

**REPORT OF THE WORKING GROUP TO
STUDY THE PROBLEMS OF BANK CREDIT
IN THE NORTH-EASTERN REGION**



Reserve Bank of India

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REPORT OF THE WORKING GROUP TO STUDY THE PROBLEMS OF BANK CREDIT IN THE NORTH-EASTERN REGION

CHAPTER—I

Introductory

At the meeting of the Regional Consultative Committee for the North-Eastern Region, held at Gauhati on July 5, 1976, it was decided that the Reserve Bank of India should appoint a small Working Group to examine, inter alia, the factors impeding the flow of bank credit in the Region and make recommendations for necessary changes in the procedures and practices of banks so as to bring about rapid and all round banking development in the region. Accordingly, the Reserve Bank set up on August 20, 1976, a small Working Group to study the specific aspects of banking problems in the region.

2. The terms of reference of the Working Group were as follows :—

- (i) To identify the factors impeding the flow of bank credit in the North-Eastern Region ;
- (ii) To recommend, in the context of the socio-economic features of the region, suitable arrangements for expeditious disbursement of credit by commercial banks, both directly as well as through intermediaries such as Farmers' Service Societies, Gaon Level Panchayat societies, Anchal Samitis, village councils, etc. and
- (iii) To suggest improvements and modifications in the operational methods and procedures of the banks in the region for the rapid deployment of bank finance in the desired direction.

Later, by a communication dated October 28, 1976, one more Term of Reference was added by the Reserve Bank which was as follows :—

- (iv) To indicate the location of Regional Rural Banks in the North-Eastern region and to examine the role to be played by them in the region.

3. The Working Group was asked to prepare an overall report highlighting the special problems of the North-Eastern region and indicate, in the Report, separately, their specific recommendations in regard to each State/Union Territory in that region.

4. While constituting the Working Group, it was indicated by the Reserve Bank that it desired to have the Report of the Group within a period of three months. This period was later extended by a further one month.

5. The Working Group comprised a representative each of Reserve Bank of India, Agricultural Refinance and Development Corporation and of the three lead banks in the region, namely, State Bank of India, United Commercial Bank and United Bank of India, as under :—

- (i) Shri P. S. Santhanakrishnan Member
General Manager (Planning),
State Bank of India,
Calcutta.
- (ii) Shri J. N. Pathak Member
General Manager,
(Planning & Development),
United Commercial Bank,
Calcutta.
- (iii) Shri T. R. Shah Member
Deputy General Manager,
United Bank of India,
Calcutta.
- (iv) Shri A. Sathyamoorthy Member
Director,
Agricultural Refinance and
Development Corporation,
Calcutta ; and
- (v) Kum. Nalini K. Ambegaokar Convenor
Director,
Economic Department,
Reserve Bank of India
Calcutta.

6. Besides these, one representative from each of the five States and the two Union Territories in the region, namely, Assam, Manipur, Meghalaya, Nagaland and Tripura and Arunachal Pradesh and Mizoram respectively, was co-opted on the Working Group to deal with the problems of the respective States/Union Territories. These were,

- (i) Shri M. M. Lal, I.A.S.,
Deputy Secretary,
Planning & Development,
Government of Arunachal Pradesh.
- (ii) Shri S. K. Agnihotri, I.A.S.,
Project Director,
Finance Department,
Government of Assam.
- (iii) Shri C. K. Ramachandra, I.A.S.,
Finance Secretary,
Government of Manipur.
- (iv) Shri S. L. Khosla, I.A.S.,
Finance Secretary,
Government of Meghalaya.
- (v) Shri B. L. Gaur, I.A.S.,
Finance Secretary,
Government of Mizoram.
- (vi) Shri I. Sashimeren Aier, M.A., I.A.S.,
Development Commissioner and Secretary,
Planning & Development,
Government of Nagaland, and
- (vii) Shri B. B. Deb Roy, I.A.S.,
Finance Secretary,
Government of Tripura.

Shri S. L. Khosla was later replaced by Shri N. Mukherjee, I.A.S., Finance Secretary, Government of Meghalaya.

7. The Regional Office of the Economic Department in Calcutta provided the Secretariat for the Working Group. Shri P.I. John, Deputy Chief Officer, Department of Banking Operations & Development, Gauhati, was also associated with the work of the Working Group.

Meetings of the Group

8. The Working Group met on the dates in the places indicated :—

First meeting in Calcutta on August 23, 1976

Second meeting in Calcutta on September 22, 1976

Third meeting in Calcutta on October 13, 1976

Fourth meeting in Calcutta on October 14, 1976 with the co-opted members from the States and Union Territories in the North-Eastern Region.

Fifth meeting in Calcutta on December 1, 1976

Sixth meeting in Bombay on December 11, 1976

Seventh meeting in Shillong on December 17, 1976 with the co-opted members from the States and Union Territories in the North-Eastern region, and

Eighth meeting in New Delhi on December 23, 1976.

9. The Working Group also had the benefit of the views of Shri L. P. Singh, Governor of Assam, Manipur, Meghalaya, Nagaland and Tripura and Chairman, North-Eastern Council, and Shri K. L. Mirani, Secretary, North-Eastern Council, Shri K.A.A. Raja, Lt. Governor of Arunachal Pradesh and Shri S. K. Chibbar, Lt. Governor of Mizoram. The Group also benefitted from the views expressed by the Chief Minister, Shri R. K. Dorendra Singh and the Finance Minister, Shri Rishang Keishing of Manipur and the Minister of Agriculture, Shri Tomo Riba and the Minister of Industries & Forests Shri Sobang Tayeng and the Minister of Health, Shri Tadar Tang of Arunachal Pradesh. Besides these, the Working Group had detailed discussions with the Chief Secretary and other officials of the Governments of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram and Tripura and with the Advisers to the Governor, Development Commissioner and other officers of the Government of Nagaland. The members of the Group also had had useful discussions with and benefitted from

the views of Prof. R. K. Patil of the National Institute of Bank Management and Banking Adviser to the North-Eastern Council, Shillong.

10. The Working Group also had discussions with Registrars of Co-operative societies as well as members of the State Co-operative Banks in Tripura, Manipur, Nagaland, Assam and Meghalaya. The Group as a whole or a few members of the Group also met groups of borrowers in a few villages in each State, particularly agriculturists and those engaged in allied occupations as well as tribal communities and the Chieftains and members of the Village Councils. These places included Jirania in West District in Tripura, Eruchi and Gumto villages in the Subansiri District in Arunachal Pradesh, Yairipok and Mirang in the Central District in Manipur, Pfutsero and Tekhoubama in Phek District in Nagaland and Siphir in Aizawl District in Mizoram.

11. Before finalising the Report, the Working Group had the benefit of discussions with Dr. R. K. Hazari and Dr. K. S. Krishnaswamy, Deputy Governors, Reserve Bank of India, Bombay and with Shri M. Narasimham, Secretary to the Government of India, Ministry of Revenue and Banking; Shri K. P. A. Menon, Additional Secretary, and Kum. Kusum Lata Mittal, Joint Secretary, Government of India, Ministry of Revenue and Banking. The Group also had the benefit of the views of the Chairmen and Managing Directors of the three lead banks in the region, viz. Shri T. R. Varadachary and Shri P.C.D. Nambiar of the State Bank of India, Shri V. R. Desai, United Commercial Bank, Shri M. Sen Sarma, United Bank of India and several other bankers in Calcutta as well as in the North-Eastern region. The members of the Group had also had the benefit of the discussion with Shri K. Ramamurthy, Agricultural Production Commissioner and Special Secretary, Government of Orissa.

12. We thank all those who spared their valuable time to help us completing the task entrusted to us. We are grateful to the Chief Ministers and other Ministers, Governor and Lt. Governors and their Advisers in the States/Union Territories in the North-Eastern region. We are also grateful to the Secre-

taries and other Officers in the State Governments, officials of the State Co-operative Banks and the Chairmen and Managing Directors of the lead banks in the region.

13. We are also thankful to the Reserve Bank of India for the Secretariat which their Economic Department in Calcutta provided and for the valuable services of Shri P.I. John, Deputy Chief Officer, Department of Banking Operations & Development who was associated with the work of the Group at all stages.

14. We would also like to keep on record our sincere appreciation and thanks to the staff attached to the Secretariat of the Working Group and in particular Sarvashri G.I. Hegde and A. L. Verma, Research Officers in Calcutta, Shri A. G. Karnik, Research Officer, Bombay, Shri K. K. Ganguly, Staff Officer, Calcutta, Shri Shankar Kumar Bhattacharyya, Stenographer Grade II and Shri Amar Krishna Saha, Typist, Calcutta. They deserve our compliments for the efficient manner in which they have helped us at all stages in the work. Shri Karnik accompanied the Group on all visits to the State capitals in the region and rendered valuable services in preparing notes on discussions with the Government officials in different States. Shri Hegde and Shri Karnik also took considerable pains in collecting facts and figures and finally assisting in the preparation of the draft.

CHAPTER II

Background to the problems

15. The territory under the North-Eastern Region covered for study by the Working Group, comprised the five States of Assam, Manipur, Meghalaya, Nagaland and Tripura and the two Union Territories of Arunachal Pradesh and Mizoram. This region, with an area of approximately 213500 sq. km. and a population of around 20 million represents about 7 per cent of the total land in the country and 4 per cent of its population respectively. The region as a whole displays unique geographical and topographical features, ranging from plains and riverine beds to high mountains and deep valleys, with

equally marked variations in climatic conditions; however, very broadly, it presents two distinct types of terrain, namely, the Plains and the Hills. The former covering only a little more than half the area, has a concentration of nearly 85 per cent of the population in the region. Geographically, again, the region being completely isolated from the rest of the country and also mostly hilly and mountainous makes communication circuitous and time consuming and poses problems of transport. Apart from the distinct geographical features, there are the several socio-economic characteristics of people in the different States in the region which distinguish it not only from the rest of the country but also among its different units. There is the unique conglomeration of people from the Plains with those from different tribes from hills and valleys, with differences in language, customs, culture and socio-economic traditions and practices. Similarly, with regard to the acceptance of modern technology which can be described to be at a rather low level in this area as compared to other parts of the country, and within the level of acceptance that exists, there are significant differences from area to area. These features make the tasks of development of the region rather arduous and considerably different from those in other regions and these features, in turn, make any straightforward comparison with the latter difficult.

16. It is recognised, however, that these very factors prevailing in the region emphasise the need for accelerating efforts, from all sides, to help in its development and one of the major needs for this is the provision of adequate finance. Again, these factors also lend support to the convincing desire that the problems of the region have to be dealt with on a separate footing and that a special treatment has to be given in implementing measures for development, including those by banks.

Banking Development in the region

17. The nationalisation of the 14 major banks and the introduction of the Lead Bank scheme by the Reserve Bank of India gave a new impetus to the problems of expanding the geographical coverage of the banking system so as to provide expeditiously banking

facilities in the under-developed regions. There was a rapid expansion of the branch network of banks in the country as a whole, with a sharp increase in total deposits and advances. The progress made by banks in the North-Eastern region was also quite impressive as can be seen from the statistics of additional branches opened by banks after June 1969 and the wide range of financial services and facilities provided by them. Thus, between June 1969 and December 1976, the number of bank offices in the North-Eastern region rose by 381, out of which 233 were in rural and semi-urban areas. Deposits in the region increased between June 1969 and December 1975 by Rs. 119 crores and outstanding advances by Rs. 47 crores, with a credit-deposit incremental ratio of nearly 39 per cent as compared to the all-India ratio of nearly 63 per cent during the same period (Table 1 below).

TABLE 1. BANKING TRENDS IN THE NORTH-EASTERN REGION

	June 1969	Dec. 1975	Change — —
1. No. of bank offices ..	90 (72)	471* (305)	+381 (+233)
2. Deposits	49.1 (37.3)	167.8 (124.9)	+118.7 (+87.6)
3. Credit (Outstanding) ..	16.9 (10.3)	63.5 (32.5)	+46.6 (+22.2)
(a) Credit actually utilised (+)	n.a.	111.3	

Source : R.B.I., B.S.R. returns

* As on 31-12-1976.

Figures in brackets relate to items in respect of rural and semi-urban centres.

(+) Inclusive of credit outstanding in branches in other States but given to concerns operating in these States.

18. The credit-deposit ratio in the region as a whole stood at 37.9 per cent as at the end of December 1975 as against 34.5 per cent in June 1969. However, if actual credit utilised in the region is taken into account, the ratio works out to 66 per cent. The ratio, differed widely in different States as shown in Table 2 on page 5.

TABLE 2. CREDIT-DEPOSIT RATIO IN THE NORTH-EASTERN REGION (AMOUNT IN LAKHS OF RS.)

States/Union Territories	No. of offices		Deposits		Advances outstanding		Actual utilisation for the region	Credit Deposit ratio		Credit-utilisation to deposit ratio (7 to 4)
	June 1969	Dec. 1975	June 1969	Dec. 1975	June 1969	Dec. 1975		(5 to 3)	(6 to 4)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Assam	68	253	3429	12379	1401	5591	10186	40.9	45.2	82.3
Manipur	2	11	106	418	15	164	167	14.2	39.2	39.9
Meghalaya ..	7	28	887	1873	252	267	276	28.4	14.6	14.7
Nagaland ..	2	13	107	559	6	81	85	5.6	14.5	15.2
Tripura	5	22	376	1220	16	236	326	4.3	19.3	26.7
Arunachal Pradesh	—	9	—	208	—	10	85	—	4.8	40.8
Mizoram	—	1	—	120	—	5	5	—	4.2	4.2
Total N. E. Region	84	337	4905	16777	1690	6354	11130	34.5	37.9	66.3

Source : R. B. I., B. S. R. returns

* Provisional

19. The position in respect of the extent of population served by bank offices, for the region as a whole, somewhat improved inasmuch as while one bank office served a population of 164 thousand in June 1969, in December 1976 the number of population served by a bank office was 42 thousand. This was reflected mainly in the branch expansion particularly in Assam, Manipur, Tripura and Nagaland. However, the actual impact of reduction in the number of population served by a bank office in some of these individual States has to be seen in the context of the fact that the population is widely spread in these States and is at far distance from the bank offices, which are

not in a position to serve it properly (Table 3 below).

TABLE 3. NUMBER OF BANK OFFICES AND POPULATION PER BRANCH OFFICE IN THE NORTH-EASTERN REGION

States/Union Territories	No. of Bank offices		Population per office (in 000)	
	June 1969	December 1976	June 1969	December 1976
Assam	74	339	198	51
Meghalaya ..	7	37	141	30
Tripura	5	37	276	47
Manipur	2	21	497	57
Nagaland ..	2	22	205	25
Arunachal Pradesh	—	11	—	43
Mizoram	—	4	—	83
Total N.E. Region	90	471	164	42

Source : R. B. I. Press Release

20. Data on distribution of deposits and advances in individual States/Union Territories in the region, broken down on the basis of the population groups is given in Table 4 attached while Table 5 attached sets out data on advances to priority sectors in these States.

21. Impressive as was the progress made by banks in this region, at times against several odds, it is recognised, however, that it is still far from adequate in the context of the overall developmental needs of the region. It is also seen that, despite efforts at expanding the branch network widely in rural and semi-urban areas, vast areas of land still remain unbanked in certain parts of the region, the reason being the nature of the terrain and the low density of population ; as a result, the fulfilment of the major task of making bank finance as a catalyst for economic development of the region remains limited. Secondly, it is accepted that there is scope for expansion of deposits and advances in the region taking into account the resources—both financial and manpower—as well as the organisational capabilities of the banking fraternity, on the one hand, and the potentialities of development in the region on the other. Thirdly, because of the wider area to be covered and the peculiar social and economic conditions in the region, banks have to put in greater efforts here for the uplift of the poor, than in other regions. We thus recognise that this requires a somewhat different approach by banks while operating in this area.

CHAPTER III

Factors impeding the flow of bank credit in the North-Eastern region

22. While admitting the role of bank finance in acting as an agent for rapid economic development, we, however, also recognise the several factors which, in the present stage of banking development, are impeding the flow of bank credit in the region, particularly towards the desired directions. We feel that it is necessary to take note of these with a view to persuading both the banking system as well as the Government agencies to take suitable steps in accelerating the process of credit disbursal. Apart from the nature and size of the terrain of the North-Eastern region, the very low density of population in

the major part of the area makes the number of locations with population concentration of at least 5,000 to 10,000 very limited, necessitating setting up of branches covering a far wider area than can be manageable by a small single bank office. As mentioned in the foregoing paragraphs, the agro-climatic conditions in the territory and the socio-economic systems prevailing among the tribal communities in the hills and, generally, the lack of adequate infrastructure of roads, water (irrigation) and power supply make prospects of rapidly expanding developmental activity rather difficult. The absence of infrastructure facilities in this area is particularly marked in hilly areas, where vast stretches of land and ranges of thickly vegetated forests are without proper roads and water.

23. Apart from the shortage of power and water, the major constraint on a speedy development of banking is the difficulties relating to transport and communications. This affects both a rapid spreadwork of the branch network as well as a rapid extension of credit flow to small borrowers in the interior of the territory. We recognise that it is extremely necessary, both in the interest of the balanced economic growth of all regions as well as for strategic reasons, that banks have to spread their branches to cover the hitherto unbanked remote areas. From the point of view of banks, however, the operation of branches in such remote undeveloped places becomes rather uneconomic with their present wage and other costs structures, their style of operation and the organisational base in which post-lending supervision is as important as pre-lending scrutiny. This is true even in cases where banks allow a longer gestation period for a branch to break even. It has, therefore, been not possible for the banking system, at the present stage of its development, to physically reach and serve agricultural and other borrowers in large numbers in distant places. Apart from the insufficiency of a trained and rural biased manpower and the top-heavy cost structure, banks, thus, have had real organisational difficulties in meeting the needs for credit and guidance, of the larger number of populace spread over the whole region of such unique geographical characteristics.

24. As mentioned earlier, the difficulties relating to transport and communications also

stand in the way of a rapid credit disbursal as they affect the activities of banks in regard to both the pre-lending studies as well as post-lending supervision, and operations of borrowers in regard to purchase of inputs, marketing of produce and repayment of loans. Again, for the small-scale industries, the transport overheads come to be very high which makes their operations uneconomic, and this, along with the inadequate supply of power, has so far, hindered the rapid growth of industries, even in the plains. Again, there is scarcity of raw materials for engineering industries while the agro-based industries do not have marketing outlets. The handloom industry which has a great potential in the region, also suffers from delays in receipts or, at times, inadequate receipts of yarn as well as lack of sustained marketing outlets. The absence of local entrepreneurship in most of the States in the region is also one of the most serious impediments to credit deployment by the local population. Generally, in these areas, the agricultural inputs are being channelised through Government agencies and the prices are subsidised. However, all types of inputs are, most often not available through such agencies, owing perhaps to irregular supplies to them and because of the subsidy element (being connected with supplies from governmental agencies), the system of supplies from the private bodies is not well developed and there is, therefore, no alternate source of supplies available to farmers, in time.

25. The Working Group found that in the context of the difficulties associated with the peculiar geographical nature of the terrain, the prevailing urban-oriented and sophisticated banking practices are not conducive to the promotion of development banking in this region—and that consideration may have to be given to special banking norms and practices, suited to the land and its people. This refers to the existing formalities of loan applications including the forms which are rather complicated for use by local people who are inexperienced in banking practices and the lack of a permanent machinery with the banks for imparting proper guidance to borrowers, even from initial stages, in the deployment of funds. Thus, the areas being far flung, the staff required in the branches at remote places are not only inadequate—the size of staff strength per branch being determined by the

banks on the criterion of the size of business potential at that branch which is very small—but they are also mainly urban-oriented and at times not attuned to the aspirations of the people and the requirements of promotional activity in these strategic areas. Again, although in recent times, the delegation of powers to branch managers has been made more broadbased as compared to a few years ago, in the North-Eastern region, because of the vast terrain with minimal communication facilities, these powers at times prove to be not only inadequate but also lead to delays in sanctioning loans. In some cases, the purpose of the rules prescribed was to ensure efficiency in operation by bank staff and avoiding delays, and the bank branches were enjoined to limit their operations within a distance of 15 Kms. The observance of this limit in areas like the North-Eastern region in general, and in the hill states of Arunachal Pradesh, Nagaland and Mizoram in particular, resulted in limiting banking to a restricted area in the hilly regions. The imposition of the limit, again presupposes a fairly good spread of banking, which had not been possible in some of these States owing to the low level of population and the geographical terrain, as mentioned earlier. Further, relaxation of geographical limits presupposes availability of better communication, regular and frequent transport facilities and clusters of potential borrowers, which are not easily available in this region.

26. Again, another important constraint which the banks face in the hilly areas of the region is the absence of land ownership and land laws, particularly among the tribal population where the land belongs to the community. This gives rise to the problem of identification of borrowers and the consequent difficulties in regard to the post-lending follow-up and recovery activities. Besides, term lending for development purposes, where the mortgage of land is necessary to ensure the equity interest from the borrower, becomes difficult in the absence of any land laws giving long-term tenure or any mortgageable ownership right to the individual. In this connection, we realise that the precautionary norms usually adopted by banks in other parts of the country for lending to weaker sectors, perhaps do not work in the North-Eastern region and this, in turn, acts as a constraint

on a rapid disbursal of bank credit in the region.

27. It would appear that the other terms and conditions followed by banks in this region are, by and large, not dissimilar to those prevailing in other parts of the country, as for example, those relating to rate of interest, margin, repayment schedule, guarantee, etc. In these areas, particularly in remote hilly or underdeveloped areas, the population, specially the tribal population, is not in a position to meet the requirement of the usual terms and conditions ; this may perhaps be the major factor limiting demand for credit from such sections of population.

28. The differences in operational practices of different commercial banks constituted another constant source of confusion to the common man in the area. This refers, not only to the differences in operational rules and regulations but also terms and conditions of loans (e.g. rates of interest, security, margin etc.) in different banks in the same area, for the same type of loans. The difficulties in this respect, which, to a large extent, arise from the present structure and constitution of banks as they exist, are being looked into by a Committee headed by Shri C.E. Kamat, Chairman, Canara Bank.

29. Other factors impeding a rapid development, not only of bank credit but of banking business in general, is the inadequate publicity given, among local population in the interior, to the functions and facilities of banks: this is borne out by the fact of the ignorance on the part of the majority of the populace in the area, of the role of banks to-day, in general, and of the various credit schemes, in particular. For this, the inadequacy of the work done by the Government's Extension Service staff is equally responsible. By and large, one of the important constraints on a rapid flow of bank credit to the poor and inexperienced borrowers is the lack of co-ordination, not only between the banks and the Governmental agencies but also between the various Governmental agencies themselves. The lack of rapport among the banks on the one hand and the Governmental agencies on the other, leads to inadequate understanding—or, at times, misunderstanding—of the role and use of both the institutions, which, if they work

in co-ordination, can achieve better and quicker results. While the banks should try to understand the administrative and other impediments faced by the Government officials, the latter also have to take note of the difficulties faced by bankers. Again, the lack of detailed knowledge on the part of Governmental agencies, in regard to the preparation of such financing schemes as would be acceptable to banks, is another impediment coming in the way of an increase in bank credit among the weaker sections. In this context, various aspects of schemes prepared by the Government agencies like the generation of incremental income with the use of credit, marketing of products, quality and diversification of production to meet the market requirements etc. need to be understood and appreciated.

30. The delay on the part of authorities to permit the nationalised banks to perform the sub-treasury work, which at present is confined to State Bank of India and its subsidiaries, has thrown the entire responsibility of opening branches in Treasury/Sub-Treasury centres on State Bank of India. If the work relating to Government transactions had been earlier entrusted to the nationalised banks as well, it would have facilitated an expeditious coverage of these centres.

31. It was mentioned earlier that because of the organisational and manpower difficulties, the commercial banks find it difficult, at the present stage, to physically spread in remote areas of the North-Eastern terrain and reach a large number of borrowers spread widely over the area. We have noted that, in several places, the banks are trying to overcome this difficulty by making use of other credit agencies such as co-operative banks/societies, Farmers' Service Societies etc. This is discussed in Chapter IV.

CHAPTER IV

Use of intermediaries for the expeditious disbursal of bank credit in the North-Eastern Region

32. In the context of the socio-economic features of the North-Eastern region, the Working Group was asked to recommend suitable arrangements for the expeditious disbursal of credit by commercial banks, both

directly as well as through intermediaries such as, the Farmers' Service Societies, primary agricultural credit societies, the Gaon Level Panchayat societies, Anchal Samities, Village Councils etc. It was also required to examine the role to be played by the Regional Rural Banks in the region and to indicate their location in the region.

33. It was seen in the earlier Chapters that one of the difficulties encountered by commercial banks in operating in the North-Eastern region was the administrative difficulty in spreading their network in the remote places in the region, particularly in the hilly areas. This was not only in the context of the cost structure of the banks but also the follow-up operations in respect of advances. It is difficult for banks, for example, to provide adequate post-lending guidance and other services to the borrowers from a long distance. This, in turn, indicates the necessity of commercial banks also using the various intermediaries available in the area, to reach the existing as well as the potential borrowers.

34. In this connection, the Working Group reviewed the organisational set-up and the working of the existing intermediaries in each of the five States and the two Union Territories in the region, so as to assess the possibility of banks utilising their services for stepping up the rate of credit disbursal in the region. The pattern of credit agencies existing in the region, which can act as intermediaries for the flow of bank credit, differ in different States/Union Territories. In the choice of such agencies, in each State or Union Territory in the region, the Working Group was guided by the preferences of the Governments of the respective States/Union Territories as well as by the existing and potential capabilities of such agencies to act as intermediaries for banks.

35. In *Assam*, prior to August 1973, there was a three tier co-operative credit structure for large and medium-term credit, viz. at the State level—the Assam Co-operative Apex Bank, at the district level—the seven central co-operative banks and at the village level—the 3096 primary agricultural credit societies.

36. In August 1973, the Government of Assam decided to organise Gaon Panchayat

level co-operative societies (Gaon Panchayat Samabai Samitis) in place of the primary credit societies and the three-tier credit system was thus replaced by the two-tier credit system with apex and commercial banks at the State level and the reorganised Gaon Panchayat level societies at the base. The objective of the G.P. level society is to meet all the needs of the rural population and to act as a catalytic agent in the rural set-up. The major functions assigned to these societies are broadly :-

- (a) provision of agricultural credit (short, medium and long term) and inputs to the farmers by raising funds by way of deposits or borrowing from members and non-members including cooperative and commercial banks, financial institutions and the Government ;
- (b) distribution of essential commodities to the rural population ;
- (c) procurement of marketable surplus of agricultural produce ;
- (d) provision of agro-services including processing facilities ; and
- (e) to engage in various other activities such as processing and storing of rural products, improving of livestock, lift irrigation, construction of roads, sinking of wells, tanks, canals etc. open sales shops/workshops, to act as an agent of the land development bank or the marketing society and generally to undertake such other activities as may be conducive to the promotion of economic interest of members, the overall development of the area and the objects as approved by the financing bank.

37. The management of the new societies is entrusted to a Committee of 15 of which two will be from the Government, one from the financing bank and one from the affiliate co-operative societies, if any. The remaining 12 will be elected, of which, not less than 8 will belong to the weaker sections of the community. The Secretary of the Society is to be a full-time paid worker and will be appointed with the prior approval of the Government and the financing bank.

The new G.P. level societies in Assam differ from the ordinary type of primary agricultural co-operative societies mainly in respect of the following two aspects :—

- (a) *Size* : Under the normal pattern laid down by the Reserve Bank, the primary society covers 5 to 6 villages with a population of 6000 and a potentiality of credit business upto Rs. 2 lakhs. But a GPSS in Assam covers 20 to 25 villages with a population of 15,000 to 20,000 spread over an area of 10 to 15 square kms. ;
- (b) *Management* : Like the ordinary type primary credit society which is designed to serve a much smaller area, the management of the GPSS vests in a committee of 15 persons (as stated above) with a full-time paid Secretary who will belong to a common cadre and will be controlled by the Assam Cadre Management Society.

Thus, while a G.P. level society resembles a FSS, both in regard to its area of operation and objectives, its management structure is in sharp contrast to a FSS insofar as it does not provide for representation of the Chief Executive in the Management Committee, constitution of a technical cell or the provision of a minimum number of secretarial and field staff. On the contrary, judged from the standpoint of the extent of the area operation, a GPSS, with its present staff strength is even weaker than an ordinary type primary society. The Group understood that several attempts made by bankers, either to limit the area or to strengthen the management and the administrative set up of the GPSS on the pattern of FSS, did not find favour with the State Government. Again, the restructuring of the co-operative credit structure on the foregoing lines called for firm action on the part of the State Government and concerted efforts by the field officers of the Co-operative Department in regard to the recovery of overdue loans, which amounted to nearly Rs. 8 crores at the end of 1973-74, so as to enable the old societies (Krishi Sahayak Samities) to merge with the GPSS or be liquidated. This is considered necessary because a farmer's association with such a defunct society debars him from getting

credit from the new societies. This is all the more necessary for creation of the desired climate for the larger flow of institutional credit through GPSS. Besides this, the amalgamation or merger of the existing 7 Central Co-operative Banks with the Apex Bank is another important step which needs to be taken for evolving a unitary two-tier co-operative credit structure in the State.

38. However, notwithstanding these basic deficiencies, the Assam Government desired that commercial banks would use these societies as intermediaries for disbursement of credit by adopting them. Accordingly, 8 banks* were persuaded to adopt the 663 societies. The banks, however, had several difficulties in working out this arrangement, the major ones among which, were, *firstly*, that these allocations conflicted with the allocation of blocks made to banks earlier, under the auspices of the Agricultural Refinance & Development Corporation to different banks for financing medium-term needs of farmers, which was also done in consultation with the State Government. *Secondly*, allocations made were at times, not in conformity either with the location of the branch net work of individual banks or the subsequent expansion of commercial banks and the Regional Rural Bank, namely, the Pragjyotish Gaonlia Bank (PGB), which was established in Assam in July 1976. Again, societies were either allotted at far away centres from the branch of a bank or a society was allotted to a bank which did not have a branch in the vicinity. There was also the lack of confidence of the people in the GPSS as was evidenced from the fact that in some places, farmers preferred taking loans directly from banks rather than from GPSS.

39. *Thirdly*, even before the newly formed societies could start their primary function, namely, lending for agricultural production, they were engaged by the Government in procurement and distribution of essential commodities. As a result, even before the societies could develop orientation and strategy for agricultural lending, all their atten-

* These banks were, State Bank of India, United Bank of India, United Commercial Bank, Punjab National Bank, Central Bank of India, Allahabad Bank, the State Co-operative Apex Bank and the Purbanchal Bank.

tion and energies were diverted towards other functions till 1974. And although from 1975 there was a rise in sanctioned limits by the Apex Bank and the three Lead banks in the State, namely, State Bank of India, United Commercial Bank and United Bank of India, the actual credit disbursal through societies was far from satisfactory. The main reason for this was the inadequate efforts by the GPSS both by the Managing Committee and the staff—to induce the farmers to utilise the credit facilities of the societies which, in turn, was due to the lack of activity on the part of the management of the GPSS. There have been instances where the spadework done by the bank did not find favour with the concerned societies. The other reasons for the low utilisation of the sanctioned amounts through the G.P. level societies included the inadequate credit appraisal at the sanctioning stage, the absence of follow-up of the credit utilisation and the inadequate management of the societies by secretaries who are neither equipped, either by training or aptitude, for the concerned jobs.

40. As mentioned earlier, a difficulty which still remains unresolved, is thus the fate of the old primary societies which require to be liquidated, dissolved or merged with new societies. This question was discussed at a meeting of the Registrars of Co-operative societies convened by the Reserve Bank and based upon the consensus, Reserve Bank had issued comprehensive guidelines on merger/liquidation/amalgamation, in May 1976 (vide R.B.I. Circular No. A.C.D. PLAN. 5113 and 5115/PR. 55(1) 7516 dated 28-5-1976). Unfortunately, no steps have been initiated on this by the Assam State Government till now. The Group urges an expeditious action on Reserve Bank's suggestions. In the absence of such steps, the members of the old societies, particularly the defaulter members, are not eligible, either to become members of the G.P. level societies or to obtain credit from them.

41. Despite the foregoing difficulties, however, the Working Group recognised that the reorganising of the co-operative structure into new societies constitutes a bold experiment in rural banking and that the objectives and functions expected from it are commend-

able. The State Government would like to make the experiment a success and this would require joint efforts on the part of both the governmental agencies as well as banks, not only in regard to finding suitable personnel for manning the new societies but also for purveying credit and supervising its use in final stages. In this task, the State Government needs to take expeditious steps to overcome the various difficulties mentioned in the foregoing paragraphs. The Working Group felt, in particular, to emphasise the need for :—

- (a) reviewing the pattern of GPSS in relation to its area of operation, management and administrative structure. If it is decided to retain the existing size, objectives, etc. on the model of FSS, action will have to be taken for providing technical and other field staff as well as for giving the Chief Executive the membership of the Managing Committee, as is usually done in the FSS ;
- (b) strengthening and activating the Co-operative Department of the State Government so as to enable it to supervise more effectively the functioning of the co-operative societies and
- (c) enabling secretaries of GPSS to devote greater time and attention to credit business in preference to other activities, rationalising the allocation of societies etc.

42. In this regard, the effort of the National Institute of Bank Management in organising Spearhead Teams to revitalise the working of the G.P. level societies in selected areas is commendable and needs to be supported both by banks and the State Government. We understand that the question of financing the cost of the Spearhead Teams has not been resolved so far. It is essential that a satisfactory financing arrangement be evolved in consultation with the banks and the State Government. However, at the same time, it may be recognised that it may not be possible to revitalise the work of all the societies simultaneously. As such, each bank may be left free to adopt a selective approach whereby it can concentrate its efforts on a limited number of affiliated

societies for some time and put the working of such societies on an organised footing and diversify its functions to cover credit disbursal, input supply and custom services. The basis of selection of societies may be two/three societies per bank branch. In the area of such selected societies all lending will be channelled through the societies and no direct lending will be undertaken. In the case of other affiliated societies, direct lending by branches of banks may be resorted to for some time. Since societies have been established in all areas and under the scheme of universalisation of membership, all household would necessarily be members of the society, it would be contrary to the national policy to lend directly by banks to such members. Further, direct lending in such a situation will provide a strong disincentive to further growth and strengthening of the societies. Moreover, parallel lending both by banks and co-operatives will further accentuate the situation that has already arisen due to wide discrepancy in the interest rates charged by the two agencies. It would, therefore, be essential that such direct lending will only be a temporary phase till such time as the society is able to take over the credit disbursal function. It should be the endeavour of the banks and the State Government to ensure that such a situation is created at the earliest.

43. In respect of such selected societies the concerned bank shall appoint a field officer whose job would be to prepare a three-year perspective credit plan for the society and further break it down yearwise and seasonwise. He would also identify the specific responsibilities for implementing the annual and seasonwise plan by agencies including the locally based government officials.

44. The accepted procedure to bring about co-ordination among the different development agencies is to appoint committees. Unfortunately, this method has not worked in the State. We, therefore, suggest that the responsibility of implementing the agreed credit plan for a given society may be squarely put on the bank's field officer and the concerned Assistant Registrar of Co-operative Societies. The Regional/Divisional Manager of the concerned bank

and the Registrar of Co-operative Societies should meet periodically to review the progress of these selected societies and the needs, if any, for changing policies to accelerate the credit flow.

45. In the Hill areas in the State *viz.* in Mikir and Cachar hills, the Assam Government intends to organise the Large-sized Multi-Purpose Societies (LAMPS) which is a new pattern of co-operative society for the tribal areas. These will provide credit for production and consumption purposes, supply of essential consumer commodities and purchase of agricultural and minor forest produce and make available agricultural inputs. After these are set up, they can be used by commercial banks to channelise credit but till then, it is considered, the banks should continue to expand their branches and lend directly in the areas, particularly to the tribals.

46. As regards the Regional Rural Banks (RRBs) the State Government, while appreciating the role they can play in the pervasance of credit in the rural areas to different sectors, has some apprehensions regarding the likely overlapping of functions of these banks vis-a-vis the G.P. level societies. So far, only one R.R.B. has been opened in Assam, covering the districts of Kamrup, Goalpara and Darrang and the State Government would like to watch the experiment for some time before recommending any further steps for spreading the network of R.R.Bs in the State. However, the R.R.B. that has been established, needs to have societies allotted to it expeditiously, as otherwise, its functioning will remain at a low level. Operation of R.R.B.s through the co-operative societies is now an accepted national policy and as such, it has to be implemented in this State also. For an expeditious implementation, thus, some reallocation of the G. P. level societies in the three districts is urgently called for.

47. Thus, we wish to state that in deference to the wishes of the Assam Government of making a success of G.P. level societies, efforts may be made to have such societies revitalised and run on sound lines so as to enable the commercial banks and R.R.B. not only to successfully channelise credit through them but to increase the flow of such

credit. For this purpose, it would be necessary to take all such steps as have been indicated in the foregoing paragraphs.

48. In *Manipur*, there were, at the end of 1972-73, as many as over 2200 primary co-operative societies. These were weak and needed to be restructured and re-organised. Their performance in regard to lending to agriculturists was also not very encouraging. The Lead bank in the State, namely, United Bank of India, sponsored a Farmers' Service Society in 1973 but the experience was not very successful in that not much of sound advances business was put through it. Efforts are, however, being made to improve the matter. The Government of Manipur has now decided to restructure the primary credit societies into Farmers' Service Societies and LAMPS. Till this is done, the Government consider it necessary to have a local agency like a co-operative society at the market level, through which, they think, commercial banks can usefully operate. The Government have suggested that the bankers can go in for adopting co-operative societies on a selective basis, keeping in mind their usual norms and select only such societies as are upto the mark. The bankers are also in the process of deciding, in consultation with the State Co-operative Department as to which bank will adopt FSSs and LAMPS and in which areas. The Manipur Government has thus expressed their preference for banks to adopt a selective approach in sponsoring societies. Till this is done and in areas where societies are not adopted, they wish, however, that banks take up and intensify direct lending to the small borrowers, weaker sections and the tribal population. In this connection, we feel that it is necessary that the concerned Government departments and banks work out a joint plan for stepping up disbursal of bank credit in the State by commercial banks either directly or through agencies like co-operatives or FSSs or LAMPS. The State Government should also accelerate the process of restructuring of these societies. As regards the Regional Rural Bank, the State Government are favourably inclined towards setting it up. The RRB can, thus supplement the efforts of commercial banks in disbursing credit in this area.

49. In *Tripura*, the co-operative credit structure consists of two tiers. The Tripura State Co-operative Bank Ltd. is thus functioning both as the Apex and the Central Co-operative Bank, and directly financing its affiliated Primary Credit Societies. There were over 500 agricultural credit societies, at the beginning of the Fifth Five Year Plan. A majority of these societies were either dormant or burdened with heavy overdues. In accordance with the guidelines laid down by the Reserve Bank in this respect, the Government of Tripura decided to restructure these societies either through liquidation of or merger with old societies, so as to have a compact number of viable societies and, by June 1975, the number of societies was reduced to 281. After December 1975 however, the Government of Tripura formulated another plan for restructuring co-operative societies to turn them into Gram Panchayat level societies on the lines of the Assam GPSS, and also to form a Cadre Management Society of a FSS or LAMPS size. This would mean, again creating new societies out of the reorganised 281 societies as, the Gram Sabhas in Tripura number 476. Under the Reserve Bank guidelines, commercial banks have normally to do business with societies having paid secretaries and the Government of Tripura are making arrangements to have paid secretaries for the societies on the Assam pattern. Arrangements are being made for commercial banks to adopt these societies after they are fully reorganised. Efforts are also being made to reduce the overdue position of the societies and in the last one year, these have been reduced from 90-95 per cent to 70 per cent on recovery. However, till the dormant societies are activated and the FSSs and LAMPS are set up, the Government think that the commercial banks may continue direct lending to farmers and others. Banks have, so far, adopted 36 societies out of the 81 proposed by the Government and adoption of the rest is in the process. Besides this, the Lead bank in the State has set up one Regional Rural Bank in Agartala, with seven branches in districts and has plans to further open another 13 branches in the near future. These too will take up the advances business in their respective areas, and the allocation of societies to the RRB is in the process. The banks, through their own branches, however, will also continue disburs-

ing credit directly to a large number of small borrowers and the Working Group feels that they should not stop strengthening their organisation for this business.

50. In the *Hill States of Arunachal Pradesh, Meghalaya, Mizoram and Nagaland*, which are almost wholly inhabited by tribal population, the problems of development are more or less of a similar nature, with almost the same socio-economic features, topography and resources and the same difficulties in regard to communications and transport and absence of water and power. In the absence of any land records or documents of personal ownership rights, the recommendations of the Talwar Committee have no relevance in these States. The position in each of these States in regard to the rights of ownership of cultivators, land laws etc. is given in the following paragraphs :—

51. In *Meghalaya*, as the position stands at present, cultivators, excepting those who cultivate their own land (*i.e.* land over which they have the right of occupation, use and alienation), cultivate only as tenants (or as adhiars in the Plains of Assam) sharing the produce with the landlords. Such cultivators have no rights of ownership although they possess certain rights of interest therein. However, this position would change when the Meghalaya Credit Operation and Miscellaneous Provisions Act, 1976, comes into force. Under the provisions of this Act, the agriculturist can alienate the land or his interests therein and create a charge on such land or interests and on any moveable property owned by him on standing crops raised by him in favour of a bank, to secure financial assistance from the bank. Again, the existing tribal customary laws governing the land tenure in the State differ from one area to another and the land administration for the most part in the State (except Government lands) vests in the District Councils. The Land Reforms Commission has made various recommendations one of which is to certify the existing customary laws and the laws of inheritance. So far, there has been no legislation on land tenure and tenancy and the Transfer of Property Act is not applicable in Meghalaya except in the three wards (*viz.* Police Bazar, Jail Road and European) and the Cantonment area of Shillong.

52. There is no intermediary agency like a Central Co-operative Bank in the co-operative system in Meghalaya, where a two-tier co-operative credit structure exists. Again, there is no separate land mortgage bank for the State but the Meghalaya Co-operative Apex Bank is also expected to undertake the function of the Land Development Bank, by opening a separate section attached to it. The State Government has not taken up the organisation of Farmers' Service Societies, but the primary co-operative credit societies have already been re-organised in accordance with the recommendations of the Reserve Bank on the pattern of the G.P. level Societies in Assam and it is the view of the State Government that the re-organised structure of these societies will be adequate to render integrated services to their members. The State Government desire that the co-operative societies may be financed by both, the commercial banks and the Apex Bank, after clearly demarcating the areas of such financing, by mutual consultations between the two. It is also emphasised by the State Government that the commercial banks should not be debarred from directly financing individuals, including the non-defaulting members of co-operative societies. The State Government would also desire to have a Regional Rural Bank set up in the State for an accelerated disbursement of credit and banking development after demarcating the area of operation for the same. We, therefore, suggest that the lead bank may initiate steps so that areas are demarcated among commercial banks, the RRB (when set up) and the Apex Bank for channelling credit through co-operative societies.

53. In *Arunachal Pradesh*, the rights of cultivators relating to the ownership of and cultivation of land are of two types, *viz.* the individual ownership and the community ownership. There are traditional rights on the land which are respected by the whole village community. While the community lands cannot be transferred, lands under the individual ownership can be transferred to persons belonging to their own community. These customary rights are also respected by the Government. It is generally thought that there would not be any difficulty in hypothecating the standing crop to commercial banks in the event of the latter advancing crop loans to cultivators. As in other Hill States, the

traditional Village Councils and district bodies in Arunachal also play a very important role in the implementation of the traditional/customary laws governing land-ownership, management, etc. The Anchal Samities in the Territory also command great respect. The Government also propose to organise LAMPS in certain areas.

54. The policy of the Government of Arunachal, however, has been to encourage direct lending to agriculturists or local entrepreneurs, as in their view, no intermediaries capable of undertaking financing have been set up so far. The Government, therefore, desire that bank credit be given directly to borrowers. The local Anchal Samities, which have the right to provide the requisite surety/guarantee for recoveries in respect of such direct lendings, can furnish the requisite certificates signed by the Gram Panchayat member belonging to the borrower's village and the Vice-Chairman of the Anchal Samiti and countersigned by the executive officer of the Anchal Samiti, indicating therein, the financial and social status of the intending borrower, the valuation of the permanent property held by him, his solvency and his aptitude and capability for taking up the activity for which the loan is sought for. The Government think that under the present conditions, this type of commitment by the Anchal Samiti is by far the best guarantee for the recovery of bank credit in Arunachal Pradesh. They also wish that a Regional Rural Bank, with the necessary network of branches may be set up and the process of banking expansion in the Territory speeded up. While agreeing with this view, we suggest that in order to enable the commercial banks and the RRB (when set up) to rapidly expand their activities in the area and increase the credit in the desired directions, the Government of Arunachal should expedite the organisation of LAMPS.

55. In the Union Territory of *Mizoram*, too, the land ownership vests in the community. The Village Councils which are powerful bodies allot land to individual farmers for specific period and the farmers can hypothecate the standing crop. Under the Mizo Distt. (Agricultural Land) Act, 1963, periodic pattas have been issued, which are renewable. The work of permanent settlement-issue of

long-term pattas which will give inheritable rights is in progress. There are no co-operative banks or credit societies in Mizoram at present but the Government has organised Multi-purpose Co-operative Societies mainly for distribution of goods. Before the hostilities, the Assam State Co-operative Bank used to finance such societies in Mizoram but now no financial institution gives any assistance to these societies and the Government of Mizoram would like commercial banks to finance them. There are no Farmers' Service Societies and no LAMPSSs, but the Government think that it will not be difficult to organise LAMPS if the norms relating to the size of LAMPS are changed. However, there are at present Farmers' Management Committees which guide the farmers in respect of agricultural development and help them to get proper assistance from different directions. The Government are not averse to banks disbursing loans through Village Councils; alternately, the Council can give a certificate that an individual has a right to cultivate a particular plot of land for a particular season and for the following season he will be given an almost equivalent plot in another area for 'jhum' cultivation. Government think that such certificates should be acceptable to banks for grant of crop loans. The Government would also like to have a Regional Rural Bank set up in the Territory. We suggest that commercial banks may finance the existing multi-purpose societies for distribution of goods on the basis of the usual norms prescribed in this regard, by the Reserve Bank. We also suggest that for reaching the credit to the agriculturists in the area, the Government may expedite organising LAMPS which can act as intermediaries for increasing the flow of credit by the commercial banks and the RRB (when it is set up).

56. Unlike in other States, land in *Nagaland* is owned by the people and not by the State. There is no land record or "patta" system of land holding except in the Dimapur Mouza where land was earlier allotted and settled by the Government and thus the ownership rests with the Government. Ownership of land in the rest of the tribal areas in the State, differs from tribe to tribe and from area to area. In the case of certain tribes, land belongs to the tribe/community as a whole: it is sub-divided and enjoyed

by different clans/individual families. In the case of other tribes like the Konyaks and the Semas, the entire land is traditionally regarded as belonging to the Village Chief. The land is distributed to the cultivators for current cultivation purposes and farmers have no right over the land, i.e. to transfer, mortgage or lease it out. Where, however, the land is traditionally enjoyed by the family for generations, it can transfer the right to some one from within the family/clan/village/tribe with the consent of the village elders. In some tribes, the land cannot be transferred to any person from outside the clan, although that person might be from the same village.

57. There is one State Co-operative Bank for Nagaland but no District Central Co-operative Bank nor Land Development Bank. The Nagaland State Co-operative Bank has plans to open more offices in the interior. The Government have, so far, set up two Farmers' Service Societies and are also trying to activate co-operative societies in the form of LAMPS, each of which will cover 3000 to 5000 households in an area of about 200 square miles each. The Government has pinned their hopes on LAMPS, but the setting up of these will take a long time and in the meantime, they desire that commercial banks give loans directly to the borrowers with the help of Village Councils, but not through the latter. The Government's view is that the moral guarantee of the Village Council is more important than a formal/legal guarantee. The Village Council is a judiciary body under the customary laws and the Government will see whether the customary laws of the Village Councils can be changed so as to bring in LAMPS into the active fold of the Village Councils.

58. The Government of Nagaland would also like to have a Regional Rural Bank set up in the State with an adequate network of branches. In this connection, we suggest that the Government should expedite setting up of LAMPS while banks may also continue lending directly, if necessary, with the help of Village Council in identifying the borrowers and assuring that the agricultural borrower will continue to have the right of cultivation during the period of his indebtedness to the bank. The lead bank in the area has already relaxed the security requirement and agreed to lend

up to Rs. 3000 for short-term purposes and up to Rs. 7000 for long-term purposes, on the basis of a certificate from the Village Council. We suggest that the other banks may also follow this practice.

59. In view of the differing conditions in different States/Union Territories in the region and in deference to the views of the respective Governments, we, therefore, suggest that use of different agencies or intermediaries may be made by commercial banks to disburse credit in the various areas in the region. Thus, in *Assam*, the commercial banks can lend through the new societies (GPSS) as well as engage in direct lending on the lines indicated in paragraphs above. In *Manipur*, till the restructuring of the primary credit societies into FSS and LAMPS is completed, the banks can adopt existing co-operatives on a selective basis for disbursement of credit and in areas where societies are not adopted, can undertake direct lending. In *Tripura*, the Government have taken up the task of reorganisation of societies to make them viable as also setting up of the FSSs and LAMPS. In the meantime, commercial banks and the RRB will have to continue to lend directly. In *Meghalaya*, the primary co-operative credit societies are already in the process of being reorganised and the banks should use these societies as intermediaries and also continue to lend directly. In *Arunachal Pradesh*, banks should lend directly on the basis of the requisite surety/guarantee provided by the Anchal Samities. In *Mizoram*, the banks can finance the existing multipurpose societies. LAMPS can also be organised and in the meantime, banks can lend directly on the basis of certificates from Village Councils. In *Nagaland*, the Government are trying to activate co-operative societies in the form of LAMPS and till this is completed, commercial banks can give loans directly to the borrowers with the help of Village Councils.

60. It is expected that the use of intermediaries mentioned earlier viz. the co-operatives, LAMPS, FSS and to a certain extent Anchal Samities and Village Councils would increase the flow of credit to the individuals belonging to the weaker sections of the society in the region. The equally important problem is of medium and long-term investments in agriculture for activities like land shaping,

terracing, medium irrigation facilities in the plain areas, horticulture and plantation development etc. Such investments would be difficult to channel through the intermediaries and to be undertaken by individuals. These necessarily have to be taken up on an area basis. The Group feels that the best way to utilise credit for such medium and long-term purposes would be to organise agencies like Land Development Corporation, Irrigation Corporations, Horticulture and Plantation Development Corporations which may undertake such activities and the banks can extend the necessary credit to them. Such corporate forms for undertaking developmental activities would also enable the State Governments to utilise the appropriate technical competency, management skills and a business-like approach that is required for such activities. Certain types of activities e.g. land shaping and terracing of slopes cannot be undertaken by individual farmers. A Land Development Corporation of the type suggested can do this work with the assistance from the banks, pass on small parcels of land to individual farmers and the bank assistance so given to the Corporation can then be transferred to the individual borrower who would repay the bank loan out of the incremental income arising from the newly developed and terraced land. We, therefore, feel that the State Governments, particularly in the hills areas, should establish such Corporations with adequate manpower and with appropriate professional, managerial and technical competency.

CHAPTER V

Role of Regional Rural Banks in the North-Eastern region and their locations

61. The Working Group was asked to examine the role to be played by the Regional Rural Banks in the North-Eastern region and also to indicate their location therein. The question of the need for setting up Regional Rural Banks (RRBs) has great relevance in the context of the difficulties encountered by commercial banks in further spreading their offices in the remote backward areas in the country. These related to the requirements of organisational changes, manpower and the cost of operation. We examined the whole problem namely,—on the one hand, the diffi-

culties encountered by commercial banks in the North-Eastern region in the context of the peculiar geographic as well as socio-economic characteristics of the region as well as the near isolation and the resultant remote control by banks of branches, which, at times, almost thwarts and/or slows down the achievement of banking objectives, and, on the other hand, in view of the urgency of rapid development of this region, making use of an appropriate agency which would best suit the area and its environment.

62. Considering these aspects, we have come to the conclusion that the expansion of banking services in this region may also be brought about through a local-based and rural-oriented institution like a RRB where the organisational and manpower structure would be rural-oriented, the cost structure would be low, and the operation though on the lines of that of commercial banks would be more attuned to the local aspirations rather than entrust the task of large scale branch expansion in the area to commercial banks with their urban-oriented staff and banking practices. We, therefore, feel that an institution like the RRB might serve better the task of reaching the weaker sections of the population in the remote areas in this region. Excepting the Government of Assam, who would like to wait and watch the performance of the one RRB already set up in that State, before recommending further expansion of RRBs (as mentioned in paragraph 46 in Chapter IV), the Governments of all other States/Union Territories in the region have expressed their desire that RRBs and their branches be set up in rural areas in their regions.

63. While agreeing about the need for RRB and acknowledging the desire of the concerned State Governments (except Assam) to have RRBs set up in each State, we have encountered difficulties in considering the probable locations of such RRBs. This is due firstly to the apparently legitimate desire of each State/Union Territory in this region to have a RRBs set up in each of these States/Territories, not only in the context of the topography of the region and the difficulties of transport and communications between each of these States but of a special factor, to which the State Governments would attach great importance,

namely, the necessity of having its own involvement in an institution like RRB. Once these aspects are recognised and accepted, the next question would be, considering the nature and conditions in each of these States/Territories, how can such RRBs be set up unless the guidelines laid down for determining the locations and operations of RRBs are changed to suit the local conditions? This refers to the fulfilment of conditions for this purpose, under the Government's guidelines which include, (i) a minimum population to be served, of 1 crore; (ii) the extent of availability of existing banking facilities from the commercial and co-operative banks; (iii) presence in the area of ongoing development project/s; (iv) RRB's lending facilities being confined only to small and marginal farmers and small artisans and business and not to extend to other non-agricultural sectors, etc. We feel that there is a clear case for RRBs to be set up and operate in this region and recommend that Government of India consider taking steps towards that direction.

64. It may be made clear, at this stage, however, that the setting up of RRBs would not absolve the commercial banks from their operations in the region as they should continue to operate in urban and semi-urban areas, lending both directly as well as through the other agencies including the co-operative societies. But besides these, they would also sponsor RRBs to spread in areas where they themselves would not normally spread—although there will not be any bar to this—and where such RRBs can disburse credit either directly or through the co-operative societies.

CHAPTER VI

Suggestions for improvements/modifications in the operational methods and procedures of banks in the North-Eastern region

65. The various factors which, at present, impede the flow of bank credit in the region were described in detail in Chapter III. These related to the different aspects of the working of the banking system, such as operations, procedures, manpower resources and practices. Insofar as such impediments are responsible for restricting the growth of bank

credit, it would be necessary to seek ways of either removing or changing such operational and procedural difficulties. The Working Group was, therefore, asked to suggest improvements and modifications in the operational methods and procedures of the banks in the North-Eastern region, for the rapid deployment of bank finance in the desired directions.

66. We examined the operational practices of banks in the region and assessed their impact on the processes of lending, particularly to the weaker sections of the community in the region. We agree that there is an urgent necessity of introducing changes in banking procedures and operational methods, so as to take into account the geographical conditions in the region and the economic conditions of the people. The improvements and/or modifications that need to be suggested relate to broadly, six aspects namely, (i) Expansion of banking; (ii) Organisational pattern and methods of operation of banks/bank branches; (iii) Practices of bank lending; (iv) Manpower planning; (v) Publicity and guidance to borrowers and (vi) Co-ordination among State Government agencies, commercial banks and co-operative banks/societies. These problems are broadly discussed in Chapter III and we make the following recommendations in respect of them in the following paragraphs.

Banking Expansion

67. We have noted that the number of branches opened in the region during the last seven years was quite large but that much still remains to be done in regard to the acceleration of the rate of expansion as well as bringing about an even spread of branches over the region, particularly, in the unbanked centres. In this respect, we found that the policy relating to branch licensing needs to be better geared towards these ends. Thus, while issuing licenses in the banked areas, some pressure on banks may be exercised to open branches in rural areas. While it is admitted that banks, before going into a remote territory require a base in an urban or semi-urban centre, there were instances where many banks confined their operations only in such places for a long time without spreading in rural areas. In deciding the

location of new branches, also, there could be a need for adopting scientific methods, on the lines of a study of branch expansion in Bihar done by the NIBM. We would suggest, in this connection, that a continuous study of this type may be undertaken by banks in collaboration with individual States and, if necessary, with the help of outside institutions. We, thus, see the need for preparing a long-term plan for branch expansion in this region. While the branch licensing policy in general is formulated and operated by the Reserve Bank, the matters relating to location of branches of RRBs in rural areas are decided by the Banking Department, Government of India. There is, however, no quick monitoring or follow-up of such plans either by the Bank or the Department of Banking who normally limit their monitoring to the branch expansion in the unbanked blocks only. A single permanent agency to both formulate and monitor branch expansion programmes would, we feel, be highly necessary and the Reserve Bank and the Government may consider this in consultation with the North-Eastern Council.

68. In this respect, we would like to suggest that the new branch licensing formula that is being applied with effect from 1977, namely,—for every 2 banked centre branches, 4 unbanked centre branches—should be applied to measure the present performance of individual banks operating in the region with regard to their branches in each of the States in the North-Eastern region and not on an all India basis; as at present. The banks which, at present, do not meet with the formula may be specifically asked to make good the shortfall in unbanked rural centres within each individual State by a time-bound programme of say, within a year or so.

69. We are aware of the fact that the banking coverage, vis-a-vis the population is still inadequate in the region. We, however, also appreciate the constraints considered by banks in respect of inadequacy of suitable manpower and high banking costs, as against fears of low business potential. One way to meet this difficulty, at least in the initial stages, would be to experiment with the concept of 'Village branch' or the 'Limited Day Operation branch' on the lines of those opened by State Bank of India and United Bank of

India respectively. This is a small branch, manned by 2 or 3 persons and is open for banking business to the public for two hours in a day and in the case of Village branch five days in a week for the public, leaving the rest of the working period and for Village branch one working day free for the Manager and his colleagues to undertake field work, publicity and allied functions. The types of business transacted by a Village branch are confined to the basic banking needs of the rural population, namely, (i) major types of deposits, (ii) remittances—drafts only, no M.Ts or T.Ts and (iii) collections. We consider this type of a branch well suited to an area with a scattered population, long distances and lack of transport and communication facilities. If necessary, the branch may be equipped with suitable transport to cover the distant/hilly region.

Organisational pattern and operational methods

70. The development of banking operations in the North-Eastern region, on the scale that is achieved in the last half a decade and that is envisaged for the future, is, we feel, inadequate for the tasks which are set before it, and needs to be strengthened, notwithstanding some efforts made in this direction so far. For prompt decision making and implementing the assigned policies, the bank branch Managers, at various levels (regions, areas, blocks, districts, subdivisions, villages), need to be equipped with greater powers than at present. This is essential not only in the Hills, where transport and communication facilities are extremely meagre but also in the plains in the region, both of which are far away from the decision-taking head quarters of the bank branches. Most of the banked centres in this region being low-population-density centres, the bank offices at these places are invariably manned by fairly junior persons with limited banking or decision-making powers, according to the prevailing banking practices. This is particularly obvious in the Capitals of Nagaland, Manipur, Tripura, Arunachal Pradesh and Mizoram. While we are aware of the twin difficulties faced by banks in placing fairly senior officers at small centres and/or giving more powers to fairly junior officers, we also feel that this practice of remote control comes in the way, not only of speedy disposal of

banking business and development but also of creating the much needed rapport with the concerned State Governments, particularly in the capitals of States/Union Territories. We suggest, therefore, that banks should take steps to resolve these difficulties by reviewing the whole process of distribution/delegation of powers to branch managers at different centres and increasing the number of controlling offices wherever necessary, taking into account the economic and social needs of such centres to be within easy reach of the area of operation.

71. In this connection, we also found that divergent powers of branch managers of different banks in the same centre, also create an anomalous position vis-a-vis the borrowers. We feel that there can be some uniformity in this respect and the banks can work out a uniform scale of discretionary powers which could cover the requirements of the weaker sections of the community, such as village artisans, small/marginal farmers, rikshaw pullers, handloom weavers etc.

72. Another aspect of the organisational set-up of banks in the region is the need to strengthen the extension services given by banks. These services are particularly required in remote and hilly regions where bank branches are small and not well equipped with field staff. The State Governments have their own extension workers rendering such services but in many cases these are not adequate. We, therefore, suggest that banks should also build up their own extension service cadre for deployment in remote and other areas with suitable transport for their use.

Bank lending practices

73. In regard to advances business of banks, it was stated in Chapter III that the present standard practices of banks which are applicable in the country as a whole, need to be somewhat modified in this region. In the course of our discussions with the State Government officials, bankers, borrowers as well as the officials of the North-Eastern Council, we gathered considerable information on the difficulties which come in the way of a rapid deployment of bank

funds in the region. Some of these difficulties which pertained to specific areas or were limited to specific problems were sought to be remedied by bankers. There were, however, a number of difficulties relating to banking practices and procedures, which were of a general nature and which need to be modified so as to increase the pace of credit flow to the weaker sections in the region. Our suggestions for improvement in this respect are given below.

74. In regard to the simplification of application forms and procedures, we observe that the Reserve Bank has already prescribed uniform application forms for agriculture and allied activities and the banks are enjoined to use these. For credit for other purposes, application forms are being simplified by another Working Group on simplified accounting and other procedures for Regional Rural Banks and we suggest that banks may adopt these forms for these purposes. (A specimen copy of this form is attached). Similarly, for agricultural loans, banks should try to eliminate the requirement of the multiplicity of borrowers' signatures in the various documents and for this purpose the form suggested by the abovementioned Group should be adopted. We also suggest that these forms should be in local languages and be made available in sufficient numbers whenever required. We also suggest that all the bank branches in the North-Eastern region introduce these two sets of standardised forms uniformly and immediately.

75. Following the foregoing point, we feel that there is a necessity of having uniformity and/or simplification in banking practices and procedures followed by all banks operating in this region so as to avoid confusion in the minds of the majority of potential borrowers who are not familiar with the sophisticated and urban-oriented banking culture. These relate to procedures relating to, among others, mortgages, repayment schedules, rates of interest, security etc. The present mortgage procedures, wherever they are applicable are cumbersome to the farmers. We suggest that banks should simplify such procedures uniformly. For example, as regards short-term loans to agriculturists against anticipated crop, according to present banking practices, anticipated crop

is accepted as security and no further mortgage is, therefore, required. In respect of term loans to agriculturists, the banks can accept mere charge on land as security as suggested by the Talwar Committee in areas where legislation has been passed. Where this has not been done, the State Governments should expedite framing the rules and regulations in respect of the relevant Act, in order to facilitate the foregoing arrangement. Updating of land records is a prerequisite for recording charge on land and the State Government should have a time-bound programme for this purpose. Till such time as land records are updated or where land tenure system/transfer of property act is not in vogue, with a view to ensuring the flow of credit to the marginal and small farmers/agricultural labourers, the bank should lend on a Group Guarantee basis, amounts upto Rs. 3000 for crop loans/working capital and Rs. 7000 for term loans.

76. In the case of term-loans to agriculturists where the latter do not have mortgageable rights on land but who are in continuous possession of the use of such land, we recommend that a certificate of possession signed by a Village/Anchal Chief and countersigned by a revenue officer should suffice for sanctioning term loans for development purposes. The State Government on their part would have to ensure that such borrowers would remain in continuous possession of land during the currency of the loan and use their moral pressure for the recovery of overdue debts.

77. As regards the question of security for banks' loans, it is noticed that in view of the proposed structure of banking in this region, where commercial banks/RRB would mostly operate directly or through intermediaries like primary credit societies or G. P. level societies or LAMPS, it would be necessary that loans made to agricultural sector through such intermediaries should get the cover of the Credit Guarantee Corporation of India Ltd. We suggest, therefore, that such cover be extended and also that the proportion of the risk borne by the C.G.C.I. be also raised in respect of advances in the North-Eastern region in view of the special socio-economic conditions prevailing there. In regard to other types of loans too, e.g. loans

against trucks and other vehicles, banks should give clear instructions to branches to avoid insisting on several types of securities as is reported to be happening in many places in the region.

78. In the matter of other terms and conditions for advances also, namely, rate of interest, margin money, schedule of repayment, cash-cum-kind loans etc., we suggest that as a special case, banks may adopt a flexible attitude in their operations in this region. As regards interest rates, mention may be made here of the anomaly in the commercial and co-operative banks' interest rates structure that prevails in this region. For example, the rate charged to an agriculturist is 11 per cent (minimum) if he borrows from a commercial bank but 12½ per cent if he borrows from a co-operative society, and some commercial banks charge even higher rates. Again, the benefits under the Differential Interest Rates (DIR) Scheme are not available for borrowing through the co-operatives, thereby depriving the poor borrowers of this facility. Again, with the simplification of the application form, efforts should be made by bank offices to expedite the other processes of credit disbursal, namely, credit appraisal, sanctioning of loans, supervision, follow-up and repayment, by delegation of powers also to officers other than managers. In regard to the practice of banks insisting on farmers taking cash-cum-kind loans, while appreciating the motives of banks in ensuring a proper utilisation of loans and such transactions leading to an increase in production, we suggest that banks also take into account the other factors affecting the activity of the farmer, namely, availability of inputs in time, his economic condition, availability of water facilities etc. and try to adjust the procedural requirements so as to remove these difficulties. This will also do away with the anomaly which is at present existing in that while borrowers can get cash loans from co-operative societies, they have to take a package of cash-cum-kind loans only, from commercial banks. In this connection the responsibility of the Governmental agencies to arrange for timely provision of inputs is also very great and we suggest that the State Governments too should take steps for proper implementation of their policies. The Government or their

local bodies should also help the banks either directly or through the Village Councils etc. to identify the borrowers, to expedite the process of credit disbursal.

79. The case for uniformity of terms and conditions of banks, particularly those relating to rate of interest, margin, repayment terms, scale of finance for agricultural and other specified types of loans was never greater elsewhere than in this region. We understand that this is being examined by a Committee under the Chairmanship of Shri C. E. Kamat, Chairman, Canara Bank

Manpower planning and training

80. Banking is a highly personalised service and the need for an understanding and humane staff is nowhere greater than in this far away mountainous region. Selection of the right type of persons with the necessary aptitude and attitudes towards the concerned problems of the region and training of these should be a matter of high priority with the banks. We recommend that the Head Offices of banks evolve a special policy in regard to recruitment, selection and training of the staff to work in the branches in this region and take direct steps to see that such policies are implemented. Mostly the reason for failure of the policy is the remote control through various offices such as the Local Head Office, Main Regional Office, Regional Office, Area Office and so on. More Head Office involvement for this region is, therefore, very necessary. Again, knowledge of the local language is very necessary for staff—so also is that of local customs/practices. Banks generally complain that candidates with required qualifications are not available in the region. In this connection, we commend the recent practice, followed by the Regional Office of the State Bank of India of contacting and delivering lectures on the banking career to the undergraduate and post graduate students in the Universities in the Region. Again, we suggest that the Lead banks with the help of an institution like the N.I.B.M. may set up a joint training centre for training of new recruits as well as employees of banks in the uniform banking practices and procedures, among others, which are recently introduced. In this connection, we add that the syllabi and the design of

courses may be appropriately revised to suit the special requirements of the region in consultation with the N.I.B.M. or N.E.C. (North-Eastern Council).

Publicity and Guidance to Borrowers

81. Publicity of banking business and lending schemes in local languages is absolutely necessary in any rural area. Use of demonstration units in villages through mobile vans would, in this respect, be very useful. Equally important would be the imparting of knowledge of use of bank credit by borrowers as well as the development agencies of the State Governments. In this regard the experiment recently conducted by United Bank of India in arranging a workshop on project preparations and credit planning for Government officials and bank personnel jointly is commendable and worth emulating in different areas. Similarly, training of the borrowers is as important as that of bank personnel. This could cover education of rural borrowers in regard to banking procedures, use of credit and its benefits and need for repayment. The urgency of borrower education is all the more great in the North-Eastern region where population in the major part of the territory has hardly any experience of institutional borrowing. We feel that banks can organise training programmes for small borrowers: they are already doing so in the case of large borrowers in imparting the new methods of credit-use, enunciated by the Reserve Bank's Study Group to frame guidelines for follow-up of bank credit. The scheme of training for small borrowers can be taken up by banks as a part of their overall schemes of publicity and so financed.

82. In this connection, the work of organising the services of the Spearhead Teams for helping the working of the G.P. level societies in Assam, as is being done by the N.I.B.M. is very useful not only for societies and the adopting banks but specially to borrowers. The members of such teams who are young graduates or undergraduates were selected after careful assessment in a 7-day selection camp, after individual and group interviews, three days' project work in villages and community living during the camp. They were picked up for their sympathetic attitude towards village life and farming

community, willingness to live and work in villages, organising capacity, knowledge of local language and amenability to working in teams. They are then given intensive training for two months on the various aspects of the working of co-operatives, banks and government agencies at local and district levels as well as distributive agencies such as Fertiliser Corporation of India, Assam Agro-Industries Development Corporation etc. They get in touch with farmers and impart to them the knowledge on the need for improving their operative methods with the help of institutional finance. These teams will work for a period in specific areas and after having initiated the co-operative management in obtaining and utilising institutional finance, will move on to other areas and replicate the process. The Group was made conversant with the working of some of the Spearhead Teams working in Jagi Bhakatgaon and Marigaon in Nowgong district, Barapather in Sibsagar district, Gauripur in Goalpara district and Rupshi in Kamrup district. The Group feels that the efforts of the N.I.B.M.'s Spearhead Teams would be useful not only in Assam but other States in the region where they can help borrowers in their dealings with societies and/or banks. The Group, therefore, recommends that such efforts should be extended in all States/Union Territories in the region and be supported, both in the matter of finance as well as administration by the State Governments/their agencies and banks.

83. The experiment of Syndicate Bank in this respect with the establishment of Farmers' Clinics, Farmers' Clubs etc. in the South Kanara district or that of State Bank of India in Goa where personal visits by bank personnel to villages are arranged, are worth emulating by other banks. In fact, any number of innovative practices can be thought of, suitable to the area concerned. Education to the Government personnel can also be imparted through the Spearhead Team schemes developed by the N.I.B.M. and now operated in Assam. The Group, therefore, strongly recommends banks taking up various schemes for training borrowers in the region.

Co-ordination between banks and Government agencies

84. The pace of banking business can be accelerated if there is co-ordination between banks and the concerned governmental agencies. For this purpose, it is very necessary that both the parties should have a fairly good understanding of the working of each other's institutions. There are the occasional attitudinal differences and we feel that part of the reason for such differences is the lack of a forum at a fairly high decision-taking level, on both sides. There is no reason why Chairmen/Managing Directors themselves at least once in a year should not visit each of these States and have individual discussion of the problems of each of them. These could be followed by visits by high-level officers from the Headquarters with a view to sorting out the concerned problems. The State Governments have need for banks to spread and finance in their States. But banks also need the help of the State Governments in innumerable ways, such as arranging for premises, locating and identifying the borrowers and so on. It may be remembered that banks have achieved success in areas where there is good rapport among the bankers and the Government staff. We suggest that banks, at high levels, arrange meetings with Government officials to resolve the many problems facing them and urge the latter to expedite action on several counts such as, reorganising co-operative societies or revitalising them etc.

CHAPTER VII

Summary and Recommendations

85. The three important aspects relating to the expeditious disbursal of bank credit in the North-Eastern region, namely, the use of intermediaries, the role of Regional Rural Banks and the suggestions for improvements/modifications in the operational methods and procedures of banks have been discussed in detail and recommendations made in Chapters IV, V and VI respectively. The major recommendations are summarised in this chapter.

I. Use of intermediaries

86. In view of the differing conditions in different States/Union Territories in the region

and in deference to the views of the respective State Governments, the Group suggest that the commercial banks may use different agencies/intermediaries and/or lend directly so as to reach the remote places and to disburse credit in the region. This is given in detail below.

(a) Thus, in *Assam*, the Working Group recommends that :-

(i) commercial banks may lend through the GPSS as well as engage in direct lending, at least till the former can take up credit functions fully through appropriately trained managerial staff ;

(ii) operation of RRBs through co-operative societies should be taken up as it is now an accepted national policy, although, at present, the Assam Government has some apprehensions regarding the likely overlapping of functions of the RRB and the Apex Bank ;

(iii) the State Government should take expeditious action on liquidation/dissolution and/or merger of old societies with new societies on the lines of Reserve Bank's guidelines, and

(iv) the State Government should expedite the re-allocation of societies among the different banks including the RRB.

(b) In *Manipur*, we recommend that :-

(i) banks should adopt existing co-operatives on a selective basis for credit disbursal and also undertake direct lending where societies are not so adopted ;

(ii) Government should expedite restructuring of the primary credit societies into FSS or LAMPS, and

(iii) when RRB is set up, it should supplement efforts of banks in disbursing credit.

(c) In *Tripura*, while noting that the process of allocation of societies among the banks and State Co-operative Banks has already been initiated, we recommend that :-

(i) the State Government may expeditiously complete the task of re-organisation of societies and setting up of FSS and LAMPS ;

and

(ii) in the meanwhile, banks and the RRB may continue to lend directly.

87. In the Hill States of Arunachal Pradesh, Meghalaya, Mizoram and Nagaland, the Working Group make the following recommendations :-

(a) In *Arunachal Pradesh*.

(i) banks should lend directly on the basis of requisite surety/guarantee provided by Anchal Samities, and

(ii) Government should expedite the organisation of LAMPS, in order to enable banks and RRB (when set up) to rapidly expand their activities.

(b) In *Meghalaya*.

(i) banks should use the primary co-operative credit societies, which are being reorganised, as intermediaries and also continue to lend directly, and

(ii) the Lead bank in collaboration with the State Government may initiate steps to demarcate areas among commercial banks, the RRB (when set up) and the Apex bank, for channelising credit through co-operative societies.

(c) In *Mizoram*.

(i) banks may finance the existing multi-purpose societies ;

(ii) the Government may expedite organising LAMPS which can then act as intermediaries for increasing the flow of credit by commercial banks and the RRB (when set up), and

(iii) in the meanwhile, banks can lend directly on the basis of certificates from Village Councils.

(d) In Nagaland.

(i) commercial banks may lend directly with the help of Village Councils, till the Government completes the task of activating co-operative societies in the form of LAMPS which can then act as intermediaries for disbursing credit by commercial banks and the RRB (when set up), and

(ii) banks may follow the example of the Lead bank which has already relaxed the security requirement.

88. *Another type of intermediary* which can be used by banks in the North-Eastern region, particularly for medium and long-term purposes is the Government sponsored and/or partly/wholly Government/owned/managed corporate agency, and if necessary, with equity participation by commercial banks, through whom banks can give credit for development of the region. In this connection, the Group recommends that—

(i) for medium and long-term development activities such as land shaping, terracing, horticulture and plantation development, the State Governments may organise agencies like Land Development Corporations, Irrigation Corporations, Horticulture & Plantation Corporations etc. to undertake these activities under professional management and banks should extend the necessary finance to them for that purpose.

II. Setting up of RRBs

89. As regards the role of the RRBs in the North-Eastern Region and their location :-

(i) the Working Group, after considering the various aspects, has come to the conclusion that banking expansion in the region may also be brought about through a local-based and rural-oriented institution like a RRB ;

(ii) in view of the geographical lay-out of the different States in the region, difficulties of communications and the aspirations of the Government and people in each State to have an involvement in an institution like a RRB, the Working Group feel that there would be a case for each State having one RRB in its territory ; however;

(iii) considering the guidelines of setting up of RRBs laid down by the Government, the Group feels that there is a clear case for modification of these guidelines in the North-Eastern region and recommend that the Government of India and Reserve Bank may consider taking steps towards that end.

III. Changes in operational methods and banking procedures

90. The Working Group feels that there is an urgent need for introducing changes in banking procedures and operational methods in the North-Eastern region. The improvements and/or modifications that need to be made relate to the following aspects.

91. Thus, for rapid *banking expansion* in the region, we recommend that :-

(i) the new branch licensing formula introduced in 1977-viz. for 2 banked centres, 4 unbanked centres-should be applied to measure the performance of individual banks operating in the region in each State in the region and not on an all-India basis as at present and the shortfall in the coverage of the unbanked rural centres may be made good by a time-bound programme of say, a year or so.

- (ii) banks experiment with 'Limited Day Operation' or 'Village' type branches at suitable places in the region, and
- (iii) there should be a single permanent machinery to both formulate and monitor branch expansion programmes.

92. As regards *organisational pattern and operational methods*, we recommend that :-

- (i) banks review their policy of delegation of powers to branch managers and having regard to the difficulties in communications, should increase, wherever necessary, the number of 'Controlling Offices' in the region ;
- (ii) the different banks operating in the region should bring about some uniformity in the discretionary powers of their branch managers in the same centres, in respect of loans to weaker sections, and
- (iii) banks should build up their own extension service cadre for this region, with provision of suitable transport facilities to them.

93. As regards *lending practices of banks*, we recommend that :-

- (i) loan application forms should be simple and uniform as prescribed by Reserve Bank for agricultural loans and as devised for RRBs for non-agricultural purposes by "Working Group on Simplified accounting and Other Procedures for RRBs" ;
- (ii) such forms should be in local language and be made available in sufficient numbers whenever required ;
- (iii) as in the case of short-term loans to agriculturists (where anticipated crop is at present accepted as security and no further mortgage is required), in the case of term loans to agriculturists also, banks should accept a mere charge on land as

security as suggested by the Talwar Committee and to expedite this, State Governments should have a time-bound programme for framing the rules and regulations of the relevant Act ;

- (iv) till (iii) is implemented, banks should lend on a Group Guarantee basis, amounts upto Rs. 3000 for crop loans or working capital and Rs. 7000 for term loans;
- (v) in the case of term loans to agriculturists where they do not have mortgageable rights on land but where they are in continuous possession of such land, a certificate of possession signed by a Village/Anchal Chief and countersigned by a Revenue Officer should suffice for sanctioning term loans for developmental purposes, and
- (vi) in cases mentioned in (v) above, the State Governments should take timely action to ensure that such borrowers would remain in continuous possession of land during the currency of the loan and that they should exert moral pressure on borrowers to recover overdues, if any.

94. As regards *other terms and conditions of bank lending*, we recommend that :-

- (i) banks, as a special case for this region, should adopt a flexible attitude and relax the terms and conditions of lending for priority sectors, e.g. they can lower rates of interest on bank loans in cases where the viability of the scheme/project can be improved upon by such relaxation.

95. Many schemes for *concessional bank finance* do not apply in cases where credit is disbursed through RRBs and agencies like co-operatives, e.g. credit under Differential Interest Rates (DIR) Scheme or cover for credit under the Credit Guarantee Corporation of India Ltd. (CGCI). We, therefore, recommend that :-

- (i) Government of India should consider making suitable changes in the DIR scheme so as to benefit borrowing through RRBs, co-operatives and allied agencies in the North-Eastern region and
- (ii) C.G.C.I. cover may be extended to bank lending through RRBs, co-operatives and similar agencies in this region and the proportion of the risk borne by the C.G.C.I. be also raised in respect of advances in the region.

96. As regards other types of loans, we recommend that :-

- (i) for loans against trucks and other vehicles in this region, banks should give specific instructions to their branches in the region, not to insist on several types of securities, and
- (ii) banks should adopt a flexible attitude in regard to the farmer being insisted upon taking a package of cash-cum-kind bank loans, taking into account the several factors, affecting the farmer's activity and conditions of farming, in the region.

97. It was noticed that the *repayment dates of agricultural loans* were fixed by banks, for different crops, at the same dates which were either much after or ahead of the harvesting period—e.g. date fixed was March 1977 for both the 1976 kharif and the 1976-77 rabi crops. We recommend that :-

- (i) for agricultural loans, banks should fix dates for repayment around or near the harvesting time and issue suitable instructions in the matter to their branches in the region.

98. As regards *manpower planning and training*, we recommend that :-

- (i) Head Offices of banks operating in the North-Eastern region should evolve a special policy in regard to recruitment, selection and training of staff, for this region and
- (ii) the Lead banks may set up a joint training centre in this region for all banks, with the help of an institution like the National Institute of Bank Management (N.I.B.M.)

99. As regards *publicity and guidance to borrowers*, we recommend that :-

- (i) banks should take up the various schemes of publicity of banking business and lending in local languages in the region, through, among others, radio and/or audio-visual demonstrations, and
- (ii) for educating rural borrowers in the use of credit etc. and as a help to borrowers as well as to co-operatives and banks, the work of the Spearhead Teams started by the N.I.B.M. in Assam may be extended to other States in the region, with necessary finances being arranged by the State Governments and Banks.

100. In order to bring about *co-ordination between the banks and the governmental agencies*, we recommend that :-

- (i) banks at high levels—Chairmen/Managing Directors—meet top Government officials periodically to resolve problems facing them, and
- (ii) even at field levels, where co-operatives operate, the responsibility of implementing the agreed credit plan may be squarely and jointly put on the bank's Field Officer and the concerned Assistant Registrar of Co-operative societies.

Later, it would also be necessary that the Regional/Divisional Manager of the bank and the Registrar of Co-operative societies should also meet periodically to review the progress of the selected societies and to assess the need, if any, for changing policies so as to accelerate the credit flow in the region.

P. S. Santhanakrishnan,
J. N. Pathak,
T. R. Shah,
A. Sathyamoorthy,
Nalini K. Ambegaokar (Convenor)

Calcutta,
 February 25, 1977.

TABLE 4.—DISTRIBUTION OF DEPOSITS AND ADVANCES ACCORDING TO POPULATION—GROUPS IN THE NORTH-EASTERN REGION

(Amount in lakhs of Rupees)

State/Union Territories	Rural/Semi-Urban				Urban				Total			
	Deposits		Advances		Deposits		Advances		Deposits		Advances	
	June '69	Dec. '75	June '69	Dec. '75	June '69	Dec. '75	June '69	Dec. '75	June '69	Dec. '75	June '69	Dec. '75
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Assam	23,64	84,73	7,58	26,30	10,65	39,06	6,43	29,61	34,29	123,79	14,01	55,91
Meghalaya	8,87	18,73	2,52	2,67	—	—	—	—	8,87	18,73	2,52	2,67
Manipur	—	39	—	24	1,06	3,79	15	1,40	1,06	4,18	15	1,64
Nagaland	1,07	5,59	6	81	—	—	—	—	1,07	5,59	6	81
Tripura	3,76	12,20	16	2,36	—	—	—	—	3,76	12,20	16	2,36
Arunachal Pradesh	—	2,08	—	10	—	—	—	—	—	2,08	—	10
Mizoram	—	120	—	5	—	—	—	—	—	120	—	5
Total	37,34	124,92	10,32	32,53	11,71	42,85	6,58	31,01	49,05	167,77	16,90	63,54

Source : Basic Statistical Returns (RBI)

TABLE 5.—ADVANCES TO PRIORITY SECTORS BY PUBLIC SECTOR BANKS IN THE NORTH-EASTERN REGION

(Amount in lakhs of Rupees)

States/Union Territories	Agriculture		Road & Water		Small-scale	
	June		Transport		Industries	
	1969	1976	1969	1976	1969	1976
Assam	29.00	281.30	1.00	635.17	147.00	765.63
Meghalaya	—	34.38	—	60.36	—	8.82
Manipur ..	—	22.12	—	52.13	—	14.07
Nagaland ..	—	2.15	—	14.75	2.00	22.53
Tripura ..	—	67.65	—	62.00	1.00	21.57
Arunachal Pradesh	—	0.02	—	6.51	—	0.01
Mizoram ..	—	—	—	2.45	—	1.29
Total	29.00	407.62	1.00	833.37	150.00	833.92

TABLE 5.—ADVANCES TO PRIORITY SECTORS BY PUBLIC SECTOR BANKS IN THE NORTH-EASTERN REGION

(Amount in lakhs of Rupees)

States/Union Territories	Retail trade & small business		Professional & self-employed		Education		Total	
	June		June		June		June	
	1969	1976	1969	1976	1969	1976	1969	1976
Assam ..	10.00	423.45	—	50.69	—	0.19	187.00	2156.43
Meghalaya ..	5.00	56.59	2.00	2.46	—	0.44	7.00	163.05
Manipur ..	—	54.77	—	3.23	—	—	—	146.32
Nagaland ..	—	11.00	—	0.17	—	—	2.00	50.60
Tripura ..	—	49.28	—	3.70	—	—	1.00	204.20
Arunachal Pradesh ..	—	0.16	—	—	—	—	—	6.70
Mizoram ..	—	2.19	—	—	—	—	—	5.93
Total	15.00	597.44	2.00	60.25	—	0.63	197.00	2733.23

Source : Reserve Bank of India.

ANNEXURE

APPLICATION FORM FOR RURAL ARTISANS

Name and address :

Dependents :

Family members :

Others :

Total

Profession :

Total monthly income

Before loan

After loan

(i) From profession :

Rs.

Rs.

(ii) From other sources :

Rs.

Rs.

Rs.

Rs.

Total monthly expenses :

Deficit/surplus :

Request for term loan of Rs.

for

Working capital

AND

For implements etc.

(a) Cost of raw material for months :

(a) Tools/implements :

(b) Cost of other items needed :

PARTICULARS

COST

(c) Cost of labour :

(i)

Family :

(ii)

Others :

(iii)

(d) Consumption requirements :

(b) Average life of the implements : _____ years

(c) Amount of term : Rs. _____

(e) Loan requested : Rs.

(d) Period of loan : _____ years

GENERAL INFORMATION :
(To be filled by the branch)

Financed by RRB

Financed by other banks

Others

TOTAL

No. of similar other artisans
in the villageTotal value of wares produ-
ced by them every quarter

Marketing arrangements :

30

Decision of Branch Manager

The Application was rejected for the following reasons :-

Terms of sanction

(i) Amount of loan :

(ii) Period of loan :

(iii) Instalments : Period :

Amount :

(iv) Disbursement schedule

Date	Amount	Remarks
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(v) Other terms and conditions :

Recommended to Head Office as it is outside my discretionary powers.