

October 15, 2004

The Chairman/ Managing Director/Chief Executive Officer

(All scheduled commercial banks)

Dear Sir/ Madam,

**The Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System**

Please refer to our circular RPCD.Plan.BC.10/04.09.01/2004-05 dated July 26, 2004 communicating some of the accepted recommendations of the above Committee set up under the chairmanship of Prof. V.S. Vyas. The following recommendations have since been accepted and are being forwarded for immediate implementation by banks:

i) India has about 24.5 million ha of wasteland and 16.6 million ha of fallow land. Sizeable parts of these could be converted into cultivable land through appropriate crop selection, improved water-use efficiency, adoption of watershed approach and development of irrigation potential. State governments and the banking sector could prepare a long-term plan to develop these resources to make them productive for strengthening the rural economy. Investments in such resource development may be treated as an integral part of agriculture lending.

**[Paragraph – 3.5(v)]**

Banks may work in consort with the State Governments and finance such projects wherever feasible. SLBC convenor banks may also take up the matter with the State Governments.

ii) The Expert Committee on Rural Credit (ECRC) had suggested that commercial banks should post technical staff at their head/controlling offices to interface with concerned government departments, place top level executives in charge of rural credit and effect rural posting of officers for a minimum of three to five years. The Committee endorses all these measures. It would also like to emphasise the need for absorbing more agricultural graduates for staffing rural branches of commercial banks. The most important task, however, is to change the mindset of bankers. It needs to be emphasised here that all over the world, retail banking is emerging as a more profitable and less risky proposition. In the Indian context, there is hardly any better avenue for retail lending than agriculture.

**[Paragraph - 3.6 (i)]**

Banks may consider implementing the recommendation.

iii) Village school teachers, postmasters and others familiar with borrowers could be used for purveying credit without much paperwork. They would also be well placed to recover dues on time. Franchising village post offices to route bank credit, as announced in the Budget Speech 2003, would also go a long way towards associating these agencies. NABARD, SBI, etc have taken up such pilot projects in Tamil Nadu. Other commercial banks may like to examine this avenue for credit disbursement.

**[Paragraph - 3.7 (ii)]**

Use of individual volunteers, farmers' clubs or NGOs/SHGs as direct selling agents in villages would help bridge the information gap. Banks may explore possibilities of outsourcing loan appraisal and monitoring at branches, using such facilitators as business partners.

**[Paragraph - 6.5 (iv)]**

Banks may consider implementing the recommendation subject to the guidelines to be approved by their Board of Directors.

**iv)** Possibilities of building synergy between good working PACS and commercial banks need to be explored. Commercial banks could even extend credit support/guarantees for marketing of inputs/outputs to the identified PACS.

**[Paragraph - 4.19]**

Banks may, based on their commercial judgement and the policies adopted by them in this regard, consider financing good working PACS.

**v)** Low cost ATMs running on diesel generator sets could be used in rural areas for cash dispensation. Wherever volume of business justifies it, computers in rural bank branches may be networked for a free flow of intra-branch and inter-bank information. This could avoid physical movement of staff between various offices allowing them more time for servicing the clientele instead. Some prerequisites, such as reliable power supply and connectivity, availability of bandwidth, proper facility management and maintenance in rural areas, however, need to be met. Banks must formulate a time-bound programme for using IT in rural branches.

**[Paragraph - 4.24]**

Banks may consider implementing the recommendation.

**vi)** The Committee recommends that banks may design, with the approval of their Boards, an appropriate incentive structure for prompt repayment. Further, banks may review and revise their project appraisal procedures to overcome some of the supply factors contributing to non-recovery of loans. Proper appraisal of loan proposals and post disbursement supervision will reduce risk costs. There is, therefore, a need for further sensitising and training rural branch staff in this regard.

**[Paragraph - 4.26]**

Banks may implement the recommendation.

**vii)** Banks may pass on the benefits of the several measures discussed in Section 3 to the small borrowers to make their rates of interest on small loans reasonable and improve the efficiency of credit delivery.

**[Paragraph 6.5(i)]**

Banks may implement the recommendation.

**viii)** Contract farming has evoked considerable interest among corporate entities, banks, state governments and farmers. Banks report mixed experiences in their initial association with contract farming. They opine that for contract farming to succeed, the stake of contracting agencies has to be critical. The Committee feels that the approach has the potential for expanding credit outreach, especially to the small/marginal farmers and oral lessees. Banks may increasingly consider associating with contract farming, subject to availability of proper legal and regulatory framework in different states.

**[Paragraph –6.7]**

Banks may examine the recommendation and take appropriate action.

2. Banks are requested to initiate action on these recommendations immediately and ensure that proper instructions are issued to their controlling offices and branches in this regard. The action taken may please be communicated to us at the earliest.

3. Please acknowledge receipt.

Yours faithfully

**(C.S.Murthy)**  
**Chief General Manager-in-Charge**