further its developmental and monitoring role. Deficiencies in data base on agricultural credit should be rectified and reliable consistent data should be widely disseminated by RBI and NABARD.* It has been further suggested that *Resource base and research capabilities of NABARD should be strengthened.*

17.2 **The Internal Working Group feels that NABARD may consider the suggestions pertaining to its role and take necessary steps.**

17.3 **As regards data base reforms, the Working Group recognizes the need for reliable and consistent data on agricultural credit.** In this connection, it may be mentioned that Reserve Bank has already initiated action in this direction. A Working Group has recently been constituted comprising members from institutions, including NABARD and commercial banks, to suggest measures for ensuring integrity and consistency of data relating to agricultural credit.

18. Ensuring priority sector lending by banks (para 33 and 34)

18.1 Expressing its concerns on the *target of 18 % for priority sector lending not being met by many banks*, the Radhakrishna Expert Group has urged in para 33 of the summary that *Government should ensure fulfilling this commitment*. It has further stated in para 34 that at present, *RIDF constitutes only a part of the total shortfall of the bank lending to agriculture from the target of 18%*. Instead, the Expert Group felt that *the entire shortfall should be transferred to GOI or NABARD for transfer to less developed States /regions. To start with a sum of Rs 10000 crore may be earmarked for agricultural development in 100 districts including 31 districts covered by Prime Minister's package and 69 less developed districts based on land productivity credit flow and incidence of urbanisation.*

18.2 The Union Finance Minister in his Budget Speech for the year 2008-09 (para 94) has proposed to tap the resources of the scheduled commercial banks to the extent that they fall short of their obligation to lend to the priority sector for the purpose of financial inclusion. For this purpose, it has been proposed to transfer the above shortfall to NABARD, SIDBI and NHB to augment their resource base with a view to expand their reach. Accordingly, a fund of Rs. 5000 crore out of these transfers have been proposed in NABARD to enhance its refinance operations to co-operative credit institutions. **The Internal Working Group recommends that NABARD, SIDBI and NHB may now consider the additional transfers proposed could be predominantly used for distressed and less developed areas.**

Institutional Architecture

19. Federation of Farmers SHGs (para 35)

19.1 The Radhakrishna Working Group has also come up with suggestions in respect of Institutional architecture, which include, inter alia, *formation of SHG federations on the basis of AP model to be facilitated by State Governments*. Further, it has been suggested that *Farmers' Livelihood Improvement Mission at the State and district level may be organised under Chief Minister and District Collector, respectively, to identify economic opportunities for farmers and create projects /systems in coordination with banks and public institutions.*

19.2 **The Internal Working Group is of the view that each State Government should examine the suggestion and evolve its own strategy in the light of the local conditions.**

19.3 **As regards the suggestion pertaining to organizing Farmers' Livelihood Improvement Mission at the State and district level, it is proposed that the High-Powered Committee to review the Lead Bank Scheme (LBS) may consider the suggestion.**

Risk Mitigation Measures

20. Crop Insurance and Weather Insurance (para 37 and 38)

20.1 The Radhakrishna Expert Group has suggested that *a high level committee should thoroughly evaluate National Agricultural Insurance Scheme (NAIS) with a view to make it more effective. The said high-level committee should also make a comparative evaluation of crop insurance, rainfall insurance and insurance based on moisture stress indices derived from satellite imagery data.*

20.2 **The Internal Working Group concurs with the suggestions as reduced risk due to weather/rainfall conditions will facilitate credit delivery at lower cost. The Internal Working Group understands that Ministry of Finance, in consultation with various stakeholders, are already examining revamping insurance schemes for farmers and it is felt that the outcome of the same may be awaited.**

21. Price risk insurance and variable tariff (para 39 and 40)

21.1 While the Expert Group has suggested in para 39 of the summary that *price support for commodities not covered under MSP may be provided out of a 'Price Risk Mitigation Fund'*; in para 40, the Group has suggested that Import *Policy, variable tariff and other World Trade Organisation (WTO) compatible measures should be used to mitigate adverse effect of imports.*

21.2 Volatility in the prices of agricultural products contributes towards farmers' distress to a great extent necessitating measures for moderating the impact of price instability. **As price risk is a significant risk, reduction in such risk will favourably impact credit delivery and credit pricing and Government of India may take a view on the suggestions made by the Expert Group.**

22. Other risk mitigation measures (paras 41 to 47)

22.1 The Radhakrishna Expert Group has also touched upon issues pertaining to other risk mitigants including *crop surveillance, compensation for spurious inputs, research and extension, expanding livelihood base and rural health*.

22.2 **The Internal Working Group concurs with the above suggestions as each of the mitigants suggested by the Expert Group will favourably impact credit delivery and pricing.**